

USONIAN JAPAN VALUE FUND

Year Ending December 31, 2020

OVERVIEW

Usonian Japan Value Fund seeks long term capital appreciation over a full market cycle and measures its performance against the TOPIX Total Return Index. The Fund employs a fundamental, value-oriented approach to invest in Japanese equities with a focus on protecting capital in down markets and achieving lower total volatility compared to the index.

PERFORMANCE (%)

Net of Fees, GBP	-1.11
Gross of Fees, GBP	-0.50
Tokyo Stock Price Index (TR, GBP) ¹	+8.83
Value Added	-9.33

Major Performance Drivers

Japanese equities posted respectable gains in 2020, but the path was anything but steady. Declining acutely from mid-February to mid-March, Japanese equities fell 27% out of concern that the pandemic would spark a financial crisis. The Bank of Japan responded like other central banks with massive amounts of monetary expansion measures, which led to an aggressive market rebound of 49% from the March 16 nadir to close out 2020 near historical post-bubble highs. Japan's rally during the second half of the year was driven by optimism for a Covid-19 vaccine, expectations of a cyclical recovery, and enthusiasm surrounding reforms under Japan's new Prime Minister Yoshihide Suga's administration.

Dispersion in underlying style and size returns was dramatic. Even in the context of a decade-long value headwind, 2020 was extraordinarily polarized as growth dramatically outperformed value. Growth returned 22.4% in 2020 versus value's -4.3%. Market performance was driven by a few sectors that were mostly Covid-19 benefactors (technology, e-commerce, health care), while most sectors trailed TOPIX.

Small cap equities underperformed large cap during the year (1.1% MSCI Japan Small versus 10.5% MSCI Japan Large), particularly acutely in 4Q (5.7% MSCI Japan Small versus 13.6% MSCI Japan Large) despite the spectacular performance of young tech-oriented Japanese companies and recent IPOs. While small cap generally underperformed the broad market, the tech/IPO-oriented MOTHERS index rallied 46% in 2020 and materially outperformed the broad market leading some market pundits to call current bubble qualities of the MOTHERS index.

Unfortunately, all these factors cut against Usonian's value and SMID cap nature. Usonian trailed TOPIX in 2020 by 9.8%, net of fees, though we did outperform MSCI Japan Value and MSCI Japan SMID Value by 3.6% and 3.9%, respectively. Looking forward, we are excited by our portfolio and by ongoing market dynamics in Japan. We believe that downside is very limited while tailwinds are supportive of meaningful value realization.

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 investors 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.

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¹ TOPIX (Net of dividend withholding tax) is a free-float adjusted market capitalization-weighted index that is calculated based on all the domestic common stocks listed on the TSE First Section. TOPIX shows the measure of current market capitalization assuming that market capitalization as of the base date (January 4, 1968) is 100 points.