QUALITY STRATEGY

Quarterly Investment Review

PRODUCT OVERVIEW

The GMO Quality Strategy 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 Strategy'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.

MAJOR PERFORMANCE DRIVERS

Despite a worrisome drumbeat of gloom from AI and geopolitics, this quarter turned out to be a pretty normal sort of quarter for global stock markets, with markets returning 2.3% per the S&P 500 and 1.9% per the MSCI World.

The GMO Quality portfolio outperformed the broader markets, and the portfolio's defensiveness reasserted itself. The portfolio returned a little less than the benchmarks during the strong spell that began in the last few days of July and more than made up for it in the soggy patches. This was in line with the experience of the last decade or so, but in contrast with the first half of 2026, when investors focused intensely on Energy (in Q1) and AI winners (in Q2).

Leveraged market participants had been amongst the most enthusiastic backers of the AI winners – long the semi-conductors and data center-focused capital goods companies – often funded by shorting software businesses and no doubt contributing to H1's "SaaS-pocalyse". The portfolio took the other side, trimming semis gradually until July, while diversifying and adding new positions in software and software-related businesses.

The subsequent sell-off in AI winners that began this quarter pressured those hedge fund long/short positions – most notably in the case of the Situational Awareness fund, which was rescued/decapitated by Citadel after its book appeared to have spun out of control. All this led to some intense reversals in performance by market segment.

Software stocks were the standout - far outperforming other industries - with Salesforce and Accenture leading the pack, each up approaching 50%. We trimmed both, with the proceeds partially spread across other software names.

The reversal in the direction of relative performance was not limited to Technology. Health Care stocks also saw their fortunes change after a limp first half. The biotech industry appears to be turning upwards, finally, benefiting the portfolio's holding in Thermo Fisher, a provider of life science tools and services that enable drug development. While pharmaceutical stocks generally outperformed too, Merck's gains were more idiosyncratic, coming from promising clinical results from their work with Moderna, which uses mRNA technology to create an individualized cancer vaccine. Our sense was that the market rushed to price in the still rather uncertain future cash flows from this project, and we pared back the portfolio's exposure.

We liquidated the portfolio's position in Haleon, where neither margins nor growth have lived up to expectations post-carveout from GSK, allocating instead to medical equipment company Stryker. Stryker's comprehensive portfolio of hospital products and its installed base of robotic joint replacement systems give it a deliciously unfair sales advantage that has potentially been overlooked as the company deals with a cyberattack and manufacturing issues at a recent acquisition, neither of which we expect to have a long-lasting impact.

A pattern is evident in the trades noted above – portfolio rebalancing generally skews towards the reactive. Although the team's number one priority is quality, we regard valuation as an important consideration, and as a result, we prefer to give the market what it wants in terms of liquidity when we trade – we tend to do our selling when others are buying, and vice versa. There is a tension here between riding winners/cutting losers (long-term correct) and keeping an eye on valuation (also long-term correct). We try to resolve the conflict by selecting companies that we hope to hold for the long-term and thus keeping overall turnover relatively low (c. 20% a year over time, with some variation according to the opportunity set and cross-sectional volatility across the market), while using significant changes in valuation to reshape the portfolio, either incrementally or in terms of liquidations and additions.

We made three additions to the portfolio in this vein over the quarter. We already mentioned Stryker. Our valuation antennae also began to jingle this quarter around Home Depot and Martin Marietta. We have followed these businesses for some time, having owned each in offshoots of the Quality portfolio at times over the last few years.

Home improvement retailer Home Depot had a good lockdown, growing rapidly for a couple of years, but has been suffering a hangover since. Home Depot has a scale-driven business model that increasingly emphasizes professional supplies, services, and trade distribution alongside its better-known retail front end. Rising mortgage rates have weighed on the company's shares this year, and we believe the stock represents good value, anchored by a structural desire for homeownership and the perpetual proclivity of those homeowners to maintain and upgrade their primary asset. When a great business trades at a good price, we are inclined to let the cycle take care of itself (to a point – we could allocate more in a more marked downturn).

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MAJOR PERFORMANCE DRIVERS CONT.

