

GMO International Bond Fund
(A Series of GMO Trust)
Semiannual Report
August 31, 2009

For a free copy of the Fund's proxy voting guidelines, shareholders may call 1-617-346-7646 (collect) or visit the Securities and Exchange Commission's website at www.sec.gov. Information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available on GMO's website at www.gmo.com, or on the Securities and Exchange Commission's website at www.sec.gov.

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission for the first and third quarter of each fiscal year on Form N-Q, which is available on the Commission's website at www.sec.gov. The Fund's Form N-Q may be reviewed and copied at the Commission's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. The Fund has a policy with respect to disclosure of portfolio holdings under which it may also make available on GMO's website at www.gmo.com a complete schedule of portfolio holdings.

This report is prepared for the general information of shareholders. It is authorized for distribution to prospective investors only when preceded or accompanied by a prospectus for the GMO Trust, which contains a complete discussion of the risks associated with an investment in this Fund and other important information. The GMO Trust prospectus can be obtained at www.gmo.com.

GMO International Bond Fund
(A Series of GMO Trust)
Investments Concentration Summary
August 31, 2009 (Unaudited)

| Asset Class Summary* | % of Total Net Assets |
|-------------------------------|------------------------------|
| Debt Obligations | 88.6% |
| Short-Term Investments | 12.1 |
| Options Purchased | 2.0 |
| Futures | 0.9 |
| Forward Currency Contracts | 0.4 |
| Loan Participations | 0.2 |
| Loan Assignments | 0.1 |
| Rights and Warrants | 0.0 |
| Promissory Notes | 0.0 |
| Swaps | (0.5) |
| Written Options | (0.6) |
| Reverse Repurchase Agreements | (2.3) |
| Other | (0.9) |
| | 100.0% |

| Country Summary** | % of Investments |
|--------------------------|-------------------------|
| Euro Region*** | 52.8% |
| Japan | 26.2 |
| United Kingdom | 14.1 |
| Emerging**** | 4.5 |
| Canada | 4.1 |
| Australia | 2.4 |
| Sweden | 0.4 |
| United States | (4.5) |
| | 100.0% |

* The table above incorporates aggregate indirect asset class exposure associated with investments in other funds of GMO Trust (“underlying funds”).

** The table above incorporates aggregate indirect country exposure associated with investments in the underlying funds. The table excludes short-term investments. The table includes exposure through the use of derivative contracts. The table is based on duration adjusted exposures, taking into account the market value of securities and the notional amounts of swaps and other derivative contracts. Duration is based on the Manager’s models. The greater the duration of a bond, the greater its contribution to the concentration percentage. Credit default swap exposures (both positive and negative) are factored into the duration-adjusted exposure using the reference security and applying the same methodology to that security.

*** The “Euro Region” is comprised of Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia and Spain.

**** The “Emerging” exposure is associated with investments in the GMO Emerging Country Debt Fund, which is exposed to emerging countries primarily comprised of Russia, Argentina, Brazil, Philippines, Mexico, Venezuela, Colombia, Uruguay, Turkey, and Indonesia. Additional information about the fund’s emerging country exposure is available in the financial statements of the GMO Emerging Country Debt Fund.

GMO International Bond Fund
(A Series of GMO Trust)
Schedule of Investments
(showing percentage of total net assets)
August 31, 2009 (Unaudited)

| | Par Value | Description | Value (\$) |
|-----|------------------|---|--------------------------|
| | | DEBT OBLIGATIONS — 22.2% | |
| | | Canada — 1.1% | |
| | | Foreign Government Obligations | |
| CAD | 1,760,000 | Government of Canada, 8.00%, due 06/01/23 | <u>2,318,634</u> |
| | | France — 2.9% | |
| | | Foreign Government Obligations | |
| EUR | 4,500,000 | Government of France, 4.00%, due 10/25/38 | <u>6,335,075</u> |
| | | Germany — 3.3% | |
| | | Foreign Government Obligations | |
| EUR | 4,500,000 | Republic of Deutschland, 4.75%, due 07/04/34 ^(a) | <u>7,116,960</u> |
| | | Japan — 7.4% | |
| | | Foreign Government Obligations | |
| JPY | 1,438,400,000 | Japan Government Twenty Year Bond, 2.20%, due 06/20/26 | <u>16,028,305</u> |
| | | United Kingdom — 3.6% | |
| | | Foreign Government Obligations | |
| GBP | 4,500,000 | U.K. Treasury Gilt, 4.25%, due 12/07/27 | <u>7,661,302</u> |
| | | United States — 3.9% | |
| | | U.S. Government | |
| USD | 8,411,594 | U.S. Treasury Inflation Indexed Bond, 0.88%, due 04/15/10 ^{(a)(b)} | <u>8,398,455</u> |
| | | TOTAL DEBT OBLIGATIONS (COST \$47,087,642) | <u>47,858,731</u> |

GMO International Bond Fund
(A Series of GMO Trust)
Schedule of Investments — (Continued)
(showing percentage of total net assets)
August 31, 2009 (Unaudited)

| Shares | Description | Value (\$) |
|-----------|--|-----------------------------|
| | MUTUAL FUNDS — 74.5% | |
| | United States — 74.5% | |
| | Affiliated Issuers | |
| 1,026,942 | GMO Emerging Country Debt Fund, Class III | 7,907,457 |
| 6,390,009 | GMO Short-Duration Collateral Fund | 102,559,652 |
| 37,466 | GMO Special Purpose Holding Fund ^(c) | 23,604 |
| 613,955 | GMO U.S. Treasury Fund | 15,355,011 |
| 1,778,001 | GMO World Opportunity Overlay Fund | <u>34,422,091</u> |
| | Total United States | <u>160,267,815</u> |
| | TOTAL MUTUAL FUNDS (COST \$185,774,272) | <u>160,267,815</u> |
| | SHORT-TERM INVESTMENTS — 3.0% | |
| | Money Market Funds — 3.0% | |
| 6,473,900 | State Street Institutional Treasury Plus Money Market Fund-Institutional Class | <u>6,473,900</u> |
| | TOTAL SHORT-TERM INVESTMENTS (COST \$6,473,900) | <u>6,473,900</u> |
| | TOTAL INVESTMENTS — 99.7% | |
| | (Cost \$239,335,814) | 214,600,446 |
| | Other Assets and Liabilities (net) — 0.3% | <u>549,959</u> |
| | TOTAL NET ASSETS — 100.0% | <u><u>\$215,150,405</u></u> |

GMO International Bond Fund
(A Series of GMO Trust)

Schedule of Investments — (Continued)
August 31, 2009 (Unaudited)

A summary of outstanding financial instruments at August 31, 2009 is as follows:

Forward Currency Contracts

| <u>Settlement Date</u> | <u>Deliver/Receive</u> | <u>Units of Currency</u> | <u>Value</u> | <u>Net Unrealized Appreciation (Depreciation)</u> |
|------------------------|------------------------|--------------------------|----------------------|---|
| Buys † | | | | |
| 10/20/09 | AUD | 900,000 | \$ 757,805 | \$ 9,905 |
| 9/01/09 | AUD | 900,000 | 760,680 | 58,680 |
| 9/08/09 | CAD | 2,600,000 | 2,375,017 | 49,436 |
| 10/06/09 | EUR | 52,700,000 | 75,553,112 | (310,646) |
| 9/15/09 | GBP | 4,300,000 | 6,999,967 | (92,883) |
| 10/13/09 | JPY | 5,590,000,000 | 60,092,174 | 1,049,323 |
| | | | <u>\$146,538,755</u> | <u>\$ 763,815</u> |
| Sales # | | | | |
| 9/01/09 | AUD | 900,000 | \$ 760,680 | \$ (9,990) |

† Fund buys foreign currency; sells USD.

Fund sells foreign currency; buys USD.

Forward Cross Currency Contracts

| <u>Settlement Date</u> | <u>Deliver/Units of Currency</u> | <u>Receive/In Exchange For</u> | <u>Net Unrealized Appreciation (Depreciation)</u> |
|------------------------|----------------------------------|--------------------------------|---|
| 9/22/09 | EUR 1,300,000 | SEK 13,585,000 | <u>\$44,841</u> |

Futures Contracts

| <u>Number of Contracts</u> | <u>Type</u> | <u>Expiration Date</u> | <u>Contract Value</u> | <u>Net Unrealized Appreciation (Depreciation)</u> |
|----------------------------|-----------------------------------|------------------------|-----------------------|---|
| Buys | | | | |
| 17 | Australian Government Bond 10 Yr. | September 2009 | \$ 1,503,915 | \$ 7,980 |
| 29 | Australian Government Bond 3 Yr. | September 2009 | 2,516,526 | (25,664) |
| 33 | Canadian Government Bond 10 Yr. | December 2009 | 3,632,336 | 14,010 |
| 215 | Euro Bund | September 2009 | 37,797,490 | 1,199,187 |
| 169 | Euro BOBL | September 2009 | 28,174,541 | 449,499 |
| 400 | Federal Funds 30 day | September 2009 | 166,388,310 | (9,206) |

GMO International Bond Fund
(A Series of GMO Trust)

Schedule of Investments — (Continued)
August 31, 2009 (Unaudited)

Futures Contracts — continued

| Number of Contracts | Type | Expiration Date | Contract Value | Net Unrealized Appreciation (Depreciation) |
|----------------------------|---------------------------------------|------------------------|-----------------------|---|
| Buys | | | | |
| 12 | Japanese Government Bond 10 Yr. (TSE) | September 2009 | \$ 17,942,612 | \$ 398,193 |
| 3 | U.S. Treasury Note 5 Yr. (CBT) | December 2009 | 345,750 | 1,494 |
| 63 | UK Gilt Long Bond | December 2009 | 12,151,419 | 34,605 |
| | | | <u>\$270,452,899</u> | <u>\$2,070,098</u> |
| Sales | | | | |
| 2 | U.S. Treasury Bond (CBT) | December 2009 | \$ 239,500 | \$ (1,311) |
| 14 | U.S. Treasury Note 2 Yr. (CBT) | December 2009 | 3,028,813 | (6,962) |
| 52 | U.S. Treasury Note 10 Yr. (CBT) | December 2009 | 6,095,375 | (35,093) |
| | | | <u>\$ 9,363,688</u> | <u>\$ (43,366)</u> |

Swap Agreements

Credit Default Swaps

| Notional Amount | Expiration Date | Counterparty | Receive (Pay)^ | Annual Premium | Implied Credit Spread (1) | Deliverable on Default | Maximum Potential Amount of Future Payments by the Fund Under the Contract (2) | Market Value |
|------------------------|------------------------|---------------------|-----------------------|-----------------------|----------------------------------|-------------------------------|---|---------------------|
| 21,000,000 USD | 3/20/2014 | Deutsche Bank AG | (Pay) | 1.70% | 0.71% | Republic of Italy | NA | \$ (960,257) |
| 15,000,000 USD | 3/20/2019 | Deutsche Bank AG | Receive | 1.66% | 0.77% | Republic of Italy | 15,000,000 USD | 1,109,783 |
| | | | | | | | | <u>\$ 149,526</u> |
| | | | | | | | Premiums to (Pay) Receive | \$ — |

- ^ Receive - Fund receives premium and sells credit protection. (Pay) - Fund pays premium and buys credit protection.
- (1) Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on the reference security, as of August 31, 2009, serve as an indicator of the current status of the payment/performance risk and reflect the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Wider (i.e. higher) credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.
- (2) The maximum potential amount the Fund could be required to make as a seller of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.

