

# EQUITY DISLOCATION INVESTMENT FUND

## Investment Review: Quarter Ending December 31, 2022

### OVERVIEW

The GMO Equity Dislocation Investment Fund seeks high total return. We aim to accomplish this objective by owning attractively valued equities while correspondingly shorting equities where we believe that valuations are reflective of implausible growth expectations.

### PERFORMANCE (%)

Net of Fees, USD	+2.30
Gross of Fees, USD	+2.85
FTSE 3-Mo. T-Bill <sup>1</sup>	+0.87
<b>Value Added</b>	<b>+1.98</b>

### Major Performance Drivers

For the fourth quarter of 2022, MSCI ACWI returned 9.8%, with MSCI ACWI Value outperforming with a return of 14.2% and MSCI ACWI Growth underperforming with a return of 5.3%. The Equity Dislocation Investment Fund aims to be dollar and (broadly) beta neutral and, for the period, it had an average long exposure of 100.0% and an average short exposure of 99.8%. The long portfolio underperformed MSCI ACWI Value with a 13.6% return, while the short book, unfortunately, had better performance than MSCI ACWI Growth with a 10.7% return. The return of the Equity Dislocation Investment Fund is well behind MSCI ACWI Value's 8.9% outperformance of MSCI ACWI Growth for the quarter.

The year-to-date return for the Equity Dislocation Investment Fund remains behind the 21.1% return of the MSCI ACWI Value index minus the MSCI ACWI Growth index. This is actually a strong result for our stock picking as MSCI ACWI Value minus MSCI ACWI Growth has benefitted from a significant tailwind due to its considerable structural sector imbalances. For example, it is some 7% long Energy which has performed incredibly well this year, beating the market by more than 50%, primarily due to price increases as opposed to cheap stock valuations, and it is a massive 25% or so underweight the very poorly performing Information Technology sector – a size of bet that we do not believe is particularly desirable from a risk-adjusted returns perspective. The difference in sector positioning gave the naïve approach more than a 10% performance advantage over the Equity Dislocation portfolio for the year. Since inception, the portfolio remains nicely ahead of ACWI Value minus ACWI Growth, and we are very pleased by the strong return profile. We do, however, consider that the opportunity set remains extremely compelling.

For the quarter, stock selection within countries across the long book added 220 bps relative to MSCI ACWI, with the most notable contribution coming from the U.S. (160 bps), with no significant detractors. Stock selection in the short book had a total impact against MSCI ACWI of +10 bps. The biggest detractors were the U.S. (-70 bps) and China (-50 bps), while the biggest contributor, Canada (+30 bps), was supported by a lot of small wins. There were some modest country bets, although these are typically residuals driven by bottom-up security selection, which in aggregate had a small -10 bp impact on performance for the fourth quarter.

We are prepared to run modestly larger sector bets, up to about 10% net long or short, and the two biggest positions in this regard over the quarter were an 8.0% net long position in Financials and a 5.6% net short position in Information Technology. Financials outperformed the broad market, while Information Technology underperformed and, in aggregate, our sector positioning added +20 bps. Stock selection across the long book was negative in one of the eleven sectors, broadly flat in five sectors, and positive in five, and added 310 bps altogether. The biggest contributors were Consumer Discretionary (+240 bps) and Financials (+40 bps), while the only detractor was Energy (-30 bps). Stock selection in the short book was positive in four of the eleven sectors, broadly flat in three sectors, and negative in the other four, with a total impact of -110 bps

**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).**

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detracted from performance in aggregate. The largest positive impacts included Industrials (+60 bps) and Utilities (+50 bps), while the most significant detractor was Consumer Discretionary (-210 bps).

Given the market's sharp recovery, unsurprisingly no long positions featured in the top five biggest detractors at the total portfolio level. Three of the five biggest contributors were long positions including Danske Bank (Denmark financials), Universal Health Services (U.S. Health Care), and Gilead Sciences (U.S. Health Care).

### **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/alternatives/equity-dislocation-strategy/equity-dislocation-investment-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/alternatives/equity-dislocation-strategy/equity-dislocation-investment-fund/>.

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<sup>1</sup> The FTSE 3-Month Treasury Bill Index is an independently maintained and widely published index comprised of short-term U.S. Treasury bills.

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