GMO

YEAR-END LETTER FOR 2024

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 2025, we are enthusiastic about the prospects for our Asset Allocation portfolios. Despite elevated equity valuations in many regions, we are finding attractive pockets of cheap equities and appealing spread opportunities.

2024 was disappointing for most GMO Asset Allocation strategies primarily due to one key driver: our underinvestment in the best performing asset, U.S. large cap growth stocks, and specifically the Magnificent Seven, which continued their winning streak. Our international equity allocation strategies, which don't include U.S. equities in the benchmark, outperformed. Benchmark-agnostic strategies trailed CPI+5% largely due to declines in alternatives, to which we allocated in lieu of expensive U.S. equities. (See the Appendix for performance details by strategy.)

Some of the superlative performance of U.S. equities was warranted due to the group's higher realized and expected EPS growth versus other regions (save Japan). However, U.S. equity prices benefited as much from multiple expansion. High valuations became even more expensive with investors pricing in aggressive expectations.

While underperforming during periods of stretched valuations tests patience, history shows these phases often precede periods where reasonably priced assets outperform their more expensive peers. Looking ahead, we would expect new administrations and evolving monetary policies across the globe to lead to surprises and uncertainties. In such times, we believe well-diversified portfolios focused on assets not priced for the best possible outcome are key to managing risk and seizing potential opportunities for decent returns. Our portfolios hold well-priced assets with achievable growth prospects, while benchmark indices are heavily concentrated in companies trading at premium valuations expecting strong growth. Current valuation disparities present compelling opportunities across asset classes for valuation-sensitive investors. We are particularly fond of developed ex-U.S. and U.S. deep value and Japanese small value equities, as well as alternative strategies tapping into wide spreads.

U.S. exceptionalism applies to a narrow group, while speculation is broad

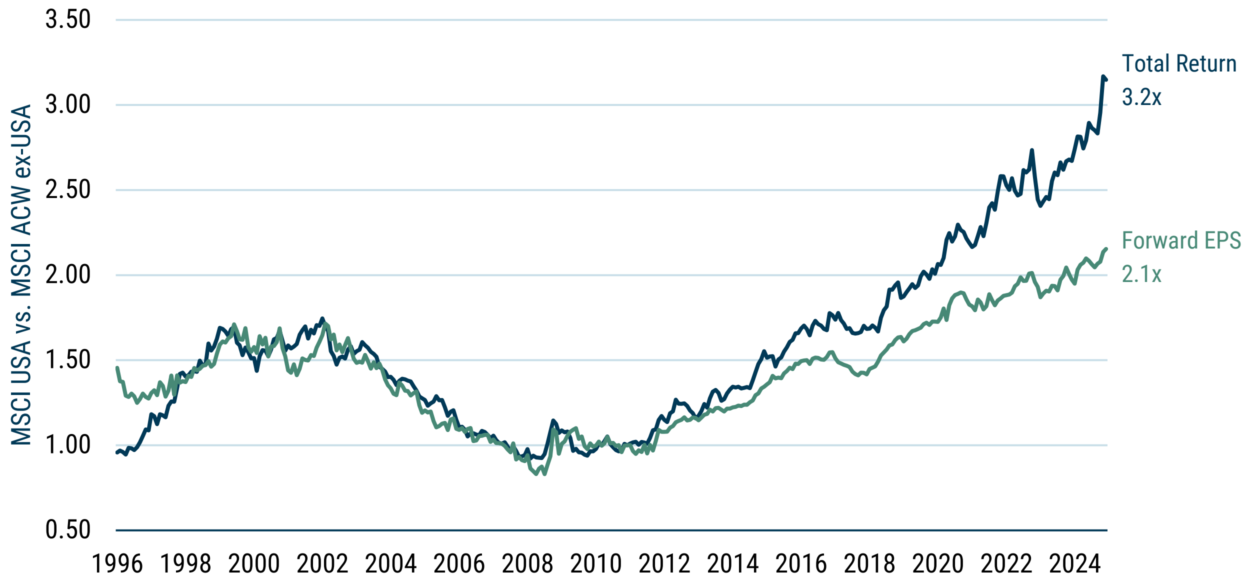
U.S. exceptionalism was not widely spread in 2024. Excluding the Magnificent 7, U.S. stocks saw their real EPS fall 2.5% in the 12 months ended 12/31/24, while one-year forward expected earnings for the group grew 4.0% in real terms. Set against double-digit real growth in expected local earnings from Japan and the emerging markets, the fundamental performance of the broad U.S. market was lacking. Only European markets, dragged down by weak fundamental results in the UK, performed worse. Of course, excluding the Mag 7 from one's analysis of 2024's results is akin to recapping the Paris Olympics without mentioning Simone Biles. This well-known group of dominant companies grew their forward earnings by an impressive 34% over the same period.

