

# QUARTERLY INVESTMENT REVIEW

## Quality Investment Fund USD Class

### RETURNS (%) (LOCAL)

	Cumulative (%)		Annualized (%)				
	QTD	YTD	1 Year	3 Years	5 Years	10 Years	ITD
Net of Fees Fund (USD Class)	11.56	29.04	29.04	11.01	15.95	12.72	13.23
Gross of Fees Fund (USD Class)	11.71	29.74	29.74	11.63	16.61	13.36	13.88
MSCI World	11.42	23.79	23.79	7.28	12.81	8.60	9.37
S&P 500 (Net)	11.55	25.67	25.67	9.49	15.10	11.40	12.47
Value Added (vs. MSCI World)	0.15	5.26	5.26	3.74	3.14	4.11	3.86
Value Added (vs. S&P 500 (Net))	0.01	3.38	3.38	1.52	0.85	1.31	0.77

### Major Performance Drivers

What a year 2023 was in the markets! The portfolio had its second-best result since inception, as inflation subsided alongside economic concerns and investors processed positive developments on various fronts.

The fourth quarter added to the year-end total nicely, with the portfolio outperforming versus the broader markets. The S&P 500 returned 11.7% while the MSCI World returned 11.4%. Tech stocks were strong, with the NASDAQ up 13.6%. Stock selection in Financials helped returns as the sector was buoyed by declining rate expectations. Consumer Staples and Health Care stocks generally underperformed. The portfolio had no exposure to Energy, the quarter's weakest sector.

The magnitude of 2023 returns for technology companies seems mind-boggling at first glance – the NASDAQ 100 returned 54% for the year – and we addressed the sustainability of those returns in our year-end letter. There is a component of the return reflecting the gains from innovation, e.g., those around ChatGPT and AI, and we believe that several of your holdings in software and semi-conductors are positioned to benefit from that. From our perspective, there were also allocation opportunities around market reaction to AI. In the case of Adobe, we believe that the market has overestimated the benefits of AI to the company and therefore took the opportunity to liquidate the position. For Accenture, on the other hand, we believe that pressure on IT spending this year is masking what is a significant multi-year opportunity to assist major corporations to prepare their data for a different world and added to the position.

However, we see less merit in arguments based on rates or a “natural” rebound for the portfolio's technology-related exposure and we trimmed over the year and in Q4, having found incremental opportunities to put capital to work with what we believe to be other productive users of that capital, some trading at more subdued valuations, in the industrial, health care, and consumer spaces.

Consumer Staples companies, long a mainstay for quality investors, have been under pressure for a while now, and we adjusted several positions in the quarter. These companies were affected by inflation more than most – the costs of the commodities required for production, packaging, and distribution soared just as consumer balance sheets were stressed by rounds of price increases and rising borrowing costs. To add insult to injury, the potential for GLP-1 prescription has cast a cloud over potential consumption, and therefore revenues, for many of the food and beverage businesses, too. Fundamental returns were weak, and valuations were cut. These new valuations are intriguing; reduced expectations for the Staples businesses reduces investor risk. Current share prices give little credit for potential margin expansion should commodity prices ease or other concerns prove overblown.

In addition to the list of challenges for Staples, Diageo was one of several companies hit by inventory issues this year. Assuming the competitiveness of Diageo's product remains approximately stable, destocking issues should shrink into the rearview mirror over time. The shares now trade at their lowest valuation in years, and we added to this position this quarter. We would expect total returns at least in line with potentially double-digit fundamentals from here.

We also initiated a position in Haleon, formerly the consumer health business of Glaxo and Pfizer. Its portfolio of products sits at the intersection of Consumer Staples and Health Care. You will likely know its products, e.g., Sensodyne for your teeth and Advil for your head, even if you're not familiar with the business. Haleon trades at a similar valuation to Diageo, with a similar level of anticipated revenue growth. The point of interest is that Haleon was spun out of Glaxo in 2022 and still bears many of the “big pharma” costs inherited during the carve out. If the company is successful in rationalizing some of these costs as planned, the impact on margin will be material in driving fundamental returns.

Portfolio weights, as a percentage of equity, for the positions mentioned were: Accenture (3.3%), Diageo (1.4%), and Haleon (0.3%).

Inception Date: 10-Nov-10

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Net of all fees and expenses after reimbursement by the Manager, but not transaction costs, if any. If certain expenses were not reimbursed, performance would be lower.

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# QUARTERLY INVESTMENT REVIEW

## PRODUCT OVERVIEW

The GMO Quality Investment Fund seeks to generate total return by investing primarily in equities the Focused Equity team believes to be of high quality.

The team believes that companies with established track records of historical profitability and strong fundamentals – high quality companies – are able to outgrow the average company over time and are therefore worth a premium price. The Fund's disciplined approach uses both quantitative and fundamental techniques to assess the relative quality and valuation of global companies and aims to exploit a long-term investment horizon while withstanding short-term volatility.

## IMPORTANT INFORMATION

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Investors and potential investors can also obtain the prospectus and key investor information, in English and other languages, and a summary of investor rights and information on access to collective redress mechanisms at the following website: <https://www.gmo.com/europe/product-index-page/equities/quality-strategy/quality-investment-fund---dqf/>

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This advertisement has not been reviewed by the Monetary Authority of Singapore.

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