



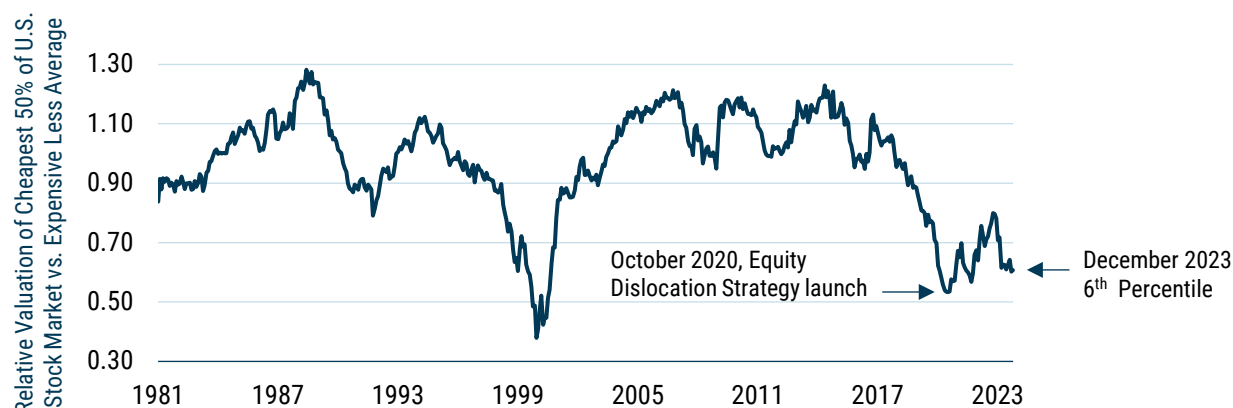
YEAR-END LETTER FOR 2023

Systematic Equity Team

Dear Valued Client,

Unless this is the first GMO letter that you've read in a while, you will know that after the longest period of growth stock outperformance in recorded history prior to Covid, GMO believes that the spread between cheap and expensive stocks around the world is just about as wide as it ever gets, as seen in Exhibit 1. Quite rightly therefore, this extremely compelling investment opportunity is reflected in all Systematic Equity investment strategies.

EXHIBIT 1: VALUE CONTINUES TO LOOK CHEAP RELATIVE TO GROWTH



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.

2023 saw value continue its better run globally since Covid. However, there was one notable exception, the U.S., where value's underperformance was about as extreme as it gets. The U.S. drove the MSCI ACWI Value Index – MSCI ACWI Growth Index return down over 20%! This number is somewhat bloated by the way the indices are constructed, including market cap weighting where the so called "Magnificent Seven" were all included in the growth half of the market. Nonetheless, the U.S. regional bank crisis and the extraordinary gains from beneficiaries of the Artificial Intelligence (AI) boom were, in combination, less than ideal for U.S. value.

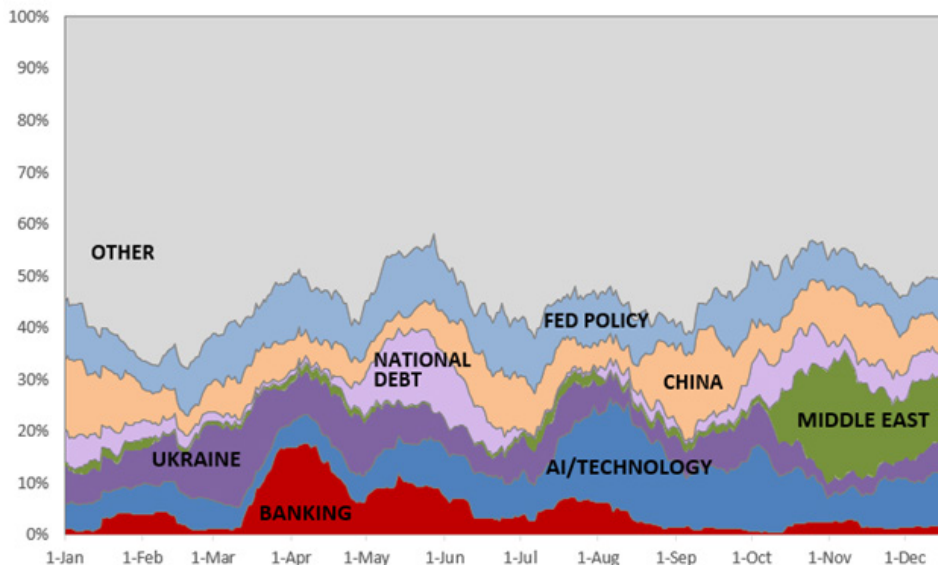
The Evolving Story with Artificial Intelligence

We think if 2023 is to be remembered for anything, it will be as the year when AI tools, most notably ChatGPT, successfully entered the mainstream. Looking back to our initial use of Natural Language Processing (NLP) in 2006, its potential was clear for all to see. Yet, even the most avid technology enthusiasts among us would have been astounded by how far our ability to engage with and harness this data has advanced.

Embracing this new era, we thought it would be both fitting and fun to see if we could get AI to distill the major narratives that shaped the markets in 2023 and compare the results to our human perspective. Exhibit 2 below shows the results from extracting 25 main topics from the information content in daily market podcasts,¹ with seven key topics highlighted. Prominent topics include central bank monetary policy, U.S. debt ceiling concerns, and discussions around China's economic situation, but three topics in particular stand out (echoing our comments around U.S. value earlier): the U.S. regional banks crisis in March; the persistent focus on technology and AI, particularly after Nvidia's blow-out earnings in June; and sadly, the war in the Middle East starting in October.

