

QUARTERLY INVESTMENT REVIEW

Multi-Sector Fixed Income Fund

RETURNS (%) (USD)

	Cumulative (%)		Annualized (%)				
	QTD	YTD	1 Year	3 Years	5 Years	10 Years	ITD
Net of Fees (Class III)	6.02	6.02	6.02	-4.27	0.75	1.93	4.30
Gross of Fees (Class III)	6.13	6.46	6.46	-3.87	1.16	2.34	4.72
Bloomberg U.S. Aggregate	6.82	5.53	5.53	-3.32	1.10	1.81	4.25
Value Added (vs. Bloomberg U.S. Aggregate)	-0.80	0.49	0.49	-0.95	-0.36	0.12	0.04

Major Performance Drivers

Index Performance and Core Portfolio

The Bloomberg U.S. Aggregate Bond index returned +6.82% during the fourth quarter of 2023. Heightened volatility during the period produced outsized moves across U.S. interest rate and credit markets. During early October, strong U.S. employment and retail sales data pushed yields higher, while concerns about the U.S. Treasury's debt issuance plans clouded rates markets. There was a dramatic tone shift in early November when Treasury Secretary Janet Yellen surprised by releasing a more benign refunding plan, generating a bid for long duration assets, while dovish remarks from Fed Governor Christopher Waller late in the month added fuel for the bullish move lower in yields. As December rolled into view, participants were eager for clues on when the Fed would pivot its monetary stance. Despite leaving rates unchanged, Fed Chair Jerome Powell's unwillingness to push back on aggressive cuts priced into STIR markets at the time of December's FOMC press conference was just the catalyst, and another duration rally ensued. On average, U.S. Treasury yields traded 77 basis points lower for the quarter while the curve, as measured by the yield differential between 1-3 year and 20+ year bond yields, steepened 11 basis points. With a seemingly more accommodative monetary stance on the near horizon, risky assets benefited from the moves and spreads broadly tightened. The U.S. Aggregate credit spread was tighter by 10 basis points, while moves in underlying sectors were dispersed. Investment-grade corporate credit and agency mortgages benefited the most, rallying 22 basis points and 19 basis points, respectively. Emerging sovereign spreads, as measured by the J.P. Morgan EMBIG-Diversified index, were 47 basis points tighter to the treasury curve.

The portfolio's core strategy trailed the index, as allocation tilts hurt the portfolio. Underweight positions to U.S. investment-grade credit and agency mortgages hurt, as did being overweight off-benchmark securitized products via GMO Opportunistic Income Fund. An overweight to emerging sovereign debt via GMO Emerging Country Debt Fund was helpful. Security selection within the systematic investment grade corporate basket was again strong, benefiting from issuer fundamental and valuation-based signals. Systematic alpha overlay strategies suffered during the quarter.

Alpha Overlay

Systematic alpha overlay performance was negative during the fourth quarter, as all four models generated losses in the period.

Duration performance suffered from cross-sectional factors, where positions in Australia and Sweden underperformed. Carry and value lagged, though macro and statistical mean-reversion signals provided some relief. Price momentum within the rates model performed well, particularly toward the latter parts of the quarter, and the portfolio was net long global duration as yields trended lower into year end. Within the curve slope strategy, momentum underperformed, driving much of the losses in the model, while valuation indicators added value.

In G10 currencies, cross-market selection pulled down performance, primarily from short Swiss franc and long Japanese yen positioning, and net U.S. dollar timing compounded losses. Through a factor lens, price momentum lagged, as did carry, while long-term macro-based gauges were positive. The emerging currency strategy similarly struggled from market selection and U.S. dollar timing. Currency selection in the EMEA region was most underwhelming, a by-product of price and yield momentum.

Inception Date: 30-Apr-97

Risks: Risks associated with investing in the Fund may include those as follows. (1) Market Risk - Fixed Income Investments: The market price of a fixed income investment can decline due to a number of market-related factors, including rising interest rates and widening credit spreads or decreased liquidity stemming from the market's uncertainty about the value of a fixed income investment (or class of fixed income investments). (2) Credit Risk: The risk that the issuer or guarantor of a fixed income investment or the obligor of an obligation underlying an asset-backed security will be unable or unwilling to satisfy its obligation to pay principal and interest or otherwise to honor its obligations in a timely manner. (3) Management and Operational Risk: The risk that GMO's investment techniques will fail to produce desired results. Annualized Returns may include the impact of purchase premiums and redemption fees. Returns shown for periods greater than one year are on an annualized basis. To obtain performance information to the most recent month-end, visit www.gmo.com.

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. If certain expenses were not reimbursed, performance would be lower. Transaction costs, if any, are paid to the fund to offset the cost of portfolio transactions to invest or raise cash. **Net Expense Ratio: 0.42%; Gross Expense Ratio: 0.74%** Net Expense Ratio reflects the reduction of expenses from fee reimbursements. The fee reimbursements will continue until at least June 30, 2024. Elimination of this reimbursement will result in higher fees and lower performance. Gross Expense Ratio is equal to the Funds Total Annual Operating Expenses set forth in the Funds most recent prospectus dated June 30, 2023.

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PRODUCT OVERVIEW

The GMO Multi-Sector Fixed Income 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. The Fund's investment program has two principal components. One component seeks to achieve a return commensurate with that of the Fund's benchmark. The second component seeks to add value relative to the Fund's benchmark by making investments that often will not track its benchmark.

IMPORTANT INFORMATION

Benchmark(s): 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.

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 funds prospectus. To obtain a prospectus please visit www.gmo.com. Read the prospectus carefully before investing.

The GMO Trust funds are distributed in the United States by Funds Distributor LLC. GMO and Funds Distributor LLC are not affiliated.

ABOUT GMO

Founded in 1977, GMO is a global asset manager committed to delivering superior performance and advice to our clients. We are privately owned, which allows us to singularly focus on our sole business – achieving outstanding long-term client investment outcomes. Offering multi-asset, equity, fixed income, and alternative strategies, we invest with a long-term, valuation-based philosophical approach.

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