

QUARTERLY INVESTMENT REVIEW

Multi-Sector Fixed Income Strategy

RETURNS (%) (LOCAL)	Cumulative (%)		Annualized (%)				
	QTD	YTD	1 Year	3 Years	5 Years	10 Years	ITD
Net of Fees (Composite)	-2.19	-0.02	2.15	-5.86	0.01	1.30	4.23
Gross of Fees (Composite)	-2.10	0.28	2.56	-5.48	0.41	1.72	4.60
Bloomberg U.S. Aggregate	-3.23	-1.21	0.64	-5.21	0.10	1.13	4.03
Value Added (vs. Bloomberg U.S. Aggregate)	1.04	1.19	1.51	-0.65	-0.09	0.18	0.20

Major Performance Drivers

Index Performance and Core Portfolio

The Bloomberg U.S. Aggregate Bond index returned -3.2% during the third quarter of 2023. Markets embraced the theme that yields might remain higher for longer, and U.S. economic data and Fed actions only bolstered that narrative. Early in July, an outsized ADP employment report pushed rates higher, though softer than expected CPI and PPI readings mid-month more than reversed the move. As expected, the Federal Reserve raised interest rates 25 basis points later in July. Light trading volume in August was met with general bearish sentiment for bonds, nudging rates even higher. Strong growth registered out of the U.K. was a catalyst for the move higher in global rates, however in late August weak PMI data out of Europe lent some support to yields. The sell-off in U.S. 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. As a result, U.S. Treasury yields traded on average 48 basis points higher, and the curve steepened aggressively. As measured by the yield differential between 1-3 year and 20+ year bond yields, the Treasury curve was steeper 72 basis points. Index credit spreads averaged a touch wider, driven by the agency mortgages sector, which widened 14 basis points. Investment-grade corporate spreads rallied 2 basis points, led by AAA and BAA rated cohorts. Emerging debt credit spreads, as proxied by the J.P. Morgan EMBIG-Diversified Index, tightened 2 basis points during the quarter.

Multi-Sector Fixed Income's core strategy posted strong returns versus the index, benefiting from off-benchmark asset-backed securities via GMO Opportunistic Income and from security selection attributed to the systematic investment-grade carveout strategy. Corporate bond selection was notably strong in Technology and Consumer Non-Cyclical sectors. Through a factor lens, value, momentum, and quality signals all generated alpha, while issuer fundamental signals dragged. Systematic alpha overlay strategies offered tailwinds for the portfolio.

Inception Date: 30-Apr-97

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 Market Risk-Asset-Backed Securities 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%. 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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Major Performance Drivers Cont.

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 portfolio benefited mostly from carry, but economic surprise and price momentum signals were also helpful.

PRODUCT OVERVIEW

The GMO Multi-Sector Fixed Income Strategy seeks to achieve total return in excess of that of its benchmark, the Bloomberg U.S. Aggregate Index, by extracting alpha opportunities without taking any secular bias in duration, maturity, rating, and overall aggregate composition. The Strategy's investment program has two principal components. One component seeks to achieve a return commensurate with that of the Strategy's benchmark. The second component seeks to add value relative to the Strategy's benchmark by making investments that often will not track its benchmark.

IMPORTANT INFORMATION

Benchmark(s): The Bloomberg U.S. Aggregate Index is an independently maintained and widely published index comprised of U.S. fixed rate debt issues having a maturity of at least one year and rated investment grade or higher.

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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