

QUARTERLY INVESTMENT REVIEW

High Yield Strategy

Performance returns (USD)

ANNUALIZED RETURNS (QUARTER-END)	Quarter-End	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
High Yield Strategy (net)	1.25	1.25	7.60	5.80	7.21	-	5.23
High Yield Strategy (gross)	1.37	1.37	8.14	6.29	7.72	-	5.75
Markit iBoxx USD Liquid High Yield	1.15	1.15	7.97	4.78	6.45	-	4.47
Value Add	+0.10	+0.10	-0.37	+1.01	+0.75	-	+0.76

MAJOR PERFORMANCE DRIVERS

The Markit iBoxx USD Liquid High Yield index returned 1.15% in Q1, despite wider spreads and higher yields over the period, as coupon income more than offset market moves. Excess returns over Treasuries for the quarter were negative. Among rating cohorts, higher quality performed better than lower quality bonds.

The High Yield portfolio had a positive gross return in Q1. The portfolio's allocation to the Quality factor, through BB bonds played a crucial role in the outperformance. The allocation to Total Return Swaps referencing the benchmark index also contributed positively. The Carry factor, implemented through long positions in CDX HY, underperformed the benchmark, offsetting some of the gains from the other factor sleeves. At quarter end, the portfolio was invested in liquid portfolio products and high yield bonds

RISKS

Risks associated with investing in the Strategy may include: (1) Management and Operational Risk: the risk that GMO's investment techniques will fail to produce desired results, including annualized returns and annualized volatility; (2) Market Risk - Fixed Income Investments: the market price of a fixed income investment can decline due to a number of market-related factors, including rising interest rates and widening credit spreads or decreased liquidity stemming from the market's uncertainty about the value of a fixed income investment (or class of fixed income investments); and (3) Credit Risk: the risk that the issuer or guarantor of a fixed income investment or the obligor of an obligation underlying an asset-backed security will be unable or unwilling to satisfy its obligation to pay principal and interest or otherwise to honor its obligations in a timely manner. This is not a complete list of risks associated with investing in the Strategy. Please contact GMO for more information.

Composite Inception Date: 31-Jan-17

Performance Returns: Performance for the year of inception is less than a full calendar year. 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 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%. **GMO LLC claims compliance with the Global Investment Performance Standards (GIPS®).** A Global Investment Performance Standards (GIPS®) Composite Report is available at www.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.

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PRODUCT OVERVIEW

The GMO High Yield Strategy seeks to generate total return in excess of that of its benchmark, the Markit iBoxx USD Liquid High Yield Index, by applying a systematic, factor-based approach to portfolio construction. It is designed to capture alpha from top-down sources of risk premia, taking advantage of structural market inefficiencies, while maintaining a liquid portfolio. Our top-down, data-driven approach (in what is still largely a fundamentally managed asset class) brings a unique perspective that allows us to allocate capital across a range of high yield instruments in an effort to achieve optimal risk-adjusted returns in excess of the Strategy's benchmark.

IMPORTANT INFORMATION

Benchmark(s): The Markit iBoxx USD Liquid High Yield Index is an independently maintained index consisting of liquid USD high yield bonds, selected to provide a balanced representation of the broad USD high yield corporate bond universe.

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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