

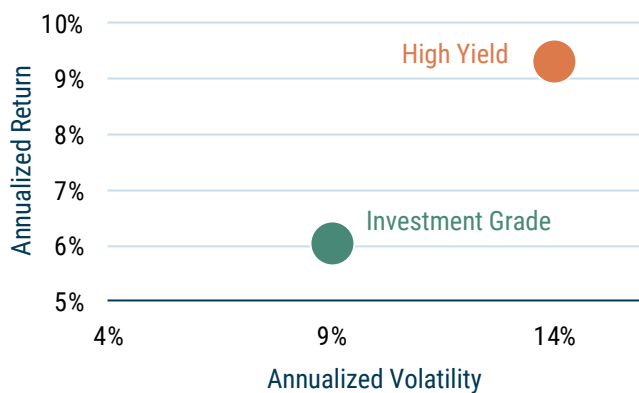
QUALITY SPECTRUM STRATEGY

The Opportunity

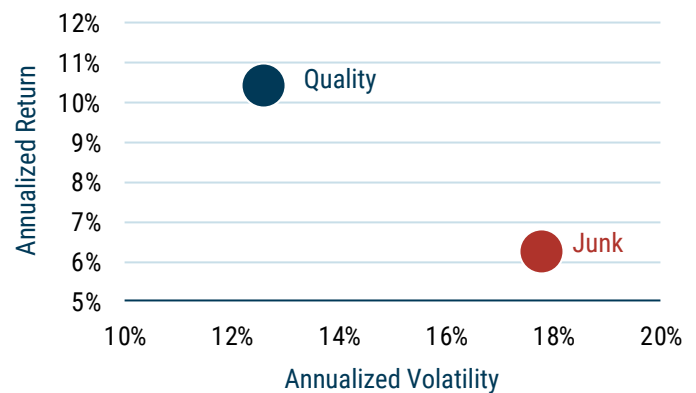
- High quality companies have delivered higher returns than the broader markets at lower levels of risk over the long-term. In addition, high quality companies tend to perform better during market and economic downturns.
- At the same time, low quality “junk” companies have delivered lower returns than 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.

Finance theory tells us that high risk stocks should win... but they don't!

BOND MARKET INDEX PERFORMANCE: 1995-2018



QUALITY/JUNK STOCK PERFORMANCE: 1988-2018



As of 12/31/18 | 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.

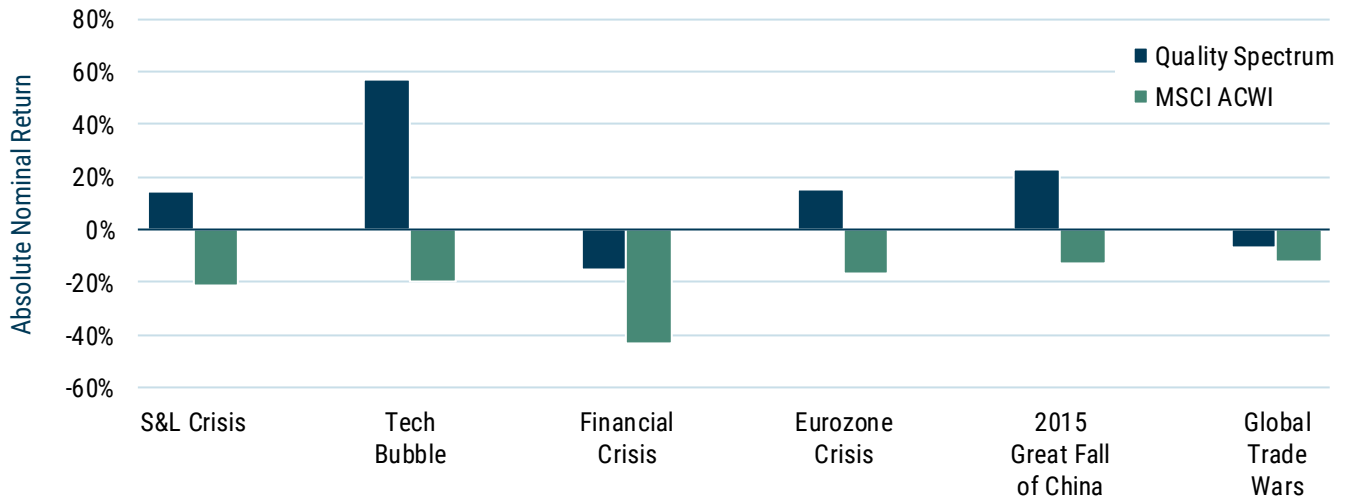
The GMO Quality Spectrum Strategy is built using a fairly concentrated long book of high quality companies. Larger positions are taken in companies whose share prices are trading at the most attractive valuations. We lever this long portfolio by approximately 75% by shorting a diverse portfolio of junk 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.

