



FOCUSED EQUITY
INSIGHTS

GMO QUALITY FOR THE LONG TERM AND TODAY

Tom Hancock | November 2023

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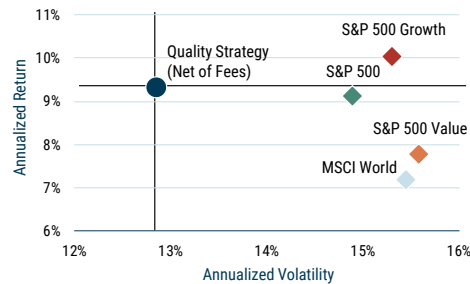
- Quality Strategy

There are many ways to define quality companies. GMO's focus in quality investing for 40+ years has been on companies that have a consistent and enduring ability to deliver high returns on their investments. This requires a business with continued growth and relevance, tight control to replicate assets, and strict capital discipline on management's part. These companies often identify themselves by delivering a track record of high profitability, stable profitability, and a strong balance sheet.

A TRACK RECORD OF STRONG RISK-ADJUSTED RETURN

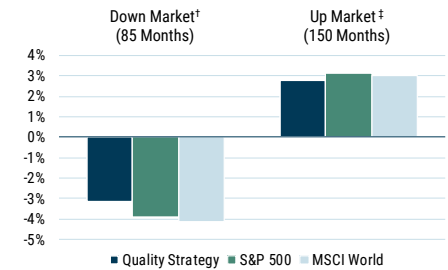
Strong returns with less risk

Risk vs. Return*



Protection when you need it

Down vs. Up Months*



As of 9/30/2023

* Inception Date: 2/6/2004

† Average return for all down months

‡ Average return for all up months

Why GMO Quality?

- Valuation matters. While we believe quality companies are worth a premium, an attention to valuation provides a margin of safety against the risk of overpaying for unrealistic or unsustainable growth expectations. And our valuation focus ensures that we are buying stocks with muted – not over-hyped – market expectations.
- When it comes to growth, we look forward – not back. Our attention to valuation does not mean we can't participate in the upside – high ROI growth is worth a big premium! GMO's Quality Strategy has outperformed the S&P 500 and MSCI World in a variety of environments over the last 1-, 3-, and 5-year periods ending September 30, 2023. A quality valuation approach can find great opportunities – even during growth periods like the one we're in today.

Why invest now?

- Finance theory tells us that achieving higher returns requires taking more risk. But in equity markets, higher quality stocks have outperformed lower quality stocks by a considerable margin despite being much less risky.



Tom Hancock

Dr. Hancock is the head of the Focused Equity team, a portfolio manager for GMO's Quality Strategies and a partner

of the firm. Previously at GMO, he was co-head of the Global Equity team. Prior to joining GMO in 1995, he was a research scientist at Siemens and a software engineer at IBM. Dr. Hancock holds BS and MS degrees from Rensselaer Polytechnic Institute and a PhD in Computer Science from Harvard University.

Disclaimer

The views expressed are the views of Tom Hancock through the period ending November 1, 2023, 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.

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- The GMO Quality Strategy presents investors with an ideal core equity holding that has delivered strong returns, stability, and downside protection for nearly 20 years and counting. Even so, in today's environment we believe there are a few notable reasons that make investing in quality particularly worthwhile:
 - High rates are bad for asset prices, but in our view the impact of a changing discount rate on growth stocks seems overstated. We expect our results to primarily be driven by the ability of our quality companies to allocate capital successfully over time.¹
 - Similarly, we note that quality stocks have tended to fare well compared to the broader markets in times of rising prices, and that paying attention to valuation alongside quality delivered even better results. We believe the fundamental characteristics of the GMO Quality Strategy's holdings further underpin the ability of our investments to withstand inflationary episodes.²
 - During bear markets, cheap high-quality stocks have outperformed on a relative basis. That doesn't mean they don't go down, but rather that they go down much less than the market – the weakest businesses are revealed when times get tough.
 - Quality-at-a-reasonable-price investing can benefit from innovation trends like AI and the GLP-1 class of drugs. Even if the most high-profile stocks have stretched valuations, there is often a broad ecosystem providing many investment opportunities and high-quality incumbents get their share (or more) of the profits.
- Given quality tends to trail in up markets, it's easy to see why some may hesitate to allocate to quality when focused on relative performance. But as our research and the GMO Quality Strategy's track record show, quality keeps up well enough on the upside and more than compensates on the downside to compound over the cycle and outperform over time.

Annualized Returns as of

9/30/2023 (Net, USD)	Inception	1-Year	3-Year	5-Year	10-Year	ITD
GMO Quality Strategy	2/29/2004	26.85	11.72	11.03	12.99	9.32
S&P 500 Index		21.62	10.16	9.92	11.92	9.11
MSCI World		21.95	8.09	7.26	8.27	7.19

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 portfolio is not managed relative to a benchmark. References to an index are for informational purposes only.

¹ See [Growth Investing Ain't About the Rates](#) (October 2022).

² See [Quality Investing and Inflation](#) (June 2021).