GLOBAL EQUITY ALLOCATION INVESTMENT

Year Ending December 31, 2020

OVERVIEW

The GMO Global Equity Allocation Investment Fund seeks total return by investing in global equities and equity-related securities. The Fund does not seek to allocate its investments in line with or seek to control risk relative to the MSCI All Country World Index or any other securities market index or benchmark.

PERFORMANCE (%)

Net of Fees, GBP	+3.98
Gross of Fees, Unswung, GBP	+4.81
MSCI ACWI [1]	+12.67
Value Added	**-7.86**

Major Performance Drivers

The Covid-19 pandemic rocked markets in the first quarter, with the MSCI ACWI Index down -16.0% for a GBP investor. 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, 12.7% return for 2020. It was a major headwind to performance to have a 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 29.5% while the MSCI Value Index was actually negative, at -3.4%. There was also a sizeable disparity in returns across developed markets as the S&P 500 returned an impressive 14.7% in GBP terms while MSCI World ex-U.S. languished far behind with a 4.3% return.

- Emerging equities, with an emphasis on undervalued stocks, represented an average position of 27% of the portfolio and returned -2.8%. Although emerging markets did absolutely fine, with the MSCI Emerging Markets Index posting an impressive 14.7%, a value bias was hugely detrimental as the MSCI Emerging Markets Value Index trailed considerably with a relatively paltry 2.2% return.
- U.S. equities accounted for 29% of the total portfolio on average through the year, made up of Quality and broad U.S. equity. This leaves the portfolio almost 30% underweight U.S. equities in total, and this subtracted from relative performance as the MSCI USA Index returned 17.0%, beating MSCI ACWI. Security selection in the U.S. was also detrimental. Despite a solid return from Quality, the value bias in the broad U.S. portfolio was a challenging headwind as value lagged the broad market by more than 17% in the U.S. (as measured by the Russell 3000 indices).
- Developed ex-U.S. equities had an average weight of 43% in the portfolio, and this sizeable overweight compared to the benchmark detracted from relative returns as the MSCI World ex-U.S. Index delivered a modest 4.3% return. Stock selection within Developed ex-U.S. was ahead of the broad market benchmark, which was a great result given our valuation approach as the MSCI World ex-U.S. Value Index posted an ugly -6.2%. Stock selection benefitted from good contributions in Australia, France, Spain, the UK, and Italy.

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] The MSCI ACWI (All Country World) Index (MSCI Standard Index Series, net of withholding tax) is an independently maintained and widely published index comprised of global developed and emerging markets. 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.