

# U.S. EQUITY FUND

*Year Ending December 31, 2020*

## OVERVIEW

The GMO U.S. Equity Fund seeks to deliver high total return by investing in a portfolio of U.S. equities.

## PERFORMANCE (%)

Net of Fees, Class III, USD	+13.69
Gross of Fees, Class III, USD	+14.22
S&P Composite 1500	+17.92
<b>Value Added</b>	<b>-3.70</b>

## 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:

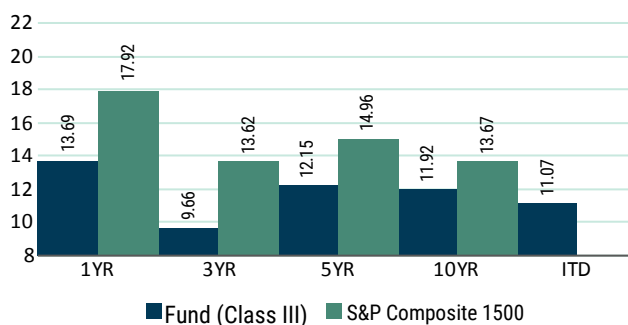
- Stock selection in Information Technology was the biggest challenge. Top detractors included underweight positioning toward Apple, Microsoft and NVIDIA, all of which were deemed to be expensive even when considering their attractive growth prospects. Overweight names, such as Intel with its attractive mix of valuation and growth, also detracted.
- Not owning expensive large cap growth names in other sectors also detracted, including underweight positioning toward Amazon (Consumer Discretionary) and Facebook (Communication Services).
- Health Care stock selection also detracted from overweight positioning in a mix of attractively valued Health Care Equipment, Biotechnology, and Pharmaceutical names.

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 underweight positioning toward Energy, Real Estate, Financials, and Utilities.
- Financials also added value from stock selection, including underweight positioning toward Wells Fargo and J.P. Morgan Chase.

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](http://www.gmo.com). Gross Expense Ratio of 0.49% 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: 09/18/1985  
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: Apple (4.5%), Microsoft (3.2%), NVIDIA (0.0%), Intel (2.4%), Amazon (2.1%), Facebook (0.0%), Wells Fargo (0.0%), and J.P. Morgan Chase (1.5%).

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As of April 1, 2020, the U.S. Equity Fund changed its benchmark so that the Fund now seeks to generate high total return in excess of that of the S&P 1500 Index. The Fund formerly sought to outperform the Russell 3000 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](http://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, Focused Investment Risk, Illiquidity Risk, and Derivative and Short Sale 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.