

# GMO QUALITY FUND

## THE OPPORTUNITY

- Quality stocks have provided superior risk-adjusted returns. Quality companies have durable, resilient business models and high returns on capital.
- These companies typically trade at premium multiples, and they usually deserve to. The persistence of Quality characteristics provides a strong foundation for a discounted cash flow valuation approach that incorporates the ability of a company to grow and compound at a high return.
- We believe building that valuation analysis into an investment process can both enhance portfolio return and reduce risk.
- Quality's persistence also means that systematic screening on Quality characteristics (e.g., profitability) is a productive step in identifying these opportunities.

## OUR APPROACH

- True High Quality with a Long-Term Focus:** We believe companies with sustainable competitive advantages that enable high, stable profits in the future win over time, with lower risk. GMO's Focused Equity team seeks to outperform broad markets with lower absolute risk by owning these high-quality businesses, holding them for the long term, and respecting valuation.
- A Powerful Blend:** Our blended approach combines the discipline and consistency of GMO's quantitative framework with a forward-looking, fundamental vetting process that assesses the long-term relevance of each company's business model.
- Respect Valuation:** By avoiding over-hyped stocks and investing under temporary clouds, valuation enhances return and risk mitigation, offering lower-risk equity returns when you need it.
- ESG:** The Focused Equity team integrates considerations beyond pure traditional financial analysis, including Environmental, Social, and Governance (ESG) factors, in both their Quality assessment and valuation modelling.
- Quality Is in Our DNA:** GMO is a pioneer in quality investing with 40+ years of experience.

## WHAT IS A QUALITY BUSINESS?

One that generates high and sustainable return on capital:

**Identifiable High Returning Assets**  
Return on capital



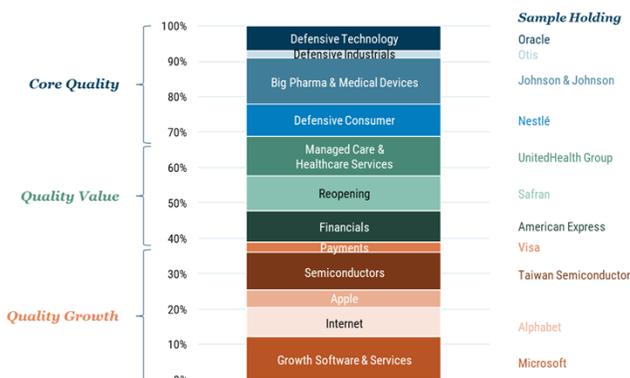
**Relevance**  
Long-term durability of business model



**Capital Discipline**  
Management invests prudently and with a long horizon



## A BOTTOM-UP AND DIVERSIFIED APPROACH



## HIGH-QUALITY WINS OVER TIME WITH LOWER RISK



As of 3/31/22. The sectors are GMO groupings and not the S&P's GICS sector classifications.

April 1928 – December 2021 | Source: GMO. Bear market is the drop in prices of at least 20% from any peak over a period of at least 3 months. GMO Quality is the highest quality 1/3 of the U.S. market. Value within Quality is the low valuation half of that, relative to the broader U.S. market.

## PORTFOLIO MANAGEMENT



**Tom Hancock**

- Joined GMO in 1995
- 26 yrs industry experience
- Ph.D. from Harvard University



**Ty Cobb, CFA**

- Joined GMO in 1997
- 29 yrs industry experience
- M.S. from Suffolk University.



**Anthony Hene, CFA**

- Joined GMO in 1995
- 26 yrs industry experience
- MSc from the University of Oxford

## CONTACT US

For more information on this product please email us at [access@gmo.com](mailto:access@gmo.com) or reach out to your relationship manager.

Visit our website at [gmo.com](http://gmo.com).

