INTERNATIONAL QUALITY STRATEGY

Quarterly Investment Review

PRODUCT OVERVIEW

The GMO International Quality Strategy seeks to generate total return by investing primarily in non-U.S. equities the Focused Equity team believes to be of high quality.

The team believes that companies with established track records of historical profitability and strong fundamentals – high quality companies – are able to outgrow the average company over time and are therefore worth a premium price. The Strategy's disciplined approach uses both quantitative and fundamental techniques to assess the relative quality and valuation of non-U.S. companies and aims to exploit a long-term investment horizon while withstanding short-term volatility.

MAJOR PERFORMANCE DRIVERS

Despite a steady stream of worry about AI and geopolitics, the third quarter ended in a relatively benign way for non-U.S. markets, with the MSCI World ex USA returning 0.89%. The GMO International Quality portfolio trailed the index in the third quarter.

Sectors where the International Quality portfolio is light, including Energy (+12.8%), Communication Services (+6.7%), Materials (+4.4%), and Financials (+4.3%), delivered stronger performance than many other sectors this quarter. As discussed in previous quarterlies, most of these are sectors where a quality approach typically finds few opportunities. We have seen some opportunity. We do hold exposure to Materials, but in the specialty chemicals space rather than the very cyclical metals and mining names.

There was a sharp reversal of fortune within Technology. In the first half of the quarter, investors continued to crowd into the AI infrastructure/semiconductors trade, but as the quarter progressed, the AI trade cooled, and many of those positions came under pressure. That hurt the portfolio's semiconductor holdings, including TSMC, ASML, and Tokyo Electron, but these are names where we have consistently taken profits over the year. Conversely, software saw a positive change in fortune and became the portfolio's largest positive contributor, led by SAP, the top contributor for the quarter, along with Dassault Systèmes and Constellation Software.

Health Care also turned after a weak first half. Biotech activity appears to be recovering, which benefits suppliers of the tools used in drug development and manufacturing, including the portfolio's holding in Sartorius Stedim Biotech. Davide Campari and Kerry Group helped results in Consumer Staples. We reduced the position in Haleon, where neither margins nor growth have met expectations since its separation from GSK.

As usual, our trading tends to lean against the market: quality is our first priority, but valuation matters, so we generally sell when others are buying and vice versa. Over the quarter, that meant trimming some of the stronger performers like Campari, Air Liquide, and fully liquidating software consultancy CapGemini, whilst adding to some more cyclical industrial names like Sika and building a new position in Nippon Paint.

Nippon Paint is one of Asia's leading coatings companies, with strong positions across Japan, China, Southeast Asia, and Oceania. Although it is classified as a materials company, paint is at heart a local, consumer-facing business. Distribution networks, dealer relationships, and brand trust take decades to build, which supports durable competitive advantages, recurring repaint demand, and the pricing power to pass on higher raw material costs. Through acquisitions and partnerships, the company has assembled a group of leading regional paint businesses, each run with significant local autonomy, and most of its earnings now come from outside Japan in faster-growing Asian markets. Despite record profits, the shares trade at a discount to global coatings peers, reflecting concerns about China's property downturn and the sustainability of acquisition-led growth. We believe the China business has been materially de-risked by its shift toward consumer decorative paint and away from large property developers, and that management has shown discipline on acquisitions. At the current valuation, we see an attractive risk-reward.

The portfolio lagged during the strong market from late July but held up relatively well in the weaker stretch in September, consistent with the defensive profile we expect from quality. As we have rolled into the fourth quarter, a material sell-off in European banks has been a reminder of just how important quality can be for long-term performance.

We continue to build your portfolio from the bottom up, but note that your portfolio's allocation to each of energy, real estate, banks – i.e., nearly all the most cyclical parts of the market - is relatively low. There is thus further room to allocate to a select group of quality cyclical businesses should they become more attractively priced, like Nippon Paint. In the meantime, your portfolio remains allocated to high-quality business models that are inherently defensible and continues to represent a constructive way to invest across equity markets – this quality should be a welcome characteristic if that worrisome drumbeat continues to get louder.

