

DOMESTIC RESILIENCE STRATEGY

Quarterly Investment Review

PRODUCT OVERVIEW

The GMO Domestic Resilience Strategy seeks total return by investing in equities the Focused Equity team believes are poised to benefit as companies bring industrial production back onshore and the United States aims to strengthen its position in a changing world.

The team believes that companies in key sectors, including Manufacturing & Automation, Transportation & Logistics, Energy & Materials, and Defense, are well-positioned to benefit from American reindustrialization. The GMO Domestic Resilience Strategy's disciplined approach to security selection utilizes time-tested GMO principles emphasizing company quality and valuation to select securities with superior risk-adjusted return characteristics and aims to benefit from a long-term investment horizon.

MAJOR PERFORMANCE DRIVERS

The GMO Domestic Resilience portfolio posted a positive return in the second quarter of 2026 as market sentiment improved amidst slowing hostilities in Iran. Our return was strong in absolute terms but lagged behind most broad U.S. stock market indexes, with the S&P 500 and the MSCI USA Mid Cap Index returning 15.20% and 14.17%, respectively, during the quarter. Domestic Resilience's relative underperformance reflected two primary themes. First, our Defense and Energy holdings underperformed as the Iran War inched toward a conclusion, driving down oil prices, which hurt Energy stocks, and leading investors to pivot away from Defense companies amid concerns about competition and defense budget growth (for more detail on the Defense sector, see our May edition of the Resilience Rundown). Second, Domestic Resilience's quarterly relative returns were driven most prominently by what we didn't own – namely, companies with significant exposure to the rapid growth in Artificial Intelligence-related spending. We did see some benefit from the market's zeal for AI-related names, as evidenced by top performer MYR Group, an engineering and construction firm with significant exposure to the U.S. electrical grid expansion driven by AI and other factors. But on a relative basis, we owned far less of these types of firms than the technology-heavy equity market indexes.

In addition, we continued to see several of our holdings impacted by perceived threats from AI growth. For certain companies, the risk that AI will turn once-strong business models obsolete has caused considerable investor angst. For example, at a May meeting we attended with management of Domestic Resilience holding Jacobs Solutions, another investor lamented that the company's stock was suffering from "terminal value risk" – i.e., the threat that in the long run, new AI technology would render Jacobs' business model obsolete. The investor glumly concluded that the stock was hard to own in light of this risk, and the market seems to agree. Jacobs' stock is down in absolute terms in 2026 and has declined approximately 20% from recent highs last Fall.

Terminal Value

The phrase this bearish investor used – terminal value – is an important one. As an investor, terminal value is your estimate of what a company will be worth at the end of your forecast period. In practice, most forecast periods last a few years (our valuation framework uses a five-year window), which means that the company's terminal value typically represents a significant portion of its current value. Put in simpler terms, a company's valuation today depends heavily on the idea that it's still going to be operating five years from now.

Since it matters so much, we carefully consider terminal value in our investment analysis. We examine each company's competitive position and place careful focus on risks posed by new or existing competitors. While we're generally confident in our ability to assess terminal value risk, we know that we will occasionally get it wrong. This knowledge encourages us to stay humble and use a reasonable amount of diversification in our portfolio.

In the broader investment community, however, terminal value concerns can have weird effects on stock price performance. In many cases, even the slightest whiff of terminal value risk leads investors to adopt a "shoot first, ask questions later" mentality, which can send stocks into a tailspin. While a prudent approach to business risk should never be dismissed, we think a trigger-happy approach to selling will more often than not leave juicy returns on the table for investors willing to look past near-term concerns.

In instances where a company's stock is under pressure due to terminal value concerns, there are three principles to our approach worthy of discussion, with some current examples from the Domestic Resilience portfolio included for illustrative purposes.

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MAJOR PERFORMANCE DRIVERS CONT.

Principle 1: Understand the Business Threat Through Fundamental Research

Many stock price reactions to terminal value threats have more to do with the perception of risk than the risk itself, as investors flee to the sidelines and wait for clarity. For fundamental investors, this behavior can serve as an opportunity to build a differentiated view, with deeper research into a perceived threat, giving us a better understanding as to whether it will be as impactful as the market fears. For instance, a few weeks after the conference meeting we attended with Jacobs Solutions management, we toured a biotechnology facility the company was constructing for a client in North Carolina. Jacobs is an engineering and construction firm, and the AI-related fear regarding its stock is that in the age of AI, Jacobs' engineering and design work will become commoditized. AI does inspire a lot of this type of "with AI, anyone can do this!" thinking, and we've often found it to be a misguided fear. The tour was an opportunity to see for ourselves how easy it would be for "anyone" to perform the type of work that has made Jacobs one of the country's leading engineering and construction firms.

On-site, we put on hard hats and joined Jacobs employees as they walked us through the complex maze of approvals required to get the site under construction. We saw the on-site beehives that allowed the project to meet climate standards and an architectural design element in the facility that used wood harvested from the facility's own front yard. Beyond EPA and local ordinances, we toured the advanced biotechnology plant still under construction, where plant managers explained that the level of precision required to meet FDA requirements was such that the first dose of a medicine produced in the plant today needed to be identical to the millionth dose that would be produced by the same line years in the future. Jacobs engineers also explained how they used AI to build a 'digital twin' of the client's European factory, which allowed them to assess a host of questions, from energy and water usage to heating and cooling, and even the optimal way to turn the facility on for the first time.

Such work pairs AI technology with Jacobs' engineering experience and years of proprietary data accumulated on similar projects. And all done for a client with zero tolerance for the risk of failure. Would the client be willing to risk such an expansive project on a small, inexperienced firm with AI and a dream? Consider us skeptical. Indeed, at the end of the tour, a Jacobs' engineer talked about how Jacobs itself is a significant beneficiary of AI, describing how AI has enabled him to spend less time on administrative aspects of his job, like assembling PowerPoint presentations, and more time doing the actual design work that makes Jacobs money!

