

EMERGING MARKETS EQUITY STRATEGY

The Opportunity

You make more money when things go from truly awful to merely bad than you do when things go from good to great. Investors, in the short run, are driven by emotions ranging from greed to fear. These swings are magnified in emerging markets given the greater disparities in information and the larger presence of non-profit maximizing entities. The large inefficiencies and wide universe set in emerging markets makes for an attractive investment opportunity.

The GMO Solution

We believe this opportunity is best exploited by ideas grounded in fundamentals and applied through a disciplined investment process. The key strengths and differentiators of our approach are:

Top-Down Matters: We believe that, over the long run, superior top-down insights provide the greatest benefit to the portfolio. Emerging markets have demonstrated on many occasions that local economic forces have more impact on individual stock prices than they do on developed, globally integrated countries. This belief has led us to incorporate country and sector specific signals in our models.

Quantitative Rigor: We believe that a quantitative approach to modeling minimizes emotion and leads to more consistent returns.

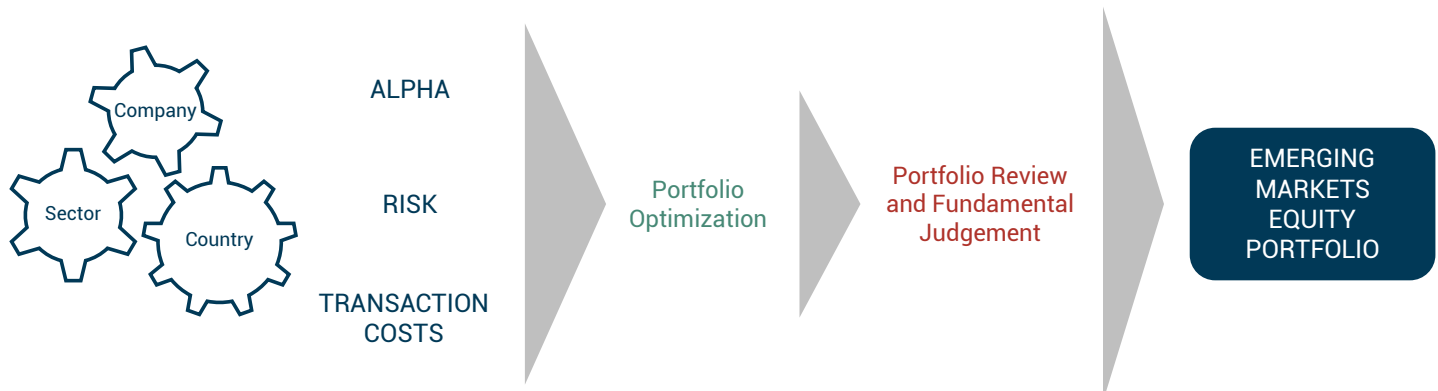
Value Is the Heart of Everything We Do: We use an intrinsic value model to quantitatively systematize the ground-up work of a fundamental analyst. We begin with detailed company-level data and then proceed to clean the data for one-off items, goodwill, depreciation, etc., just as a smart fundamental analyst would. The objective is to distill financial information into what really matters: the discounted sum of sustainable, distributable cash flows. Adjustments are made at the country level as well for varying sectoral compositions, divergent costs of capital and different macroeconomic structures.

Quality and Sentiment Serve as Guardrails: We use Quality and Sentiment models to strengthen value's edge and to limit its vulnerability. The Quality model tilts value toward countries with superior macroeconomics and firms with greater resilience, a feature particularly valuable during periods of market stress. The Sentiment model uses information embedded in market prices to shield the portfolio from value traps.

INVESTMENT PROCESS OVERVIEW

A disciplined approach

The Client Fit



As a fully active, all cap, emerging equity portfolio, the GMO Emerging Markets Equity Strategy offers an attractive approach that would fit most institutional investment programs. Our clients consider it as a complement within a multi-manager emerging markets equity portfolio structure or as a stand-alone emerging markets equity mandate.

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, 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 the Strategy may include Market Risk – Equities, Non-U.S. Investment Risk, Currency Risk, Management and Operational Risk, and Illiquidity Risk.