## GMO QUALITY FUND

Inception Date*	February 6, 2004		
Total Assets as of 3/31/2022	\$8.3bn USD		
Morningstar Category	Large Blend		
	<b>Share Class I</b>	<b>Share Class III</b>	<b>Share Class R6</b>
Ticker	GQLIX	GQETX	GQESX
CUSIP	362014185	362008260	362014177
Net Expense Ratio <sup>1</sup>	0.58	0.48	0.48
Gross Expense Ratio <sup>2</sup>	0.60	0.50	0.50
*Inception Date	9/26/19	2/6/04	11/12/19

<sup>1</sup> Net Expense Ratio reflects the reduction of expenses from fee reimbursements. The fee reimbursements will continue until at least June 30, 2022. Elimination of this reimbursement will result in higher fees and lower performance.

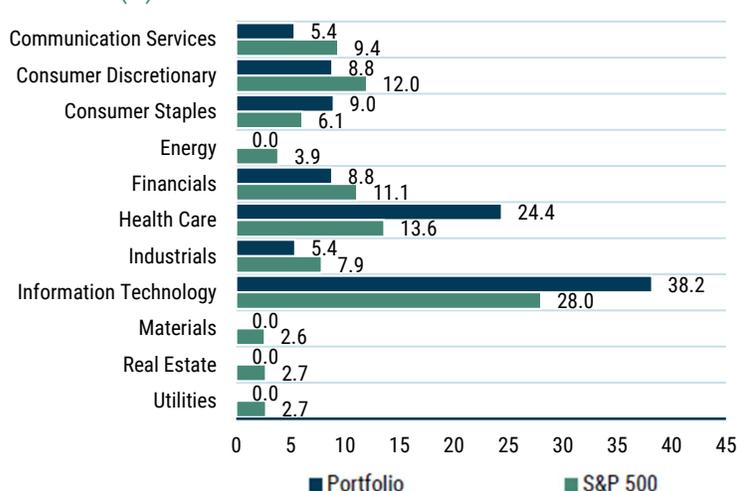
<sup>2</sup> Gross Expense Ratio is equal to the Fund's Total Annual Operating Expenses set forth in the Fund's most recent prospectus dated June 30, 2021.

# GMO QUALITY FUND

## CHARACTERISTICS

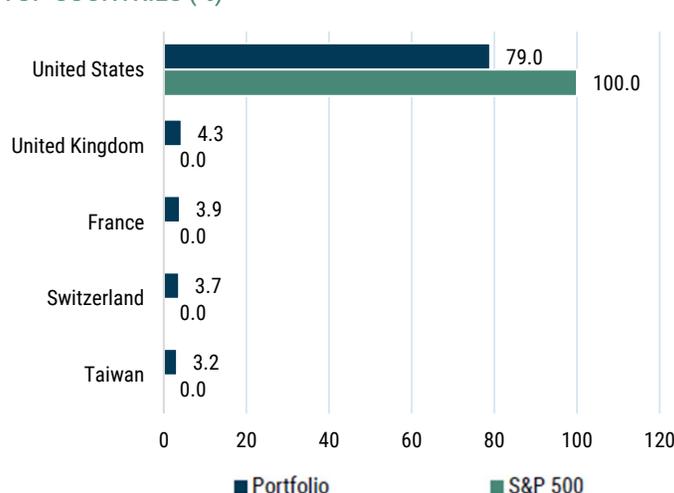
	Portfolio	S&P 500
Price/Earnings - Forecast 1 Yr Wtd Mdn	20.0x	22.9x
Return on Equity -Forecast 1 Yr Wtd Mdn	29.0%	26.5%
Market Cap - Wtd Mdn Bil	209.3 USD	188.6 USD
Number of Equity Holdings	43	505
Net Debt/EBITDA - Hist 1 Yr Wtd Mdn	0.5x	0.5x

## SECTORS (%)



The Global Industry Classification Standard (GICS) is the exclusive intellectual property of MSCI Inc. (MSCI) and Standard & Poor's, a division of The McGraw-Hill Companies, Inc. (S&P). Neither MSCI, S&P, nor any third party makes any representations or warranties, express or implied, with respect to GICS or the results to be obtained by the use thereof, and expressly disclaim all warranties, including of merchantability and fitness for a particular purpose. Neither MSCI, S&P, nor any third party shall have any liability for any damages of any kind relating to the use of GICS.

