

QUARTERLY INVESTMENT REVIEW

Quality Cyclical Fund

RETURNS (%) (USD)

	Cumulative (%)		Annualized (%)				
	QTD	YTD	1 Year	3 Years	5 Years	10 Years	ITD
Net of Fees (Class VI)	11.45	22.85	22.85	7.46	–	–	18.13
Gross of Fees (Class VI)	11.56	23.35	23.35	7.89	–	–	18.60
MSCI ACWI	11.03	22.20	22.20	5.75	–	–	13.68
Value Added (vs. MSCI ACWI)	0.42	0.65	0.65	1.71	–	–	4.45

Major Performance Drivers

2023 was quite a year in the markets. The Quality Cyclical portfolio delivered robust performance as inflation subsided alongside economic concerns and investors processed positive developments on various fronts.

Returns to Technology investors were extraordinary. The NASDAQ 100 returned 54%, beating every major geographic index worldwide. Returns to investors outside of Technology were more normal (for a good year) at 15.8% for MSCI ACWI ex Tech.

Although staying ahead of changing technology is an important feature for many of the better cyclical businesses, the portfolio has a structurally lower allocation to GICS Information Technology. We have no particular beef with the large tech companies (with allocations to Alphabet and Meta), but the portfolio is largely predicated on a different type of investment. In this context, we believe that the portfolio's return, ahead of the MSCI ACWI benchmark for the year, was a decent outcome. For the quarter, the portfolio finished ahead of the MSCI ACWI benchmark.

The highest returning parts of the portfolio this year were Advertising, Travel, and Semi-Conductors. In Advertising, Meta returned a whopping 195%, recovering the majority of the ground lost during the vicious sell-off in 2022. Your travel holdings performed well across the board, with the continued European demand buoying Ryanair and Booking Holdings. We used the market's focus here to take some profits. We reestablished your portfolio's allocation to semi-conductors in 2022 as investors struggled to disentangle still excellent secular prospects from post-pandemic supply chain normalization and an inventory cycle. While memory chip specialist Micron and semi-cap equipment supplier Lam Research are perhaps through the worst and delivered strong returns over the year, the analog part of the market continues to suffer from a build-up of stock, and we established a position in Texas Instruments.

There were other positions that contributed notably to returns, coincidentally weighted toward the Spanish-speaking world. Mexican retailing and Coca-Cola bottling conglomerate FEMSA benefitted from determined execution of a simplification plan, offloading certain non-core assets with market-pleasing speed while showing operating momentum. Grupo Mexico rebounded as copper prices stabilized but was, like FEMSA, carried along by the improving purchasing power of the peso. In Europe, Inditex continues to grow well having lapped reopening benefits but continuing to reap efficiencies in terms of e-commerce and reduced store footprint gained during the lockdown period.

Inception Date: 12-May-20

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: 0.41%; Gross Expense Ratio: 0.55% 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. Formerly Cyclical Focus Fund

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Major Performance Drivers Cont.

On the other side of the ledger, your Energy and China holdings offered weak returns. Energy prices were a little soft and so were the stocks after a powerful run the prior year. With regard to China, we have written in previous quarters how we understand in retrospect why its reopening differed from the West and came with a desire for balance sheet repair. We believe that the part of your China exposure aimed at leisure pursuits in Macao remains well positioned and added modestly to Las Vegas Sands in the last quarter. However, we reduced your exposure to large cap China Technology where our confidence in management, and in the government's support of management, has incrementally diminished.

The weakest returns, however, were found amongst your Clean Energy holdings. We believe that there are inexorable needs related to climate change that are driving revenue trends in Clean Energy. At the same time one can observe that the potential growth here attracts capital investment while sentiment to the stocks can be unstable. We have oriented your investment in Clean Energy to a handful of companies with barriers to entry. Darling Ingredients and Neste have built renewable energy businesses with locks on their supply of inputs making them tough competitors, while Green Plains has technology that potentially makes them the lowest-cost producer of various corn-derived products alongside ethanol. These positions detracted from portfolio returns while holding up better than the average Clean Energy stock (not an impressive claim). We used the negative sentiment toward Clean Energy to initiate a position in SolarEdge, one of two makers of premium invertors for solar energy generation. SolarEdge was plagued by inventory management issues in the second half. We expect these concerns to shrink in the rear-view mirror over time and hope that we acquired stock on your behalf at good prices in 2023.

As we look to the year ahead, we do not have a specific macroeconomic environment in mind. The portfolio aims to invest across a range of the best quality cyclical businesses. We believe that your portfolio companies invest productively through the cycle and generate stronger fundamental returns than the average business. They often trade at relatively undemanding prices, likely because investors are deterred by their greater-than-average cyclicalities. This greater cyclicalities can be advantageous for the portfolio in two ways. First, the companies in the portfolio are generally better able to exploit the cycle than their peers, bringing opportunities to strengthen their share or strategy when times are more challenging. Second, from a portfolio management perspective, the greater short-term volatility can bring more opportunities for rebalancing into out-of-favor areas. Over the longer-term, however, we expect the portfolio's return to be driven by superior "through the cycle" fundamentals.

Portfolio weights, as a percent of equity, for the positions mentioned were: Meta (2.6%), Ryanair (3.5%), Booking Holdings (3.7%), Micron (3.0%), Lam Research (2.5%), Texas Instruments (2.3%), FEMSA (4.1%), Inditex (3.4%), Las Vegas Sands (2.7%), Darling Ingredients (2.4%), Neste (1.7%), Green Plains (0.7%), and SolarEdge (1.4%).

PRODUCT OVERVIEW

The GMO Quality Cyclical Fund seeks to generate total return by investing in leading cyclical businesses. Leveraging their long-term disciplined approach to investing in high quality companies, GMO's Focused Equity team selects from a high-conviction universe of cyclical businesses that are of higher quality than their industry peers. The team believes that quality cyclical businesses are structurally underappreciated by the market and that times of elevated stress can create extraordinary opportunities in quality cyclical.

IMPORTANT INFORMATION

Comparator Index(es): The MSCI ACWI (All Country World) Index (MSCI Standard Index Series, net of withholding tax) is an independently maintained and widely published index comprised of global developed and emerging markets. 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. Please visit <https://www.gmo.com/americas/benchmark-disclaimers/> to review the complete benchmark disclaimer notice.

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

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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