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Taking Advantage of Dislocations

GMO Investment Presentation

August 2023

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High Conviction Investment Ideas

1. Securitized credit benefits from market inefficiencies

2. Some non-U.S. equity markets offer excellent real returns

3. Global competition for natural resources

4. Deep Value is extraordinarily cheap

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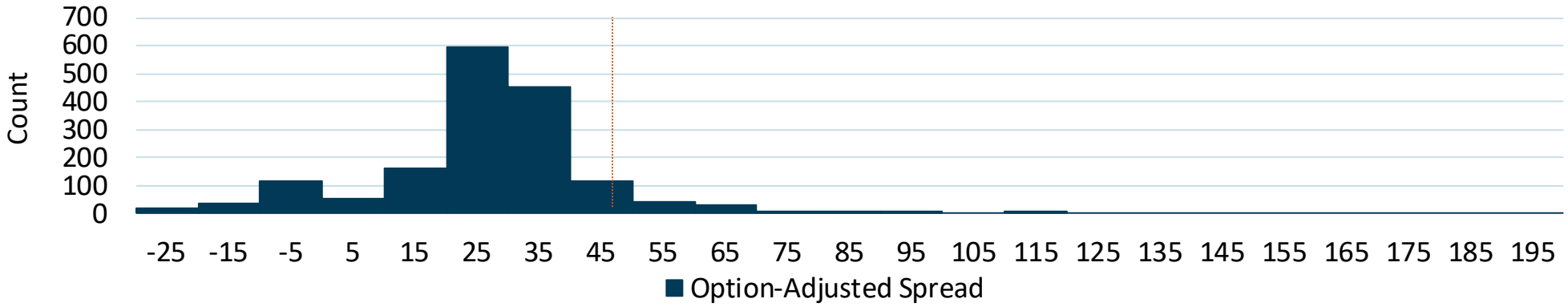
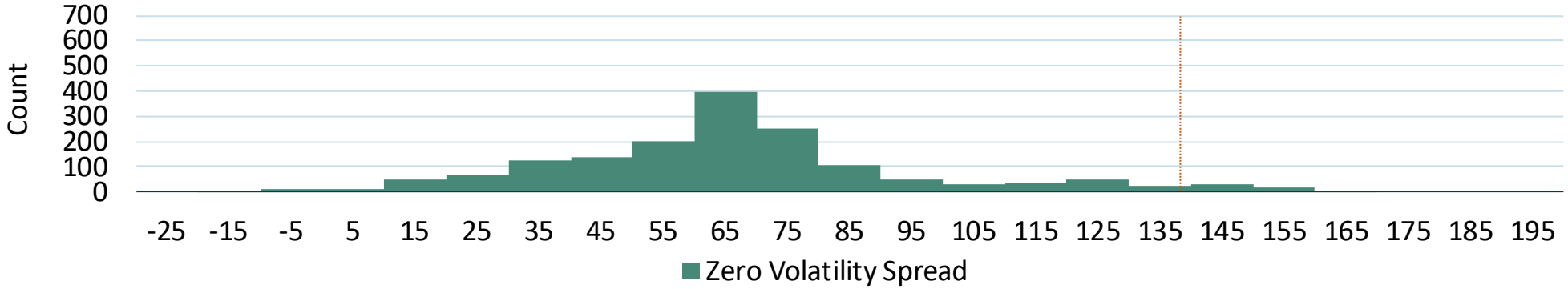
Securitized Credit Opportunity: Agency MBS

Current coupon MBS spreads–December 31, 2010 to present





As of 7/18/23 | Source: GMO, J.P. Morgan DataQuery

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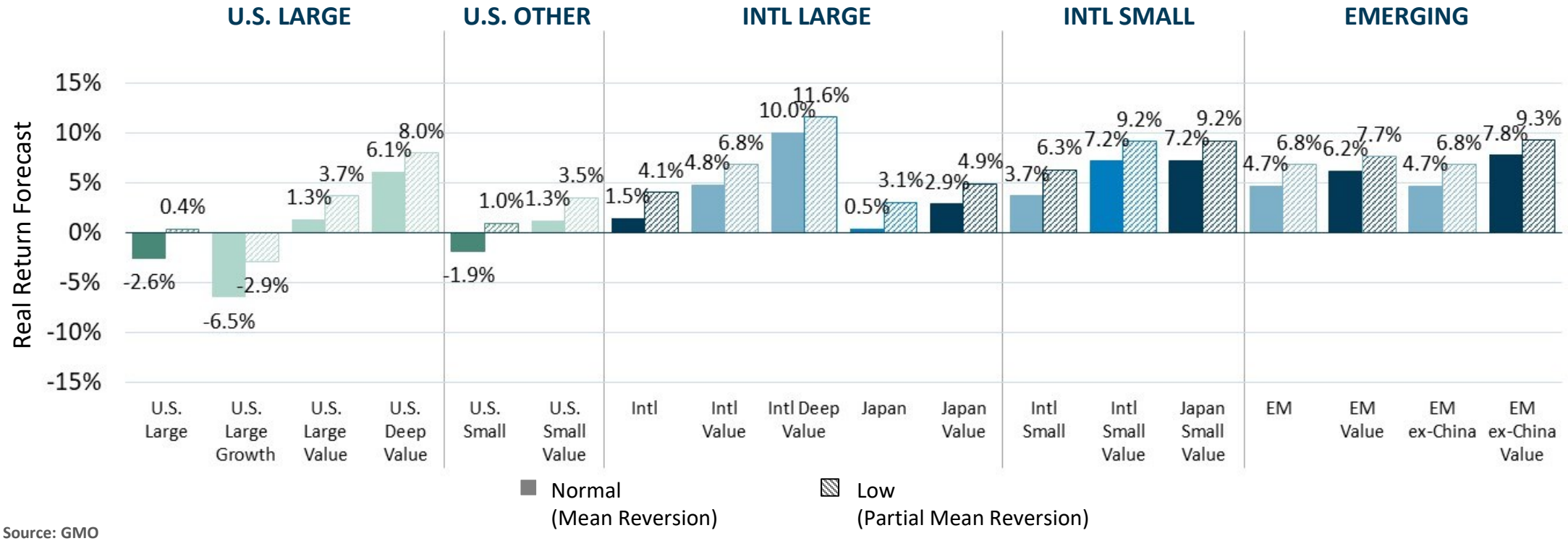
7-Year Global Real Return Equity Forecasts*

7-Year Asset Class real return forecasts June 30, 2023*



Source: GMO

*The chart represents real return forecasts for several asset classes and not for any GMO fund or strategy. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in forward-looking statements.

