

QUARTERLY INVESTMENT REVIEW

Systematic Global Macro Strategy

Performance returns (USD)

ANNUALIZED RETURNS (QUARTER-END)	Quarter-End	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Systematic Global Macro Strategy (net)	3.79	13.25	11.74	5.45	2.67	3.08	5.17
Systematic Global Macro Strategy (gross)	4.05	14.10	12.86	6.91	4.08	4.57	7.26
FTSE 3-Mo. TBill	1.11	3.34	4.61	4.98	3.10	2.12	1.68
Value Add	+2.68	+9.91	+7.13	+0.47	-0.43	+0.95	+3.49

MAJOR PERFORMANCE DRIVERS

Quarter in Review

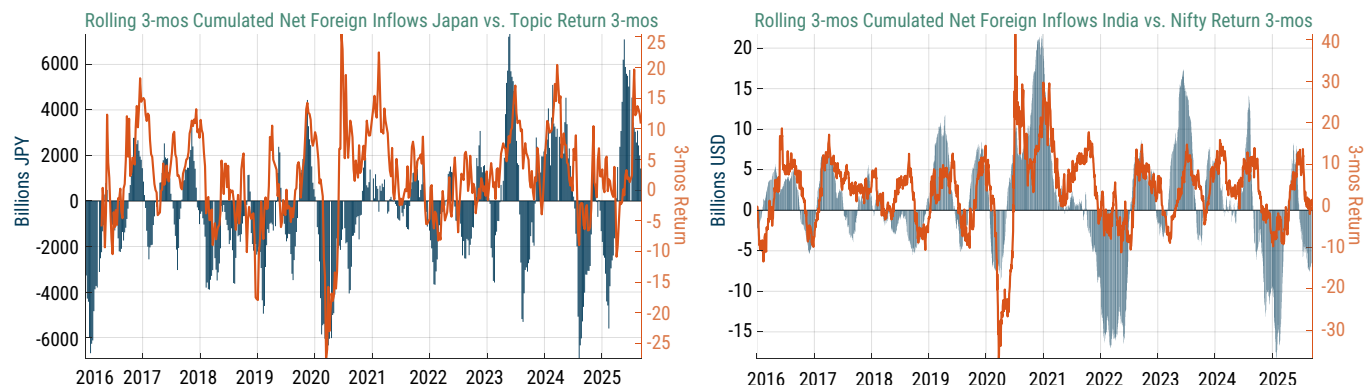
The GMO Systematic Global Macro Strategy had a very positive quarter, achieving a 3.8% net total return compared to 1.1% for T-Bills.

Continuing the theme for the year, equities and currencies dominated returns, with the VIX also adding value. Commodities have continued to detract, although losses in the asset class were mild.

Long Japan Short India Profits

Within equities, a long position in Japan and a short position in India were key contributors to performance. Notably, our positions seem to be echoed by many foreign investors, with these markets receiving starkly contrasting levels of foreign attention. The resulting impact on each of these markets was dramatic: Fueled by a surge of foreign inflows, Japan was up nearly 11% for the quarter, while India declined by more than 4% amid a rush of outflows.

Exhibit 1: Japan vs. India, a tale of two markets



Source: GMO, Bloomberg, October 2025

RISKS

Risks associated with investing in the Strategy may include: (1) Derivative Instruments Risks: the risk that their value may not change as expected relative to changes in the value of the underlying assets, pools of assets, rates, currencies or indices. Derivatives also present other risks, including market risk, illiquidity risk, currency risk, credit risk, leveraging risk, commodities risk and counterparty risk; (2) Market Risk - Equities: the market price of equities may decline due to factors affecting the issuer, its industries, or the economy and equity markets generally. Declines in stock market prices generally are likely to reduce the net asset value of the Fund's shares; and (3) Currency Risk: Fluctuations in exchange rates can adversely affect the market value of the Fund's non-U.S. currency holdings and investments denominated in non-U.S. currencies. This is not a complete list of risks associated with investing in the Strategy. Please contact GMO for more information.

