

# QUALITY SPECTRUM

## OVERVIEW

GMO's Focused Equity team believes that high quality companies have a sustainable competitive advantage that allows them to be excessively profitable for many years into the future, while low quality "junk" companies lack sustainable competitive advantages and generally have risky business models. The GMO Quality Spectrum Strategy contains a concentrated long book of high quality companies and levers the long portfolio by shorting a diverse portfolio of "junk" companies, with an emphasis on valuation. The Strategy expects to generate equity-like returns over time, with the long quality/short junk element designed to provide a bulwark against market drawdowns.

## FACTS

Strategy Inception	31-Oct-19
Composite Inception	30-Nov-19
Total Assets	\$116mm USD
Index	50% ACWI 50% 3Mo TBill Blend
Alternate Index	MSCI ACWI

## PRELIMINARY\* CUMULATIVE TOTAL RETURNS (USD, NET OF FEES, %)

	MTD	QTD	YTD	2024	2023	2022	2021	2020
Composite	1.85	-2.17	0.72	22.34	25.34	-1.69	42.43	-4.05
Index	3.06	3.72	3.64	11.42	13.75	-8.46	9.04	9.02
Alternate Index	5.75	6.73	5.32	17.49	22.20	-18.36	18.54	16.25

## RISK PROFILE (PRELIMINARY 5-YEAR TRAILING)

Alpha (Jensen's)	7.22
Sharpe Ratio	0.86
Standard Deviation	17.70
Max Port. Drawdown (31-Dec-21 - 30-Sep-22)	-15.19

## PRELIMINARY\* ANNUALIZED TOTAL RETURNS (USD, NET OF FEES, %)

	1 Year	3 Years	5 Years	10 Years	ITD
Composite	-0.19	15.99	18.07	-	14.94
Index	9.36	8.73	8.28	-	7.06
Alternate Index	13.65	12.30	13.37	-	10.84

## PORTFOLIO MANAGEMENT



**Tom Hancock**  
Joined GMO in 1995  
MS, Rensselaer  
Polytechnic Institute;  
PhD, Harvard University



**Lucas White, CFA**  
Joined GMO in 2006  
BA, Duke University

**Risks:** Risks associated with investing in the Strategy may include: (1) Market Risk - Equities: the market price of equities may decline due to factors affecting the issuer, its industries, 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) Short Investment Exposure Risk: a Fund will incur a loss as a result of a short sale if the price of the security, currency or other instrument increases between the date of the short sale and the date on which the Fund replaces the borrowed security, currency or other instrument. Conversely, the Fund will realize a gain if the price of the security, currency or other instrument declines between those dates. The amount of any gain will be decreased, and the amount of any loss increased, by the amount of the premium, dividends or interest the Fund may be required to pay in connection with a short sale. Short selling exposes a Fund to unlimited risk with respect to that security, currency or other instrument due to the lack of an upper limit on the price to which an investment can rise; and (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. This is not a complete list of risks associated with investing in the Strategy. Please contact GMO for more information.

**\*Preliminary Performance:** Final performance numbers are generally available on GMO's website within fifteen business days after month end. Investors should not rely on preliminary numbers to make investment decisions. **Performance Returns:** Returns shown for periods greater than one year are on an annualized basis. To obtain performance information to the most recent month-end, visit [www.gmo.com](http://www.gmo.com). **Performance data quoted represents past performance and is not predictive of future performance.** Net returns are presented after the deduction of a model advisory fee and incentive fee if applicable. These returns include transaction costs, commissions and withholding taxes on foreign income and capital gains and include the reinvestment of dividends and other income, as applicable. Fees paid by accounts within the composite may be higher or lower than the model fees used. **GMO LLC claims compliance with the Global Investment Performance Standards (GIPS®).** A Global Investment Performance Standards (GIPS®) Composite Report is available at [www.gmo.com](http://www.gmo.com) by clicking the GIPS® Composite Report link in the documents section of the strategy page. GIPS® is a registered trademark owned by CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Actual fees are disclosed in Part 2 of GMO's Form ADV and are also available in each strategy's Composite Report. The portfolio is actively-managed, is not managed relative to a benchmark and uses an index for performance comparison purposes only and, where applicable, to compute a performance fee.