Underinvesting in these companies was costly for 2024's performance. Not only did they compound capital at a high rate, but the market also rewarded that growth with a higher multiple. The group ended the year trading at a forward P/E of 31.5x. While we suspect the market is doing its usual double counting – rewarding unsustainably high profit margins with unsustainably high multiples – we can understand the enthusiasm. What is more difficult for us to comprehend is why investors rerated the rest of the U.S. market by a similar degree. Despite lackluster results from this cohort, the forward P/E for the U.S. market ex-Mag 7 still grew 7.6% over the year to 19x forward earnings, which is about 25% above its long-term median. Meanwhile, non-U.S. P/E multiples barely budged (outside of China's 10% increase) trading at 13.4x at year end. Non-U.S. equities have never been cheaper relative to the U.S., and emerging market equities aren't far off.

The more aggressive rerating of U.S. equities (vs. non-U.S.) indicates that U.S. stocks have become unanchored from their stronger relative fundamentals:

EXHIBIT 1: U.S. FUNDAMENTALS ARE STRONG

But earnings growth is outpaced by multiple expansion



As of 12/30/24 | Source: GMO

Total Return (base = Dec 2010); Forward EPS (base = Dec 2010).

AI enthusiasm and hopes for lower taxes and business friendly policies following the reelection of Donald Trump reignited bullish sentiment. Signs of speculative fervor are broad-based and include: record fund flows into U.S. large cap equities (from retail investors and foreigners); an explosion in single day options trading; peak levels of insider trading; survey-based sentiment indicators flashing green; record levels of single stock leverage ETF volumes; and speculative crypto assets rallying strongly with MicroStrategy trading at a large premium to the Bitcoin on its balance sheet (and the value of its software business). And the list goes on.

We are sympathetic to views of the quality advantage of the U.S. equity market and the enthusiasm surrounding AI. Platform shifts, which AI seems to represent, create exciting growth opportunities and U.S. companies tend to capitalize on them more so than other countries. While new technologies like the internet, SaaS, and AI can initially generate investor excitement and high returns for early adopters, broad marketplace adoption of these innovations typically benefits consumers more than shareholders due to competition. History shows that investors often overestimate future cash flows when extrapolating from early successes, even though their optimistic expectations seemed justified at the time.

