

EMERGING MARKETS EX-CHINA STRATEGY

The Opportunity

China has the world's second largest economy, a GDP growth rate north of 5%, a stock market capitalization of over \$10 trillion, and no dearth of themes to play. It's no wonder that China makes up nearly 30% of a typical emerging market (EM) universe. This means that those who invest in traditional EM strategies have no choice but to take a large bet on China. However, for some investors, the rising government intervention in markets and geopolitical concerns, such as U.S.-China tensions, drive a desire for allocations to China that are significantly below that of most EM strategies.

An EM ex-China strategy is an indispensable building block for investors looking to control their China allocation more precisely. It will become increasingly important as China gets larger, as China A shares become a larger part of the index, and as the distinct risks and opportunities of Chinese allocations come under additional scrutiny.

The GMO Solution

The ability to add alpha through top-down country or sector allocation decisions is a clear advantage in EM investing, particularly for an EM ex-China portfolio. Indeed, the switch from an EM to an EM ex-China universe dramatically reduces the stock selection opportunity, but it barely impacts the opportunities for country or sector allocation. A strategy that uses most of its risk budget for top-down approach will therefore be significantly less impacted in the move from an EM to an EM ex-China universe than a bottom-up strategy.

The key strengths and differentiators of GMO's approach to EM equity are:

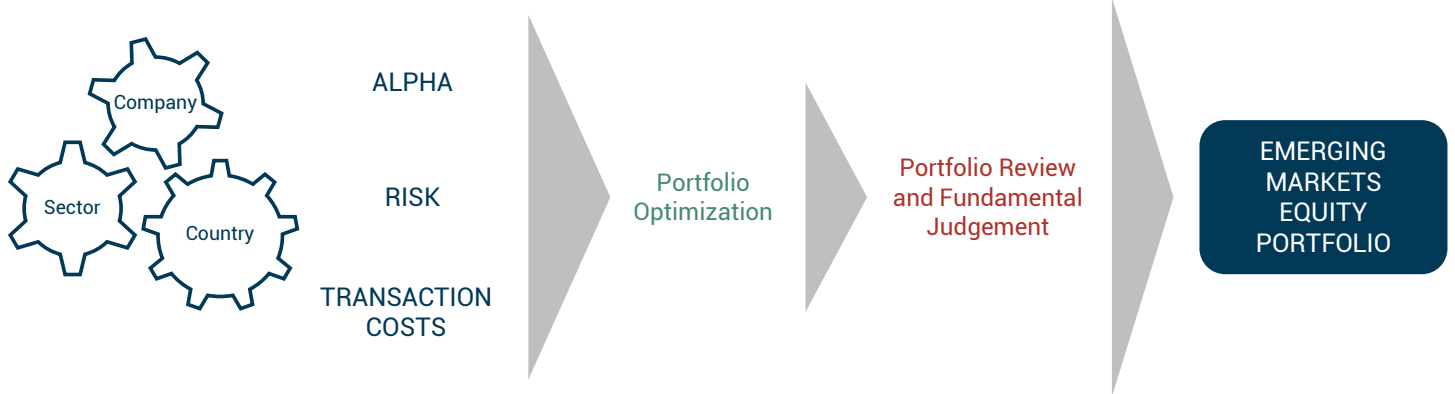
Top-Down Matters Most: We believe that, over the long run, superior top-down insights provide the greatest benefit to the portfolio. Emerging markets have demonstrated on many occasions that local economic forces have more impact on individual stock prices than they do on developed, globally integrated countries. This belief has led us to incorporate country and sector specific signals in our models.

Quantitative Rigor: We believe that a quantitative approach to modeling minimizes emotion and leads to more consistent returns.

Value Is the Heart of Everything We Do: We use an intrinsic value model to quantitatively systematize the ground-up work of a fundamental analyst. We begin with detailed company-level data and then proceed to clean the data for one-off items, goodwill, depreciation, etc., just as a smart fundamental analyst would. The objective is to distill financial information into what really matters: the discounted sum of sustainable, distributable cash flows. Adjustments are made at the country level as well for varying sectoral compositions, divergent costs of capital, and different macroeconomic structures.

Quality and Sentiment Serve as Guardrails: We use Quality and Sentiment models to strengthen value's edge and to limit its vulnerability. The Quality model tilts value toward countries with superior macroeconomics and firms with greater resilience, a feature particularly valuable during periods of market stress. The Sentiment model uses information embedded in market prices to shield the portfolio from value traps.

INVESTMENT PROCESS OVERVIEW

A disciplined approach***The Client Fit***

As a fully active, all cap emerging equity portfolio, the GMO Emerging Markets ex-China Strategy offers an attractive approach that functions as a critical tool for investors to customize the China weight balance in their overall emerging market allocations. The Strategy works well as a complement to China-only investment strategies, or as means for investors looking to move away from China and retain exposure to emerging markets.

Who We Are

Founded in 1977, GMO is a private partnership whose sole business is investment management. The firm manages global portfolios with offices and clients around the world. Investment offerings include equity, fixed income, multi-asset class, and alternative strategies. GMO is known for blended fundamental and quantitative investment research expertise and a long-term orientation toward value opportunities.

The Team

GMO's Systematic Equity team is a pioneer in quantitative investing for institutions, building on decades of accumulated research on how to best capture valuation opportunities and other mispricings. The team manages a range of long-only and long-short strategies.

GMO has carefully assembled a world-class quantitative research effort built on a wide array of quantitative disciplines, including backgrounds in physics, mathematics, statistics, finance, economics, accounting, engineering, operations research, and business. The team brings together long-standing GMO quantitative equity expertise into one global group of investment professionals collaborating across GMO's Boston, London, and Singapore offices and applies its alpha insights to a range of other U.S., international, emerging markets, and global equity strategies across the firm.

The team as a whole is supported by GMO's research team of over 100 investment professionals worldwide, which has been responsible for many innovations that keep GMO on the leading edge of investment research and development.

RISK

Risks associated with investing in the Strategy may include Market Risk – Equities, Non-U.S. Investment Risk, Currency Risk, Management and Operational Risk, and Illiquidity Risk.