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## CHARACTERISTICS

	<i>Long</i>	<i>Short</i>	<i>Index</i>
Price/Earnings - Forecast 1 Yr Wtd Mdn	23.6x	40.4x	22.8x
Return on Equity - Forecast 1 Yr Wtd Mdn	27.0%	10.6%	20.3%
% Neg Earnings	4.7%	43.3%	2.8%
Price/Book - Hist 1 Yr Wtd Avg	5.5x	3.3x	3.2x
Dividend Yield - Hist 1 Yr Wtd Avg	1.5%	1.0%	1.8%
Free Cash Flow Yield - Hist 1 Yr Wtd Avg	3.6%	0.4%	3.6%
Market Cap - Wtd Mdn Bil	245.9 USD	16.6 USD	126.5 USD
Number of Equity Holdings	45	318	2442
% Long/Short	173.9%	73.9%	N/A
Net Debt/EBITDA - Hist 1 Yr Wtd Mdn	0.4x	2.2x	0.4x

## MARKET CAP BAND EXPOSURES (\$B)

	<i>Long</i>	<i>Short</i>
Small (5.5 & Below)	0.0	-11.9
Small - Medium (5.5 To 17.7)	1.3	-28.5
Medium (17.7 To 46.7)	8.7	-16.4
Medium - Large (46.7 To 130.0)	35.2	-14.9
Large (130.0 & Above)	128.7	-2.3

## TOP COUNTRIES (%)

<i>Country</i>	<i>Long</i>	<i>Short</i>
United States	131.0	-57.0
United Kingdom	15.2	-1.3
France	8.9	-0.2
Taiwan	5.7	-0.5
Germany	5.6	-0.7
Switzerland	3.2	-0.4
Netherlands	1.5	-0.2
Denmark	1.5	-0.2
Spain	1.4	-0.5

## REGIONS (%)

<i>Region</i>	<i>Long</i>	<i>Short</i>
United States	131.0	57.0
Europe	37.2	4.2
Rest of World	5.7	12.7

## SECTORS (%)

<i>Sector</i>	<i>Long</i>	<i>Short</i>
Communication Services	15.6	-4.0
Consumer Discretionary	17.5	-5.7
Consumer Staples	16.3	-0.7
Energy	0.0	-2.0
Financials	13.6	-12.3
Health Care	40.5	-5.4
Industrials	7.5	-8.7
Information Technology	62.9	-22.5
Materials	0.0	-3.3
Real Estate	0.0	-8.0
Utilities	0.0	-1.4

## TOP HOLDINGS

<i>Company</i>	<i>Country</i>	<i>Sector</i>	<i>%</i>
Microsoft Corp	United States	Information Technology	12.4
Alphabet Inc	United States	Communication Services	7.9
Meta Platforms Inc	United States	Communication Services	7.7
Apple Inc	United States	Information Technology	6.6
Abbott Laboratories	United States	Health Care	5.8
Taiwan Semiconductor Manufacturing Co Ltd	Taiwan	Information Technology	5.7
Oracle Corp	United States	Information Technology	5.6
Johnson & Johnson	United States	Health Care	5.4
SAP SE	Germany	Information Technology	5.2
Visa Inc	United States	Financials	5.0
<b>Total</b>			<b>67.3</b>

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## IMPORTANT INFORMATION

**Index(es):** The MSCI ACWI (All Country World) Index (MSCI Standard Index Series, net of withholding tax) is an independently maintained and widely published index comprised of global developed and emerging 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. Please visit <https://www.gmo.com/americas/benchmark-disclaimers/> to review the complete benchmark disclaimer notice.

The above information is based on a representative account in the Strategy selected because it has the fewest restrictions and best represents the implementation of the Strategy.

For investors in Asia-Pac and Australia, these materials are intended for Institutional and Wholesale Investor Use Only.

## GLOSSARY

**Risk Statistics:** Risk profile data is net of fees. Alpha is a measure of risk-adjusted return. 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. Drawdown is based on the portfolio's worst performance over the period based on monthly observations.

**Sector Exposures:** 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 Holdings:** Portfolio holdings are percent of equity. Where applicable, the top holdings are derived by looking through to the underlying portfolios in which the asset allocation strategy invests and, where appropriate, individual security positions are aggregated. They are subject to change and should not be considered a recommendation to buy individual securities. The above information is based on a representative account in the Strategy selected because it has the fewest restrictions and best represents the implementation of the Strategy. This portfolio continues to hold de minimis Russian exposure as a result of past positioning and ongoing illiquidity. GMO has suspended net new purchases of Russian securities firm-wide.

## ABOUT GMO

Founded in 1977, GMO is a global asset manager committed to delivering superior performance and advice to our clients. We are privately owned, which allows us to singularly focus on our sole business – achieving outstanding long-term client investment outcomes. Offering multi-asset, equity, fixed income, and alternative strategies, we invest with a long-term, valuation-based philosophical approach.

AMSTERDAM

BOSTON

LONDON

SAN FRANCISCO\*

SINGAPORE

SYDNEY

TOKYO\*\*

\*GMO's West Coast Hub is comprised of members of Investment, Global Client Relations, and other teams located in and around the Greater San Francisco area

\*\*Representative Office

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