



YEAR-END LETTER FOR 2024

Focused Equity Team: Quality Spectrum Strategy

Dear Client,

2024 was another strong year for the Quality Spectrum Strategy, which rose 22.3% net of fees. The index we use for comparative purposes, 50% MSCI All Country World Index (ACWI)/50% 3-Month Treasury Bills, registered an 11.4% return. MSCI ACWI came in at 17.5%. It was the fourth straight year of strong performance relative to both indices.

From inception in November 2019 through the end of last year, the strategy has generated annualized returns of 16.1% net of fees, much better than our comparative index's 6.9% per annum and MSCI ACWI's 10.6%. Our portfolio has also experienced much smaller drawdowns than the broad equity market. Our approach is to go long approximately 175% attractively priced high-quality companies and short approximately 75% risky, expensive junk companies.¹ Since inception, the quality and junk factors have delivered similar performance. Strong stock selection versus these factors on both the long and short sides has driven our superior performance.

Last year, the junk factor outperformed the quality factor. Despite these headwinds, excellent stock selection in both the long and short books helped produce a strong year. Performance suffered in the fourth quarter, as not only did junk beat quality, but the more expensive, speculative end of junk that we shorted performed particularly well on the heels of Donald Trump's election (e.g., crypto-currency exposed stocks). Our strategy returned -9.8% in the fourth quarter versus 0.2% for our half equity/half cash index and -1.0% for MSCI ACWI.

In environments where the market rewards the most speculative companies and cheers companies with weak fundamentals, our Strategy won't be at its best. The fourth quarter was the second example of such an environment since the 2019 inception. Conditions for the Strategy were similarly challenging in 2020 when interest rates got slashed to zero and stimulus flooded the economy in reaction to Covid. Speculative stocks went through the roof, and our Strategy dropped 4% net of fees in an up market.

Hedge funds tend to be "black boxes," but the expectations for our strategy are relatively easy to understand. We strive to deliver solid performance in normal up markets and provide significant downside protection in down markets.² When the market is driven by a big risk rally, however, we expect to lag.

We believe Quality Spectrum is well positioned to navigate uncertain markets going forward. We have a strong long book of solid, high-quality companies and a bevy of expensive companies with unstable fundamentals to short. While the early post-election days were strong for speculative enterprises, we expect the market's focus to return to fundamentals over time.

Interest in the strategy gained momentum last year, and we saw investments from a number of new clients. We appreciate the confidence our clients have placed in us and hope that the next few years bring more success for your investments in the Strategy.

Sincerely Yours,

Tom Hancock
Head of Focused Equity

Lucas White
Portfolio Manager

¹ Our long book is a replica of our flagship long-only [Quality Strategy](#).

² In 2022, for example, our strategy dropped just 1.7% net of fees with MSCI ACWI down 18.4%.

<i>Annualized Returns as of 12/31/2024 (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>
Quality Spectrum Composite	11/30/2019	22.34%	14.66%	15.55%	N/A	16.09%
50% ACWI/50% 3-Mo T-Bill Blend		11.42%	5.08%	6.64%	N/A	6.91%

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.

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