

U.S. OPPORTUNISTIC VALUE STRATEGY

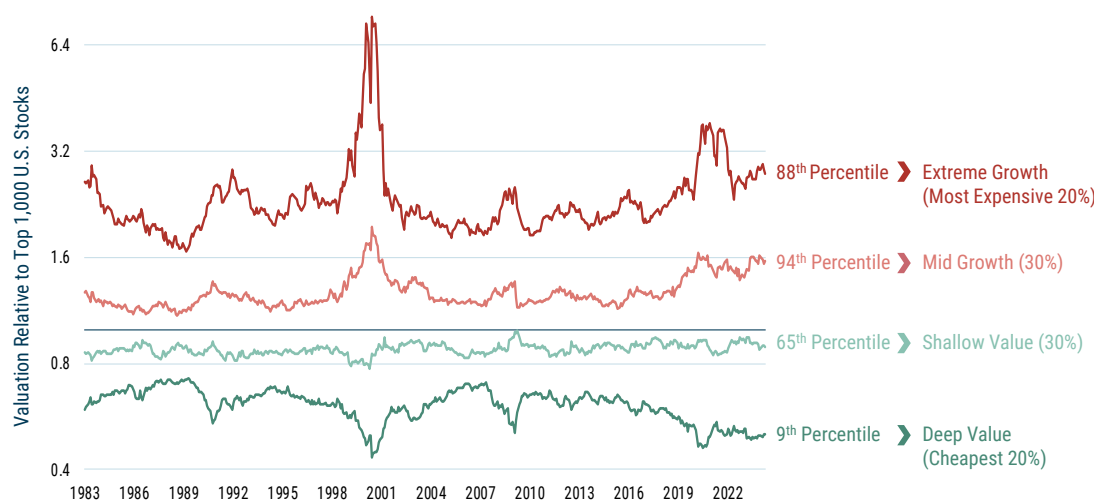
The Opportunity

A decade of low rates and tepid growth led investors to aggressively bid up the relative valuations of Growth stocks. This preference intensified in the Covid environment, catapulting fast-growing company valuations to bubble levels. While Value investors saw significant relief as rising rates slammed Growth stocks in 2022, a resurgence in Growth propelled by the superlative performance of the “Magnificent 7” and AI-related companies has left the valuation gap between Growth and Value excessively wide.

But all Value stocks are not equal in today’s environment. In the U.S., we see a distinct and extreme dislocation in the “Deep Value” end of the market, where the cheapest stocks remain very cheap relative to their historical valuations. Given this dislocation, we believe that opportunistic investors can benefit from employing a deep U.S. Value strategy that avoids the “Shallow Value” stocks, which are expensive relative to their own history.

WITHIN THE U.S., “DEEP VALUE” SEGMENT (CHEAPEST 20%) IS TRULY DISLOCATED

Valuation groups in top 1,000 U.S. stocks



Key Points

- In the U.S., Deep Value trades historically cheap vs. its history and vs. shallow value.
- We distinguish between Shallow Value (expensive) and Deep Value (very cheap).
- Deep Value is diversified, with representation across sectors, industries, and the market cap spectrum.

As of 4/30/2024 | Source: GMO

Stock valuations are calculated on a blend of Price/Sales, Price/Gross Profit, Price/Book, and Price/Economic Book. Groups of value and market are weighted by square root of market cap.

We expect that many of the U.S. Value managers who managed to survive Value's long dark winter since 2007 may have done so by diversifying their portfolios beyond Deep Value. While a multifactor approach to Value is sensible over a market cycle, for investors with the risk tolerance to be opportunistic, the current opportunity is explicitly in the cheapest tier of U.S. stocks and requires a more focused Deep Value approach.

The GMO Solution

EFFECTIVELY EXPLOITING THE DEEP VALUE OPPORTUNITY

GMO's U.S. Opportunistic Value Strategy seeks to profit from our insight that Deep Value stocks are truly dislocated in the U.S. This actively managed strategy avoids the Shallow Value stocks, which are expensive relative to their own history, and focuses solely on the Deep Value names.

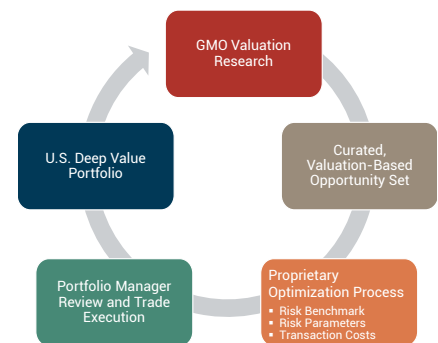
DIALING INTO GMO VALUE, NOT INDEX VALUE

With this strategy, we focus on the U.S. stocks that GMO has identified as the most undervalued, recognizing that relying on reported financials and index definitions of Value can lead investors to misjudge the opportunity.

- GMO Economic Fundamentals restates balance sheets and returns to better reflect economic reality, adding the value of intangible assets.
- GMO Value incorporates Economic Fundamentals along with a company's quality and growth prospects to identify mispricings rather than the low-quality or low-growth companies favored by Value indexes.

A DIVERSIFIED VALUE PORTFOLIO

The Value opportunity set, as defined by GMO's Systematic Equity models, reflects a curated cross section of the U.S. equity universe. After identifying Deep Value stocks, we apply reasonable risk constraints that allow the portfolio to both remain diversified and focus on the current valuation opportunity. We are willing to take meaningful overweight positions in the stocks, industries, and sectors that we believe are undervalued. We also actively avoid holding expensive Growth stocks and are willing to eschew entirely positions in expensive industries and sectors.



The Client Fit

We believe the GMO Opportunistic Value Strategy can be used strategically in a diversified investment program that seeks exposure to U.S. equities. The Strategy can also be deployed tactically to take advantage of the compelling opportunity that now exists in the cheapest U.S. Deep Value stocks.

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 Strategy is co-managed by GMO's Asset Allocation and Systematic Equity teams, who have a long history of collaboration on both research projects and investment strategies. Each group has built a deep team with diverse areas of expertise.

GMO's Asset Allocation team has been managing broad-based asset allocation portfolios formally since 1988 and has developed a specialty in valuing asset classes.

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.

RISK

Risks associated with investing in the Strategy may include Market Risk - Equities, Management and Operational Risk, Focused Investment Risk, Illiquidity Risk, and Smaller Company Risk.