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Global Competition for Natural Resources

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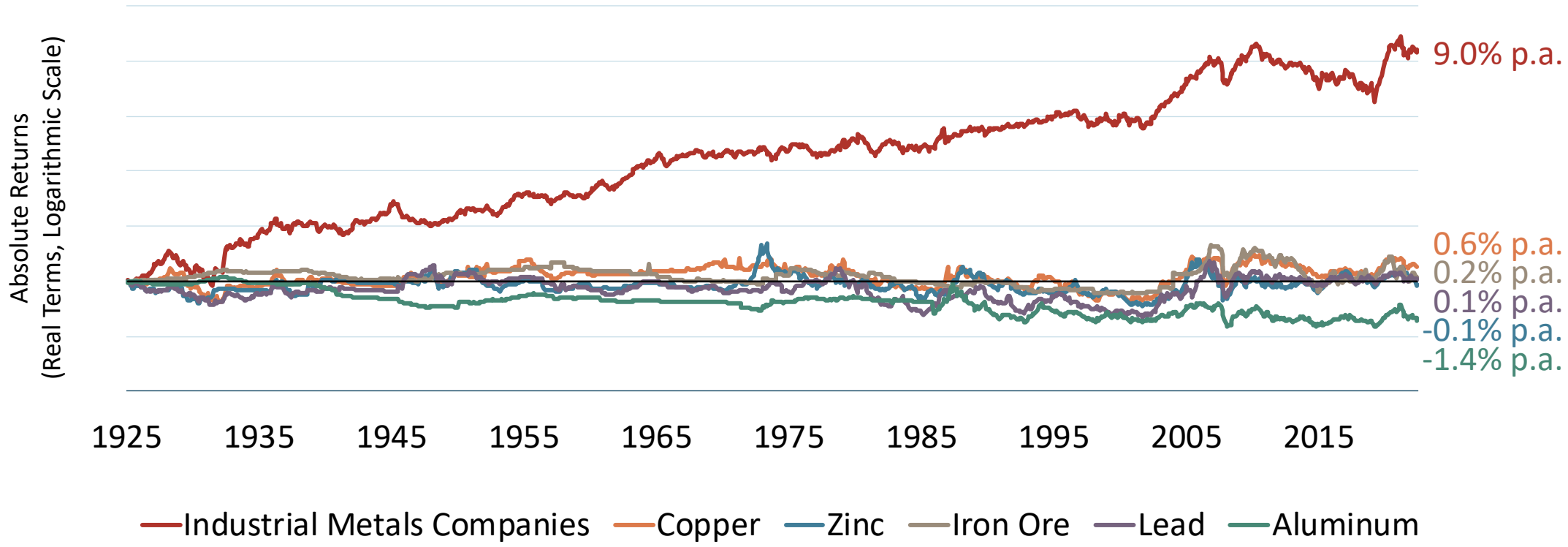
Equity Risk Premium Comes through in Resource Equities



As of 6/30/23 | Source: CRSP, Global Financial Data, GMO

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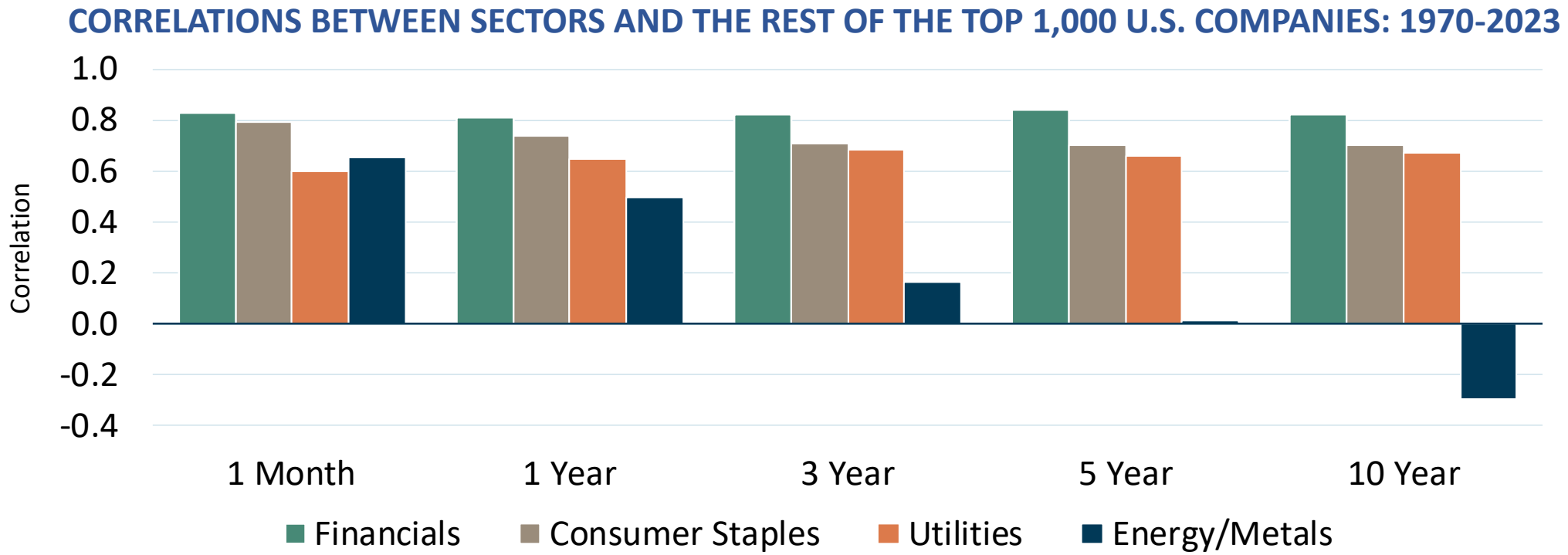
Resource Equities Have Delivered Equity-Like Returns with Low Correlations with the Rest of the Equity Market



As of 6/30/23 | Source: MSCI, CRSP, GMO

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There Are Various Ways of Getting Resources Exposure

On balance, we believe public equities provide the best investment opportunity

	PUBLIC EQUITIES	FUTURES	SWAPS	PRIVATE EQUITY
Benefit from rise in resource prices	+	+	+	+
Represents a pure play on targeted resource		+	+	
Risk premium	+			+
Stock selection	+			+
Ability to leverage expertise of company management	+			+
Diversity of opportunity set (alternative energy, service & equipment providers, etc.)	+			+
Ability to generate positive returns in a period of dropping commodity prices	+			+
Negative roll yield issue (contango)		–	–	
Counterparty risk			–	
Liquidity	+	+		–
Low-cost vehicles	+	+		–

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Deep Value Is Extraordinarily Cheap

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Value Is Extremely Cheap

As of 6/30/23 | Source: GMO
Composite valuation measure is composed of Price/Sales, Price/Gross Profit, Price/Book, and Price/Economic Book.

