

QUARTERLY INVESTMENT REVIEW

Global Asset Allocation Strategy

RETURNS (%) (LOCAL)	Cumulative (%)		Annualized (%)				
	QTD	YTD	1 Year	3 Years	5 Years	10 Years	ITD
Net of Fees (Composite)	8.75	16.10	16.10	2.70	6.27	4.05	8.25
Gross of Fees (Composite)	8.94	16.91	16.91	3.38	6.90	4.62	8.76
GMO Global Asset Allocation Index +	9.57	16.21	16.21	2.66	8.19	5.97	7.60
Value Added (vs. GMO Global Asset Allocation Index +)	-0.82	-0.12	-0.12	0.04	-1.93	-1.93	+0.64

Major Performance Drivers

– Top-down asset allocation was negative for the quarter. This was due primarily to the allocation to alternatives, which could not keep up with rebounding traditional assets.

– Security selection was negative for the quarter, as lots of small relative losses more than offset very strong performance in Emerging Markets.

Equities represented an average of 63.8% of the portfolio during the quarter, including 7.4% in Emerging Markets, 7.4% in Emerging Markets ex-China, 13.5% in Developed ex-U.S., 3.2% in Quality, 5.3% in U.S., 2.1% in U.S. Small Cap Value, 3.2% in U.S. Small Cap Quality, 3.1% in Quality Cyclical, 7.1% in U.S. Opportunistic Value, 4.2% in Japan Value, and 7.3% in International Opportunistic Value.

The equity portfolio returned 10.8% for the quarter, just trailing the MSCI ACWI return of 11.0%. Top-down regional exposures had limited impact for the quarter as the U.S. moderately beat developed ex-U.S., while an excellent showing from Emerging ex-China offset the effects of poor performance by China. Security selection was negative for the quarter as Value lagged Growth in Developed Markets. The Emerging Market equities portfolio returned 13.7%, which was 580 bps ahead of the MSCI Emerging Market index, and Emerging Markets ex-China returned 16.1%, which was 310 bps ahead of the MSCI Emerging Markets ex-China index return of 13.0%. In Developed ex-U.S. markets, the portfolio posted 8.7%, 180 bps behind the MSCI World ex-U.S. index, and International Opportunistic Value underperformed by 310 bps. In the U.S., the broad U.S. portfolio return of 11.3% trailed the S&P Composite 1500 by 50 bps while U.S. Opportunistic Value underperformed by 80 bps, but Quality outperformed the S&P 500 by 20 bps. Quality Cyclical outperformed, while the U.S. Small Value and U.S. Small Quality portfolios both underperformed. The Japan Value portfolio returned 6.9%, behind the TOPIX by 110 bps. Being very slightly underweight to equities had limited impact on relative performance as they just beat the blended benchmark.

Alternatives represented 13.0% on average through the quarter, which was all invested in the Alternative Allocation strategy. The Alternative Allocation strategy posted a return of 0.8% for the quarter, unable to keep pace as both equities and bonds soared. Within the Alternative Allocation strategy, put selling and Event Driven enjoyed strong quarters and Systematic Global Macro was also positive. The credit strategies and asset allocation spread trades had limited impact this quarter while Fixed Income Absolute Return detracted modestly. That left Equity Dislocation making the largest negative impact as it is a sizeable position and had a tough quarter. Our position in alternatives detracted from relative performance as they underperformed the blended benchmark.

Fixed income represented 23.0% on average through the quarter, including 3.1% in asset-backed securities, 3.4% in Emerging Country Debt, 12.4% in Multi-Sector Fixed Income, and 4.1% in a U.S. Nominal Treasury position. Our fixed income strategies returned 7.2% for the quarter, ahead of the Barclays U.S. Aggregate index return of 6.8%. Asset-backed securities were up nicely with a return of 3.1%, while Multi-Sector Fixed Income was better at 6.0% and the U.S. Nominal Treasuries did similarly, delivering 5.5%. The U.S. 10-year nominal yield finished the quarter a significant 71 bps lower than where it started, at 3.88%, round-tripping to the levels we saw at the end of June, which led to an excellent quarter for duration. Our Emerging Country Debt portfolio returned 12.1%, which was nicely ahead of the EMBI Global Diversified index return of 9.2%. Our underweight to fixed income had a positive impact on performance against the asset allocation benchmark.

Inception Date: 30-Jun-88

Risks: Risks associated with investing in the Strategy may include Management and Operational Risk, Market Risk - Equities, Non-U.S. Investment Risk, Market Risk - Fixed Income Investments, 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.** 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%.

QUARTERLY INVESTMENT REVIEW

PRODUCT OVERVIEW

The Strategy seeks to achieve a total return greater than that of its benchmark of 65% MSCI All Country World Index and 35% Bloomberg U.S. Aggregate Index, over a complete market cycle, by allocating dynamically across asset classes.

The philosophy that underlies all of GMO's Asset Allocation investment strategies is the belief that, at times and in the short term, the pricing of asset classes can deviate from true intrinsic value, but mean reverts to appropriate valuation levels over the long term. GMO's proprietary 7-Year Asset Class Forecasts form the foundation of our investment process, providing a framework to assess the return opportunity embedded in different asset classes.

IMPORTANT INFORMATION

Benchmark(s): The GMO Global Asset Allocation Index + is an internally maintained benchmark computed by GMO, comprised of (i) GMO blended benchmark of Global Asset Allocation Composite through 06/30/2014 and (ii) The GMO Global Asset Allocation (Blend) Index thereafter. The GMO blended benchmark of Global Asset Allocation Composite is comprised of a weighted average of account benchmarks; many of the account benchmarks consist of S&P 500, MSCI ACWI (MSCI Standard Index Series, net of withholding tax) and Bloomberg Aggregate or some like proxy for each market exposure they have. For each underlying account benchmark, the weighting of each market index will vary slightly. The index is internally blended by GMO and maintained on a monthly basis. The GMO Global Asset Allocation (Blend) Index is an internally maintained benchmark computed by GMO, comprised of 65% MSCI ACWI Index (MSCI Standard Index Series, net of withholding tax) and 35% the Bloomberg U.S. Aggregate Index. S&P does not guarantee the accuracy, adequacy, completeness or availability of any data or information and is not responsible for any errors or omissions from the use of such data or information. Reproduction of the data or information in any form is prohibited except with the prior written permission of S&P or its third party licensors. 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.

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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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