Outlook & Positioning

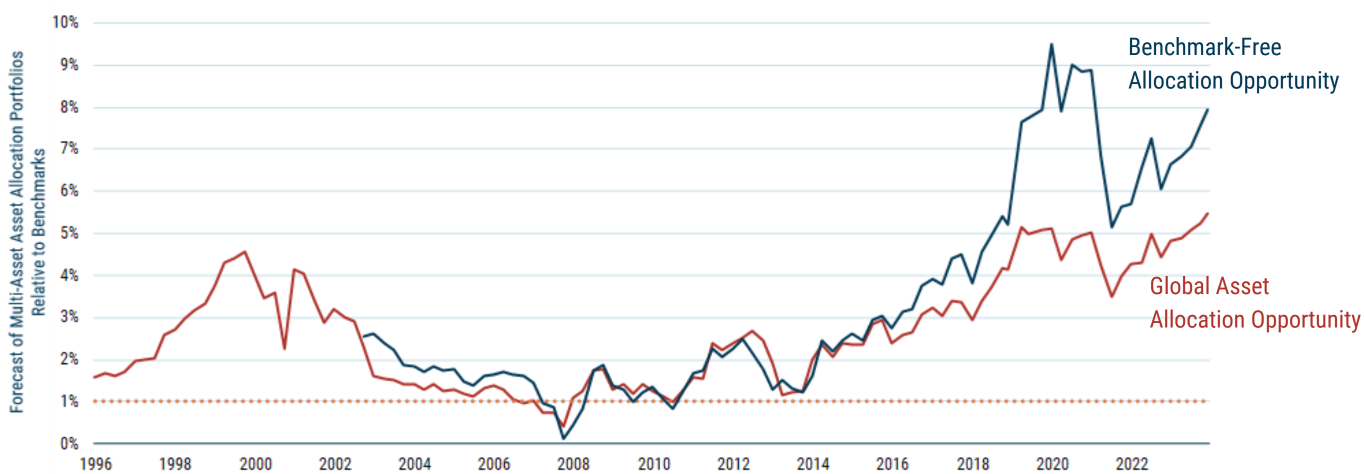
Even after a strong and increasingly narrow equity rally, the opportunity set across asset classes is compelling. We are finding:

- **Attractive forecasted returns for many assets:** Developed ex-U.S. and U.S. deep value and Japanese small value equities trade at wide discounts offering compelling absolute and relative return opportunities. U.S. equities and, in particular, U.S. growth, look destined to disappoint given they trade at high valuations and embed aggressive long-term growth expectations. (See GMO Asset Class Forecasts below.)
- **Extraordinary relative value opportunities across styles and geographies:** The near record valuation spread between growth and value equities sets up long/short exposures to benefit significantly from spread normalization. In fact, a long cheap/short expensive equity position can still win as long as the spread stops widening. Valuation disparities across other asset classes such as commodities are attractive as well.
- **Cheap currencies:**[1] Cheap non-U.S. currencies offer an additional tailwind to attractively priced equities for USD and developed market-based investors.

By allocating capital to the differentiated assets we find attractively priced, we believe our portfolios are positioned to deliver solid absolute returns. Further, we think our portfolios are poised to deliver stronger relative returns than we have seen in decades given our avoidance of the most aggressively priced assets.

EXHIBIT 2: ONE OF THE BEST OPPORTUNITY SETS SINCE 2000

Balanced and unconstrained portfolios both look better than we've seen in 20 years



As of 11/30/24 | Source: GMO
Opportunity is the difference between forecast return of the portfolio and benchmark given GMO forecasts at the time. 10-year forecasts are translated to a "7-year equivalent" by multiplying by 10/7. Dotted lines are our long-term expectations of likely achievable alpha from asset allocation. Benchmark-Free Asset Allocation is compared to a 60% MSCI ACWI/40% Bloomberg U.S. Aggregate portfolio.

