



## YEAR-END LETTER FOR 2025

*Event-Driven Team: Event-Driven Strategy*

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Dear Client,

GMO's Event-Driven Strategy posted a +11.1% return, net of fees, in 2025. This result compares favorably to the returns of our benchmark (the FTSE 3-month Treasury returned +4.4% in 2025) and our peers (the HFRX Merger Arbitrage Index returned +9.6%) over the same period.

The Strategy's 3-year and 5-year returns of +9.5% and +6.6%, respectively, compare favorably to our benchmark and our peers as well.<sup>1</sup>

### *Performance*

As always, our performance was the result of a repeatable process and a focus on value and risk management. Staying consistent with this over many years has and should continue to generate good long-term returns.

We approach our opportunity set with a strong focus on expected value, assessing the likelihood and returns of each outcome, and focusing on situations where our assessment of the expected value is greater than that of the market. Our willingness to accept occasional deal breaks as a natural outcome of a probabilistic environment, rather than abandoning our process, differentiates us from competitors who avoid higher-risk situations despite favorable expected value.

That said, we didn't experience any deal breaks this year, which is not what we expected nor what we are trying to accomplish, but we'll take it! We wouldn't count on that going forward, but if we continue to focus on value and risk management, we believe we will still come out on top over time, even with breaks.

### *Contributors*

- **Chart Industries:** Chart was a potential takeout candidate, but instead committed to a merger-of-equals with Flowserve. The stock reacted so poorly to the MOE that Chart traded at a discount to the merger terms when we believed it should have traded at parity or even at a premium. This presented an attractive opportunity, whether the merger closed or broke, because we believed a break would also be a positive event for the stock. Baker Hughes then offered a significant premium to acquire Chart, which Chart accepted and walked away from the Flowserve merger.
- **Liberty Broadband:** Liberty Broadband traded at a low implied probability for two reasons – it had to spin off its GCI Liberty business before its merger with Charter could close, and it had projected a very long timeline to close. We believed this was an incredibly high-probability close and that both issues could be dealt with without issue. And they were. The company completed the GCI Liberty spin in Q3, and the estimated timeline was moved a full year forward to mid-2026.
- **Juniper:** Juniper's acquisition by Hewlett Packard Enterprise was sued by the Department of Justice in Q1, alleging the deal would harm the enterprise wireless equipment market. We felt the DOJ had presented a weak case, and after the implied probability dropped below where we believed it should have, we initiated and later grew our position in Juniper. The companies settled with the government prior to the court case, and the merger closed.

### *Detractors*

- **WillScot:** WillScot became a potential takeout candidate in the months following its failed acquisition of McGrath, but the stock still struggled as a standalone. Our upside scenario was a takeout bid, most likely from United Rentals, and our downside scenario was a bad macro tape. We initiated a covered call position with the idea that any M&A premium in the name had been eliminated from the stock, and the downside scenario was mostly priced in

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<sup>1</sup> Preliminary as of 12/31/2025

already. The downside scenario played out amid increased fear of an industrial recession, but the calls we sold against our stock dampened the downside.

- **Interpublic Group:** We reversed this deal spread because we felt that the implied probability was too high for a merger where two of the world's largest advertising agencies would be combining, but the Federal Trade Commission and other major regulators eventually approved the merger with conditions.

## **Themes**

### *U.S. Administration Transition*

It is our job to interpret rather than opine on politics, and taking that into account, politics played a major role in 2025. Our year was marked by numerous smaller contributors that led to good overall returns for the Strategy, and many of those names tie back to our ability to successfully navigate the transition from one administration to the next.

We keep saying to ourselves that it feels like we're back in the 2010s. We seem to have gone back in time to how reviews used to work: If regulators don't find an issue, they're clearing the deal, and clearing it quickly. Banking and pharmaceutical mergers have been the biggest beneficiaries of that shift so far, with shorter approval timelines and fewer second requests.

The perception seems to be that "everything will close" in this administration, but we don't know if that is true. If they do find an issue, they're willing to take on structural or behavioral fixes if those are suitable and to sue to block the deal if they're not. Just take a look at the Surmodics-GTCR merger. The Federal Trade Commission didn't like the combination and didn't think the issues were solvable, so they sued to block the deal. And the interesting thing is that it wasn't even a slam dunk case - they actually lost in court, and the merger was allowed to close - but it is proof that not everything is just passing through this new antitrust regime without question. The Cross Country-Aya merger is another example where regulators didn't like the combination, but in this case, they didn't have to sue because the companies saw the writing on the wall and terminated the merger first.

