QUARTERLY INVESTMENT REVIEW

U.S. Opportunistic Value Strategy

RETURNS (%) (LOCAL)

	Cumulative (%)		Annualized (%)				
	QTD	*YTD*	*1 Year*	*3 Years*	*5 Years*	*10 Years*	*ITD*
Net of Fees (Composite)	2.33	2.33	–	–	–	–	8.50
Gross of Fees (Composite)	2.45	2.45	–	–	–	–	8.91
S&P Composite 1500	7.16	7.16	–	–	–	–	10.01
S&P Composite 1500 Value	4.96	4.96	–	–	–	–	12.28
Value Added (vs. S&P Composite 1500)	-4.83	-4.83	–	–	–	–	-1.51
Value Added (vs. S&P Composite 1500 Value)	-2.63	-2.63	–	–	–	–	-3.78

Major Performance Drivers

Markets started the year on an optimistic note, continuing to hope that high inflation levels were moderating and that a hard landing would be avoided. This enthusiasm faded in February as markets digested the possibility of higher peak Fed rates, which dampened enthusiasm for risk assets globally and raised concerns about the likelihood of a recessionary outcome. Then March brought the failure of Silicon Valley Bank, the takeover of Credit Suisse by UBS, and greater caution about instability in the global financial system. Amid these events, global economic outlook also continued to be impacted by both the energy and food price impact from Russian aggression in Ukraine and optimism regarding Chinese economic policy amid modest Chinese growth expectations.

In this environment, value models struggled. The S&P 1500 Composite Value index underperformed the S&P 1500 Composite index by 2.2% and the MSCI USA IMI Value index underperformed the MSCI USA IMI index by 8.3%.[1] The results of U.S. Opportunistic Value fell in the middle of this range with its deep value orientation. The silver lining from such a challenging quarter is that U.S. deep value continues to look very attractive.

The biggest performance challenges reflected a mix of allocation and stock selection decisions. Our underweight toward Information Technology, and our deep value-oriented stock selection within the sector, was the biggest detractor. Overweight positioning in deep value Financials and Health Care names such as Pfizer, JPMorgan Chase, and Bank of America, also hurt performance. At a stock level, not owning Apple, NVIDIA, Microsoft, and Tesla were among the biggest detractors.

Communication Services was a highlight for the quarter with deep value names including Meta Platforms and Warner Bros. Discovery among the top performers. Other areas of modest value-added included stock selection in Materials and not holding Utilities.

Portfolio weights, as a percent of equity, for the positions mentioned were: Pfizer (2.7%), JPMorgan Chase (3.6%), Bank of America (2.4%), Apple (0.0%), NVIDIA (0.0%), Microsoft (0.0%), Tesla (0.0%), Meta Platforms (5.1%), and Warner Bros. Discovery (0.6%).

[1] Please see What is Value? Methodology Matters for a discussion of how style returns can vary widely, depending on style definitions, using January 2023 returns as an example.

Inception Date: 28-Jun-22

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PRODUCT OVERVIEW

The GMO U.S. Opportunistic Value Strategy seeks total return. The Strategy currently seeks to profit from our Asset Allocation Team's insight that "deep value" stocks are truly dislocated in the U.S. This actively managed strategy avoids the "shallow value" stocks, which are expensive relative to their own history, and focuses solely on the deep value names that GMO's Systematic Equity team identifies as the most undervalued, recognizing that relying on reported financials and index definitions of value can lead investors to misjudge the opportunity.

IMPORTANT INFORMATION

Benchmark(s): The S&P Composite 1500 combines three leading indices, the S&P 500, the S&P MidCap 400, and the S&P SmallCap 600, to cover approximately 90% of U.S. market capitalization. It is designed for investors seeking to replicate the performance of the U.S. equity market or benchmark against a representative universe of tradable stocks.

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.