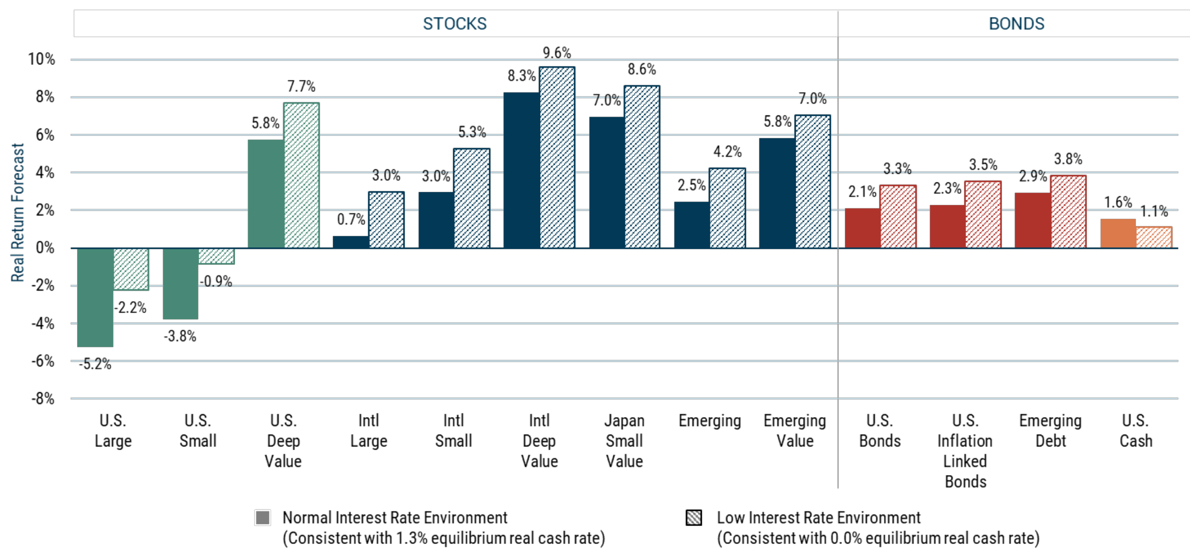
[1] With the dollar being the most expensive currency seen through our valuation-based framework, we believe USD-based investors stand to benefit from non-U.S. unhedged exposures (see forecasts below). Other developed market investors should benefit as well, in particular from yen and, to a lesser extent,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

A variety of factors are, or could be, supportive of our views. In general, our strategies would benefit if the global economy continued to grow, and investors broadened their current myopic focus on AI-related companies to areas with solid fundamental growth like Japan and the emerging markets. Other scenarios might be more disruptive, but still supportive of strong relative returns. Increasing concerns of sticky inflation and higher rates would likely weigh on high valuations.[2] Political uncertainty or new policies could negatively impact supply chains or select industries such as mega-cap technology.[3] And, of course, a recession or some sort of shock to economic growth would challenge risk assets, especially those priced to perfection.[4]

GMO's Asset Class Forecasts indicate the disperse yet attractive opportunity set:

EXHIBIT 3: 7-YEAR ASSET CLASS REAL RETURN FORECASTS*

As of December 31, 2024



As of 12/31/2024 | 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.

GMO's Asset Allocation strategies, which can shift toward the most attractive areas while avoiding those that look expensive (i.e., U.S. growth equities and credit exposures like high yield), stand to potentially deliver compelling absolute and relative returns. Our key positions include:

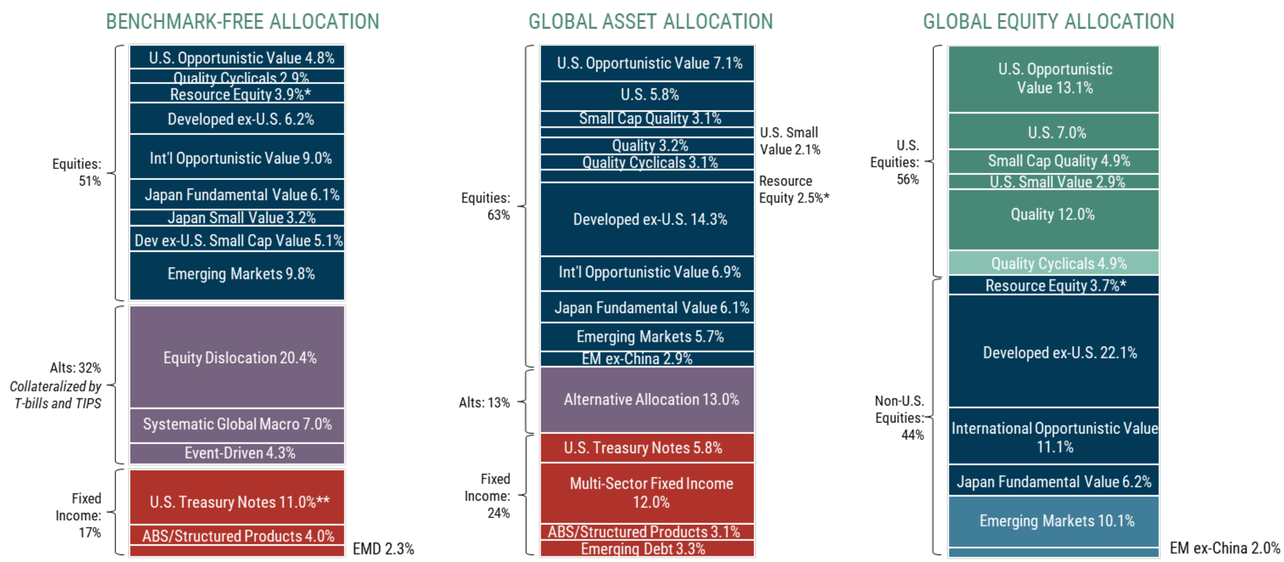
[2] At the Fed's December meeting, for instance, Fed Chair Powell's hawkish tone sent rates higher, lowered expected cuts in 2025, and led equities and risk assets broadly to sell off.

