QUARTERLY INVESTMENT REVIEW

Quality Fund

RETURNS (%) (USD)

	Cumulative (%)		Annualized (%)				
	QTD	YTD	1 Year	3 Years	5 Years	10 Years	ITD
Net of Fees (Class III)	11.69	21.38	24.82	16.64	14.52	13.85	9.72
Gross of Fees (Class III)	11.82	21.67	25.43	17.20	15.07	14.40	10.25
S&P 500	8.74	16.89	19.59	14.61	12.31	12.86	9.41
MSCI World	6.83	15.09	18.51	12.18	9.07	9.51	7.48
Value Added (vs. S&P 500)	2.95	4.48	5.23	2.03	2.21	0.98	0.31
Value Added (vs. MSCI World)	4.86	6.29	6.31	4.46	5.44	4.34	2.24

Major Performance Drivers

Stock markets continued to climb in the second quarter and the Quality portfolio outperformed both the S&P 500 and MSCI World indices.
Returns were concentrated in three GICS sectors and were driven by a handful of star performers. Information Technology was the leader, with Apple, Microsoft, and Nvidia making the largest contributions to the sector's returns. Next came Consumer Discretionary, propelled by Amazon and Tesla. In third place was Communication Services with Meta and Alphabet making outsized returns.

These seven highlighted companies also happen to comprise seven of the eight largest positions in the S&P 500, with Berkshire Hathaway as the other, and the top seven in MSCI World; this was a good quarter to be oriented toward larger companies at the forefront of technology, and this was a good period for the Quality Fund, with contributions to return dominated by Technology, alongside a strong showing for Health Care.

The biggest corporate news story of the quarter concerned Nvidia and the extraordinary demand for its artificial intelligence (AI)-oriented GPU chips from datacenter customers as markets processed the rapid improvement in Large Language Models (LLMs) and AI. As a result, consensus estimates for this year's revenues jumped by more than 40%, a seriously unusual leap for a company of Nvidia's scale. Nvidia was the strongest large cap globally over the quarter as a result.

The portfolio's return comfortably outpaced that of the broader markets despite not owning a single share in Nvidia. Many of the positions driving portfolio returns have adjacencies to AI in various forms. Our team is comfortable investing in areas that are supported by secular trends but in general we prefer to avoid picking idiosyncratic winners from new developments. Clearly Nvidia has taken a lead in AI chips, but we are quite possibly still in the early stages of modern AI. When growth is unusually fast, it is easier for leadership to change than in more mature industries. This is at least partly because fast growth creates opportunities for new entrants. Nvidia does show all the hallmarks of a stranglehold on GPUs, but the share price takes that for granted and we believe that there are more attractive ways to benefit from the potential use of AI via a spread of other "picks and shovels" companies – so named because the higher-quality way to profit from the gold rush of 1849 was literally to sell picks and shovels to the risk-taking prospectors, rather than to head for "them thar hills" and look for the gold itself.

Inception Date: 6-Feb-04

Risks: Risks associated with investing in the Fund may include: (1) Market Risk - Equities: The market price of an equity may decline due to factors affecting the issuer or its industry 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. (3) Focused Investment Risk: The Fund invests its assets in the securities of a limited number of issuers, and a decline in the market price of a particular security held by the Fund may affect the Fund's performance more than if the Fund invested in the securities of a larger number of issuers. For a more complete discussion of these risks and others, please consult the Fund's prospectus.Annualized Returns may include the impact of purchase premiums and redemption fees. Returns shown for periods greater than one year are on an annualized basis. To obtain performance information to the most recent month-end, visit www.gmo.com.

If certain expenses were not reimbursed, performance would be lower. Transaction costs, if any, are paid to the fund to offset the cost of portfolio transactions to invest or raise cash. **Net Expense Ratio: 0.50%; Gross Expense Ratio: 0.51% Net Expense Ratio reflects the reduction of expenses from fee reimbursements. The fee reimbursements will continue until at least June 30, 2024. Elimination of this reimbursement will result in higher fees and lower performance. Gross Expense Ratio is equal to the Funds Total Annual Operating Expenses set forth in the Funds most recent prospectus dated June 30, 2023.**

Performance data quoted represents past performance and is not indicative of future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance data may be lower or higher than the performance data provided herein. The portfolio is not managed relative to a benchmark. References to an index are for informational purposes only.

Major Performance Drivers Cont.

