

# 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)	0.61	7.48	7.48	6.97	0.52	-	1.22
Systematic Investment Grade Credit Strategy (gross)	0.67	7.75	7.75	7.23	0.78	-	1.47
Bloomberg U.S. Corporate Index	0.84	7.77	7.77	6.10	-0.09	-	0.49
Value Add	-0.23	-0.29	-0.29	+0.87	+0.61	-	+0.73

### MAJOR PERFORMANCE DRIVERS

Investment-grade corporate spreads had a volatile fourth quarter, as the market awaited delayed economic data due to the prolonged government shutdown and continued to absorb news about hyperscaler funding needs. The Federal Reserve lowered the target interest rate by 25 bps in October and again in December, to finish the year with 75 bps of cumulative cuts and a target rate of 3.50-3.75%.

The asset class delivered a modest total return of 0.8%, supported by the move lower in the yields. However, excess returns ended the quarter marginally negative at -0.04%. The index's spread over Treasuries moved 4 basis points wider, but across sectors, credit spreads performance diverged, with Transportation and Consumer Cyclical narrowing the most, while Communications and Technology lagged. Credit curves steepened, and the 10+ year maturity segment generated negative excess returns.

The Systematic Investment Grade portfolio delivered negative alpha in the fourth quarter. Valuation and Company Fundamentals signals were the primary driver of relative returns, while positive contributions from the Quality factor, and to a smaller extent, Momentum, were not enough to offset those losses. Credit selection was weakest among the Technology and Communications sectors, while gains from bonds in Consumer Cyclical, Banking, and Basic Industry partially offset losses. In terms of sector tilts, relative overweight Technology and underweight Banking had a small negative impact on relative performance.

Entering the first quarter of 2026, the portfolio has a relative overweight to the Consumer Non-Cyclical and Consumer Cyclical sectors and an underweight to Electric, Banking, and Insurance.

### 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

**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](http://www.gmo.com). **Performance data quoted represents past performance and is not predictive of future performance.** 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 LLC claims compliance with the Global Investment Performance Standards (GIPS®). A Global Investment Performance Standards (GIPS®) Composite Report is available at [www.gmo.com](http://www.gmo.com) by clicking the GIPS® Composite Report link in the documents section of the strategy page. GIPS® is a registered trademark owned by CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Actual fees are disclosed in Part 2 of GMO's Form ADV and are also available in each strategy's Composite Report.**

# QUARTERLY INVESTMENT REVIEW

## 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.

For private bank intermediaries in Singapore and Hong Kong, these materials are intended for institutional and Accredited/Professional Investors Use Only.

## 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.

AMSTERDAM

BOSTON

LONDON

SAN FRANCISCO\*

SINGAPORE

SYDNEY

TOKYO\*\*

\*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

\*\*Representative Office

[www.GMO.com](http://www.GMO.com)