GMO International Bond Fund

(A Series of GMO Trust)

Schedule of Investments — (Continued)

August 31, 2009 (Unaudited)

As of August 31, 2009, for the futures and/or swap contracts held, the Fund had sufficient cash and/or securities to cover any commitments or margin requirements of the relevant broker or exchange.

Notes to Schedule of Investments:

BOBL - Bundesobligationen

- (a) All or a portion of this security has been segregated to cover margin requirements on open financial futures contracts (Note 2).
- (b) Indexed security in which price and/or coupon is linked to the prices of a specific instrument or financial statistic.
- (c) Underlying investment represents interests in defaulted securities.

Currency Abbreviations:

AUD - Australian Dollar

CAD - Canadian Dollar

EUR - Euro

GBP - British Pound

JPY - Japanese Yen

SEK - Swedish Krona

USD - United States Dollar

GMO International Bond Fund

(A Series of GMO Trust)

Statement of Assets and Liabilities — August 31, 2009 (Unaudited)

Assets:

| | |
|--|--------------------|
| Investments in unaffiliated issuers, at value (cost \$53,561,542) (Note 2) | \$ 54,332,631 |
| Investments in affiliated issuers, at value (cost \$185,774,272) (Notes 2 and 8) | 160,267,815 |
| Dividends and interest receivable | 473,745 |
| Unrealized appreciation on open forward currency contracts (Note 2) | 1,212,185 |
| Receivable for variation margin on open futures contracts (Note 2) | 2,422,420 |
| Receivable for open swap contracts (Note 2) | 1,109,783 |
| Receivable for expenses reimbursed by Manager (Note 3) | 12,911 |
| Other expense reimbursement from Manager (Note 2) | <u>830,768</u> |
| Total assets | <u>220,662,258</u> |

Liabilities:

| | |
|---|------------------|
| Foreign currency due to custodian | 942,655 |
| Payable for investments purchased | 752,799 |
| Payable to affiliate for (Note 3): | |
| Management fee | 44,675 |
| Shareholder service fee | 26,805 |
| Trustees and Chief Compliance Officer of GMO Trust fees | 482 |
| Payable to broker for closed futures contracts | 1,478,383 |
| Unrealized depreciation on open forward currency contracts (Note 2) | 413,519 |
| Payable for open swap contracts (Note 2) | 960,257 |
| Accrued expenses | <u>892,278</u> |
| Total liabilities | <u>5,511,853</u> |

Net assets

\$215,150,405

Net assets consist of:

| | |
|---|-----------------------------|
| Paid-in capital | \$ 280,701,480 |
| Accumulated undistributed net investment income | 25,485,719 |
| Accumulated net realized loss | (69,251,207) |
| Net unrealized depreciation | <u>(21,785,587)</u> |
| | <u>\$215,150,405</u> |

Net assets attributable to:

| | |
|------------------|-----------------------|
| Class III shares | <u>\$ 215,150,405</u> |
|------------------|-----------------------|

Shares outstanding:

| | |
|-----------|-------------------|
| Class III | <u>30,503,197</u> |
|-----------|-------------------|

Net asset value per share:

| | |
|-----------|----------------|
| Class III | <u>\$ 7.05</u> |
|-----------|----------------|

GMO International Bond Fund (A Series of GMO Trust)

Statement of Operations — Six Months Ended August 31, 2009 (Unaudited)

Investment Income:

| | |
|--|------------------|
| Dividends from affiliated issuers (Note 8) | \$ 1,000,208 |
| Interest | 780,514 |
| Dividends | <u>2,285</u> |
| Total investment income | <u>1,783,007</u> |

Expenses:

| | |
|--|------------------|
| Management fee (Note 3) | 260,346 |
| Shareholder service fee – Class III (Note 3) | 156,208 |
| Custodian, fund accounting agent and transfer agent fees | 48,024 |
| Audit and tax fees | 33,396 |
| Legal fees | 6,808 |
| Trustees fees and related expenses (Note 3) | 2,224 |
| Registration fees | 2,116 |
| Miscellaneous | <u>2,116</u> |
| Total expenses | 511,238 |
| Fees and expenses reimbursed by Manager (Note 3) | (88,688) |
| Expense reductions (Note 2) | (2) |
| Indirectly incurred fees waived or borne by Manager (Note 3) | (14,340) |
| Shareholder service fee waived (Note 3) | <u>(5,289)</u> |
| Net expenses | <u>402,919</u> |
| Net investment income (loss) | <u>1,380,088</u> |

Realized and unrealized gain (loss):

| | |
|---|--------------------|
| Net realized gain (loss) on: | |
| Investments in unaffiliated issuers | (249,873) |
| Investments in affiliated issuers | (6,211,252) |
| Closed futures contracts | (2,582,734) |
| Closed swap contracts | (42,600) |
| Foreign currency, forward contracts and foreign currency related transactions | <u>1,934,391</u> |
| Net realized gain (loss) | <u>(7,152,068)</u> |
| Change in net unrealized appreciation (depreciation) on: | |
| Investments in unaffiliated issuers | 4,259,526 |
| Investments in affiliated issuers | 27,722,675 |
| Open futures contracts | 1,666,148 |
| Open swap contracts | 180,031 |
| Foreign currency, forward contracts and foreign currency related transactions | <u>11,516,002</u> |
| Net unrealized gain (loss) | <u>45,344,382</u> |
| Net realized and unrealized gain (loss) | <u>38,192,314</u> |

Net increase (decrease) in net assets resulting from operations **\$39,572,402**

GMO International Bond Fund
(A Series of GMO Trust)

Statement of Changes in Net Assets

| | Six Months Ended August 31, 2009 (Unaudited) | Year Ended February 28, 2009 |
|--|---|---|
| Increase (decrease) in net assets: | | |
| Operations: | | |
| Net investment income (loss) | \$ 1,380,088 | \$ 8,570,499 |
| Net realized gain (loss) | (7,152,068) | (27,717,738) |
| Change in net unrealized appreciation (depreciation) | <u>45,344,382</u> | <u>(74,511,421)</u> |
| Net increase (decrease) in net assets from operations | <u>39,572,402</u> | <u>(93,658,660)</u> |
| Distributions to shareholders from: | | |
| Net investment income | | |
| Class III | <u>(12,100,001)</u> | <u>(53,793,041)</u> |
| Net share transactions (Note 7): | | |
| Class III | (24,169,663) | (155,905,746) |
| Redemption fees (Notes 2 and 7): | | |
| Class III | <u>83,993</u> | <u>550,622</u> |
| Total increase (decrease) in net assets resulting from net share transactions and redemption fees | <u>(24,085,670)</u> | <u>(155,355,124)</u> |
| Total increase (decrease) in net assets | 3,386,731 | (302,806,825) |
| Net assets: | | |
| Beginning of period | <u>211,763,674</u> | <u>514,570,499</u> |
| End of period (including accumulated undistributed net investment income of \$25,485,719 and \$36,205,632, respectively) | <u>\$215,150,405</u> | <u>\$ 211,763,674</u> |

GMO International Bond Fund

(A Series of GMO Trust)

Financial Highlights

(For a Class III share outstanding throughout each period)

| | Six Months Ended August 31, 2009 (Unaudited) | Year Ended February 28/29, | | | | |
|--|---|----------------------------|----------------|----------------|-----------------|-----------------|
| | | 2009 | 2008 | 2007 | 2006 | 2005 |
| Net asset value, beginning of period | \$ 6.17 | \$ 9.51 | \$ 9.73 | \$ 9.57 | \$ 10.61 | \$ 10.38 |
| Income (loss) from investment operations: | | | | | | |
| Net investment income (loss) ^{(a)†} | 0.04 | 0.19 | 0.41 | 0.41 | 0.21 | 0.17 |
| Net realized and unrealized gain (loss) | 1.23 | (2.32) | 0.31 | 0.38 | (0.93) | 1.02 |
| Total from investment operations | 1.27 | (2.13) | 0.72 | 0.79 | (0.72) | 1.19 |
| Less distributions to shareholders: | | | | | | |
| From net investment income | (0.39) | (1.21) | (0.94) | (0.54) | (0.31) | (0.91) |
| From net realized gains | — | — | — | (0.09) | (0.01) | (0.05) |
| Total distributions | (0.39) | (1.21) | (0.94) | (0.63) | (0.32) | (0.96) |
| Net asset value, end of period | \$ 7.05 | \$ 6.17 | \$ 9.51 | \$ 9.73 | \$ 9.57 | \$ 10.61 |
| Total Return^(b) | 21.19%^{**} | (24.52)% | 8.09% | 8.32% | (6.83)% | 11.81% |

Ratios/Supplemental Data:

| | | | | | | |
|--|------------------------|-----------|----------------------|----------------------|-----------|-----------|
| Net assets, end of period (000's) | \$215,150 | \$211,764 | \$514,570 | \$449,478 | \$422,528 | \$438,365 |
| Net expenses to average daily net assets ^(c) | 0.39% ^{(d)*} | 0.39% | 0.38% ^(d) | 0.39% | 0.39% | 0.39% |
| Net investment income to average daily net assets ^(a) | 1.33%* | 2.20% | 4.26% | 4.17% | 2.13% | 1.65% |
| Portfolio turnover rate | 6%** | 47% | 51% | 32% | 36% | 51% |
| Fees and expenses reimbursed and/or waived by the Manager to average daily net assets: | 0.10%* | 0.09% | 0.07% | 0.26% ^(e) | 0.08% | 0.09% |
| Redemption fees consisted of the following per share amounts:† | \$ 0.00 ^(f) | \$ 0.01 | — | — | — | — |

- (a) Net investment income is affected by the timing of the declaration of dividends by the underlying funds in which the Fund invests.
(b) The total returns would have been lower had certain expenses not been reimbursed and/or waived during the periods shown and assumes the effect of reinvested distributions. Calculation excludes redemption fees which are borne by the shareholder.
(c) Net expenses exclude expenses incurred indirectly through investment in the underlying funds (See Note 3).
(d) The net expense ratio does not include the effect of expense reductions.
(e) Includes 0.19% non-recurring Internal Revenue Code Section 860 expense reimbursed by the Manager (Note 2).
(f) Redemption fees were less than \$0.01 per share.

