

# INTERNATIONAL QUALITY STRATEGY

## The Opportunity

Quality stocks, or the equity securities of companies with durable, resilient business models and high returns on capital, have historically provided superior risk-adjusted returns. These companies typically trade at premium multiples, and they usually deserve to trade at those premia. Still, the persistence of Quality characteristics provides a foundation for an intrinsic value approach that incorporates the ability of a company to grow and compound at a high return. We believe building that valuation analysis into an investment process can both enhance portfolio return and reduce risk. The persistence of Quality also means that systematic screening on Quality characteristics, such as profitability and balance sheet strength, is a productive step in identifying high quality opportunities. The GMO International Quality Strategy seeks to exploit the opportunity by investing in the equities of high quality international companies.

## GMO QUALITY: THE ABILITY TO ADD VALUE



GMO's quantitative quality metric was first developed in the 1980s

- High profitability
- Stable profitability
- Strong balance sheet

All  
Periods

Relative Return (Annualized)	International
Systematic High Quality	1.33%
Value within Quality	2.14%



High quality stocks have won over time with lower risk

Bear  
Markets

Relative Return (Annualized)	International
Systematic High Quality	4.38%
Value within Quality	14.54%



Valuation can enhance return **and** risk mitigation

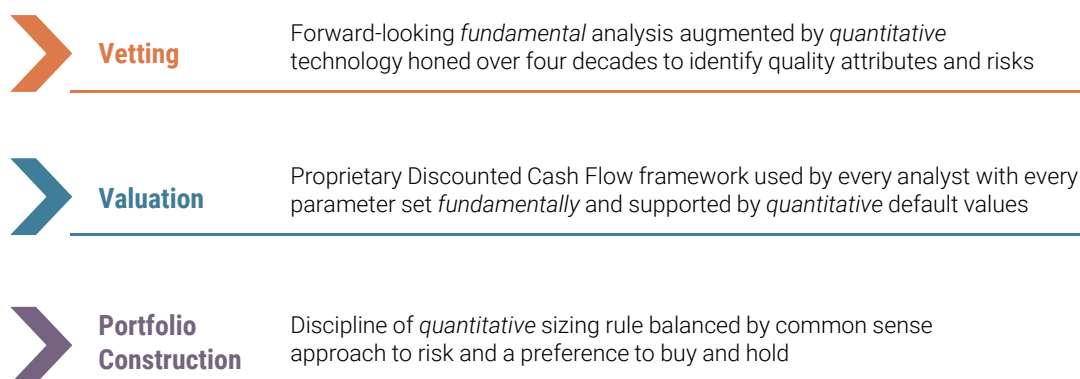
January 1993 – September 2024 | Source: GMO

Bear market is the drop in prices of at least 20% from any peak over a period of at least 3 months. GMO Quality is the highest quality 1/3 of the international market. Value within Quality is the low valuation half of that, relative to the broader international market.

## The GMO Solution

The GMO International Quality Strategy seeks to deliver better long-term performance than the non-U.S. market with lower absolute risk by investing in high quality (or “Quality”) equities of international companies. The Focused Equity team defines Quality companies as those with durable business models, high return on capital, and secular growth drivers. The team builds a robust, high conviction universe of such companies and employs a proprietary framework to select those companies in the universe that we believe are best positioned to deliver superior returns.

## BUY QUALITY COMPANIES AT ATTRACTIVE FUNDAMENTAL VALUATIONS



GMO brings three key competitive advantages to Quality investing:

***Experience***

GMO is a pioneer in Quality investing with more than 40 years of experience and a real track record in down markets.

***“Best Of The Best” Blended Approach***

GMO combines the discipline and consistency of its quantitative framework with a forward-looking, fundamental vetting process that assesses the long-term relevance of each company’s business model.

***Long Track Record Of Strong, Risk-Adjusted Returns\****

GMO has successfully managed our flagship Quality Strategy since 2004. Over its history, the GMO Quality Strategy has delivered strong returns, outperforming broad global market indices with lower risk, and providing meaningful downside protection. The new GMO International Quality Strategy provides the opportunity for investors who want an international allocation to access the same Quality investment philosophy and process, without the U.S. stock exposure.

***The Client Fit***

The Quality Strategy is a core holding for clients with a long investment horizon. Clients also use the Strategy in more specific roles within their investment programs:

- **Core International Equity Holding:** Clients invest in the International Quality Strategy seeking superior returns at lower volatility than a passive index, most commonly the MSCI World ex-U.S. Index. The GMO approach balances growth and value without tilting heavily toward either style. The best fit is for clients who are more concerned with absolute risk than relative.
- **Diversification from U.S. Sector Concentration:** The GMO International Quality strategy provides exposure to a different sector mix that is diversifying for clients with a U.S. quality exposure.
- **Defensive/Low Volatility Equities:** Some clients strategically allocate to factors they believe offer superior risk-adjusted return. The Strategy is an attractive alternative to “smart beta” approaches, as it adds forward-looking fundamental analysis, an eye toward valuation, and a proven track record.
- **Tactically a Good Place to Hide:** The Strategy can be attractive to clients who are more dynamic with their portfolios and are concerned with current macroeconomic conditions or stock market valuations, but need to maintain an allocation to equities. Quality companies have business models that are robust against economic stress and can be a more defensive exposure than more cyclical companies.

## ***Who We Are***

Founded in 1977, GMO is a private partnership whose sole business is investment management. The firm manages global portfolios with offices and clients around the world. Investment offerings include equity, fixed income, multi-asset class, and alternative strategies. GMO is known for blended fundamental and quantitative investment research expertise and a long-term orientation toward value investing.

## ***The Team***

The GMO International Quality Strategy is managed by the Focused Equity team. The experienced team includes 16 investment professionals and five partners of the firm, with members located in Boston and London. Tom Hancock, Ty Cobb, and Anthony Hene, portfolio managers for the International Quality Strategy, oversee idea generation, research, and portfolio positioning.

*\*Past performance is no guarantee of future results.*

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## RISK

Risks associated with investing in the Strategy may include Market Risk - Equities, Management and Operational Risk, Focused Investment Risk, and Currency Risk.