Composite Inception Date: 31-Mar-02

Performance Returns: Performance for the year of inception is less than a full calendar year. Returns shown for periods greater than one year are on an annualized basis. To obtain performance information to the most recent month-end, visit www.gmo.com. **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. Gross returns are presented gross of management fees and any incentive fees if applicable. These returns include transaction costs, commissions, withholding taxes on foreign income and capital gains and include the reinvestment of dividends and other income, as applicable. If management and incentive fees were deducted performance would be lower. For example, if, before fees, the strategy were to achieve a 10% annual rate of return above its hurdle rate each year for ten years, and an annual advisory fee of 1% and incentive fee of 20% of net returns above the hurdle rate were charged during that period, the resulting average annual net return (after the deduction of management and incentive fees) would be approximately 7.20%. **GMO LLC claims compliance with the Global Investment Performance Standards (GIPS®).** A Global Investment Performance Standards (GIPS®) Composite Report is available at www.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.

QUARTERLY INVESTMENT REVIEW

MAJOR PERFORMANCE DRIVERS CONT.

Our recent note, "[Are Foreigners Changing Their Minds on India?](#)", may help explain part of this sentiment. In that analysis, we showed how foreign investment in India tends to be driven by opportunities for better value, and somewhat by momentum. With this in mind, India continues to look very expensive on many metrics and significantly more expensive than other emerging markets (i.e., India is trading on a forward P/E of 21.6x vs. 14x for emerging markets as a group). India is also significantly underperforming other markets. Conversely, Japan is trading at a discount to other developed countries (i.e., Japan is trading on a forward P/E of 16x vs. 20.4x for developed markets). Japan has also been outperforming other developed markets more recently.

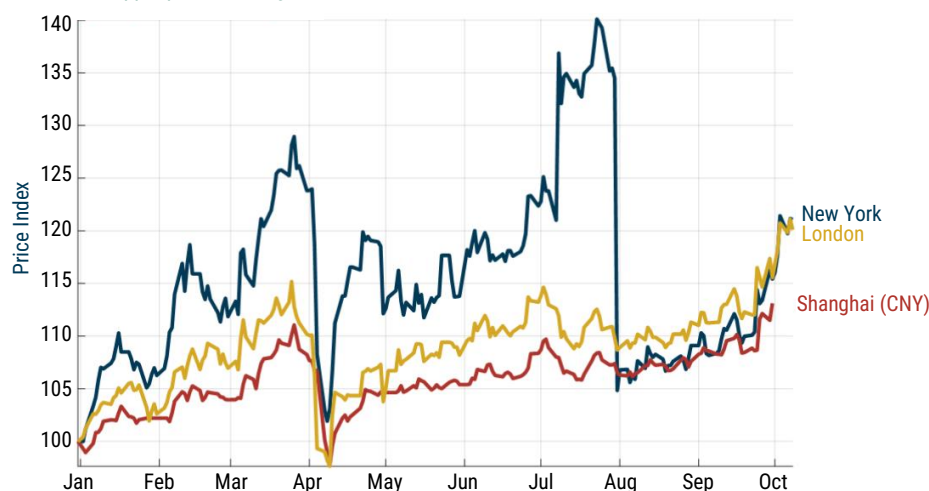
The portfolio continues to hold significant positions in both of these markets.

Copper prices crash and the collapse of the COMEX-LME premium

In early August, the portfolio experienced a strong gain as copper prices fell approximately 20% in a single day. This sharp decline was effectively driven by the unwinding of a premium that had been building within markets.

Heading into late July, US-based copper futures contracts were trading at a very large premium over the London-based copper futures. (The premium peaked around 30% to London, and similarly to Shanghai). This premium was caused by the Trump administration's July announcement of a 50% tariff on copper imports. However, just before implementation of these tariffs on the 1st of August, the White House clarified that refined copper would be excluded, and the tariff would only apply to semfinished and copper-intensive products. This sent copper prices plummeting. What's more, U.S. inventories that had been stockpiled in anticipation needed to be liquidated. The portfolio profited significantly from this unwind.

Exhibit 2: Copper prices coming back in line



Source: GMO, Bloomberg, October 2025

Coffee Prices soar under the threat of tariffs and bad weather

While the portfolio benefited from the tariff news on copper, the opposite was true for coffee. The portfolio had been short coffee futures for some time as coffee prices have been drifting up and becoming overpriced based on our models.