† Calculated using average shares outstanding throughout the period.

* Annualized.

** Not annualized.

GMO International Bond Fund

(A Series of GMO Trust)

Notes to Financial Statements

August 31, 2009 (Unaudited)

1. Organization

GMO International Bond Fund (the “Fund”) is a series of GMO Trust (the “Trust”). The Trust is registered under the Investment Company Act of 1940, as amended (the “1940 Act”) as an open-end management investment company with multiple series. The Fund is a non-diversified investment company as the term is defined in the 1940 Act. The Fund is advised and managed by Grantham, Mayo, Van Otterloo & Co. LLC (the “Manager” or “GMO”). The Trust was established as a Massachusetts business trust under the laws of The Commonwealth of Massachusetts on June 24, 1985. The Declaration of Trust permits the Trustees of the Trust (“Trustees”) to create an unlimited number of series of shares (“Funds”) and to subdivide Funds into classes.

The Fund seeks total return in excess of that of its benchmark, the J.P. Morgan Non-U.S. Government Bond Index. The Fund typically invests in bonds included in the Fund’s benchmark and in securities and instruments with similar characteristics. The Fund seeks additional returns by seeking to exploit differences in global interest rates, sectors, and credit, currency, and emerging country debt markets. The Fund may implement its strategies: (i) synthetically by using exchange-traded and over-the-counter (“OTC”) derivatives and investing in other series of the Trust and/or (ii) directly by purchasing bonds denominated in various currencies. The Fund has historically gained its investment exposure primarily through the use of derivatives and investments in other series of the Trust. As a result, the Fund has substantial holdings of GMO Short-Duration Collateral Fund (“SDCF”) (a Fund that invests primarily in asset-backed securities) and GMO World Opportunity Overlay Fund (“Overlay Fund”) (a Fund that invests in asset-backed securities and uses derivatives to attempt to exploit misvaluations in world interest rates, currencies and credit markets). Under normal circumstances, the Fund invests (directly and indirectly through other series of the Trust) at least 80% of its assets in bonds. For these purposes, the term “bonds” includes (i) obligations of an issuer to make payments of principal and/or interest on future dates and (ii) synthetic debt instruments created by the Manager by using a futures contract, swap contract, currency forward or option. To implement its investment strategies, the Fund may invest in or hold: investment-grade bonds denominated in various currencies, including foreign and U.S. government securities and asset-backed securities issued by foreign governments and U.S. government agencies (including securities neither guaranteed nor insured by the U.S. government), corporate bonds, and mortgage-backed and other asset-backed securities issued by private issuers; derivatives, including without limitation, futures contracts, currency options, currency forwards, credit default swaps and other swap contracts (to gain exposure to the global interest rate, credit, and currency markets); shares of SDCF (to gain exposure to asset-backed securities); shares of Overlay Fund (to attempt to exploit misvaluations in world interest rates, currencies, and credit markets); shares of GMO Emerging Country Debt Fund (“ECDF”) (to gain exposure to sovereign debt of emerging countries); and shares of GMO U.S. Treasury Fund (for liquidity management purposes). Because of the deterioration in credit markets that became acute in 2008, the Fund through its investment in SDCF and Overlay Fund currently holds and may continue to hold material positions of below investment grade securities. This is in addition to the Fund’s emerging country debt investments. The Fund also may invest in unaffiliated money market funds.

GMO International Bond Fund

(A Series of GMO Trust)

Notes to Financial Statements — (Continued)

August 31, 2009 (Unaudited)

The financial statements of the series of the Trust in which the Fund invests (“underlying funds”) should be read in conjunction with the Fund’s financial statements. These financial statements are available, upon request, without charge by calling (617) 346-7646 (collect). As of August 31, 2009, shares of the GMO Short-Duration Collateral Fund, the GMO World Opportunity Overlay Fund and the GMO Special Purpose Holding Fund were not publicly available for direct purchase.

From prior to March 1, 2009 through July 12, 2009, the Fund had a policy to effect redemptions of its shares in-kind above de minimis levels. The Fund had established de minimis amounts below which redemptions would be honored for cash. Beginning July 13, 2009, the Fund had a policy to pay redemption requests with cash (less a redemption fee).

2. Significant accounting policies

The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements. These policies are in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and have been consistently followed by the Fund in preparing its financial statements. The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The accounting records of the Fund are maintained in U.S. dollars.

As of August 31, 2009, a significant portion of the Fund’s dividends received from other GMO funds is expected to be a return of capital for U.S. federal income tax purposes. Accordingly, “dividends from affiliated issuers” reported in the Statement of Operations has been reduced by the portion estimated to be a return of capital as of August 31, 2009. The estimated return of capital is \$22,112,994. In addition, all applicable related income disclosures throughout this Semiannual Report have been adjusted by the estimated return of capital. The dividends from affiliated issuers are subject to change and will not be finalized until February 28, 2010, the Fund’s upcoming fiscal year-end. Finally, in early 2010, applicable shareholders will receive Form 1099-DIV that will indicate the appropriate tax character of all distributions paid by the Fund in 2009.

Portfolio valuation

Securities listed on a securities exchange for which market quotations are readily available are valued at (i) the last sale price or (ii) official closing price on each business day or, (iii) if there is no such reported sale or official closing price, at the most recent quoted bid price or broker bid (if the Manager deems the private market to be more relevant in determining market value than an exchange). Unlisted securities for which market quotations are readily available are generally valued at the most recent quoted bid price. Debt instruments with a remaining maturity of sixty days or less are generally valued at amortized cost.

GMO International Bond Fund **(A Series of GMO Trust)**

Notes to Financial Statements — (Continued) **August 31, 2009 (Unaudited)**

Shares of investment funds are generally valued at their net asset value. Securities (including derivatives) for which quotations are not readily available or whose values the Manager has determined to be unreliable are valued at fair value as determined in good faith by the Trustees or persons acting at their direction pursuant to procedures approved by the Trustees. Although the goal of fair valuation is to determine the amount the owner of the securities might reasonably expect to receive upon their current sale, because of the uncertainty inherent in fair value pricing, the value determined for a particular security may be materially different from the value realized upon its sale. During the six months ended August 31, 2009, the Fund did not reduce the values of any OTC derivatives on account of the credit worthiness of a counterparty.

Typically the Fund and the underlying funds value debt instruments based on the most recent bid supplied by a single pricing source chosen by the Manager. Although the Manager normally does not evaluate pricing sources on a day-to-day basis, it does evaluate pricing sources on an ongoing basis and may change a pricing source at any time. The Manager monitors erratic or unusual movements (including unusual inactivity) in the prices supplied for a security and has discretion to override a price supplied by a source (e.g., by taking a price supplied by another) when it believes that the price supplied is not reliable. In addition, although alternative prices are available for other securities held by the Fund, those alternative sources would not necessarily confirm the security price used by the Fund. Therefore, the existence of those alternative sources does not necessarily provide greater certainty about the prices used by the Fund. As of August 31, 2009, the total value of securities held directly and indirectly that were fair valued or for which no alternative pricing source was available represented 20.27% of the net assets of the Fund.

The Fund has adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (“SFAS 157”). While the adoption of SFAS 157 does not have an effect on the Fund’s net asset value, it does require additional disclosures about fair value measurements. SFAS 157 establishes a three-level hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the reliability of inputs to the valuation of the Fund’s investments. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The three levels are defined as follows:

Level 1 – Valuations based on quoted prices for identical securities in active markets.

Level 2 – Valuations determined using other significant direct or indirect observable inputs. These inputs may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, yield curves and similar data.

Level 3 – Valuations based on inputs that are unobservable and significant. The Fund utilized the following fair value techniques on Level 3 investments: The Fund utilizes third party valuation services (which use industry standard models and inputs from pricing vendors) to value credit default swaps.

GMO International Bond Fund

(A Series of GMO Trust)

Notes to Financial Statements — (Continued)

August 31, 2009 (Unaudited)

The following is a summary of the inputs used as of August 31, 2009 in valuing the Fund's investments:

ASSET VALUATION INPUTS

| Description | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|--------------------------------|--|---|--|---------------|
| Debt Obligations | | | | |
| Foreign Government Obligations | \$ — | \$ 39,460,276 | \$ — | \$ 39,460,276 |
| U.S. Government | — | 8,398,455 | — | 8,398,455 |
| TOTAL DEBT OBLIGATIONS | — | 47,858,731 | — | 47,858,731 |
| Mutual Funds | 23,262,468 | 137,005,347 | — | 160,267,815 |
| Short-Term Investments | — | 6,473,900 | — | 6,473,900 |
| Total Investments | 23,262,468 | 191,337,978 | — | 214,600,446 |
| Derivatives | | | | |
| Forward Currency Contracts | — | 1,212,185 | — | 1,212,185 |
| Futures Contracts | 2,104,968 | — | — | 2,104,968 |
| Swap Agreements | — | — | 1,109,783 | 1,109,783 |
| Total | \$25,367,436 | \$192,550,163 | \$1,109,783 | \$219,027,382 |

LIABILITY VALUATION INPUTS

| Description | Quoted Prices in Active Markets for Identical Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|----------------------------|--|---|--|---------------|
| Derivatives | | | | |
| Forward Currency Contracts | \$ — | \$(413,519) | \$ — | \$ (413,519) |
| Futures Contracts | (78,236) | — | — | (78,236) |
| Swap Agreements | — | — | (960,257) | (960,257) |
| Total | \$(78,236) | \$(413,519) | \$(960,257) | \$(1,452,012) |

Underlying funds are classified above as either Level 1 or Level 2. For the summary of valuation inputs (including Level 3 inputs, if any) of the underlying funds, please refer to the portfolio valuation notes in their

GMO International Bond Fund (A Series of GMO Trust)

Notes to Financial Statements — (Continued) August 31, 2009 (Unaudited)

financial statements. The aggregate net value of the Fund's investments (both direct and indirect) in securities and other financial instruments using Level 3 inputs were 51.96% and (0.07%) of total net assets, respectively.

