QUALITY SPECTRUM STRATEGY

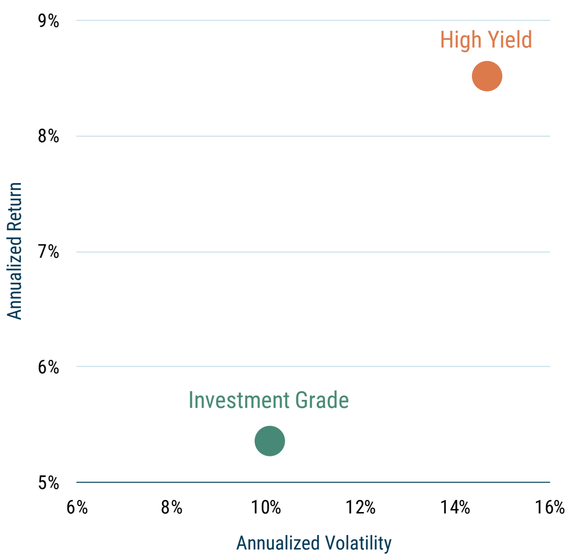
The Opportunity

- High quality companies have delivered higher returns than the broader markets at lower levels of risk over the long-term. In addition, high quality companies tend to perform better during market and economic downturns.
- At the same time, low quality "junk" companies have delivered lower returns than the broader markets at higher levels of risk with particularly poor performance during downturns.
- A long quality/short junk portfolio, such as the GMO Quality Spectrum Strategy, can therefore be constructed to generate equity-like or better returns over time, while seeking to protect against market drawdowns.

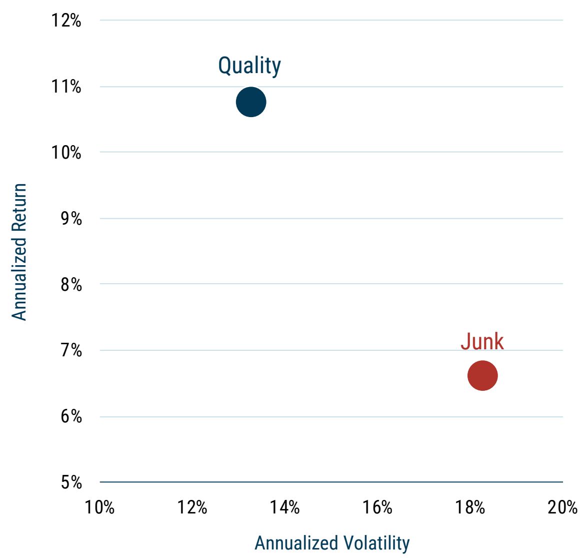
THE BOND MARKET PRICES RISK RATIONALLY,BUT THE STOCK MARKET GETS IT BACKWARDS

Finance theory tell us that high risk stocks should win…but they don't

BOND MARKET INDEX PERFORMANCE



QUALITY/JUNK STOCK PERFORMANCE



As of 12/31/2023 | Source: S&P, MSCI, GMO

Bond Indices are the S&P 500 High Yield Corporate Bond Index and the S&P 500 Investment Grade Corporate Bond Index. GMO defines quality companies as those with high profitability, low profit volatility, and minimal use of leverage. Junk companies are the inverse. High and low risk groups are based off quartiles within the MSCI ACWI index.

The GMO Solution

We define quality companies as companies that have a sustainable competitive advantage that allows them to be excessively profitable for many years into the future. Conversely, junk companies lack sustainable competitive advantages and generally have risky business models kept afloat by leverage, cyclical tailwinds, or lottery ticket prospects.

GMO has a long history of incorporating quality in our investment decision making process, going back to Jeremy Grantham's original studies on quality in the early 1980s. Since 2004, GMO has managed a long-only quality strategy, as well as a strategy that shorts junk. We expect the Quality Spectrum Strategy to harvest the high, stable returns of quality companies while benefiting from being short junk companies that suffer in downturns.

The GMO Quality Spectrum Strategy is built using a fairly concentrated long book of high quality companies. Larger positions are taken in companies whose share prices are trading at the most attractive valuations. We lever this long portfolio by approximately 75% by shorting a diverse portfolio of junk companies, with an emphasis on those that look especially unattractive from a valuation perspective (i.e., those ripest for disappointment).

Our live experience running long-only quality and long/short quality/junk strategies, along with the results of our simulated model, lead us to believe that our Quality Spectrum Strategy can generate strong returns at market levels of volatility with significantly lower drawdown risk.

The Client Fit

This Strategy may be attractive to clients looking for a strategy seeking to:

- Generate strong equity returns
- Display low beta characteristics and significantly less risk of capital depreciation in market downturns
- Complement and reduce overall portfolio risk

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

RISK

Risks associated with investing in the Strategy may include: Equities Risk, Short Investment Exposure Risks, Focused Investment Risk, Currency Risks, and Smaller Company Risks.