

QUARTERLY INVESTMENT REVIEW

Fixed Income Absolute Return Strategy

Performance returns (USD)

ANNUALIZED RETURNS (QUARTER-END)	Quarter-End	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Fixed Income Absolute Return Strategy (net)	0.33	0.33	4.22	-2.17	-2.20	-	-0.11
Fixed Income Absolute Return Strategy (gross)	0.58	0.58	5.27	-1.18	-1.08	-	1.23
FTSE 3-Mo. T-Bill	1.35	1.35	5.49	2.70	2.06	-	1.84
Value Add	-1.02	-1.02	-1.27	-4.86	-4.26	-	-1.95

Major Performance Drivers

Market Events

Positive sentiment for fixed income assets waned in the first quarter, as the timing and magnitude of cuts by central banks around the globe came into question in the face of stubborn inflation and resilient economic data. In mid-January, the Fed's Christopher Waller hawkishly pushed back on market pricing of the policy rate path, resulting in a bond 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 U.S. nonfarm payrolls report set in motion another rates selloff. More accommodative credit conditions summarized by the Fed's Senior Loan Officer Survey and another upside U.S. inflation print further cemented the moves in markets. Concerns over the banking sector re-emerged early in March, and the European Central Bank delivered slightly dovish rhetoric, offering some momentary relief for fixed income but duration continued to struggle later in the quarter as the Bank of Japan finally ended negative interest rate policy and removed yield curve control.

Developed interest rates, as proxied by 10-year swap yields, moved higher on average by 23 basis points during the quarter. Canadian and U.K. yields underperformed, rising 40 and 38 basis points, respectively, while Swiss rates rallied 1 basis point. As measured by the yield differential between 2-year and 10-year interest rate swap yields, curve performance was mixed. The European swap curve flattened 23 basis points while the Swiss curve steepened 9 basis points.

G10 currencies all weakened versus the U.S. dollar. Japanese yen was the worst performer (-6.8%) of the group, followed by Swiss franc (-6.7%). Emerging Markets followed suit, with all currencies in EMEA and Asia posting negative returns. Mexican peso was the lone standout in LatAm, strengthening 2.5% versus the dollar.

Recent Performance

Net strategy performance was positive during the first quarter, but trailed the index. 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: 31-Oct-16

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 this Strategy may include: Fixed Income Risks, Currency Risks, Forward Contracts Risks, Options Risks, and Futures Risks. 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. **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 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. 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%. The portfolio is not managed relative to a benchmark. References to an index are for informational purposes only.

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PRODUCT OVERVIEW

The GMO Fixed Income Absolute Return Strategy seeks to generate positive absolute returns by exploiting opportunities in global fixed income and currency markets.

GMO employs quantitative models for forecasting and valuing rates and currency markets, as well as for allocation and trading strategies. Our models use market-based, macroeconomic, and fundamental inputs in conjunction with proprietary research to evaluate and identify investment opportunities.

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.

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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