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining value:

| | Balances as of February 28, 2009 | Net Purchases/ (Sales) | Accrued Discounts/ Premiums | Total Realized Gain/(Loss) | Change in Unrealized Appreciation (Depreciation) | Net transfers in to/out of Level 3 | Balances as of August 31, 2009 |
|-------------|---|------------------------------|-----------------------------------|----------------------------------|---|---|---|
| Mutual Fund | \$ 27,350 | \$ — | \$ — | \$ — | \$ (3,746) | \$(23,604) | \$ — |
| Swaps | (30,505) | (42,600) | — | 42,600 | 180,031 | — | 149,526 |
| Total | <u>\$ (3,155)</u> | <u>\$(42,600)</u> | <u>\$ —</u> | <u>\$42,600</u> | <u>\$176,285</u> | <u>\$(23,604)</u> | <u>\$149,526</u> |

Foreign currency translation

The market values of foreign securities, currency holdings and related assets and liabilities are translated to U.S. dollars based on the 4 p.m. New York time exchange rates each business day. Income and expenses denominated in foreign currencies are translated at the 4 p.m. New York time exchange rates on the business day the income and expenses are accrued or incurred. The Fund does not isolate realized and unrealized gains and losses that result from changes in exchange rates from realized and unrealized gains and losses that result from changes in the market value of investments. Both of those changes are included in net realized and unrealized gain or loss on investments. Net realized gains and losses on foreign currency transactions represent gains and losses on disposition of currencies and forward currency contracts, currency gains and losses realized between the trade and settlement dates on securities transactions, and the difference between the amount of investment income and foreign withholding taxes recorded on the Fund's accounting records and the U.S. dollar equivalent amounts actually received or paid.

Forward currency contracts

The Fund may enter into forward currency contracts, including forward cross currency contracts. A forward currency contract is an agreement between two parties to buy and sell a currency at a set price on a future date (or to pay or receive the amounts of the change in relative values of the two currencies). The market value of a forward currency contract fluctuates with changes in forward currency exchange rates. The value of each of the Fund's forward currency contracts is marked to market daily using rates supplied by a quotation service and changes in value are recorded by the Fund as unrealized gains or losses. Realized gains or losses on the contracts are equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. These contracts involve market risk in excess of the unrealized gain or loss. Forward currency contracts expose the Fund to the risk of unfavorable movements in currency values and the risk that the counterparty will be unable or unwilling to meet the terms of the contracts. Most forward currency contracts are not collateralized. Forward currency contracts outstanding at the end of the period are listed in the Fund's Schedule of Investments.

GMO International Bond Fund

(A Series of GMO Trust)

Notes to Financial Statements — (Continued)

August 31, 2009 (Unaudited)

Futures contracts

The Fund may purchase and sell futures contracts. A futures contract is a contract that obligates the holder to buy or sell an asset at a predetermined delivery price during a specified future time period. Some futures contracts are net (cash) settled. Upon entering into a futures contract, the Fund is required to deposit cash, U.S. government and agency obligations or other liquid assets with the futures clearing broker in accordance with the initial margin requirements of the broker or exchange. Futures contracts are generally valued at the settlement price established at the close of business each day by the board of trade or exchange on which they are traded. The value of each of the Fund's futures contracts is marked to market daily and an appropriate payable or receivable for the change in value ("variation margin") is recorded by the Fund. The payable or receivable is settled on the following business day. Gains or losses are recognized but not accounted for as realized until the contracts expire or are closed. Futures contracts involve, to varying degrees, risk of loss in excess of the variation margin as recorded on the Statement of Assets and Liabilities. Under some circumstances, futures exchanges may establish daily limits on the amount that the price of a futures contract can vary from the previous day's settlement price, thereby effectively preventing liquidation of unfavorable positions. Futures contracts expose the Fund to the risk that it may not be able to enter into a closing transaction due to an illiquid market. Futures contracts outstanding at the end of the period are listed in the Fund's Schedule of Investments.

Options

The Fund may purchase put and call options. A call option gives the holder the right to buy an asset; a put option gives the holder the right to sell an asset. By purchasing options the Fund alters its exposure to the underlying asset by, in the case of a call option, entitling it to purchase the underlying asset at a set price from the writer of the option and, in the case of a put option, entitling it to sell the underlying asset at a set price to the writer of the option. The Fund pays a premium for a purchased option. That premium is disclosed in the Schedule of Investments and is subsequently reflected in the marked-to-market value of the option. The potential loss associated with purchasing put and call options is limited to the premium paid. The Fund had no purchased option contracts outstanding at the end of the period.

The Fund may write (i.e., sell) call and put options. Writing options alters the Fund's exposure to the underlying asset by, in the case of a call option, obligating the Fund to sell the underlying asset at a set price to the option-holder and, in the case of a put option, obligating the Fund to purchase the underlying asset at a set price from the option-holder. In some cases (e.g. index options), settlement will be in cash. When the Fund writes a call or put option, an amount equal to the premium received is recorded as a liability and is subsequently included in the marked-to-market value of the option. As a writer of an option, the Fund has no control over whether it will be required to sell (call) or purchase (put) the underlying asset and as a result bears the risk of an unfavorable change in the price of the asset underlying the option. In the event that the Fund writes call options without an offsetting exposure (e.g., call options on an asset that the Fund does not own), it bears an unlimited risk of loss if the price of the underlying asset increases during the term of the option. Over-the-counter options expose the Fund to the risk the Fund may not be able to enter into a closing transaction because of an illiquid market.

GMO International Bond Fund

(A Series of GMO Trust)

Notes to Financial Statements — (Continued)

August 31, 2009 (Unaudited)

When an option contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. Realized gains and losses on purchased options are included in realized gains and losses on investment securities. If a written call option is exercised, the premium originally received is recorded as an addition to sales proceeds. If a written put option is exercised, the premium originally received is recorded as a reduction to the cost of investments. Gains and losses from the expiration or closing of written option contracts are separately disclosed in the Statement of Operations. The Fund had no open written option contracts outstanding at the end of the period.

The Fund values exchange traded options at the last sale price or, if no sale is reported, the last bid price for options it has purchased and the last ask price for options it has written. The Fund values over-the-counter options using inputs provided by primary pricing sources and industry models.

Swap agreements

The Fund may enter into various types of swap agreements, including, without limitation, swaps on securities and securities indices, interest rate swaps, total return swaps, credit default swaps, variance swaps, commodity swaps, inflation swaps and other types of available swaps. A swap agreement is an agreement to exchange the return generated by one asset for the return generated by another asset. Some swap contracts are net settled. When entering into a swap agreement, the Fund and/or the swap counterparty may post or receive cash or securities as collateral.

Interest rate swap agreements involve an exchange by the parties of their respective commitments to pay or right to receive interest, e.g., an exchange of floating rate interest payments for fixed rate interest payments with respect to the notional amount of principal.

Total return swap agreements involve a commitment by one party to pay interest to the other party in exchange for a payment to it from the other party based on the return of a reference asset (e.g., a security or basket of securities), both based on notional amounts. To the extent the return of the reference asset exceeds or falls short of the interest payments, one party is entitled to receive a payment from or obligated to make a payment to the other party.

In a credit default swap agreement, one party makes payments to another party in exchange for the right to receive a specified return (or to put a security) if a credit event (e.g., default or similar event) occurs with respect to a reference entity or entities. A seller of credit default protection receives payments in return for its obligation to pay the principal amount of a debt security (or other agreed-upon value) to the other party upon the occurrence of a credit event. If no credit event occurs, the seller has no payment obligations. Buying credit default protection reduces the buyer's exposure (or increases negative exposure) to a reference entity or entities in the event that a credit event relating to that entity or entities occurs (e.g., it is intended to reduce risk when a party owns a security issued by or otherwise has exposure to the reference entity). Selling credit default protection increases the seller's exposure to the reference entity should a credit event relating to the reference entity occur. If no credit event occurs, the seller has no payment obligations.

GMO International Bond Fund

(A Series of GMO Trust)

Notes to Financial Statements — (Continued)

August 31, 2009 (Unaudited)

For credit default swap agreements on asset-backed securities, a credit event may be triggered by various occurrences, which may include an issuer's failure to pay interest or principal, a breach of a material representation or covenant, an agreement by the holders of an asset-backed security to a maturity extension, or a write-down on the collateral underlying the security. For credit default swap agreements on corporate or sovereign issuers, a credit event may be triggered by such occurrences as the issuer's bankruptcy, failure to pay interest or principal, repudiation/moratorium and/or restructuring.

Variance swap agreements involve an agreement by two parties to exchange cash flows based on the measured variance (or square of volatility) of a specified underlying asset. One party agrees to exchange a "fixed rate" or strike price payment for the "floating rate" or realized price variance on the underlying asset with respect to the notional amount. At inception, the strike price chosen is generally fixed at a level such that the fair value of the swap is zero. As a result, no money changes hands at the initiation of the contract. At the expiration date, the amount payable by one party to the other is the difference between the realized price variance of the underlying asset and the strike price multiplied by the notional amount. A receiver of the realized price variance would be entitled to receive a payment when the realized price variance of the underlying asset is greater than the strike price and would be obligated to make a payment when that variance is less than the strike price. A payer of the realized price variance would be obligated to make a payment when the realized price variance of the underlying asset is greater than the strike price and would be entitled to receive a payment when that variance is less than the strike price. This type of agreement is essentially a forward contract on the future realized price variance of the underlying asset.

The Fund prices its swap agreements daily using models that may incorporate quotations from market makers and records the change in value, if any, as unrealized gain or loss in the Statement of Operations. Gains or losses are realized upon termination of the swap agreements or reset dates, as appropriate.

Swap agreements generally are not traded on financial markets. The values assigned to them may differ significantly from the values that would be realized upon termination, and the differences could be material. Entering into swap agreements involves counterparty credit, legal, and documentation risk that is generally not reflected in the models used to price the swap agreement. Such risks include the possibility that the party with whom the Fund contracts defaults on its obligations to perform or disagrees as to the meaning of contractual terms, that the Fund has amounts on deposit in excess of amounts owed by the Fund, or that the collateral the other party posts is insufficient or not received timely by the Fund. Credit risk is particularly acute in economic environments in which financial services firms are exposed to systemic risks of the type evidenced by the insolvency of Lehman Brothers in 2008 and subsequent market disruptions. Swap agreements outstanding at the end of the period are listed in the Fund's Schedule of Investments.

Reverse repurchase agreements

The Fund may enter into reverse repurchase agreements. Under a reverse repurchase agreement the Fund sells portfolio assets subject to an agreement by the Fund to repurchase the same assets at a later date at a fixed price. The Fund can use the proceeds received from entering into a reverse repurchase agreement to

GMO International Bond Fund

(A Series of GMO Trust)

Notes to Financial Statements — (Continued)

August 31, 2009 (Unaudited)

make additional investments, which can cause the Fund's portfolio to behave as if it were leveraged. If the buyer in a reverse repurchase agreement files for bankruptcy or becomes insolvent, the Fund may be unable to recover the securities it sold and as a result would realize a loss equal to the difference between the value of those securities and the payment it received for them. The size of this loss will depend upon the difference between what the buyer paid for the securities the Fund sold to it and the value of those securities (e.g., a buyer may pay \$95 for a bond with a market value of \$100). In the event of a buyer's bankruptcy or insolvency, the Fund's use of proceeds from the sale of its securities may be restricted while the other party or its trustee or receiver determines whether to honor the Fund's right to repurchase the securities. The Fund had no reverse repurchase agreements outstanding at the end of the period.

