

# GMO

## YEAR-END LETTER FOR 2025

Systematic Equity Team

Dear Client,

Equity markets performed strongly in 2025, despite ongoing geopolitical uncertainty, propelled in particular by growing enthusiasm for AI-related stocks. The MSCI All Country World Index rose 22% in USD, with double-digit gains across all underlying regions. Emerging Markets led, up 34% in USD and 31% in local currency, with the larger markets of China, Korea, and Taiwan all performing well.

Outside the U.S., developed market value stocks delivered the strongest performance, with European companies making notable contributions. While U.S. equities posted double-digit returns, they lagged other regions amid concerns about market concentration and high valuations.

We continue to observe strong opportunities across all our Systematic Equity strategies due to current market conditions. This underscores the strength of our approach and provides a natural springboard to discuss how we are continuing to refine the process for the environment ahead, while staying true to the fundamental, valuation-oriented investment principles that have served us so well over the years.

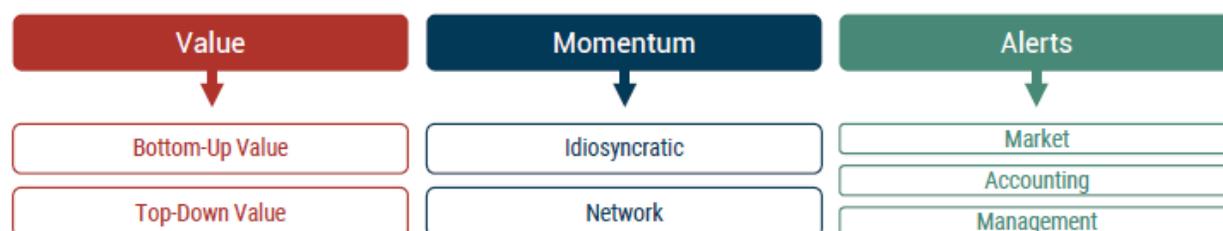
### ***A Systematic Edge in Inefficient Markets***

GMO's systematic equity approach was built on the conviction that markets are not perfectly efficient, and that disciplined, data-driven methods can reliably capture the structural opportunities created by behavioral biases, fundamental dislocations, and limits to arbitrage.

What began in the 1970s as an early adoption of quantitative techniques for value and quality has evolved into a fully integrated research and investment platform that models markets with the depth and intuition of a fundamental analyst, but with the scalability, consistency, and rigor of a systematic process. Every stock in the investable universe is evaluated using proprietary expected-return forecasts, combined with sophisticated views on risk, trading, and transaction costs, allowing the team to express high-conviction insights in portfolios designed for long-term reward.

What distinguishes this strategy is the breadth and depth of its research pillars: Value, Momentum, and Alerts. Exhibit 1 below highlights the specific sub-groups within the Value, Momentum, and Alerts model groups that continue to create return opportunities across markets.

#### EXHIBIT 1: SYSTEMATIC EQUITY MODEL GROUPS AND SUB-GROUPS



These are complemented by our team's commitment to capturing return drivers that many investors overlook. The framework separately models top-down effects such as country and industry factors, which account for 20–30% of return variability yet are often ignored due to their complexity.

At the company level, we restate financials to reflect intangibles such as R&D and advertising, generating a more realistic GMO Economic Book that can reveal valuations far different from those implied by reported numbers. This is augmented by forward-looking intrinsic value modeling, network-aware momentum signals, advanced machine learning sentiment measures, and a suite of corporate behavior alerts that identify potential red flags before they surface in fundamentals.

Together, these elements form a differentiated investment edge, one that has supported resilient performance across market cycles and continues to evolve through an active, ambitious research agenda.

### ***Ongoing Evolution***

Maintaining and expanding our research advantage is essential to delivering long-term value. Looking to 2026, our research agenda includes:

- Implementing enhanced top-down models to take more nuanced views on sectors within countries
- Classifying companies into life-cycle stages and applying tailored combinations of Value, Momentum, and Alerts signals to each stage
- Integrating AI-based analytical tools to enrich our fundamental signal set
- Continuing to refine how we incorporate uncertainty estimates into our portfolio construction process

These enhancements will continue to deepen, rather than alter, the foundational principles that have guided our investment philosophy for decades.

### ***Performance Summary***

Flagship strategies in each region surpassed their respective benchmarks in 2025. International Equity delivered outperformance again, further strengthening its compelling three-, five-, and ten-year record. U.S. Equity and Emerging Markets also exceeded their respective benchmarks, driven by robust fourth quarter results. Compared to peers, both International Equity and U.S. Equity achieved notably strong performance.<sup>1</sup>

In developed markets outside the U.S., portfolios benefited from Momentum signals continuing their multi-year strength, along with strong results from both Bottom-Up Value and Industry Value models.

