

QUALITY FOR THE LONG RUN

Tom Hancock, Head of Focused Equity Team and Lead PM of Quality Strategy | October 13, 2022

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Investing in quality small cap is an idea we have had on the shelf – it’s in our institutional memory... We see an investment opportunity there that perhaps we didn’t a few years ago.

OVERVIEW

Quality investing with a valuation discipline offers investors the ability to win over the long run while attempting to provide downside protection, making it an ideal core equity allocation. In this webcast, Tom Hancock discussed how the Quality portfolio has fared so far in 2022, highlighting areas of opportunity and other relevant topics in what has become a very “interesting” environment for equity investing.

KEY POINTS

- We believe GMO’s Quality Strategy is an ideal core equity allocation that is reconcilable to Jeremy Grantham’s “superbubble” thesis. On a relative basis, quality stocks have the pricing power to maintain their profitability and the defensive margins to keep their fundamentals among the strongest; they are therefore likely to behave defensively in market downturns.
 - Due to their strong pricing power, we believe quality companies are well positioned for today’s inflationary environment. And historical data shows that paying attention to valuation alongside quality can deliver better results.
 - We believe innovation across many industries (including semi-conductors and health care pharmaceuticals) continues to be strong and our outlook for great companies continues to be excellent over the long-term.
 - We are excited about our suite of quality portfolios, including the recently launched GMO Small Cap Quality Strategy, where we see a big investment opportunity (tactically, small caps are quite cheap relative to large caps, while strategically, a quality focus adds significant value in small cap investing). Tom is also excited about the GMO Quality Spectrum Strategy, which is net long, but shorting some negative earnings (i.e., “trading on hope”) companies.
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**Tom Hancock**

Dr. Hancock is the head of the Focused Equity team and a portfolio manager for GMO's Quality Strategies. Previously at GMO, he was co-head of the Global Equity team. He is a partner of the firm. Prior to joining GMO in 1995, he was a research scientist at Siemens and a software engineer at IBM. Dr. Hancock holds a Ph.D. in Computer Science from Harvard University and B.S. and M.S. degrees from Rensselaer Polytechnic Institute.

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