## TOP COUNTRIES (%)



The S&P 500 Index is an independently maintained and widely published index comprised of U.S. large capitalization stocks. S&P does not guarantee the accuracy, adequacy, completeness or availability of any data or information and is not responsible for any errors or omissions from the use of such data or information. Reproduction of the data or information in any form is prohibited except with the prior written permission of S&P or its third-party licensors. The MSCI World Index (MSCI Standard Index Series, net of withholding tax) is an independently maintained and widely published index comprised of global developed markets. MSCI data may not be reproduced or used for any other purpose. MSCI provides no warranties, has not prepared or approved this report, and has no liability hereunder.

## RISK PROFILE - 5-YEAR TRAILING

	Portfolio	S&P 500
Alpha (Jensen's)	2.41	N/A
Beta	0.90	N/A
R Squared	0.93	N/A
Sharpe Ratio	1.08	0.95
Standard Deviation	14.63	15.65

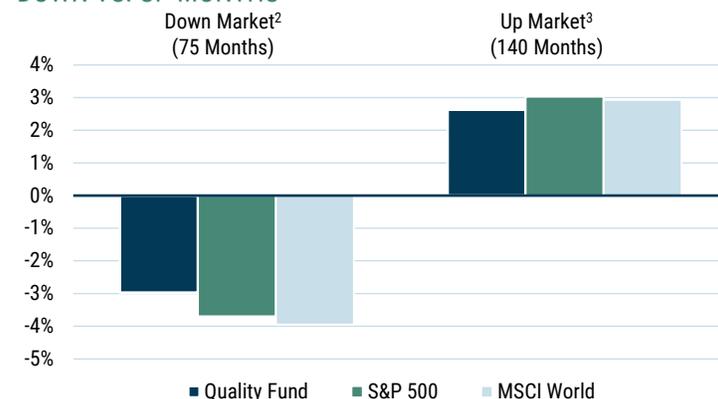
Alpha is a measure of risk-adjusted return. Beta is a measure of a portfolio's sensitivity to the market. R-Squared is a measure of how well a portfolio tracks the market. Sharpe Ratio is the return over the risk free rate per unit of risk. Std Deviation is a measure of the volatility of a portfolio. Risk profile data is net.

## TOP HOLDINGS

Company	Sector	%
Microsoft Corp	Information Technology	6.3
UnitedHealth Group Inc	Health Care	5.3
Apple Inc	Information Technology	5.0
Coca-Cola Co/The	Consumer Staples	4.3
US Bancorp	Financials	3.5
<b>Total</b>		<b>24.4</b>

GICS Sector. Portfolio holdings are percent of equity. Where applicable, the top holdings are derived by looking through to the underlying funds in which the asset allocation funds invest and, where appropriate, individual security positions are aggregated. They are subject to change and should not be considered a recommendation to buy individual securities.

## DOWN VS. UP MONTHS<sup>1</sup>



	2008	2011	2018	1Q 2020
Quality Fund (Net)	-24.1	11.8	0.4	-16.4
S&P	-37.0	2.1	-4.4	-19.6
MSCI World	-40.7	-5.5	-8.7	-21.1

<sup>1</sup>Inception Date: 2/6/04 (Share Class III).

<sup>2</sup>Average return for all down months.

<sup>3</sup>Average return for all up months.

