



YEAR-END LETTER FOR 2025

Developed Fixed Income Team: Multi-Asset Credit Strategy

Dear Client,

As we enter 2026, we would like to thank you for your confidence in GMO and your conviction in the launch of our Multi-Asset Credit Strategy. We recognize that committing capital to a new strategy reflects a high degree of trust, and we are grateful for the trust you have placed in us as long-term stewards of your investments.

We launched Multi-Asset Credit to provide investors with a flexible, benchmark-agnostic approach to investing that seeks to maximize alpha by harvesting what we believe are the most attractively priced credit risk premia across global fixed income markets. The strategy is designed to dynamically allocate using strategies including Emerging Country Debt, Structured Products, High Yield, Investment Grade, Loans, and Mortgages, based on relative value and risk-adjusted return potential.

In this inaugural year-end letter, we review the strategy's performance since inception, discuss the market environment in which it was launched, outline how portfolio positioning evolved over the course of 2025, and share our outlook as we enter 2026.

Strategy Positioning and Performance

Between its mid-May launch and year-end, the GMO Multi-Asset Credit Strategy ("MAC") delivered a 6.88% return¹ (net of fees). That return modestly underperformed its custom blended benchmark, comprised of equal-weighted Structured Credit, U.S. Investment-Grade Credit, U.S. High Yield Credit, and Emerging Country Debt indices, by 1.07%. MAC outperformed its secondary benchmark, the absolute return-focused SOFR + 300, by 2.47% during that period.

Our strategy launched at a time when credit spreads had rallied significantly off the wises they reached in early April amid "Liberation Day" volatility. According to BAML data, the U.S. Investment-Grade index spread was 118 basis points over comparable-duration Treasuries on April 8th, but then tightened almost 30 basis points to 90 basis points on May 21st. Meanwhile, High-Yield bond spreads averaged 457 basis points on April 8th, then tightened by 137 basis points to 320 basis points on May 21st. As we launched our strategy, we were aware of how compressed valuations were relative to history. Further, we felt that the tightening in spreads that had occurred since April 8th had gone too far, too fast, given that much of the economic and financial markets risk from tariffs remained (even if the most extreme outcomes had seemingly been taken off the table).

Thus, we launched the strategy with a relatively conservative posture at the end of May, with underweights in sectors with extended spread durations (Emerging Market Debt, Investment-Grade Credit) and riskier credit profiles (Emerging Market Debt, High-Yield Credit). We also had a large overweight in GMO's Opportunistic Income Strategy, which is positioned with a less risky, safer profile, which we believe tends to make sense from an investment perspective when credit is richly valued. The Opportunistic Income strategy had held up quite well in prior credit and fixed income downturns, and we felt the risk of being overweight a defensively oriented strategy was lessened when spreads were tight and the risk of outsized credit excess returns was lower.

Within MAC, we also held small positions in a long/short credit momentum strategy and in Agency MBS, which screened as attractive vs. our main credit sleeves in the portfolio.

As the year progressed, spreads continued to tighten, although the vast majority of the spread compression from the tariff wises had occurred prior to the launch of our strategy. BAML data showed Investment Grade moving from 90 bps on May

¹This 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.

21st to 79 bps by year-end, with High Yield delivering an even more modest tightening over that same period, going from 320 bps to 316 bps.

In the following grid, we display the strategy's characteristics at the end of May 2025 vs. year-end. The relatively conservative positioning imposed in May became more pronounced by the end of the year, as short positions were established in sectors we felt were too compressed or had fundamental exposures (e.g., EM Debt, Leveraged Loans), and the portfolio's long allocations to the two riskiest sectors, EM Debt and High Yield, were taken down.

| <i>Investment Position</i> | <i>End of May 2025</i> | <i>Year End 2025</i> |
|----------------------------|------------------------|----------------------|
| Long Risk | | |
| Structured Products | 45% | 45% |
| Emerging Country Debt | 15% | 13% |
| High Yield | 15% | 12.5% |
| Investment Grade | 7.5% | 10% |
| Agency MBS | 5% | 7.5% |
| Short Risk | | |
| Leveraged Loans | 0% | -5.6% |
| Emerging Market CDX | 0% | -8.0% |
| Long/Short | | |
| Credit Momentum | 5.5% | 5.5% |
| Credit Risk Stats | | |
| Net Credit Exposure | 92.5% | 79.9% |
| Option-Adjusted Spread | 161 bps | 118 bps |
| Spread Duration | 2.99 yrs | 2.34 yrs |

Since spreads tightened from the end of May onward and excess returns in credit were positive, our underweight risk allocation hurt performance. Having more spread duration and a higher allocation to risky sectors would have been better. However, those decisions were offset by the alpha generated by other positions in the portfolio—especially within Emerging Country Debt—where alpha due to security selection was quite strong, and the Emerging Country Debt investment outperformed its J.P. Morgan benchmark by 5.29% since MAC's inception.

