

EMERGING MARKETS SELECT EQUITY STRATEGY

The Opportunity

A search for growth, anywhere globally, will surface with emerging markets. Whether it is sources of energy and materials (Saudi Arabia, Qatar, Chile, Peru), providers of tech hardware and software (Taiwan, Korea, India), major consumer markets (China, India), or bases for manufacturing (China, Vietnam, Mexico, Central and Eastern Europe), emerging markets are an indispensable part of the solution. However, emerging markets also face challenges from secular forces such as deglobalization, climate change, and artificial intelligence. A well-designed emerging markets strategy must capitalize on the opportunities but also guard against the vulnerabilities of the asset class.

The GMO Solution

GMO has been at the forefront of emerging markets investing for 30 years. The GMO Emerging Markets Select Equity approach aims to identify secular growth trends and invest in quality businesses with pricing power that we believe will benefit from those trends. Our experienced fundamental team begins its analysis at the country level, an emphasis that has been a differentiator for our Strategy since its inception. Our process is distinguished by this emphasis on top-down country allocation and by our climate change-oriented approach within a robust Environmental, Social, and Governance (ESG) analysis.

Given our top-down perspective, we begin by evaluating countries and sectors. We look for countries that are attractive on both long-term and short-term dimensions, including factors like demographics, natural resources, quality of institutions, human and technology capital, and climate change risks. From a bottom-up perspective, our fundamental research analysts make recommendations on the most attractive companies in the countries or regions they cover. Their stock selection framework combines both growth and quality attributes. We incorporate ESG factors and proprietary sustainability signals as part of our quality analysis at both company and country levels, with a specific focus on climate-related issues. Finally, we apply risk controls to ensure that the overall portfolio passes our quantitative and qualitative checks.

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Investment Philosophy and Core Beliefs

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Seek Responsible Growth Identify countries, sectors and companies poised to benefit from **changing market dynamics, demographic tailwinds, innovation, and climate change transition**
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Emphasize Quality Progress in emerging markets does not follow a straight line. Quality matters at the **country, sector, and company** levels for long-term wealth creation and protection
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360° Fundamental Analysis Dedicated and experienced team of **top-down and bottom-up** analysts and channel checkers
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Focus on Top Down Countries **vary widely** in emerging markets. Getting the **big picture right** is the most important thing
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Sustainability Matters Robust **country, sector, and company ESG integration** and a **climate centric view** on sustainability and engagement

TOP-DOWN EMPHASIS

Institutions in emerging markets are relatively weak. The caliber of policymaking is therefore more dependent on the government of the day – leading us to begin our investment process with country allocations.

FOCUS ON QUALITY AND GROWTH

A company with a deep moat around its business is better positioned to withstand the frequent and unexpected vicissitudes of emerging markets – we buy high quality growth companies at reasonable prices.

ESG AND SUSTAINABILITY

Our approach has four elements: *exclusions, emissions, evaluations, and engagement.*

We exclude fossil fuels, tobacco, weapons, and firms that violate the UN Global Compact.

The emissions of our portfolio are less than a quarter of that of the MSCI Emerging Markets index. We have attained this drop through a combination of excluding fossil fuels (a small part of the drop), sector allocation, and stock selection.

Our evaluation process includes both country and company evaluations. In country evaluations, we tap into over 50 indicators including several on climate change. As climate change rises in importance over time and countries respond in different ways, we expect our country-based climate change metrics to be critical to understanding the explicit and implicit bets of our Strategy. Company evaluations are built around our proprietary GMO company score. It sources raw data from three vendors, MSCI, Truvalue, and Refinitiv, and then applies fundamental insights and empirical analysis to arrive at a proprietary score for each company.

In engagement, we focus on our strengths by leaning on our knowledge of the linkages between country, sector, and company to employ a thematic engagement approach. For example, after we focused on water stress as a key fallout of climate change, we proceeded to first identify vulnerable countries, then the vulnerable industries within them, and finally the firms that might be laggards.

The Client Fit

As a fundamental emerging markets strategy with high quality, reasonable growth, and sustainability characteristics, the GMO Emerging Markets Select Equity Strategy offers an attractive approach that would fit most institutional investment programs. The Strategy can be considered a core emerging markets equity mandate or as a complement within a multi-manager emerging markets equity portfolio. With strong ESG integration and climate change considerations incorporated holistically in our analysis of countries, sectors, and companies, the GMO Emerging Markets Select Equity Strategy also provides opportunity as a sustainable emerging markets equity solution.

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 opportunities.

The Team

The Emerging Markets Select Equity Strategy is managed by portfolio manager Warren Chiang, with the input of a well-resourced fundamental team. The Emerging Market's Select Equity team's unique structure combines fundamental analysts with general and specialist skills that can be deployed flexibly based on the most compelling opportunities at hand. The team also leverages the firm's quantitative expertise, using quantitative screens to generate ideas for follow up by fundamental analysts. The team is supported by GMO's research team of over 100 investment professionals worldwide, which has been responsible for many innovations that keep GMO on the leading edge of investment research and development.

RISK

Risks associated with an investment in the Strategy are Market Risk - Equities, Non-U.S. Investment Risk, Currency Risk, Management and Operational Risk, and Illiquidity Risk.