



YEAR-END LETTER FOR 2024

Systematic Equity Team

Dear Client,

Despite a backdrop of geopolitical uncertainties – typified by the fact that voters from more than sixty countries went to the polls – global equity markets delivered strong performance in 2024. The U.S. equity market, in particular, reported sizable gains, albeit performance came in a very concentrated fashion driven mainly by the “Magnificent 7” companies, which rose 48%.

Before we discuss performance, we would like to revisit the investment philosophy of the Systematic Equity team, which is driven by three core principles:

- We invest for the long run.
- Fundamentals matter.
- Even in highly efficient markets, there are multiple sources of alpha and risk that we can harness to generate excess returns through a disciplined investment process.

We approach investment opportunities by building portfolios that are consistent with these principles and derive our competitive edge through deep research and collaboration, both within our team and across GMO.

As we have highlighted to clients and prospects for some time, the nature of the current market means we are continuing to see unusually compelling opportunities across all our Systematic Equity strategies. We believe that over time, ongoing dislocations will lead to strong outperformance in our strategies, because of both the continued attractiveness of valuation opportunities as well as the idiosyncratic and top-down mispricings identified by our suite of alpha models.

At times, having a valuation focus is not without its challenges. In recent years, this has been especially evident in the U.S., where a concentrated growth rally has created headwinds to our style of investing. There is a silver lining, however – we continue to see considerable upside for valuation-oriented portfolio positioning. Deep value stands out as extremely attractive globally, with valuations in the single percentiles relative to history. A year ago, we shared that the cheapest 50% of U.S. stocks were in the 6th percentile and looked very cheap relative to their history. As we exited 2024, those securities stood in the 3rd percentile.

EXHIBIT 1: VALUE CONTINUES TO LOOK CHEAP RELATIVE TO GROWTH IN THE U.S.



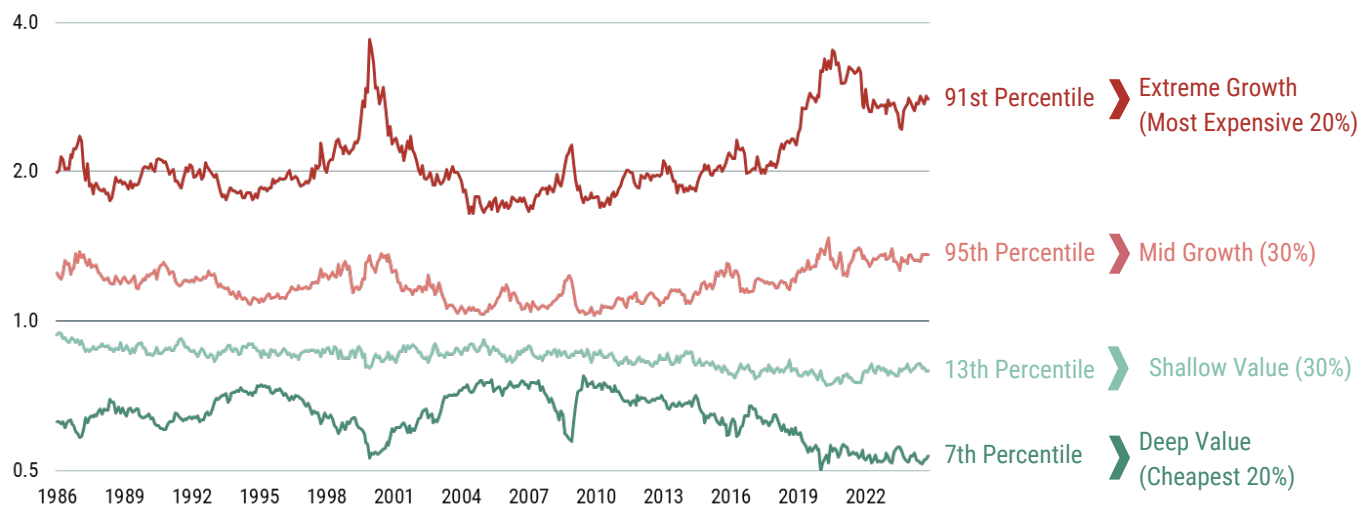
Preliminary as of 12/31/2024 | Source: GMO

Stock valuations are calculated on a blend of Price/Sales, Price/Gross Profit, Price/Book, and Price/Economic Book.

Meanwhile, outside the U.S., value is also attractive relative to its history despite recent strength. We take advantage of this broadly diversified value opportunity in the International Equity Strategy, while clients can dial into the deep value opportunity in developed markets through our U.S. and International Opportunistic Value strategies.¹

EXHIBIT 2: INTERNATIONAL MARKETS ARE CHEAP DESPITE RECENT VALUE OUTPERFORMANCE

Valuation Relative to MSCI World ex-U.S. Universe



Preliminary as of 12/31/24 | Source: GMO

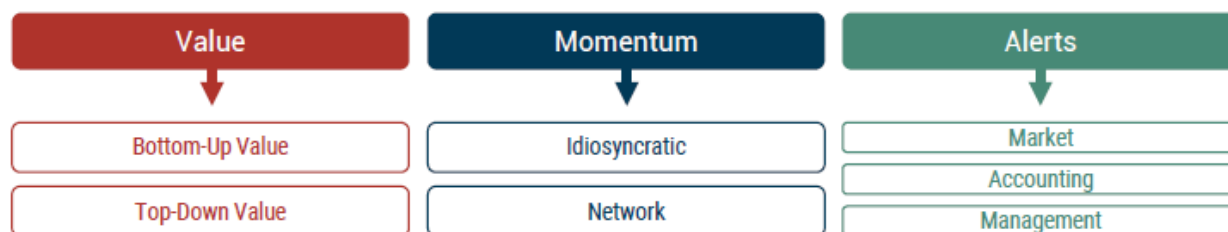
Stock valuations are calculated on a blend of Price/Sales, Price/Gross Profit, Price/Book, and Price/Economic Book. Valuation groups are based on the constituents of the MSCI World ex-U.S. Index, excluding the smallest names per the Asset Allocation team's investable universe thresholds. All groups have the same country exposure as the universe.