In the U.S., the outperformance of Value models offset the underperformance of stocks we identified as having good Momentum and few Alerts. Among our Value models, the Price to Fair Value model, which considers both our assessment of a company's quality and its future growth potential, stood out as a key contributor. Our Alerts suite faced more difficulty, as stocks with more red flags for questionable management behavior, which we tend to avoid, performed best, reflecting a market where higher-quality companies lagged.

In Emerging Markets, the combined model's performance closely tracked the performance of the MSCI Emerging Markets Index. Momentum models were the strongest performers, while Value performance was roughly in line with the Index, and the Alerts model underperformed the broader market. Although Momentum faced challenges through April, it subsequently rebounded from August into the latter part of the year.

### ***Looking Ahead***

Globally, deep value investments are especially appealing, with current valuations ranking among the lowest percentiles historically. A year ago, we shared that the cheapest 50% of U.S. stocks were in the third percentile and looked very cheap relative to their history. As we exited 2025, those securities remained very attractive, ranking in the fourth percentile.

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<sup>1</sup> International Equity is categorized by Morningstar as [Foreign Large Value](#) and U.S. Equity is categorized as [Large Value](#).

EXHIBIT 2: VALUE CONTINUES TO LOOK CHEAP RELATIVE TO GROWTH IN THE U.S.



As of 12/31/2025 | Source: GMO

Stock valuations are calculated on a blend of Price/Sales, Price/Gross Profit, Price/Book, and Price/Economic Book.

At the same time, value outside the U.S. remains appealing compared to historical levels, even after recent gains. We continue to leverage the broadly diversified value opportunity in the International Equity Strategy, and clients can focus on deep value in our U.S. Opportunistic Value and International Opportunistic Value strategies.<sup>2</sup>

EXHIBIT 3: INTERNATIONAL MARKETS ARE CHEAP DESPITE RECENT VALUE OUTPERFORMANCE

*Valuation Relative to MSCI World ex-U.S. Universe*



As of 12/31/25 | Source: GMO

Stock valuations are calculated on a blend of Price/Sales, Price/Gross Profit, and Price/Economic Book. Groups of value and market are weighted by square root of market cap. All groups have the same country exposure as the universe. MSCI data may not be reproduced or used for any other purpose. MSCI provides no warranties, has not prepared or approved this report, and has no liability hereunder. Please visit <https://www.gmo.com/americas/benchmark-disclaimers/> to review the complete benchmark disclaimer notice.

<sup>2</sup> For more on the deep value opportunity amid the possibility of an AI bubble, see [GMO Quarterly Letter | November 21, 2025](#).

Several factors suggest that 2026 will be another eventful year for global markets, including evolving geopolitical dynamics, the path of inflation and interest rates, and shifts in global trade patterns. Although navigating these challenges is never simple, we are confident that our focus on research, long-term horizon, and systematic valuation discipline will help us take advantage of emerging opportunities.

We appreciate your trust in us to manage your assets. From everyone at GMO, we wish you happiness and success in 2026.

Yours sincerely,



George Sakoulis  
Head of Investment Teams & Systematic Equity



Warren Chiang  
Head of Portfolio Management, Systematic Equity

<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>
<b>GMO International Equity Composite</b>	3/31/1987	43.66%	25.21%	14.50%	10.23%	8.12%
<b>MSCI EAFE +</b>		31.22%	17.22%	8.93%	8.18%	7.07%

<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>
<b>GMO U.S. Equity Composite</b>	2/28/1989	22.26%	21.67%	15.82%	13.94%	11.34%
<b>S&amp;P Composite 1500 +</b>		17.02%	22.08%	13.96%	14.36%	11.15%

<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>
<b>GMO Emerging Markets Equity Composite</b>	12/31/1993	33.78%	18.26%	3.16%	7.23%	6.45%
<b>MSCI Emerging Markets+</b>		33.57%	16.39%	4.20%	8.47%	5.96%

***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. 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 GMO International Equity and GMO U.S. Equity portfolios are not managed relative to a benchmark and references to an index are for informational purposes only.

Returns reflect a significant, one-time increase to the net assets on November 26, 2025 attributable to European Union discriminatory tax refunds. These refunds contributed 3.73% to the November 26th return, based on a representative account. Returns for other periods that include the date/period mentioned above were also positively impacted, sometimes substantially. In the absence of the refunds, performance would have been lower, both in absolute terms and relative to the benchmark. Returns include a substantial, one-time litigation settlement recovery received on December 16, 2024. This event contributed 5.25% to 2024

annual performance, based on a representative account. Performance for other periods, including this date, was also positively impacted, sometimes materially. Without this recovery, performance would have been lower in both absolute terms and relative to the benchmark. Additional information is available upon request.

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