

Core Plus Bond Fund

Year 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	+2.11
Gross of Fees, Class III, USD	+2.53
Bloomberg Barclays U.S. Aggregate ¹	+0.01
Value Added	+2.51

Major Performance Drivers

A continued lack of market volatility in our universe constituted a headwind to performance. Other than a few short-lived, fleeting periods of excitement in individual markets, broader and longer-term measures of volatility in both rates and currency markets languished near multi-decade lows. Even amid global financial risk events such as the February 2018 VIX melt (up) and the 4Q 2018 equity melt (down), gauges of rate and currency volatility hardly registered more than a blip.

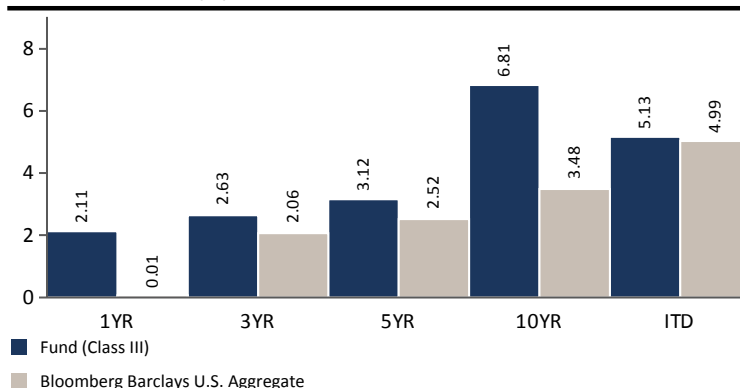
The portfolio performed well in 2018, adding value over the Bloomberg Barclays U.S. Aggregate Index. We got off to a strong start in January, driven by our developed markets rates strategy, where performance was solid all year. Market selection was responsible for the overwhelming majority of our performance in rates as we held a long duration position of varying size in New Zealand—the best performing market in cross-section—throughout the year. Our short exposure in Australian duration, which was strong much of the year, detracted value. Short U.K. duration was another consistent exposure throughout the year and contributed positively to returns.

Our currency strategy began the year with a down month, but finished the first quarter in positive territory and remained positive through the remainder of the year. The biggest contribution to currency performance was our net U.S. dollar position. We began the year with a long position in the U.S. dollar, increased it throughout the year and reduced it sharply in December. We were primarily long the U.S. dollar versus the Australian dollar and Swiss franc, while our foreign currency longs were concentrated in the Scandies, Japanese yen, and Canadian dollar.

We deployed an emerging markets currency model in October, which resulted in a small net positive contribution to performance driven by our net U.S. dollar long and a long position in the Turkish lira. Looking back at the full year, we had positive performance in

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. 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.

10 out of 12 months, and all strategies contributed positively to overall portfolio performance year-to-date.

Exposure to asset-backed securities contributed positively in 2018, with the student loan sector driving ABS gains. Residential mortgage-backed securities, small balance commercial, collateralized loan obligations, commercial mortgage-backed securities, and auto sectors posted gains during the year as well, as did hedge positions that offset some of the widening that occurred among the portfolio's bonds late in 2018.

Exposure to emerging debt detracted from Core Plus performance as 2018 was a poor year for emerging debt.

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.