



## YEAR-END LETTER FOR 2024

*Systematic Equity and Asset Allocation: Opportunistic Value*

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Dear Client,

Deep value stocks remain our highest conviction long-only investment idea. Although the MSCI ACWI Value index trailed the broad market by almost 7% in 2024, a value investor's experience varied widely across regions. Value stocks in the U.S., as measured by the MSCI USA Value (Gross) index, rose an impressive 14.3%, but still lagged far behind the stellar 25.0% return of the S&P 500, driven largely by the Magnificent Seven. In non-U.S. developed markets, the MSCI World ex-USA Value index rose a much smaller 6.7%, but that was 2% ahead of the broader market, with the MSCI World ex-U.S. index up 4.7%.

The GMO U.S. Opportunistic Value Strategy returned 12.9% (net) for the year but trailed MSCI USA Value (Gross) by 1.4%. In the context of the market background, this was a satisfactory result, as a deep value approach might typically be expected to do meaningfully better/worse than a core value approach in an environment where the value style is a big winner/loser. The portfolio benefitted from strong security selection in Communication Services and Financials, but this was more than offset by weak security selection within Health Care (overweight CVS and Merck), Consumer Staples (overweight Walgreens and underweight Walmart), and Information Technology (overweight Intel and underweight Broadcom). As the portfolio focuses on the most attractive opportunities in our deep value universe, neither Walmart nor Broadcom featured in the portfolio during the year. At the start of 2024, we considered Walmart to be shallow value, trading on a price-to-economic book of roughly twice that of the portfolio. It progressively became more expensive throughout the year, finishing about three times as expensive as the portfolio. Broadcom consistently screened as extremely expensive, starting the year almost ten times as expensive as the portfolio using price-to-economic book, and finishing 2024 a little over 18 times more expensive than the portfolio.

The GMO International Opportunistic Value Strategy returned 5.5% (net) in 2024, trailing the value index by 1.2%, but outperforming the broader market by 0.8%. Security selection was challenging in Consumer Discretionary (overweight Automobile and Components constituents, including Stellantis), Materials (primarily our position in Australian Metals & Mining company BHP) and Energy (overweight Total). Security selection was stronger in Consumer Staples and Industrials, and the Strategy also benefitted from being significantly underweight the poorly performing Utilities sector, which looks generally expensive on our combined value metrics.

