

EMERGING COUNTRY DEBT FUND

Investment Review: Quarter Ending December 31, 2022

OVERVIEW

The GMO Emerging Country Debt Fund seeks total return in excess of that of its benchmark, the J.P. Morgan Emerging Markets Bond Index Global Diversified primarily through instrument rather than country selection. The Fund invests primarily in external sovereign and quasi-sovereign debt instruments of emerging countries.

PERFORMANCE (%)

Net of Fees, Class III, USD	+10.37
Gross of Fees, Class III, USD	+10.51
J.P. Morgan EMBI Global Diversified + ¹	+8.11
Value Added	+2.40

Major Performance Drivers

The J.P. Morgan EMBI Global Diversified + (EMBIG-D) index returned +8.1% in the final quarter of 2022, bringing 2022 returns to -17.8%. The benchmark's spread over Treasuries tightened by 107 bps over the quarter, finishing at 452 bps and resulting in a +7.6% spread return. Despite the five basis point rise in the 10-year Treasury yield on the quarter, U.S. rates also contributed positively to benchmark returns, with a +0.5% interest rate return.

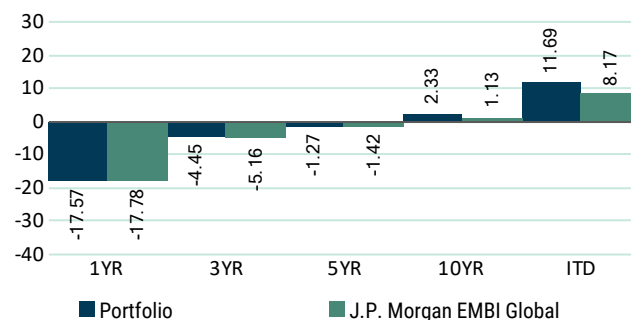
The portfolio had positive alpha from country selection in the fourth quarter, while security selection was negative. Within country selection, overweight positions in Argentina (+37.6% total return, the EMBIG-D's second-best performer for the quarter), Tunisia (+16.3%), and Ecuador (+39.3%, the index's best performer for the quarter), and underweight positions in Qatar (+4.0%) and China (+0.9%) drove gains during the quarter. Despite their positive total returns, the underweights in Qatar and China contributed positively as the countries underperformed the index. While unable to offset gains, an overweight position in Suriname (-11.1%, the index's worst performer for the quarter) and an underweight position in Nigeria (+17.2%) contributed negatively.

In terms of security selection, the choice of holdings in Tunisia, Brazil, the Philippines, and Turkey were notable detractors. Partly offsetting security selection losses, the choice of holdings in Mexico, Chile, India, and South Africa were notable contributors. Within quasi-sovereign security selection, the portfolio had notable contributions from Chile and India. The holdings of bonds in off-benchmark countries, which we consider security selection, were neutral during the quarter. Contributions from the Bahamas, Venezuela, and Belarus were offset by losses from Russia, Israel, and Republic of Congo.

Entering the first quarter of 2023, the portfolio's largest overweights are Tunisia, Turkey, and Oman, while the largest underweights are China, Qatar, and Brazil. The portfolio had a few major changes in country exposures during the quarter. Notably, in duration-adjusted terms, the portfolio's underweight position relative to the benchmark in Mexico flipped to an overweight position during the quarter. Additionally, positioning was increased in underweight Jamaica and overweight Colombia and South Africa, and decreased in overweight Saudi Arabia. The portfolio's weight in off-benchmark Russia also decreased during the quarter.

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 0.53% 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: 04/19/1994

Includes purchase premiums and redemption fees impact if applicable.

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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. Read the prospectus carefully before investing.

Risks associated with investing in the Fund may include Credit Risk, Market Risk-Fixed Income, Illiquidity Risk, Derivatives and Short Sales Risk and Counterparty 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 J.P. Morgan EMBI (Emerging Markets Bond) Index Global Diversified + is an internally maintained benchmark computed by GMO, comprised of (i) the J.P. Morgan EMBI+ Index through 12/31/1999, (ii) the J.P. Morgan EMBI Index Global through 2/28/2020, and the J.P. Morgan EMBI Index Global Diversified (iii) thereafter. As of 3/31/2020, the Emerging Country Debt Strategy changed its benchmark and is now seeking total return in excess of that of the J.P. Morgan Emerging Markets Bond Index Global Diversified. The Strategy formerly sought to outperform the J.P. Morgan Emerging Markets Bond Index Global.