

# SYSTEMATIC GLOBAL MACRO STRATEGY

## Quarterly Investment Review

### MAJOR PERFORMANCE DRIVERS

#### Quarter in Review

The Systematic Global Macro Strategy declined 7.9% during the quarter, reflecting a difficult environment for several of the portfolio's key positions. Equities were the largest detractor, led by losses from our short position in Taiwan and the portfolio's overall net short equity exposure. Commodities also detracted, although no commodity was a strong detractor. Trading within the VIX added value over the quarter. As geopolitical tensions have eased throughout the quarter, the VIX index has fallen from around 25, closing the quarter at 16.45. The portfolio has held short positions throughout the quarter and this has been well rewarded.

#### Equities – Market Roars Despite Risks

The portfolio maintained an underweight position in equities throughout the quarter, reflecting ongoing concerns around elevated valuations, as well as growing economic and geopolitical risks.

Despite these concerns, global equity markets demonstrated remarkable resilience during Q2 2026. In several instances, markets continued to advance even as the macroeconomic and geopolitical backdrop deteriorated. Major equity indices, particularly in the United States, approached record highs, supported by strong investor risk appetite, resilient economic data, and robust corporate earnings expectations.

Market resilience was tested by a significant geopolitical shock during the quarter, namely the escalation of conflict in the Middle East. Concerns over potential disruptions to critical energy supply routes, including the Strait of Hormuz, contributed to a sharp rise in oil prices and heightened uncertainty across financial markets.

The evolving geopolitical environment altered the global macroeconomic narrative over the course of the quarter. Several economic institutions and market commentators revised growth expectations lower, citing the adverse impact of higher energy prices on global activity. At the same time, expectations for monetary policy shifted, with markets reducing the likelihood of near-term Federal Reserve easing and adopting a more hawkish outlook for interest rates.

Nevertheless, equity performance remained positive, underpinned by strong corporate fundamentals. Earnings growth was particularly robust among companies benefiting from continued investment in artificial intelligence, with significant capital expenditure on AI infrastructure supporting revenue and profit growth across the sector.

Against this backdrop, the portfolio's underweight position in equities detracted from performance as markets continued to rally despite a backdrop of rising economic and geopolitical uncertainty.

#### Equities – Taiwan Follows Korea

Adding to the global surge in AI-related securities, tech-heavy Taiwan surged during the second quarter, rising by 56%. Taiwan, however, has a key difference to the Korean market: by every measure the Taiwanese market is extremely expensive. For example, in terms of forward and trailing P/E, Taiwan is the second-most expensive market in all of the countries in the MSCI All Country World Index.

While our models maintained a positive short-term view on the market's momentum and sentiment, these signals were not strong enough to outweigh the extremely negative forecasts generated by our longer-term valuation models. As a result, the portfolio retained a short position in Taiwan, which detracted significantly from performance as the market continued to rally.

Exhibit 1: FTSE TAIWAN VALUATION RATIOS



Source: Factset, GMO, July 2026

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## Quarterly Investment Review

### MAJOR PERFORMANCE DRIVERS CONT.

#### Soybean Oil – Lots of Volatility

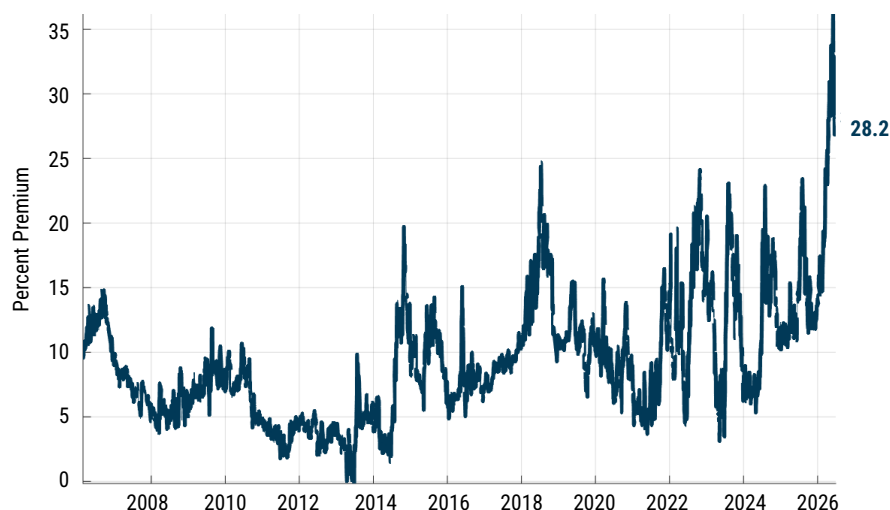
Soybean oil has shown a rollercoaster of performance, despite finishing the quarter at almost the exact same level as it started at. At the start of the quarter, the portfolio was positioned short in soybean oil based on fundamentals. Through the quarter prices continued to rise, which was taxing to the performance of the strategy. However, this all reverted in June, when soybean oil dropped 11%, making the overall contribution to the fund largely flat.

