

# MULTI-SECTOR FIXED INCOME FUND

## Investment Review: Quarter Ending December 31, 2022

### OVERVIEW

The GMO Multi-Sector Fixed Income Fund (formerly Core Plus Bond Fund) seeks to achieve total return in excess of that of its benchmark, the Bloomberg U.S. Aggregate Index, by extracting alpha opportunities without taking any secular bias in duration, maturity, rating, and overall aggregate composition.

### PERFORMANCE (%)

Net of Fees, Class III, USD	+2.15
Gross of Fees, Class III, USD	+2.26
Bloomberg U.S. Aggregate <sup>1</sup>	+1.87
<b>Value Added</b>	<b>+0.38</b>

### Major Performance Drivers

#### Index Performance and Beta Replication

The Bloomberg U.S. Aggregate Bond index returned +1.87% during the fourth quarter of 2022. Performance was attributed largely to strong demand for fixed income assets in November following a lower than consensus inflation reading, which more than compensated weak October and December performance. U.S. Treasury returns were mildly positive from carry, while headline yields drifted 5 basis points higher. The curve flattened 6 basis points, measured by the yield differential between the 1-3 year and 20+ year maturity sectors of the curve. Moves in credit spreads were supportive, leading to risky asset outperformance. Investment-grade corporate bond returns benefited from 29 basis points of spread tightening, and the lowest rated cohort (Baa) outpaced the asset class. Securitized credit experienced mixed results, as agency mortgage bond performance was strong but asset-backed and commercial real estate bond sectors lagged.

Multi-Sector Fixed Income portfolio's core strategy generated positive alpha relative to the index, benefiting from both asset class allocation decisions and security selection within sectors. The portfolio's overweight position to emerging debt via GMO Emerging Country Debt Fund was the primary driver of outperformance during the quarter. The portfolio was overweight securitized credit via GMO Opportunistic Income Fund, which was negative for alpha. Security selection was particularly strong within the systematic investment-grade corporate strategy, a mixture of overweight Baa's and name selection in Consumer Non-Cyclical and Banking sub-sectors.

#### Alpha Overlay

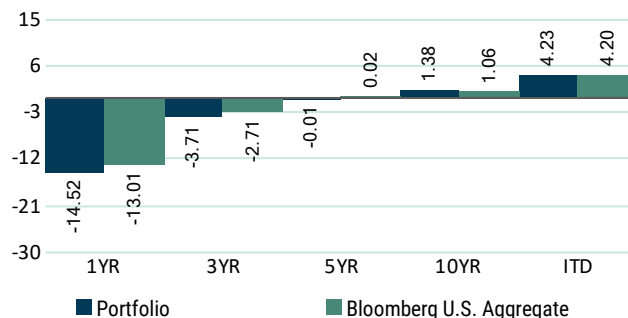
Systematic alpha overlay performance was positive in the fourth quarter. Model performance was strong in duration, slope, and G10 currencies, while the emerging currency model drew down.

The duration strategy benefited greatly from market selection, namely exposures to U.K. and North American markets, while duration timing underperformed. Value and statistical mean reversion provided much of the gains, while price momentum was negative. Slope performance was balanced between market selection and timing but driven mostly by carry factors.

The weakening of the U.S. dollar offered welcome tailwinds for the G10 model, as the strategy was net short throughout the quarter. Market selection minimized gains, adversely impacted from long exposure to Canadian dollars. The core PPP value signals were robust but carry, momentum, and macro factors struggled.

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](http://www.gmo.com). Gross Expense Ratio of 0.68% is equal to the Funds Total Annual Operating Expenses set forth in the Funds most recent prospectus dated June 30, 2022.

### ANNUALIZED RETURN (%) AS OF 12/31/2022



Inception date: 04/30/1997

Includes purchase premiums and redemption fees impact if applicable.

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Emerging currency positioning led to losses, from both cross-market positioning and dollar timing. The model was net long the U.S. dollar during the period. Market selection was negative mostly from wrong way positioning in LatAm, where the Colombian peso was the culprit. Factor attribution shows positive performance from carry, but current account, terms of trade, and economic surprise factors all disappointed.

*\*The G10 currencies are 10 of the most heavily traded currencies in the world. They include Australian dollar (AUD), British pound sterling (GBP), Canadian dollar (CAD), euro (EUR), Japanese yen (JPY), New Zealand dollar (NZD), Norwegian krone (NOK), Swedish krona (SEK), Swiss franc (CHF), and U.S. dollar (USD).*

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**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](http://www.gmo.com). Read the prospectus carefully before investing.**

Risks Associated with investing in the Fund may include Market Risk-Fixed Income, Credit Risk, Management and Operational Risk, Derivatives and Short Sales Risk and Market Risk-Asset-Backed Securities. 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.

<sup>1</sup> The Bloomberg 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.