We believe that the most interesting picks and shovels of AI come in several shapes and sizes. First, we would expect that companies involved in the manufacturing of the chips required to build the LLMs, and to generate the inferences that are needed as they are deployed, will likely benefit whichever chip designers emerge victorious in the long run. In this area, the strategy holds Taiwan Semi, which manufactures a good proportion of Nvidia's current output, and Lam Research and KLA, whose equipment is required by companies like Taiwan Semi in chip manufacture.

Second, we believe that the hyperscalers offering cloud services for hire are likely to benefit from increased use of LLMs, given the enormous processing power required. The largest hyperscaler cloud platforms are Microsoft's Azure, Amazon's AWS, and Alphabet's Google Cloud but Oracle's relatively smaller OCI platform also has promise here given its more modern, GPU-heavy architecture. Oracle is aggressively building out its infrastructure in anticipation.

Third, although not quite in the picks and shovels of AI business, the most deeply entrenched enterprise software providers – such as SAP, Oracle (again), Adobe, and Salesforce – have the potential to benefit from AI irrespective of where improvements emanate from, as the technology might reasonably be expected to deepen their capabilities to add value to their clients and turbocharge the benefit from their proximity to customer data. Alongside this we believe that there is an opportunity for high-end IT consultants such as Accenture and Deloitte to advise the same enterprises on these potentially significant opportunities, which will likely necessitate some level of reorganization of enterprises' data.

Examples from these categories boosted portfolio returns this quarter (interestingly not all of them did) but the AI story does not quite end there. Meta was an extraordinary returner again, up around a third, due partly to the major investments made in the last year in AI techniques to enhance the quality of its ad targeting (and due partly to the company's efforts to pare costs).

QUARTERLY INVESTMENT REVIEW

Major Performance Drivers Cont.

Other strong contributors to the portfolio this quarter were found in the Health Care sector, rebounding from a disappointing first quarter. The post-pandemic return to activity both in the physical world and on the operating table had consequences for the fund's holdings. The strongest contributions were from Intuitive Surgical, helped by the post-Covid boom in medical procedures, and Eli Lilly, whose diabetes drug was found to have potential in the treatment of obesity. At the other end of the distribution, Managed Care companies were relatively weak. Analysts at UBS estimate that there could be $250-500m of medical costs attributable to the increase in activity from the 20m+ American pickleball players (with a skew toward seniors) – we doubt this was the driver, but medical costs should be expected to increase as activity normalizes across society.

Twenty twenty-two was a challenging year for investors, particularly those with exposure to the growthier end of the market. The fund rebalanced toward Growth stocks at more attractive prices during the course of that year. Growth stocks have performed rather well in 2023, which has been helpful for the fund's returns. As a consequence, the strategy’s exposure to Growth stocks has naturally risen, and we took steps this quarter to reallocate some Growth exposure to other parts of the portfolio.

We believe that in aggregate, the portfolio remains reasonably priced with an earnings yield of 4-5% for a group of higher-than-average quality businesses with solid options for the productive deployment of retained capital.

Portfolio weights, as a percent of equity, for the positions mentioned were: Apple (3.9%), Microsoft (7.0%), Meta (3.9%), Alphabet (3.3%), Amazon (3.9%), Taiwan Semi (3.0%), Lam Research (3.3%), KLA (1.8%), SAP (2.8%), Oracle (3.5%), Adobe (2.2%), Salesforce (2.1%), Accenture (3.2%), Intuitive Surgical (2.1%), and Eli Lilly (2.7%).

PRODUCT OVERVIEW

The GMO Quality Fund seeks to generate total return by investing primarily in 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 Fund’s disciplined approach uses both quantitative and fundamental techniques to assess the relative quality and valuation of global companies and aims to exploit a long-term investment horizon while withstanding short-term volatility.

IMPORTANT INFORMATION

Comparator Index(es): The S&P 500 Index is an independently maintained and widely published index comprised of U.S. large capitalization stocks. S&P does not guarantee the accuracy, adequacy, completeness or availability of any data or information and is not responsible for any errors or omissions from the use of such data or information. Reproduction of the data or information in any form is prohibited except with the prior written permission of S&P or its third party licensors.The MSCI World Index (MSCI Standard Index Series, net of withholding tax) is an independently maintained and widely published index comprised of global developed markets. 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.

An investor should consider the fund's investment objectives, risks, charges and expenses before investing. This and other important information can be found in the funds prospectus. To obtain a prospectus please visit www.gmo.com. Read the prospectus carefully before investing.

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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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