

QUARTERLY INVESTMENT REVIEW

International Equity Strategy

RETURNS (%) (LOCAL)

	Cumulative (%)		Annualized (%)				
	QTD	YTD	1 Year	3 Years	5 Years	10 Years	ITD
Net of Fees (Composite)	8.54	20.60	20.60	6.52	10.07	3.75	7.15
Gross of Fees (Composite)	8.74	21.47	21.47	7.29	10.86	4.51	7.90
MSCI EAFE +	10.42	18.24	18.24	4.02	8.17	4.40	6.57
MSCI EAFE Value	8.22	18.95	18.95	7.60	7.08	3.16	6.22
Value Added (vs. MSCI EAFE +)	-1.88	2.36	2.36	2.50	1.90	-0.65	+0.58
Value Added (vs. MSCI EAFE Value)	0.32	1.65	1.65	-1.07	2.98	0.59	+0.93

Major Performance Drivers

Global markets finished the year on a strong note in the fourth quarter, contributing to double-digit gains for the full year. Positive performance was broad-based with all developed markets finishing in positive territory, along with nearly every emerging market. The notable exception to this positivity was China, where a mix of financial and policy challenges continues to weigh on sentiment. While geopolitical tensions ratcheted up with Hamas' attack on Israel, and accompanying concerns related to broader conflict in the Middle East and the potential disruption of trade, equity markets remained unfazed and oil prices fell, helping to underpin positive sentiment around falling global inflation.

In the fourth quarter MSCI EAFE Value underperformed relative to MSCI EAFE Growth. In this environment Value and Momentum models struggled. In contrast, Alerts worked well, especially Accounting Alerts, with companies earning a high number of red flags underperforming the broader market.

Portfolio underperformance was the result of a mix of allocation and stock selection decisions. While the impact of most country and sector allocations was small, the overweight toward Energy was a notable detractor. Stock selection challenges included the Netherlands, Japan, Industrials, Information Technology, and France Health Care.

Amid the challenges, areas of positive stock selection included the U.K. and Consumer Discretionary. Stocks adding value to the portfolio included U.K. names 3i Group (Financials) and Barratt Developments (Consumer Discretionary), as well as Rio Tinto (Australia Materials) and Compagnie de Saint-Gobain (France Industrials).

Portfolio weights, as a percent of equity, for the positions mentioned were: 3i Group (2.5%), Barratt Developments (1.2%), Rio Tinto (2.0%), and Compagnie de Saint-Gobain (2.6%).

Inception Date: 31-Mar-87

Risks: Risks associated with investing in the Strategy may include Market Risk - Equities, Non-U.S. Investment Risk, Management and Operational Risk Currency Risk, and Derivatives and Short Sales Risk. Returns shown for periods greater than one year are on an annualized basis. To obtain performance information to the most recent month-end, visit www.gmo.com. **Performance Returns:** Performance data quoted represents past performance and is not predictive of future performance. Net returns are presented after the deduction of a model advisory fee and incentive fee if applicable. These returns include transaction costs, commissions and withholding taxes on foreign income and capital gains and include the reinvestment of dividends and other income, as applicable. Fees paid by accounts within the composite may be higher or lower than the model fees used. **GMO LLC claims compliance with the Global Investment Performance Standards (GIPS®).** A Global Investment Performance Standards (GIPS®) Composite Report is available on GMO.com by clicking the GIPS® Composite Report link in the documents section of the strategy page. GIPS® is a registered trademark owned by CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Actual fees are disclosed in Part 2 of GMO's Form ADV and are also available in each strategy's Composite Report. The portfolio is not managed relative to a benchmark. References to an index are for informational purposes only. Gross returns are presented gross of management fees and any incentive fees if applicable. These returns include transaction costs, commissions, withholding taxes on foreign income and capital gains and include the reinvestment of dividends and other income, as applicable. If management and incentive fees were deducted performance would be lower. For example, if, before fees, the strategy were to achieve a 10% annual rate of return above its hurdle rate each year for ten years, and an annual advisory fee of 1% and incentive fee of 20% of net returns above the hurdle rate were charged during that period, the resulting average annual net return (after the deduction of management and incentive fees) would be approximately 7.20%.

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PRODUCT OVERVIEW

The GMO International Equity Strategy seeks to generate high total return by investing primarily in non-U.S. developed market equities. The Strategy measures its performance against the MSCI EAFE Index for performance comparison purposes.

The Strategy's investment approach is grounded in the Systematic Equity team's belief that, in the short term, equity markets exhibit exploitable inefficiencies as a result of irrational investor actions, the imperfect flow of information, and the participation of non-economic actors, while in the long-term returns are ultimately driven by economic reality. The Strategy aims to take advantage of this inefficiency by utilizing a multi-factor valuation model in conjunction with other methods, such as cross-asset signals and corporate alerts, to identify mispriced equity securities.

IMPORTANT INFORMATION

Comparator Index(es): The MSCI EAFE + (Europe, Australasia, and Far East) Index is an internally maintained benchmark computed by GMO, comprised of (i) the MSCI EAFE (Europe, Australasia, and Far East) Value Index (MSCI Standard Index Series, net of withholding tax) through 06/30/2014 and (ii) the MSCI EAFE (Europe, Australasia, and Far East) Index (MSCI Standard Index Series, net of withholding tax) thereafter. 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. The MSCI EAFE (Europe, Australasia, and Far East) Value Index (MSCI Standard Index Series, net of withholding tax) is an independently maintained and widely published index comprised of international large and mid capitalization stocks that have a value style. Large and mid capitalization stocks encompass approximately 85% of each market's free float-adjusted market capitalization. Style is determined using a multi-factor approach based on historical and forward-looking characteristics. 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.

The above information is based on a representative account in the Strategy selected because it has the fewest restrictions and best represents the implementation of the Strategy.

ABOUT GMO

Founded in 1977, GMO is a global asset manager committed to delivering superior performance and advice to our clients. We are privately owned, which allows us to singularly focus on our sole business – achieving outstanding long-term client investment outcomes. Offering multi-asset, equity, fixed income, and alternative strategies, we invest with a long-term, valuation-based philosophical approach.

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