International Equity Fund

Year Ending December 31, 2018

OVERVIEW:

The GMO International Equity Fund seeks to deliver high total return by investing in equities or groups of equities that the GMO Global Equity team believes will provide higher returns than the MSCI EAFE Index.

Performance (%)	
Net of Fees, Class III, Fair Value, USD	-20.55
Gross of Fees, Class III, Local Close, USD	-20.31
MSCI EAFE [1]	-13.79
Value Added	**-6.52**

SECTOR ALLOCATION: -0.1%

SECURITY SELECTION: -6.4%

Major Performance Drivers

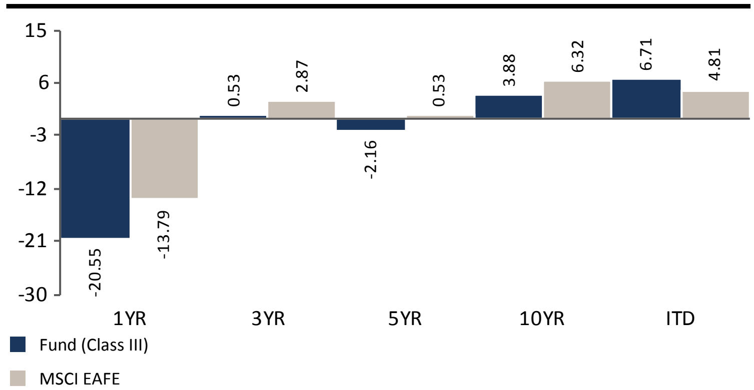
A consistent theme in 2018 was significant underperformance from stocks that were favored by our Intrinsic Value model. In particular, stocks that were relatively cheap and went into 2018 exhibiting strong growth characteristics (both in terms of improving profitability and momentum sentiment–based measures) fared poorly. This includes European autos and airline names as well as Japanese materials companies, many of which had contributed positively to our portfolio's outperformance in 2017. Further, much of this underperformance has been coincident with rising trade tensions between the US and its main trading partners and with uncertainty around Brexit becoming acute. In the fourth quarter, value did see a rebound; however, both momentum-oriented and fundamental growth models did quite badly over the same period, leading to continued challenges for our Intrinsic Value approach.

Major thematic contributors to performance in 2018:

- Japan accounted for approximately one third of the underperformance in 2018. Of particular note in the year has been the underperformance of Valuation, Growth, and Cross-Asset models in Japan. Detractors included Japanese Materials and Information Technology, despite a rebound in valuation-oriented Japanese positions in the third quarter.
- Within Materials, the global chemical industry was a particular stock selection challenge. We favored chemical companies that had good growth prospects while remaining decently cheap such as Mitsubishi Chemical (Japan), Tosoh (Japan), and Covestro (Germany), and avoided names like Air Liquide (France) which were viewed as expensive, yet outperformed the market.
- Information Technology was also a headwind outside Japan, including holdings in the global semiconductor industry. For example, STMicroelectronics, a position that was motivated by a mix of growth and valuation-oriented signals, was among the top stock detractors as the semiconductor industry faced concerns about near-term oversupply and potential trade

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. Gross Expense Ratio of 0.69% is equal to the Funds Total Annual Operating Expenses set forth in the Funds most recent prospectus dated June 30, 2018.

Annualized Return (%) as of December 31, 2018



Inception date: 03/31/1987
Chart returns include purchase premiums and redemption fees impact if applicable.

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tariffs.

- Consumer Discretionary was a drag on performance from overweight positions in European automotive stocks (as US tariff rhetoric escalated) and UK homebuilders (falling on Brexit uncertainty). Intrinsic Value-motivated names that impacted full-year performance included German automaker Daimler and UK homebuilder Persimmon. Threatened tariffs also affected names in other sectors – for example, pork producer WH Group detracted from Consumer Staples for the year, despite a rebound in relative performance in the fourth quarter.
- Several themes affected the Industrial sector, including exposure to airlines with attractive valuation and growth prospects early in the year as oil prices rose, and exposure to machinery companies with attractive Intrinsic Value later in the year as trade tensions increased. For example, Deutsche Lufthansa (Germany) was among the top detractors in 2018, despite a modest rebound in relative performance in the second half of the year.
- Health Care was the top performing sector in 2018, including overweight positions in top performing UK stocks GlaxoSmithKline and AstraZeneca and an underweight position in Bayer. The Bayer underweight was motivated by a poor outlook for growth, as well as by Cross-Asset and Corporate Alert models.

Outlook

Despite recent stock selection challenges, we continue to believe in the long-term outperformance potential of our approach to valuation in combination with signals from other asset classes and models to identify problematic corporate behavior with corporate alerts. We have confidence that we will add value longer term by continuing to focus on paying the right price for company fundamentals. On a positive note, within our valuation framework, the Hidden Capital components, which explicitly incorporate intangible assets into our assessment of profitability, quality and growth, have outperformed more traditional value metrics such as book-to-market and earnings yield.

We are also encouraged by the current relative attractiveness of value within the broader investable universe, as measured by the GMO Asset Allocation team's forecasts. A pre-condition for value to have gotten more attractive on our top-down forecasts over the last year is that the prices have fallen further than can be justified by the underlying fundamentals. This is consistent with the fundamentals being solid and investors overreacting to the uncertainty introduced by Brexit and US trade policy. As ever, timing is difficult – but we believe we are in the right stocks for the right reasons.

Year-ending weights, as a percent of equity, for the positions mentioned were: Mitsubishi Chemical (2.1%), Tosoh (0.2%), Covestro (0.4%), Air Liquide (0.0%), STMicroelectronics (1.6%), Daimler (1.4%), Persimmon (1.5%), WH Group (1.1%), Deutsche Lufthansa (1.4%), GlaxoSmithKline (3.1%), AstraZeneca (1.7%), and Bayer (0.1%).

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 Market Risk - Equities, Management and Operational Risk, Non-U.S. Investment Risk, Liquidity Risk, and Derivatives Risk. For a more complete discussion of these risks and others, please consult the Fund's prospectus. Distributor: Funds Distributor LLC. GMO and Funds Distributor LLC are not affiliated.

[1] The MSCI EAFE (Europe, Australasia, and Far East) Index (MSCI Standard Index Series, net of withholding tax) is an independently maintained and widely published index comprised of international large and mid capitalization stocks. 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.

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