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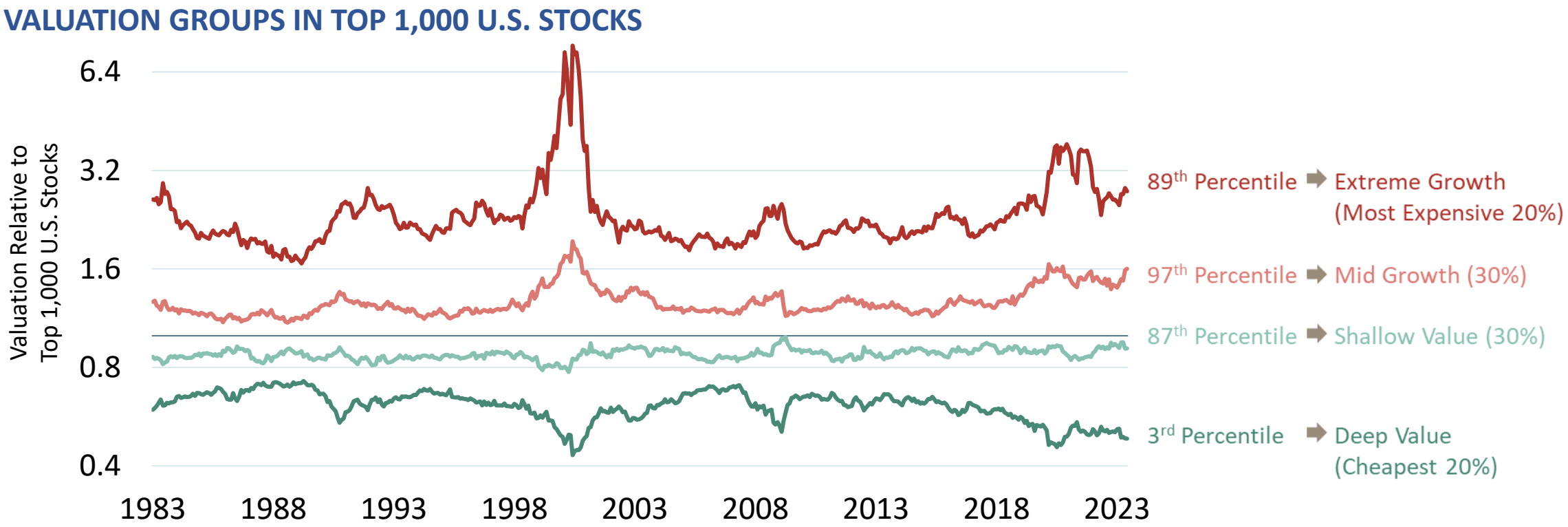
Within the U.S., "Deep Value" Segment (Cheapest 20%) Is Truly Dislocated



As of 6/30/23 | Source: GMO
Composite Valuation Measure is composed of Price/Sales, Price/Gross Profit, Price/Book, and Price/Economic Book. Groups of value and market are weighted by square root of market cap.

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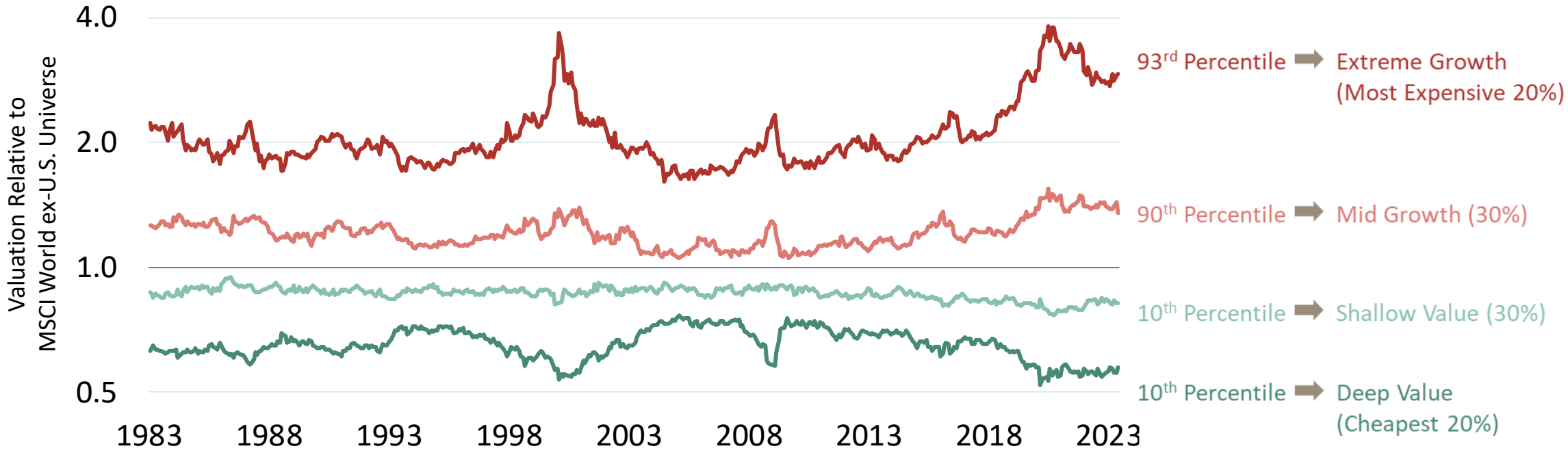
In Developed Market ex-U.S., "Deep Value" (Cheapest 20%) Is Extremely Cheap

VALUATION GROUPS IN MSCI WORLD EX-U.S. UNIVERSE



As of 6/30/23 | Source: GMO

Composite Valuation Measure is composed of Price/Sales, Price/Gross Profit, Price/Book, and Price/Economic Book. Groups of value and market are weighted by square root of market cap. All groups have the same country exposure as the universe.

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What About Timing?

