

QUALITY FUND

Year Ending December 31, 2020

OVERVIEW

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

PERFORMANCE (%)

Net of Fees, Class III, Fair Value, USD	+18.46
Gross of Fees, Class III, Local Close, USD	+19.07
S&P 500 ¹	+18.40
Value Added	+0.67

Major Performance Drivers

Despite the disruption caused by the pandemic, 2020 turned out to be a respectable year for absolute returns. After the drama of the sharpest sell-off in decades and the rapid rebound, the portfolio level-pegged with the S&P 500 in 2020 while beating the MSCI World Index of global equities.

The muted relative outcome masks a year of elevated activity. Our investing preference is for a long holding period, adding to holdings in good businesses at attractive valuations, ideally where share prices have overreacted to what we judge to be a temporary cloud – i.e., a setback that is unlikely to exert an influence on the company's fundamentals after a few years have elapsed. This year served up a cloud that was dark indeed for businesses caught in the lockdowns that continue to envelop the world, and we believe it will prove temporary for many quality companies.

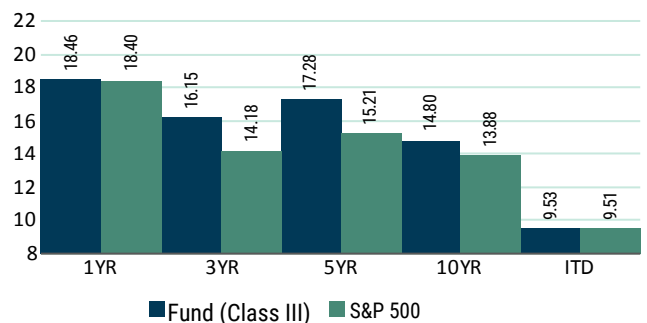
In the second quarter we added to existing positions in cyclically affected Consumers, Financials, and Industrials and established some new ones. In all we reallocated about 10% of your portfolio between April and June into what we now refer to as “back to normal” stocks, funded by crisis beneficiaries in Health Care (particularly Pharmaceuticals) as well as the now small weigh in classic consumer defensives. As of year-end, this back-to-normal group represents about 30% of your portfolio.

The trade out of Health Care and defensives added to relative returns for the year as these groups lagged the market in the rebound. Until the announcement of progress on vaccines in November, however, the back-to-normal part of your portfolio performed approximately in line with the broader markets, picking up some steam since. We believe that this part of your portfolio will make a more significant contribution as the pandemic dissipates, hopefully in 2021.

In hindsight, it would have been better to increase the emphasis on the Technology sector instead. Tech stocks continued to perform strongly after the virus had infected markets. Our inclination toward contrarianism, however, combined with a preference for diversification (even as the benchmark weight in the FAANGs rose inexorably), meant that we kept a lid on the allocation at around 40%. We continue to find quality business models at attractive prices in Technology. We have invested a portion of your portfolio into the makers of semi-conductors, and also the makers of

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, 2020.

ANNUALIZED RETURN (%) AS OF 12/31/2020



Inception date: 02/06/2004

Includes purchase premiums and redemption fees impact if applicable.

Year Ending December 31, 2020

the equipment that these companies use.

We continue to believe that your portfolio offers attractive prospective returns, in a low interest rate world where signs of speculative excess have begun to crop up in various corners, from the proliferation of SPACs (Special Purpose Acquisition Companies) to the compression of credit spreads. If the broader markets do indeed sag, we would expect the portfolio to hold up a good deal better, as it has in every protracted sell-off since the portfolio's inception. But we remain as ever, squarely focused on the holdings in your portfolio, where we see solid businesses, largely underpinned by sober valuations.

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, Focused Investment Risk, Non-U.S. Investment Risk, and Currency Risk. 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 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.