GLOBAL REAL RETURN (UCITS) FUND

Year Ending December 31, 2020

OVERVIEW

The GMO Global Real Return (UCITS) Fund seeks to achieve a return in excess of the OECD G7 Consumer Price Index through investment globally in equities, debt, money market instruments, currencies, instruments relating to commodities indices, REITs and related derivatives.

PERFORMANCE (%)

Net of Fees, USD	-1.23
Gross of Fees, Unswung, USD	-0.33
OECD CPI G7[1]	+0.70
Value Added	**-1.04**

Major Performance Drivers

The Covid-19 pandemic rocked markets in the first quarter, with the MSCI ACWI Index down -21.4%. Unprecedented global monetary and fiscal stimulus triggered an incredible recovery, which was further spurred on by positive vaccine developments in November. Despite the ongoing public health and economic uncertainties, the MSCI ACWI posted a, somewhat remarkable in the circumstances, 16.3% return for 2020. Post the initial recovery, we wrote broad market shorts against circa 30% of the portfolio part way through the year as we did not believe that prices were adequately reflecting the heightened level of risk. As markets continued to roar higher through the second half of the year, this decision proved costly from a performance perspective. The other major headwind to performance was our valuation-driven approach to investing. For 2020, the difference between a value and growth approach was truly astounding, as the MSCI ACWI Growth Index returned a whopping 33.6% while the MSCI ACWI Value Index was actually negative, at -0.3%.

- The equity portfolio returned 1.1% for the year, behind the MSCI ACWI return of 16.3%. The sole long-only equity position maintained throughout the year was in Emerging Markets Value. Although emerging markets did absolutely fine, with the MSCI Emerging Markets Index posting an impressive 18.3%, a value bias was hugely detrimental as the MSCI Emerging Markets Value Index trailed considerably with a relatively paltry 5.5% return.
- Alternative strategies returned 1.4% for the year, a disappointing return when compared to the strong returns of equity markets. Special Opportunities and Systematic Global Macro were the biggest contributors, while the U.S. Small Value vs. S&P 500 position was a large detractor. Our equity long/short positions, which were instituted midway through the year, had a pleasing, at least in an absolute sense, 3.8% return but this would have been significantly greater if we had not put the short positions in place.
- The fixed income strategies returned 13.9% for the year, well ahead of the Bloomberg Barclays U.S. Aggregate Index return of 7.5%. Our positions in High Yield/Distressed were the top contributor, and security selection in Emerging Country Debt was also strong. Asset-Backed Securities generated a solid positive return, as did TIPS for the period they were held in the portfolio at the start of the year.
- The allocation to Cash/Cash Plus had a minimal impact on the portfolio for the year.

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[1] The OECD (Organization for Economic Cooperation and Development) CPI (Consumer Price Index) G7 is published monthly by the OECD for the G7 countries of Canada, France, Germany, Italy, Japan, the U.K. and the U.S. The index is compiled by aggregating the national consumer price indices in each period, using estimates of household private final consumption expenditure ("HFCE") as weights. The HFCE for each country is converted into a common currency (U.S. Dollars) using purchasing power parities ("PPPs") which are rates of currency conversion that eliminate the differences in price levels between countries. The PPP used in the zone estimates relate specifically to HFCE and are not the same as the PPP for gross domestic product, which are more commonly available. The benchmark return is published on a one month lag. Until this data is available all benchmark return calculations assume a 0% estimate for the missing month.

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