



YEAR-END LETTER FOR 2023

Asset Allocation Team: Multi-Asset Class

Dear Client,

We hope this letter finds you, your family, and your colleagues healthy in this New Year. As we enter 2024, we are enthusiastic about the prospects for our multi-asset class portfolios given attractive levels of interest rates, abundance of cheap equities and appealing spread opportunities.

Most investors and economists entered 2023 skeptically after a bruising year of negative stock and bond returns in 2022. Calls for a U.S. recession and muted financial market returns were prevalent, but economic growth proved resilient, and equity returns robust. Despite challenges like the continuation of the steepest rate hike in decades, elevated geopolitical tensions and regional banking issues, equity markets rallied an impressive 22%¹ propelled by robust fiscal stimulus in the U.S. and Europe, a strong U.S. consumer, and the Fed's pivot toward more accommodative guidance late in the year. Forecasters were equally wrong-footed in China, where the equity market declined 11% despite the much-anticipated re-opening. Equity market returns varied meaningfully with the U.S. outperforming non-U.S. markets in large part due to the superlative performance of a concentrated group of technology-related stocks boosted by a tailwind for all things AI, better than expected earnings growth, and expectations for future interest rate cuts. Bond returns were negative for most of the year in the face of higher rates, partially offset by tighter spreads, but staged a strong rally late in 2023 as interest rates fell. Bonds, as measured by the Bloomberg U.S. Aggregate Bond Index, ended up 5.5% on the year.

2024 Outlook

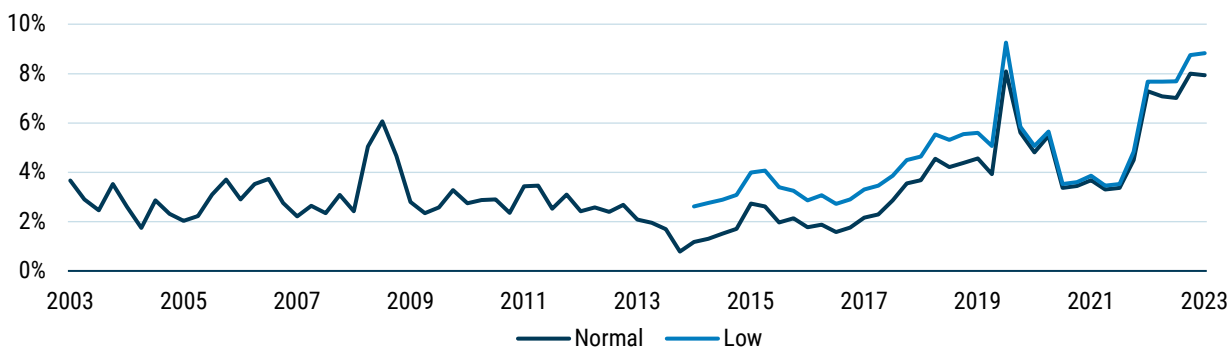
Even after a strong equity rally, the opportunity set across asset classes is compelling. We are finding:

1. attractive forecasted returns for many assets across stocks, rates, credit, and cash;
2. extraordinary relative value opportunities across styles and geographies; and
3. cheap currencies.²

Consequently, GMO's Asset Allocation strategies, which can shift toward the most attractive areas while avoiding those that look expensive (i.e., growth equities today), stand to deliver compelling absolute and relative returns. The display below tracks the forecasted return of our most flexible multi-asset class strategy, Benchmark-Free Allocation Strategy (BFAS), through time under our "Normal" and "Low" forecast scenarios. The strategy has dialed into a diverse set of attractive return opportunities and has nearly the **highest forecasted real return we've seen in 20 years**.

EXHIBIT 1: HIGHEST FORECASTED REAL RETURN IN 20 YEARS

Benchmark-Free Allocation Strategy



As of 9/30/2023 | Source: GMO

Uses backcasted forecasts based on the current model; forecasted return in USD.