Soybean oil, soybeans, and soybean meal are closely linked through the economics of soybean processing. A soybean can be crushed into two primary products—soybean oil and soybean meal—in relatively stable proportions. As a result, the combined value of the oil and meal produced from a bushel of soybeans should maintain a close relationship with the value of the soybeans themselves.

This relationship is reflected in what is commonly referred to as the "crush spread," which links the prices of soybeans, soybean oil, and soybean meal. While temporary dislocations can occur, large and persistent divergences between these markets are often difficult to sustain. During the quarter, soybean oil prices continued to outperform both soybeans and soybean meal, leading the portfolio to maintain a short position based on the view that valuations had become increasingly disconnected from the broader crush complex.

Two distinct market issues have increased the value of the soybean oil. First, changes in U.S. legislation, tax credits, and Renewable Volume Obligations, which are most likely structural changes, have significantly increased demand for soybean oil. This, in turn, has also caused a glut in soy meal. Second, the conflict in the Middle East has dramatically increased the price of energy, which is most likely a temporary effect. However, as this news has been centered around soybean oil, causing the spread to move to record highs.

Exhibit 2: CRUSH SPREAD / SOYBEAN PRICE



Source: Factset, GMO, July 2026

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### MAJOR PERFORMANCE DRIVERS CONT.

With the gulf crisis reaching some level of resolution in June, prices for soybean oil dropped dramatically. Despite creating significant volatility, the portfolio impact over the full quarter was minimal.

### Silver – Continuing to Fall

The portfolio was short silver over the quarter, which added value to the portfolio. Silver had an extraordinary run compared to gold for 2025 (up nearly 130% vs. gold, which was up 55%). This has unwound substantially in 2026, with the potential for rising interest rates. We continue to hold a short position in the portfolio as we expect negative sentiment to continue weighing on the metal's performance.

Exhibit 3: SILVER / GOLD RATIO



## SYSTEMATIC GLOBAL MACRO STRATEGY

*Quarterly Investment Review*

## PORTFOLIO ATTRIBUTION AND POSITIONING

Exhibit 4: CONTRIBUTION

| 3-Mos Contribution (Gross)  | %           |
|-----------------------------|-------------|
| Equities                    | -7.9        |
| Fixed Income                | 0.4         |
| Currencies                  | -0.1        |
| Commodities                 | -2.2        |
| Cash                        | 0.9         |
| Other                       | 1.3         |
| <b>Total Return (Gross)</b> | <b>-7.6</b> |

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

Exhibit 5: POSITIONING

| Asset Class   | Sub Category             | Long (%)    | Shorts(%)    | Totals (%)   |
|---------------|--------------------------|-------------|--------------|--------------|
| Stock Markets |                          |             |              |              |
|               | North America            | 5.9         | -12.6        | -6.7         |
|               | Europe                   | 11.5        | -23.8        | -12.3        |
|               | Asia and Oceania         | 30.4        | -34.6        | -4.1         |
|               | <b>Total</b>             | <b>47.8</b> | <b>-71.0</b> | <b>-23.1</b> |
| Fixed Income  |                          |             |              |              |
|               | North America            | 2.6         | 0.0          | 2.6          |
|               | Europe                   | 21.6        | 0.0          | 21.6         |
|               | Asia and Oceania         | 0.9         | 0.0          | 0.9          |
|               | <b>Total</b>             | <b>25.1</b> | <b>0.0</b>   | <b>25.1</b>  |
| Currencies    |                          |             |              |              |
|               | North America            | 11.0        | 0.0          | 11.0         |
|               | Europe                   | 21.0        | -47.9        | -26.9        |
|               | Asia and Oceania         | 33.5        | -0.3         | 33.2         |
|               | South America and Africa | 9.8         | -0.7         | 9.1          |
|               | <b>USD</b>               | <b>0.0</b>  | <b>-26.4</b> | <b>-26.4</b> |
| Commodities   |                          |             |              |              |
|               | Energy                   | 4.6         | -0.3         | 4.3          |
|               | Metals                   | 7.4         | -12.3        | -4.9         |
|               | Agriculture              | 28.7        | -31.9        | -3.2         |
|               | <b>Total</b>             | <b>40.7</b> | <b>-44.5</b> | <b>-3.8</b>  |

