

## SMALL CAP QUALITY FUND

## Quarterly Investment Review

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

	Quarter-End	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Small Cap Quality Fund (net)	3.70	3.70	13.38	9.84	-	-	14.38
Small Cap Quality Fund (gross)	3.87	3.87	14.13	10.57	-	-	15.13
S&P 600	3.51	3.51	20.50	10.51	-	-	10.25
Value Add	+0.19	+0.19	-7.11	-0.67	-	-	+4.14

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

U.S. markets mostly fell this quarter, as concerns about the economic fallout from the fighting in Iran weighed on investor sentiment. The S&P 500 fell -4.33% in the quarter, while our benchmark, the Small Cap S&P 600, rose 3.51%; cyclical strength in the index early in the quarter more than offset later declines from Iran.

The Small Cap portfolio marginally outperformed our benchmark despite a difficult backdrop for quality investing. Our small cap quality factor delivered notably weak performance in the quarter.

Throughout the quarter, our sector selection was roughly neutral, with our underweights in Financials and Healthcare, along with our overweight to Materials, contributing positively, while our underweight to Energy detracted from our performance. Stock selection was modestly positive.

Our weights in Entegris, PriceSmart, and Masimo were the largest positive contributors to our relative returns, while our investments in Ollie's Bargain Outlet, Jack Henry, and Marzetti were our largest detractors.

Entegris manufactures materials used in the manufacture of semiconductors, along with certain semiconductor capital equipment. An acceleration in the volume of semiconductors being produced led to rising enthusiasm for this previously out-of-favor name.

PriceSmart runs club stores in the Caribbean and Central and South America. Strong, steady performance and the prospect of expansion into Chile have enabled them to close the valuation gap with U.S. club and mass stores.

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 30 June 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 30 June 2025.**

## SMALL CAP QUALITY FUND

**Quarterly Investment Review**

## MAJOR PERFORMANCE DRIVERS CONT..

Masimo manufactures hospital-grade pulse oximeters and related products. During the quarter, Danaher announced it would acquire the company, and we sold our position shortly after the deal announcement.

Ollie's Bargain Outlet is a chain that sells deeply discounted "close-out" merchandise. Weakness in credit card data, combined with fears of a deteriorating environment for close-out, led to share price weakness.

Jack Henry provides software for banks, and focuses on banking "cores," the central systems of banks that maintain records of accounts, deposits, loans, etc. The stock has been pressured by broader fears of disruption to the software industry by AI.

Marzetti is a food company focused on sauces, dips, and dressings; much of its business involves manufacturing sauces for restaurant chains, such as Chick-fil-A, as well as selling those brands on a licensed basis in grocery stores. A broad slowdown in packaged foods pressured the business and the stock.

We were pleased to deliver outperformance this quarter, in spite of broader weakness in quality companies. Over time, 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: Entegris (1.6%), PriceSmart (4.5%), Masimo (0%), Ollie's Bargain Outlet (3.4%), Jack Henry (3.5%), and Marzetti (3.1%).

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*Quarterly Investment Review*

## 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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