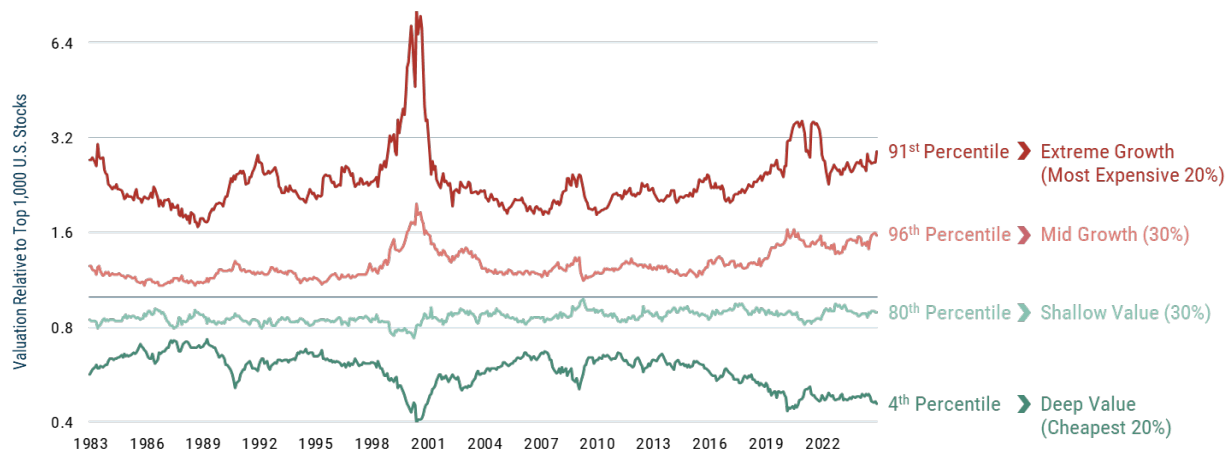
### ***The Opportunity***

While we acknowledge that some constituents of the U.S. growth index are undoubtedly profitable, innovative, and high-quality companies, it is important to recognize that good companies do not necessarily make good investments. No matter how good the company proves to be, by overpaying for it you are likely to endure mediocre-at-best performance. Although the Magnificent Seven impressively grew their forward earnings by more than 30% in 2024, the lion's share of the performance of this group came from multiple expansion - leaving them trading at a heady forward P/E of more than 30x. While we understand the enthusiasm for these stocks, we worry the market is likely falling into the trap of double counting - rewarding unsustainably high profit margins with unsustainably high multiples.

In a world with some markets sitting at or near all-time highs with elevated valuations, deep value offers compelling opportunities across regions. Deep value stocks are trading extremely cheaply relative to broad markets and their own history. While timing is always uncertain, in an expensive world this combination leaves them positioned to potentially deliver strong absolute and relative returns to investors.

EXHIBIT 1: WITHIN THE U.S., “DEEP VALUE” SEGMENT (CHEAPEST 20%) IS TRULY DISLOCATED

Valuation Groups in Top 1,000 U.S. Stocks



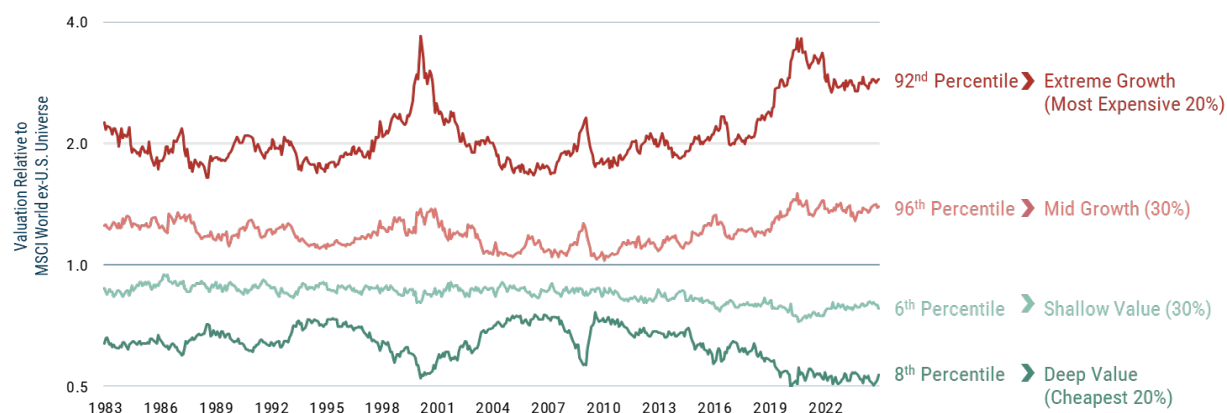
As of 12/31/24 | Source: GMO

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

Based on our estimates, if all quintiles of the U.S. market revert to their historic median valuation (which is a strong assumption), we believe that U.S. deep value is priced to outperform the rest of the market by roughly 30%-40%.