1 MSCI ACWI

2 With the dollar being the most expensive currency seen through our valuation-based framework, we believe USD-based investors stand to benefit from non-U.S. unhedged exposures (see forecasts below.) Other developed market investors should benefit as well, in particular from yen and, to a lesser extent, emerging equity positions given the relative attractiveness of those currencies.

2023 Performance Review

2023 marked a strong year for the traditional 60/40 portfolio driven by gains in equities, especially exposure to the “Magnificent Seven” (i.e, Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla) and growth in the U.S. Our portfolios delivered strong absolute returns with benchmark-agnostic BFAS and Global Allocation Absolute Return Strategy (GAAR) delivering returns of 13.4% and 12.9%, respectively, well above their CPI+5% benchmarks. Both strategies, however, trailed traditional balanced portfolios in part due to allocations to diversifying alternative strategies which rose but failed to keep up with a 60% stock/40% bond portfolio.

Our benchmark-sensitive Global Asset Allocation Strategy (GAAS) generated strong returns of 16.1%, essentially in line with its benchmark,³ while our Real Return Global Balanced Strategy (RGBAL) rose 14.9%, trailing its benchmark⁴ by 1.4%. Underweights to equities detracted as did allocations within equities favoring developed ex-U.S. and emerging stocks over those in the U.S. Partially offsetting these allocation effects was strong security selection across most of our equity portfolios. Small Cap Quality, Quality, U.S. Small Cap Value and International Opportunistic Value all delivered significant alpha while U.S. Opportunistic Value trailed a core S&P Composite 1500 benchmark largely due to an underweight to the so-called Magnificent Seven. Alternatives rose, but couldn’t keep up with the rallying equity market, while underweights to and selection within bonds contributed (both Emerging Debt and ABS/Structured Products outperformed).

Key contributors and detractors across our strategies are outlined in the table below.

CONTRIBUTORS

- Equity exposures in rising market
- Value outside the U.S.
 - Strong security selection in Emerging Markets, Developed ex-U.S. Small Cap Value, Emerging ex-China, Developed ex-U.S., and International Opportunistic Value
- Security selection in U.S. portfolios (particularly Small Cap Quality, U.S. Small Value, and Quality)
- Underweights to fixed income (in BM-sensitive portfolios) and selection within (Emerging Debt and ABS/Structured Products)
- Cash and collateral returns

DETRACTORS

- Alternatives allocations did not keep up with rallying stock and bond returns
 - Equity Dislocation modestly declined despite large value underperformance
- Regional preference for non-U.S. vs. U.S. equities
- Value leans within U.S. equities

2024 Investment Themes: Rich Opportunity Set Where Selectivity Remains Key

While our multi-asset class portfolios have differing benchmarks and objectives, they all share our long-horizon, valuation-sensitive philosophy and currently reflect three core investment themes:

1. Compelling forecasted returns for many assets

Stocks have generally benefited from strong fundamental performance, and many are attractively priced relative to fundamentals. We added to stocks across strategies, increasing equities 9% in benchmark-agnostic portfolios and 4% in benchmark-relative portfolios in 2023. We rotated equity exposures further into deep value (see below) primarily by adding to International Opportunistic Value and adding modestly to Resources.

³ The GMO Global Asset Allocation Index+ (65% MSCI ACWI/35% Bloomberg U.S. Aggregate Index)

⁴ The GMO Real Return Global Balanced Asset Allocation Blended Index+ (60% MSCI ACWI/20% Bloomberg U.S. Aggregate Index/20% FTSE 3-Month Treasury Bill Index)

Current yields remain well above the anemic levels seen just a couple of years ago, enabling nominal bonds and TIPS to provide both reasonable income in a benign environment and downside protection in the case of a deep recession. Given higher yields and relatively attractive nominal and real term premia, we added duration across our portfolios in 2023.

We still love alternative strategies, which benefit from higher cash rates as they offer a cash-plus return as well as strong relative opportunities. Though alternative strategies have been a source of capital as we've put money to work in stocks and bonds, we've retained high allocations of approximately 30% to alternative strategies.⁵ We've also sourced capital from credit strategies due to corporate spread tightening and the relative attractiveness of select equity exposures.