On the 6th of August, the US imposed a 50% tariff on key Brazilian goods, including coffee. Brazil is the world's biggest producer of coffee, supplying 37% of global production. In contrast, Vietnam is the second biggest producer at 17%, and Colombia is third at 8%. This caused coffee futures to jump 30% in August.

We have also seen ICE-monitored coffee inventories decline sharply as producers draw down stocks to avoid the tariffs. This will continue to put pressure on prices in the future.

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PORTFOLIO ATTRIBUTION AND POSITIONING

Exhibit 3: Contribution

3-Mos Contribution (Gross)	%
Equities	1.5
Fixed Income	-0.2
Currencies	1.4
Commodities	-0.5
Cash	1.0
Other	0.8
Total Return (Gross)	4.0

The performance analysis above is calculated based on gross of fee returns and local close valuations

Exhibit 4: Positioning

Asset Class	Sub Category	Long (%)	Shorts(%)	Totals (%)
Stock Markets				
	North America	47.6	-8.1	39.6
	Europe	7.6	-13.7	-6.2
	Asia and Oceania	8.7	-65.9	-57.3
	Total	63.9	-87.7	-23.9
Fixed Income				
	North America	2.3	0.0	2.3
	Europe	23.4	0.0	23.4
	Asia and Oceania	3.1	0.0	3.1
	Total	28.8	0.0	28.8
Currencies				
	North America	9.4	0.0	9.4
	Europe	20.1	-47.0	-26.9
	Asia and Oceania	5.6	-7.4	-1.8
	South America and Africa	9.8	-0.5	9.3
	USD	10.0	0.0	10.0
Commodities				
	Energy	2.7	-9.2	-6.6
	Metals	5.0	-10.4	-5.4
	Agriculture	16.8	-24.6	-7.9
	Total	24.4	-44.3	-19.9

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LOOKING FORWARD

On the 17th of September, the US Fed cut interest rates by 25 bps, down to 4.00%–4.25%, driven in part by concerns over the softening of the labour market. This was the first rate cut since December 2024, and one that sparked waves of commentary about the Fed’s ability to remain politically independent.

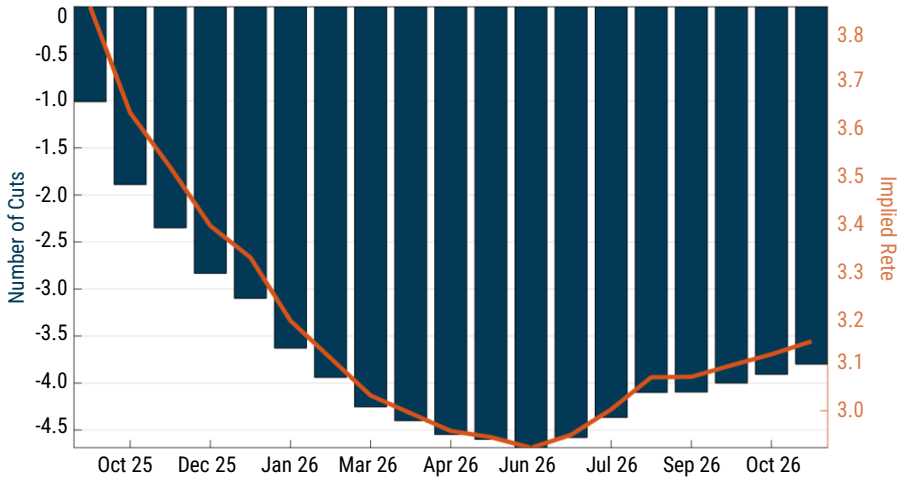
This brings important questions for us. Are the cuts likely to continue, and how do we expect interest rate movements to affect our portfolio? If the rate cuts do continue, will they have an adverse or positive effect on our portfolio?

