# QUALITY STRATEGY

## *Quarterly Investment Review*

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

| | *Quarter-End* | *YTD* | *1-Year* | *3-Year* | *5-Year* | *10-Year* | *Since Inception* |
|---|---|---|---|---|---|---|---|
| Quality Strategy (net) | -7.48 | -7.48 | 11.91 | 16.18 | 11.21 | 14.43 | 10.14 |
| Quality Strategy (gross) | -7.34 | -7.34 | 12.60 | 16.90 | 11.90 | 15.08 | 10.71 |
| S&P 500 | -4.33 | -4.33 | 17.80 | 18.31 | 12.07 | 14.16 | 10.29 |
| Value Add vs. S&P 500 | -3.15 | -3.15 | -5.90 | -2.13 | -0.86 | +0.27 | -0.14 |
| MSCI World | -3.57 | -3.57 | 18.90 | 16.77 | 10.27 | 11.80 | 8.46 |
| Value Add vs. MSCI World | -3.91 | -3.91 | -6.99 | -0.59 | +0.94 | +2.62 | +1.69 |

### MAJOR PERFORMANCE DRIVERS

Equity markets were weak in the first quarter, with the S&P 500 and MSCI World indices down 4.3% and 3.6% in dollar terms, respectively. The Quality portfolio lagged the broader markets for the quarter. Two themes shaped markets. First, a more assertive U.S. foreign policy, highlighted by operations in Venezuela and Iran, increased geopolitical and economic tail risk. Second, concerns intensified that AI could disrupt incumbent business models, alongside ongoing questions about where capex will ultimately accrue across the AI ecosystem. Energy stocks were the clearest beneficiaries of the geopolitical backdrop, tracking moves in oil prices and outperforming the broader market by an extraordinary 40 points over the quarter. Other asset-heavy businesses also performed well. The Iran war, the HALO trade, and earlier-quarter expectations for strong cyclical growth in 2026 helped drive that leadership, while the asset-light characteristics that typically define our investment universe were out of favor. Within AI, performance diverged: semiconductor supply-chain companies held up well, while hyperscalers and software-related businesses came under pressure. Continued policy risk in managed care, concerns around private credit, and weakness in luxury and travel following the war in Iran added to the quarter's crosscurrents.

In this environment, our semiconductor supply-chain holdings performed well. Lam Research, Taiwan Semiconductor, KLA, and Texas Instruments benefited from AI-related demand growth and were among our most significant contributors. Johnson & Johnson also added meaningfully and stood out within a healthcare backdrop that was otherwise mixed across our holdings. Financials supported relative results as well, as our underweight position and focus on businesses with less credit risk proved helpful amid concerns about AI exposure and private credit.

### 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 predictive of future performance.** 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.

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### MAJOR PERFORMANCE DRIVERS CONT..

Our largest headwind was our limited exposure to asset-heavy sectors, most notably Energy, with additional drag from Materials, Utilities, and Real Estate. Managed care holdings detracted as policy risk persisted and the 2027 Medicare advance rate notice weighed on the group. Software and software-like companies were another meaningful source of weakness as AI disruption fears rose, with particular pressure evident in Salesforce, Accenture, SAP, Microsoft, Dassault Systèmes, and Amadeus. Thermo Fisher also detracted, adding to broader pressure in healthcare beyond managed care. Global luxury and travel names underperformed following the Iran attacks, while weakness in hyperscalers compounded the challenge across parts of the market that are typically central to our opportunity set.

We were relatively active during the first quarter, with volatility creating opportunities to adjust the portfolio. We initiated positions in Mastercard, Synopsys, Netflix, Constellation Software, and Experian, and we added materially to Microsoft and SAP. We also added to a basket of software holdings impacted by AI disruption concerns, including Salesforce, Dassault Systèmes, Amadeus, and Accenture. We believe these businesses will prove far more resilient to disruption than the market currently implies, and we were able to add at very undemanding valuations. In addition, we increased Broadcom and viewed both it and Synopsys primarily as AI beneficiaries, even though they sit close to software. Collectively, these purchases expanded our exposure to software, payments, data, and select AI-linked businesses during the quarter.

Elsewhere, we took profits in semiconductor winners by trimming Taiwan Semiconductor and Lam Research, and we exited ASML. In managed care, we rebalanced from Elevance to Cigna, reflecting a more cautious stance toward government-run insurance programs and a different view of management changes at the two companies. We also sold Wells Fargo following a period of strong performance, given the risk that private credit concerns could pressure major bank stocks. Finally, we liquidated Magnum Ice Cream after its spinout from Unilever (another holding).

A prolonged shutdown of the Strait of Hormuz could lead to a broader economic downturn and a potentially stagflationary environment, an outcome that could benefit Quality on a relative basis. Conversely, an easing of tensions would likely favor the sectors we do not currently own and that have recently outperformed. Within AI, we believe the market has sold off too broadly across companies where an AI disruption narrative can be constructed. We also think the divergence between hyperscalers and semiconductors is overdone, since the same macro drivers ultimately support both categories.

Portfolio weights as a percent of equity for the securities mentioned are as follows: Lam Research (4.0%), Taiwan Semiconductor (4.5%), KLA (1.6%), Texas Instruments (2.6%), Johnson & Johnson (4.7%), Salesforce (2.2%), Accenture (2.0%), SAP (2.0%), Microsoft (6.1%), Dassault Systèmes (0.7%), Amadeus (0.7%), Thermo Fisher (3.4%), Mastercard (1.3%), Synopsys (1.0%), Netflix (1.1%), Constellation Software (0.7%), Experian (0.5%), Broadcom (2.7%), ASML (0%), Elevance (1.5%), Cigna (1.8%), Wells Fargo (0%), Magnum Ice Cream (0%), and Unilever (1.7%).

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### 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.

### 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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