

QUARTERLY INVESTMENT REVIEW

Global Bond Strategy

RETURNS (%) (LOCAL)

	Cumulative (%)		Annualized (%)				
	QTD	YTD	1 Year	3 Years	5 Years	10 Years	ITD
Net of Fees (Composite)	-3.95	-3.80	0.16	-10.23	-3.43	-1.25	3.30
Gross of Fees (Composite)	-3.83	-3.44	0.66	-9.78	-2.94	-0.76	3.74
J.P. Morgan GBI Global	-4.27	-3.51	0.20	-8.60	-2.39	-0.98	2.96
Value Added (vs. J.P. Morgan GBI Global)	0.32	-0.30	-0.04	-1.64	-1.04	-0.27	0.34

Major Performance Drivers

Index Performance and Beta Replication

The J.P. Morgan Global Bond Index returned -4.3% in U.S. dollar terms during the third quarter of 2023, with weak performance a byproduct of higher rates in local bond markets coinciding with a stronger dollar.

In the third quarter, markets embraced the theme that yields might remain higher for longer, and the economic data and central bank actions only bolstered that narrative. In July, job gains in Canada pushed local rates higher, while the Bank of Canada delivered a policy rate increase of 25 basis points. Later in the month, the Bank of Japan relaxed its yield curve control targets, putting selling pressure on Japanese government bonds. As expected, the Federal Reserve raised interest rates 25 basis points in July. Light trading volume in August was met with general bearish sentiment for bonds, nudging rates even higher. U.K. growth registered strong, making Gilts a relative underperformer for the month, however in late August weak PMI data out of Europe lent some support to yields. The sell-off in government bonds picked up steam in September. Higher oil prices from Saudi production cuts applied constant upward pressure all month, while hawkish Fed dots released during the middle of the month showed a higher-than-expected median forecasted rate for 2024, further weakening bond prices into quarter end.

For the period, government bond performance was weakest in Japan (-3.2%) and Canada (-3.0%) in local currency terms, while all 13 member countries posted negative returns. The U.S. dollar strengthened against every currency in the index, further exacerbating losses through a U.S. dollar lens. The British pound (-4.0%) and Australian dollar (-3.4%) were the worst performing currencies in the index.

Within the portfolio, alpha was positive in the third quarter. Beta replication strategies underperformed, but systematic alpha overlay strategies added value.

Alpha Overlay

Systematic alpha overlay performance was additive in the third quarter, as all four models outperformed during the period.

Duration performance was particularly strong, as both market selection and rates timing benefited the portfolio. Cross-market profits were achieved by carry and value signals, and the sustained trend higher in rates helped yield momentum indicators, where the portfolio was net short duration throughout the quarter. Relative value curve trades performed well, notably in the U.K., but slope timing drew down.

In G10 currencies, market selection drove model returns, highlighted by positioning in Norwegian krone and Swiss franc. Momentum indicators, notably PMI and economic surprise factors, and medium-term value factors rallied, while longer-term PPP based value signals underperformed. In the emerging currency model, market selection was positive and balanced across LatAm, EMEA, and Asia regions. The strategy benefited mostly from carry, but economic surprise and price momentum signals were also helpful.

Inception Date: 28-Dec-95

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 Futures Contracts 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. **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. 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%. Returns for one of the accounts in the composite are based on estimated market values for the period from and including October 2008 through February 2009. 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.

QUARTERLY INVESTMENT REVIEW

PRODUCT OVERVIEW

The GMO Global Bond Strategy seeks total return in excess of that of the J.P. Morgan Global Government Bond Index.

GMO constructs the portfolio by combining a benchmark replication process with active overlay strategies. To replicate the benchmark, we use quantitative methods for trading strategies as well as security and sector selection. Our overlay strategies are model-based and actively managed in global rate and currency markets, using market-based, macroeconomic, and fundamental inputs in conjunction with proprietary research to evaluate and identify investment opportunities.

IMPORTANT INFORMATION

Benchmark(s): The J.P. Morgan GBI Global Index is an independently maintained and widely published index comprised of government bonds of developed countries with maturities of one year or more.

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.

AMSTERDAM

BOSTON

LONDON

SAN FRANCISCO

SINGAPORE

SYDNEY

TOKYO*

*Representative Office

www.GMO.com