As part of our risk management process, we run a range of scenario tests to assess the portfolio’s exposure to different events, including shifts in interest rates. Looking at the current portfolio, we identify several positions that may be sensitive to interest rate dynamics:

- **Bonds.** Falling yields increase bond prices. However, shifts in the cash rate do not always result in corresponding changes to the 10-year bond. Additionally, changes in US interest rates do not necessarily trigger similar movements in other bond markets. (We are currently neutral on the US 10-year bond.)
- **Gold.** Gold prices normally track the inverse of bond yields. Both bonds and gold are considered “safe haven” assets. Lower bond yields decrease the opportunity cost of holding gold, so declining interest rates should push up the price of gold; however, this relationship has broken down in recent years. (We are currently short gold.)
- **FX.** Lower cash rates diminish the appeal of carry trades, making higher-yielding currencies like the Norwegian krone more attractive. (Currently, we are long NOK and USD and short CHF.)
- **Emerging equities.** Declining rates generally boost emerging equities by increasing investors’ risk appetites. The lower opportunity cost (and a potentially sinking US dollar) makes emerging markets more attractive. (We are currently short Taiwan and China.)

The yield curve below indicates that the market has fully priced in another 25-bp rate cut for the 28-29 October meeting, so the portfolio should have already responded to this expected move.

Exhibit 5: Implied Fed Rates



Source: GMO, Bloomberg, October 2025

From here, we need to consider what would happen if there is an *unexpected* change—what if the rate cut is bigger than anticipated, say 50 bps? What if the Fed doesn’t move rates at all? We monitor these types of events by running stress tests through Aladdin, our risk management system. We’ve included an example of what this system can tell us below.

Exhibit 6: SGM Exposure to Rate Cuts

	50 bp Rate Cut in October	No Rate Cut in October
Fixed Income	0.34	-0.26
Equities	-0.80	1.87
VIX	0.93	-1.24
Commodities	-0.55	-1.10
FX	-0.90	-0.05
Other	-0.03	0.02
Total	-1.01	-0.77

QUARTERLY INVESTMENT REVIEW

LOOKING FORWARD CONT.

In terms of three possible outcomes—no cut, a 25-bp cut, or a 50-bp cut—we can see that the portfolio is exposed on the downside to a change in direction by the Fed, whether in an accelerated cut or a pause scenario. But the overall risk isn't extreme either, rising to just over 1% if the Fed doesn't move in October. A 25-bp cut in October should not materially impact the portfolio; as we mentioned above, that change has already been priced in.

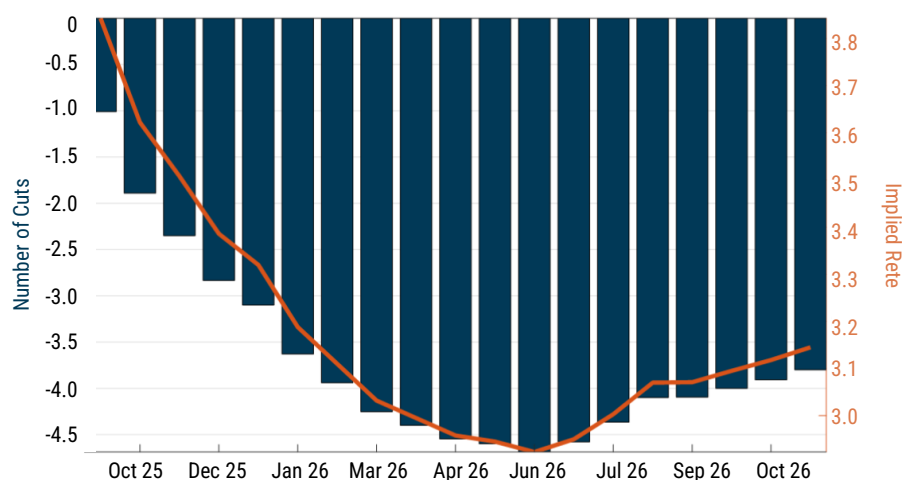
While we are acutely aware that risk models have significant limitations, we are comfortable that our portfolio's current exposure to interest rate movements is more than acceptable.

KEY POSITIONING FOR THE QUARTER

1. LONG US EQUITIES

The portfolio continues to maintain a very aggressive long position in US equities, reflecting the very positive sentiment signals that we continue to see in the market. While the US is undoubtedly expensive, optimism remains strong. Following a robust Q2 earnings season, the US continues to see strong confidence in future earnings despite some long-term economic concerns. Forecasted earnings in key sectors, such as technology, continue to be upgraded by analysts.

