

# QUALITY SPECTRUM

## OVERVIEW

GMO's Focused Equity team believes that high quality companies have a sustainable competitive advantage that allows them to be excessively profitable for many years into the future, while low quality "junk" companies lack sustainable competitive advantages and generally have risky business models. The GMO Quality Spectrum Strategy contains a concentrated long book of high quality companies and levers the long portfolio by shorting a diverse portfolio of "junk" companies, with an emphasis on valuation. The Strategy expects to generate equity-like returns over time, with the long quality/short junk element designed to provide a bulwark against market drawdowns.

## CUMULATIVE TOTAL RETURNS (USD, NET OF FEES, %)

	<i>MTD</i>	<i>QTD</i>	<i>YTD</i>	<i>2023</i>	<i>2022</i>	<i>2021</i>	<i>2020</i>	<i>2019</i>
Composite	-0.30	-0.30	30.24	25.34	-1.69	42.43	-4.05	3.66
Index	1.04	1.04	8.13	13.75	-8.46	9.04	9.02	1.83
Alternate Index	1.61	1.61	13.10	22.20	-18.36	18.54	16.25	3.52

## ANNUALIZED TOTAL RETURNS (USD, NET OF FEES, %)

	<i>1 Year</i>	<i>3 Years</i>	<i>5 Years</i>	<i>10 Years</i>	<i>ITD</i>
Composite	34.78	21.95	-	-	19.24
Index	11.45	4.89	-	-	6.86
Alternate Index	17.02	5.75	-	-	10.73

## FACTS

Strategy Inception	31-Oct-19
Composite Inception	31-Oct-19
Total Assets	\$46mm USD
Index	50% ACWI 50% 3Mo TBill Blend
Alternate Index	MSCI ACWI

## RISK PROFILE (SINCE INCEPTION 29-NOV-19)

Alpha (Jensen's)	10.66
Sharpe Ratio	0.91
Standard Deviation	18.64
Max Port. Drawdown (31-Dec-21 - 30-Sep-22)	-15.19

## PORTFOLIO MANAGEMENT



**Tom Hancock**  
Joined GMO in 1995  
MS, Rensselaer  
Polytechnic Institute;  
PhD, Harvard University



**Lucas White, CFA**  
Joined GMO in 2006  
BA, Duke University

**Risks:** Risks associated with investing in the Strategy may include: Equities Risk, Short Investment Exposure Risks, Focused Investment Risk, Currency Risks, and Smaller Company Risks. 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 Returns:** 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. **GMO LLC claims compliance with the Global Investment Performance Standards (GIPS®). 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.**

## QUALITY SPECTRUM

## CHARACTERISTICS

	<i>Long</i>	<i>Short</i>	<i>Alternate Index</i>
Price/Earnings - Forecast 1 Yr Wtd Mdn	22.6x	39.0x	21.1x
Return on Equity - Forecast 1 Yr Wtd Mdn	27.4%	11.0%	20.3%
% Neg Earnings	0.0%	45.2%	3.9%
Price/Book - Hist 1 Yr Wtd Avg	6.2x	2.7x	3.1x
Dividend Yield - Hist 1 Yr Wtd Avg	1.4%	1.1%	1.8%
Free Cash Flow Yield - Hist 1 Yr Wtd Avg	3.2%	0.3%	3.6%
Market Cap - Wtd Mdn Bil	228.1 USD	12.3 USD	111.3 USD
Number of Equity Holdings	42	354	2647
% Long/Short	167.9%	67.3%	N/A
Net Debt/EBITDA - Hist 1 Yr Wtd Mdn	0.3x	2.9x	0.5x

## MARKET CAP BAND EXPOSURES (\$B)

	<i>Long</i>	<i>Short</i>
Small - Medium (5.4 To 16.4)	2.6	-28.1
Medium (16.4 To 41.2)	8.8	-14.8
Medium - Large (41.2 To 117.4)	22.0	-11.2
Large (117.4 & Above)	134.5	-0.8