Rights and warrants

The Fund may purchase or otherwise receive warrants or rights. Warrants and rights generally give the holder the right to receive, upon exercise, a security of the issuer at a stated price. Funds typically use warrants and rights in a manner similar to their use of purchased options on securities, as described in Options above. Risks associated with the use of warrants and rights are generally similar to risks associated with the use of purchased options. Warrants and rights often are less liquid. In addition, the terms of warrants or rights may limit a Fund's ability to exercise the warrants or rights at such times and in such quantities as the Fund would otherwise wish. The Fund held no rights or warrants at the end of the period.

Taxes and distributions

The Fund intends to qualify each tax year as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). The Fund intends to distribute substantially all of its net investment income and all of its net realized short-term and long-term capital gain, if any, after giving effect to any available capital loss carryforwards for U.S. federal income tax purposes. Therefore, no provision for U.S. federal income or excise tax is necessary.

The Fund's policy is to declare and pay distributions from net investment income, if any, semiannually, and from net realized short-term and long-term capital gain, if any, at least annually. The Fund is permitted to, and will from time to time, declare and pay distributions from net investment income, if any, more frequently (e.g., monthly). All distributions are paid in shares of the Fund, at net asset value, unless the shareholder elects to receive cash distributions. Distributions to shareholders are recorded by the Fund on the ex-dividend date.

Income and capital gain distributions are determined in accordance with U.S. federal income tax regulations, which may differ from U.S. GAAP. Certain capital accounts in the financial statements are periodically adjusted for permanent differences in order to reflect their tax character. These adjustments have no impact on net assets or net asset value per share. Temporary differences that arise from recognizing certain items of income, expense, gain or loss in different periods for financial statement and tax purposes will reverse at some time in the future. Distributions in excess of net investment income or net realized gains are temporary over-distributions for financial statement purposes resulting from differences in the recognition or classification of income or distributions for financial statement and tax purposes.

GMO International Bond Fund (A Series of GMO Trust)

Notes to Financial Statements — (Continued) August 31, 2009 (Unaudited)

Distributions in excess of tax basis earnings and profits, if significant, are reported in the Fund's financial statements as a return of capital.

As of February 28, 2009, the Fund elected to defer to March 1, 2009 post-October capital losses of \$8,848,476.

As of February 28, 2009, the Fund had capital loss carryforwards available to offset future realized gains if any, to the extent permitted by the Code. Such losses expire as follows:

| | |
|-----------|------------------------------|
| 2/28/2015 | \$(23,687,952) |
| 2/29/2016 | (507,910) |
| 2/28/2017 | <u>(14,485,912)</u> |
| Total | <u><u>\$(38,681,774)</u></u> |

Utilization of the capital loss carryforwards, post-October capital losses and future losses, if any, realized subsequent to February 28, 2009, could be subject to limitations imposed by the Code related to share ownership activity.

As of August 31, 2009, the approximate cost for U.S. federal income tax purposes and gross and net unrealized appreciation (depreciation) in value of investments were as follows:

| <u>Aggregate Cost</u> | <u>Gross Unrealized Appreciation</u> | <u>Gross Unrealized (Depreciation)</u> | <u>Net Unrealized Appreciation (Depreciation)</u> |
|-----------------------|--|--|---|
| \$248,447,778 | \$1,137,638 | \$(34,984,970) | \$(33,847,332) |

On October 12, 2006, the Fund paid a dividend under Code Section 860 of \$0.09229 per share to shareholders of record as of October 11, 2006. It is anticipated the Fund will be required to make a payment, estimated to be, \$830,768 to the Internal Revenue Service ("IRS") related to such dividend, which has been included in accrued expenses on the Statement of Assets and Liabilities. The Manager will make a reimbursement payment to the Fund concurrent with the Fund's payment to the IRS.

For the period ended August 31, 2009, the Fund had net realized losses attributed to redemption in-kind transactions of \$6,390,613.

The Fund is subject to the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109. FIN 48 sets forth a minimum threshold for financial statement recognition of a tax position taken or expected to be taken in a tax return that could affect the Fund's financial statements. The Fund did not have any unrecognized tax benefits or liabilities at August 31, 2009, nor did it have any increases or decreases in unrecognized tax benefits or liabilities for the period then ended. The Fund is subject to

GMO International Bond Fund

(A Series of GMO Trust)

Notes to Financial Statements — (Continued)

August 31, 2009 (Unaudited)

examination prior to the expiration of the statute of limitations by U.S. federal and state tax authorities for tax returns filed.

Security transactions and related investment income

Security transactions are accounted for on the trade date in the financial statements and usually one business day following the trade date in the daily net asset value calculations. Dividend income, net of applicable foreign withholding taxes, if any, is recorded on the ex-dividend date or, if later, when the Fund is informed of the ex-dividend date. Interest income is recorded on the accrual basis and is adjusted for the amortization of premiums and accretion of discounts. Principal on inflation indexed securities is adjusted for inflation and any increase or decrease is recorded as interest income or investment loss. Coupon income is not recognized on securities for which collection is not expected. Non-cash dividends, if any, are recorded at the fair market value of the asset received. In determining the net gain or loss on securities sold, the Fund uses the identified cost basis for purposes of determining the cost basis.

Expenses

Most of the expenses of the Trust are directly identifiable to an individual fund. Common expenses are allocated among the funds based on, among other things, the nature and type of expense and the relative size of the funds. In addition, the Fund incurs fees and expenses indirectly as a shareholder in the underlying funds. Because the underlying funds have different expense and fee levels and the Fund may own different proportions of the underlying funds at different times, the amount of fees and expenses indirectly incurred by the Fund will vary (See Note 3).

State Street Bank and Trust Company (“State Street”) serves as custodian, fund accounting agent and transfer agent of the Fund. State Street’s fees may be reduced by an earnings allowance calculated on the average daily cash balances the Fund maintains with State Street. The Fund receives the benefit of the earnings allowance. Expense reimbursements are reported as a reduction of expenses in the Statement of Operations.

Purchases and redemptions of Fund shares

From prior to March 1, 2009 through August 2, 2009, the fee on cash redemptions was 2.00% of the amount redeemed. From August 3, 2009 through August 31, 2009, the fee on cash redemptions was 1.00% of the amount redeemed. The Fund may impose a new purchase premium and/or redemption fee, or modify or eliminate an existing fee, at any time. Purchase premiums are not charged on reinvestments of distributions. Redemption fees apply to all shares of a Fund regardless of how the shares were acquired (e.g., by direct purchase or by reinvestment of dividends or other distributions). If the Manager determines that any portion of a cash purchase or redemption, as applicable, is offset by a corresponding cash redemption or purchase occurring on the same day, it ordinarily will waive or reduce the purchase premium or redemption fee with respect to that portion. The Manager also may waive or reduce the purchase premium or redemption fee relating to a cash purchase or redemption of the Fund’s shares if the Fund will not incur transaction costs or will incur reduced transaction costs. The Manager will waive or reduce the purchase premium relating to the in-kind portion of a purchase of the Fund’s shares except to the extent of estimated or known transaction costs (e.g., stamp duties or transfer fees) incurred by the

GMO International Bond Fund

(A Series of GMO Trust)

Notes to Financial Statements — (Continued)

August 31, 2009 (Unaudited)

Fund in connection with the transfer of the purchasing shareholder's securities to the Fund. In-kind redemptions are generally not subject to redemption fees except when they include a cash component. However, when a substantial portion of a Fund is being redeemed in-kind, the Fund may charge a redemption fee equal to known or estimated costs. Purchase premiums or redemption fees will not be waived for purchases and redemptions of Fund shares executed through brokers or agents, including, without limitation, intermediary platforms that are allowed pursuant to agreements with GMO Trust to transmit orders for purchases and redemptions to the Manager the day after those orders are received.

Investment risks

The value of the Fund's shares changes with the value of the Fund's investments. Many factors can affect this value, and an investor may lose money by investing in the Fund. Following is a brief summary of the principal risks of an investment in the Fund. Many of these risks are more pronounced as a result of current global economic conditions that began to unfold in 2008. This summary is not intended to include every potential risk of investing in the Fund. The Fund could be subject to additional risks because the types of investments it makes may change over time.

- *Currency Risk* — Fluctuations in exchange rates may adversely affect the value of the Fund's foreign currency holdings and investments denominated in foreign currencies.
- *Market Risk — Fixed Income Securities* — Typically, the value of the Fund's fixed income securities will decline during periods of rising interest rates and widening of credit spreads on asset-backed and other fixed income securities. Recent changes in credit markets increased credit spreads and there can be no assurance that those spreads will tighten or not increase further.
- *Liquidity Risk* — Low trading volume, lack of a market maker, or legal restrictions may limit or prevent the Fund from selling securities or closing derivative positions at desirable prices. The Fund may be required to sell certain less liquid securities at distressed prices or meet redemption requests in-kind. Recent changes in credit markets have reduced the liquidity of all types of fixed income securities, including in particular the asset-backed securities held by the Fund through SDCF and Overlay Fund.
- *Credit and Counterparty Risk* — This is the risk that the issuer or guarantor of a fixed income security, the counterparty to an OTC derivatives contract, a borrower of the Fund's securities or the obligor of an obligation underlying an asset-backed security, will be unable or unwilling to make timely principal, interest, or settlement payments, or otherwise honor its obligations. This risk is particularly pronounced for the Fund because it typically uses OTC derivatives, including swap contracts with longer-term maturities, and may have significant exposure to a single counterparty. The risk of counterparty default is particularly acute in economic environments where financial services firms are exposed to systemic risks of the type evidenced by the insolvency of Lehman Brothers and subsequent market disruptions.
- *Fund of Funds Risk* — The Fund is indirectly exposed to all of the risks of an investment in underlying funds, including the risk that the underlying funds in which it invests will not perform as expected.