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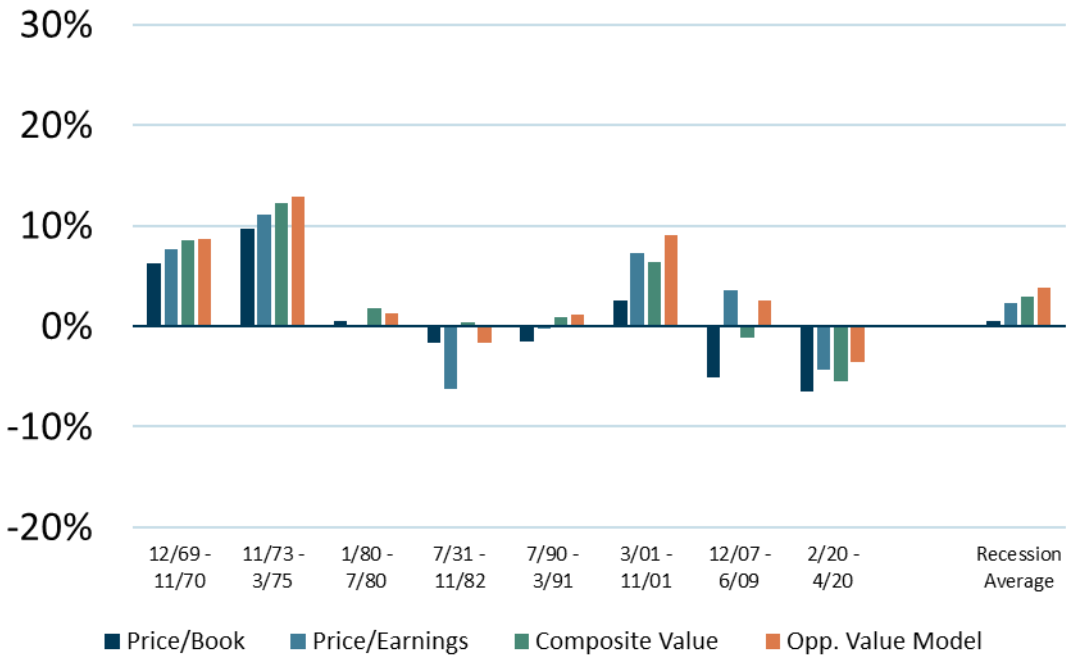
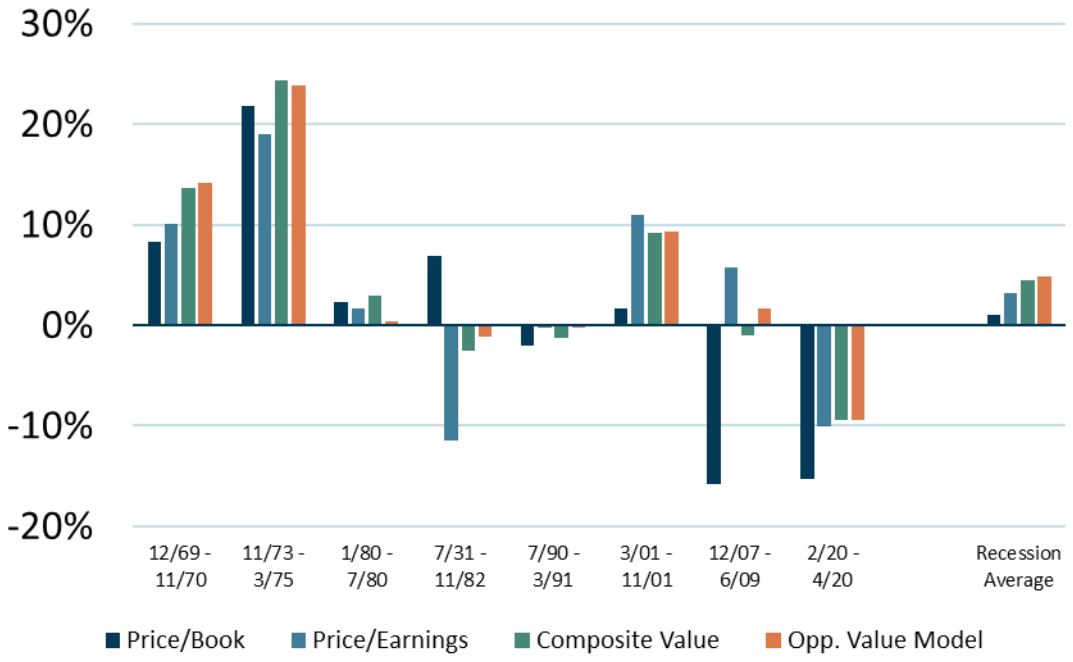
Value Does Fine in U.S. Recessions

Relative performance of Value in recessions

CHEAPEST 50% OF TOP 1,000 U.S. STOCKS



DEEP VALUE: CHEAPEST 20% OF TOP 1,000 U.S. STOCKS



Data from 1969 – 2020 | Source: Compustat, Worldscope, NBER, GMO
Composite Value and Opp. Value Model are GMO proprietary value models.

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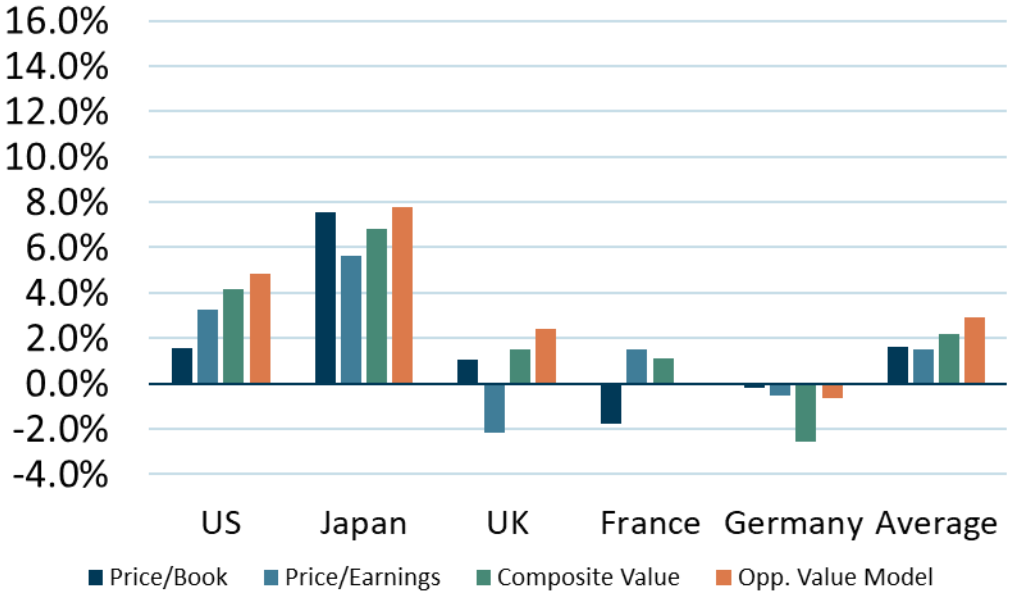
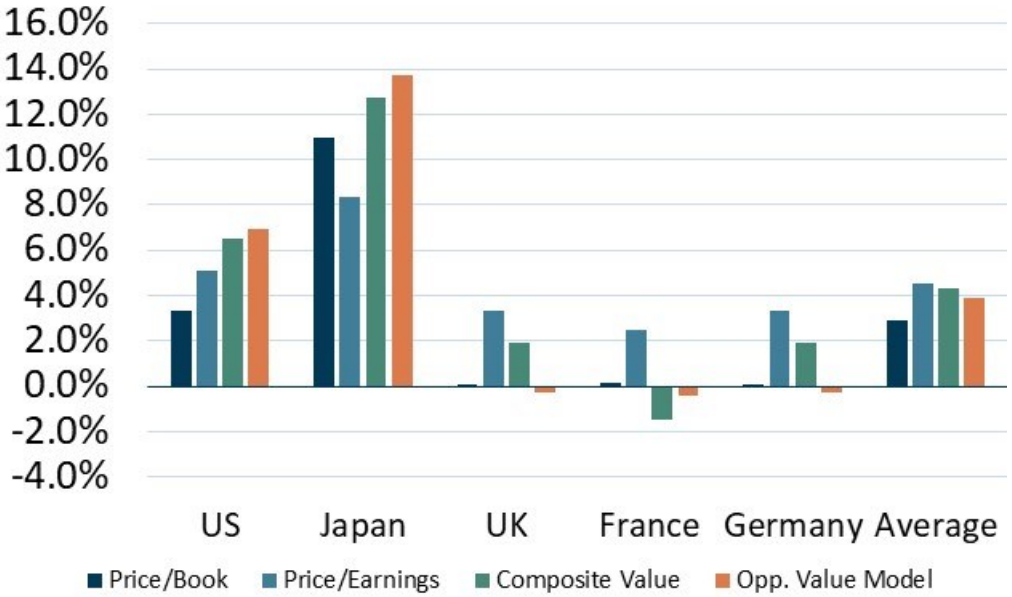
Value Does Fine in Recessions Globally (ex-COVID)

