

QUARTERLY INVESTMENT REVIEW

U.S. Quality Strategy

Performance returns (USD)

ANNUALIZED RETURNS (QUARTER-END)	Quarter-End	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
U.S. Quality Strategy (net)	6.51	21.26	21.26	-	-	-	20.54
U.S. Quality Strategy (gross)	6.61	21.71	21.71	-	-	-	20.99
S&P 500	2.66	17.88	17.88	-	-	-	20.40
Value Add	+3.86	+3.38	+3.38	-	-	-	+0.14

MAJOR PERFORMANCE DRIVERS

In 2025, the GMO U.S. Quality portfolio outperformed the S&P 500. In the fourth quarter, the portfolio performed 4% ahead of the broader indices.

It will surprise you very little to learn that the best returns were generated in the growth part of the portfolio this year. The top three performers were AI-related. Lam Research and KLA Corp both sell equipment essential to the manufacture of semiconductors necessary for all that AI compute. Their businesses accelerated meaningfully in the scramble to kit out new data centers. Alphabet, meanwhile, had a great year on multiple fronts: its TPU chips emerged as a potential competitor to Nvidia’s GPUs, its Gemini AI product took the lead over OpenAI’s best offering in benchmarking tests, and the widening of the search market into the AI space took regulatory heat off its powerful position in conventional search.

Overall, AI made a strong contribution to portfolio returns this year. While there is no perfect measure of AI exposure for a portfolio, our best estimate is that the portfolio has been a couple of points underweight relative to the S&P 500 over the year. However, the relative weight mattered less than owning the right stocks in the space.

In September, when Oracle revealed the extent to which its compute business was dominated by a single client, OpenAI, alongside its increasing operational and financial leverage, we downgraded our assessment of the company’s quality to below our minimum threshold and liquidated the position over the next month or so. Oracle’s stock fell 43% from its October high to the December low, so the sale has proved a good save so far.

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: 30-Jun-23

**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](http://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](http://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.

In 2025, enterprise software businesses performed poorly. The weakest Technology stocks in the portfolio were in this category: Salesforce and Accenture (not an enterprise software provider per se, but whose corporate IT work is closely related). Each struggled for slightly different reasons, but these stocks, and others like them, have derated as a group. Market participants worry about the risks from AI-native new solutions in enterprise software, presumably vibe-coded, and perhaps simply see more exciting ideas with stronger short-term tailwinds, elsewhere. The incorporation of agentic AI, etc., into enterprise work will evolve over the next several years, and we suspect that the enterprise software businesses have time to become agentic suppliers of choice. With valuations running well below recent levels, we don't have to be precisely right. We smell an opportunity emerging here and have recently added capital to positions in enterprise software, including one new name for the portfolio.

Managed care companies had a number of problems - some external, some self-inflicted - and were the most significant pocket of portfolio weakness in 2025. We wrote about the challenges for this U.S.-centric sector, which sits between the consumers of health care (insured plan members) and the payers (usually employers or public entities) in a white paper earlier in 2025.<sup>[1]</sup> In this year of political maneuvering, the ever-present discount widened further. To cap it all, UnitedHealth delivered sufficiently disappointing results to change the CEO mid-year and halve the share price to boot. We believe they have embarked on a course of self-help that will ultimately prevail and took the opportunity to acquire more UNH stock.

Also in Health Care, life sciences equipment makers have been on the sharp end of an "R&D winter." The post-COVID biopharma boom turned into a bust of once-promising treatments and technologies. Further damaging sentiment were a series of laws and regulatory changes from both Biden and Trump: biopharma companies feared price negotiations and tariffs, while universities struggled with NIH budget cuts and a broadly difficult financial environment. But there are signs of life as the regulatory environment stabilized and the portfolio's holding in Thermo Fisher was one of the strongest performers in the second half.

The portfolio has a substantial allocation to Health Care, across the various sub-segments and across types of investments from compounders in core Quality like Johnson & Johnson, to the high growth and undisputed leader in robotic surgery, Intuitive Surgical. We believe that investment in medical innovation will tend to be rewarded, especially at this point when the benefits of that innovation are befogged by other issues. Health Care stocks began to pick up in the fourth quarter, and we hope that is a taste of things to come for these well-positioned companies.

Despite the tariff trauma, AI acceleration, and all the other crosscurrents, the U.S. Quality portfolio got the return it deserved in aggregate in 2025; the return achieved closely matched the fundamental return generated by the companies in the portfolio (as measured by growth in EPS and dividends received over the period). Because trading was additive to returns – adding to Broadcom during the sell-off in April, liquidating Oracle, and so on – portfolio valuation perhaps got a little more attractive over the period.

We believe the portfolio is well-positioned for the quarters and years ahead. Despite all the uncertainties, if we can build a portfolio of companies deploying capital effectively, with the reassurance that their valuations are under watchful review, we hope that GMO U.S. Quality can continue to play a helpful role in your overall portfolio.

Portfolio weights as a percentage of equity are as follows: Lam Research (5.6%), KLA Corporation (3.9%), Alphabet (5.5%), Nvidia (0%), Oracle (0%), Salesforce (4.0%), Accenture (3.8%), UnitedHealth (2.4%), Thermo Fisher (3.7%), Johnson & Johnson (4.4%), Intuitive Surgical (1.8%), Broadcom (4.6%).

[1] Don't Blame The Middlemen – available at [www.gmo.com](http://www.gmo.com)

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## PRODUCT OVERVIEW

The GMO U.S. Quality Strategy seeks to generate total return by investing primarily 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 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 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.

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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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