

QUARTERLY INVESTMENT REVIEW

Small Cap Quality Fund

Performance returns (USD)

ANNUALIZED RETURNS (QUARTER-END)	Quarter-End	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Small Cap Quality Fund (net)	2.35	-2.35	-5.76	17.04	-	-	15.17
Small Cap Quality Fund (gross)	2.52	-1.86	-5.14	17.80	-	-	15.92
S&P 600	9.11	4.24	3.64	12.81	-	-	10.14
Value Add	-6.77	-6.59	-9.40	+4.23	-	-	+5.02

Net of all fees and expenses after reimbursement by the Manager, but not transaction costs, if any. If certain expenses were not reimbursed, performance would be lower. Gross of fees, expenses and transaction costs, if any. If these fees, expenses and costs were included, performance would be lower. **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](http://www.gmo.com).** 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.

MAJOR PERFORMANCE DRIVERS

The U.S. market rallied strongly this quarter, as fears of tariffs abated and excitement about AI and rate cuts contributed to an increasingly euphoric market. The S&P 500 rose 8.1% in the quarter, while our benchmark, the more cyclical S&P 600, rose 9.1%.

The Small Cap Quality portfolio rose over the period but underperformed the benchmark. August was a remarkably difficult month for us, as cyclical elements of the market performed strongly while defensive names lagged.

Throughout the quarter, our sector selection was favorable, with our overweights in Industrials and IT and an underweight in Financials contributing positively, partially offset by an overweight to Consumer Staples. Sector allocation was more than offset by stock selection headwinds. Indeed, within all sectors except Consumer Staples, our stock selection was negative. When we see stock selection underperformance (or outperformance) across a broad range of sectors, it suggests a factor move is driving much of our relative returns, and our measures of the performance of broader quality suggest the same: this was a very difficult period for quality investing.

Our weights in Aeon, Fabrinet, and Allegion were the largest positive contributors to our relative returns, while our investments in AptarGroup, Jack Henry, and Aramark were our largest detractors.

Aeon manufactures semi-custom high-end HVAC equipment, and several years ago bought BasX, a manufacturer of HVAC equipment for data centers and clean rooms. After some struggles with ramping up BasX production and switching to a new ERP, positive updates on their operational improvements, combined with growing recognition of their opportunity in data centers, led to share price improvement.

Inception Date: 20-Sep-22

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) Management and Operational Risk: the risk that GMO's investment techniques will fail to produce desired results, including annualized returns and annualized volatility; (2) 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; and (3) Smaller Company Risk: smaller companies may have limited product lines, markets, or financial resources, lack the competitive strength of larger companies, have less experienced managers or depend on a few key employees. The securities of companies with smaller market capitalizations often are less widely held and trade less frequently and in lesser quantities, and their market prices often fluctuate more, than the securities of companies with larger market capitalizations. For a more complete discussion of these and other risks, please consult the Fund's Prospectus. **Performance Returns:** Annualized Returns may include the impact of purchase premiums and redemption fees. The GMO Trust funds are distributed in the United States by Funds Distributor LLC. GMO and Funds Distributor LLC are not affiliated.

**Net Expense Ratio: 0.67%; Gross Expense Ratio: 0.75% Net Expense Ratio reflects the reduction of expenses from fee reimbursements. The fee reimbursements will continue until at least June 30, 2026. Elimination of this reimbursement will result in higher fees and lower performance. Gross Expense Ratio is equal to the Funds Total Annual Operating Expenses set forth in the Funds most recent prospectus dated June 30, 2025.**

# QUARTERLY INVESTMENT REVIEW

## MAJOR PERFORMANCE DRIVERS CONT.

Fabrinet is an outsourced manufacturer of optical networking equipment; Nvidia's networking division is its largest customer today. The stock performed poorly on earnings due to lackluster growth in its Nvidia-derived business but recovered strongly as the market priced in its strong and likely-accelerating growth into next year.

Allegion manufactures locks and related security products. The stock benefited from strong earnings results and a broader uplift in the shares of more cyclical businesses.

AptarGroup manufactures closures for pharmaceuticals and consumer goods. Their pharma segment, benefiting from regulatory barriers to entry, drives a disproportionate amount of the company's profitability. A weak quarter, with pharma growth impacted by destocking of cold and flu medicine and a slowdown in Narcan sales, weighed on the stock. It suffered from broader weak returns of defensive companies through the period.

Jack Henry provides software for banks, and focuses on banking "cores," the central systems of banks that maintain records of accounts, deposits, loans, etc. This quarter, the bank delivered fine earnings but was pressured by a broader sell-off in software, and the perception that rising bank M&A is increasingly becoming a headwind to the name. A large customer, though one worth <1% of revenue, was acquired, and its core will transition to competitor FIS. Jack Henry was also impacted by the weak returns of defensive names throughout the period.

Aramark provides outsourced food services and facilities management to schools, hospitals, stadiums, and other businesses. A somewhat soft 3Q result, combined with a full-year guide that implies significant acceleration in 4Q, led to a weak share price reaction. The stock also traded poorly throughout the period with other defensives.

This quarter was a difficult one for our portfolio. Our portfolio will have difficulty outperforming in markets where the most cyclical and speculative names do best. Over time, however, we believe that focusing on high quality businesses will lead to outsized returns with less downside risk. Through careful risk control at the portfolio level, we limit our exposure to bets on value or growth, or difficult-to-predict macroeconomic trends such as the trajectory of interest rates. Instead, we focus on identifying companies benefiting from strong competitive advantages, healthy balance sheets, and good management teams that are available at attractive valuations.

Portfolio weights, as a percent of equity, for the positions mentioned were: Aaon (4.2%), Fabrinet (4.4%), Allegion (4.4%), AptarGroup (3.7%), Jack Henry (2.9%), and Aramark (3.7%).

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## PRODUCT OVERVIEW

The GMO Small Cap Quality Fund seeks to generate total return by investing primarily in equities of U.S. small cap companies that 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 Fund's disciplined approach uses both quantitative and fundamental techniques to assess the relative quality and valuation of U.S. small cap companies and aims to exploit a long-term investment horizon while withstanding short-term volatility.

## 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](http://www.gmo.com). Read the prospectus carefully before investing.**

**Comparator Index(es):** The S&P SmallCap 600® seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable. 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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## 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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