

U.S. SMALL CAP VALUE FUND

Year Ending December 31, 2020

OVERVIEW

The GMO U.S. Small Cap Value Equity Fund seeks to generate total return in excess of its benchmark, the Russell 2000 Value Index, by investing primarily in equities of U.S. companies that are included in the Russell 2000 Index or whose market capitalization at the time of investment is less than that of the 1000 largest publicly held companies.

PERFORMANCE (%)

Net of Fees, Class VI, USD	+2.39
Gross of Fees, Class VI, USD	+2.82
S&P 600 Value ¹	+2.53
Value Added	+0.28

Major Performance Drivers

The COVID-19 pandemic has been the driving force in financial markets, with extreme fear in March shifting slowly to relief that things were not worse and then to a degree of positivity around encouraging vaccine news in November. Amid the COVID-19 storm, it has been one of the worst years on record for value investing. We have learned the hard way over the years that value investing has a habit of underperforming for longer than is palatable for anyone but the ardent believer. For that reason, we have always sought to diversify the value signal with other techniques, many of which have their best moments when value is struggling. Non-value parts of the process performed admirably in 2020 and were the primary reason for portfolio performance not suffering as badly as the popular value indices.

Detractors from relative performance in 2020:

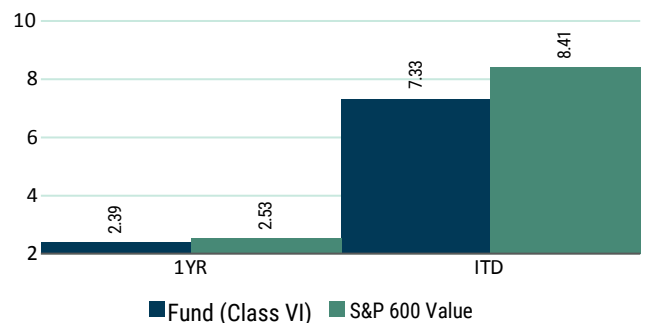
- Health Care was the worst performing sector, detracting from a mix of an underweight allocation and stock selection. Underweight positioning toward biotechnology name Momenta Pharmaceuticals was among the largest detractors; the stock more than doubled in the year as it was acquired by a subsidiary of Johnson & Johnson.
- Industrials was the biggest stock selection challenge, with attractively valued CoreCivic among the top detractors for the year. Other areas which detracted included Commercial Services & Supplies and Air Freight & Logistics.

Positive contributors to benchmark-relative performance in 2020:

- Sector allocation decisions helped to offset stock selection headwinds. Gains from sector allocation included value added from overweight positioning in Information Technology and Consumer Discretionary, as well as underweight positioning toward Utilities, Real Estate, Financials, and Energy.
- Financials also added value from stock selection. Top contributors included overweight positioning toward PennyMac Financial Services and Legg Mason. Underweight positioning toward Mortgage Real Estate Investment Trusts (REITs) also contributed.

Performance data quoted represents past performance and is not indicative of future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance data may be lower or higher than the performance data provided herein. To obtain performance information to the most recent month-end, visit www.gmo.com. Gross Expense Ratio of 0.44% is equal to the Funds Total Annual Operating Expenses set forth in the Funds most recent prospectus dated June 30, 2020.

ANNUALIZED RETURN (%) AS OF 12/31/2020



Inception date: 07/02/2019

Includes purchase premiums and redemption fees impact if applicable.

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Looking forward, we start 2021 with a good deal of optimism, not just because we feel the case for value now is as compelling as it has been for decades, but also because we continue to be excited about the work we are undertaking behind the scenes to further evolve our investment process. Given that GMO believes that value as a style is just about as well placed as it ever gets, we chose to prioritize a couple of important value-oriented projects on the research agenda in 2020. Two new models launched in the fourth quarter included a sector model and a Price to Fair Value (PFV) model, a value model that seeks to produce a fair value estimate of a stock's net worth. We feel these are both permanent return-enhancing additions to the investment process and potentially strong tactical contributors given the current case for value.

Year-ending weights, as a percent of equity, for the positions mentioned were: Momenta Pharmaceuticals (0.0%), Johnson & Johnson (0.0%), CoreCivic (0.7%), PennyMac Financial Services (0.4%), and Leg Mason (0.0%).

As of April 1, 2020, the U.S. Small Cap Value Fund changed its benchmark so that the Fund now seeks to generate total return in excess of that of the S&P SmallCap 600 Value Index. The Fund formerly sought to outperform the Russell 2000 Value Index.

An investor should consider the fund's investment objectives, risks, charges and expenses before investing. This and other important information can be found in the fund's prospectus. To obtain a prospectus please visit www.gmo.com. Read the prospectus carefully before investing.

Risks Associated with investing in the Fund may include, Market Risk-Equities, Management and Operational Risk, Small Company Risk, Focused Investment Risk and Illiquidity Risk. For a more complete discussion of these risks and others, please consult the Fund's prospectus. The GMO Trust funds are distributed in the United States by Funds Distributor LLC. GMO and Funds Distributor LLC are not affiliated.

¹ The S&P 600 Value Index is an independently maintained and widely published index comprised of value stocks within the S&P SmallCap 600 index. The S&P SmallCap 600 seeks to measure the small-cap segment of the U.S. equity market. Value stocks are measured using three factors: the ratios of book value, earnings, and sales to price. 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.