In the major bear markets of the last thirty years, the GMO Quality Spectrum Strategy (in simulation) would have beaten the broader markets on each occasion:

SIMULATED PERFORMANCE DURING MAJOR MARKET EVENTS

Performance of Long 175% Quality/Short 75% Junk



Source: MSCI, GMO

GMO defines quality companies as those with high profitability, low profit volatility, and minimal use of leverage. Junk companies are the inverse. The alpha model on the long side contains cheap quality companies with positive price momentum. On the short side, the alpha model contains expensive junk companies with negative price momentum. The model is run within MSCI World.

The market events took place during the following date ranges: "S&L Crisis": 12/31/89-9/30/90; "Tech Bubble": 3/31/00-9/30/02; "Financial Crisis": 10/31/07-2/28/09; "Eurozone Crisis": 4/30/11-9/30/11; "2015 The Great Fall of China": 5/31/15-2/28/16; "Global Trade Wars": 9/30/18-12/31/18. Past performance, whether actual or simulated, is no guarantee of future results.

Please see important information at the end of this Product Primer for additional disclosures.

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 includes eleven investment professionals and four partners of the firm, with members located in Boston and London. Tom Hancock, Ty Cobb, Anthony Hene, and Lucas White, portfolio managers for the Quality Spectrum Strategy, oversee idea generation, research, and portfolio positioning.

DISCLOSURE

Limitations of Model Performance. The performance presented reflects simulated model performance an investor may have obtained had it invested in the manner shown and does not represent performance that any investor actually attained. The simulated model performance presented is based upon the following assumptions: 175% Long Quality and 75% short Junk. GMO defines quality companies as those with high profitability, low profit volatility, and minimal use of leverage. Junk companies are the inverse. The alpha model on the long side contains cheap quality companies with positive price momentum. The long portfolio as of May 2009, when the GMO Quality Strategy invested globally, uses actual holdings. On the short side, the alpha model contains expensive junk companies with negative price momentum. The model is run within MSCI ACWI. No representation or warranty is made as to the reasonableness of the methodology used or that all methodologies used in achieving the returns have been stated or fully considered. Simulated model returns have many inherent limitations and may not reflect the impact that material economic and market factors may have had on the decision-making process if client funds were actually managed in the manner shown. Actual performance may differ substantially from the simulated model performance presented. Changes in the methodology may have a material impact on the simulated model returns presented. There can be no assurance that GMO will achieve profits or avoid incurring substantial loss.

Simulated model returns are gross of management and incentive fees. The simulated model performance is adjusted to reflect the reinvestment of dividends, other income. The simulated model returns do not include estimated transaction cost and borrowing costs. If these were included the simulated model returns shown would be lower. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. If the expenses were reflected, the performance shown would be lower. For example, if \$100,000 were invested and experienced a 10% annual return compounded monthly for 10 years, its ending value, without giving effect to the deduction of advisory fees, would be \$270,704 with annualized compounded return of 10.47%. If an advisory fee of 0.95% of the average market value of the account were deducted monthly for the 10-year period, the annualized compounded return would be 9.43% and the ending dollar value would be \$246,355. GMO's fees are available upon request and also may be found the Part 2 of its ADV. **Past performance is no guarantee of future results.**