

U.S. SMALL CAP VALUE STRATEGY

Quarterly Investment Review

PRODUCT OVERVIEW

The GMO U.S. Small Cap Value Strategy seeks to generate total return in excess of its benchmark, the S&P Small Cap 600 Value Index, by investing primarily in equities of U.S. companies that are included in the S&P 600 Index or whose market capitalization at the time of investment is less than that of companies in the bottom decile of market capitalization of the MSCI U.S. IMI Index.

The Strategy's investment approach is grounded in the Systematic Equity team's belief that, in the short term, equity markets exhibit exploitable inefficiencies as a result of irrational investor actions, the imperfect flow of information, and the participation of non-economic actors, while in the long-term returns are ultimately driven by economic reality. The Strategy aims to take advantage of these inefficiencies by utilizing a multi-factor valuation model in conjunction with other methods, such as momentum and corporate alerts, to identify undervalued equity securities.

MAJOR PERFORMANCE DRIVERS

Global equity markets continued to deliver positive absolute returns across regions amid enthusiasm for AI infrastructure and strong outperformance from the Information Technology sector. This market strength persisted despite ongoing disruptions in the trade of energy, commodities, and other critical products from the Middle East. In this environment, the Energy sector underperformed after having rallied in March amid the Iran conflict.

The S&P SmallCap 600 Index outperformed larger-cap U.S. names again in the second quarter, but small value underperformed small growth. In this environment, the portfolio outperformed. While the outperformance of stocks we determined to be expensive was a headwind, momentum models performed well, and companies identified as potential value traps underperformed.

Highlights for the quarter included a mix of sector allocation and stock selection decisions in Financials, Energy, and Materials. Within Financials, Consumer Finance stock selection was a highlight, including overweight positioning in top contributor Enova International. While the portfolio's average weight in Energy was in line with the benchmark in the second quarter, the portfolio had moved to underweight in June ahead of sector underperformance, which complemented strong stock selection. Not holding Celanese Corporation on a mix of poor Momentum and negative Alerts also contributed to outperformance in the Materials sector.

In contrast, the largest challenges came from stock selection in Information Technology and Consumer Staples. Within Information Technology, semiconductor stock selection was the biggest detractor, including holding attractively valued Photronics instead of the expensive MaxLinear, which had strong Momentum scores.

Portfolio weights, as a percent of equity, for the positions mentioned were: Photronics (1.9%) and MaxLinear (0.0%)

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ANNUALIZED RETURNS (USD, %) (QUARTER-END)

	Quarter-End	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
U.S. Small Cap Value Strategy (net)	16.92	20.49	41.80	20.28	11.55	-	13.59
U.S. Small Cap Value Strategy (gross)	17.05	20.76	42.45	20.83	12.06	-	14.12
S&P 600 Value +	15.93	20.93	39.72	14.92	7.30	-	11.38
Value Add	+0.99	-0.45	+2.08	+5.36	+4.24	-	+2.21

RISKS

Risks associated with investing in the Strategy may include: (1) Market Risk - Equities: the market price of equities may decline due to factors affecting the issuer, its industries, or the economy and equity markets generally. Declines in stock market prices generally are likely to reduce the net asset value of the Fund's shares; (2) Management and Operational Risk: the risk that GMO's investment techniques will fail to produce desired results, including annualized returns and annualized volatility; and (3) Smaller Company Risk: smaller companies may have limited product lines, markets, or financial resources, lack the competitive strength of larger companies, have less experienced managers or depend on a few key employees. The securities of companies with smaller market capitalizations often are less widely held and trade less frequently and in lesser quantities, and their market prices often fluctuate more, than the securities of companies with larger market capitalizations. This is not a complete list of risks associated with investing in the Strategy. Please contact GMO for more information.

Composite Inception Date: 31-Jul-19

Performance Returns: Performance for the year of inception is less than a full calendar year. Returns shown for periods greater than one year are on an annualized basis. To obtain performance information to the most recent month-end, visit www.gmo.com. **Performance data quoted represents past performance and is not indicative of future results.** Net returns are presented after the deduction of a model advisory fee and incentive fee if applicable. These returns include transaction costs, commissions and withholding taxes on foreign income and capital gains and include the reinvestment of dividends and other income, as applicable. Fees paid by accounts within the composite may be higher or lower than the model fees used. Gross returns are presented gross of management fees and any incentive fees if applicable. These returns include transaction costs, commissions, withholding taxes on foreign income and capital gains and include the reinvestment of dividends and other income, as applicable. If management and incentive fees were deducted performance would be lower. For example, if, before fees, the strategy were to achieve a 10% annual rate of return above its hurdle rate each year for ten years, and an annual advisory fee of 1% and incentive fee of 20% of net returns above the hurdle rate were charged during that period, the resulting average annual net return (after the deduction of management and incentive fees) would be approximately 7.20%. **GMO LLC claims compliance with the Global Investment Performance Standards (GIPS®).** A Global Investment Performance Standards (GIPS®) Composite Report is available at www.gmo.com by clicking the GIPS® Composite Report link in the documents section of the strategy page. GIPS® is a registered trademark owned by CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Actual fees are disclosed in Part 2 of GMO's Form ADV and are also available in each strategy's Composite Report.

IMPORTANT INFORMATION

Benchmark(s): The S&P 600 Value+ Index is an internally maintained benchmark computed by GMO, comprised of (i) Russell 2000 Value through 3/31/2020, and (ii) S&P SmallCap 600 Value thereafter. The index is internally blended by GMO. 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. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group.

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.

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ABOUT GMO

Founded in 1977, GMO is a global asset manager committed to delivering superior performance and advice to our clients. We are privately owned, which allows us to singularly focus on our sole business – achieving outstanding long-term client investment outcomes. Offering multi-asset, equity, fixed income, and alternative strategies, we invest with a long-term, valuation-based philosophical approach.

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*GMO's West Coast Hub is comprised of members of Investment, Global Client Relations, and other teams located in and around the Greater San Francisco area

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