



## YEAR-END LETTER FOR 2023

### *International Opportunistic Value Strategy*

Dear Client,

The International Opportunistic Value Strategy (IOV) seeks to outperform the international equity markets as measured by the MSCI World ex-USA Index by tilting to the most attractive segment of the value universe. Today, **the cheapest 20% of the market (“deep value”) is trading inexpensively and near a record discount to the market.** The strategy rose a solid 15.2% net of fees since May 31, 2023,<sup>1</sup> outperforming the benchmark by 4.2%.<sup>2</sup> Despite strong gains since May, the dislocation we seek to exploit in deep value sets the portfolio up to generate attractive absolute and relative returns. **International deep value is the highest expected return asset class based on GMO’s 7-Year Asset Class Forecast with a forecasted return of 12.9% real in USD.**

### *Performance*

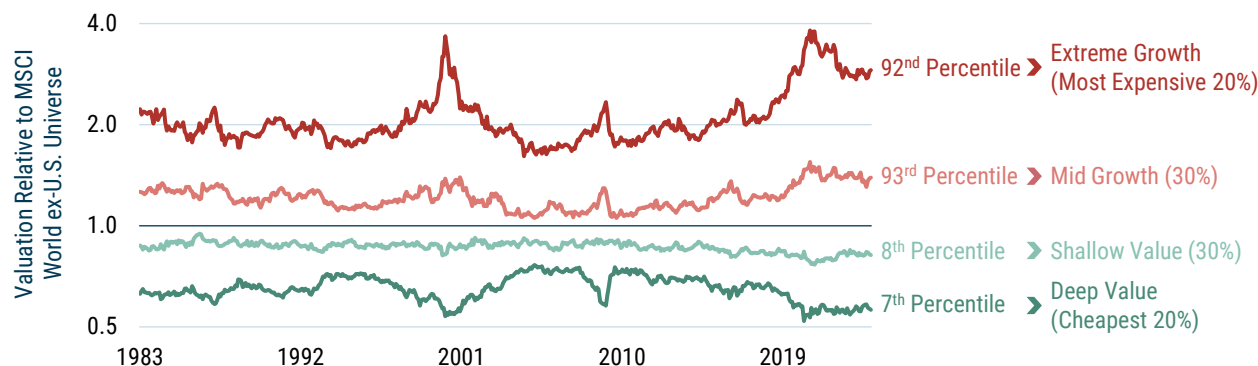
Given the focus on deep value investments, the strategy added value in 2023 across many countries and sectors with particular success in areas with strong value performance. For example, in Japan where value beat the market by nearly 6% over the past 7 months, our exposures rallied 18.0% which was 7.1% over the Japan market and contributed 1.8% to excess returns. In addition, security selection was particularly strong in France, Australia, and Italy. The sectors with the highest contribution to excess returns included Industrials, Financials, Energy, and Consumer Discretionary.

### *Outlook: Highest forecasted return asset class*

Value remains cheap across the globe. **Deep value, the cheapest 20% of the developed ex-U.S. equity market, is severely dislocated trading at a 7th percentile discount on data going back to the early 1980s.** Further, our analysis suggests that while value companies typically undergrow the market, that undergrowth has not been any worse than normal in recent years. The combination of cheap valuations and no sign of relative fundamental decay has created a compelling opportunity in value equities.

## DEVELOPED EX-U.S. “DEEP VALUE” (CHEAPEST 20%) IS VERY CHEAP

### *Valuation Groups in MSCI World Ex-U.S. Universe*



Preliminary as of 12/31/2023 | Source: GMO

Stock valuations are calculated on a blend of Price/Sales, Price/Gross Profit, Price/Book, and Price/Economic Book. Groups of value and market are weighted by square root of market cap.

<sup>1</sup> IOV inception on May 31, 2023.

