

# Quality Investment Fund

Quarter Ending December 31, 2019

## OVERVIEW:

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

## Performance (%)

Net of Fees, USD	+9.98
Gross of Fees, USD	+10.14
MSCI World <sup>1</sup>	+8.56
<b>Value Added</b>	<b>+1.58</b>

## Major Performance Drivers

The portfolio finished the fourth quarter of 2019 ahead of the MSCI World and S&P 500 indexes, all in U.S. dollars.

We continue to allocate the bulk of the portfolio to three key sectors: Technology, Health Care, and Consumer Staples. The strongest returns came from Health Care and then Technology.

Within Health Care, stock selection made a significant contribution with the bulk coming from the U.S. managed care insurance positions, UnitedHealth, Humana, and Anthem. The campaigns for the Democratic party's 2020 U.S. presidential election nomination intensified the focus on the role played by the largest private Health Care companies. This contributed to an opportunity to add to the portfolio's holdings at lower prices (as we outlined in "Health Insurance Companies: Rhetoric vs Reality" available in the research library at [www.gmo.com](http://www.gmo.com)). We believe that the fundamental risks to the Health Care companies have been overblown and the portfolio subsequently benefitted as they rebounded this quarter.

In line with the experience of recent years, the portfolio's Technology holdings delivered lower returns than the global Technology sector as a result of the more somewhat conservative nature of the portfolio's Tech positions. The portfolio's best returns in the sector came from Apple, which we have held amidst widespread skepticism over the company's declining innovation and the lengthening replacement cycle for iPhones. We believe that the stock remains reasonably priced considering the company's substantial and entrenched software ecosystem. Taiwan Semiconductor was also a strong performer as the dominant industry leader in semiconductor fabrication was buoyed by efforts across their clientele to support next generation phones, data centers, and a host of other hardware.

We found opportunity this quarter in the market's disdain for the private equity sponsored IPOs formerly known as unicorns. The class was epitomized by difficulties at Uber, with WeWork's abort attempt to list making matters worse. We believe that the unfriendly environment for this type of security yielded a bargain in the form of Lyft, and we initiated a position in Q4. Lyft holds a strong number two position in the U.S. rideshare market behind Uber, but without the aggression of its larger peer in terms of regulation, geography, and sheer range of business models. Lyft differs from most of our holdings in that there is more of a bird in the bush rather than in hand – reflected in the smallish sizing of the position. Our goal remains to pick up quality businesses when we find them under a "temporary cloud," here the market has offered up what we believe to be a

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**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 fund's prospectus. To obtain a prospectus please visit [www.gmo.com](http://www.gmo.com). Read the prospectus carefully before investing.**

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“nascent quality” business at an attractive price.

To finish, we note that the portfolio continues to generate returns with a beta of less than 1, i.e. delivering more on the days when markets are weaker. In addition, we have some confidence that beta would fall should the market come under duress, as it has done in the past when investors focus on quality intensifies.

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<sup>1</sup> 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.