EXHIBIT 2: IN DEVELOPED EX-U.S., “DEEP VALUE” (CHEAPEST 20%) IS EXCEPTIONALLY CHEAP

Valuation Groups in MSCI World ex-U.S. Universe



As of 12/31/24 | Source: GMO

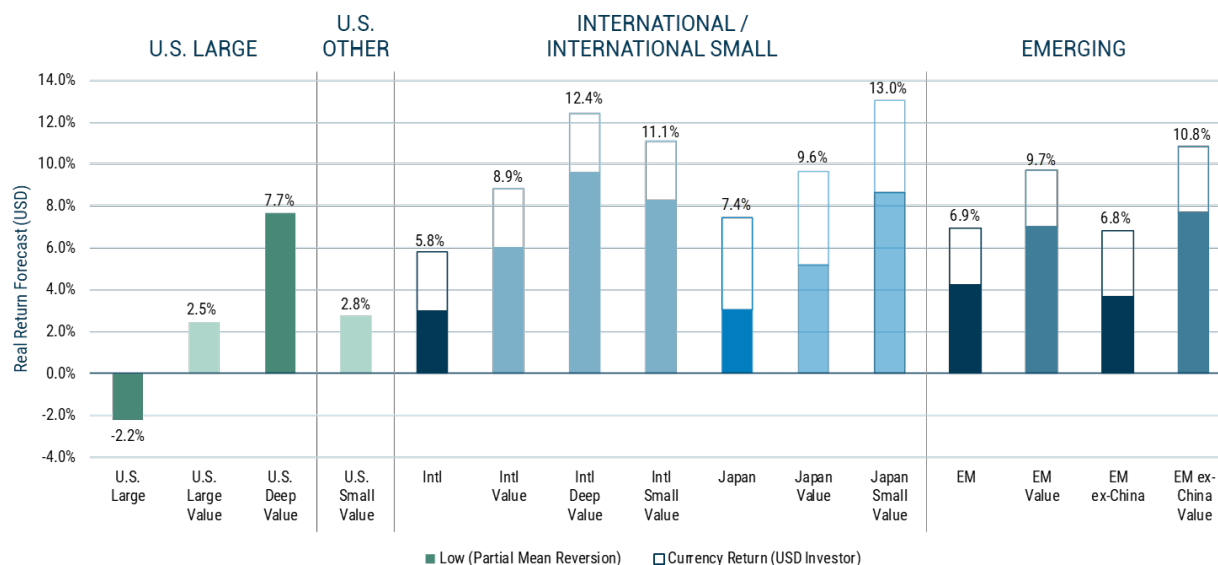
Stock valuations are calculated on a blend of Price/Sales, Price/Gross Profit, and Price/Economic Book. Groups of value and market are weighted by square root of market cap. All groups have the same country exposure as the universe.

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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 this compelling relative opportunity in deep value stocks, it should be noted that international equity markets generally are reasonably priced, and stand to benefit further from the tailwind of cheap currencies. All that combines to an impressive forecasted real return of 12.4% for the international deep value cohort in USD.

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

December 31, 2024 – 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.

### ***A Considered Approach to Investing in Value***

Investors are increasingly concerned about how their portfolios will perform when value roars back or when the U.S. market stumbles, and maintaining an exposure to value, either within the U.S. or across wider developed markets, can provide some peace of mind. Of course, one could do this passively by using value ETFs, for example, but we believe that this naïve approach can be overly reliant on flawed accounting metrics or index provider labels.

Our approach to value investing is differentiated in three ways:

1. We look for top-down opportunities, which today causes us to focus on deep value – the cheapest 20% of stocks. This cohort is deeply dislocated, and when value wins, the deep value cohort always wins by more. We believe this is the best way to capture today’s extraordinary value opportunity.
2. When selecting stocks, we look beyond the reported accounting data – GMO has fully restated the financial statements of every company in our investment universe so that they better reflect true fundamental value. For example, we consider research and development to be an actual investment rather than simply a current expense.

- We develop forward looking projections for every company in our investable universe. Our projections are uniquely calibrated to each company, fully accounting for that specific company's quality and growth characteristics.

