

QUARTERLY INVESTMENT REVIEW

Usonian Japan Value Creation Fund

Performance returns (USD)

ANNUALIZED RETURNS (QUARTER-END)	Quarter-End	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Usonian Japan Value Creation Fund (net)	7.24	7.24	22.57	2.60	–	–	8.65
Usonian Japan Value Creation Fund (gross)	7.39	7.39	23.27	3.18	–	–	9.27
Tokyo Stock Price Index (TR)	9.18	9.18	23.07	3.04	–	–	6.69
Value Add	-1.94	-1.94	-0.50	-0.44	–	–	+1.96

Major Performance Drivers

Japanese equities sprang out of the gates in the first quarter. The environment for Japanese equities was supportive as the yen weakened, large companies boosted wages more than expected, and the Bank of Japan (BOJ) showed its confidence in budding inflation by ending the era of ultra loose monetary policy. On the corporate front, the unwinding of cross-shareholdings picked up steam and regulators are actively discussing further actions to increase transparency and boost the effectiveness of investor engagement. We remain excited about the prospects for Japanese equities given the continuing pressure to reform; improvements in market dynamics resulting from those reforms; and mounting evidence that the Japanese economy is escaping deflation. The gathering momentum for Japanese equities has resulted in a rapid influx of passive capital, awarding strong gains to the largest index constituents. While this has been a relative headwind to our portfolio, which skews small cap, we believe it is a matter of time before investors widen their perspective and capital finds the many attractive smaller companies that have been left behind.

Both macro and corporate factors were at work as Rengo[1] announced the initial tally of wage increases at 5.3%, the yen weakened from 141/USD to 151/USD over the period, and the BOJ tightened monetary policy for the first time since 2007, albeit nominally. On the corporate front, we saw the unwind of strategic shareholdings continue to accelerate, led by Toyota Group and the property and casualty insurers.

While the portfolio delivered strong absolute returns, the environment had a mixed impact on relative returns: Value outperformed the index, however, small caps underperformed the index.[2] Value was bolstered by rising interest rates, in both the U.S. and Japan; expectations of interest rate cuts by the Fed were tempered.[3] Larger stocks have outperformed as investors rushed into large-cap heavy index funds and futures to gain exposure to Japanese equities: net inflows amounted to 6.3 trillion yen in 2023 and 1.2 trillion yen in January alone,[4] half of which was driven by futures buying.[5] Over the past 12 months, value has outperformed the market and small caps have underperformed.

Inception Date: 14-Sep-20

Performance for the year of inception is less than a full calendar year. Returns shown for periods less than one year are not annualized.

Risks: Risks associated with investing in the Fund may include: (1) Market Risk - Equities: The market price of an equity may decline due to factors affecting the issuer or its industry 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. (3) Focused Investment Risk: The Fund invests its assets in the securities of a limited number of issuers, and a decline in the market price of a particular security held by the Fund may affect the Fund's performance more than if the Fund invested in the securities of a larger number of issuers. For a more complete discussion of these risks and others, please consult the Fund's prospectus. Annualized Returns may include the impact of purchase premiums and redemption fees. 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.

If certain expenses were not reimbursed, performance would be lower. Transaction costs, if any, are paid to the fund to offset the cost of portfolio transactions to invest or raise cash. **Net Expense Ratio: 0.58%; Gross Expense Ratio: 0.71%** Net Expense Ratio reflects the reduction of expenses from fee reimbursements. The fee reimbursements will continue until at least June 30, 2024. Elimination of this reimbursement will result in higher fees and lower performance. Gross Expense Ratio is equal to the Funds Total Annual Operating Expenses set forth in the Funds most recent prospectus dated June 30, 2023.

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. The portfolio is not managed relative to a benchmark. References to an index are for informational purposes only. The local market in which the Fund is priced was closed for Good Friday on March 29, 2024. Therefore, the performance for the fund and corresponding benchmark will utilize March 28 for purposes of the ending valuation for the March return and the starting valuation for the April return.

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Major Performance Drivers Cont.

Against this backdrop, the portfolio trailed the TOPIX index in local terms. Stock selection in Industrials contributed to relative performance for the quarter, while selection in Information Technology and Consumer Discretionary detracted compared to the TOPIX.

We are typically satisfied if we can keep up with the index when it rallies more than 20% for various reasons, including that our portfolio is conservatively capitalized (meaning its equity returns benefit less from financial leverage in a strong market). The current environment of 40%+ annual gains in the TOPIX (and 46.7% for the Nikkei 225) is undoubtedly a headwind for our relative performance. Based upon our experience, the market will adjust as fundamental investors sell some large cap names that were indiscriminately bought during acute capital inflows, and overlooked smaller cap names are bought.

For a more detailed discussion on these topics, please see our complete Quarterly Letter, available from your GMO relationship manager.

[1] Rengo is the Japanese Trade Union Federation, which represents workers at many of Japan's large companies.

[2] Performance of the market, value, and small caps is defined as the total returns of MSCI Japan, MSCI Japan Value, and MSCI Japan Small Cap indices, respectively, in yen terms.

[3] 10-year JGB yields increased from 0.61% on December 31 to 0.71% on March 28, and U.S. 10-year Treasury yields increased from 3.9% to 4.2% over the same period.

[4] Reuters, "At last, FOMO puts Japan's stocks back on global wish list," Asahi Shimbun, February 22, 2024.

[5] Reuters, "Foreign flows into Japan stocks topped 6 trillion yen in 2023," January 11, 2024.

PRODUCT OVERVIEW

The Fund seeks total return over a full market cycle and measures its performance against the TOPIX Total Return Index (the "Index") for performance comparison purposes. The Fund employs a fundamental, value-oriented approach to invest in Japanese equities or companies tied economically to Japan.

In managing the Fund, the Usonian Japan Equity team follows a disciplined, bottom-up approach using fundamental research to identify equities that we believe are undervalued and profitable with high quality balance sheets. The team spends considerable time developing a high level of knowledge about our companies and focusing on downside risk. Additionally, as long-term investors, we engage collaboratively with corporate management to unlock shareholder value.

IMPORTANT INFORMATION

Comparator Index(es): TOPIX (Net of dividend withholding tax) is a free-float adjusted market capitalization-weighted index that is calculated based on all the domestic common stocks listed on the TSE First Section.

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 funds prospectus. To obtain a prospectus please visit www.gmo.com. Read the prospectus carefully before investing.

The GMO Trust funds are distributed in the United States by Funds Distributor LLC. GMO and Funds Distributor LLC are not affiliated.

ABOUT GMO

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