GMO International Bond Fund **(A Series of GMO Trust)**

Notes to Financial Statements — (Continued) **August 31, 2009 (Unaudited)**

Other principal risks of an investment in the Fund include *Foreign Investment Risk* (risk that the market prices of foreign securities may fluctuate more rapidly and to a greater extent than those of U.S. securities), *Derivatives Risk* (use of derivatives by the Fund involves risks different from, and potentially greater than, risks associated with direct investments in securities and other investments by the Fund), *Leveraging Risk* (increased risks from use of reverse repurchase agreements and other derivatives and securities lending), *Focused Investment Risk* (increased risk from the Fund's focus on investments in countries, regions, or sectors with high positive correlations to one another), *Management Risk* (risk that the Manager's strategies and techniques will fail to produce the desired results), *Market Disruption and Geopolitical Risk* (risk that geopolitical events may increase market volatility and have adverse long-term effects on U.S. and world economies and markets generally), and *Large Shareholder Risk* (risk that shareholders of the Fund, such as institutional investors or other series of the Trust, will disrupt the Fund's operations by purchasing or redeeming Fund shares in large amounts and/or on a frequent basis). The Fund is a *non-diversified investment company* under the 1940 Act, and therefore a decline in the market value of a particular security held by the Fund may affect the Fund's performance more than if the Fund were diversified. For more information about reverse repurchase agreement and other derivatives, please refer to the descriptions of financial instruments (e.g. reverse repurchase agreements, swaps, futures, and other types of derivative contracts) in Note 2 above as well as the discussion of the Fund's use of derivatives below. Certain of the above-referenced risks will be more pronounced for the Fund as a result of its investment in ECDF.

The Fund invests (including through investment in underlying funds) in asset-backed securities, which may be backed by many types of assets, including pools of residential and commercial mortgages, automobile loans, educational loans, home equity loans, or credit-card receivables, which expose the Fund to additional types of market risk. Asset-backed securities also may be collateralized by the fees earned by service providers. They also may be backed by pools of corporate or sovereign bonds, bank loans made to corporations, or a combination of these bonds and loans (commonly referred to as "collateralized debt obligations"). Payment of interest on asset-backed securities and repayment of principal largely depend on the cash flows generated by the underlying assets backing the securities. The amount of market risk associated with asset-backed securities depends on many factors, including the deal structure (e.g., the amount of underlying assets or other support available to produce the cash flows necessary to service interest and make principal payments), the quality of the underlying assets, the level of credit support, if any, provided for the securities, and the credit quality of the credit-support provider, if any. Asset-backed securities involve risk of loss of principal if too many obligors of the underlying obligations default in payment of the obligations. The obligations of issuers (and obligors of underlying assets) also are subject to bankruptcy, insolvency, and other laws affecting the rights and remedies of creditors. Many asset-backed securities in which the Fund has invested are now rated below investment grade.

With the deterioration of worldwide economic and liquidity conditions that became acute in 2008, the markets for asset-backed securities became fractured and uncertainty about the creditworthiness of those securities (and underlying collateral) caused credit spreads (the difference between yields on the asset-backed securities and U.S. Government securities) to widen dramatically. Concurrently, systemic risks of the type

GMO International Bond Fund **(A Series of GMO Trust)**

Notes to Financial Statements — (Continued) **August 31, 2009 (Unaudited)**

evidenced by the insolvency of Lehman Brothers and subsequent market disruptions reduced the ability of financial institutions to make markets in many fixed income securities generally. These events reduced liquidity for securitized credits and contributed to substantial declines in the value of asset-backed and other fixed income securities. There can be no assurance these conditions will not continue or that they will not deteriorate further. Also, government actions and proposals affecting the terms of underlying home and consumer loans, changes in demand for products (e.g., automobiles) financed by those loans, and the inability of borrowers to refinance existing loans (e.g., sub-prime mortgages) have had, and may continue to have, adverse credit, valuation and liquidity effects on asset-backed securities. There can be no assurance that in the future the market for asset-backed securities will become more liquid.

The value of an asset-backed security may depend on the servicing of its underlying assets and is, therefore, subject to risks associated with the negligence or defalcation of its servicer. In some circumstances, the mishandling of related documentation also may affect the rights of security holders in and to the underlying collateral. The insolvency of entities that generate receivables or that utilize the assets may result in a decline in the value of the underlying assets, as well as costs and delays. In addition, asset-backed securities representing diverse sectors (e.g., auto loans, student loans, sub-prime mortgages, and credit-card receivables) have become more highly correlated since the deterioration of worldwide economic and liquidity conditions referred to above.

The Fund uses its cash balance to meet its collateral obligations and for other purposes. There is no assurance that the Fund's cash balance will be sufficient to meet those obligations. If it is not, the Fund would be required to liquidate portfolio positions. To manage the Fund's cash collateral needs, the Manager reserves the right to reduce or eliminate the Fund's derivative exposures. A reduction in those exposures may cause the performance of the Fund to track its benchmark less closely and make the Fund's performance more dependent on the performance of the asset-backed securities it holds directly or indirectly.

Among other trading agreements, the Fund is party to International Swaps and Derivatives Association, Inc. Master Agreements ("ISDA Agreements") with select counterparties that generally govern over-the-counter derivative transactions entered into by the Fund. The ISDA Master Agreements typically include representations and warranties as well as contractual terms related to collateral, events of default, termination events, and other provisions. Termination events include the decline in the net assets of the Fund below a certain level over a specified period of time and entitle a counterparty to elect to terminate early with respect to some or all the transactions under the ISDA Agreement with that counterparty. Such an election by one or more of the counterparties could have a material adverse impact on the Fund's operations. Due to declines in the net assets of the Fund prior to August 31, 2009, one or more counterparties are entitled to terminate early but none has taken such action.

Disclosures about Derivative Instruments and Hedging Activities — Effective March 1, 2009, the Fund adopted FASB Statement of Financial Standards No. 161 "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"). This standard is an amendment to FASB Statement No. 133

GMO International Bond Fund

(A Series of GMO Trust)

Notes to Financial Statements — (Continued)

August 31, 2009 (Unaudited)

(“FASB 133”), “Accounting for Derivative Instruments” which expands the disclosure requirements of FASB 133 regarding an entity’s derivative instruments and hedging activities.

The Fund uses derivatives, which are financial contracts whose value depends on, or is derived from, the value of underlying assets, reference rates, or indices, to increase, decrease or adjust elements of the investment exposures of the Fund’s portfolio. Derivatives may relate to securities, interest rates, currencies, currency exchange rates, inflation rates, commodities and indices, and include swaps, reverse repurchase agreements and other over-the-counter (“OTC”) contracts.

The Fund uses derivatives as a substitute for direct investment in securities or other assets. In particular, the Fund may use swaps (including credit default swaps) or other derivatives on an index, a single security or a basket of securities to gain investment exposures. The Fund also may use currency derivatives (including currency forwards, futures contracts, swap contracts and options) to gain exposure to a given currency.

The Fund may use derivatives in an attempt to hedge or reduce its investment exposures. For example, the Fund may use credit default swaps to take an active short position with respect to the likelihood of default by an issuer. The Fund also may use currency derivatives in an attempt to hedge or reduce some aspect of the currency exposure in its portfolio. For these purposes, the Fund may use an instrument denominated in a different currency that the Manager believes is highly correlated with the relevant currency.

The Fund may use derivatives in an attempt to adjust elements of its investment exposures to various securities, sectors, markets and currencies without actually having to sell existing investments or make new direct investments. For instance, the Manager may attempt to alter the interest rate exposure of debt instruments by employing interest rate swaps. Such a strategy is designed to maintain the Fund’s exposure to the credit of an issuer through the debt instrument but adjust the Fund’s interest rate exposure through the swap. With these swaps, the Fund and its counterparties exchange interest rate exposure, such as fixed vs. variable and shorter duration vs. longer duration. The Fund also may use currency derivatives in an attempt to adjust its currency exposure, seeking currency exposure that is different (in some cases, significantly different) from the currency exposure represented by its portfolio investments.

The use of derivatives involves risks different from, and potentially greater than, the risks associated with investing directly in securities and other more traditional assets. In particular, the use of OTC derivatives contracts exposes the Fund to the risk that the counterparty will be unable or unwilling to make timely settlement payments or otherwise to honor its obligations. OTC derivative contracts typically can be closed out only with the other party to the contract. If the counterparty defaults, the Fund will have contractual remedies, but there can be no assurance that the Fund will be able to enforce its contractual rights. For example, because the contract for each OTC derivative is individually negotiated with a specific counterparty, a Fund is subject to the risk that a counterparty may interpret contractual terms (e.g., the definition of default) differently than the Fund. If that occurs, the cost and unpredictability of the legal proceedings required for the Fund to enforce its contractual rights may lead it to decide not to pursue

GMO International Bond Fund **(A Series of GMO Trust)**

Notes to Financial Statements — (Continued) **August 31, 2009 (Unaudited)**

its claims against the counterparty. The Fund, therefore, assumes the risk that it may be unable to obtain payments the Manager believes are owed to it under OTC derivatives contracts or that those payments may be delayed or made only after the Fund has incurred the costs of litigation.

Sometimes, the Fund may post or receive collateral related to changes in the market value of a derivative. A further risk of using OTC derivatives arises when the counterparty's obligations are not secured by collateral, the Fund's security interest in any collateral is not perfected, the Fund is required to make a significant upfront deposit, or when the collateral is not regularly marked-to-market. Even when obligations are required by contract to be collateralized, there is usually a lag between the day the collateral is called for and the day the Fund receives the collateral. When a counterparty's obligations are not fully secured by collateral, the Fund is exposed to the risk of having limited recourse if the counterparty defaults. Due to the nature of the Fund's investments, the Fund may invest in derivatives with a limited number of counterparties and events that affect the creditworthiness of any one of those counterparties may have a pronounced effect on the Fund.

Derivatives risk is particularly acute in economic environments in which the Fund's counterparties and other financial services firms are exposed to systemic risks of the type evidenced by the insolvency of Lehman Brothers and subsequent market disruptions. Derivatives also are subject to a number of risks described in the "Investment Risks" note, including market risk, liquidity risk, currency risk, and credit and counterparty risk. The terms of many derivatives, in particular OTC derivatives, are complex and their valuation often requires modeling and judgment, which increases the risk of mispricing or improper valuation. There can be no assurance that the pricing models employed by the Fund's third-party valuation services and/or the Manager will produce valuations that are reflective of levels at which the OTC derivatives purchased by the Fund may actually be closed out or sold. This valuation risk is more pronounced in cases where the Fund enters OTC derivatives with specialized terms because the value of those derivatives in some cases can be determined only by reference to similar derivatives with more standardized terms. Improper valuations may result in increased cash payments to counterparties, undercollateralization and/or errors in the calculation of a Fund's net asset value.

There can be no assurance that a Fund's use of derivatives will be effective or will have the desired results. Suitable derivatives are not available in all circumstances. For example, the economic costs of taking some derivatives positions may be prohibitive and, if a counterparty or its affiliate is deemed to be an affiliate of a Fund, none of the Funds will be permitted to trade with that counterparty. In addition, the Manager may decide not to use derivatives to hedge or otherwise reduce a Fund's risk exposures.