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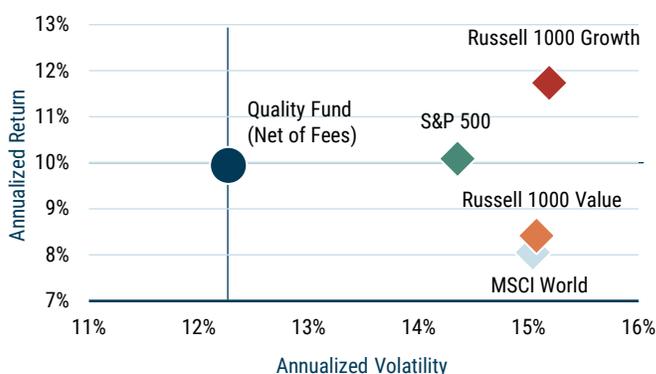
Performance Net of Fees (USD)

RETURNS (%) AS OF 3/31/2022

	MTD	QTD	YTD	1-Year	3-Year	5-Year	10-Year	ITD	Inception Date
Quality Fund (Share Class I)	1.46	-6.43	-6.43	10.59	--	--	--	18.90	9/26/19
Quality Fund (Share Class III)	1.46	-6.41	-6.41	10.68	17.61	16.95	14.39	9.85	2/6/04
Quality Fund (Share Class R6)	1.46	-6.42	-6.42	10.68	--	--	--	17.59	11/12/19
S&P 500	3.71	-4.60	-4.60	15.65	18.92	15.99	14.64	10.07	--
MSCI World	2.74	-5.15	-5.15	10.12	14.97	12.42	10.89	8.06	--

## A TRACK RECORD OF STRONG RISK-ADJUSTED RETURNS

Risk vs. Return<sup>1</sup>



As of 3/31/22. <sup>1</sup>Inception date: 2/6/04 (Share Class III).

## ABOUT GMO

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.

We believe in having meaningful dialogue about ESG issues amongst asset owners, investment managers, and companies. GMO is a proud member, supporter, or signatory of the UN Principles for Responsible Investment (PRI), the CDP (formerly Carbon Disclosure Project), the CDP Science-based Targets Collaborative Engagement Campaign, the Transition Pathway Initiative, Investors Against Slavery and Trafficking Asia-Pacific, the ACT Accelerator, the SASB Alliance, the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD), the Japan Stewardship Code, the Singapore Stewardship Principles, and the Climate Action 100+. We also were a signatory of the UK Stewardship Code 2012 and are reapplying to the 2020 Code.

## CONTACT US

For more information on this product please email us at [access@gmo.com](mailto:access@gmo.com) or reach out to your relationship manager.

Visit our website at [gmo.com](http://gmo.com).

Returns shown for periods greater than one year are on an annualized basis.

If certain expenses were not reimbursed, performance would be lower. Transaction costs, if any, are paid to the fund to offset the cost of portfolio transactions to invest or raise cash.

**Performance data quoted represents past performance and is not indicative of future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance data may be lower or higher than the performance data provided herein. To obtain performance information to the most recent month-end, visit [www.gmo.com](http://www.gmo.com).**

**An investor should consider the fund's investment objectives, risks, charges and expenses before investing. This and other important information can be found in the funds prospectus. To obtain a prospectus please [www.gmo.com](http://www.gmo.com). Read the prospectus carefully before investing. The GMO Trust funds are distributed in the United States by Funds Distributor LLC. GMO and Funds Distributor LLC are not affiliated.**

Risks associated with investing in the Fund may include: (1) Market Risk - Equities: The market price of an equity may decline due to factors affecting the issuer or its industry or the economy and equity markets generally. Declines in stock market prices generally are likely to reduce the net asset value of the Fund's shares. (2) Management and Operational Risk: The risk that GMO's investment techniques will fail to produce desired results. (3) Focused Investment Risk: The Fund invests its assets in the securities of a limited number of issuers, and a decline in the market price of a particular security held by the Fund may affect the Fund's performance more than if the Fund invested in the securities of a larger number of issuers. For a more complete discussion of these risks and others, please consult the Fund's prospectus.