2. Extraordinary relative opportunities: deep value remains extremely compelling

On the surface, 2023 was a bruising year for value with MSCI ACWI Value trailing MSCI ACWI Growth by 21%. The Magnificent Seven led growth's enormous outperformance in the U.S., but outside the U.S. value did just fine, outperforming growth by 1.4% in developed markets and 8.4% in emerging.⁶

Value remains cheap across the globe. The cheapest 20% of markets, which we refer to as deep value, are severely dislocated, trading at 6th and 8th percentile discounts in the U.S. and EAFE markets, respectively, on data going back to the early 1980s.⁷ 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 compelling long/short and long-only opportunities in value.

For value to return to a historically normal valuation relative to growth, value needs to beat growth anywhere from 50% to 60% depending on the country or region. Our Equity Dislocation Strategy seeks to benefit from this wide spread in styles by going long cheap value stocks and short expensive growth around the world. It remains the largest single position across our benchmark-agnostic portfolios and Real Return Global Balanced Strategy. GMO's U.S. Opportunistic Value and International Opportunistic Value strategies were launched in December 2022 and May 2023, respectively, to capture the unique long-only dislocation in deep value stocks in the U.S. and developed markets. We've allocated approximately 14% of multi-asset portfolios to these deep value strategies.

3. Non-U.S. equities are cheap relative to the U.S. and cheap currencies add a tailwind

Keeping up with the superlative performance of U.S. equities was challenging in 2023, but our tilt to value in developed ex-U.S. and emerging market equities and strong security selection (particularly in our Emerging Markets, Developed ex-U.S. Small Cap Value, and Emerging ex-China strategies) helped offset headwinds from broad regional exposures. While U.S. fundamentals have been generally in line with what our base case would suggest, their valuations have grown more expensive. The display below charts the returns shareholders earned from distributions and fundamental growth over the last decade through 9/30/2023, ignoring the effects of valuation change. The dotted 4.5% annualized return line is consistent with what we expect stocks to earn in our "Low" base-case forecast scenario, and it's roughly what we think equity markets should have delivered over the last 10 years. U.S. companies earned essentially this fundamental return over the last decade. Japanese companies, however, did much better, delivering 6.5% fundamental performance⁸ while both Europe and Emerging ex-China delivered lower growth. The key questions become what will happen to future growth, and what do you need to pay for those fundamentals?

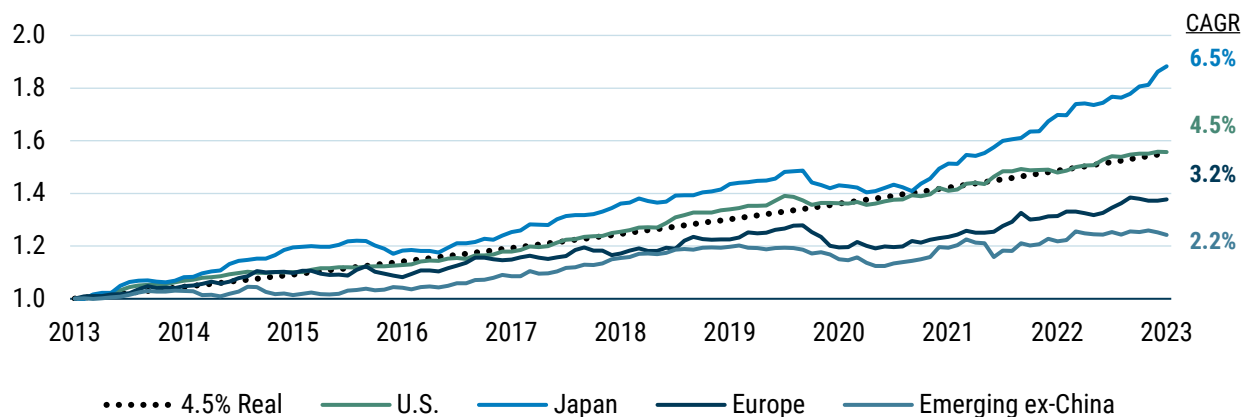
5 GAAS, which is benchmarked to 65% MSCI ACWI/35% Bloomberg U.S. Aggregate, holds 12% in alternatives.

