

# USONIAN JAPAN VALUE FUND

## Investment Review: Quarter Ending December 31, 2022

### OVERVIEW

Usonian Japan Value Fund seeks long term capital appreciation over a full market cycle and measures its performance against the TOPIX Total Return Index. The Fund employs a fundamental, value-oriented approach to invest in Japanese equities with a focus on protecting capital in down markets and achieving lower total volatility compared to the index.

### PERFORMANCE (%)

Net of Fees, GBP	+4.61
Gross of Fees, GBP	+4.81
Tokyo Stock Price Index (TR, GBP) <sup>1</sup>	+5.09
<b>Value Added</b>	<b>-0.28</b>

### Major Performance Drivers

Persistent inflation pressures in 2022 forced most central banks (Japan being a notable laggard) to raise interest rates, which in turn led to significant equity market declines. Japan's 2.9% (JPY) decline in 2022, as measured by the Tokyo Stock Price Index (TOPIX TR), compared favorably to other markets, which were down 16.7% in local currency terms. GMO's Usonian Strategies outperformed the TOPIX TR during the period. We believe macro tailwinds such as inflation levels helping to break Japan's deflationary mindset, the re-opening of the country, and the still weak yen bode well for our strategies. Further, through our deep fundamental analysis, we continue to find many attractively priced companies with compelling fundamentals, strong balance sheets, and excess capital available for shareholder distributions.

Japanese equities were volatile but slightly positive in the fourth quarter of 2023, with the TOPIX TR up 3.2% in local terms. The Japanese yen reversed course during the quarter, strengthening 9.7% from ¥150 to ¥131 relative to the U.S. dollar. While recovering in Q4, the yen still ended the year down 12.7% and remains cheap on a PPP basis vs. the U.S. dollar.

In 4Q 2022, many of the major themes we have been watching over the past year developed dramatically. We've summarized these themes below. For more detail, please see our complete Quarterly Letter, available from your GMO relationship manager.

- Inflation continued to mount in Japan, which should be fundamentally positive for Japan's economy for a variety of reasons, as discussed in our 4Q22 Quarterly Letter.
- The Bank of Japan surprised the market with an earlier-than-anticipated change to its Yield Curve Control policy.
- The yen/U.S. dollar exchange rate remained volatile – during 4Q, the yen weakened to an historic level of ¥150 before strengthening to ¥131 by quarter end.
- Oil and other raw materials inflation seemed to peak and even decline in yen terms.

### Performance Review

The portfolio slightly underperformed the index during the quarter. Financials and Health Care contributed the most to relative performance during the period, while Consumer Staples and Materials were the largest detractors.

**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).**

GMO UK Limited authorised and regulated by the Financial Conduct Authority Registered no 4658801 England. GMO Netherlands is a branch office of GMO UK Limited and is registered with the AFM. Risks associated with investing in the Fund may include: Objective Risk, Management Risk, Concentration Risk, Equities and Securities Risk, and Large Cap Company Risk. For a more complete discussion of these risks and others, please consult the Fund's prospectus.

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Style factors had a mixed impact during the quarter. The general underperformance of small cap was a headwind, with MSCI Japan Small Cap underperforming MSCI Japan by 115 bps, whereas Value's general outperformance was a tailwind, with MSCI Japan Value outperforming MSCI Japan by 168 bps.

### **Important Information**

This is a marketing communication. This is not a contractually binding document. Please refer to the prospectus and to the KIID and do not base any final investment decision on this communication alone. Investors and potential investors can also obtain the prospectus and key investor information, in English and other languages, and a summary of investor rights and information on access to collective redress mechanisms at the following website: <https://www.gmo.com/europe/product-index-page/equities/usonian-japan-value-creation-strategy/usonian-japan-value-fund/>. Please note that GMO Investments ICAV and GMO Funds PLC may decide to terminate the arrangements made for the marketing of the sub-funds in one or more EU member states pursuant to the UCITS marketing passport in accordance with the procedure provided for under the applicable laws that implement Article 93a of Directive 2009/65/EC (the UCITS Directive). A full list of fees and charges applied to investment can be found in the Fund Supplement or KIID, available at <https://www.gmo.com/europe/product-index-page/equities/usonian-japan-value-creation-strategy/usonian-japan-value-fund/>.

<sup>1</sup> TOPIX (Net of dividend withholding tax) is a free-float adjusted market capitalization-weighted index that is calculated based on all the domestic common stocks listed on the TSE First Section.

The above Fund has not been registered under the United States Investment Company Act of 1940, as amended, nor the U.S. Securities Act of 1933, as amended. None of the shares may be offered or sold, directly or indirectly, in the U.S. or to any U.S. Person, unless the securities are registered under the Act or an exemption from the registration requirements of the Act is available. A U.S. Person is defined as (a) any individual who is a citizen or resident of the U.S. for federal income tax purposes; (b) a corporation, partnership, or other entity created or organized under the laws of or existing in the U.S.; (c) an estate or trust the income of which is subject to U.S. federal income tax regardless of whether such income is effectively connected with a U.S. trade or business.