QUARTERLY INVESTMENT REVIEW

Opportunistic Income Fund

RETURNS (%) (USD)

	Cumulative (%)		Annualized (%)				
	QTD	YTD	1 Year	3 Years	5 Years	10 Years	ITD
Net of Fees (Class VI)	2.96	7.08	7.08	2.54	2.96	3.64	4.37
Gross of Fees (Class VI)	3.08	7.58	7.58	3.03	3.44	4.08	4.79
Bloomberg U.S. Securitized+	7.28	5.08	5.08	-2.80	0.37	0.72	0.70
Value Added (vs. Bloomberg U.S. Securitized+)	-4.32	2.00	2.00	5.34	2.59	2.92	+3.67

Major Performance Drivers

Total returns for securitized products were positive in Q4 2023, and base rates (swap and Treasury yields) fell, resulting in a significant rally for fixed-rate assets. Weaker-than-expected new home sales data in November and anticipation of future rate cuts drove the mid-quarter fall in yields. While the Federal Reserve voted to keep the target funds rate of 5.25-5.50% unchanged at its December FOMC meeting, the updated median dot projections suggested 75 bps of cuts in early 2024, initiating another steep fall in yields toward quarter-end. Overall, in the corporate credit markets, returns were positive, as Investment Grade (IG) finished with a +4.0% total return and High Yield (HY) returned +3.7%. On the base rate side, swap rates ended the quarter down 86 bps, settling at 3.80% (U.S. 5-year).

Excess returns (vs. swaps/Libor) in structured products were mixed in the 4Q 2023 but positively skewed. Credit Risk Transfer (CRT) deals on residential mortgages reported positive excess returns, ranging from +0.6% to +2.6% on various tranches. In the residential space, Non-Agency Residential Mortgage-Backed Securities (RMBS) also reported positive excess returns, with various collateral-type excess returns from +0.1% to +1.3% in Q4. Single Family Rental (SFR), a somewhat hybrid member of the RMBS cohort, posted negative results, with excess returns across the capital structure ranging from -2.6% to -3.4%. In Commercial Mortgage-Backed Securities (CMBS), a longer duration asset, overall performance was up +0.3% in excess on the quarter, with LCF AAA securities posting 0.4% excess returns, while lower-rated BBB tranches posted -0.9%. Shorter duration fixed rate Auto ABS was flat (0.0%) during the quarter. Floating rate ABS performance from Student Loans was positive in Q4, returning +0.5%. Overall performance in the Collateralized Loan Obligation (CLO) market was up +1.2% in excess during the quarter; excess returns in the lower part of the capital structure were even higher, with BBB posting +2.8% and BB posting +4.8%.

At quarter-end, 69% of the portfolio was rated AAA, although approximately 79% was rated single-A or better. Approximately 21% of the portfolio was invested in CMBS, 18% in RMBS, 15% in Student Loans, 13% in CLO securities, 5% in Small Balance Commercial, 3% in Autos, and 3% in other ABS.

Absolute performance was positive for the quarter, with gains driven by the portfolio's Duration Management positions, followed by gains from RMBS, CMBS, CLO, and Student Loans sectors. Small Balance Commercial and Auto sectors also contributed positively during the quarter. While unable to fully offset gains, the portfolio's Credit Spread Hedging Impact and Credit Relative value positions detracted.
(Ratings are lowest of Moody's, Standard & Poor's, Fitch, DBRS, and Kroll. No rating is used if none of the five listed provides a rating.)

Inception Date: 3-Oct-11

Risks: Risks associated with investing in the Fund may include those as follows. (1) 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. The market price of a fixed income investment will normally decline due to the issuer's, guarantor's, or obligor's failure to meet its payment obligations or in anticipation of such failure. (2) Market Risk - Asset-Backed Securities: The market price of asset-backed securities, like that of other fixed income investments with complex structures, can decline for a variety of reasons, including market uncertainty about their credit quality and the reliability of their payment streams. (3) Illiquidity Risk: Low trading volume, lack of a market maker, large position size or legal restrictions may limit or prevent the Fund from selling particular securities or closing derivative positions at desirable prices. For a more complete discussion of these risks and others, please consult the Fund's prospectus.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.

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: 0.48%; Gross Expense Ratio: 0.52% 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.

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. The portfolio is not managed relative to a benchmark. References to an index are for informational purposes only.

QUARTERLY INVESTMENT REVIEW

PRODUCT OVERVIEW

The GMO Opportunistic Income Fund seeks capital appreciation and current income by investing in what we believe are the most attractively priced sectors and securities in the structured finance marketplace. The Structured Products team utilizes both top-down and bottom-up security selection methods to identify what we believe are the best opportunities from a pure risk/return perspective.

The structured finance asset class offers a range of opportunities due to both its inherently fragmented nature and the inefficiencies caused by market segmentation and structural anomalies. We believe that the marketplace's complexity, periods of challenging past performance, and very high number of discrete investment opportunities create considerable potential for alpha generation, and that our relatively unconstrained approach and attempts to diversify risk are ideal to dive deeply into sub-sectors and individual securities to access this potential.

IMPORTANT INFORMATION

Comparator Index(es): The Bloomberg U.S. Securitized + Index is an internally maintained benchmark computed by GMO, comprised of (i) the J.P. Morgan U.S. 3 Month Cash through 12/30/2016 and (ii) the Bloomberg U.S. Securitized thereafter.