[3] Many leading members of the Republican party have expressed distrust of Mega Cap Tech companies. Andrew Ferguson, chosen to replace Lina Kahn as Chair of the FTC, "has been more wary of the monopoly power of Big Tech, so it's likely he'll press ahead with the FTC's cases against Amazon and Meta," according to the Financial Times (12/16/24).

[4] Expectations for a U.S. recession continue to trend lower leaving less room for error. Dr. Torsten Slok, Apollo Chief Economist, for instance, placed the odds at 0% in his 12/23/24 "Risks to Global Markets in 2025" missive.

- **Benchmark-Free Allocation Strategy and Global Allocation Absolute Return Strategy:** In our benchmark-agnostic portfolios we are carrying "normal" levels of risk but are leaning our equity books heavily to deep value, both in and outside of the U.S., and to Japan, where we believe the trends of rising profitability and a more shareholder-friendly market for corporate control will act as tailwinds. Alternatives include a 20% position in our highest conviction idea, Equity Dislocation.
- **Global Asset Allocation Strategy and Real Return Global Balanced Strategy:** Our benchmark-sensitive portfolios hold near benchmark weights in equities but are underweight the U.S., with sizeable quality exposures balancing our value positions. We believe alternatives offer compelling absolute returns and play an important diversifying role. We maintain interest rate duration that's roughly similar to that of our benchmarks.
- **Global Equity Allocation Strategy and International Equity Allocation Strategy:** Our global equity allocation strategies remain underweight U.S. equities, favoring value outside of the U.S. primarily in developed markets. Our U.S. equities balance exposure to value and deep value with quality positions. We remain nearly three times the benchmark weight in Japan. In our international equity allocation strategies, we prefer deep value in developed ex-U.S. markets and Japan small value, with a lean to value in our core developed ex-U.S. and emerging portfolios.

EXHIBIT 4: PORTFOLIO POSITIONING ACROSS ASSET ALLOCATION STRATEGIES



As of 12/31/2024 | Source: GMO

*Includes GMO's Resources and Climate Change strategies. **The headline exposure to U.S. Treasury Notes should not be considered in isolation of the portfolio's overall duration profile inclusive of collateral and other exposures.

Quality and Quality Cyclicals are predominantly U.S. but do hold some Developed ex-U.S. and Emerging. Resources invests broadly across all of U.S., Developed ex-U.S., and Emerging. Totals may not add due to rounding. Cash is excluded for purposes of benchmark comparison. 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.

The commonality across our strategies is not owning (or under-owning) the one asset we see trading at rich valuations with high expectations, U.S. large cap growth, in favor of a variety of exposures that have more achievable estimates with undemanding valuations. Historically, this approach has been a recipe to deliver attractive returns. But nailing down the timing as to when leadership will shift from the "exceptional" U.S. market to others is hard to call with precision.