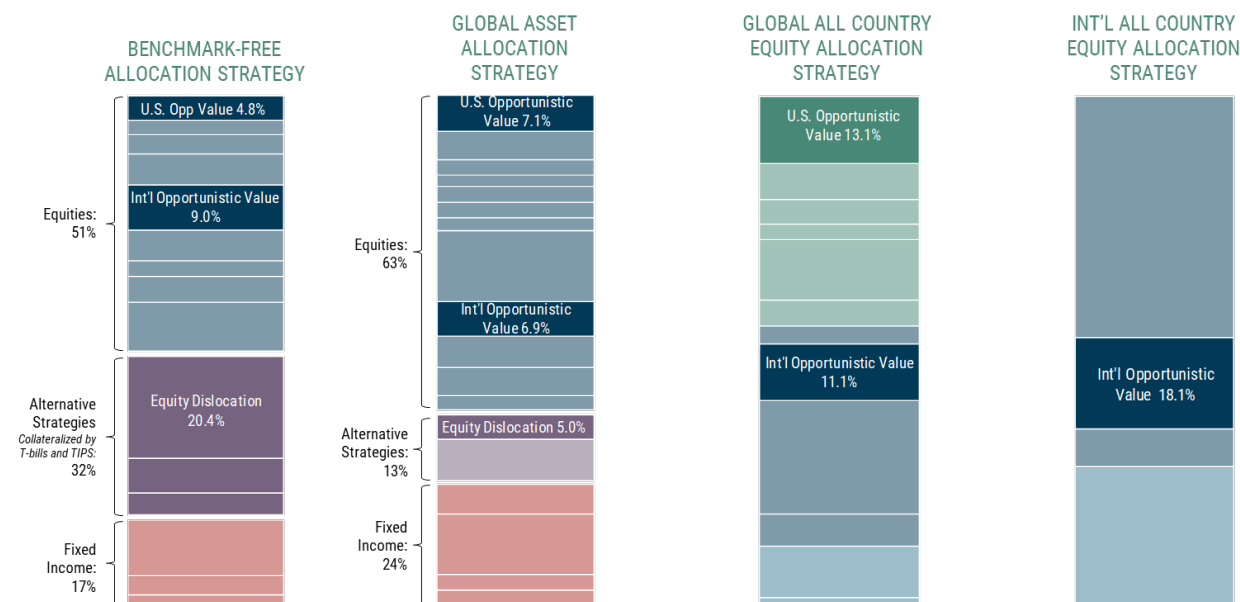
We aim to invest in stocks with very attractive valuations that are still strong, profitable companies while seeking to avoid value traps. The portfolios typically trade at a discount to other value approaches, while at the same time maintaining quality characteristics like financial leverage and profitability looking better than most passive value portfolios.

### Conviction

Deep value is the biggest active position across all of GMO's asset allocation portfolios. We are expressing our enthusiasm for deep value with positions in both U.S. Opportunistic Value and International Opportunistic Value, along with Equity Dislocation (a market neutral implementation that is 100% long the cheapest value stocks globally, and 100% short the most expensive growth stocks globally).

## EXHIBIT 4: ASSET ALLOCATION PORTFOLIOS

*Investing in the Deep Value Thesis Long-Short and Long-Only*



### As of 12/31/24 | 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. Totals may vary due to rounding.

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

Yours sincerely,

John Thorndike  
 Co-Head of Asset Allocation

Warren Chiang  
 Portfolio Manager, Systematic Equity

George Sakoulis  
 Head of Investment Teams and Systematic Equity

Tara Oliver  
 Portfolio Manager, Systematic Equity

<i>Annualized Returns as of 12/31/2024 (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 Composite<sup>1</sup></b>	5/31/2023	5.46%	N/A	N/A	N/A	13.02%
<b>International Opportunistic Value Blended Benchmark +</b>		7.59%	N/A	N/A	N/A	11.83%
<b>MSCI World ex USA Value</b>		6.65%	N/A	N/A	N/A	13.67%

<i>Annualized Returns as of 12/31/2024 (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 U.S. Opportunistic Value Composite<sup>2</sup></b>	6/30/2022	12.90%	N/A	N/A	N/A	14.04%
<b>U.S. Opportunistic Value Blended Benchmark +</b>		21.62%	N/A	N/A	N/A	19.62%
<b>MSCI USA Value (Gross)</b>		14.34%	N/A	N/A	N/A	12.26%

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

**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.**

<sup>1</sup>The portfolio is not managed relative to a benchmark. References to an index are for informational purposes only. The Index used for performance reporting purposes changed from MSCI World ex-USA to MSCI World ex-USA Value effective June 30th, 2024.

Returns include a substantial, one-time litigation settlement recovery received on December 16, 2024. This event contributed 0.39% to Q4 2024 and 0.44% to 2024 annual performance, based on a 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.

<sup>2</sup>The portfolio is not managed relative to a benchmark. References to an index are for informational purposes only. The Index used for performance reporting purposes changed from S&P Composite 1500 to MSCI U.S.A. Value effective June 30th, 2024.