Derivatives also involve the risk that changes in their value may not correlate perfectly with the assets, rates or indices they are designed to hedge or closely track. The use of derivatives also may increase the taxes payable by shareholders.

GMO International Bond Fund
(A Series of GMO Trust)

Notes to Financial Statements — (Continued)
August 31, 2009 (Unaudited)

The Fund's use of derivatives may cause its portfolio to be implicitly leveraged. Leverage increases a Fund's portfolio losses when the value of its investment positions declines. Since many derivatives have a leverage component, adverse changes in the value or level of the underlying asset, rate, or index may result in a loss substantially greater than the initial value of the derivative.

The following is a summary of the fair valuations of derivative instruments categorized by risk exposure:

Fair Values of Derivative Instruments on the Statement of Assets and Liabilities as of August 31, 2009.

| | Derivatives not accounted for as hedging instruments under Statement 133 [^] | | | | | Total |
|---|---|----------------------------|---------------------|------------------|-----------------|-----------------------|
| | Interest rate contracts | Foreign exchange contracts | Credit contracts | Equity contracts | Other contracts | |
| Assets: | | | | | | |
| Investments, at value (purchased options) | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Unrealized appreciation on futures contracts* | 2,104,968 | — | — | — | — | 2,104,968 |
| Unrealized appreciation on forward currency contracts | — | 1,212,185 | — | — | — | 1,212,185 |
| Unrealized appreciation on swap agreements | — | — | 1,109,783 | — | — | 1,109,783 |
| Total | <u>\$2,104,968</u> | <u>\$1,212,185</u> | <u>\$1,109,783</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 4,426,936</u> |
| Liabilities: | | | | | | |
| Written options outstanding | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Unrealized depreciation on futures contracts* | (78,236) | — | — | — | — | (78,236) |
| Unrealized depreciation on forward currency contracts | — | (413,519) | — | — | — | (413,519) |
| Unrealized depreciation on swap agreements | — | — | (960,257) | — | — | (960,257) |
| Total | <u>\$ (78,236)</u> | <u>\$ (413,519)</u> | <u>\$ (960,257)</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ (1,452,012)</u> |

[^] As the Fund values its derivatives at fair value and recognizes changes in fair value through the statement of operations, it does not qualify for hedge accounting under FASB 133. The Fund's investments in derivatives may represent an economic hedge; however, they are considered to be non-hedge transactions for the purpose of these tables.

* The Fair Values of Derivative Instruments table includes cumulative appreciation/depreciation of futures contracts as reported in the Schedule of Investments. Period end variation margin is reported within the Statement of Assets and Liabilities.

GMO International Bond Fund (A Series of GMO Trust)

Notes to Financial Statements — (Continued) August 31, 2009 (Unaudited)

The Effect of Derivative Instruments on the Statement of Operations for the Six Months Ended August 31, 2009:

| | Derivatives not accounted for as hedging instruments under Statement 133 [^] | | | | | Total |
|---|---|----------------------------|-------------------|------------------|-----------------|---------------------|
| | Interest rate contracts | Foreign exchange contracts | Credit contracts | Equity contracts | Other contracts | |
| Net Realized Gain (Loss) on: | | | | | | |
| Investments (purchased options) | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Futures contracts | (2,582,734) | — | — | — | — | (2,582,734) |
| Swap contracts | — | — | (42,600) | — | — | (42,600) |
| Written options | — | — | — | — | — | — |
| Forward currency contracts | — | 1,954,641 | — | — | — | 1,954,641 |
| Total | <u>\$(2,582,734)</u> | <u>\$ 1,954,641</u> | <u>\$(42,600)</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ (670,693)</u> |
| Change in Unrealized Appreciation (Depreciation) on: | | | | | | |
| Investments (purchased options) | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Futures contracts | 1,666,148 | — | — | — | — | 1,666,148 |
| Swap contracts | — | — | 180,031 | — | — | 180,031 |
| Written options | — | — | — | — | — | — |
| Forward currency contracts | — | 11,504,111 | — | — | — | 11,504,111 |
| Total | <u>\$ 1,666,148</u> | <u>\$11,504,111</u> | <u>\$180,031</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$13,350,290</u> |

[^] As the Fund values its derivatives at fair value and recognizes changes in fair value through the statement of operations, it does not qualify for hedge accounting under FASB 133. The Fund's investments in derivatives may represent an economic hedge; however, they are considered to be non-hedge transactions for the purpose of these tables.

Volume of derivative activity, based on absolute values of month-end notional amounts outstanding during the period, was as follows for the six months ended August 31, 2009:

| | Forwards | Futures | Swaps |
|-------------------------------------|---------------|---------------|--------------|
| Average notional amount outstanding | \$162,055,448 | \$244,076,186 | \$36,000,000 |
| Highest notional amount outstanding | 180,541,615 | 451,555,746 | 36,000,000 |
| Lowest notional amount outstanding | 149,158,171 | 113,841,668 | 36,000,000 |

Other matters

GMO Special Purpose Holding Fund ("SPHF"), an investment of the Fund, has litigation pending against various entities related to the 2002 default of securities previously held by SPHF. The outcome of the lawsuits against the remaining defendants is not known and any potential recoveries are not reflected in the net asset value of SPHF. For the period ended August 31, 2009, the Fund received no distributions through SPHF in connection with settlement agreements related to that litigation.

GMO International Bond Fund (A Series of GMO Trust)

Notes to Financial Statements — (Continued) August 31, 2009 (Unaudited)

3. Fees and other transactions with affiliates

GMO receives a management fee for the services it provides to the Fund. That fee is paid monthly at the annual rate of 0.25% of average daily net assets. The Fund has adopted a Shareholder Service Plan under which the Fund pays GMO a shareholder service fee for client and shareholder service, reporting, and other support. Pursuant to the Shareholder Service Plan, the shareholder service fee is calculated based on average daily net assets at the annual rate of 0.15% for Class III shares. The Manager will waive the Fund's shareholder service fee to the extent that the aggregate of any direct and indirect shareholder service fees borne by the Fund exceeds 0.15%; provided, however, that the amount of this waiver will not exceed 0.15%.

The Manager has contractually agreed to reimburse the Fund for expenses incurred by the Fund through at least June 30, 2010 to the extent the Fund's total annual operating expenses (excluding "Excluded Fund Fees and Expenses", as defined below) exceed 0.25% of the Fund's average daily net assets. Excluded Fund Fees and Expenses include shareholder service fees, expenses indirectly incurred by investment in the underlying funds, fees and expenses of the independent Trustees of the Trust, fees and expenses for legal services not approved by the Manager for the Trust, compensation and expenses of the Trust's Chief Compliance Officer ("CCO") (excluding any employee benefits), brokerage commissions, securities lending fees and expenses, interest expense, transfer taxes, and other investment-related costs (including expenses associated with investments in any company that is an investment company (including an exchange-traded fund) or would be an investment company under the 1940 Act, but for the exceptions to the definition of investment company provided in Section 3(c)(1) and 3(c)(7) of the 1940 Act), hedging transaction fees, extraordinary, non-recurring and certain other unusual expenses (including taxes). In addition, the Manager has contractually agreed to reimburse the Fund through at least June 30, 2010 to the extent that the sum of (a) the Fund's total annual operating expenses (excluding Excluded Fund Fees and Expenses); (b) the amount of fees and expenses incurred indirectly by the Fund through its investment in ECDF (excluding ECDF's Excluded Fund Fees and Expenses); and (c) the amount of fees and expenses incurred indirectly (through investment in other underlying funds) by the Fund through its (direct or indirect) investment in GMO U.S. Treasury Fund (excluding U.S. Treasury Fund's Excluded Fund Fees and Expenses) exceeds 0.25% of the Fund's average daily net assets, subject to a maximum total reimbursement to such Fund equal to 0.25% of the Fund's average daily net assets.

The Fund incurs fees and expenses indirectly as a shareholder in the underlying funds. For the period ended August 31, 2009, these indirect fees and expenses expressed as an annualized percentage of the Fund's average daily net assets were as follows:

| Indirect Net Expenses (excluding shareholder service fees and interest expense) | Indirect Shareholder Service Fees | Indirect Interest Expense | Total Indirect Expenses |
|---|-----------------------------------|---------------------------|-------------------------|
| 0.022% | 0.005% | 0.010% | 0.037% |

GMO International Bond Fund

(A Series of GMO Trust)

Notes to Financial Statements — (Continued)

August 31, 2009 (Unaudited)

The Fund's portion of the fees paid by the Trust to the Trust's independent Trustees and CCO during the period ended August 31, 2009 was \$1,764 and \$1,012, respectively. The compensation and expenses of the CCO are included in miscellaneous expenses in the Statement of Operations. The Fund paid no remuneration to any other officer of the Trust.

4. Purchases and sales of securities

For the period ended August 31, 2009, cost of purchases and proceeds from sales of investments, other than short-term obligations and class exchanges, were as follows:

| | <u>Purchases</u> | <u>Sales</u> |
|--|------------------|--------------|
| U.S. Government securities | \$ — | \$ 178,867 |
| Investments (non-U.S. Government securities) | 36,117,816 | 11,542,399 |

Proceeds from sales of securities for in-kind transactions for the period ended August 31, 2009 were \$18,714,234.

5. Guarantees

In the normal course of business the Fund enters into contracts with third-party service providers that contain a variety of representations and warranties and that provide general indemnifications. The Fund's maximum exposure under these arrangements is unknown, as it involves possible future claims that may or may not be made against the Fund. Based on experience, the Manager is of the view that the risk of loss to the Fund in connection with the Fund's indemnification obligations is remote; however, there can be no assurance that such obligations will not result in material liabilities that adversely affect the Fund.

6. Principal shareholders and related parties

As of August 31, 2009, 67.75% of the outstanding shares of the Fund were held by three shareholders, each holding more than 10% of the Fund's outstanding shares. On that date, no other shareholder owned more than 10% of the outstanding shares of the Fund.

As of August 31, 2009, 2.45% of the Fund's shares were held by senior management of the Manager and GMO Trust officers and 29.96% of the Fund's shares were held by accounts for which the Manager had investment discretion.

