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)	5.74	5.74	25.31	–	–	–	31.45
Small Cap Quality Fund (gross)	5.91	5.91	26.13	–	–	–	32.30
S&P 600	2.46	2.46	15.93	–	–	–	13.39
Value Add	+3.28	+3.28	+9.38	–	–	–	+18.06

Major Performance Drivers

This quarter marked a reversal of prior trends as fears of “higher for longer” interest rates disproportionately impacted the returns of more levered small caps, even as larger companies with healthier balance sheets benefited from the ongoing strength of the U.S. economy. The GMO Small Cap Quality portfolio delivered strong relative performance this quarter and outperformed the S&P 600.

A period of rising rate expectations would seem highly advantageous for high quality companies, given their strong balance sheets, but in fact our broader small cap quality universe merely kept pace with the S&P 600’s anemic performance. Stock selection within that universe drove our returns. Our best performers this quarter were Medpace, Lancaster Colony Corp, and Bruker, which together can explain most of our relative gains. Our worst performers were Malibu Boats, New York Times, and Axcelis Technologies. Sector selection against the S&P 600 was modestly positive, as benefits from an overweight position in Industrials were largely offset by headwinds from an overweight in IT, a sector that was weak in small caps, in spite of large cap strength.

Medpace, a contract research organization focused on providing full-service solutions to smaller biotech companies, has benefited from strong results driven by superior execution, along with increasing optimism that a difficult funding environment for biotech start-ups is beginning to improve.

Lancaster Colony Corp, a Consumer Staples business focused on dressings, dips, and sauces, continues to benefit from ongoing strength in its brand licensing initiative, and has begun to see its inflation-pressured margins improve as commodity costs such as soybean oil began to fall.

Bruker, a life science tools company notable for its leading position in nuclear magnetic resonance spectroscopy, has seen strong trends across its differentiated portfolio, even as the broader life science tools market has struggled. The company announced in February that it was pulling already ambitious 2026 earnings targets into 2025.

Malibu Boats performed poorly as earnings results continued to disappoint. It is clear that the company misjudged run-rate demand for its boats in the context of high interest rates, and let too much inventory get into the channel. The company now faces a painful period of inventory adjustment before earnings can normalize. We believe on normalized earnings the company is significantly undervalued.

Inception Date: 20-Sep-22

Performance for the year of inception is less than a full calendar year. Returns shown for periods less than one year are not annualized.

Risks: Risks associated with investing in the Fund may include: Management and Operational Risk, Market Risk - Equities, Smaller Company Risk, Focused Investment Risk, and Illiquidity Risk. For a more complete discussion of these risks and others, please consult the Fund's prospectus.Annualized Returns may include the impact of purchase premiums and redemption fees. 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.

If certain expenses were not reimbursed, performance would be lower. Transaction costs, if any, are paid to the fund to offset the cost of portfolio transactions to invest or raise cash. **Net Expense Ratio: 0.66%; Gross Expense Ratio: 1.05% Net Expense Ratio reflects the reduction of expenses from fee reimbursements. The fee reimbursements will continue until at least June 30, 2024. 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, 2023.**

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. The portfolio is not managed relative to a benchmark. References to an index are for informational purposes only. The local market in which the Fund is priced was closed for Good Friday on March 29, 2024. Therefore, the performance for the fund and corresponding benchmark will utilize March 28 for purposes of the ending valuation for the March return and the starting valuation for the April return.

Major Performance Drivers Cont.

The New York Times Company saw solid-but-slower growth in its fourth quarter, as the ad market remained weak, and digital subscriber growth failed to live up to elevated investor expectations. We believe the company has numerous operational levers to maintain its solid digital subscriber growth, and the approach of the presidential election is also likely to be a tailwind to demand. More broadly, we see the New York Times as one of a small number of winners in a consolidating environment for news media; we believe there is high and growing demand for high quality news reporting, and the New York Times has built the brand, the scale, and the business model to benefit from broader industry turmoil.

Axcelis Technologies manufactures ion implantation devices used in the fabrication of semiconductor chips. Their products are especially optimized for the implant-intensive production of silicon carbide (SiC) chips, which are used in high-voltage applications, in particular battery electric vehicle (BEV); silicon carbide applications now represent roughly half of the company's revenue. The recent slowdown in BEV demand, which led several Axcelis customers to push out their orders, contributed to share price weakness this quarter. We believe as BEV technology and charging networks continue to improve and non-BEV SiC applications expand, demand for SiC will re-accelerate, and Axcelis will be a key beneficiary.

We are pleased with the strategy's performance this quarter, and with our portfolio positioning. We believe that focusing on high quality businesses is an effective and highly differentiated way to invest in small caps. 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 are able to focus on identifying companies benefiting from strong competitive advantages, healthy balance sheets, and good management teams that are available at attractive valuations. Over time, we expect the strong performance of these businesses will continue to drive healthy returns for our investors.

Portfolio weights, as a percent of equity, for the positions mentioned were: Medpace (1.4%), Lancaster Colony Corp (3.8%), Bruker (2.4%), Malibu Boats (2.1%), New York Times (3.1%), Axcelis Technologies (2.8%)

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.