

Opportunistic Income Fund

Quarter Ending December 31, 2018

OVERVIEW:

The GMO Opportunistic Income Fund seeks capital appreciation and current income by investing primarily in securitized credit securities.

Performance (%)

Net of Fees, Class VI, USD	+1.24
Gross of Fees, Class VI, USD	+1.36
Bloomberg Barclays U.S. Securitized+ ¹	+2.04
Value Added	-0.68

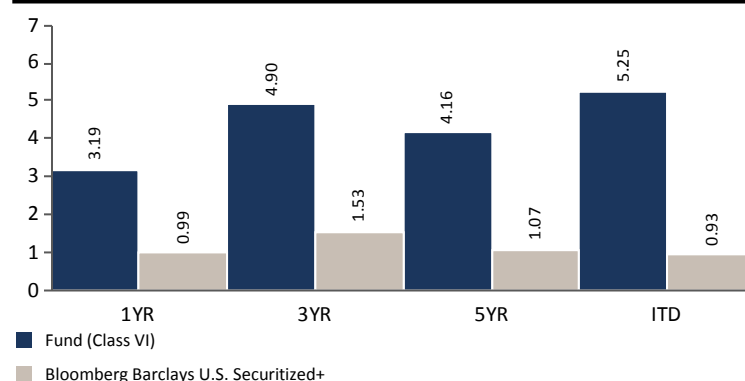
Major Performance Drivers

Total returns for securitized products were negative in the fourth quarter, despite falling base rates (swap and Treasury yields) throughout most of the quarter. Volatility increased in Q4, particularly in December as the Federal Reserve delivered a more hawkish tone regarding future rate hikes than the market had expected, generating a sell-off among riskier assets. Overall, in the corporate credit markets, returns were negative as Investment Grade finished with a -0.1% total return, and High Yield returns were -4.7%. On the base rate side, swap rates fell by 50 basis points ending at 2.57% (US 5-year). Investment grade bonds usually trade with an effective duration close to their modified duration, and thus total returns were close to zero despite spreads widening materially during the quarter due to the rally in risk-free rates.

In structured products, excess returns (vs. swaps/LIBOR) were negative across the board in Q4, a decidedly turbulent quarter, though up-in-quality sectors generally outperformed those that were lower in quality. Credit Risk Transfer (CRT) deals, which have out-of-the-money exposure to more idiosyncratic risks like hurricanes and the wild fires in California, provided returns ranging from -0.3% to -6.2% on various tranches. Additionally, Non-Agency Residential Mortgage-Backed Securities (RMBS) performance was negative with various collateral type returns ranging -1.0% to -3.9% during the quarter. Single Family Rentals (SFR), a somewhat hybrid member of the RMBS cohort, was also negative with excess returns across the capital structure ranging -0.6% to -1.1%. Volatility intensified in Commercial Mortgage-Backed Securities (CMBS), a longer duration asset, with performance down -1.2% on the quarter; spreads widened across tranches, with LCF AAA securities posting -1.1% in excess returns while lower-rated BBB tranches posted -2.3% in excess returns. Shorter duration fixed rate Auto ABS performance was marginally negative, -0.1% in excess returns, as this was a sector that held up very well during the quarter. Floating rate ABS performance from Student Loans was also negative, posting -0.3% excess returns. The Collateralized Loan Obligation (CLO) market underperformed in Q4 as credit concerns arose in the underlying leveraged loan market, with loans selling off multiple points throughout the quarter and, as a result,

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 0.50% 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: 10/03/2011

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

Opportunistic Income Fund

Quarter Ending December 31, 2018

weakness leaking into the CLO space.

Overall performance in CLOs (-1.3%) was negative in Q4, as were excess returns in the lower part of the capital structure, with BBB posting -3.7% and BB posting -5.2%.

At quarter end, 19% of the portfolio was rated AAA, although approximately 31% of the portfolio was rated single-A or better. Approximately 27% of the portfolio was invested in Student Loans, 19% in RMBS, 17% in Collateralized Debt Obligations (CDO) and CLO securities, 15% in Small Balance Commercial, 14% in CMBS, 1% in Autos, and 2% in other ABS.

Performance was positive for the quarter, with key contributions from Student Loan, CLO, and Small Balance Commercial sectors. Other sectors, including Autos and other ABS sectors, also contributed positively in Q4. Additionally, gains from hedge positions offset some of the widening that occurred within the portfolio's bonds. Losses from RMBS and CMBS sectors partly offset positive contributions.

(Ratings mentioned are the lowest of Moody's, Standard & Poor's, Fitch, DBRS, and Kroll. If none of these agencies provides a rating, no rating is used.)

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. Securitized + Index is comprised of the J.P. Morgan U.S. 3 Month Cash Index through 12/30/2016 and the Bloomberg Barclays U.S. Securitized: MBS, ABS, CMBS Index thereafter.