# SYSTEMATIC GLOBAL MACRO STRATEGY

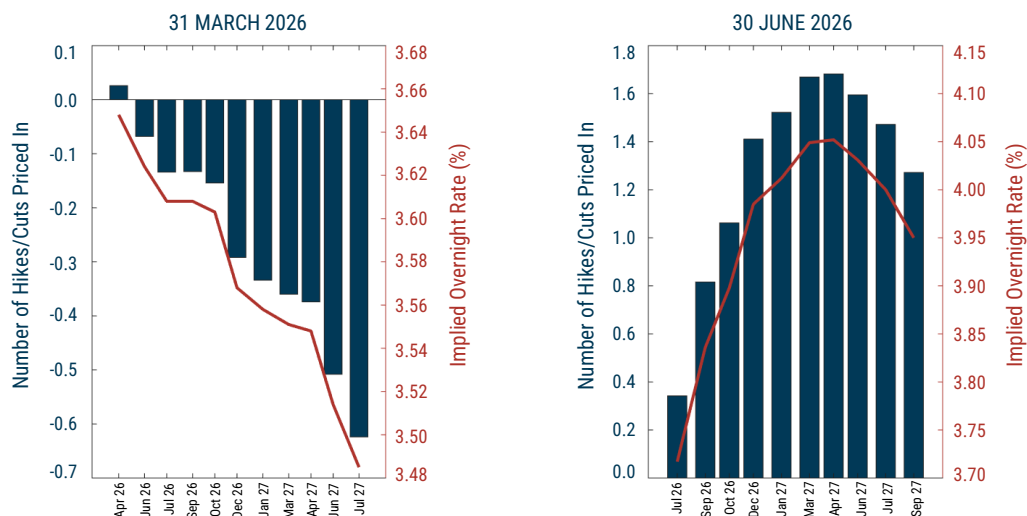
## Quarterly Investment Review

### LOOKING FORWARD

Monetary policy, particularly in the U.S., has gone from mildly dovish to distinctly hawkish. Looking at the expected Fed Funds rate from U.S. Fed futures, we can see that at the start of the quarter the market had been pricing in a 30% chance of a rate cut within a year. With the backdrop of rising inflation and resilient growth during the quarter, the Fed began signaling that it's more inclined to increase rates than cut them.

The change in stance will ultimately affect various asset prices. We have already seen a reduced demand for gold and silver in Q2, with the precious metals' prices falling 14% and 21%, respectively.

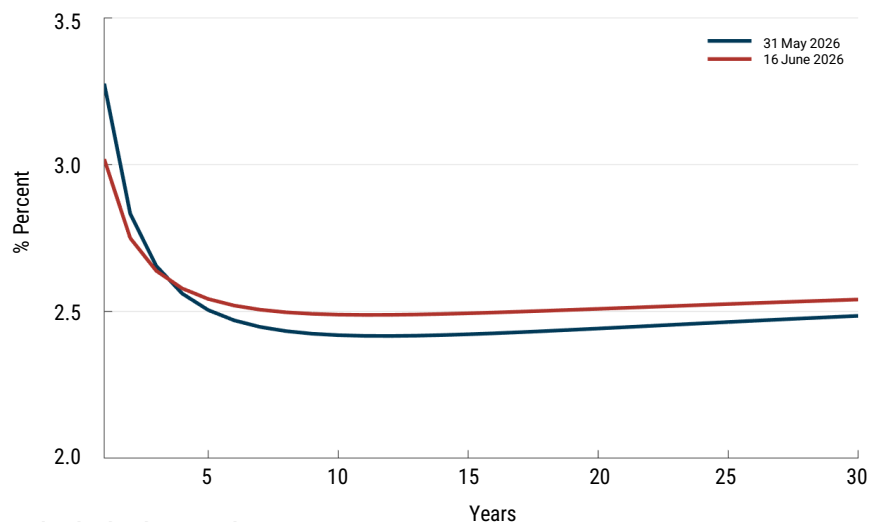
Exhibit 6: CHANGE IN INTEREST RATE EXPECTATIONS



Source: Factset, GMO, July 2026

Somewhat paradoxically, while the Federal Reserve has maintained a hawkish stance on inflation, consensus forecasts continue to anticipate a gradual decline in inflation over the coming years. The Fed's concern, however, is that the risks around this outlook remain skewed to the upside, and that inflation may prove more persistent than markets currently expect and take considerably longer to return to target levels.

Exhibit 7: EXPECTED INFLATION CURVE



Source: Cleveland Fed, GMO, July 2026

This change in regime will continue to have impacts on asset prices and is something we will be monitoring closely.