Relative performance of Value in recessions

CHEAPEST 50% OF STOCKS IN 5 LARGEST COUNTRIES



DEEP VALUE: CHEAPEST 20% OF STOCKS IN 5 LARGEST COUNTRIES



Data from 1969 – 2020 | Source: Compustat, Worldscope, NBER, Japanese Cabinet Office, Bundesbank, French Economic Assoc., Wikipedia, GMO
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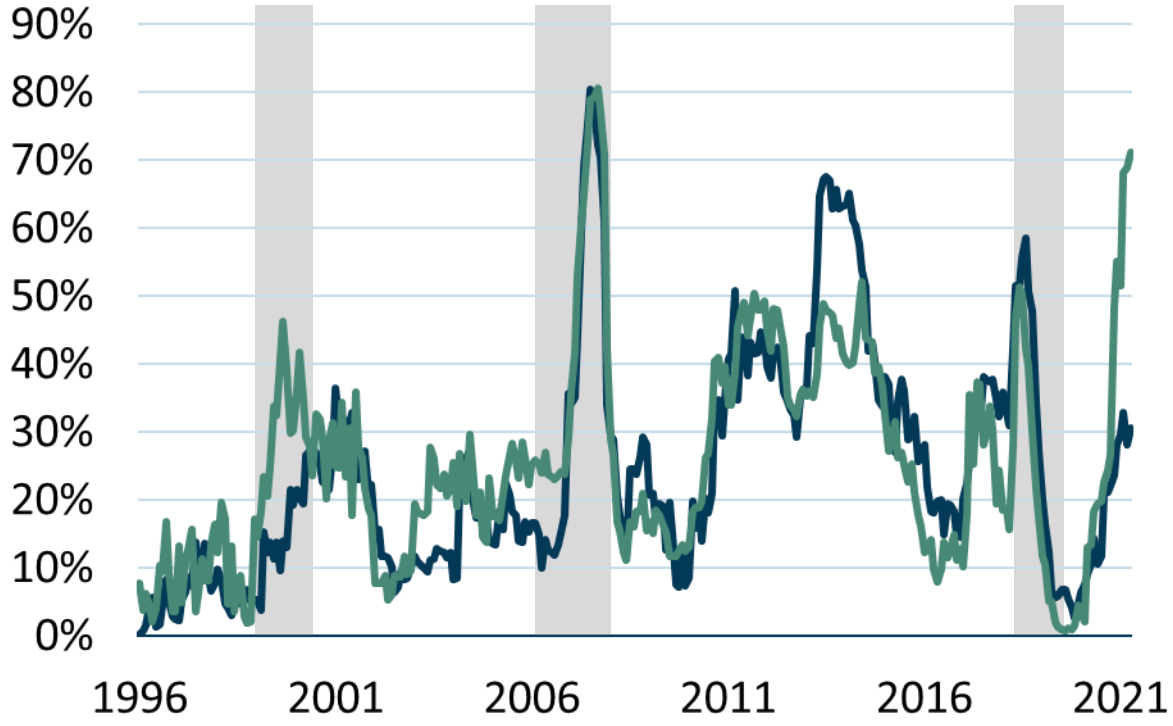
Value and Growth Traps Rise in Recession



- Traps are more common in recessions, but hit Value and Growth similarly
- And Growth Traps have worse performance (except during COVID)

Data from 1996-2023 | Source: NBER, GMO, IBES, Compustat, Worldscope
Traps are stocks that disappoint on revenues in a year and see following year's revenue growth forecast drop. Value and Growth are cheap and expensive 50% of Top 1,000 U.S. stocks on GMO Composite Value metric.

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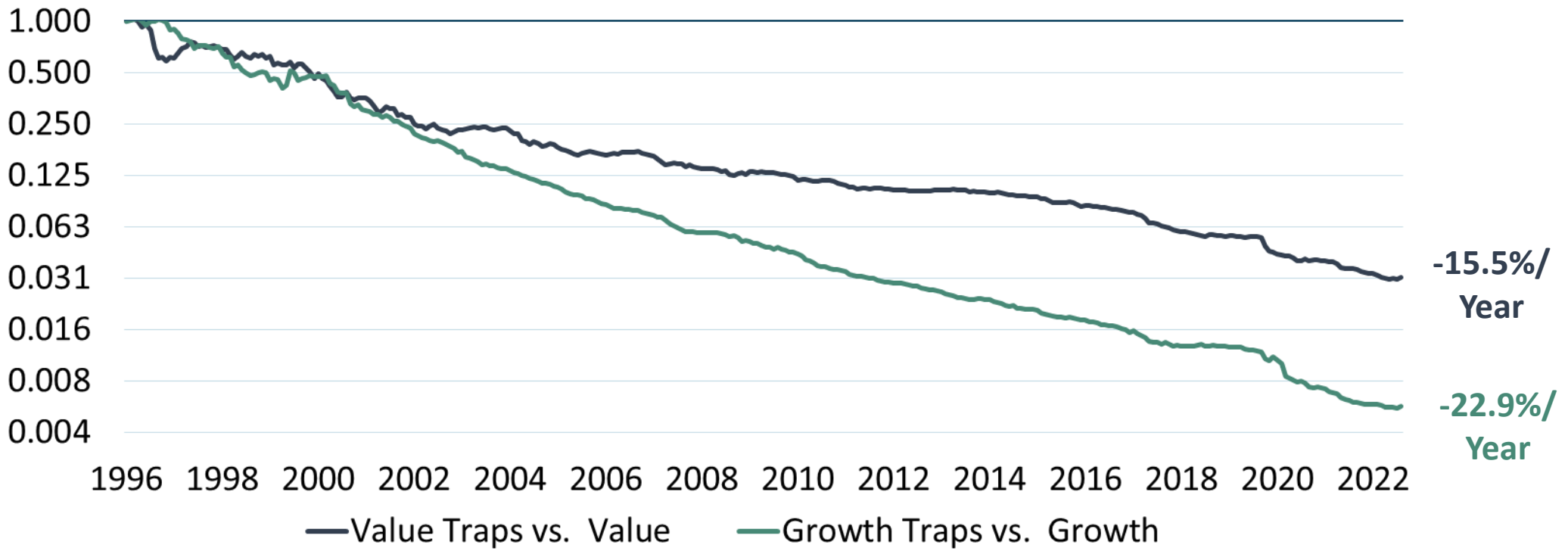
Value Trap and Growth Trap Returns



Data from 1996-2023 | Source: GMO,IBES, Compustat, Worldscope
Traps are stocks that disappoint on revenues in a year and see following year's revenue growth forecast drop. Value and Growth are cheap and expensive 50% of Top 1,000 U.S. stocks on GMO Composite Value metric.

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What About the Fundamentals?

