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

In a strong quarter for equities, the Quality portfolio had a positive return, outperforming the MSCI World Index but lagging the S&P 500.

Market Overview

The second quarter of 2026 was marked by a clear shift in market tone and a strong risk-on environment. In the United States, the market largely moved past concerns around Iran by the end of March, the VIX peaked, and oil prices mostly drifted lower from there. The S&P 500 then posted a robust quarterly gain, while semiconductor shares, which had been relatively subdued in the first quarter, surged in the second quarter. Technology was the strongest sector by a wide margin, while Energy reversed sharply, going from the best-performing sector in the first quarter to the worst in the second quarter. Outside Technology, the quarter also saw weakness in some cyclical, heavy-asset sectors, which mattered for relative returns given our portfolio positioning.

Returns were concentrated during the quarter. Semiconductors performed the best, and the portfolio's strongest results came from holdings tied to that theme. Lam Research and KLA stood out as major contributors, with investors continuing to back suppliers of AI capacity expansion. TSMC and Texas Instruments also added meaningfully as strength extended beyond equipment manufacturers into other parts of the chip ecosystem. Managed care was another important area of strength, led by UnitedHealth, as regulatory pressures on companies serving government programs, including Medicare, eased. Relative returns also benefited from our lack of exposure to Energy, while avoiding Materials, Utilities, and Real Estate added support in a quarter when those benchmark sectors lagged.

On the other hand, software and related businesses facing an AI disruption narrative weighed on results. Accenture and Salesforce were notable detractors as the market favored more direct AI hardware beneficiaries over software segments exposed to shifting customer spending patterns and competitive pressures. Healthcare outside managed care also detracted, with weakness centered in Abbott and extending to Thermo Fisher, while Eli Lilly also weighed on relative returns. Our lack of exposure to Micron and AMD hurt us, as investors rewarded memory and semiconductor names more levered to the quarter's hardware rally.

Portfolio Review

Portfolio activity in the quarter included a new purchase, Nvidia. We added Nvidia as a diversifying move within our AI semiconductor exposure, which had become increasingly concentrated in equipment, while keeping a sizable position in semiconductor capital equipment. We continued to add Netflix and Mastercard, both positions initiated in the first quarter, and we also increased Experian modestly during the period. These purchases were balanced by reductions in Alphabet, Haleon, U.S. Bancorp, Hilton, TSMC, and Lam Research.

Elsewhere in the portfolio, our software exposure remained stable overall. We did modest net selling in semiconductors during the quarter after larger reductions in the first quarter, and total semiconductor selling for the year to date reached roughly four percent, with trims in TSMC and Lam Research part of that activity, even as we broadened exposure through Nvidia. We exited Novo Nordisk and Nestlé, both of which had underperformed. Our decision on Novo Nordisk was tied to continued share loss to Eli Lilly, while for Nestlé, we saw better opportunities elsewhere to deliver growth within Consumer Staples. The balance of activity consisted of smaller additions and trims driven by valuation.

Investment Outlook

We remain very excited about the prospects of the companies in the Quality portfolio. We have many businesses we would like to buy, and we continue to find relatively few holdings that we want to sell. That backdrop supported continued activity during the quarter, including new positions in Nvidia and Philip Morris, additions to Netflix and Mastercard, and a modest increase in Experian. Our enthusiasm is grounded in the portfolio companies themselves rather than in a single market theme.

More broadly, we observe that Quality stocks have maintained strong fundamentals, including profitability, growth, and balance sheet strength. For the most part, their stock market returns also remain solid in absolute terms. We continue to see opportunities across the portfolio without changing our discipline around valuation and portfolio balance. We continue to anchor the Quality portfolio in businesses that meet our quality mandate.

Portfolio weights as a percent of equity for the securities mentioned are as follows: Lam Research (5.7%), KLA (2.6%), TSMC (4.7%), Texas Instruments (3.3%), UnitedHealth (2.8%), Accenture (1.1%), Salesforce (1.6%), Abbott (1.9%), Thermo Fisher (3.4%), Eli Lilly (2.1%), Nvidia (1.9%), Netflix (1.8%), Mastercard (2.3%), Experian (0.7%), Alphabet (5.2%), Haleon (1.2%), US Bancorp (2.1%), Hilton (1.0%), Novo Nordisk (0%), Nestlé (0%), and Philip Morris (0.2%).

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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)	13.85	5.33	17.60	16.97	12.27	15.64	10.67
Quality Strategy (gross)	14.03	5.66	18.33	17.70	12.97	16.30	11.24
S&P 500	15.20	10.21	22.32	20.61	13.41	15.51	10.87
Value Add vs. S&P 500	-1.35	-4.88	-4.73	-3.64	-1.14	+0.13	-0.20
MSCI World	13.76	9.69	21.34	19.24	11.47	13.14	8.99
Value Add vs. MSCI World	+0.09	-4.36	-3.74	-2.27	+0.80	+2.50	+1.68

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.**

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IMPORTANT INFORMATION

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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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*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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