

# QUARTERLY INVESTMENT REVIEW

## Multi-Sector Fixed Income Strategy

### Performance returns (USD)

ANNUALIZED RETURNS (QUARTER-END)	Quarter-End	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Multi-Sector Fixed Income Strategy (net)	-0.51	-0.51	2.50	-2.87	-0.01	1.60	4.36
Multi-Sector Fixed Income Strategy (gross)	-0.42	-0.42	2.91	-2.48	0.39	2.00	4.72
Bloomberg U.S. Aggregate	-0.78	-0.78	1.70	-2.45	0.36	1.54	4.18
Value Add	+0.26	+0.26	+0.80	-0.42	-0.37	+0.05	+0.18

### Major Performance Drivers

#### Index Performance and Core Portfolio

The Bloomberg U.S. Aggregate index was slightly negative for the first quarter of 2024. Positive sentiment for fixed income assets waned in the first quarter, as the timing and magnitude of cuts by the Federal Reserve came into question in the face of stubborn inflation and resilient economic data. In mid-January, Fed speaker Christopher Waller's hawkish retort to market pricing resulted in a duration selloff that intensified after strong retail sales data followed. Bond markets partly reversed course toward the end of month when the U.S. Treasury's quarterly refunding announcement came in well below expectations. By early February, a blowout nonfarm payrolls report set in motion another rates selloff, and more accommodative credit conditions summarized by the Fed's Senior Loan Officer Survey and another upside inflation print further cemented the moves in markets. Concerns over the banking sector re-emerged early in March, offering some momentary relief for fixed income, but the asset class floundered into quarter end. On average, U.S. Treasury yields traded 35 basis points higher for the quarter while the curve, as measured by the yield differential between 1-3 year and 20+ year bonds, flattened 8 basis points. The U.S. Aggregate's credit spread tightened 2 basis points, but underlying sector moves varied. Investment-grade corporate bond spreads rallied 9 basis points while agency mortgages weakened 2 basis points. Emerging sovereign spreads, as measured by the JP Morgan EMBIG-Diversified index, were 42 basis points tighter to the treasury curve.

Multi-Sector Fixed Income's core strategy outpaced the index, benefitting from allocation tilts and security selection. The portfolio's overweight allocation to emerging sovereign debt, via GMO Emerging Country Debt, helped the portfolio. Likewise, an active position to off-benchmark securitized products via GMO Opportunistic Income generated gains. Security selection in investment-grade corporates was robust, and owning higher coupon agency mortgages provided additional support. Systematic alpha overlay strategies struggled during the quarter.

#### Alpha Overlay

Systematic alpha overlay performance was negative during the first quarter. The duration model was near flat while the curve slope model posted gains. Both the G10 and emerging currency strategies struggled.

The duration strategy benefited from cross-market trades, namely positions in Australia and Sweden. Value and carry signals posted gains, while macro-based factors and price momentum struggled. Within the slope strategy, curve positioning in Switzerland and euro added value, though a net global flattener driven by momentum suffered.

In G10 currencies, cross-market selection was responsible for model underperformance, notably from Japanese yen and euro. Price momentum lagged, as did long-term macro-based gauges, but carry drew up. The emerging strategy benefited from currency selection in Asia and LatAm, though underperformance from net U.S. dollar positioning overwhelmed.

Composite Inception Date: 30-Apr-97

Performance for the year of inception is less than a full calendar year. Returns shown for periods less than one year are not annualized.

**Risks:** Risks associated with investing in the Strategy may include Market Risk - Fixed Income Investments, Credit Risk, Illiquidity Risk, Derivatives and Short Sales Risk, and Market Risk-Asset-Backed Securities Risk. Returns shown for periods greater than one year are on an annualized basis. To obtain performance information to the most recent month-end, visit [www.gmo.com](http://www.gmo.com). **Performance Returns:** 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](http://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 local market in which some accounts in the composite are priced was closed for Good Friday on March 29, 2024. Therefore, the performance for the strategy and corresponding benchmark will utilize March 28 for purposes of the ending valuation for the March return and the starting valuation for the April return. Gross returns are presented gross of management fees and any incentive fees if applicable. These returns include transaction costs, commissions, withholding taxes on foreign income and capital gains and include the reinvestment of dividends and other income, as applicable. If management and incentive fees were deducted performance would be lower. For example, if, before fees, the strategy were to achieve a 10% annual rate of return above its hurdle rate each year for ten years, and an annual advisory fee of 1% and incentive fee of 20% of net returns above the hurdle rate were charged during that period, the resulting average annual net return (after the deduction of management and incentive fees) would be approximately 7.20%.

# QUARTERLY INVESTMENT REVIEW

## PRODUCT OVERVIEW

The GMO Multi-Sector Fixed Income Strategy seeks to achieve total return in excess of that of its benchmark, the Bloomberg U.S. Aggregate Index, by extracting alpha opportunities without taking any secular bias in duration, maturity, rating, and overall aggregate composition. The Strategy's investment program has two principal components. One component seeks to achieve a return commensurate with that of the Strategy's benchmark. The second component seeks to add value relative to the Strategy's benchmark by making investments that often will not track its benchmark.

## IMPORTANT INFORMATION

**Benchmark(s):** The Bloomberg U.S. Aggregate Index is an independently maintained and widely published index comprised of U.S. fixed rate debt issues having a maturity of at least one year and rated investment grade or higher.

**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.**

## ABOUT GMO

Founded in 1977, GMO is a global asset manager committed to delivering superior performance and advice to our clients. We are privately owned, which allows us to singularly focus on our sole business – achieving outstanding long-term client investment outcomes. Offering multi-asset, equity, fixed income, and alternative strategies, we invest with a long-term, valuation-based philosophical approach.

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\*GMO's West Coast Hub is comprised of members of Investment, Global Client Relations, and other teams located in and around the Greater San Francisco area

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