

# QUARTERLY INVESTMENT REVIEW

## Global Allocation Absolute Return Strategy

### RETURNS (%) (LOCAL)

	Cumulative (%)		Annualized (%)				
	QTD	YTD	1 Year	3 Years	5 Years	10 Years	ITD
Net of Fees (Composite)	6.05	12.81	12.81	4.14	3.85	2.80	6.66
Gross of Fees (Composite)	6.32	13.94	13.94	5.19	4.90	3.83	7.72
CPI Index	0.45	3.60	3.60	5.67	4.09	2.79	2.50
Value Added (vs. CPI Index)	5.61	9.21	9.21	-1.53	-0.24	0.01	+4.16

### Major Performance Drivers

- Top-down asset allocation was positive, driven largely by allocating to equities in a rebounding market.
- Security selection was flat, although very strong performance in Emerging Market equities was a highlight.

Long-only equities represented 54.5% of the portfolio on average through the quarter, with 8.2% in Emerging Markets and 7.3% in Emerging Markets ex-China, both with a distinct Value bias, 6.1% in Japan Value, 5.2% in Developed ex-U.S. Small Value, 5.1% in Developed ex-U.S., 3.8% in Resource Equity, 4.2% in Quality Cyclical, 5.2% in U.S. Opportunistic Value, and 9.3% in International Opportunistic Value.

The equity portfolio returned 9.7% for the quarter, behind the MSCI ACWI return of 11.0%. Top-down regional exposures had a detrimental impact for the quarter as the U.S. beat Developed ex-U.S., while Emerging Markets lagged Developed Markets. Security selection was flat for the quarter as Value lagged Growth in Developed Markets but outperformed in Emerging Markets. Our Emerging Markets portfolio returned 10.4%, again well ahead of the MSCI Emerging Market index return of 7.9%, while the Emerging Markets ex-China portfolio posted 17.5%, also well ahead of the MSCI Emerging ex-China index return of 13.0%. The Japan portfolio posted 6.6%, trailing the TOPIX return of 8.0%, and the Developed ex-U.S. Small Cap portfolio delivered a 10.7% return, 140 bps ahead of its index. The Developed ex-U.S. exposure posted 7.8%, which lagged the MSCI World ex-U.S. index by 270 bps and the MSCI World ex-U.S. Value index by a smaller 80 bps. Quality Cyclical returned 11.3%, 30 bps ahead of its index, while Resources returned 1.5%, beating its index in what was a difficult quarter for commodity producers. The U.S. Opportunistic Value exposure returned 11.2%, trailing the S&P Composite 1500 index by 60 bps, and International Opportunistic Value posted 7.8%, behind the MSCI World ex-USA return of 10.6%.

Alternative strategies averaged 16.8% through the quarter and is now solely invested in the Equity Dislocation Strategy. Alternative Strategies returned 1.8% for the quarter, as Equity Dislocation was down -1.9%, which was a solid result as MSCI ACWI Growth beat MSCI ACWI Value by 3.5%, but this was offset by a strong return from the collateral.

Fixed income represented 11.5% of the portfolio on average through the quarter, including 4.4% in asset-backed securities, 1.0% in high-yield, 3.1% in Emerging Country Debt, and 3.0% in U.S. nominal treasuries. Our fixed income strategies returned 6.3% for the quarter, a little behind the Bloomberg U.S. Aggregate return of 6.8%. Emerging Country Debt, as measured by the J.P. Morgan EMBIG-D index, had an impressive 9.2% return, but our portfolio beat that nicely with a 12.1% return. The High Yield position returned 7.5%, a little ahead of the BofA Merrill Lynch U.S. High Yield index return of 7.1%, and asset-backed securities posted 2.9%, trailing the Bloomberg U.S. Securitized index return of 7.3%. It was also a strong quarter for traditional duration and the nominal U.S. treasuries rose 5.1%.

Multi-Strategy and cash/cash equivalents represented 17.3% and 0.0%, respectively, on average through the quarter. Our exposure made a limited contribution to returns as Multi-Strategy posted 0.7%, trailing traditional assets. Event-Driven was the biggest contributor, adding some 1.4% to overall Multi-Strategy performance. Tower Semiconductor contributed to returns as it recovered from post-deal-break lows, while both the VMware-Broadcom and Seagen-Pfizer deals closed following receipt of outstanding regulatory approval. Equity Dislocation was the biggest detractor as it returned -1.5%, which knocked -0.4% from total performance. Systematic Global Macro added 0.2%, while Fixed Income Absolute Return detracted -0.2% overall. The Resources Long/Short Strategy and the Credit strategies had no material impact on performance for the quarter.

Inception Date: 31-Jul-01

**Risks:** Risks associated with investing in the Strategy may include the risk that one or more of the underlying portfolios will not perform as expected and that the Strategy will indirectly be exposed to all of the risks of an investment in the underlying portfolios. Other significant risks associated with investment in the Strategy may include: Market Risk - Equities, Market Risk - Fixed Income, Non-U.S. Investment Risk, Management and Operational Risk, and Derivatives and Short Sales Risk. **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 portfolio is not managed relative to a benchmark. References to an index are for informational purposes only. 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%.

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## PRODUCT OVERVIEW

The Strategy seeks to generate positive total return, not relative return, by allocating dynamically across asset classes, free from the constraints of traditional benchmarks. The Strategy invests in a GMO-managed mutual fund, which in turn invests in actively managed equity, fixed income, alternative, and cash strategies, and a GMO-managed hedge fund-of-funds, which seeks positive total return with low volatility relative to equity markets and low correlation over a full market cycle to traditional market indices.

## IMPORTANT INFORMATION

**Comparator Index(es):** The CPI (Consumer Price Index) for All Urban Consumers US All Items is published monthly by the U.S. government as an indicator of changes in price levels (or inflation) paid by urban consumers for a representative basket of goods and services.

## 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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