

OVERVIEW:

The GMO Quality Fund seeks to deliver total return by investing in equities that the GMO Focused Equity team believes to be of high quality.

Performance (%)

Net of Fees, Class III, Fair Value, USD	-11.92
Gross of Fees, Class III, Local Close, USD	-11.88
S&P 500 ¹	-13.52
Value Added	+1.64

Major Performance Drivers

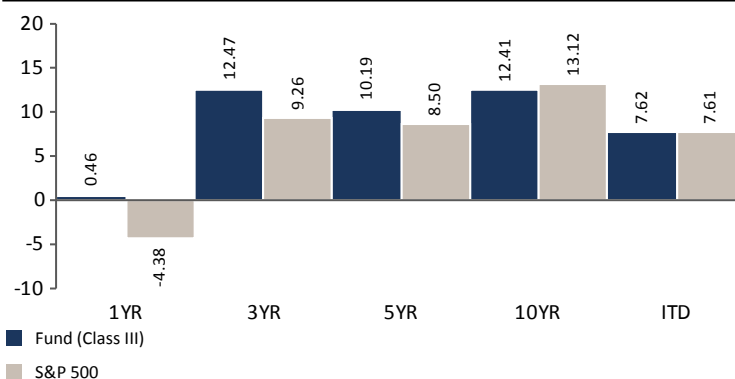
In a quarter in which global equity markets posted sharply negative returns, the strongest returns for the portfolio came from the Health Care sector, currently the second largest position within the portfolio. Energy performed particularly poorly in the fourth quarter and our lack of exposure within this sector contributed to relative returns as well. Our holdings within our large Information Technology position performed better than broad market Tech, yet from a sector allocation standpoint, the position did detract from relative performance. The Consumer Staples sector, another area of concentration within the portfolio, outperformed during the quarter, but security selection within the sector detracted as several of our international brands names dragged our relative performance down. Financials overall performed about in line while with MSCI World while the few names we hold within the sector did a bit better, giving a small boost to relative performance.

We believe that the portfolio offers an attractive bulwark against high overall market valuations. Despite the optics of its largest sector exposure – Technology stocks comprise 34% on the new definition (42% on the old definition) – we believe that the portfolio is likely to offer downside protection as it did in 2018, even as trade war concerns waxed and waned. The portfolio’s investments in Technology are generally at the less-fizzy end of the spectrum in terms of growth (more goldilocks than “gold at the end of a rainbow”), and they trade on lower multiples than the average Tech names with less volatile performance attributes. In aggregate, the portfolio’s Technology holdings underperformed the sector when it was raging upward, and outperformed the sector during the Q4 air pocket, contributing to defensive relative returns amid recent market duress.

In addition, the portfolio has a significant allocation to Consumer Staples and Health Care companies – both of which we would expect to hold up better than the market should the need arise. We certainly view the portfolio’s emphasis on company quality, capital deployment and stock valuation as part of the answer to navigating equity market uncertainty.

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: 02/06/2004

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

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 S&P 500 Index is an independently maintained and widely published index comprised of U.S. large capitalization stocks. S&P does not guarantee the accuracy, adequacy, completeness or availability of any data or information and is not responsible for any errors or omissions from the use of such data or information. Reproduction of the data or information in any form is prohibited except with the prior written permission of S&P or its third party licensors.