¹ GMO used podcasts by the Financial Times, the WSJ, the Economist, and Bloomberg for this analysis.

EXHIBIT 2: TOPIC EXTRACTION FROM DAILY MARKET PODCASTS



Performance Summary

Our investment models performed positively outside the U.S. in 2023 but struggled to overcome value headwinds in the U.S. Fundamental Quality was our most consistent model globally. Our Alerts model, in large part due to its higher quality bias, also performed well in all the major regions of the world. Our Value models performed well outside the U.S., with especially strong performance in emerging markets. Although the U.S. was not easy given the backdrop, our Price to Fair Value model deserves a mention for putting in a respectable performance on an equal weighted basis, where other simpler value models were simply annihilated. Globally, Momentum based models had mixed results, with shipping momentum working well in the U.S., analyst estimate momentum working well in developed markets outside the U.S., while stock-level price momentum had a modestly positive contribution in emerging markets.

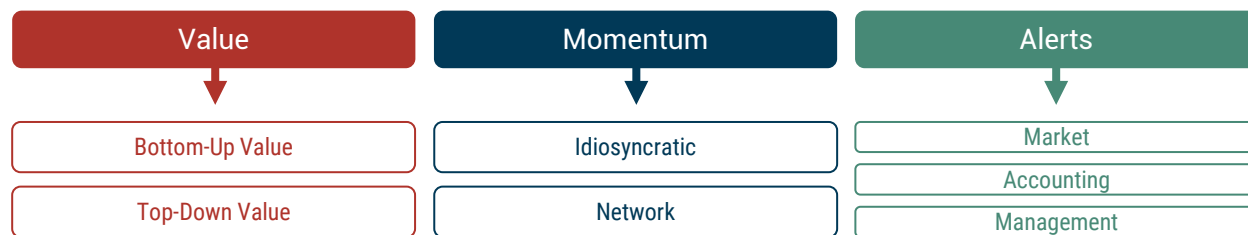
Not surprisingly, model performance drove the final investment outcomes. International equity and Emerging equity strategies were nicely ahead of their respective benchmarks. With the already mentioned value headwinds, our U.S. strategy trailed the benchmark but still outperformed the MSCI U.S.A. Value Index by over 12%. The story in the U.S. is more encouraging on a longer horizon, both U.S. Equity and International Equity strategies have added over 2% in alpha, vs. their respective benchmarks, over the trailing 3-year period ended December 31, 2023.

Research and Process Evolution

Combining our longstanding Global Equity and Emerging Markets teams into Systematic Equity last year augmented our resources and expertise, sparking an exciting flurry of research activity. From revisiting existing models with fresh eyes to venturing into uncharted territories, our desire never to be satisfied, to innovate, and to evolve has continued throughout. The re-tooling of our Alerts model designed, among other uses, to flag questionable management behavior, was the most prominent enhancement, including the addition of a robust suite of bank specific signals.

The project that truly encapsulated our collaborative efforts this year was the comprehensive review of how we group our models. Our goal was to eliminate unnecessary complexity and, where we can, replace calibration anchored to historical factor performance with more intuitive reasoning. Given this is still using the same underlying models, the updated model is highly correlated with the prior version, but we now have a process that is more transparent, clearer to communicate, and easier to follow from a performance perspective. Exhibit 3 outlines the three updated model groups and their seven subcomponents. We look forward to going into more detail with you at future portfolio reviews.

EXHIBIT 3: SYSTEMATIC EQUITY UPDATED MODEL GROUPS



Looking ahead, there are plenty of intriguing projects to keep us busy in 2024. Near term, we are excited about the evolution of our top-down valuation models for countries and industries, building on the combined experience of the former Emerging Markets and Global Equity teams. We have quite a few projects focusing on continuing to make reported accounting data better reflect economic reality with our inflation accounting work the nearest to completion. Away from accounting and value, we are currently undertaking a complete review of idiosyncratic stock momentum which has already yielded useful insights. And of course, all the NLP and AI tools at our disposal offer interesting areas of investigation that we could only dream of a few years ago.

Closing

In closing, despite value's outperformance outside the U.S., we still believe the valuation spreads have a long way to go to get back to more normal levels while in the U.S. they are almost back to the extremes seen immediately post Covid. Your portfolio very much reflects this rare opportunity.

It can often be difficult in a letter to properly portray the passion and excitement we feel about all the research and innovation going on within our team. The greater resources we now have at our disposal, as well as a greater diversity of skill sets and experience, make it a really exciting time for Systematic Equity.

Let us end by thanking you for your trust in us. We remain very much fixated on the long-term goal of providing superior returns to our clients and working to help you wherever we can. On behalf of everyone at GMO, we wish you all the best for 2024, both professionally and personally.

Yours Sincerely,

Simon Harris
Head of Systematic Equity

Warren Chiang
Head of Portfolio Management, Systematic Equity

<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 Emerging Markets Strategy	12/31/1993	19.70%	-5.45%	1.70%	1.39%	5.75%
MSCI Emerging Markets+		9.83%	-5.08%	3.69%	3.13%	5.09%

<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 International Equity Strategy	3/31/1987	20.60%	6.52%	10.07%	3.75%	7.15%
MSCI EAFE +		18.24%	4.02%	8.17%	4.40%	6.57%

<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 U.S. Equity Strategy	2/28/1989	21.89%	12.14%	15.53%	10.68%	10.78%
S&P Composite 1500 +		25.47%	9.84%	15.31%	11.57%	10.64%

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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