6 Based on MSCI EAFE, MSCI EM Value, and MSCI EM Growth indexes.

7 As of 11/30/2023.

8 This might be surprising given the U.S. equity market outperformed the Japanese market when measured in dollars, but that is because valuation changes and currency movements more than offset the fundamental advantage Japan delivered. While investors did better owning U.S. equities over the last decade, underlying corporate performance was actually better in Japan.

EXHIBIT 2: TRAILING 10-YEAR ECONOMIC CAPITAL GROWTH



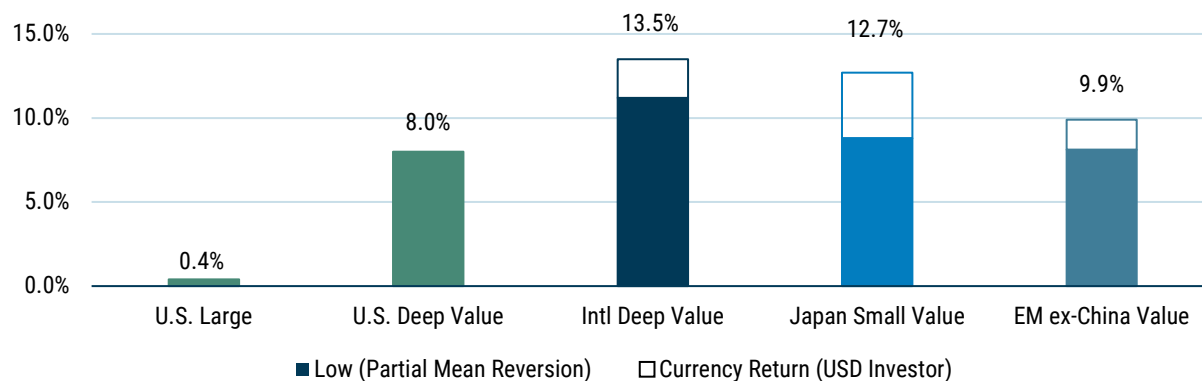
As of 9/30/2023 | Source: GMO, Compustat, WorldScope, Shiller, MSCI

Data shows total return exclusive of valuation change. Valuation is a blend of price to sales, gross profits, book value, and smoothed earnings. Book value and smoothed earnings make use of GMO's proprietary accounting values. Indexed to 9/30/2013.

U.S. equities remain expensive trading at 32.6x on a cyclically adjusted price-to-earnings (CAPE) ratio basis, Japan about fairly valued at 24.9x, and Europe and Emerging ex-China relatively cheap trading at 23.5x and 18.0x, respectively, as of 11/30/2023. Value stocks across all markets trade at abnormally wide discounts, with Japan small value being particularly cheap today. The display below highlights the attractiveness cheap valuations and currencies offer across some of our key forecasts.

EXHIBIT 3: 7-YEAR GLOBAL REAL RETURN EQUITY FORECASTS* (USD)