Interest Rate Positioning

At launch, government bond rates were very close to their 2025 peaks: 4.01% for the 2-year, 4.16% for the 5-year, and 4.60% for the 10-year. Given what we saw as: 1) the economic risks of the tariffs, 2) bonds' improved carry position, and 3) rate levels much closer to the highs of the cycle, we felt quite constructive on government bond risk in May. Thus, we started with a duration of 4.4 years, which is significantly above our "neutral" position of 3.0 years and close to our upper bound level of 5.0 years. Throughout the year, we have stayed overweight rates, adjusting positioning as they moved up and down, getting as low as 3.3 years when 10-year rates fell below 4% in late October. We ended the year right in the middle of our 3.3- to 4.4-year trading range at 3.86 years.

It should be noted that our two benchmarks have very different duration profiles: our primary blended index benchmark is approximately 5.3 years, while our secondary SOFR + 300 benchmark is around 0.25 years. Thus, in a year when rates rally, we will lag our primary benchmark with respect to interest rate returns (despite being overweight within our 1- to 5-year range) and will outperform the SOFR benchmark from a duration perspective.

Outlook for 2026

As we head into 2026, credit spreads in most sectors remain very tight. Our research on corporate bond spread histories shows that when spreads are in this area, they are more likely to widen than tighten, and the upside/downside of those moves is asymmetrically negative for investors (essentially, if spreads tighten, they can only tighten by a small amount, but if they widen, they can widen materially). Further, in most parts of the market, the cost to improve quality is quite low—spreads are not only tight nominally, but the gap between the risky and less-risky parts of a particular market is also very compressed.

Thus, in the current environment, we recommend investors: 1) favor high quality over low quality, and 2) underweight or avoid sectors with extended spread duration. We are generally negative on EM debt beta (a significant outperformer in the past year, with longer spread duration) and Investment-Grade Credit (close to or at 25-year tight spread levels, with long spread duration). Although spreads look similarly rich historically in high yield, we are marginally more constructive in this sector as spread duration is at much lower levels (less than 3 years) and the quality of the high-yield index has improved over the last several years, whereas the froth in credit underwriting seems to have migrated down into leveraged loans and private credit.

Conclusion

From our perspective, the credit opportunity set entering 2026 is characterized by historically tight spreads, limited compensation for incremental risk, and pronounced asymmetry between potential upside and downside outcomes. In this environment, we continue to emphasize higher-quality exposures, actively manage spread and duration risk, and maintain flexibility to reallocate capital as valuations and market conditions evolve.

MAC was designed to navigate precisely these types of conditions, where careful risk budgeting, selectivity within and across credit sectors, and the ability to hold liquidity are as important as capturing carry. While near-term performance will inevitably reflect market movements, our focus remains on preserving capital, generating repeatable sources of alpha, and delivering attractive risk-adjusted returns over a full market cycle.

We appreciate the trust you place in us to manage your investments and look forward to our continued partnership in 2026.

Sincerely,



Joe Auth
 Head of Developed Fixed Income
 and Portfolio Manager



Kevin Breaux
 Portfolio Manager

| <i>Annualized Returns as of 12/31/2025 (Net, USD)</i> | <i>Inception</i> | <i>1-Year</i> | <i>3-Year</i> | <i>5-Year</i> | <i>10-Year</i> | <i>ITD</i> |
|---|------------------|---------------|---------------|---------------|----------------|------------|
| Multi-Asset Credit Composite | 05/31/2025 | N/A | N/A | N/A | N/A | 6.24% |
| Multi-Asset Credit Blended Benchmark | | N/A | N/A | N/A | N/A | 6.95% |
| SOFR Index Plus 3% | | N/A | N/A | N/A | N/A | 4.23% |

The Multi-Asset Credit Blended Benchmark is an internally maintained benchmark computed by GMO, comprised of (i) 25% Bloomberg U.S. Securitized Index, (ii) 25% Bloomberg U.S. Corporate High Yield Index, (iii) 25% Bloomberg U.S. Corporate Index, and (iv) 25% J.P. Morgan EMBI Global Diversified.

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.

Disclaimer

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