U.S. QUALITY STRATEGY

Quarterly Investment Review

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

	Quarter-End	*YTD*	*1-Year*	*3-Year*	*5-Year*	*10-Year*	*Since Inception*
U.S. Quality Strategy (net)	-5.62	-5.62	16.96	-	-	-	16.08
U.S. Quality Strategy (gross)	-5.53	-5.53	17.39	-	-	-	16.51
S&P 500	-4.33	-4.33	17.80	-	-	-	16.52
Value Add	-1.29	-1.29	-0.84	-	-	-	-0.45

MAJOR PERFORMANCE DRIVERS

Equity markets were weak in the first quarter, with the S&P 500 falling 4.3%. The U.S. Quality portfolio lagged the broader markets for the quarter.

Two themes have significantly influenced equity markets this year. The first is the reality of a more muscular U.S. foreign policy stance, as evidenced by operations in Venezuela and Iran, increasing geopolitical and economic tail risk. The second is rising concern over AI's potential to disrupt existing businesses and ongoing concerns about Capex flows within the AI ecosystem.

Energy stocks were the standout beneficiaries of the first, the gyration in geopolitics, echoing the move in the oil price and beating the broader markets by an extraordinary 40 points over the quarter.

Other asset-heavy businesses thrived during the quarter as well. The Iran war, the HALO trade (Heavy Asset, Low Obsolescence), and expectations earlier in the quarter for strong cyclical growth in 2026 all contributed to that market leadership, while the asset-light characteristics that typically define our investment universe were out of favor.

The second concern led to a splintering within the AI trade, with semiconductor supply-chain companies performing well while hyperscalers and software-related businesses came under pressure.

Continued policy risk around managed care, concerns tied to private credit, and weakness in luxury and travel after the war in Iran added to the quarter's crosscurrents.

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

***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..

Key Contributors and Detractors

Within that environment, our semiconductor supply-chain holdings performed well, as Lam Research, KLA, and Texas Instruments benefited from AI-related demand growth and were among our most important contributors. Johnson & Johnson also contributed meaningfully and stood out within a healthcare backdrop that was otherwise mixed across our holdings. Financials helped relative results, as our underweight position and focus on companies with less vulnerability to credit risk proved beneficial amid concerns tied to AI exposure and private credit.

On the other hand, our largest headwind came from our lack of 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, and that pressure was especially evident in Salesforce, Accenture, and Microsoft. Thermo Fisher also detracted, adding to the pressure within healthcare beyond managed care. Weakness in hyperscalers compounded the broader challenge across areas of the market that are usually central to our opportunity set.

Positioning

We were relatively active during the first quarter, with several purchases and sales as volatility created more opportunities to adjust the portfolio. We initiated positions in Mastercard, Synopsys, and Netflix, and added to Microsoft. We also topped up our basket of software holdings affected by AI disruption concerns, including Salesforce and Accenture. We think this basket will be much more resilient to disruption than many expect, and we were able to add at very undemanding valuations. Alongside those changes, we added to Broadcom and viewed both it and Synopsys primarily as AI beneficiaries, even though they also sit close to software. These purchases expanded our exposure across software, payments, data, and selected AI-linked businesses during the quarter.

Elsewhere, we took profit on semiconductor winners by trimming Lam Research. In managed care, we rebalanced from Elevance to Cigna based on a more cautious stance toward government-run insurance programs and a different view of management changes at the two companies. We also liquidated Wells Fargo after a period of relatively strong performance and because of the risk that private credit concerns could affect the stock price of major banks.

Outlook

A continued shutdown of the Strait of Hormuz could conceivably lead to a broader economic downturn and potentially a stagflationary environment that could benefit Quality in relative terms. Conversely, an easing of tensions would 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 believe the divergence between hyperscalers and semiconductors is overdone, since the same macro drivers support both categories.

Portfolio weights as a percentage of equity for the securities mentioned are as follow: Lam Research (4.4%), KLA (3.5%), Texas Instruments (3.2%), Johnson & Johnson (5.3%), Salesforce (2.9%), Accenture (2.8%), Microsoft (6.3%), Thermo Fisher (3.4%), Mastercard (1.3%), Synopsys (1.0%), Netflix (1.1%), Broadcom (4.2%), Elevance (1.5%), Cigna (1.8%), Wells Fargo (0%).

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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.

For private bank intermediaries in Singapore and Hong Kong, these materials are intended for institutional and Accredited/Professional Investors Use Only.

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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*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
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