November 30, 2023



Source: GMO

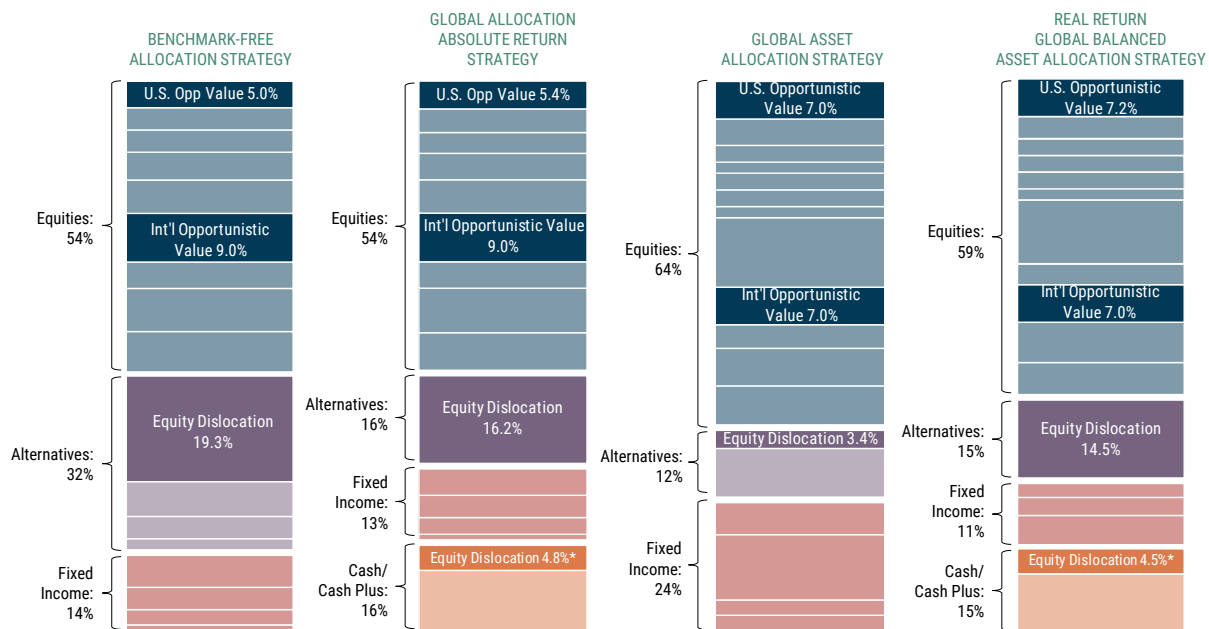
*The chart represents real return forecasts for several asset classes and not for any GMO fund or strategy. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they 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.

Positioning

Our portfolio exposures across strategies reflect our increased enthusiasm for stocks and bonds, and our strong preference for value and non-U.S. markets like Europe, Japan, and emerging ex-China. Our significant exposures to deep value are highlighted in the portfolio allocations below as of 12/31/2023:

EXHIBIT 4: 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.

*Via Multi-Strategy exposure.

Totals may vary due to rounding.

The post-Covid economic environment has been unlike any recovery investors have seen in their professional careers due to large and varied policy responses that have led to shifting imbalances between the demand and supply available for goods and services. While it is normally difficult to call a near-term path for inflation or economic growth, today's environment is particularly complex. What is clear though is that compelling valuation opportunities are abundant. Investors can build portfolios of liquid, public assets that are priced to meet their long-term return objectives. We believe GMO's multi-asset portfolios are positioned to generate strong absolute and relative returns without taking on undue recession risk. **And if value outperforms growth and international beats U.S., these portfolios are priced to outperform traditional stock/bond allocations by approximately 4-6% in our Low forecast scenario.**

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

Yours sincerely,

Ben Inker
 Co-Head of the GMO Asset Allocation Team

John Thorndike
 Co-Head of the GMO Asset Allocation Team

<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>
GMO Benchmark-Free Allocation Strategy	07/31/2001	13.58%	4.35%	4.39%	2.90%	7.49%
CPI Index		3.29%	5.56%	4.03%	2.76%	2.49%

<i>Annualized Returns as of 9/30/2023 (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>
GMO Global Allocation Absolute Return Strategy	07/31/2001	14.87%	3.85%	1.78%	2.53%	6.46%
CPI Index		3.61%	5.73%	4.06%	2.77%	2.51%

<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>
GMO Global Asset Allocation Strategy	6/30/1998	16.10%	2.70%	6.27%	4.05%	8.25%
GMO Global Asset Allocation Index +		16.21%	2.66%	8.19%	5.97%	7.60%

<i>Annualized Returns as of 9/30/2023 (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>
GMO Real Return Global Balanced Asset Allocation Strategy	6/30/2004	17.28%	5.24%	3.43%	3.59%	5.29%
GMO Real Return Global Balanced Asset Allocation Blended Index +		14.12%	4.36%	5.08%	5.62%	5.52%

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.

Disclaimer

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