

MULTI-SECTOR FIXED INCOME FUND

Quarter Ending December 31, 2020

OVERVIEW

The GMO Multi-Sector Fixed Income Fund (formerly Core Plus Bond Fund) seeks to achieve total return in excess of that of its benchmark, the Bloomberg Barclays U.S. Aggregate Index, by extracting alpha opportunities without taking any secular bias in duration, maturity, rating, and overall aggregate composition.

PERFORMANCE (%)

Net of Fees, Class III, USD	+0.77
Gross of Fees, Class III, USD	+0.87
Bloomberg Barclays U.S. Aggregate ¹	+0.67
Value Added	+0.21

Major Performance Drivers

Index Performance and Beta Replication

The Bloomberg Barclays U.S. Aggregate Index experienced its tenth consecutive positive quarterly return, driven yet again by a tightening of credit spreads – principally in the corporate bond sector, where option-adjusted spreads were nearly 40 basis points tighter on average. Risk-free rates were higher on the quarter, and the curve was steeper – as a result, Treasuries contributed negatively to returns. However, the move in corporate spreads as well as a modest tightening of spreads on securitized debt were more than enough to generate an overall positive total return. Our relative performance this quarter was positive due to gains in beta replication strategies, led by the return of our out-of-benchmark emerging debt holdings, which saw even more aggressive spread tightening than was witnessed in corporates. Systematic alpha strategies were a small drag on performance.

Alpha Overlay

We had positive performance contributions this quarter from our systematic alpha strategies in currencies – both in the G10 process as well as emerging markets, while our rates strategies lost ground.

Market selection in rates was primarily responsible for the negative performance; our net duration position was small and did not meaningfully impact results. Long duration exposure to New Zealand and a short exposure to Euro rates were the two biggest detractors of value, while long Swiss duration and short US duration each provided positive cross-sectional returns.

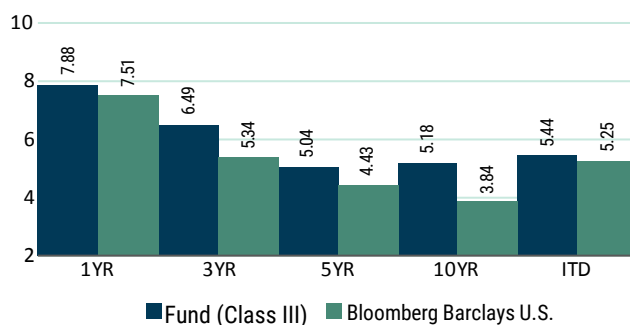
The curve slope model gave back some ground, as a UK steepener and New Zealand flattener each drew down.

We continue to hold a net short US dollar currency position against the rest of the G10 currency universe, which contributed the bulk of our returns in developed currencies. Our long exposure to the Japanese yen was a drag on performance; while it appreciated versus the dollar, it was comparatively weak versus others markets to which we might have allocated long exposure. Meanwhile, long Swedish krona and short Swiss franc both outperformed on a market selection basis, though not enough to offset the negative impact of our long yen position.

In emerging market currencies, we again benefitted from a net long emerging markets/ short US dollar aggregate position, but market selection

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 0.61% 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 12/31/2020



Inception date: 04/30/1997

Includes purchase premiums and redemption fees impact if applicable.

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was on balance a positive as well. Long South African rand (which appreciated nearly 14% versus the US dollar this quarter) and long Mexican peso (+11.4%) were two of the best performing positions we held.

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-Fixed Income, Credit Risk, Management and Operational Risk, Derivatives and Short Sales Risk and Market Risk-Asset-Backed Securities. 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 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.