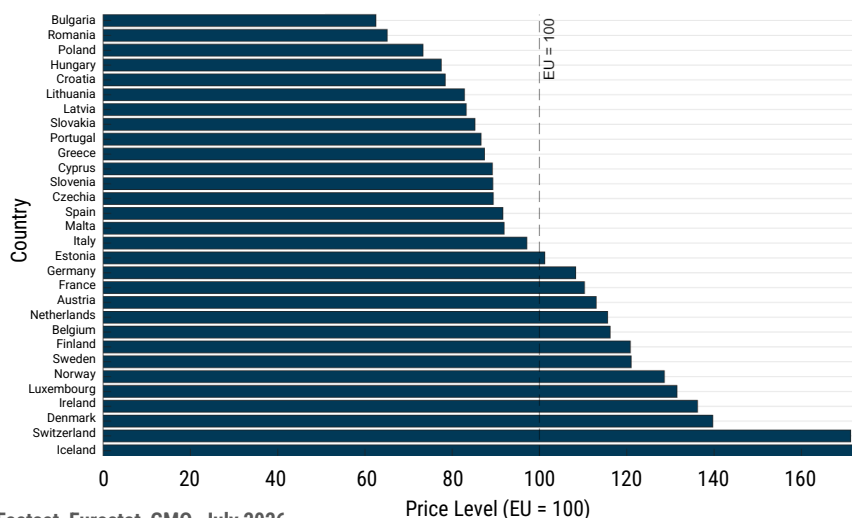
# SYSTEMATIC GLOBAL MACRO STRATEGY

## Quarterly Investment Review

### KEY POSITIONING FOR THE QUARTER

One of our largest exposures is a short position in the Swiss franc, primarily driven by valuation. The latest release from Eurostat shows how relative prices within Switzerland, and hence the Swiss franc, are the second most expensive in Europe. Our valuation model looks at a combination of fundamental value (via PPP) and interest rate carry to derive a fundamental fair value. Switzerland not only has extremely high fundamental prices, but it also has one of the lowest policy rates globally. Given these factors, we view the currency as extremely expensive.

Exhibit 9: PRICES RELATIVE TO EUROPE



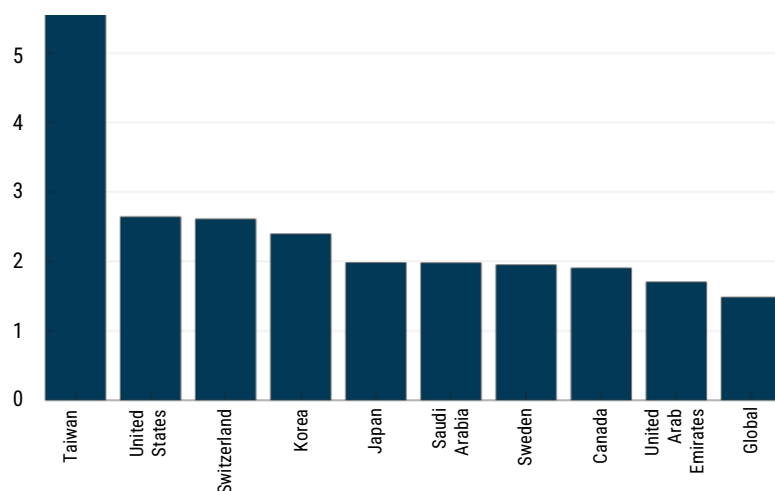
Source: Factset, Eurostat, GMO, July 2026

### Short Taiwan Equities

The portfolio currently takes a contrarian view on Taiwan, driven by valuation and concerns over how far the AI trade has to run and the premium awarded to AI-related markets. While we acknowledge the significant growth opportunities created by the AI boom, as well as ongoing supply constraints in semiconductors, the Taiwanese equity market appears increasingly overheated. Taiwan is trading at extremely high valuations, as is now the second-most expensive market in the world on forward and trailing P/E. And these are not our only concerns: the rally now makes Taiwan's stock market the fifth largest in the world by market capitalization (and the 21st-largest economy—an extremely unusual situation).

If we look at the ratio of market capitalization to GDP (sometimes referred to as the "Warren Buffet signal"), Taiwan's stock market is more than five times the size of its domestic economy, a significantly higher ratio than any other country.

