

# QUARTERLY INVESTMENT REVIEW

## Equity Dislocation Strategy

### RETURNS (%) (LOCAL)

	Cumulative (%)		Annualized (%)				
	QTD	YTD	1 Year	3 Years	5 Years	10 Years	ITD
Net of Fees (Composite)	7.01	3.77	6.06	–	–	–	12.01
Alternate Net of Fees (Composite)	7.19	4.78	7.14	–	–	–	11.42
Gross of Fees (Composite)	7.58	5.41	8.31	–	–	–	14.39
FTSE 3-Mo. T-Bill	1.38	3.80	4.71	–	–	–	1.83
Value Added (vs. FTSE 3-Mo. T-Bill)	5.63	-0.03	1.36	–	–	–	10.18
Alternate Net Value Added (vs. FTSE 3-Mo. T-Bill)	+5.81	+0.98	+2.44	–	–	–	+9.59

### Major Performance Drivers

For the third quarter of 2023, MSCI ACWI returned -3.4%, with MSCI ACWI Value outperforming with a return of -1.8% and MSCI ACWI Growth underperforming with a return of -4.9%. The Equity Dislocation portfolio aims to be dollar and (broadly) beta neutral and, for the quarter, it had an average long exposure of 99.9% and an average short exposure of 99.0%. The long portfolio modestly outperformed MSCI ACWI Value, and the short book also added meaningful alpha as it had worse performance than MSCI ACWI Growth. The third quarter return for the Equity Dislocation portfolio was nicely ahead of MSCI ACWI Value's 3.1% performance versus MSCI ACWI Growth for the quarter. Since inception, the portfolio is well ahead of ACWI Value minus ACWI Growth, and we are very pleased by the strong return profile. We believe that the opportunity set remains extremely compelling and the strong rebound by Growth thus far in 2023 offers an attractive entry point to the portfolio.

For the quarter, stock selection within countries across the long book added +220 bps relative to MSCI ACWI, with the most notable impacts coming from Japan (+100 bps), Switzerland (+40 bps), and the Netherlands (+40 bps), while the most significant detractor was China (-40 bps). Stock selection in the short book had a total impact against MSCI ACWI of +390 bps. The biggest detractor was the UK (-40 bps), while the biggest contributors were the U.S. (+240 bps), Germany (+60 bps), and Japan (+40 bps). There were some modest country bets, although these are typically residuals driven by bottom-up security selection, and they had an aggregate +30 bps impact on performance for the third quarter.

We are prepared to run modestly larger sector bets, up to about 10% net long or short, and the two biggest positions in this regard over the quarter were a 5.7% net long position in Financials and a 5.0% net short position in Industrials. Financials outperformed the broad market, while Industrials underperformed and, in aggregate, our sector positioning added +60 bps to performance. Stock selection across the long book was negative in three of the eleven sectors, broadly flat in four sectors, and positive in four sectors, and added +190 bps altogether. The biggest contributors were Industrials (+110 bps), Information Technology (+90 bps), and Materials (+50 bps), while the biggest detractors were Financials (-40 bps) and Consumer Discretionary (-30 bps). Stock selection in the short book was positive in six of the eleven sectors, broadly flat in three sectors, and negative in the other two, with a total impact of +400 bps added to performance in aggregate. The biggest positive impacts came from Health Care (+180 bps), Financials (+80 bps), Consumer Discretionary (+70 bps), and Communication Services (+60 bps), while the detractors were Industrials (-30 bps) and Information Technology (-30 bps).

Given the market's decline, it was perhaps unsurprising that only one long position, POSCO (Korea Materials) featured in the top five biggest contributors at the total portfolio level. Three of the five biggest detractors were long positions including Shimao (China Real Estate), Discover Financial (U.S. Financials), and Ford (U.S. Consumer Discretionary).

Inception Date: 23-Oct-20

**Risks:** Risks associated with investing in the Fund may include Equities Risks, Short Investment Exposure Risks, Risks of Non-U.S. Investments, Preferred Securities Risk and Depositary Receipts Risk. For a more complete discussion of these risks and others, please consult the Fund's offering documents. 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. The net of fee return is calculated using the highest base fee rate. The alternate net return is calculated using the highest base fee rate plus an incentive fee. 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%. **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](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 portfolio is not managed relative to a benchmark. References to an index are for informational purposes only. A Global Investment Performance Standards (GIPS®) Composite Report is included in the Important Information section at the back of this presentation. 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.**

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## PRODUCT OVERVIEW

The GMO Equity Dislocation Strategy seeks high total return. It aims to own attractively valued equities while correspondingly shorting equities where we believe that valuations are reflective of implausible growth expectations. Currently, the Strategy is long global Value, short global Growth, to take advantage of the exceptionally wide valuation spread between Value and Growth.

The eligible universe for both the long and short side spans the market capitalization spectrum and includes both developed and emerging markets. Utilizing GMO's proprietary Price to Fair Value model to actively select the cheapest and most expensive stocks, the portfolio is diversified across sectors, countries, and regions and is intended to be approximately beta neutral.

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## IMPORTANT INFORMATION

**Comparator Index(es):** The FTSE 3-Month Treasury Bill Index is an independently maintained and widely published index comprised of short-term U.S. Treasury bills.

**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.**

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## 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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