Portfolio weights, as a percent of equity, for the positions mentioned were: TSMC (6.1%), ASML (4.3%), Tokyo Electron (1.6%), SAP (4.6%), Dassault Systèmes (2.4%), Constellation Software (2.1%), Sartorious Stedim Biotech (1.4%), Davide Campari (2.0%), Kerry Group (4.0%), Haleon (1.5%), GSK (0%), Air Liquide (3.8%), CapGemini (0.7%), Sika (1.4%), Nippon Paint (1.1%).

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ANNUALIZED RETURNS (USD, %) (QUARTER-END)

	Quarter-End	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
International Quality Strategy (net)	-1.34	0.34	4.41	-	-	-	5.44
International Quality Strategy (gross)	-1.19	0.79	5.04	-	-	-	6.07
MSCI World ex USA	0.89	10.16	15.89	-	-	-	19.97
Value Add	-2.24	-9.82	-11.48	-	-	-	-14.54

RISKS

Risks associated with investing in the Strategy may include: (1) Market Risk - Equities: the market price of equities may decline due to factors affecting the issuer, its industries, or the economy and equity markets generally. Declines in stock market prices generally are likely to reduce the net asset value of the Fund's shares; (2) Management and Operational Risk: the risk that GMO's investment techniques will fail to produce desired results, including annualized returns and annualized volatility; and (3) Non-U.S. Investment Risk: the market prices of many non-U.S. securities (particularly of companies tied economically to emerging countries) fluctuate more than those of U.S. securities. Many non-U.S. markets (particularly emerging markets) are less stable, smaller, less liquid, and less regulated than U.S. markets, and the cost of trading in those markets often is higher than it is in U.S. markets. This is not a complete list of risks associated with investing in the Strategy. Please contact GMO for more information.

Composite Inception Date: 31-Oct-24

Performance Returns: Performance for the year of inception is less than a full calendar year. Returns shown for periods greater than one year are on an annualized basis. To obtain performance information to the most recent month-end, visit www.gmo.com. **Performance data quoted represents past performance and is not indicative of future results.** Net returns are presented after the deduction of a model advisory fee and incentive fee if applicable. These returns include transaction costs, commissions and withholding taxes on foreign income and capital gains and include the reinvestment of dividends and other income, as applicable. Fees paid by accounts within the composite may be higher or lower than the model fees used. Gross returns are presented gross of management fees and any incentive fees if applicable. These returns include transaction costs, commissions, withholding taxes on foreign income and capital gains and include the reinvestment of dividends and other income, as applicable. If management and incentive fees were deducted performance would be lower. For example, if, before fees, the strategy were to achieve a 10% annual rate of return above its hurdle rate each year for ten years, and an annual advisory fee of 1% and incentive fee of 20% of net returns above the hurdle rate were charged during that period, the resulting average annual net return (after the deduction of management and incentive fees) would be approximately 7.20%. **GMO LLC claims compliance with the Global Investment Performance Standards (GIPS®). A Global Investment Performance Standards (GIPS®) Composite Report is available at www.gmo.com by clicking the GIPS® Composite Report link in the documents section of the strategy page. GIPS® is a registered trademark owned by CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Actual fees are disclosed in Part 2 of GMO's Form ADV and are also available in each strategy's Composite Report.** The portfolio is actively-managed, is not managed relative to a benchmark and uses an index for performance comparison purposes only and, where applicable, to compute a performance fee.

IMPORTANT INFORMATION

Comparator Index(es): The MSCI World ex-USA Index (MSCI Standard Index Series, net of withholding tax) is an independently maintained and widely published index comprised of global developed markets, excluding the United States. MSCI data may not be reproduced or used for any other purpose. MSCI provides no warranties, has not prepared or approved this report, and has no liability hereunder.

The above information is based on a representative account in the Strategy selected because it has the fewest restrictions and best represents the implementation of the Strategy.

For private bank intermediaries in Singapore and Hong Kong, these materials are intended for institutional and Accredited/Professional Investors Use Only.

ABOUT GMO

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

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*GMO's West Coast Hub is comprised of members of Investment, Global Client Relations, and other teams located in and around the Greater San Francisco area
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