Performance Summary

International Equity outperformed again in 2024, building on its strong 3-year and 5-year track record, while U.S. Equity and Emerging Markets strategies underperformed their respective benchmarks amid value headwinds. When we look at performance relative to peers, both International Equity and U.S. Equity had strong years.²

Exhibit 3 highlights the sub-groups within Value, Momentum, and Alerts that drive the performance of our strategies.

EXHIBIT 3: SYSTEMATIC EQUITY MODEL GROUPS AND SUB-GROUPS



¹ For more on the deep value opportunity, see [Beyond the Factor: GMO's Approach to Value Investing](#) (November 2024).

² International Equity is categorized by Morningstar as [Foreign Large Value](#) and U.S. Equity is categorized as [Large Value](#).

In developed markets outside the U.S., attractive stocks in each model group outperformed the broader international equity market. Top-Down Value and Momentum signals, at both the idiosyncratic stock and network levels, were the standouts in 2024. Portfolios also benefitted from an environment where the combination of attractively valued stocks with good momentum and few red flags did even better than each standalone model group.

In the U.S., underperformance was driven by Value models despite strong performance from both Momentum and Alerts signal groups. Performance highlights for the year included contributions from Idiosyncratic Momentum and Management Alerts.

Within emerging markets, we found that attractively valued countries underperformed whether they were moderately attractive or very cheap. This was reflected in portfolio performance, where stock selection within sectors was positive but top-down country and sector allocation decisions detracted.

Research and Process Evolution

Honing our research edge and continuing to refine our investment process remain critical areas of focus. In 2024 we have seen benefits from the enlargement of our research team with Tim Wheeler, Kenneth Hsu, and Chris Heelan applying their extensive systems development, portfolio construction, and alpha modeling skills for the benefit of Systematic Equity client portfolios. We are also thrilled to share that Vahid Montazerhodjat is joining us from the Asset Allocation team; we look forward to utilizing his expertise in top-down frameworks, alpha modeling, and risk management in 2025. We have also continued to see the benefits of the Systematic Equity team integration with further enhancements to the emerging markets process, which has increasingly reflected the best of both the top-down expertise of the legacy Emerging Markets team and the bottom-up insights of the legacy Global Equity team.

Of course, we will continue to refine our existing alpha models across Value, Momentum, and Alerts with an eye to better expressing our views and retaining our competitive edge. Research highlights for 2025 include further enhancements to our top-down models with the aim of taking more nuanced views on sectors within countries, contextualizing our valuation views based on where companies are in their lifecycles, and explicitly incorporating uncertainty in our portfolio construction.

We are excited about our research agenda and look forward to sharing our progress with you in the year ahead.

Looking Ahead

A variety of dynamics promise another interesting year in 2025. One should remain vigilant about accounting for sources of risk, including the potential for geopolitical disruptions, the dynamics around inflation and the interest rate environment, as well as the loss of diversification from the asymmetric outperformance of a few large companies in the U.S.

While it is always challenging to navigate such an environment, we believe that our existing process, as well as the upcoming research, will allow us to better capture and benefit from the opportunities in the marketplace.

Thank you for entrusting us with your assets. On behalf of all of us at GMO, we wish you a very happy and prosperous 2025.

Yours sincerely,



George Sakoulis
Head of Investment Teams & Systematic Equity



Warren Chiang
Head of Portfolio Management, 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>
GMO Emerging Markets Composite	12/31/1993	3.30%	-5.21%	-1.64%	2.34%	5.67%
MSCI Emerging Markets+		7.50%	-1.92%	1.70%	3.99%	5.17%

<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>
GMO International Equity Composite	3/31/1987	13.32%	6.91%	7.99%	5.70%	7.31%
MSCI EAFE +		3.82%	1.64%	4.73%	5.20%	6.49%

<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>
GMO U.S. Equity Composite	2/28/1989	20.88%	8.85%	14.12%	11.74%	11.05%
S&P Composite 1500 +		23.95%	8.54%	14.03%	12.63%	10.99%

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. 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 GMO International Equity and GMO U.S. Equity portfolios are not managed relative to a benchmark and references to an index are for informational purposes only.

GMO International Equity Composite returns include a substantial, one-time litigation settlement recovery received on December 16, 2024. This event contributed 4.50% to Q4 2024 and 5.25% 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.

MSCI data may not be reproduced or used for any other purpose. MSCI provides no warranties, has not prepared or approved this report, and has no liability hereunder. Please visit <https://www.gmo.com/americas/benchmark-disclaimers/> to review the complete benchmark disclaimer notice.

Disclaimer

The views expressed are the views of George Sakoulis and Warren Chiang through the period ending January 2025 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.

Copyright © 2025 by GMO LLC. All rights reserved.