Conclusion

Last year reminded us of one of our favorite Warren Buffet quotes about ebullient markets: "You can't stand to see your neighbor get rich knowing you're smarter." We're certainly not convinced we are smarter than the collective insights of the market, but we are disciplined. We know expectations often become unanchored from intrinsic value, pushing valuations to levels that ultimately disappoint.

We believe the U.S. equity market is extended, concentrated, and in a precarious place today. Fortunately, there are many other assets that we believe are well positioned. GMO's Asset Allocation team continues to search for attractively priced assets globally and build portfolios that we believe can deliver strong absolute and relative returns. In the later innings of extended markets, we tend to look more different from cap-weighted portfolios. By doing so, our valuation-sensitive strategies can play important diversifying roles through cycles.

Equity markets, especially growth in the U.S., have been supported by a number of tailwinds over the last decade including supportive fiscal and monetary policies; lower corporate tax rates and interest rates; limited regulation; and, more recently, strong investment in and enthusiasm around AI. Prices reflect a continuation of these benevolent conditions, but the years ahead are unlikely to provide such a constructive environment. As always, we stand ready to help you navigate the path forward. Please reach out to us to learn more about our research insights and portfolio positioning or with questions specific to your allocations.

Warm regards,

Ben Inker
Co-Head of the GMO Asset Allocation Team

John Thorndike
Co-Head of the GMO Asset Allocation Team

APPENDIX

2024 Performance Review

Two key decisions contributed to relative underperformance of GMO's Asset Allocation strategies in 2024:

1. Underweight U.S. Growth stocks: We provide analysis above as to why we continue to hold high conviction in that position.
2. Alternative strategies delivered poor performance: This has been an area of research and development in 2024, and we look forward to enhancing our alternatives lineup with several new strategies in 2025.

Our portfolios delivered positive absolute returns with the benchmark-agnostic Benchmark Free Allocation and Global Allocation Absolute Return strategies delivering net returns of 4.3% and 2.3%, respectively, though both trailed their CPI+5% benchmarks and traditional balanced portfolios largely due to underweights to U.S. equities and losses in select, diversifying alternative strategies. Systematic Global Macro fell as mean-reverting positions in select commodities moved against us and showed signs of speculative fervor. Equity Dislocation, a market neutral strategy which is long cheap value and short extreme growth, fell modestly as global value trailed global growth. Equity Dislocation's net -2.7% decline, however, did outpace the -13.4% return a naïve index-based implementation would have delivered.

Our benchmark-sensitive Global Asset Allocation and Real Return Global Balanced Asset Allocation strategies generated net returns of 5.0% and 3.4%, respectively, though they trailed their respective benchmarks by 6.6% and 9.0%, also due to their underweights to U.S. growth stocks and the poor performance of alternatives.

Our equity allocation strategies, Global All Country Equity Allocation and Global Developed Equity Allocation, rose strongly by 10.0% (net) and 11.6% (net), respectively, as equities rallied but couldn't keep up with their benchmarks given their underweights to U.S. equities.

Our international equity allocation strategies fared well with International All Country Equity Allocation and International Developed Equity Allocation rising 8.4% (net) and 10.6% (net), respectively, outpacing their benchmarks by 2.9% and 6.8%.

Preliminary Annualized Returns as of 12/31/2024 (Net, USD)	*Inception*	*1-Year*	*3-Year*	*5-Year*	*10-Year*	*ITD*
GMO Benchmark-Free Allocation Composite	7/31/2001	4.35%	4.81%	2.95%	3.20%	7.36%
CPI Index		2.86%	4.27%	4.21%	3.01%	2.52%

Preliminary Annualized Returns as of 12/31/2024 (Net, USD)	*Inception*	*1-Year*	*3-Year*	*5-Year*	*10-Year*	*ITD*
GMO Global Allocation Absolute Return Composite	7/31/2001	2.31%	4.13%	2.19%	2.85%	6.47%
CPI Index		2.86%	4.27%	4.21%	3.01%	2.52%

