



YEAR-END LETTER FOR 2025

Focused Equity Team: Quality Spectrum Strategy

Dear Client,

On the heels of a strong fourth quarter, the Quality Spectrum Strategy delivered a solid 15.7% return net of fees in 2025, 2.6% better than the 50% MSCI All Country World Index (ACWI)/50% 3-Month Treasury Bills custom index. As a reminder, we designed Spectrum to deliver a beta of around 0.4 to 0.5 over the long term, so we chose an index with 50% Treasury bills to align with the expected beta. The strategy's five-year annualized return of 20% net of fees dwarfs the index at 7.4% and ACWI at 11.2% per annum.

The risk profile of the strategy has been just as impressive. The maximum drawdown of the strategy since inception was just 15.2%, considerably smaller than ACWI's 25.6% drawdown. Admittedly, our custom index's largest drawdown of 13% was slightly lower than our portfolio's, but the custom index is 50% Treasury bills, and our strategy is 100% net long equities. Anything in the same vicinity speaks well to the risk mitigation of our short book.

The strong returns we've delivered relative to ACWI are also impressive in the context of the portfolio's beta. While Spectrum's 0.67 beta since inception has been higher than the 0.4 to 0.5 we expect over the long term, it's obviously still much lower than one. Hence, our low-beta strategy has substantially outperformed ACWI in an up market. No small feat. We strive to deliver strong returns with low risk, and we're pleased with our success since launching in 2019.

We found it particularly gratifying to generate strong returns last year given the market environment, as riskier, more speculative investments performed extremely well. AI, gold, nuclear, and other industries driven more by sentiment than fundamentals flourished in 2025. In fact, based on our quality/junk factors, quality companies rose just 13.6% while junk companies shot up an impressive 36.8%. Not an ideal situation, given that we're long quality and short junk.

However, we don't just run the quality and junk factors. We strive to invest in attractively valued, high-quality companies and to short low-quality companies that are priced for perfection. This valuation sensitivity on both the long and short sides has helped performance tremendously since inception, and this was particularly true last year. Our long book outperformed the quality factor by over 6%, while our short book underperformed the junk factor by more than 12% (a good thing since we were short!), as more speculative, expensive junk companies that performed exceptionally well toward the end of 2024 with the election of Donald Trump lagged in 2025. For example, cryptocurrency investments generally struggled last year after steep declines in the fourth quarter.

We believe the long/short exposures of Spectrum allow the portfolio to benefit from secular growth themes on the long side while hedging out froth on the short side. For example, we are optimistic about the long-term prospects of AI and invest in well-positioned, high-quality stocks with strong cash flow and balance sheets that enable them to ride out storms along the way. As growth trends play out, we expect our high-quality long positions to participate more profitably than our shorts. When the inevitable storms hit, our short positions should provide a natural hedge.

On the business front, we welcomed several new clients last year, helping assets in the strategy to triple to around \$260 million. In early 2025, we also launched a variant of the strategy for our Asset Allocation group. While we designed Spectrum to be low beta, the Asset Allocation group needed a beta closer to zero for one of their strategies. This variant has the same long and short books as Spectrum, but we run it at different leverage levels. Assets in this approximately zero-beta implementation sat a bit above \$150 million at the end of last year.

As 2026 begins, the firm continues to be excited about Quality Spectrum, and we believe the strategy is well positioned to navigate uncertain markets. We appreciate the confidence you've placed in us, and we hope this year brings you much success.

Sincerely,



Tom Hancock
 Head of Focused Equity



Lucas White
 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>
Quality Spectrum Composite	11/30/2019	15.72%	21.06%	19.97%	N/A	16.03%
50% ACWI/50% 3-Mo T-Bill Blend		13.14%	12.76%	7.44%	N/A	7.91%
MSCI ACWI		22.34%	20.65%	11.19%	N/A	12.48%

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 and, where applicable, to compute a performance fee.

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