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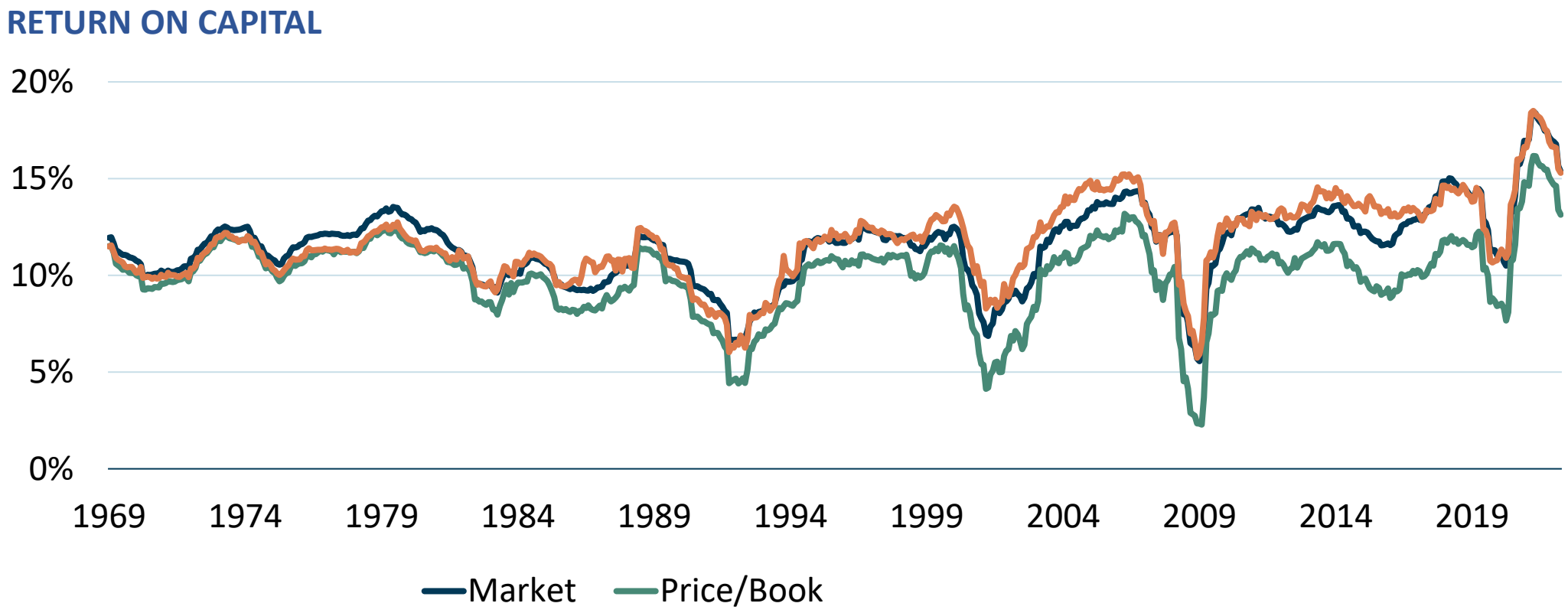
Deep Value Stocks Aren't That Cyclical



Data from 1969-2023 Source: GMO, Compustat, Worldscope

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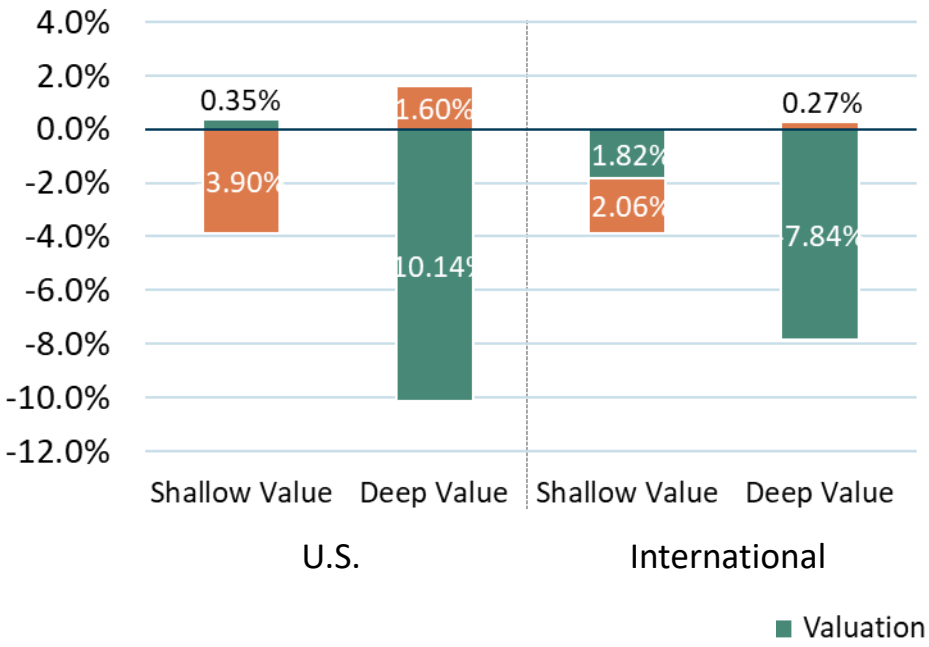
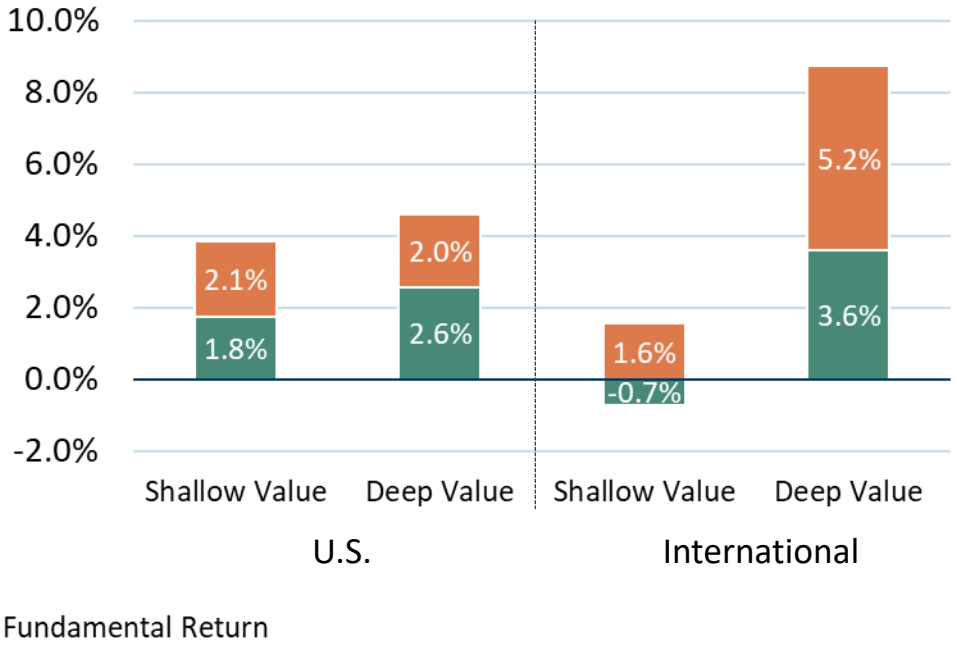
Deep Value:
Returns Across Different Environments

Performance relative to the market

VALUE UNDERPERFORMS (JANUARY 2017 – JULY 2020)



VALUE OUTPERFORMS (AUGUST 2020 – APRIL 2023)