None of this fundamental work means that the stock will immediately recover from the market's AI fears, but in the long run we are confident that the market will discover that Jacobs' fundamental trajectory is more likely to be helped than hurt by advances in AI.

Principle 2: Understanding Downside Scenarios

Perceived AI risk can be an opportunity for us to zig when the market is zagging, but we approach this task with humility. Indeed, a key part of our investment process is the evaluation of each company's downside. Where many investors focus their attention on answering the question "how much will we make if we're right about this stock," we pair that question with another: "how much will we lose if we're wrong?"

Downside analysis has played an important role in our assessment of Roper Technologies. We first purchased shares in Roper during the first quarter of 2026, as AI fears crushed the stock prices of software companies perceived to be at risk of AI disruption. We've long followed Roper, a company we consider to be a fairly industrial-focused software company that will benefit from American reindustrialization. The AI fear regarding software companies is that AI will make software so cheap to produce that pricing power will decline, new entrants will undercut incumbents, or software clients will just use AI to build software solutions for themselves rather than pay a company like Roper for its products. GMO Focused Equity analyst Michael Roche covers Roper for the team and shares our belief that AI competition concerns for Roper are likely overstated by the market. But Michael's analysis also considered the downside scenario – what would happen to the stock if AI did indeed begin to erode its business? By walking through each of Roper's business units and applying negative assumptions around growth, profit margins, and valuation, Michael was able to paint a robust, fundamentally researched bear case scenario for our investment.

When we considered this in contrast to a more realistic scenario for Roper's business, where the AI impact isn't nearly as draconian, we were able to see a compelling opportunity. Not only was Roper significantly undervalued if AI fears proved misguided, but even if we were wrong about that and AI did have a material impact on the business, the stock had declined so much that the upside to being right was materially higher than the downside of being wrong. Such analysis was also useful in sizing our position in the portfolio, as we were able to balance the potential profit of seeing our more optimistic assessment play out with the downside consequences if we got this one wrong. It's easy to follow the "shoot first, ask questions later" mentality, but we believe a robust focus on downside analysis keeps us humble while taking advantage of short-term bouts of market gloom.

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MAJOR PERFORMANCE DRIVERS CONT.

Principle 3: Management and Capital Allocation

A final factor we consider in any investment's terminal value is the quality of company management. Terminal value fear often brings with it significant stock price declines. Stock price volatility can be incredibly frustrating, and investors are often an impatient bunch. We've discussed our response to volatility, which is to focus on the fundamentals and understand the downside scenario. But in some cases, our willingness to own a company with terminal value fears is aided by an additional weapon: the company's own capital allocation process. Indeed, for a company with otherwise-strong fundamentals facing a short-sighted investor concern, a declining stock price can be an opportunity. Companies with the ability and willingness to buy back stock counter-cyclically, when prices are low, can add significant value to our position without us doing anything! As such, our assessment of every company includes a view on management's willingness and capacity to repurchase stock or take other value-additive actions during periods of market uncertainty. Both companies we've mentioned in this note – Roper Technologies and Jacobs Solutions – have responded to recent stock price volatility by repurchasing meaningful amounts of company stock. This is music to our ears.

Terminal (Value) Conclusions

We believe two things are true: first, that terminal value is a critical concept for investors to understand; and second, that investors often overreact to terminal value fears, which can create opportunities for investors with a long-term focus. We hope this discussion helps you understand how we evaluate such questions when making investment decisions in the portfolio. Our continued belief is that American reindustrialization is a powerful investment return tailwind, but that thoughtful stock selection can make this force even stronger for Domestic Resilience shareholders.

Domestic Resilience Q2 2026 Performance

While we don't manage the portfolio in a benchmark-aware manner, the portfolio underperformed both the MSCI USA Mid Cap Index and our alternate benchmark, the S&P 500, for the second quarter. Given our focused investment strategy, we expect portfolio returns to often differ, sometimes substantially, from benchmark returns over shorter time periods. Over the long term, we aim to exceed the performance of both benchmarks, but the path to doing so will have its short-term ups and downs.

Portfolio weights, as a percent of equity, for the positions mentioned were: MYR Group (1.5%), Jacobs Solutions (3.6%), and Roper (2.1%).

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

	Quarter-End	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Domestic Resilience Strategy (net)	12.11	22.33	-	-	-	-	25.35
Domestic Resilience Strategy (gross)	12.25	22.64	-	-	-	-	25.82
MSCI USA Mid Cap (Gross)	14.17	12.22	-	-	-	-	12.46
Value Add vs. MSCI USA Mid Cap (Gross)	-2.06	+10.12	-	-	-	-	+12.89
S&P 500	15.20	10.21	-	-	-	-	13.13
Value Add vs. S&P 500	-3.09	+12.13	-	-	-	-	+12.22

RISKS

Risks associated with investing in the Strategy may include: (1) 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; (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) Management and Operational Risk: the risk that GMO's investment techniques will fail to produce desired results, including annualized returns and annualized volatility. This is not a complete list of risks associated with investing in the Strategy. Please contact GMO for more information.

Composite Inception Date: 30-Sep-25

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 indicative of future results.** 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 does not yet have a GIPS-compliant report for this composite since it has not managed accounts in this strategy for a full year.** 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.

IMPORTANT INFORMATION

Comparator Index(es): The MSCI USA Mid Cap (Gross) Index is an independently maintained and widely published index comprised of mid cap segments of the US market. MSCI data may not be reproduced or used for any other purpose. MSCI provides no warranties, has not prepared or approved this report, and has no liability hereunder. 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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