

# EQUITY DISLOCATION

## *Is there still opportunity in Value/Growth spreads?*

Simon Harris, Ben Inker, and Catherine LeGraw | January 12, 2022

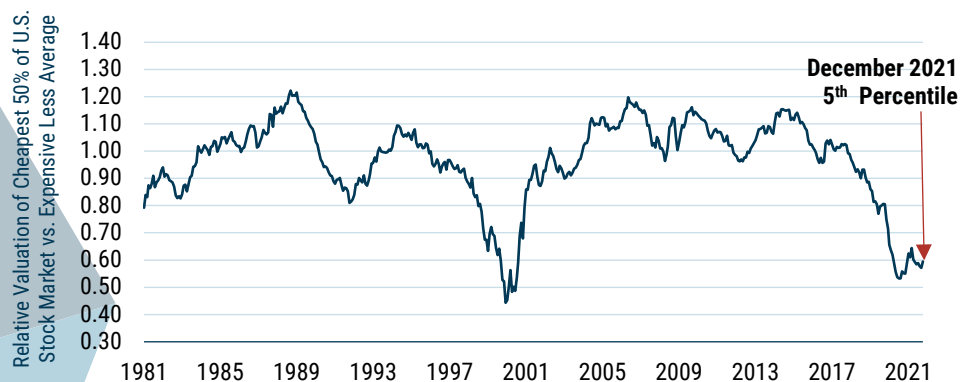
### OVERVIEW

GMO launched the Equity Dislocation Strategy in October 2020 to take advantage of an extraordinarily wide valuation spread between Value and Growth stocks. In this webcast, Ben Inker, Simon Harris, and Catherine LeGraw review performance and discuss the Strategy's implementation, its fit in client portfolios, the current enticing opportunity set, and why the Strategy remains the biggest single position in our unconstrained portfolios today.

### KEY POINTS

- Equity Dislocation delivered compelling returns during the periods of Value outperformance in late 2020 and early 2021. While the Strategy gave back some early gains as Growth once again came into favor, disciplined implementation decisions have enabled it to meaningfully outperform a naïve long Value/short Growth construction.
- The Strategy's implementation focuses exposure on the most misvalued stocks using GMO's proprietary Price to Fair Value and Economic Book Value research.
- Country, sector, and individual position weights are carefully controlled to limit idiosyncratic risk in the portfolio.
- Clients have implemented this Strategy both as a hedge for venture capital and Growth equity exposure as well as a compelling stand-alone return opportunity.
- We believe the opportunity is still incredibly strong. If relative valuations revert to long-term average levels, a long global Value, short global Growth portfolio could generate strong absolute returns.

### VALUE IS EXTREMELY CHEAP



As of 12/31/2021 | Source: GMO

Composite Valuation Measure is composed of price/sales, prices/gross profit, price/book, and price/economic book. Value and Growth groups are both sliced over 12 months.



### **Simon Harris**

Mr. Harris is the head of GMO's Global Equity team. In his decades at GMO, Simon has had extensive portfolio management, quantitative research, and

team leadership experience including as the head of the UK Equity team prior to its merger with the Global Equity team. Previously, he also served as co-CEO of GMO UK Ltd. Prior to joining GMO in 1989, he earned his BSc in Mathematics from The City University (London). Mr. Harris is a Fellow of The Chartered Institute for Securities & Investment.



### **Ben Inker**

Mr. Inker is co-head of GMO's Asset Allocation team and a member of the GMO Board of Directors. He joined GMO in 1992 following the completion

of his B.A. in Economics from Yale University. In his years at GMO, Mr. Inker has served as an analyst for the Quantitative Equity and Asset Allocation teams, as a portfolio manager of several equity and asset allocation portfolios, as co-head of International Quantitative Equities, and as CIO of Quantitative Developed Equities. He is a CFA charterholder.



### **Catherine LeGraw**

Ms. LeGraw is a member of GMO's Asset Allocation team. Prior to joining GMO in 2013, she worked as a director at BlackRock. Previously, Ms. LeGraw was

an analyst at Bear, Stearns & Co. She received her B.A. and her B.S. in Economics from the University of Pennsylvania. She is a CFA charterholder.

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