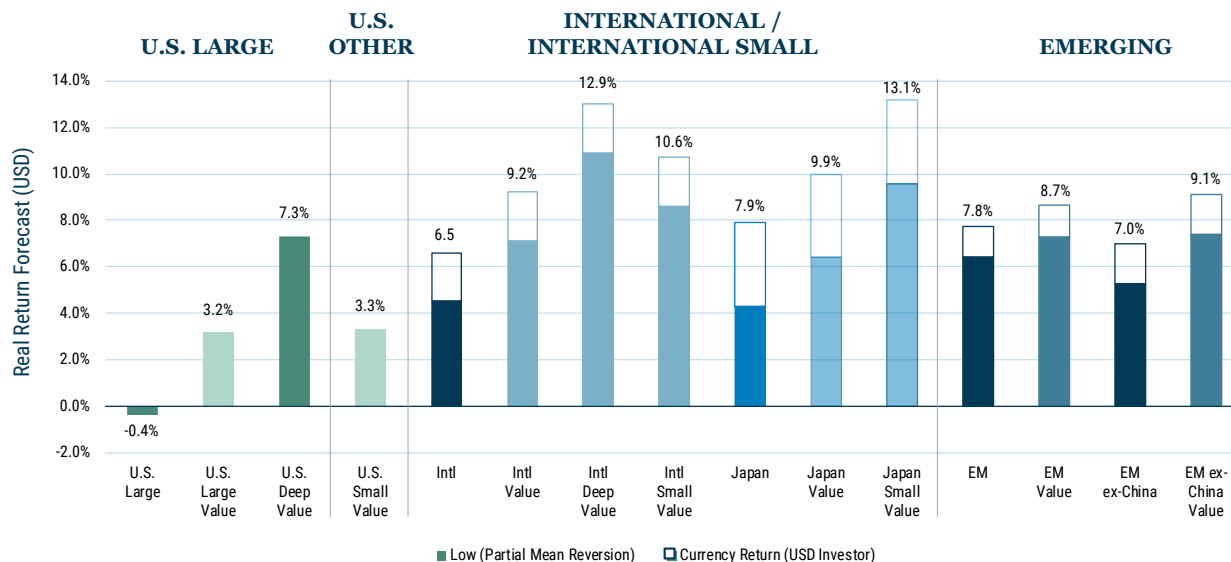
<sup>2</sup> IOV modestly outperformed the MSCI World ex-USA Value Index over this period as well.

Based on our estimates, **if all cohorts of the MSCI World ex-USA market revert to their historic median valuation (which is a strong assumption), we believe that deep value is priced to outperform the rest of the market by roughly 20-30%.**

In addition to an extraordinary relative opportunity in deep value stocks, the international equity markets are reasonably priced and stand to further benefit from the tailwind of cheap currencies. All that combines to a forecasted real return of 13.5% in USD, making it our highest forecasted return asset class.

## 7-YEAR GLOBAL REAL RETURN EQUITY FORECASTS\* (USD)

As of December 31, 2023 – Low scenario



Source: GMO

\*The chart represents real return forecasts for several asset classes and not for any GMO fund or strategy. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in forward-looking statements.

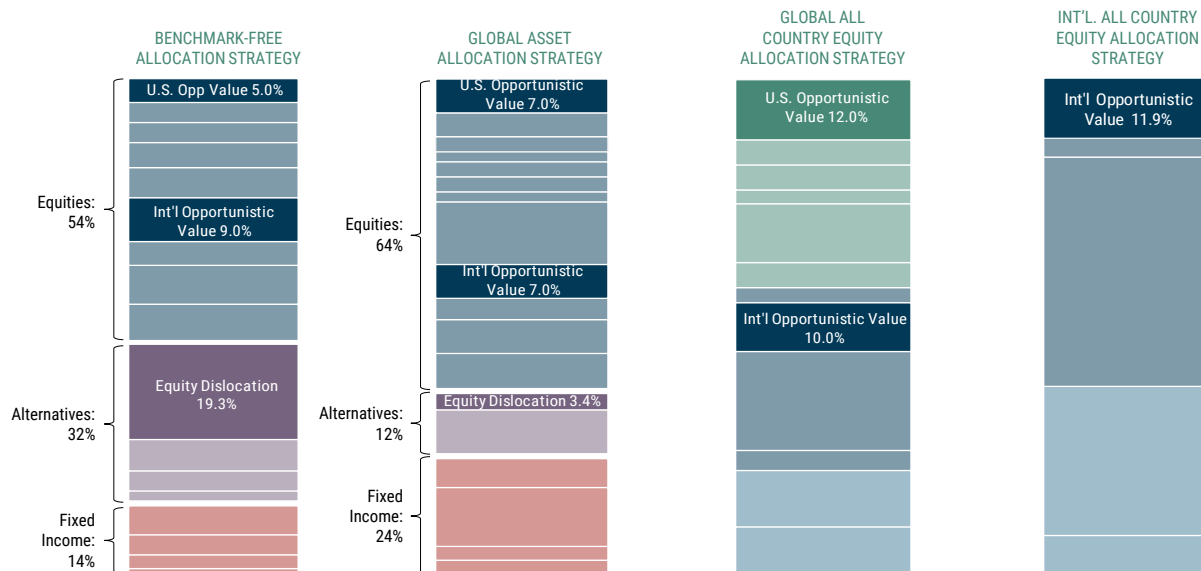
## Asset Allocation Conviction: Deep value is the biggest active position across portfolios