## TOP COUNTRIES (%)

<i>Country</i>	<i>Long</i>	<i>Short</i>
United States	131.7	-52.1
United Kingdom	12.1	-1.3
France	7.2	-0.2
Germany	6.2	-0.3
Taiwan	5.2	-0.5
Switzerland	4.4	-0.5
Spain	1.1	-0.4

## REGIONS (%)

<i>Region</i>	<i>Long</i>	<i>Short</i>
United States	131.7	52.1
Europe	31.0	4.3
Rest of World	5.2	10.9

## SECTORS (%)

<i>Sector</i>	<i>Long</i>	<i>Short</i>
Communication Services	13.6	-3.1
Consumer Discretionary	17.6	-5.6
Consumer Staples	18.0	-0.6
Energy	0.0	-2.2
Financials	12.8	-11.9
Health Care	41.1	-6.0
Industrials	8.2	-6.1
Information Technology	56.6	-17.9
Materials	0.0	-3.9
Real Estate	0.0	-8.3
Utilities	0.0	-1.6

## TOP HOLDINGS

<i>Company</i>	<i>Country</i>	<i>Sector</i>	<i>%</i>
Microsoft Corp	United States	Information Technology	10.5
Apple Inc	United States	Information Technology	8.8
Alphabet Inc	United States	Communication Services	7.4
Meta Platforms Inc	United States	Communication Services	6.2
UnitedHealth Group Inc	United States	Health Care	6.1
Johnson & Johnson	United States	Health Care	5.9
SAP SE	Germany	Information Technology	5.6
Elevance Health Inc	United States	Health Care	5.5
Texas Instruments Inc	United States	Information Technology	5.3
Taiwan Semiconductor Manufacturing Co Ltd	Taiwan	Information Technology	5.2
<b>Total</b>			<b>66.5</b>

# QUALITY SPECTRUM

## IMPORTANT INFORMATION

**Index(es):** The MSCI ACWI (All Country World) Index (MSCI Standard Index Series, net of withholding tax) is an independently maintained and widely published index comprised of global developed and emerging markets. MSCI data may not be reproduced or used for any other purpose. MSCI provides no warranties, has not prepared or approved this report, and has no liability hereunder. Please visit <https://www.gmo.com/americas/benchmark-disclaimers/> to review the complete benchmark disclaimer notice.

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.

## GLOSSARY

**Risk Statistics:** Risk profile data is net of fees. Alpha is a measure of risk-adjusted return. Sharpe Ratio is the return over the risk free rate per unit of risk. Std Deviation is a measure of the volatility of a portfolio. Drawdown is based on the portfolio's worst performance over the period based on monthly observations.

**Sector Exposures:** The Global Industry Classification Standard (GICS) is the exclusive intellectual property of MSCI Inc. (MSCI) and Standard & Poor's, a division of The McGraw-Hill Companies, Inc. (S&P). Neither MSCI, S&P, nor any third party makes any representations or warranties, express or implied, with respect to GICS or the results to be obtained by the use thereof, and expressly disclaim all warranties, including of merchantability and fitness for a particular purpose. Neither MSCI, S&P, nor any third party shall have any liability for any damages of any kind relating to the use of GICS.

**Top Holdings:** Portfolio holdings are percent of equity. Where applicable, the top holdings are derived by looking through to the underlying portfolios in which the asset allocation strategy invests and, where appropriate, individual security positions are aggregated. They are subject to change and should not be considered a recommendation to buy individual securities. This portfolio continues to hold de minimis Russian exposure as a result of past positioning and ongoing illiquidity. GMO has suspended net new purchases of Russian securities firm-wide.

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## 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.

AMSTERDAM

BOSTON

LONDON

SAN FRANCISCO\*

SINGAPORE

SYDNEY

TOKYO\*\*

\*GMO's West Coast Hub is comprised of members of Investment, Global Client Relations, and other teams located in and around the Greater San Francisco area

\*\*Representative Office