Source: GMO, MSCI, Compustat, and Worldscope

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Appendix

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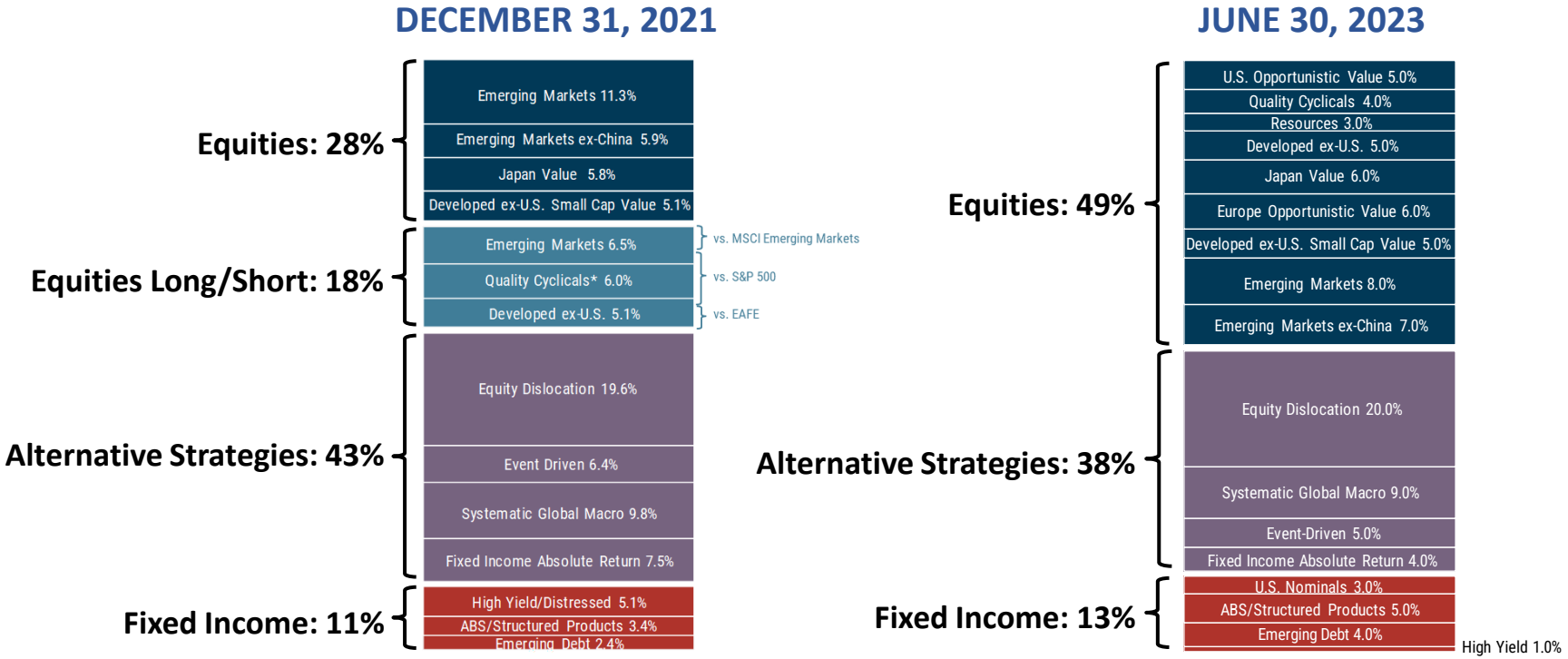
How GMO Asset Allocation Is Investing



Source: GMO
*Formerly Cyclical Focus Strategy
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. Weightings are as of the date indicated and are subject to change. The groups indicated above represent exposures determined pursuant to proprietary methodologies and are subject to change over time. Totals may vary due to rounding.
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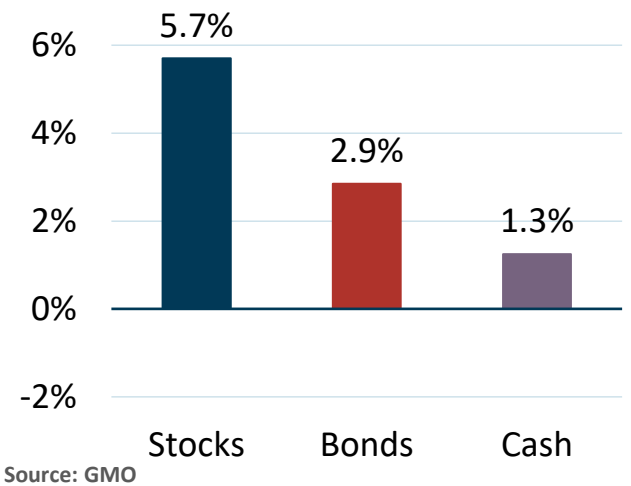
Forecasts Vary Across Plausible Rate Environments

Equilibrium real return assumptions across various rate scenarios

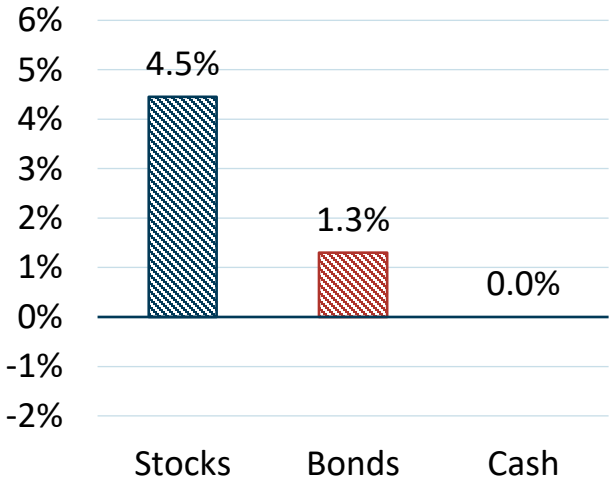
"Normal" (Mean Reversion)

- Mean reversion to fair value in line with historical norms
- Our original forecasts



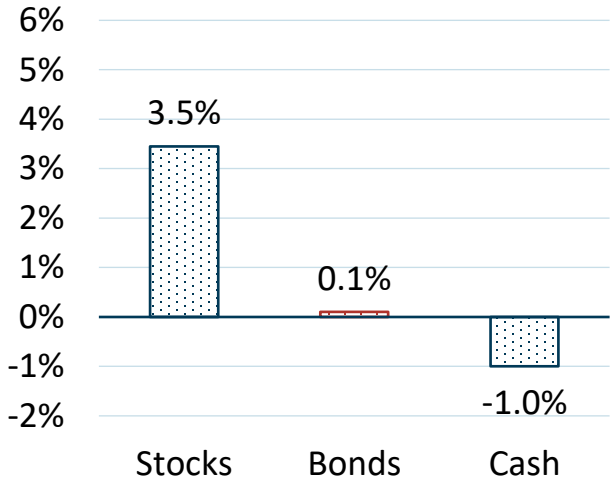
"Low" (Partial Mean Reversion)

- Lower equilibrium returns from stocks, bonds and cash
- Less inflation risk leads to lower term premium
- Less repricing required



"Ultra-Low"

- Negative equilibrium real cash rates a possibility
- Less inflation risk leads to lower term premium
- All equilibrium returns even lower



