

Emerging Markets Trust

Quarter Ending December 31, 2018

OVERVIEW:

The GMO Emerging Markets Trust (the "Trust") invests in the GMO Emerging Markets Fund (the Fund), a U.S. mutual fund which is advised by GMO. The Fund seeks total return in excess of that of its benchmark, the S&P/IFC Investable Composite Index.

Performance (%)

Net of Fees, Fair Value, AUD	-5.15
Gross of Fees, Local Close, AUD	-5.01
MSCI Emerging Markets ¹	-4.91
Value Added	-0.10

COUNTRY ALLOCATION: -0.7%

SECURITY SELECTION: +0.6%

Major Performance Drivers

Emerging markets began the quarter under pressure from a global risk-off wave sparked by fears of rising rates in the US, increasing trade tensions and slowing global growth. November brought welcome relief with emerging markets posting their best month since January on hopes of a resolution to the trade dispute between the US and China. The Fed also boosted sentiment by signaling that it was near the end of its rate hikes. The relief was short-lived as December saw investors switching back to worrying over a slowing global economy and trade tensions. Country returns over the quarter varied, ranging from a 13.4% jump in Brazil to a 22.4% fall in Pakistan. Sector returns were more clustered, varying from a 3.6% rise in Utilities to a drop of 16.2% in Health Care.

The Brazilian market celebrated the election of Bolsonaro as president. There are hopes that he will address the pension burden and enact pro-market reforms. Our underweight in Brazilian Financials and Consumer Discretionary detracted from performance.

Stocks in China began the quarter impacted by the ratcheting of trade tensions with the US. A slowing domestic economy added further pressure. The middle of the quarter saw some relief as hopes grew of a quick resolution to trade tensions with the US. The end of the quarter saw renewed pressure from multiple reports indicating a slowing economy. Industrial output and retail sales grew at the worst pace in years and there were still no signs of a major government stimulus. Our underweight in Chinese Consumer Discretionary and Communication Services helped performance.

Sentiment improved in India with a drop in the price of crude oil, a big driver of the country's current account deficit. India also gained from its relatively greater insulation from global trade. Our underweight in Indian Financials and Consumer Staples hurt performance.

Past performance information in the above is historical and is not a reliable indicator of future performance. Returns are shown after the deduction of management fees and other expenses. This information is current as at the date specified and is subject to change.

As of January 1, 2019, the Emerging Markets Trust changed its benchmark so that the Trust now seeks total return in excess of that of the MSCI Emerging Markets Index. The Trust formerly sought to outperform the S&P/IFCI Composite Index.

Equities in Korea dropped on concerns over slowing global growth and the trade war between China and the US. The Korean economy is one of the most geared economies to world trade. Our underweight in Korean Information Technology and Health Care contributed to performance.

The Russian stock market initially seemed to resist the gravitational pull of lower oil prices. Oil is a major export for Russia. However, as commodity prices continued to fall, the resistance faded and the market fell. Our overweight in Russian Energy and Financials negatively impacted performance.

Turkish assets gained from a decline in pressure on the Turkish lira. The currency rose following dovish comments from the Fed on its path of future rate hikes. The end of the quarter saw assets give back some ground as investors feared that the central bank was succumbing to political pressure to prematurely ease monetary policy. Our overweight in Turkish Financials and Consumer Staples added to performance.

¹ The MSCI Emerging Markets Index (MSCI Standard Index Series, net of withholding tax) is an independently maintained and widely published index comprised of global emerging markets 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.