Preliminary Annualized Returns as of 12/31/2024 (Net, USD)	*Inception*	*1-Year*	*3-Year*	*5-Year*	*10-Year*	*ITD*
GMO Global Asset Allocation Composite	6/30/1998	4.97%	2.01%	3.84%	4.41%	8.15%
GMO Global Asset Allocation Index +		11.60%	2.77%	6.57%	6.63%	7.71%

Preliminary Annualized Returns as of 12/31/2024 (Net, USD)	*Inception*	*1-Year*	*3-Year*	*5-Year*	*10-Year*	*ITD*
GMO Real Return Global Balanced Asset Allocation Strategy	6/30/2004	3.39%	3.11%	4.00%	4.00%	5.49%
GMO Real Return Global Balanced Asset Allocation Blended Index +		12.39%	4.35%	7.39%	6.79%	6.19%

Preliminary Annualized Returns as of 12/31/2024 (Net, USD)	*Inception*	*1-Year*	*3-Year*	*5-Year*	*10-Year*	*ITD*
GMO Global All Country Equity Allocation Composite	6/30/1998	9.98%	3.89%	7.08%	6.93%	8.29%
MSCI ACWI ++		17.49%	5.43%	10.06%	9.23%	8.02%

Preliminary Annualized Returns as of 12/31/2024 (Net, USD)	*Inception*	*1-Year*	*3-Year*	*5-Year*	*10-Year*	*ITD*
GMO Global Developed Equity Allocation Composite	6/30/1998	11.59%	5.34%	8.90%	8.00%	8.98%
MSCI World +		18.67%	6.34%	11.16%	9.95%	8.10%

Preliminary Annualized Returns as of 12/31/2024 (Net, USD)	*Inception*	*1-Year*	*3-Year*	*5-Year*	*10-Year*	*ITD*
GMO International All Country Equity Allocation Composite	6/30/1998	8.42%	1.84%	4.01%	4.34%	6.31%
MSCI ACWI ex USA +		5.53%	0.82%	4.10%	4.80%	5.30%

Preliminary Annualized Returns as of 12/31/2024 (Net, USD)	*Inception*	*1-Year*	*3-Year*	*5-Year*	*10-Year*	*ITD*
GMO International Developed Equity Allocation Composite	6/30/2004	10.63%	5.42%	6.89%	5.40%	7.24%
MSCI EAFE ++		3.82%	1.64%	4.73%	5.20%	5.89%

Returns shown for periods greater than one year are on an annualized basis.

Preliminary Performance: Final performance numbers are generally available on GMO's website within fifteen business days after month end. Investors should not rely on preliminary numbers to make investment decisions.

Prior to January 1, 2012, the accounts in the GMO Benchmark-Free Allocation Composite served as the principal component of a broader real return strategy. Beginning January 1, 2012, accounts in the composite have been managed as a standalone investment.

Returns include a substantial, one-time litigation settlement recovery received on December 16, 2024. This event contributed 2.29% to Q4 2024 and 2.45% to 2024 annual performance for the GMO Benchmark-Free Allocation Composite; 0.84% to Q4 2024 and 0.90% to 2024 annual performance for each of the GMO Global Allocation Absolute Return and GMO Real Return Global Balanced Asset Allocation Composites; 0.73% to Q4 2024 and 0.80% to 2024 annual performance for the GMO Global Asset Allocation Composite; 1.12% to Q4 2024 and 1.28% to 2024 annual performance for the GMO Global All Country Equity Allocation Composite; 1.23% to Q4 2024 and 1.42% to 2024 annual performance for the GMO Developed Equity Allocation Composite; 2.20% to Q4 2024 and 2.51% to 2024 annual performance for the GMO International All Country Equity Allocation Composite; and 3.24% to Q4 2024 and 3.75% to 2024 annual performance for the GMO International Developed Equity Allocation Composite based on each composite's respective representative account. Performance for other periods, including this date, was also positively impacted, sometimes materially. Without this recovery, performance would have been lower in both absolute terms and relative to the benchmark. Additional information is available upon request.

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.

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