CYCLICAL FOCUS FUND

Quarter Ending March 31, 2021

OVERVIEW

The GMO Cyclical Focus Fund seeks to generate total return by investing in companies operating in cyclical industries that GMO's Focused Equity team believes are of higher quality than their industry peers. The team believes that higher quality cyclical companies are more likely to withstand declining economic conditions and to thrive when economic conditions improve.

PERFORMANCE (%)

Net of Fees, Class VI, Fair Value, USD	+8.73
Gross of Fees, Class VI, Local Close, USD	+8.84
MSCI ACWI [1]	+4.57
Value Added	**+4.27**

Major Performance Drivers

Markets continue to climb the wall of fear erected by the Covid-19 pandemic. Despite worsening epidemiological data across much of the world, forward-looking markets deemed improvement in the outlook to have continued. Promising results from aggressive vaccine programs in the United States and Unital Kingdom added to the sense that the world has a route out of its recent malaise.

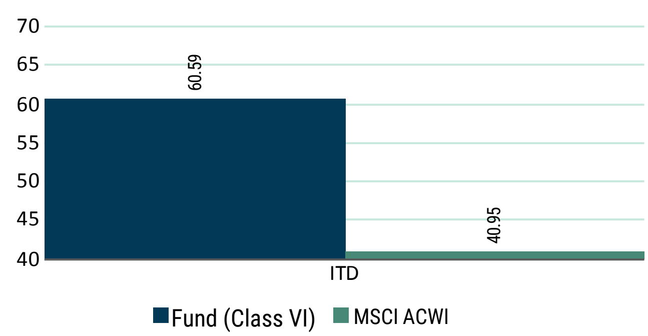
The tone of equity markets reflected this increasing optimism with the strongest performance coming from Energy and Financials, two of the sectors that saw the worst of it last year, while more defensive ones such as Health Care, Utilities and Consumer Staples were left behind. Bond markets reacted to the change in sentiment too, with long rates rising around the world but notably so in the key U.S. Treasuries market. This change in long-term rates put pressure on equities of higher duration, with many growth stocks, especially in Tech, stumbling in Q1. The overall result was a quarter with the highest spread in performance between winning value stocks and struggling growth stocks in more than a decade.

We created this portfolio last year as a way to exploit the dislocation that resulted from the market's reaction to the pandemic; quality cyclical businesses have outperformed the markets in recent decades but got sold off rather hard. This quarter, the best performing names included Lyft, one half of the nascent ride-sharing duopoly in the U.S., and Financials such as U.S. Bancorp and Wells Fargo. Lyft's passenger numbers are showing meaningful recovery; the company's challenge is now to reactivate drivers who stepped away last year. The banks appear to have avoided serious mishaps this go around and simply got too cheap – this quarter they benefited from the perceived benefits of a steepening yield curve too as banks tend to borrow short and lend long. Two resources names led the pack; EOG and Grupo Mexico drew strength from oil and copper prices, respectively.

Over quarter we added two new positions. The first was Global Payments, a financial technology company that offers payment processing services to merchants. Global Payments has an interesting business model, using the integration of its payment platform in commercial software as an important part of its route to market. The pandemic put a short-term brake on growth but given the secular tailwind behind increasing card usage, we believe that the company's stock trades at an alluring price today.

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 0.77% is equal to the Funds Total Annual Operating Expenses set forth in the Funds most recent prospectus dated June 30, 2020.

ANNUALIZED RETURN (%) AS OF 03/31/2021



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

The second was Beiersdorf. We categorize Beiersdorf as a “newly minted” cyclical. This skincare business, whose main brand is Nivea, would typically behave defensively. However, the pandemic has been tough for Beiersdorf. Their acquisition of Bayer’s Coppertone sun care business was unfortunately timed in retrospect, just before the cancellation of the world’s beach trips. Additionally, the company’s luxury brand La Prairie was also hurt by the fall in inbound European tourism. Finally, the market reacted negatively to the company’s increased investment in digital marketing. We suspect that this conservative business will invest well and look healthier in time.

A small portion of the portfolio comprises quality companies that were picked up at good prices last year, but whose performance we no longer expect to be dominated by the pandemic. Instead, it is their own ability to innovate and take share that will drive returns. Examples here include Neste, the leading player in renewable diesel, and Borgwarner, one of the auto component manufacturers best positioned for the transition to electric vehicles. As the pandemic retreats into the history books, we would expect the portfolio to become more diversified across an array of different cycles, emphasizing the leading businesses in each.

Although your portfolio has performed well since the first vaccine results in November, we believe that there is plenty more to play for. Our preferred measure of relative potential for the portfolio is based on unwinding the Covid-era return for the portfolio and its benchmark. At the relative lows in October, the return potential was a whopping 26% –since then returns have been strong and the current calculation suggests a catch-up potential of over 15% still remains. Diverse companies such as Coca-Cola (derailed by the collapse in restaurant trade) and Las Vegas Sands (the now Asia-focused leisure business) still trade well below their pre-Covid levels. We continue to seek leading cyclical business trading at attractive prices on your behalf.

Portfolio weights, as a percent of equity, for the positions mentioned were: Lyft (3.8%), U.S. Bancorp (4.0%), Wells Fargo (2.5%), EOG (3.4%), Grupo Mexico (4.3%), Global Payments 2.2%), Beiersdorf (0.9%), Bayer (0.0%), Neste (2.5%), Borgwarner (3.0%), Coca-Cola (2.2%), and Las Vegas Sands (2.1%).

[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.