Source: GMO

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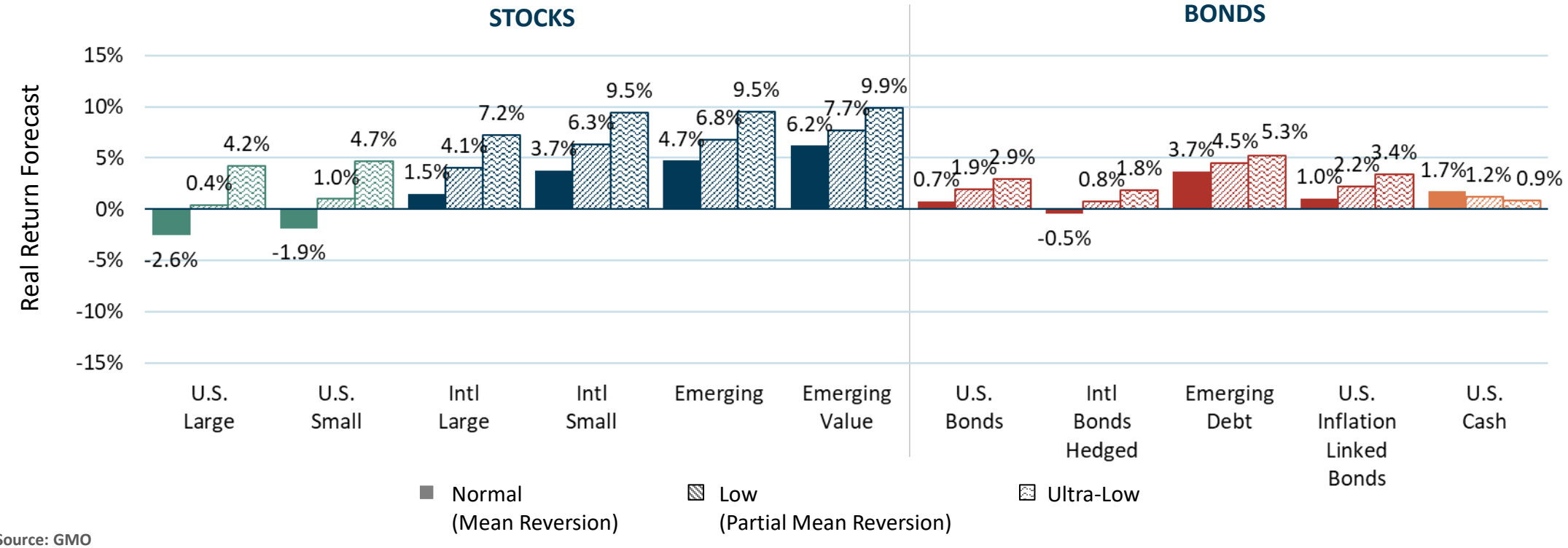
7-Year Asset Class Real Return Forecasts*

As of June 30, 2023



Source: GMO

*The chart represents real return forecasts for several asset classes and not for any GMO fund or strategy. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in forward-looking statements.

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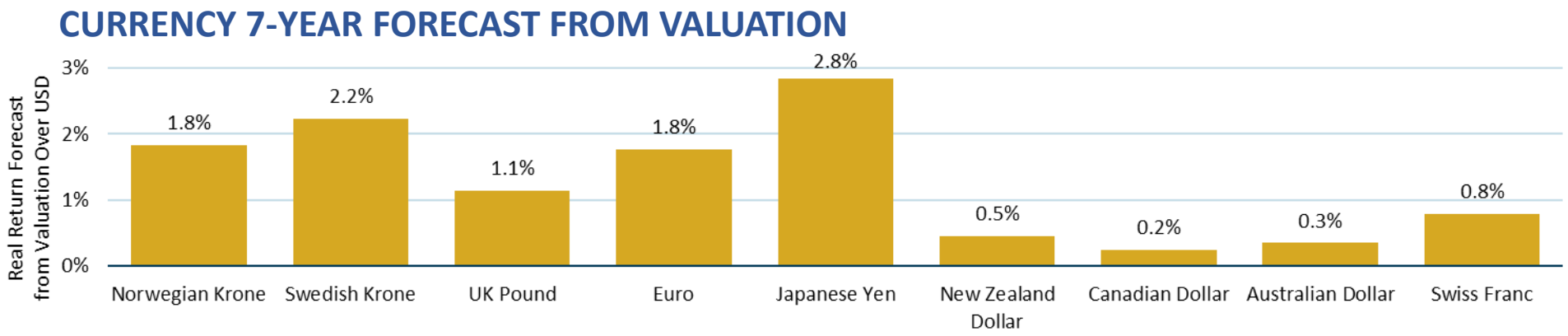
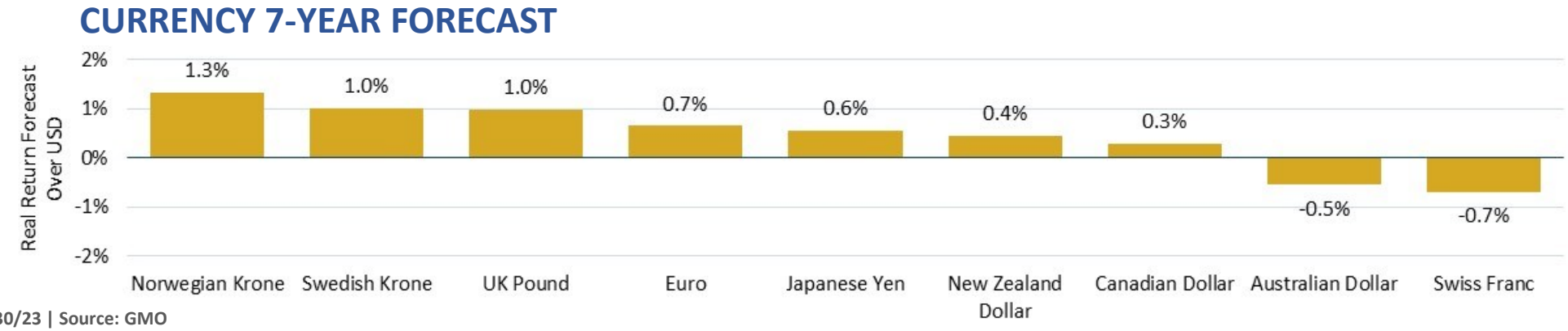
Currency Forecasts





As of 6/30/23 | Source: GMO

The chart represents currency forecasts for several currencies and not for any GMO fund or strategy. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in forward-looking statements.

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U.S. Value: Assessing Valuation

Attractiveness evaluated across three GMO Value models

GMO VALUE MODELS	Pfizer	Qualcomm	Bank of America	verizon	Walmart	The Home Depot	Disney	NextEra Energy
Price-to-Fair Value	✓	✓	✓	✓	X	X	–	X
Quality-Boosted Value	✓	✓	✓	✓	–	–	X	X
Composite Value	✓	✓	✓	✓	–	–	X	X

As of 6/30/23 | Source: GMO

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International Value: Assessing Valuation

Attractiveness evaluated across three GMO Value models

GMO VALUE MODELS	TotalEnergies	Mercedes-Benz	BBVA	Roche	bp	SIEMENS	SAP	nationalgrid
Price-to-Fair Value	✓	✓	✓	✓	✓	–	X	X
Quality-Boosted Value	✓	✓	✓	✓	X	–	–	X
Composite Value	✓	✓	✓	–	–	X	X	X

As of 6/30/23 | Source: GMO

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