

QUARTERLY INVESTMENT REVIEW

Quality Fund

Performance returns (USD)

ANNUALIZED RETURNS (QUARTER-END)	Quarter-End	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Quality Fund (net)	-1.01	-1.01	6.22	11.50	18.34	13.88	10.08
Quality Fund (gross)	-0.89	-0.89	6.75	12.06	18.92	14.44	10.61
S&P 500	-4.27	-4.27	8.25	9.06	18.59	12.50	9.93
Value Add vs. S&P 500	+3.26	+3.26	-2.03	+2.44	-0.25	+1.38	+0.16
MSCI World	-1.79	-1.79	7.07	7.58	16.13	9.50	7.99
Value Add vs. MSCI World	+0.78	+0.78	-0.85	+3.92	+2.21	+4.39	+2.09

Net of all fees and expenses after reimbursement by the Manager, but not transaction costs, if any. If certain expenses were not reimbursed, performance would be lower. Gross of fees, expenses and transaction costs, if any. If these fees, expenses and costs were included, performance would be lower. 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. To obtain performance information to the most recent month-end, visit [www.gmo.com](http://www.gmo.com). The portfolio is actively-managed, is not managed relative to a benchmark and uses the Index for performance comparison purposes only and, where applicable, to compute a performance fee.

MAJOR PERFORMANCE DRIVERS

In a period in which the news flow became a torrent, with a one-man volatility generator in the form of Donald Trump often at the source, the MSCI World index fell 1.8% while the S&P 500 dropped by 4.3%. The Quality portfolio had a negative return but outperformed the broader markets.

The decline in the Magnificent 7 tech stocks accelerated over the quarter. At the time of writing a few days into April they were well into bear market territory, with Tesla faring worst. Technology stocks had their worst quarter since the growth sell-off in 2022, underperforming the global markets by a low double-digit amount, speaking to weakening conviction in AI as a panacea to all market ills. The portfolio's technology holdings featured heavy in a worst performer list headed by Alphabet, Taiwan Semiconductor, and Oracle. Accenture had a rough quarter too, as the market worried that the c8% of revenues derived from the U.S. government is in the crosshairs of Elon Musk's cost-cutting drive in addition to the largely ignored improvement across the rest of the company's book of business.

The divergence in regional returns was stark; European equities outperformed tech heavier U.S. equities by more than 15%, the widest margin in 35 years. It is hard to separate this European equity renaissance from the new U.S. administration's dealings with traditional U.S. allies (from hardball with NATO over spending contrasting apparent softball with Putin, via attempts to influence politics in less developed countries, to tariffs, etc.). The aggregate has had something of a galvanizing effect on European political leadership. Most notably, Europe's appetite for investment in infrastructure and defense spending was transformed by Germany's decision to unshackle the country from its fiscal debt brake. European financials and beneficiaries of defense and infrastructure led the market higher. Most of the portfolio's best performers were European. Knorr Bremse - the German "brakes for trucks and trains" company with good exposure to potential European infrastructure investment - was the strongest of the group.

Inception Date: 6-Feb-04  
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.  
**Risks:** Risks associated with investing in the Fund 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) 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 and other risks, please consult the Fund's Prospectus. **Performance Returns:** Annualized Returns may include the impact of purchase premiums and redemption fees. The GMO Trust funds are distributed in the United States by Funds Distributor LLC. GMO and Funds Distributor LLC are not affiliated.  
**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, 2025. 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, 2024.

# QUARTERLY INVESTMENT REVIEW

## MAJOR PERFORMANCE DRIVERS CONT.

On paper then, you might have expected our tech heavy portfolio of multinationals to have had a torrid quarter. In practice, however, our orientation to invest in higher quality businesses gave the portfolio more defensive characteristics, and this proved helpful in a testing period for investors.

To prove the point, the quarter had two quite notable days. On "DeepSeek Monday," the market discounted the possibility of a serious cost reduction in the building of AI models with negative implications for parts of the semi-conductor industry, and positive implications for the users of AI. On "The Tariffs Are A-Coming Day," markets processed the seriousness of intent of the U.S. administration in altering global trade flows. These served as a kind of stress test for equity portfolios and for each the Quality portfolio had convincing wins.

We made three new purchases in the portfolio. Having found more to do in European names last year as they were relatively out of favor, this year selling in the U.S. has created more opportunity.

- Uber offers ridesharing and food delivery services and is often the scale player, e.g., in U.S. ridesharing. The stock has been weak recently as investors fret over the consequences of progress in autonomous driving, with Waymo (owned by Alphabet) extending its successful "robotaxi" launch from San Francisco to other U.S. cities and Tesla reaffirming its own "robotaxi" ambitions. This may sound like an encroachment on Uber's turf, but we believe that autonomous driving is at least as likely to be a good thing for Uber in the end as a bad thing. Assuming other firms are hot on Waymo's tail, Uber has the reach and the rolodex that we suspect will result in it being the preferred partner for autonomous vehicles providers, as a hybrid model with a mix of human and more capital-intense computerized drivers is more likely to be optimal than an all-autonomous fleet for the foreseeable future.

- Novo Nordisk and its predecessor have been locked into a battle of innovation around diabetes care with Eli Lilly for a century. Novo's stock has been weak as recent GLP-1 clinical results were relatively disappointing. However, we suspect that leadership will rotate as it has in the past, and that the stock price weakness is an opportunity to get GLP-1 exposure at an attractive price point.

- Broadcom has been a holding in the U.S.-only version of the Quality portfolio since inception. We added it to the portfolio as large tech names sold off. Broadcom's exposure to custom chips and networking for AI is attractive icing on the technology cake that has been built over the decades by Hock Tan, a capital allocator par excellence. We note that although Broadcom has been buffeted by the ups and downs (mainly downs recently) of AI, it has a substantial software business with different drivers. This quarter we have been finding more names that we want to buy than sell, which is one of the better problems to have. We believe that the Quality portfolio remains a constructive way to gain exposure to equity markets, with some reassurance that if markets do hit a difficult patch, investors tend to gravitate toward the reasonably valued, competitively advantaged businesses with which we aim to fill the portfolio.

Portfolio weights for the period for the securities mentioned were as follows: Alphabet (4.0%), Taiwan Semiconductor (2.6%), Oracle (2.8%), Accenture (2.5%), Knorr Bremse (0.4%), Uber (1.1%), Tesla (0.0%), Novo Nordisk (0.9%), Eli Lilly (1.3%), Broadcom (0.9%).

# QUARTERLY INVESTMENT REVIEW

## 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

**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](http://www.gmo.com). Read the prospectus carefully before investing.**

**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.

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