Martin Marietta is the largest supplier of building aggregates - crushed stone, gravel, etc. - in the United States. This is the first Quality portfolio investment in the Materials sector in over a decade. Quarries are capital intensive, and it can be hard to get the environmental permits to start a new one. Aggregates are low-value per unit of weight and tend to be purchased locally to reduce transport costs. Martin Marietta's business is therefore built around natural local oligopolies and substantial mineral reserves, with solid pricing power alongside occasionally erratic volume. This year, the company agreed to acquire the U.S.'s largest lime producer, a deal with interesting possibilities for synergies as lime production creates aggregates as a waste product, one that Martin Marietta can deploy thoughtfully. The market reacted negatively to the deal, which will close at full price (if you ignore the synergies, that is), but we believe that both the combination and the stock look compelling.

Both of these purchases increase the cyclicality of the portfolio at the margin. We continue to build your portfolio from the bottom up, but note that the portfolio's allocation to each of energy, materials, real estate, autos, banks, insurance, and industrials – 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. 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: Salesforce (1.0%), Accenture (1.1%), Thermo Fisher (4.7%), Merck (1.6%), Haleon (0%), Stryker (0.9%), Home Depot (0.5%), and Martin Marietta (0.5%)

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

	Quarter-End	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Quality Strategy (net)	4.32	9.88	16.79	20.32	13.23	15.72	10.75
Quality Strategy (gross)	4.49	10.39	17.52	21.07	13.93	16.39	11.32
S&P 500	2.30	12.75	15.74	22.88	13.79	15.33	10.85
Value Add vs. S&P 500	+2.02	-2.86	+1.05	-2.57	-0.57	+0.39	-0.10
MSCI World	1.88	11.75	15.24	21.40	11.89	12.81	8.97
Value Add vs. MSCI World	+2.45	-1.87	+1.55	-1.08	+1.34	+2.91	+1.78

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) 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. This is not a complete list of risks associated with investing in the Strategy. Please contact GMO for more information.

Composite Inception Date: 29-Feb-04

***Preliminary Performance: Final performance numbers are generally available on GMO's website within fifteen business days after month end. Investors should not rely on preliminary numbers to make investment decisions.**

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 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.The MSCI ACWI (All Country World) Index (MSCI Standard Index Series, net of withholding tax) is an independently maintained and widely published index comprised of global developed and emerging 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. Please visit https://www.gmo.com/americas/benchmark-disclaimers/ to review the complete benchmark disclaimer notice.

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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.

AMSTERDAM | BOSTON | LONDON | SAN FRANCISCO* | SINGAPORE | SYDNEY | TOKYO**

*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
**Representative Office

QUALITY

OVERVIEW

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FACTS

Strategy Inception	06-Feb-04
Composite Inception	29-Feb-04
Total Assets	$38.4bn USD
Index	S&P 500
Alternate Index	MSCI World

PRELIMINARY* CUMULATIVE TOTAL RETURNS (USD, NET OF FEES, %)

	MTD	QTD	YTD	2025	2024	2023	2022	2021
Composite	-1.03	4.32	9.88	19.36	18.86	29.76	-15.46	25.85
Index	-0.35	2.30	12.75	17.88	25.02	26.29	-18.11	28.71
Alternate Index	-1.19	1.88	11.75	21.09	18.67	23.79	-18.14	21.82

RISK PROFILE (PRELIMINARY 5-YEAR TRAILING)

Alpha (Jensen's)	0.39
Beta	0.90
R Squared	0.91
Sharpe Ratio	0.64
Standard Deviation	14.70

PRELIMINARY* ANNUALIZED TOTAL RETURNS (USD, NET OF FEES, %)

	1 Year	3 Years	5 Years	10 Years	ITD
Composite	16.79	20.32	13.23	15.72	10.75
Index	15.74	22.88	13.79	15.33	10.85
Alternate Index	15.24	21.40	11.89	12.81	8.97

PORTFOLIO MANAGEMENT



Tom Hancock
Joined GMO in 1995
MS, Rensselaer Polytechnic Institute;
PhD, Harvard University



