

# Global Developed Equity Allocation Fund

Quarter Ending March 31, 2019

## OVERVIEW:

The GMO Global Developed Equity Allocation Fund seeks total return greater than that of the MSCI World Index. The Fund uses multi-year forecasts of returns and risk among asset classes to build a portfolio that primarily provides exposure to non-U.S. and U.S. equity markets.

## Performance (%)

Net of Fees, Class III, Fair Value, USD	+11.76
Gross of Fees, Class III, Local Close, USD	+11.80
MSCI World <sup>1</sup>	+12.48
<b>Value Added</b>	<b>-0.68</b>

## Major Performance Drivers

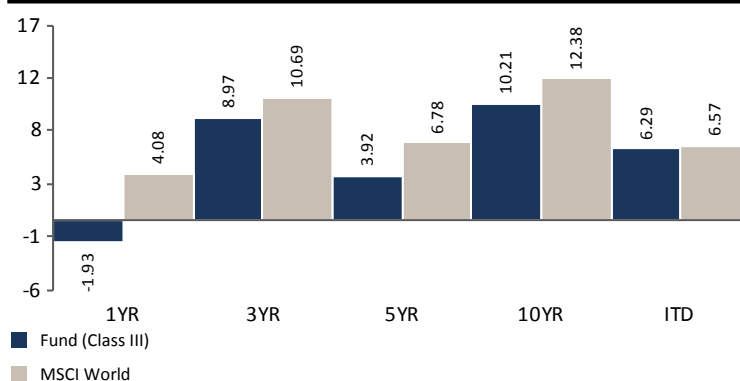
- Top-down asset allocation was negative for the quarter. This was primarily driven by our overweight position in emerging markets, which lagged the MSCI World Index for the first three months of 2019, as well as an underweight position in the U.S., which outperformed.
- Security selection was modestly positive for the quarter. This was driven by good results in developed ex-U.S. equities which more than offset small underperformance within the U.S.

Emerging equities, with an emphasis on undervalued stocks within attractively valued countries/sectors, represented 10.2% of the total portfolio weight on average during the quarter. Our overweight position in emerging equities detracted from performance as MSCI Emerging Markets returned 9.9%, lagging the MSCI World return of 12.5%. Security selection was satisfactory as our portfolio returned broadly in-line with the index despite it being a difficult quarter for a valuation-driven approach to investing (the MSCI Emerging Markets Value Index returned a significantly worse 7.8%). An overweight position in Taiwan Information Technology was the biggest contributor as the leading presidential candidate, Eric Chu, gave investor sentiment a boost by pledging to improve ties with China. An underweight to China, particularly Consumer Discretionary and Communication Services, hurt performance as stocks jumped with the announcement of new stimulus measures to try and boost growth. Our overweight to Turkey, primarily Financials and Consumer Staples, hurt performance as investor sentiment struggled with government behavior leading up to the local elections.

U.S. equities accounted for 21.5% of the total portfolio on average through the quarter and Quality equities, which are predominantly domiciled in the U.S., accounted for a further 20.7%. Broadly, this leaves the portfolio 24% underweight U.S. equities in total and this detracted from performance as the S&P 500 returned an impressive 13.6%, solidly ahead of the MSCI World Index. Security selection detracted modestly from performance, a reasonable result given our zero weight in Amazon and Netflix and our sizeable underweights in Apple and Facebook, all of which did exceptionally well. For context, the Russell 3000 Growth Index beat the Russell 3000 Value Index by some 4.2% for the quarter. European equities accounted for an average weight of 30.4% of the portfolio for the quarter. Our overweight position in Europe detracted from

Performance data quoted represents past performance and is not indicative of future results. The investment return and principal value of an investment will fluctuate so that an investors shares, when redeemed, may be worth more or less than their original cost. Current performance data may be lower or higher than the performance data provided herein. To obtain performance information to the most recent month-end, visit [www.gmo.com](http://www.gmo.com). Gross Expense Ratio of 0.60% is equal to the Funds Total Annual Operating Expenses set forth in the Funds most recent prospectus dated June 30, 2018.

## Annualized Return (%) as of March 31, 2019



Inception date: 06/16/2005

Chart returns include purchase premiums and redemption fees impact if applicable.

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performance as the MSCI Europe Index returned 10.8%, lagging MSCI World by 1.6%. This was more than offset by strong security selection within Europe, with the strongest impact in Sweden (primarily positions in Swedish Match (tobacco) and Volvo) and the UK (including positions in Next (retailer), British American Tobacco, and Persimmon (housebuilder)).

Japanese equities accounted for 12.9% of the total portfolio on average through the quarter. This is an overweight position of broadly 4.5% against the benchmark and detracted from performance as MSCI Japan returned a, relative to the rest of the world, disappointing 6.7%. Stock selection in Japan had minimal impact on relative performance. The portfolio held 3.5% on average in the remaining catch-all "other international." A zero weight in Canada detracted a little from relative performance as it enjoyed a decent quarter, but this was more than compensated by excellent security selection in Australia and Hong Kong. Of particular note in Hong Kong was the position in food processing company WH Group which was the biggest individual contributor at the total portfolio level.

Quarter-ending weights, as a percent of equity, for the positions mentioned are as follows: Amazon (0.1%), Netflix (0.0%), Apple (1.6%), Facebook (0.5%), Swedish Match (0.6%), Volvo (1.1%), British American Tobacco (0.7%), Persimmon (0.7%), and WH Group (0.6%).

**An investor should consider the fund's investment objectives, risks, charges and expenses before investing. This and other important information can be found in the fund's prospectus. To obtain a prospectus please visit [www.gmo.com](http://www.gmo.com). Read the prospectus carefully before investing.**

Risks associated with investing in the Fund may include Market Risk - Equities, Management and Operational Risk, Non-U.S. Investment Risk, Liquidity Risk, and Derivatives Risk. For a more complete discussion of these risks and others, please consult the Fund's prospectus. Distributor: Funds Distributor LLC. GMO and Funds Distributor LLC are not affiliated.

<sup>1</sup> The MSCI World Index (MSCI Standard Index Series, net of withholding tax) is an independently maintained and widely published index comprised of global developed markets. MSCI data may not be reproduced or used for any other purpose. MSCI provides no warranties, has not prepared or approved this report, and has no liability hereunder.