Global Real Return (UCITS) Fund

Quarter Ending December 31, 2019

OVERVIEW:
The GMO Global Real Return (UCITS) Fund seeks to achieve a return in excess of the OECD G7 Consumer Price Index through investment globally in equities, debt, money market instruments, currencies, instruments relating to commodities indices, REITs and related derivatives.

Performance (%)	
Net of Fees, USD	+5.45
Gross of Fees, Unswung, USD	+5.68
OECD CPI G7 [1]	+0.08
Value Added	**+5.60**

Major Performance Drivers

- Top-down asset allocation was positive, largely driven by strong returns across equity markets. The bias to emerging market equities was also helpful as they performed particularly strongly.
- Security selection was modestly negative. Good selection within the equity portfolio was offset by some of the alternative strategies failing to keep pace with their notional benchmarks.

Equities represented 49.3% of the portfolio at quarter-end, including 27.6% long-only Emerging Markets, 14.0% Developed ex-US equity, 5.2% Equity Extension (a 130% long/30% short strategy comprised of developed ex-US and emerging markets equity), and 2.4% in a newly established Developed ex-US Small Cap Value equity position.

The equity portfolio returned 11.0% for the quarter, well ahead of the MSCI ACWI return of 9.0%. This outperformance was predominantly down to our heavy bias towards emerging market equities which were the best performing region, as evidenced by the MSCI Emerging Markets Index return of 11.8%. Although the 11% return on our emerging market portfolio underperformed, this was a strong result in a difficult environment for value investing - the MSCI Emerging Markets Value Index lagged the broad market index by almost 2% for the period. Security selection was excellent in developed markets as we beat the benchmark index by some 3.2%, despite the MSCI World ex-US Value Index lagging its broad market counterpart by 0.3%. The Equity Extension strategy also enjoyed a good quarter, with an 11.0% return.

Alternatives represented 25.2% at quarter-end, including 7.2% Systematic Global Macro, 4.9% Event-Driven, 5.2% Fixed Income Absolute Return, 2.5% Special Opportunities, and 5.4% US Small Value vs S&P 500. We removed the put selling allocation during the quarter as a source of funds for the newly introduced Developed ex-US Small Cap Value equity position.

Alternative strategies returned 1.6% for the quarter, an acceptable return in an absolute context, but modestly disappointing when compared to the strong returns of equity markets. Special Opportunities was the best performer, up 6.2%, helped by its exposure to equity market beta. To a lesser extent, Event-Driven and the Put Selling strategy also have beta exposure and were up 2.8% and 2.2%, respectively. Fixed Income Absolute Return generated 0.8% for the quarter, with good returns in developed rates and FX being partially offset by negative returns in emerging FX. Systematic Global Macro was up 0.2% as strong performance in equities was offset by negative performance in currencies as the USD weakened against the GBP, the CHF, and the EUR, which were held short. This left the US Small Value vs S&P 500 position as the laggard with a 0.1% return as the Russell 2000 Value Index trailed the S&P 500 Index by more than 0.5%, although good stock selection counteracted this.

Fixed income represented 19.6% of the portfolio at quarter-end, including 9.3% TIPS, 5.2% Asset-backed securities, and 5.1% in High Yield and a select number of distressed credits.

Our fixed income strategies returned 0.9% for the quarter, well ahead of the Bloomberg Barclays US Aggregate return of 0.2%. The TIPS exposure was up 0.6% as the US 10-year real yield remained unchanged from the start of the quarter at 0.15%. Indeed, TIPS strongly outperformed nominal bonds for the quarter as 10-year treasury yields rose some 24 basis points, leaving the breakeven inflation rate at 1.77%. Asset-backed securities were up a modest 0.2% while the High Yield/Distressed portfolio returned a healthy 2.0%.

Cash/Cash Plus represented 5.9% of the portfolio at quarter-end. The allocation to Cash/Cash Plus had a minimal impact on the portfolio returning 0.3% for the quarter, modestly below the return on 3-month US T-Bills.

[1] The OECD (Organization for Economic Cooperation and Development) CPI (Consumer Price Index) G7 is published monthly by the OECD for the G7 countries of Canada, France, Germany, Italy, Japan, the U.K. and the U.S. The index is compiled by aggregating the national consumer price indices in each period, using estimates of household private final consumption expenditure ("HFCE") as weights. The HFCE for each country is converted into a common currency (U.S. Dollars) using purchasing power parities ("PPPs") which are rates of currency conversion that eliminate the differences in price levels between countries. The PPP used in the zone estimates relate specifically to HFCE and are not the same as the PPP for gross domestic product, which are more commonly available. The benchmark return is published on a one month lag. Until this data is available all benchmark return calculations assume a 0% estimate for the missing month.