

QUARTERLY INVESTMENT REVIEW

Usonian Japan Value Creation Fund

RETURNS (%) (USD)

	Cumulative (%)		Annualized (%)				
	QTD	YTD	1 Year	3 Years	5 Years	10 Years	ITD
Net of Fees (Class VI)	6.75	21.81	21.81	2.30	–	–	7.04
Gross of Fees (Class VI)	6.90	22.50	22.50	2.89	–	–	7.65
Tokyo Stock Price Index (TR)	7.97	19.58	19.58	0.71	–	–	4.39
Value Added (vs. Tokyo Stock Price Index (TR))	-1.22	2.23	2.23	1.59	–	–	+2.64

Major Performance Drivers

While the moderate 2% gain in the fourth quarter in Japanese equities (TOPIX local) failed to keep up with strong global equity returns, the rise capped an impressive year for Japanese stocks, which gained about 28% in local terms, and Usonian performance, which gained about 31% (gross) in local terms. 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. On top of this, we are especially excited to skew Value and Small because Value stocks should be the primary beneficiaries of reforms and small cap stocks have fallen further behind large caps as new money flows into futures and ETFs. On the engagement side, we feel the tailwind of mounting pressure on Japanese management teams as we engage more deeply than ever with our holdings on behalf of our clients.

Japanese equities rallied in the fourth quarter, posting a total return of 2.0% for the quarter and an impressive 27.8% for the full year in local terms. Japanese equities were buoyed by expectations of better corporate management due, in part, to the continued pressure on company management and boards from regulators and investors to increase returns. Further, macro factors such as a weaker yen and increasingly sustainable inflation supported equity returns. Inflation is seen as increasingly sustainable due to higher confidence that wages will increase substantially again in 2024, leading to a positive wage-price spiral.

While the broad indices were relatively stable, the internal dynamics of Japanese equities changed considerably as the value factor underperformed the growth factor by nearly 8% in the fourth quarter, giving back half of the close to 16% outperformance accumulated year-to-date through the third quarter. This was undoubtedly linked to the significant decline in interest rates both in Japan and the U.S. during the fourth quarter as hopes of a soft landing for the U.S. economy increased and expectations for Fed rate cuts were brought forward. Size factor played a small role in relative performance this quarter with small caps underperforming the index, however the consistent underperformance of small caps during the year has summed to a significant 7.5%, outpacing the 6.2% underperformance of Growth compared to Value over the same period.

Against this backdrop, the portfolio trailed the TOPIX during the quarter. Stock selection in Health Care contributed to relative performance for the quarter, while selection in Information Technology and Materials were detractors compared to TOPIX. For the full year, the portfolio outperformed. Stock selection in Industrials was a strong contributor to relative performance, while selection in Materials was a significant detractor compared to TOPIX during the year.

We are typically satisfied if we can keep up with the index when it rallies more than 20%, given that our portfolio is extremely conservatively capitalized, meaning its equity returns benefit less from financial leverage in a strong market. While the style factor has been a tailwind for us, the size factor has been a headwind, with Value outperforming and small caps underperforming.

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

Inception Date: 14-Sep-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: 0.58%; 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.

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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

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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