

QUARTERLY INVESTMENT REVIEW

Multi-Sector Fixed Income Strategy

Performance returns (USD)

| ANNUALIZED RETURNS (QUARTER-END) | Quarter-End | YTD | 1-Year | 3-Year | 5-Year | 10-Year | Since Inception |
|--|-------------|-------|--------|--------|--------|---------|-----------------|
| Multi-Sector Fixed Income Strategy (net) | 5.04 | 4.48 | 10.79 | -2.20 | -0.23 | 1.72 | 4.46 |
| Multi-Sector Fixed Income Strategy (gross) | 5.14 | 4.80 | 11.23 | -1.80 | 0.17 | 2.12 | 4.83 |
| Bloomberg U.S. Aggregate | 5.20 | 4.45 | 11.57 | -1.39 | 0.33 | 1.84 | 4.30 |
| Value Add | -0.16 | +0.03 | -0.78 | -0.81 | -0.56 | -0.13 | +0.16 |

MAJOR PERFORMANCE DRIVERS

After delivering mostly flat performance throughout the first half of the year, sentiment improved for duration bearing assets in the third quarter, and the Bloomberg U.S. Aggregate index returned +5.20% for the period. Weaker than expected employment data was the catalyst, and an uptick in the unemployment rate and a soft jobs report in August brought the Federal Reserve's dual mandate squarely into focus. Inflation data continued to moderate.

U.S. Treasury yields moved lower by 80 basis points on average during the quarter, with much of the move occurring in July, but yields trended lower still in August and September. The curve steepened aggressively - yields in the 1-3-year maturity sector rallied 108 basis points while 20+y bond yields traced lower 40 basis points.

More accommodative financial conditions boosted risky asset returns, and the index credit spread tightened 3 basis points during the period. Agency mortgages delivered the best excess returns, with higher coupon pools outpacing their lower coupon counterparts. In investment-grade corporate debt, all rating cohorts traded tighter versus the treasury curve but were led by the AAA subsector. Spreads in both the government-related and asset-backed sectors widened slightly.

Multi-Sector Fixed Income's core strategy lagged the index, primarily from sector allocation tilts. An underweight to agency mortgages and overweight to non-agency securitized credit each hurt relative performance, though the strategy benefited slightly from an off-benchmark position in emerging sovereign debt. Security selection was strong within the investment-grade corporate basket, where valuation-based signals posited gains while momentum and quality indicators drew down. Systematic alpha overlay strategies added value during the quarter.

Alpha Overlay

Systematic alpha overlay performance was positive during the third quarter, attributable to gains in the duration and G10 currency models. The curve slope and emerging currency models registered losses.

The duration model benefited primarily from market timing, but market selection also helped. Given the sustained trend lower in global interest rates, momentum and sentiment-based signals were robust. Valuation factors helped deliver cross-market alpha in European and Swedish rates. The curve model struggled with market selection, suffering from a steepener in Switzerland.

In G10 currencies, being net short U.S. dollar and long Japanese yen was beneficial. Valuation indicators drove performance, while carry and sentiment underwhelmed. Long positions in Mexican peso and Colombian peso, driven by carry factors, were responsible for losses in the emerging currency model.

Composite Inception Date: 30-Apr-97

Risks: Risks associated with investing in the Strategy may include: (1) Market Risk - Fixed Income Investments: The market price of a fixed income investment can decline due to a number of market-related factors, including rising interest rates and widening credit spreads or decreased liquidity stemming from the market's uncertainty about the value of a fixed income investment (or class of fixed income investments). (2) Credit Risk: The risk that the issuer or guarantor of a fixed income investment or the obligor of an obligation underlying an asset-backed security will be unable or unwilling to satisfy its obligation to pay principal and interest or otherwise to honor its obligations in a timely manner. (3) Illiquidity Risk: Low trading volume, lack of a market maker, large position size, or legal restrictions may limit or prevent the Fund from selling particular securities or closing derivative positions at desirable prices. For a more complete discussion of these risks and others, please consult the Fund's offering documents. This is not a complete list of risks associated with investing in the Strategy. Please contact GMO for more information. **Performance Returns:** Performance for the year of inception is less than a full calendar year. 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. **Performance data quoted represents past performance and is not predictive of future performance.** Net returns are presented after the deduction of a model advisory fee and incentive fee if applicable. These returns include transaction costs, commissions and withholding taxes on foreign income and capital gains and include the reinvestment of dividends and other income, as applicable. Fees paid by accounts within the composite may be higher or lower than the model fees used. Gross returns are presented gross of management fees and any incentive fees if applicable. These returns include transaction costs, commissions, withholding taxes on foreign income and capital gains and include the reinvestment of dividends and other income, as applicable. If management and incentive fees were deducted performance would be lower. For example, if, before fees, the strategy were to achieve a 10% annual rate of return above its hurdle rate each year for ten years, and an annual advisory fee of 1% and incentive fee of 20% of net returns above the hurdle rate were charged during that period, the resulting average annual net return (after the deduction of management and incentive fees) would be approximately 7.20%. **GMO LLC claims compliance with the Global Investment Performance Standards (GIPS®).** A Global Investment Performance Standards (GIPS®) Composite Report is available on GMO.com by clicking the GIPS® Composite Report link in the documents section of the strategy page. GIPS® is a registered trademark owned by CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Actual fees are disclosed in Part 2 of GMO's Form ADV and are also available in each strategy's Composite Report.

QUARTERLY INVESTMENT REVIEW

PRODUCT OVERVIEW

The GMO Multi-Sector Fixed Income Strategy seeks to achieve total return in excess of that of its benchmark, the Bloomberg U.S. Aggregate Index, by extracting alpha opportunities without taking any secular bias in duration, maturity, rating, and overall aggregate composition. The Strategy's investment program has two principal components. One component seeks to achieve a return commensurate with that of the Strategy's benchmark. The second component seeks to add value relative to the Strategy's benchmark by making investments that often will not track its benchmark.

IMPORTANT INFORMATION

Benchmark(s): The Bloomberg U.S. Aggregate Index is an independently maintained and widely published index comprised of U.S. fixed rate debt issues having a maturity of at least one year and rated investment grade or higher.

The above information is based on a representative account in the Strategy selected because it has the fewest restrictions and best represents the implementation of the Strategy.

ABOUT GMO

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