

U.S. 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 U.S. Quality Strategy seeks to exploit the opportunity by investing in the equities of high quality U.S. companies.

GMO QUALITY: SAFETY AND THE ABILITY TO ADD VALUE



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

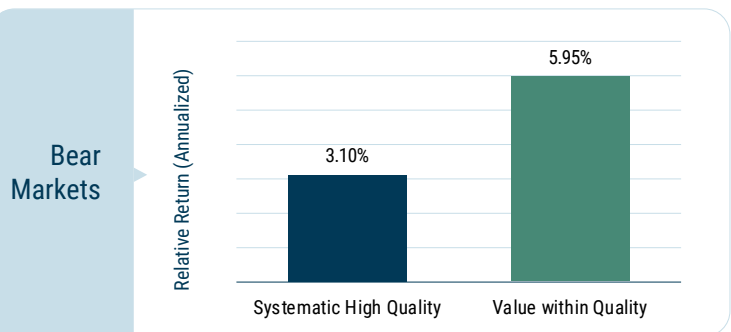
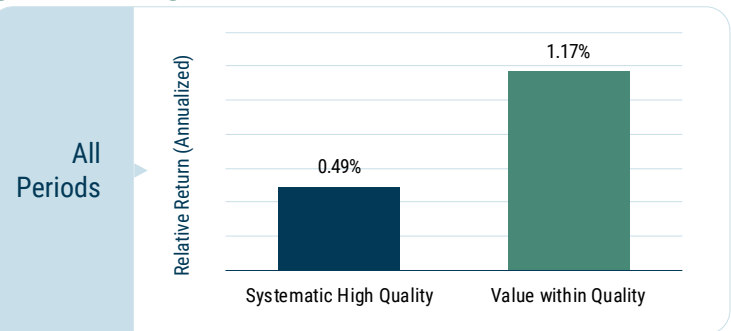
- High profitability
- Stable profitability
- Strong balance sheet



High quality stocks have won over time with lower risk



Valuation can enhance return **and** risk mitigation



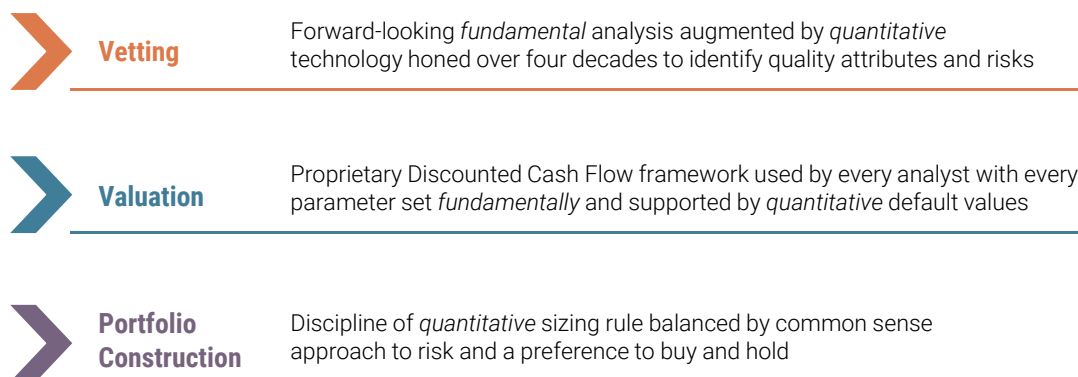
April 1928 – December 2023 | Source: GMO

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 U.S. market. Value within Quality is the low valuation half of that, relative to the broader U.S. market.

The GMO Solution

The GMO U.S. Quality Strategy seeks to deliver better long-term performance than the broad market with lower absolute risk by investing in high quality (or “Quality”) equities of U.S. 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.

IDEALLY, BUY QUALITY COMPANIES UNDER A TEMPORARY CLOUD AND HOLD UNTIL OBNOXIOUSLY EXPENSIVE



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 Quality Strategy has delivered strong returns, outperforming broad market indices with lower risk and providing meaningful downside protection. The new GMO U.S. Quality Strategy provides the opportunity for investors who want a U.S.-only allocation to access the same Quality investment philosophy and process, without the international 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 U.S. Equity Holding:** Clients invest in the U.S. Quality Strategy seeking superior returns at lower volatility than a passive index, most commonly the S&P 500. 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 tracking error.
- **Defensive/Low Volatility Equities:** Some clients strategically allocate to factors they believe offer superior risk-adjusted return. The Quality 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 within the U.S., trade at relative valuations that are low by historical standards.
- **Responsible Investing:** A company can only be a Quality company if its business is sustainable. GMO focuses on asset-lite companies where management uses a long investment horizon, and negative externalities are manageable.

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 U.S. Quality Strategy is managed by the Focused Equity team. The experienced team includes 14 investment professionals and 5 partners of the firm, with members located in Boston and London. Tom Hancock, Ty Cobb, and Anthony Hene, portfolio managers for the U.S. Quality Strategy, oversee idea generation, research, and portfolio positioning.

*Past performance is no guarantee of future results.

RISK

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