Ty Cobb, CFA
Joined GMO in 1997
MSF, Suffolk University



Anthony Hene
Joined GMO in 1995
MS, University of Oxford

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QUALITY

CHARACTERISTICS

	Portfolio	Index	Alternate Index
Price/Earnings - Forecast 1 Yr Wtd Mdn	21.8x	20.8x	20.5x
Return on Equity - Forecast 1 Yr Wtd Mdn	27.6%	25.1%	23.1%
Dividend Yield - Hist 1 Yr Wtd Avg	1.1%	1.1%	1.5%
Free Cash Flow Yield - Hist 1 Yr Wtd Avg	3.6%	2.8%	3.2%
Market Cap - Wtd Mdn Bil	358.9 USD	447.4 USD	219.6 USD
Number of Equity Holdings	49	492	1212
Net Debt/EBITDA - Hist 1 Yr Wtd Mdn	0.2x	0.2x	0.3x

SECTORS (%)

Sector	Portfolio	Index	Alternate Index
Communication Services	12.1	9.9	8.3
Consumer Discretionary	9.2	8.6	8.4
Consumer Staples	6.3	4.4	4.8
Energy	0.0	3.4	4.0
Financials	7.6	11.4	15.7
Health Care	23.1	9.3	9.2
Industrials	4.9	8.0	10.8
Information Technology	36.3	39.7	31.8
Materials	0.5	1.6	3.1
Real Estate	0.0	1.7	1.5
Utilities	0.0	1.9	2.3

MARKET CAP BAND EXPOSURES ($B)

	Portfolio	Index	Alternate Index
Small (5.9 & Below)	0.0	0.1	0.4
Small - Medium (5.9 To 20.2)	2.9	2.7	6.4
Medium (20.2 To 51.9)	6.6	8.1	13.2
Medium - Large (51.9 To 161.5)	17.0	18.2	23.5
Large (161.5 & Above)	73.5	70.9	56.6

TOP HOLDINGS

Company	Sector	%
Microsoft Corp	Information Technology	7.7
Alphabet Inc	Communication Services	4.9
Meta Platforms Inc	Communication Services	4.9
Taiwan Semiconductor Manufacturing Co Ltd	Information Technology	4.7
Thermo Fisher Scientific Inc	Health Care	4.7
Apple Inc	Information Technology	4.3
Johnson & Johnson	Health Care	4.2
Amazon.com Inc	Consumer Discretionary	3.5
Lam Research Corp	Information Technology	3.5
Texas Instruments Inc	Information Technology	3.0
Total		**45.4**

TOP COUNTRIES (%)

Country	Portfolio	Index	Alternate Index
United States	81.2	100.0	72.9
United Kingdom	5.0	0.0	3.4
Taiwan	4.7	0.0	0.0
France	4.1	0.0	2.2
Germany	2.6	0.0	2.1
Canada	0.9	0.0	3.3
Spain	0.8	0.0	1.0
Cash	0.7	0.0	0.0
Australia	0.0	0.0	1.5
Austria	0.0	0.0	0.1

REGIONS (%)

Region	Portfolio	Index	Alternate Index
United States	81.2	100.0	72.9
Europe	12.6	0.0	15.1
Rest of World	5.6	0.0	11.9
Cash Equivalents	0.7	0.0	0.0

QUALITY

IMPORTANT INFORMATION

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GLOSSARY

Risk Statistics: Risk profile data is net of fees. Alpha is a measure of risk-adjusted return. Beta is a measure of a portfolio's sensitivity to the market. R-Squared is a measure of how well a portfolio tracks the market. Sharpe Ratio is the return over the risk free rate per unit of risk. Std Deviation is a measure of the volatility of a portfolio.
Sector Exposures: The Global Industry Classification Standard (GICS) is the exclusive intellectual property of MSCI Inc. (MSCI) and Standard & Poor's, a division of The McGraw-Hill Companies, Inc. (S&P). Neither MSCI, S&P, nor any third party makes any representations or warranties, express or implied, with respect to GICS or the results to be obtained by the use thereof, and expressly disclaim all warranties, including of merchantability and fitness for a particular purpose. Neither MSCI, S&P, nor any third party shall have any liability for any damages of any kind relating to the use of GICS. **Top Holdings:** Portfolio holdings are percent of equity. Where applicable, the top holdings are derived by looking through to the underlying portfolios in which the asset allocation strategy invests and, where appropriate, individual security positions are aggregated. They are subject to change and should not be considered a recommendation to buy individual securities. 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.
Please refer to https://www.gmo.com/americas/glossary-of-terms/ for additional portfolio characteristic definitions.

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