

BENCHMARK-FREE ALLOCATION FUND

Year Ending December 31, 2020

OVERVIEW

The GMO Benchmark-Free Allocation Fund seeks to generate positive total return by investing the Fund's assets in asset classes GMO believes offer the most attractive return and risk opportunities. GMO uses its multi-year forecasts of returns among asset classes, together with its assessment of the relative risks of such asset classes, to determine the asset classes in which the Fund invests.

PERFORMANCE (%)

Net of Fees, Class III, Fair Value, USD	-2.49
Gross of Fees, Class III, Local Close, USD	-1.71
CPI Index ¹	+1.27
Value Added	-2.98

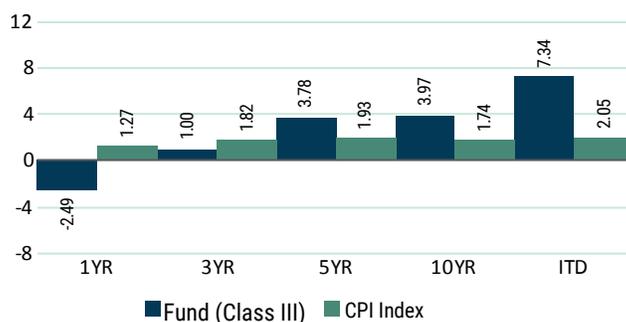
Major Performance Drivers

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 Index 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 0.7% 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 1.9% 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, 4.1% return but this would have been significantly greater if we had not put the short positions in place.
- The fixed income strategies returned 13.1% 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 (Treasury Inflation-Protected Securities) 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.

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 1.03% 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: 07/23/2003

Includes purchase premiums and redemption fees impact if applicable.

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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 Management and Operational Risk, Market Risk-Equities, Non-U.S. Investment Risk, Market Risk-Fixed Income and Derivatives and Short Sales 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 CPI (Consumer Price Index) for All Urban Consumers US All Items is published monthly by the U.S. government as an indicator of changes in price levels (or inflation) paid by urban consumers for a representative basket of goods and services. CPI Index returns are updated on the 15th of the month and may or may not be current.