Exhibit 7: Implied Fed Rates

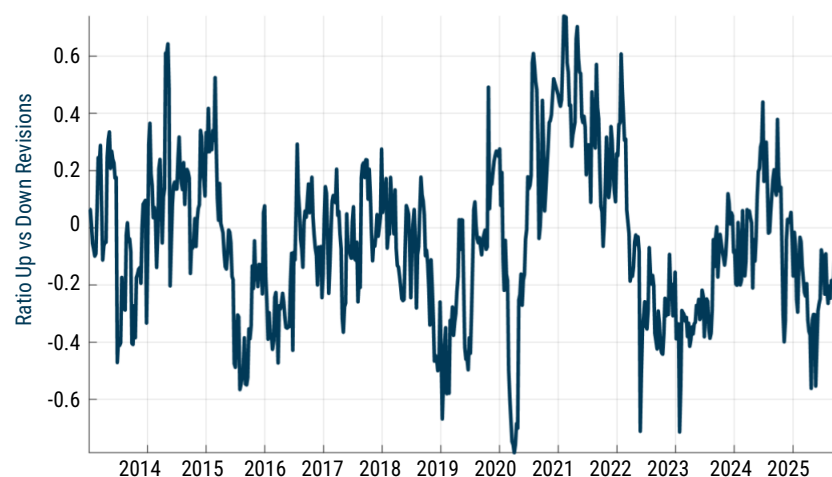


Source: GMO, Factset, October 2025

2. SHORT TAIWAN

Analysts have been bearish on the Taiwanese market for most of the year. Earnings forecasts have been revised downward all year, partly due to trade tensions and geopolitical concerns. There has recently been some positive news, however, with some analysts even upgrading market heavyweight TSMC in the last weeks of the quarter. We will be watching to see if this continues.

Exhibit 8: EPS Revisions Ratio Taiwan



Source: GMO, Factset, October 2025

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KEY POSITIONING FOR THE QUARTER CONT.

3. SHORT SWISS FRANC

The Swiss franc scores extremely poorly on our valuation models, with negative carry being a major contributor. With inflation turning negative for May 2025, the Swiss National Bank cut rates to zero on the 19th of June. This represents a significant discount to other countries, both in real and nominal terms, while other parts of our valuation models are flat at best. As such, we see the franc as a poor value.

As an interesting reflection on how some of the world's economies are moving in different directions, that same day, the Central Bank of Brazil raised interest rates by 25 bps to 15%. This underscores some of the valuation differentials that we've observed lately in the macro universe.

CONCLUSIONS

The portfolio has continued to deliver good returns in the third quarter, making for a very strong year so far. We continue to see significant price dislocations in the market and hope to continue taking advantage of these.

PRODUCT OVERVIEW

The Strategy's investment objective is long-term total return. The Strategy takes both long and short positions in a range of global equity, bond, currency, and commodity markets using exchange-traded and over-the-counter (OTC) futures and forward foreign exchange contracts, swaps on commodity indices, equity indices and equities, and index options and other investments.

The Systematic Global Macro team's investment process systematically applies value and sentiment strategies across global markets. We believe that markets are inefficient but, in the long term, that economic reality will prevail and markets will revert toward fair value; however, the timing of this is uncertain. We aim to profit from mean reversion by buying markets that we believe are depressed in price and shorting markets that we believe are trading at inflated values. To deal with the uncertainty of timing, we model investor sentiment.

IMPORTANT INFORMATION

Benchmark(s): The FTSE 3-Month Treasury Bill Index is an independently maintained and widely published index comprised of short-term U.S. Treasury bills.

The above 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.

For private bank intermediaries in Singapore and Hong Kong, these materials are intended for institutional and Accredited/Professional Investors Use Only.

ABOUT GMO

Founded in 1977, GMO is a global asset manager committed to delivering superior performance and advice to our clients. We are privately owned, which allows us to singularly focus on our sole business – achieving outstanding long-term client investment outcomes. Offering multi-asset, equity, fixed income, and alternative strategies, we invest with a long-term, valuation-based philosophical approach.

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