QUARTERLY INVESTMENT REVIEW

Systematic Investment Grade Credit Strategy

Performance returns (USD)

ANNUALIZED RETURNS (QUARTER-END)	Quarter-End	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Systematic Investment Grade Credit Strategy (net)	2.79	6.84	3.88	8.31	1.16	-	1.16
Systematic Investment Grade Credit Strategy (gross)	2.85	7.04	4.14	8.58	1.41	-	1.41
Bloomberg U.S. Corporate Index	2.60	6.88	3.63	7.07	0.35	-	0.35
Value Add	+0.19	-0.04	+0.24	+1.24	+0.81	-	+0.81

MAJOR PERFORMANCE DRIVERS

Corporate spreads had a strong third quarter as labor market data remained constructive without meaningful surprises on the downside, and inflation stayed well-contained despite tariff adjustments, creating a supportive backdrop for investment grade corporate bonds. The FED lowered the target rate by 25 bps in September, a move widely expected by the market.

The asset class delivered excess returns of 1.0%, further boosted by the move lower in yields, resulting in a total return of 2.6% for the quarter. The rally was most pronounced in the BBB-rated cohort, where credit spreads tightened 11 basis points. Across sectors, credit spreads within Financing companies narrowed the most, while Technology lagged. Credit curves flattened, and the 10+ year maturity segment generated notable excess returns.

The Systematic Investment Grade portfolio delivered positive alpha in the third quarter. Quality and momentum were the primary drivers of relative returns, followed by company fundamental indicators. Conversely, valuation-based signals detracted during the period. Credit selection was strongest among the Consumer Non-Cyclical, Capital Goods, Non-Cyclical, and Banking sectors; however, gains were partially offset by negative selection in the Financing companies sector. In terms of allocation, the relative underweight in Electric and overweight in Technology and Communication sectors had a small negative impact on relative returns.

Entering the fourth quarter, the portfolio has a relative overweight to the Capital Goods and Technology sectors and a relative underweight to the Banking and Insurance sectors.

RISKS

Risks associated with investing in the Strategy 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 - Fixed Income Investments: the market price of a fixed income investment can decline due to a number of market-related factors, including rising interest rates and widening credit spreads or decreased liquidity stemming from the market's uncertainty about the value of a fixed income investment (or class of fixed income investments); and (3) Credit Risk: the risk that the issuer or guarantor of a fixed income investment or the obligor of an obligation underlying an asset-backed security will be unable or unwilling to satisfy its obligation to pay principal and interest or otherwise to honor its obligations in a timely manner. 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-20

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PRODUCT OVERVIEW

The GMO Systematic Investment Grade Credit Strategy is an active corporate credit strategy that seeks to generate alpha by allocating to sources of risk premium through factor-based models for credit selection. The Strategy allocates to measures of value, quality, and momentum captured through proprietary fair value models, measures of changes in default risk, and momentum signals derived from credit and equity assets. ESG factors are considered a component of the quality pillar at GMO and the portfolio is managed to target an overall ESG profile that is higher than that of the Bloomberg U.S Corporate Index. Risk is managed through quantitative portfolio construction methods that control for overall benchmark spread, duration, and risk characteristics.

IMPORTANT INFORMATION

Benchmark(s): The Bloomberg US Corporate Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility, and financial issuers. The index includes securities with remaining maturity of at least one year.

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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