QUALITY CYCLICALS FUND

Investment Review: Quarter Ending December 31, 2022

OVERVIEW

he GMO Quality Cyclicals 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.

PERFORMANCE (%)

Net of Fees, Class VI, Fair Value, USD	+14.00
Gross of Fees, Class VI, Local Close, USD	+13.74
MSCI ACWI [1]	+9.76
Value Added	**+3.98**

Major Performance Drivers

The Quality Cyclicals portfolio rounded off a challenging 2022 with a strong quarter and outperformed the MSCI ACWI benchmark's return of 9.8%.

The portfolio invests without reference to the benchmark, instead seeking out a group of companies with quality attributes that are obscured by cyclical or other blemishes, leading to share prices that we believe to be undemanding. Our goal is to invest in companies that will reward our clients for waiting; we believe that the companies in your portfolio are deploying their capital in a rational fashion and over time will be worth more than they were yesterday or today.

Your portfolio is not immune to global market conditions, however, and this year there was plenty of bad news for the equity markets to digest from Ukraine and geopolitics, through inflation and rates to Covid and recession. While the news flow will naturally fluctuate for the portfolio, we believe that the management of the companies in which you are invested are the type that will react in a constructive manner and with capital allocation that will aim to preserve value, or if opportunity presents, to enhance it.

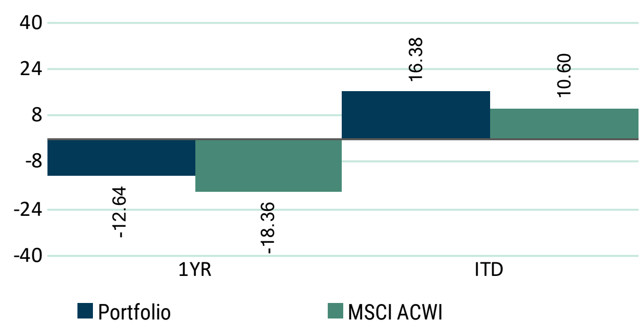
Examples of proactive management revealed this quarter, despite the challenging times, in no particular order, included:

- FEMSA's deal with Coca-Cola to distribute non-Coke products
- Booking Holdings' investment in payments reaches break-even
- Las Vegas Sands' and Galaxy Entertainments' receipt of license renewals in Macau
- Ryanair's prioritization of long-term discipline in airport dealings over the short term
- Persimmon's decision to pare back land purchases in the face of weaker demand
- Beiersdorf's acquisition of a skin microbiome research company
- Brookfield's listing of its management company
- CarMax's focus on profit maximization over chasing revenues in the face of a weak used car market in North America

Developments in China - both in the quarter and into the early days of 2023 - were received positively in the market. Around 15% of your portfolio is allocated to China-sensitive companies and they have performed well. We believe that the end of Covid zero policy unlocks the moribund Chinese economy and bodes well for Las Vegas Sands and Galaxy Entertainment, owners of Macau casinos; for LVMH and Kering, whose brands are bought disproportionately by the Chinese consumer; and for Otis, with its material revenue from China. It is also looking increasingly likely that the crackdown

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 0.48% is equal to the Funds Total Annual Operating Expenses set forth in the Funds most recent prospectus dated June 30, 2022.

ANNUALIZED RETURN (%) AS OF 12/31/2022



Inception date: 05/12/2020
Includes purchase premiums and redemption fees impact if applicable.

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on Chinese internet companies is coming to a close as the authorities look to support the economy, with positive implications for both Alibaba and Tencent. Overall, your China exposure performed strongly in the last quarter, and the impact was material as we have gradually increased this allocation over the course of the last 15 months or so. Your allocation to re-opening companies moved in sympathy with China too as the unleashing of millions of Chinese travellers over the course of 2023 and 2024 is likely to benefit the travel and travel-adjacent businesses that make up the bulk of this group.

Elsewhere in the portfolio, the core quality cyclical holdings delivered modestly lower returns than the broader markets, with renewable energy positions amongst the weakest of the group. Some air was let out of Darling Ingredients' stock, for example, as technical proposals from the EPA made an investment in a fourth refinery less likely.

This year we established a modest digital advertising exposure in your portfolio, initially via a small position in the U.K.'s S4 Capital and in the quarter we initiated positions in Meta and Alphabet, both trading under a cloud as investors fret over the prospects for ad revenues in a potential recession and in the case of Meta, over the heavy investment in artificial intelligence (read: processing power) required to circumnavigate Apple's changes to performance tracking within their ecosystem. We believe that Alphabet's digital property will remain productive long after a recession has passed through, and we are optimistic that Meta is the one of very few companies that can make the necessarily expensive leap to better AI-driven ad targeting and that the future therefore is much rosier than one implied by cyclical contraction in digital advertising, a hiatus before the monetization of Reels (Meta's response to TikTok) and a share price languishing with the rating of a legacy steel mill. Time will tell.

Similarly, we added to your position in semi-conductors over the quarter. Shortages for semi-conductors and "double ordering" by customers to ensure supply have given way to signs of overcapacity and reduced intentions in terms of capex. We maintain that the industry, while indubitably cyclical, remains underpinned by secular growth and take some comfort from valuations. Micron, one of the leading memory chip producers, and resolutely American with the accompanying lower geo-political risk, now trades at close to the trough multiples of asset value that have signalled good entry points into the stock in the past.

We start 2023 with optimism that the re-opening of China will provide both a buttress against further weakening of the global economy and a tailwind to a significant portion of your portfolio. We believe that your portfolio of Quality Cyclicals remains attractively priced compared to the broader markets.

Portfolio weights, as a percent of equity, for the positions mentioned were: FEMSA (3.6%), Booking Holdings (2.8%), Las Vega Sands (2.4%), Galaxy Entertainment (1.7%), Ryanair (2.5%), Persimmon (1.1%), Beiersdorf (2.4%), Brookfield (2.1%), CarMax (0.6%), LVMH (3.4%), Kering (1.8%), Alibaba (2.4%), Tencent (1.2%), Darling Ingredients (2.9%), Meta (1.2%), Alphabet (2.0%), Apple (0.0%), and Micron (1.1%).

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, Focused Investment Risk, Non-U.S. Investment Risk, Currency Risk and Large Shareholder 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.

[1] 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.