QLTY

GMO U.S. QUALITY ETF

Quarterly Investment Review

PRODUCT OVERVIEW

The GMO U.S. Quality ETF seeks to generate total return by investing in 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 GMO U.S. Quality ETF's disciplined approach uses both quantitative and fundamental techniques to assess the relative quality and valuation of U.S. domiciled companies and aims to exploit a long-term investment horizon while withstanding short-term volatility in an actively managed ETF format.

MAJOR PERFORMANCE DRIVERS

In a strong quarter for equities, the U.S. Quality portfolio posted a positive return, and the S&P 500 posted 15.20%.

The second quarter of 2026 was marked by a clear shift in market tone and a strong risk-on environment. The market largely moved past concerns around Iran by the end of March, the VIX peaked, and oil prices mostly drifted lower from there. The S&P 500 then posted a robust quarterly gain, while semiconductor shares that had been relatively subdued in the first quarter surged in the second quarter. Technology was the strongest sector by a wide margin, while Energy reversed sharply, moving from the best-performing sector in the first quarter to the worst in the second quarter. Outside Technology, the quarter also brought weakness in some cyclical heavy asset sectors, which mattered for relative returns given our portfolio positioning.

Returns were concentrated during the quarter. Semiconductors performed the best, and the portfolio's strongest results came from holdings tied to that theme. Lam Research and KLA stood out as major contributors as investors continued to back suppliers to the AI capacity expansion. Texas Instruments also added meaningfully, as strength extended beyond equipment manufacturers into other parts of the chip ecosystem. Managed care was another important area of strength, led by UnitedHealth, as regulatory pressures on companies serving government programs, including Medicare, eased. Relative returns also benefited from our lack of exposure to Energy, while avoiding Materials, Utilities, and Real Estate added support in a quarter when those benchmark sectors lagged.

On the other hand, software and related businesses facing an AI disruption narrative weighed on results. Accenture and Salesforce were notable detractors as the market favored more direct AI hardware beneficiaries over parts of software exposed to changing customer spending patterns and competitive pressures. Healthcare outside managed care also detracted, with weakness centered in Abbott and extending to Thermo Fisher, while Eli Lilly also weighed on relative returns. Our lack of exposure to Micron and AMD hurt as investors rewarded memory and semiconductor names that were more levered to the quarter's hardware rally.

Portfolio Review

Portfolio activity in the quarter included a new purchase, Nvidia. We added Nvidia as a diversifying move within our AI semiconductor exposure, which had become increasingly concentrated in equipment, while keeping a sizable position in semiconductor capital equipment. We continued to add to Netflix and Mastercard, both positions we initiated in the first quarter. These purchases were balanced by reductions in Alphabet, U.S. Bancorp, Hilton, and Lam Research.

Elsewhere in the portfolio, our software exposure remained stable overall. We did modest net selling in semiconductors during the quarter after larger reductions in the first quarter, and total semiconductor selling for the year to date reached roughly four percent, with trims to Lam Research part of that activity, even as we broadened exposure through Nvidia.

Investment Outlook

We remain very excited about the prospects of the companies in the U.S. Quality portfolio. We have many businesses we would like to buy, and we continue to find relatively few holdings that we want to sell. Our enthusiasm is grounded in the portfolio companies themselves rather than in a single market theme.

More broadly, we observe that Quality stocks have maintained strong fundamentals, including profitability, growth, and balance sheet strength. For the most part, their stock market returns also remain solid in absolute terms. We continue to see opportunities across the portfolio without changing our discipline around valuation and portfolio balance. We continue to anchor the U.S. Quality portfolio in businesses that meet our quality mandate.

Portfolio weights as a percent of equity for the securities mentioned are as follows: Lam Research (6.4%), KLA (4.7%), Texas Instruments (4.1%), UnitedHealth (2.9%), Accenture (1.5%), Salesforce (2.1%), Abbott (2.2%), Thermo Fisher (3.3%), Eli Lilly (2.7%), Micron (0%), AMD (0%), Nvidia (2.3%), Netflix (1.9%), Mastercard (2.3%), Alphabet (5.3%), U.S. Bancorp (2.1%), Hilton (2.1%).

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

	Quarter-End	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
NAV	15.22	8.72	22.79	-	-	-	22.40
S&P 500	15.20	10.21	22.32	-	-	-	24.01
Market Price	15.24	8.59	22.68	-		-	21.88
S&P 500	15.20	10.21	22.32	-		-	23.14

NAV Inception Date: 13-Nov-23
Market Price Inception Date: 14-Nov-23
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. Exchange Traded Funds (ETFs) are bought and sold through exchange trading at market price (not NAV), and are not individually redeemed from the fund. Shares may trade at a premium or discount to their NAV in the secondary market. Brokerage commissions will reduce returns. 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.

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:** Exchange Traded Funds (ETFs) are bought and sold through exchange trading at market price (not NAV), and are not individually redeemed from the fund. Shares may trade at a premium or discount to their NAV in the secondary market. Brokerage commissions will reduce returns. The GMO ETFs are distributed in the United States by Foreside Fund Services LLC. GMO and Foreside Fund Services LLC are not affiliated. **Total Annual Fund Operating Expenses: 0.50%; Expense Ratio is equal to the Fund's Total Annual Operating Expenses set forth in the Fund's most recent prospectus dated 30 June 2026.**

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. 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.

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