

# QUARTERLY INVESTMENT REVIEW

## Climate Change Strategy

### Performance returns (USD)

ANNUALIZED RETURNS (QUARTER-END)	Quarter-End	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Climate Change Strategy (net)	-20.50	-25.50	-25.50	-14.63	-0.22	-	3.26
Climate Change Strategy (gross)	-20.33	-24.88	-24.88	-13.93	0.60	-	4.10
MSCI ACWI	-0.99	17.49	17.49	5.43	10.06	-	10.26
Value Add	-19.51	-42.99	-42.99	-20.06	-10.28	-	-6.99

### MAJOR PERFORMANCE DRIVERS

The fourth quarter was dominated by changing political winds. Markets rushed to price the potential policy shift after the re-election of Donald Trump to U.S. President and the Republican clean sweep of Congress. The incoming president's focus on deglobalization (higher tariffs, less immigration, increased pressure on China) and deregulation (lower taxes, establishment of the Department for Government Efficiency, legitimizing crypto) are likely to be inflationary and "risk-on." Bond yields went higher, and the U.S. dollar continued to show strength. The climate change sector saw an even greater reaction as campaign rhetoric (at times anti clean energy) was translated into a death knell for the sector. We watched this reaction with some curiosity as it's far from clear that the incoming administration will be bad news, particularly not to the extent markets have confidently priced in. The Climate Change portfolio was down for the quarter, marking its worst quarter of the year, despite MSCI ACWI also being down.

This quarter, Clean Energy was the largest relative detractor by some margin. Within Clean Energy, sentiment took a nosedive, and valuations post-election indicated the market thought the Inflation Reduction Act would be repealed in full. This reaction appears to misinterpret the reality of Trump/the Republican party's support for some clean energy technologies. Moreover, many of these companies still have significant upside even under a full repeal scenario. Looking past sentiment, fundamentals for many of these Clean Energy companies are continuing to improve. The inventory glut has ended for some of the solar companies we hold and demand for further rollout continues. Growth in the sustainable aviation fuel (SAF) market, particularly due to mandated demand in Europe, is likely to be a tailwind for our biggest biofuel names (Darling Ingredients, Neste). Even our biggest name in the particularly politically unpopular wind sector – Vestas – surprised the market with the strength of its fourth quarter order book. After sorting between the rhetoric and the reality of the fourth quarter, we broadly added to our Clean Energy names including to those involved in lithium-ion battery construction (like LG Chem and Samsung SDI). It's increasingly clear that stationary storage solutions – like li-ion batteries – will see explosive growth as solar & wind rollouts continue.

Composite Inception Date: 30-Apr-17

**Risks:** Risks associated with investing in the Strategy may include: (1) 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. (2) 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. (3) Management and Operational Risk: The risk that GMO's investment techniques will fail to produce desired results, including annualized returns and annualized volatility. For a more complete discussion of these risks and others, please consult the Fund's offering documents. This is not a complete list of risks associated with investing in the Strategy. Please contact GMO for more information. **Performance Returns:** Performance for the year of inception is less than a full calendar year. 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. Gross returns are presented gross of management fees and any incentive fees if applicable. These returns include transaction costs, commissions, withholding taxes on foreign income and capital gains and include the reinvestment of dividends and other income, as applicable. If management and incentive fees were deducted performance would be lower. For example, if, before fees, the strategy were to achieve a 10% annual rate of return above its hurdle rate each year for ten years, and an annual advisory fee of 1% and incentive fee of 20% of net returns above the hurdle rate were charged during that period, the resulting average annual net return (after the deduction of management and incentive fees) would be approximately 7.20%. **GMO LLC claims compliance with the Global Investment Performance Standards (GIPS®). A Global Investment Performance Standards (GIPS®) Composite Report is available on 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 not managed relative to a benchmark. References to an index are for informational purposes only.

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## MAJOR PERFORMANCE DRIVERS CONT.

Outside of Clean Energy, the Copper and Electric Grid segments were also down after a strong run during the year. Energy Efficiency was overall a detractor, but parts – like Diversified Efficiency – saw strong performance. Finally, Agriculture and Timber were the strongest contributors after strong earnings performance at companies like Deere & Co.

Looking forward, growth in this sector is expected to pick up considerably. According to Bloomberg consensus estimates, our portfolio is expected to produce earnings growth of around 17% per annum over the next couple of years. This strong expected earnings growth for stocks trading at depressed levels leads to the portfolio trading at around 13 times this year's estimated earnings and 11 times next year's earnings.

As the world makes the transition to clean energy and economies grapple with adapting to climate change, we continue to believe this portfolio is well positioned to benefit. The Climate Change portfolio continues to trade at a significant discount to broader global equities, a discount almost as large as it has ever been, indicating substantial upside to come for patient capital.

Portfolio weights, as a percent of equity, for the positions mentioned were: Darling Ingredients (4.2%), Neste (2.5%), LG Chem (4.4%), Samsung SDI (1.9%), Vestas (1.5%), Deere & Co (0.4%).

More insight on the Inflation Reduction Act can be found here:

[https://www.gmo.com/americas/research-library/the-future-of-the-inflation-reduction-act\\_insights/](https://www.gmo.com/americas/research-library/the-future-of-the-inflation-reduction-act_insights/)

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# QUARTERLY INVESTMENT REVIEW

## PRODUCT OVERVIEW

The GMO Climate Change Strategy seeks to deliver high total return by investing primarily in equities of companies GMO believes are positioned to benefit, directly or indirectly, from efforts to curb or mitigate the long-term effects of global climate change, to address the environmental challenges presented by global climate change, or to help the world adapt to climate change through improved efficiency of resource consumption. The Strategy invests globally across the capitalization spectrum, which allows GMO to pursue attractive investment opportunities wherever they may be.

The Focused Equity team believes exceptional opportunities for long-term investors abound in a world mobilizing to address climate change, and profitability associated with efforts to mitigate and adapt to climate change is largely independent of the global economy. Climate change investors can benefit from this unique, diversifying source of return, historically available at attractive valuations given the secular tailwinds of change.

## IMPORTANT INFORMATION

**Comparator 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.

## 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.

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\*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