

# QUARTERLY INVESTMENT REVIEW

## Systematic Investment Grade Credit Strategy

### Performance returns (USD)

ANNUALIZED RETURNS (QUARTER-END)	Quarter-End	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Systematic Investment Grade Credit Strategy (net)	2.00	2.00	5.29	1.84	-	-	0.25
Systematic Investment Grade Credit Strategy (gross)	2.07	2.07	5.55	2.10	-	-	0.50
Bloomberg U.S. Corporate Index	2.31	2.31	4.90	1.14	-	-	-0.58
Value Add	-0.30	-0.30	+0.39	+0.70	-	-	+0.83

### MAJOR PERFORMANCE DRIVERS

#### Index Performance

During the first quarter, market sentiment deteriorated due to sweeping proposed changes to U.S. trade policy, which resulted in a widening of credit spreads and sharply lowered bond yields. After a subdued January, President Trump announced immediate tariffs on imported goods from Canada, Mexico, and China in the first week of February, triggering a flurry of trading activity in public markets. Although the order was temporarily reversed for Canada and Mexico just days later, uncertainty and mixed messaging from the administration fueled questions about the U.S. economic outlook.

Investment-grade credit posted negative excess returns of -0.9% for the quarter, despite delivering positive total returns of +2.3% from the decline in yields. Broad derisking weighed most heavily on BBB-rated bonds, where credit spreads widened by 18 basis points, compared to only 9 basis points for the single-A rating cohort. Across sectors, Finance Companies underperformed, as did Natural Gas, while Consumer Cyclical struggled due to the selling pressure on Auto companies. Credit curves steepened, and spreads in the belly and long-end widened significantly more than the front-end.

#### Strategy Returns

The Systematic Investment-Grade Credit portfolio drew down versus the benchmark in the first quarter. Quality and momentum signals, which rely heavily on cross-asset class signaling and price trend, underperformed, while valuation-based signals provided some relief. Through a sector lens, credit selection detracted, primarily from names within Communications and Consumer Cyclical.

### RISKS

Risks associated with investing in the Strategy may include: (1) Management and Operational Risk: the risk that GMO's investment techniques will fail to produce desired results, including annualized returns and annualized volatility; (2) Market Risk - Fixed Income Investments: the market price of a fixed income investment can decline due to a number of market-related factors, including rising interest rates and widening credit spreads or decreased liquidity stemming from the market's uncertainty about the value of a fixed income investment (or class of fixed income investments); and (3) Credit Risk: the risk that the issuer or guarantor of a fixed income investment or the obligor of an obligation underlying an asset-backed security will be unable or unwilling to satisfy its obligation to pay principal and interest or otherwise to honor its obligations in a timely manner. This is not a complete list of risks associated with investing in the Strategy. Please contact GMO for more information.

Composite Inception Date: 30-Sep-20

**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](http://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](http://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.

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## PRODUCT OVERVIEW

The GMO Systematic Investment Grade Credit Strategy is an active corporate credit strategy that seeks to generate alpha by allocating to sources of risk premium through factor-based models for credit selection. The Strategy allocates to measures of value, quality, and momentum captured through proprietary fair value models, measures of changes in default risk, and momentum signals derived from credit and equity assets. ESG factors are considered a component of the quality pillar at GMO and the portfolio is managed to target an overall ESG profile that is higher than that of the Bloomberg U.S Corporate Index. Risk is managed through quantitative portfolio construction methods that control for overall benchmark spread, duration, and risk characteristics.

## IMPORTANT INFORMATION

**Benchmark(s):** The Bloomberg US Corporate Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility, and financial issuers. The index includes securities with remaining maturity of at least one year.

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.

## 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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\*GMO's West Coast Hub is comprised of members of Investment, Global Client Relations, and other teams located in and around the Greater San Francisco area

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