And then there are the two notable exceptions to that 2010s feeling: Norfolk Southern-Union Pacific and Tegna-Nexstar. Neither combination would have been feasible in the past, but both could move forward today if the Surface Transportation Board and the Federal Trade Commission, respectively, adjust certain interpretations or rules that would make these mergers permissible. There is certainly momentum behind these deals as we write this letter, but as we all know, political winds shift often. If these deals are approved, it wouldn't be a surprise to see more boundary-pushing mergers announced ahead of the next election.

### *Market Volatility*

One of the defining moments of the year was the period surrounding "Liberation Day." The S&P 500 posted a -12.1% return from Liberation Day through its trough on April 8<sup>th</sup>, while the Event-Driven Strategy posted a -3.5% for the same period, consistent with our historical beta.

Our response was guided by our core principles: value and risk management. We came into Liberation Day well-equipped to handle such an event with position and portfolio-level risks within our acceptable parameters - parameters that are meant to not only mitigate our losses in down markets but provide us the flexibility to make even more on the way back up.

In this particular event, we used our "dry powder" (a cash proxy for a levered portfolio) to add to situations that we felt had overreacted amid the volatility and now presented interesting value propositions. We both added to names we already owned and initiated positions in names we had been following and now looked more attractive. These positions, including U.S. Steel, Nordstrom, Walgreens, and Dun & Bradstreet, were all important contributors to our overall return.

### *M&A Volume*

Any time there's a major event, we see a brief pause in M&A activity as everyone tries to make sense of the "new" world, and then everything gets back to business. In 2025, we saw that in Q1 with a new administration, and in Q2 with Liberation Day.

But the second half of the year saw a burst of M&A activity that featured more mergers, and a few massive ones at that. Warner Bros Discovery-Netflix, Norfolk Southern-Union Pacific, Electronic Arts, and Kenvue-Kimberly Clark are the headliners, but we have also seen plenty more small- and mid-sized mergers as well. We have received a fair share of “most since 5, 10, or even 15 years ago” reports on M&A flows to highlight the sheer amount of situations and value involved.

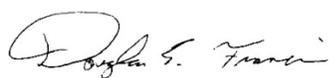
As exciting as the increased M&A activity is, it is also important to remember that flow itself isn't the primary driver of our returns. Our process is built on disciplined value assessment and risk management, not simply chasing volume. Some of our best years have occurred in environments with fewer headline deals, and some of the busiest periods have produced only modest results. Ultimately, it is the quality and pricing of individual opportunities, not the sheer number of transactions, that determine our long-term success.

### **Opportunities**

The opportunity set today is incredibly solid, but it is different from past years, given the perception of a more lenient regulatory environment. The average spread is tighter, but the average probability is higher too, so the expected value remains attractive.

Our experience tells us that perception, and therefore the opportunity set and risk/reward, can change at any time, so value and risk management will remain our focus as we continue to aim to pursue and deliver good long-term results.

Yours sincerely,



Doug Francis  
Head of Event-Driven Team, Portfolio Manager



Cole Weppner  
Portfolio Manager

<b><i>Preliminary Annualized Returns as of 12/31/2025 (Net, USD)</i></b>	<b><i>Inception</i></b>	<b><i>1-Year</i></b>	<b><i>3-Year</i></b>	<b><i>5-Year</i></b>	<b><i>ITD</i></b>
<b>GMO Event-Driven Strategy</b>	7/31/2016	11.12%	9.53%	6.59%	6.18%
<b>FTSE 3-Month T-Bill</b>		4.40%	5.03%	3.31%	2.35%

***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. **GMO LLC claims compliance with the Global Investment Performance Standards (GIPS®). A Global Investment Performance Standards (GIPS®) Composite Report is available on 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.** The portfolio is not managed relative to a benchmark. References to an index are for informational purposes only.

Risks associated with investing in the Strategy may include: (1) Merger Arbitrage Risk: the proposed merger or acquisition might not be finalized. If the Strategy buys securities expecting an event-driven transaction (like a merger) and that transaction seems unlikely to happen, is delayed, or doesn't occur, the market price of those securities may drop significantly, leading to losses; (2) Special Situation Investment Risk: certain Funds may make investments in “special situations,” which are often difficult to analyze. In any such investment opportunity, there exists the risk that the relevant transaction either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the Fund of the security or other financial instrument in respect of which such distribution is received; and (3) 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. This is not a complete list of risks associated with investing in the Strategy. Please contact GMO for more information.

***Disclaimer***

The views expressed are the views of Doug Francis, Cole Weppner, and the GMO Event-Driven team through the period ending December 2025 and are subject to change at any time based on market and other conditions. This is not an offer or solicitation for the purchase or sale of any security and should not be construed as such. References to specific securities and issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities.

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