

# EMERGING DOMESTIC OPPORTUNITIES STRATEGY

## *The Opportunity*

Emerging markets are a \$5.6 trillion asset class encompassing 24 countries and over 800 stocks. Driven by economic and demographic forces, domestic demand in these markets now comprises about 75% of the asset class. This component, representing the rise of a new middle class in emerging markets, offers both a secular growth opportunity and a lower correlation for developed market investors – but investing here is not without challenges. Emerging markets are volatile with relatively frequent and deep drawdowns, and domestic demand is particularly sensitive to politics and macroeconomics. Emerging markets equity is not a monolithic asset class and understanding its idiosyncrasies is central to investing in the space.

## *The GMO Solution*

The GMO Emerging Domestic Opportunities Strategy employs a structured fundamental process to exploit this \$4 trillion, long-term opportunity in emerging markets. We exclude globally driven segments such as commodities and tech exporters, focusing instead on firms whose profitability is centered on internal growth regardless of the domicile of the company.

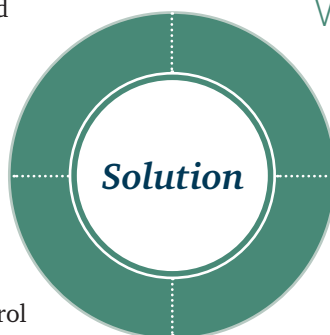


## TOP-DOWN EMPHASIS

- Institutions in emerging markets are weak and the caliber of policy-making is dependent on the government of the day – we focus first on country and sector allocations.

## QUANTITATIVE AND QUALITATIVE RISK CONTROL

- The first level of portfolio construction is our assessment of overall asset class risk. We control our exposures along country, industry, and stock dimensions while building positions that are as uncorrelated to each other as possible. We limit our macroeconomic vulnerability by managing our exposure to current account deficits, interest rate risks, and global growth. We use equity and currency hedges to quickly and effectively manage the risks that stem from unexpected macroeconomic shocks.



## FOCUS ON QUALITY AND VALUATION

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

## DYNAMIC REALLOCATION

- The significant macroeconomic volatility that is a staple of investing in emerging markets can buffet the fragile, emerging consumer and translate into uncertain prospects for companies relying on domestic demand – we dynamically reallocate assets in response to changing conditions in countries, sectors or stocks.

## *The Client Fit*

As a fully active, all-cap, emerging equity portfolio with a focus on downside protection, GMO Emerging Domestic Opportunities offers an attractive approach that would fit most institutional investment programs. Our clients consider it as a complement within a multi-manager emerging markets equity portfolio structure or as a standalone emerging markets equity mandate. We aim for long-term success through most market conditions given the secular tailwind of the rise of the emerging markets consumer.

## *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 GMO Emerging Markets Equity team was founded in 1993 by Arjun Divecha, partner and member of GMO's Board of Directors. Arjun continues to lead the team today and is widely considered among the pioneers of fundamentally based, quantitative portfolio management for institutional investors in the asset class.

Amit Bhartia, a portfolio manager and a partner of the firm, has worked alongside Arjun since 1995 and built the team's complementary fundamental research effort. Today, under Amit's direction, GMO's uniquely structured emerging markets equity analysts are aligned across four primary disciplines within the broader emerging markets team: macro, fundamental stock research, channel checks, and forensic accounting. GMO's emerging markets equity effort has a global footprint that includes offices in San Francisco, Boston, and Singapore.

## 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.