

# SYSTEMATIC EQUITY – DEVELOPED MARKETS

## *The Opportunity*

In the short run, global equity markets exhibit exploitable inefficiencies as a result of irrational investor behavior, the imperfect flow of information, and the participation of non-economic actors. However, in the long run, equity market returns are ultimately driven by economic reality. The difference creates an opportunity for investors who focus on valuation in conjunction with less traditional methods to identify mispriced equity securities. Further, the application of investment insights using a quantitative framework allows investors to take advantage of these opportunities across the broadest possible opportunity set.

## *The GMO Solution*

The GMO Systematic Equity developed market approach can be used in a range of systematic benchmark-aware solutions designed to achieve exposure to the views of the GMO Systematic Equity team's alpha models. The approaches seek to add value by looking beyond traditional value metrics to understand a security's intrinsic value, taking into consideration a company's quality and growth prospects, and using alternative indicators of mispricings to gain a differentiated view into company fundamentals, including cross-asset and corporate governance signals.

## *Expected Returns*



### Intrinsic Value

**We believe valuation is the low-risk route to long-term outperformance:** We believe stock prices are ultimately driven by economic reality, and that quality and growth are worth a premium. The challenge is determining a stock's fundamental value in an environment where reported valuation ratios are often distorted. Building on decades of valuation research, we comprehensively restate company financials to better capture economic reality.



### Cross-Asset

**Insight into corporate profitability and investor sentiment can be gleaned from many asset classes:** GMO's process systematically exploits information derived from credit, currency, and derivative markets. The depth and breadth of GMO's expertise across asset classes provide an advantage in developing meaningful equity signals from non-equity markets.



### Corporate Alerts

**Corporate alerts are especially useful in identifying value traps and candidates for shorting:** We use a number of approaches including forensic accounting, statistical indicators of financial malpractice, and identification of unsustainable corporate behaviors. Our range of tools provides robust insight beyond the metrics reported by management.

## *The Client Fit*

The Systematic Equity benchmark-aware, developed market strategies each offer an attractive opportunity for investors looking for risk-adjusted returns while maintaining equity market exposure. The strategies aim to maximize returns, net of transaction and borrowing costs and subject to risk parameters, by investing in the client's chosen equity universe. Benchmark-relative risks and returns are driven primarily from bottom-up stock picking.

## LONG-ONLY EQUITY STRATEGIES

The Systematic Equity developed market long-only strategies are designed to apply the team's alpha insights to diversified equity universes. The strategies aim to be fully invested in equities and target a tracking risk range of 3% to 6%. Long-only strategies include:



## CUSTOM EQUITY UNIVERSE OR OBJECTIVE

The Systematic Equity developed market approach can also be used to develop customized solutions that build on the team's bottom-up stock selection insights. Potential solutions include:



## *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*

GMO's Systematic Equity team is a pioneer in quantitative investing for institutions, building on decades of accumulated research on how to best capture valuation opportunities and other mispricings. The team manages a range of long-only and long-short strategies.

GMO has carefully assembled a world-class quantitative research effort built on a wide array of quantitative disciplines, including backgrounds in physics, mathematics, statistics, finance, economics, accounting, engineering, operations research, and business. The team brings together long-standing GMO quantitative equity expertise into one global group of investment professionals collaborating across GMO's Boston, San Francisco, London, and Singapore offices and applies its alpha insights to a range of other U.S., international, emerging markets, and global equity strategies across the firm.

The team as a whole 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 investing in these strategies may include Market Risk – Equities, Non-U.S. Investment Risk, and Management and Operational Risk. For specific risks applicable to each strategy, please consult the relevant offering document.