We have added IOV across our Asset Allocation multi-asset class and equity allocation strategies (exposures range from 7-12%, depending on the mandate) because we believe this is the single most attractive equity asset today. We are comforted by the fact that historically value has modestly outperformed growth in recessions and that our quality bias should help us avoid value traps and reduce recession risk.

In addition to IOV, we are further expressing our enthusiasm for deep value with positions in U.S. Opportunistic Value (U.S. deep value stocks are similarly dislocated at an 8th percentile discount relative to history) and Equity Dislocation, a long-short implementation, which is 100% long the cheapest value stocks globally, and 100% short the most expensive growth stocks globally. **In combination, deep value is the biggest active position across all of GMO's asset allocation portfolios.**

## ASSET ALLOCATION PORTFOLIOS

*Investing in the Deep Value thesis long-short and long-only*



As of 12/31/2023 | Source: GMO

The above information is based on a representative account in the Strategy selected because it has the fewest restrictions and best represents the implementation of the Strategy. Weightings are as of the date indicated and are subject to change. The groups indicated above represent exposures determined pursuant to proprietary methodologies and are subject to change over time.

We believe international deep value stocks are the most attractive equity group today. With U.S. and growth equities trading expensively, allocators should lean global equity exposures toward value. International deep value, in particular, offers an attractive opportunity to buy very cheap companies without wading into junk. By applying quality views in the IOV construction process, the strategy offers compelling quality characteristics – stronger balance sheets than the broad market with ROEs in line with value benchmarks.

Thank you for your trust and partnership. We look forward to engaging with you in the year ahead.

Yours sincerely,

Warren Chiang  
Portfolio Manager

Simon Harris  
Head of Systematic Equity

Tara Oliver  
Portfolio Manager

John Thorndike  
Co-Head of Asset Allocation

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<i>Annualized Returns as of 12/31/2023 (Net, USD)</i>	<i>Inception</i>	<i>1-Year</i>	<i>3-Year</i>	<i>5-Year</i>	<i>10-Year</i>	<i>ITD</i>
<b>GMO International Opportunistic Value Strategy</b>	5/31/2023	N/A	N/A	N/A	N/A	15.16
<b>MSCI World ex USA</b>		N/A	N/A	N/A	N/A	11.01

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***Performance data quoted represents past performance and is not predictive of future performance.***

Net returns are presented after the deduction of a model advisory fee and incentive fee if applicable. These returns include transaction costs, commissions and withholding taxes on foreign income and capital gains and include the reinvestment of dividends and other income, as applicable. Fees paid by accounts within the composite may be higher or lower than the model fees used. **GMO LLC claims compliance with the Global Investment Performance Standards (GIPS®).** A Global Investment Performance Standards (GIPS®) Composite Report is available on GMO.com by clicking the GIPS® Composite Report link in the documents section of the strategy page. GIPS® is a registered trademark owned by CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Actual fees are disclosed in Part 2 of GMO's Form ADV and are also available in each strategy's Composite Report. The portfolio is not managed relative to a benchmark. References to an index are for informational purposes only.

Net returns for individual components, such as sectors and countries, are calculated by applying the same fee rate that is used in the top level (total portfolio) net return calculation. Net contribution to return figures for individual components are calculated by netting down the gross contribution to return by the net vs. gross return differential, multiplied by the average weight during the period. Fees and expenses are not charged to individual investments, and net performance of individual components is provided for illustrative purposes only to meet regulatory requirements. Different calculation methodologies can result in materially different net returns for individual components. Please refer to the net performance of the Strategy, which best represents the net performance an investor would have received if they had been invested during the periods shown.

***Disclaimer***

The views expressed are the views Warren Chiang, Simon Harris, Tara Oliver, and John Thorndike through the period ending January 2024, and are subject to change at any time based on market and other conditions. This is not an offer or solicitation for the purchase or sale of any security and should not be construed as such. References to specific securities and issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities.