GMO

YEAR-END LETTER FOR 2025

Developed Fixed Income Team: Systematic Investment Grade Credit Strategy

---

Dear Client,

As we step into 2026, we want to thank you for your continued trust in GMO and your partnership in our Systematic Investment Grade Credit Strategy. We remain dedicated to executing a disciplined, data-driven approach that seeks to generate differentiated alpha relative to the broad market.

The past year marked the 5-year anniversary of the strategy. Consistently outperforming our benchmark by 0.7% annually since inception, even through varied and at times challenging market environments, has bolstered our confidence in our quantitative (and still novel for the market) investment process. Importantly, we achieved these results without taking outsized risk relative to the benchmark as evidenced by the strategy's low tracking error of 0.9 and high information ratio of 0.8 since inception. We were also thrilled to have launched GMO's first fixed income ETF, INVG, in June, allowing us to deploy this systematic strategy in an easy-to-access vehicle.

Strategy Performance

The strategy trailed the index by 0.3% in 2025. Sector allocation decisions hurt performance for the year, while credit selection benefited the strategy. Viewed through a factor lens, Quality was the best-performing signal. Momentum and Company Fundamentals indicators struggled, while Value offered small gains to the strategy.

The strategy hews closely to the benchmark's sector distribution, with an allowance of ±5% relative to the index. To the extent that sector tilts do emerge within this framework, it is usually an effect of the Momentum pillar, which rewards bonds associated with a strong, positively trending equity performance. This pillar struggled to perform well this year, especially as several stocks ran up on the prospect of M&A activity or AI-related spend—developments not conducive to credit performance. This was particularly true for the Technology sector, which detracted from portfolio alpha, whereas the overweight in Capital Goods and REITs enhanced returns.

Security selection, despite being overwhelmed by sector allocation decisions, continued to deliver positive alpha. Bond selection was strongest within Consumer Cyclical and Consumer Non-Cyclical, driven by exposure to the Quality pillar, but selection was weak within Communication and Technology sectors, where the Momentum pillar was most acute.

The strategy continues to have a tilt towards BBB bonds, which hurt performance this year given the outperformance of single-A bonds. However, this was offset by the alpha contributed by bond selection within this rating cohort.

Our research effort this year was focused on adapting our infrastructure to support portfolio construction and management within an ETF format. The concepts of intra-day liquidity and create/redeem baskets bring a different layer of complexity to the process. A quantitative strategy such as ours is malleable by design, and this experience has strengthened our conviction in our ability to support varied client needs and customizations when required.

We also continued efforts to improve our factor suite by investigating new sources of alpha and improving existing metrics. In addition, our portfolio management and monitoring tools have been enhanced by a more robust performance attribution framework and steady data infrastructure improvements.

2025 Market Review

U.S. investment-grade corporate bonds delivered a strong 7.77% total return in 2025, as measured by the Bloomberg U.S. Corporate Index, with 1.19% in excess returns over duration-matched Treasuries. A meaningful decline in Treasury yields primarily drove returns, while spreads remained tight despite challenges early in the year.

President Trump's sweeping trade announcements early in the second quarter dominated 2025 headlines, injecting volatility and uncertainty into risk markets. Investment-grade credit spreads peaked at 119 basis points after the announcement, with

tariff-sensitive sectors underperforming in the immediate aftermath. As the administration softened its approach, deferring and scaling back agreements, spreads retraced sharply. Despite an elongated government shutdown that started in October, the second half of the year provided a constructive macro backdrop in the form of supportive labor market trends and moderating inflation, resulting in positive total returns for the asset class. Corporate earnings growth remained healthy, although the ramped-up capital requirements for the artificial intelligence build-out pressured credit spreads of certain issuers towards the latter part of the year.

Across the quality spectrum, excess returns were strongest within the single-A-rated cohort, and BBB-rated bonds followed closely. Bonds within the seven-to-ten-year maturity sector delivered the strongest performance, and the credit curve flattened. From a sector perspective, Banking provided spread compression while Technology widened versus the broad index.

2026 Outlook

Looking ahead to 2026, a credit spread of only 77 basis points over the U.S. Treasury curve limits excess return potential. However, an all-in yield of 4.80% still offers modest compensation for total-return-focused investors. Several material risks are present: growing needs tied to financing the AI build-out, a rich M&A pipeline, and the prospect of lower Treasury yields. Together, these factors could meaningfully test the demand for public market credit this year.

Given our diversified suite of signals, we believe our systematic, multi-factor approach is well suited to investing capital in a disciplined manner and delivering strong results in the coming year. Our research agenda is focused on calibrating a more flexible way to measure and rank potential bond alpha, allowing factors to influence security selection in an individually optimal manner within this multi-factor setup. On risk and portfolio construction, we have several investigative threads exploring optimal turnover and concentration limits. We look forward to implementing these ideas in the portfolio over the coming year.

We value the opportunity to serve your investment needs and thank you for your trust and partnership in GMO. Should you have any questions or wish to discuss our strategy in more detail, please don't hesitate to reach out to our team.

Sincerely,
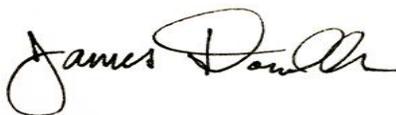
James Donaldson
Portfolio Manager

Rachna Ramachandran
Portfolio Manager

Annualized Returns as of 12/31/2025 *(Net, USD)*	*Inception*	*1-Year*	*3-Year*	*5-Year*	*10-Year*	*ITD*
Systematic Investment Grade Credit Composite	09/30/2020	7.48%	6.97%	0.52%	N/A	1.22%
Bloomberg U.S. Corporate Index		7.77%	6.10%	-0.09%	N/A	0.49%

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

The views expressed are the views of James Donaldson and Rachna Ramachandran through 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.