

# International Equity Allocation Fund

Quarter Ending June 30, 2019

## OVERVIEW:

The GMO International Equity Allocation Fund seeks total return greater than that of its benchmark, the MSCI ACWI ex-USA Index.

## Performance (%)

Net of Fees, Class III, Fair Value, USD	+2.06
Gross of Fees, Class III, Local Close, USD	+2.38
MSCI ACWI ex USA <sup>1</sup>	+2.98
<b>Value Added</b>	<b>-0.61</b>

## Major Performance Drivers

- Top-down asset allocation was slightly positive for the quarter. On the surface our overweight position in emerging markets, which lagged MSCI ACWI ex-U.S., would have detracted from relative performance but this was largely offset by good country positioning within emerging markets.
- Security selection was negative for the quarter. This was driven primarily by performance in developed markets where it was a challenging quarter for a valuation approach to investing as the MSCI World Value Index underperformed the MSCI World Growth Index by more than 3%.

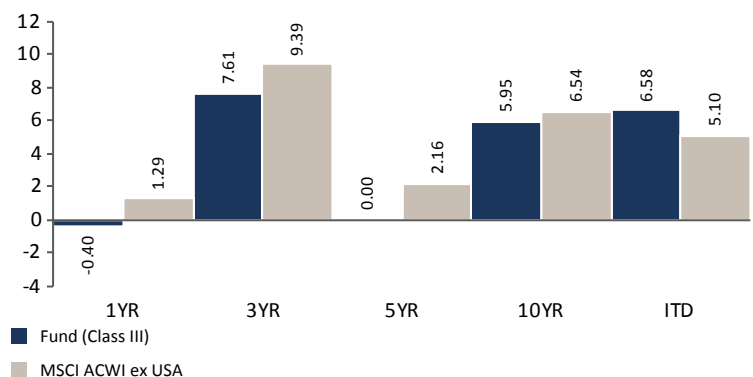
Emerging equities, with an emphasis on undervalued stocks within attractively valued countries/sectors, represented 34.9% of the total portfolio weight on average during the quarter. Our overweight position in emerging equities detracted from performance as MSCI Emerging Markets returned 0.6%, lagging the MSCI ACWI ex-U.S. return of 3.0%. However, our performance within emerging markets was significantly better than the index and the portfolio returned an excellent 3.2%. Chinese equities struggled during the quarter as the trade tensions with the U.S. continued to rumble on, and our underweights in China Communication Services and Consumer Discretionary helped performance. On the other hand, Russia leapt 16.9% as interest rates were cut, and our overweight positions in Russia Energy and Financials were additive. Indeed, our overweight position in Gazprom (Russia Energy) was the single biggest stock contributor to relative performance at a total portfolio level.

European equities accounted for an average weight of 42.5% of the portfolio for the quarter. Our position in Europe is broadly in line with the index weight and thus had minimal impact on relative performance. Unfortunately, security selection within Europe proved to be a challenge, not helped by the underperformance of value. The biggest impact was in Netherlands and Germany, where the overweight position in Deutsche Lufthansa was the single largest detractor at a total portfolio level.

Japanese equities accounted for 16.6% of the total portfolio on average through the quarter. This is a small overweight position and detracted

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 0.71% is equal to the Funds Total Annual Operating Expenses set forth in the Funds most recent prospectus dated June 30, 2019.

## Annualized Return (%) as of June 30, 2019



Inception date: 10/11/1996

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

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modestly from performance as MSCI Japan returned a lackluster 1.0%. Positive stock selection in Japan offset this. The portfolio held 4.5% on average in the remaining catch-all “other international”. This had very little impact from an allocation perspective, but stock selection detracted mildly from relative performance as our portfolio lagged benchmark returns in Australia and Hong Kong.

Quarter-ending weights, as a percent of equity, for the positions mentioned are: Gazprom (0.7%) and Deutsche Lufthansa (0.6%).

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**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, Non-U.S. Investment Risk Management and Operational Risk, Currency Risk and Derivative and Short Sale Risk. For a more complete discussion of these risks and others, please consult the Fund's prospectus.

<sup>1</sup> The MSCI ACWI ex USA Index (MSCI Standard Index Series, net of withholding tax) is an independently maintained and widely published index comprised of international (excluding U.S. and including emerging) large and mid capitalization stocks. 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.