GMO International Bond Fund (A Series of GMO Trust)

Notes to Financial Statements — (Continued) August 31, 2009 (Unaudited)

7. Share transactions

The Declaration of Trust permits each Fund to issue an unlimited number of shares of beneficial interest (without par value). Transactions in Fund shares were as follows:

| | Six Months Ended August 31, 2009 (Unaudited) | | Year Ended February 28, 2009 | |
|---|--|-----------------------|---------------------------------|------------------------|
| | Shares | Amount | Shares | Amount |
| Class III: | | | | |
| Shares sold | 18,052 | \$ 114,154 | 251,099 | \$ 2,399,856 |
| Shares issued to shareholders in reinvestment of distributions | 128,981 | 851,231 | 6,462,644 | 51,930,698 |
| Shares repurchased | (3,952,346) | (25,135,048) | (26,487,403) | (210,236,300) |
| Redemption fees | — | 83,993 | — | 550,622 |
| Net increase (decrease) | <u>(3,805,313)</u> | <u>\$(24,085,670)</u> | <u>(19,773,660)</u> | <u>\$(155,355,124)</u> |

8. Investments in affiliated issuers

A summary of the Fund's transactions in the shares of other funds of the Trust during the period ended August 31, 2009 is set forth below:

| Affiliate | Value, beginning of period | Purchases | Sales Proceeds | Dividend Income | Distributions of Realized Gains | Value, end of period |
|--|----------------------------------|---------------------|---------------------|--------------------|---------------------------------------|--------------------------------|
| GMO Emerging Country Debt Fund, Class III | \$ 6,547,297 | \$ 121,445 | \$ 686,730 | \$ 121,445 | \$ — | \$ 7,907,457 |
| GMO Short-Duration Collateral Fund | 121,140,551 | — | 11,232,639 | 859,158 | — | 102,559,652 |
| GMO Special Purpose Holding Fund | 27,350 | — | — | — | — | 23,604 |
| GMO U.S. Treasury Fund | — | 26,299,605 | 10,950,000 | 19,605 | — | 15,355,011 |
| GMO World Opportunity Overlay Fund | <u>36,170,948</u> | <u>—</u> | <u>3,551,413</u> | <u>—</u> | <u>—</u> | <u>34,422,091</u> [□] |
| Totals | <u>\$163,886,146</u> | <u>\$26,421,050</u> | <u>\$26,420,782</u> | <u>\$1,000,208</u> | <u>\$ —</u> | <u>\$160,267,815</u> |

□ The Fund received return of capital distributions in the amount of \$3,017,029.

GMO International Bond Fund
(A Series of GMO Trust)

Notes to Financial Statements — (Continued)
August 31, 2009 (Unaudited)

9. Subsequent events

In connection with the preparation of the Fund's financial statements for the period ended August 31, 2009, events and transactions subsequent to August 31, 2009 through October 30, 2009 (the date the Fund's financial statements were issued) have been evaluated by the Manager for possible disclosure. On September 14, 2009, the Fund's redemption fee was eliminated.

GMO International Bond Fund

(A Series of GMO Trust)

Board Review of Investment Management Agreement

August 31, 2009 (Unaudited)

In determining to approve the renewal of the investment management agreement of the Fund for an additional twelve month period commencing June 30, 2009, the Trustees, each of whom is not an “interested person” of GMO Trust (the “Trust”), considered information that they believed, in light of the legal advice furnished to them, to be relevant. The Trustees considered separately the investment management agreement for each fund of the Trust, but noted the common interests of the funds.

As discussed below, at meetings throughout the year, the Trustees considered information relevant to renewal of the Fund’s investment management agreement. In addition, at a meeting on May 28, 2009 with their independent legal counsel and the Trust’s independent Chief Compliance Officer, the Trustees discussed extensive materials provided by Grantham, Mayo, Van Otterloo & Co. LLC (the “Manager”) to the Trustees for purposes of their considering the renewal of the Fund’s investment management agreement. At the conclusion of the meeting, the Trustees instructed their independent legal counsel to request additional information from the Manager, which was furnished by the Manager at or prior to a meeting of the Trustees on June 15, 2009.

The Trustees met over the course of the year with the Manager’s investment advisory personnel and considered information provided by the Manager relating to the education, experience, and number of investment professionals and other personnel providing services under the Fund’s investment management agreement. The Trustees also considered information concerning the investment philosophy of, and investment process applied by, the Manager in managing the Fund and the level of skill required to manage the Fund. In evaluating that information, the Trustees considered the Manager’s internal resources as well as other resources available to the Manager’s personnel, paying particular attention to the possible effects of a decline in the Manager’s revenue on such resources. The Trustees also took into account the time and attention devoted by the Manager’s senior management to the Fund. The Trustees considered the business reputation of the Manager, its financial resources, and its professional liability insurance coverage.

The Trustees also considered the Fund’s investment performance relative to its performance benchmark, and as compared to the performance of other accounts with similar objectives managed by the Manager and funds managed by other managers deemed by third-party data services to have similar objectives. The Trustees reviewed the Fund’s performance over various periods, including one-, five- and ten-year periods and for the life of the Fund, information prepared by the third-party data services, various statistical measures of the Fund’s performance relative to its benchmark, as well as factors identified by the Manager as contributing to the Fund’s performance. The Trustees considered information provided by the Manager addressing the Fund’s performance, including a performance attribution analysis. The Trustees also considered the qualifications and experience of the personnel responsible for managing the Fund, the support those personnel received from the Manager, the investment techniques used to manage the Fund, and the overall competence of the Manager.

The Trustees also gave substantial consideration to the fees payable under the Fund’s investment management agreement. The Trustees considered information prepared by third-party data services concerning fees paid to managers of funds deemed by those services to have similar objectives. The

GMO International Bond Fund **(A Series of GMO Trust)**

Board Review of Investment Management Agreement — (Continued) **August 31, 2009 (Unaudited)**

Trustees also considered that the Fund's shareholder base was predominantly of an institutional nature. In evaluating the Fund's advisory fee arrangements and other compensation paid to the Manager, the Trustees also took into account the sophistication of the investment techniques used to manage the Fund. The Trustees also reviewed information provided by the Manager regarding the profits it realized on the services (excluding distribution services) it provided to the Fund and the Trust, including the effect of recent market events and changes in assets under management and revenues on such profits. In considering that information, the Trustees took into account so-called "fallout benefits" to the Manager, such as the receipt of shareholder servicing fees pursuant to the Trust's servicing agreements and possible reputational value derived from serving as investment manager to the Fund. The Trustees considered the ability of the funds of the Trust to establish a public record of their performance also to be a potential fallout benefit to the Manager because of the opportunity that record might create for the Manager to increase assets under management by, for example, attracting new clients, entering into sub-advisory relationships with other fund groups, and expanding existing client relationships. The Trustees also considered that the fee charged under the Fund's investment management agreement is based on services provided by the Manager that are in addition to, rather than duplicative of, services provided under the investment management agreements of other funds of the Trust in which it invests. The Trustees noted in particular that certain underlying funds do not charge any advisory fees, and that with respect to all other underlying funds, pursuant to a contractual expense reimbursement arrangement in place with the Fund, the Manager effectively reimburses the Fund for advisory fees, shareholder fees and most other expenses of the underlying funds that the Fund would otherwise bear as a result of its investments in those other funds. In addition, the Trustees considered possible economies of scale to the Manager, and concluded that the fee payable under the agreement appropriately reflected any economies of scale associated with managing the Fund. After reviewing these and related factors, the Trustees concluded, within the context of their overall conclusions regarding the agreement, that the advisory fee charged to the Fund was reasonable.

The Trustees also considered other information regarding the quality of the services provided by the Manager to the Fund. The Trustees evaluated the Manager's record with respect to regulatory compliance and compliance with the investment policies of the Fund and other funds of the Trust. The Trustees also evaluated the procedures of the Manager designed to fulfill the Manager's fiduciary duty to the Fund with respect to possible conflicts of interest, including the Manager's code of ethics (regulating the personal trading of its officers and employees), the procedures by which the Manager allocates trades among its investment advisory clients, the systems in place to ensure compliance with the foregoing, and the record of the Manager in these matters. The Trustees also received information concerning the Manager's practices and results with respect to the execution of portfolio transactions. Finally, the Trustees also considered the Manager's practices and record with respect to the resolution of trading, net asset value determination, and other similar errors.

The Trustees considered the scope of the services provided by the Manager to the Fund under the investment management agreement and shareholder service agreement. The Trustees noted that legal counsel had advised that, in their experience, the standard of care set forth in the investment management agreement was typical for mutual fund investment management agreements. The Trustees noted that the

GMO International Bond Fund **(A Series of GMO Trust)**

Board Review of Investment Management Agreement — (Continued) **August 31, 2009 (Unaudited)**

scope of the Manager's services to the Fund was consistent with the Fund's operational requirements, including, in addition to seeking to achieve the Fund's investment objective, compliance with the Fund's investment restrictions, tax and reporting requirements, and shareholder services. The Trustees considered the Manager's oversight of non-advisory services provided by persons other than the Manager, considering, among other things, the Fund's total expenses, the Manager's reimbursement of certain expenses pursuant to its contractual expense reimbursement arrangement in place with the Fund, and the reputation of the Fund's other service providers.

After reviewing these factors, among others, the Trustees concluded, within the context of their overall conclusions regarding the agreement, that the nature, extent, and quality of services provided supported the renewal of the Fund's investment management agreement.

Following their review, on June 15, 2009, the Trustees, each of whom is not an "interested person" of the Trust, based on their evaluation of all factors that they deemed to be material, including those factors described above, approved the renewal of the Fund's investment management agreement for an additional twelve-month period commencing June 30, 2009.

GMO International Bond Fund (A Series of GMO Trust)

Fund Expenses

August 31, 2009 (Unaudited)

Expense Examples: The following information is in relation to expenses for the six month period ended August 31, 2009.

As a shareholder of the Fund, you may incur two types of costs: (1) transaction costs, including redemption fees; and (2) ongoing costs, including management fees, shareholder service fees, and other Fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds.

These examples are based on an investment of \$1,000 invested at the beginning of the period and held for the entire period, March 1, 2009 through August 31, 2009.

Actual Expenses

The first line of the table below provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, a \$10,000,000 account value divided by \$1,000 = 10,000), then multiply the result by the number in the first line under the heading entitled "Net Expense Incurred" to estimate the expenses you paid on your account during this period.

Hypothetical Example for Comparison Purposes

The second line of the table below provides information about hypothetical account values and hypothetical expenses based on the Fund's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund with other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as purchase premiums and redemption fees. Therefore, the second line of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

| | Annualized Net Expense Ratio | Beginning Account Value | Ending Account Value | Net Expense Incurred* |
|-----------------|------------------------------------|-------------------------------|----------------------------|-----------------------------|
| Class III | | | | |
| 1) Actual | 0.42% | \$1,000.00 | \$1,211.90 | \$2.34 |
| 2) Hypothetical | 0.42% | \$1,000.00 | \$1,023.09 | \$2.14 |

* Expenses are calculated using the Class's annualized expense ratio (including indirect expenses incurred) for the six months ended August 31, 2009, multiplied by the average account value over the period, multiplied by 184 days in the period, divided by 365 days in the year.

