

Core Plus Bond Fund

Quarter Ending March 31, 2019

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	+3.34
Gross of Fees, Class III, USD	+3.44
Bloomberg Barclays U.S. Aggregate ¹	+2.94
Value Added	+0.50

Major Performance Drivers

Index Performance and Beta Replication

The Bloomberg Barclays U.S. Aggregate Index experienced a positive return this quarter, benefitting from a sharp rally in U.S. Treasury yields. A narrowing of corporate and Agency credit spreads provided additional sources of positive performance. Spreads on securitized products were little changed, but the sector gained due to a broader rally in duration. Our Beta replication strategies delivered overall performance consistent with the benchmark and we had net positive performance from our systematic alpha overlay strategies.

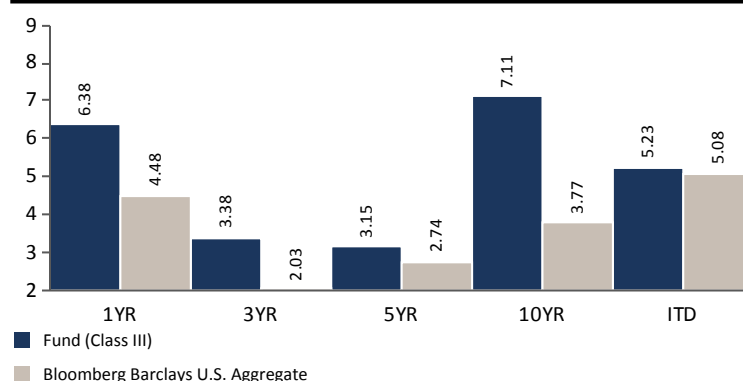
Alpha Overlay

We had positive performance from our rates investments, derived from both our cross-market relative value forecasts and our directional momentum-based allocation to global duration. Cross-sectional performance was driven by short duration exposure in the U.K. and long duration exposure in New Zealand, both of which contributed positively, while short exposure to Australian duration detracted value. Our net long duration exposure benefitted from the global fixed income rally, which saw the average 10-year par swap rate in our universe move nearly 35 basis points lower in the first quarter.

Currency performance was mixed; we had gains from our emerging currency model but our G10 process had negative performance. Returns in the emerging and G10 currency strategies were driven by cross-market positions, rather than U.S. dollar performance. In the G10 strategy, we had only a small net long exposure to the U.S. dollar to begin the year and by the end of the quarter, we were nearly flat. Net, we remain long the dollar against the emerging currency basket, but this did not meaningfully contribute to performance since the dollar was on average little changed during the recent quarter. Our short Swiss franc position was the largest positive contribution to performance, while long Swedish krona was the worst performer.

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 March 31, 2019



Inception date: 04/30/1997

Chart returns include purchase premiums and redemption fees impact if applicable.

Ongoing Research and Development

Following extensive research, we will be deploying a suite of new and updated sentiment factors in the currency models. The new factors are expected to provide diversification in our sources of alpha. The existing factors are primarily being enhanced by nonlinear signal transformations and taking account of factor interactions in their construction. None of these improvements are anticipated to change the overall complexion of our currency investments, however they will increase the overall robustness of our process. Additional areas of current research include a dedicated interest rate curve slope investing model, which would represent a new risk stream, as well as additional enhancements to our interest rate timing model.

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.