Exhibit 10: TOP 10 MARKET CAP TO GDP RATIOS



Source: Bloomberg, GMO, July 2026

# SYSTEMATIC GLOBAL MACRO STRATEGY

## Quarterly Investment Review

### KEY POSITIONING FOR THE QUARTER CONT.

Beyond valuation concerns, a number of indicators point to unusually elevated levels of investor optimism. Most notably, retail margin trading in Taiwan has surged, contributing to the strong upward momentum in equity prices. Periods of heavy leverage are often characteristic of speculative phases and can leave markets vulnerable to abrupt reversals. If market sentiment were to weaken, forced deleveraging could exacerbate selling pressure and cause prices to fall much more rapidly than they rose. We view this increase in margin activity as another indication that investor expectations have become stretched and that risks remain skewed to the downside.

Exhibit 11: TAIWAN NET MARGIN LOANS (BILLIONS TWD)



Source: Bloomberg, GMO, July 2026

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## Quarterly Investment Review

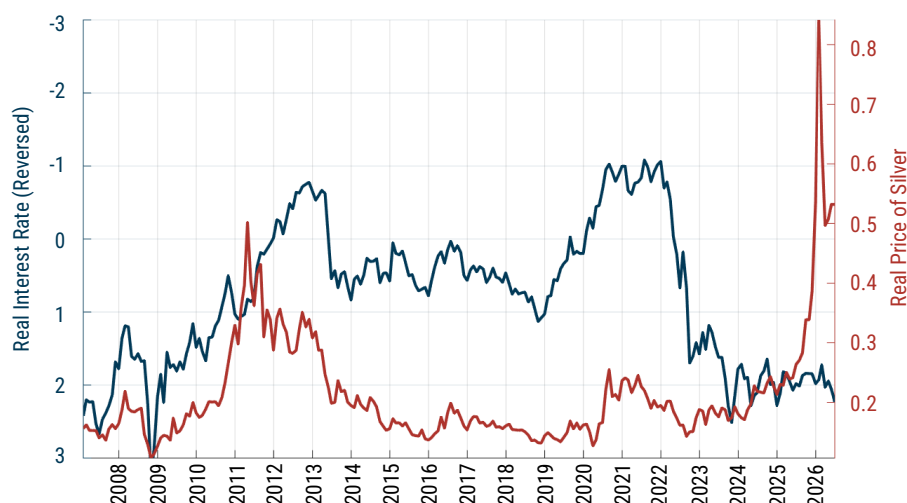
### KEY POSITIONING FOR THE QUARTER CONT.

Silver prices continued to decline during the quarter, driven in part by concerns that interest rates may remain higher for longer. Rising interest rates—particularly increases in real yields—can weigh on silver through several channels. First, higher real yields increase the opportunity cost of holding non-income-producing assets, such as precious metals. Second, silver differs from gold in that approximately two-thirds of its demand is linked to industrial applications, making it sensitive to expectations for global growth and manufacturing activity.

While the historically strong relationship between silver prices and real yields weakened in recent years, there are signs that this relationship is beginning to reassert itself. As real yields have risen and growth expectations have moderated, silver prices have come under increasing pressure.

Consistent with this backdrop, our sentiment and trend-based models have become increasingly negative on silver. As market conditions deteriorated and price momentum turned lower, the portfolio adopted and maintained a short position in the metal.

Exhibit 12: REAL YIELD VS. REAL SILVER PRICE



Source: Factset, GMO, July 2026

### CONCLUSIONS

It has undoubtedly been a difficult quarter, and indeed a challenging year, for the SGM portfolio. However, periods of market exuberance often create the very opportunities on which the strategy is designed to capitalize. Today, several markets are trading at valuation levels that we believe are difficult to justify on fundamental grounds, while investor expectations remain exceptionally high.

Although such dislocations can persist for some time, they have historically provided attractive opportunities for patient investors. We remain highly confident in our process and believe the portfolio is well positioned to benefit as valuations, sentiment, and fundamentals ultimately converge.

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ANNUALIZED RETURNS (USD, %) (QUARTER-END)

|                                          | Quarter-End | YTD    | 1-Year | 3-Year | 5-Year | 10-Year | Since Inception |
|------------------------------------------|-------------|--------|--------|--------|--------|---------|-----------------|
| Systematic Global Macro Strategy (net)   | -7.78       | -15.36 | -12.37 | -4.77  | -1.00  | 0.78    | 4.28            |
| Systematic Global Macro Strategy (gross) | -7.55       | -14.94 | -11.49 | -3.70  | 0.21   | 2.14    | 6.32            |
| FTSE 3-Mo. TBill                         | 0.93        | 1.87   | 4.05   | 4.85   | 3.69   | 2.41    | 1.75            |
| Value Add                                | -8.71       | -17.23 | -16.43 | -9.63  | -4.69  | -1.63   | +2.53           |

## 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](http://www.gmo.com). **Performance data quoted represents past performance and is not indicative of future results.** 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.

## 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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