Core Plus Bond Fund

Quarter Ending December 31, 2018

OVERVIEW:

The GMO Core Plus Bond Fund seeks total return in excess of that of its benchmark, the Barclays U.S. Aggregate Index. GMO aims to add value versus the benchmark by using its global interest rate and currency processes as well as through small exposure to the debt of emerging countries.

Performance (%)

Net of Fees, Class III, USD	+2.18
Gross of Fees, Class III, USD	+2.28
Bloomberg Barclays U.S. Aggregate [1]	+1.64
Value Added	**+0.64**

Major Performance Drivers

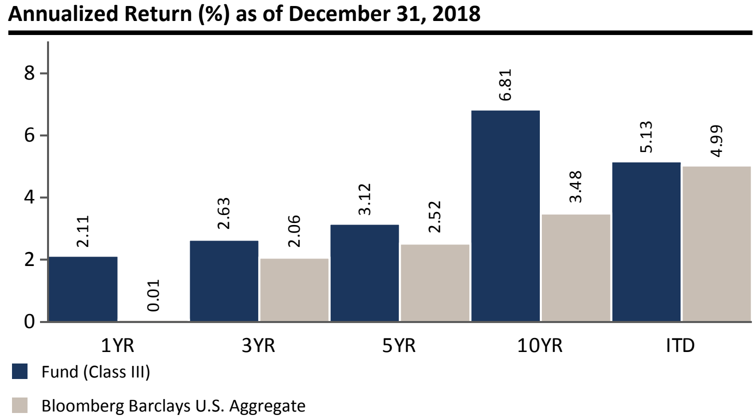
Developed interest rates fell across the board in the fourth quarter of 2018, from Sweden (-14 bps) to the US (-39 bps). Fears of an economic slowdown, poor equity market performance, and the projection of fewer Federal Reserve target rate hikes in 2019 fueled the rates rally during the quarter. Geopolitical risk, notably the US government shutdown and US–China trade relations, intensified the global flight-to-quality.

In FX, the US dollar strengthened for a third consecutive quarter, posting +1.1% in Q4 according to the Bloomberg Dollar Spot Index. The bulk of the dollar's strength came in October when stronger-than-expected data, a hawkish Fed, and rising Treasury yields supported the greenback. The dollar reversed course in November and December, weakening as equity markets declined and investors questioned the future of the Fed policy-tightening program. The Norwegian krone (-6.0%) and Canadian dollar (-5.4%) were the weakest performing currencies in the developed markets, as plummeting oil prices put downward pressure on these commodity-linked currencies. Australian dollars also drifted lower, by -2.7%. Brexit concerns weighed on sterling (-2.3%) during the quarter.

The quarter capped the worst year for the EMBIG, and the first negative year in total return terms since 2013. The benchmark's credit spread over US Treasuries widened by a very significant 73 basis points over the fourth quarter to +435 bps, a level not seen since early 2016. The benchmark's return would have been much worse if not for a rally in the underlying Treasury curve, with the 10-year yield falling 36 bps to end the year at 2.69%. Other global market indicators also suffered large moves. The WTI oil price, for example, fell by nearly 40%, and the S&P 500 fell 13.5%, capping its worst year since 2008. Risk aversion in the market can be attributed to a combination of many factors, but the dominant ones seemed to be more global in nature, rather than specific to emerging markets. Among the more important, by our observation, were statements out of the US Federal Reserve, concerns about a global growth slowdown, and ongoing trade frictions. Fed statements at the beginning of the quarter seemed to indicate that monetary policy normalization still had a long way to go, but by the end of the quarter, after strong criticism from President Trump, the Fed seemed more dovish amid evidence the economy was slowing and financial market stability was vulnerable. Market participants began to worry about the end of the US growth cycle as the impact of fiscal stimulus from tax cuts waned and monetary policy approached a neutral stance from a long period of accommodation. Signs of a slowdown in China exacerbated these concerns. When combined with ongoing trade frictions (despite the Trump administration's 90-day delay in the imposition of higher tariffs on Chinese imports), increased possibility of a "hard" Brexit, and Italian budget woes, there were many concerns for the markets to digest. The quarter's moves were consistent

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 0.59% 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: 04/30/1997
Chart returns include purchase premiums and redemption fees impact if applicable.

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with our research indicating that sovereign creditworthiness is more sensitive to global growth than the level of interest rates.

In structured products, excess returns (vs. swaps/LIBOR) were negative across the board in Q4, a decidedly turbulent quarter, though up-in-quality sectors generally outperformed those that were lower in quality. Credit Risk Transfer (CRT) deals, which have out-of-the-money exposure to more idiosyncratic risks, like hurricanes and the wild fires in California, provided returns ranging from -0.3% to -6.2% on various tranches. Additionally, Non-Agency Residential Mortgage Backed Securities (RMBS) bond performance was negative with various collateral type returns from -1.0% to -3.9% during the quarter. Single Family Rentals (SFR), a somewhat hybrid member of the RMBS cohort, was also negative with excess returns across the capital structure ranging from -0.6% to -1.1%. Volatility intensified in Commercial Mortgage Backed Securities (CMBS), a longer duration asset, with performance down -1.2% on the quarter; spreads widened across tranches with LCF AAA securities posting -1.1% excess returns while lower rated BBB tranches posted -2.3% excess returns. Shorter duration fixed rate Auto ABS performance was marginally negative, -0.1% excess returns, as this was a sector that held up very well during the quarter. Floating rate ABS performance from Students Loans was also negative, posting -0.3% excess returns. The Collateralized Loan Obligation (CLO) market underperformed in Q4 as credit concerns arose in the underlying leverage loan market, with loans selling off multiple points throughout the quarter and, as a result, weakness leaking into the CLO space. Overall performance in CLOs (-1.3%) was negative in Q4, as were excess returns in the lower part of the capital structure, with BBB posting -3.7% and BB posting -5.2%.

Interest rate relative value contributed strongly to performance this quarter, assisted by a small net long duration position. Amid a global rally in duration, a long/short portfolio will necessarily have absolute winners and losers, but the market selection matters. Duration positions in Canada, the US, and New Zealand were the biggest contributors on the long side, in both an absolute and relative context. The portfolio’s short duration position in the UK drew down amid the global rally, however UK duration underperformed cross-sectionally, making it a well-chosen short from a market selection standpoint. Short duration in Australia and a long position in Euro each contributed negatively to cross-sectional performance.

Exposure to ABS added value to performance during the quarter, with key contributions coming from Student Loan, CLO, and Small Balance Commercial sectors. Other sectors, including Auto and other ABS sectors, also contributed positively in Q4. Additionally, gains from hedge positions offset some of the widening that occurred within the portfolio’s bonds. Losses from RMBS and CMBS sectors partly offset positive contributions. Currency strategies also added value, with gains partly driven by an overall net long US dollar exposure. In developed markets, market selection was roughly flat on the quarter, with positive contributions from long Swedish krona and Japanese yen and a short in Australian dollar. Long Norwegian krone and Canadian dollar underperformed. Gains in the emerging markets currency strategy were driven by long Turkish lira, which performed well both cross-sectionally and in an absolute context. The Russian ruble weakened in 4Q, and our long position suffered.

A small exposure to emerging debt detracted during the quarter, given spread widening on the asset class as well as negative alpha generated by country selection.

* Change in 10-year interest rate swap levels

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 Bloomberg Barclays 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.