# QUARTERLY INVESTMENT REVIEW

## Climate Change Fund

### Performance returns (USD)

| ANNUALIZED RETURNS (QUARTER-END) | Quarter-End | YTD | 1-Year | 3-Year | 5-Year | 10-Year | Since Inception |
|---|---|---|---|---|---|---|---|
| Climate Change Fund (net) | -6.34 | -6.34 | -17.67 | -6.98 | 7.65 | – | 7.48 |
| Climate Change Fund (gross) | -6.16 | -6.16 | -17.02 | -6.25 | 8.49 | – | 8.31 |
| MSCI ACWI | 8.14 | 8.14 | 23.15 | 6.94 | 10.90 | – | 10.28 |
| Value Add | -14.48 | -14.48 | -40.82 | -13.92 | -3.25 | – | -2.80 |

### Major Performance Drivers

The first quarter of 2024 saw a stark reversal in sentiment around the path of rate cuts in the U.S. The yield on U.S. 10-year government bonds has risen more than 15% from last December's lows. This renewed skepticism on the size and speed of rate cuts was particularly dominant in January and saw those sectors with a perceived high delta to lower rates fall significantly, in many cases reversing gains from the previous quarter. The Wilderhill Clean Energy index was down over 20%. However, broad global equity indices shrugged off this concern, continuing to be buoyed by the type of large cap tech companies that have been mythicized in the Magnificent 7 along with rising prices in commodities like copper and oil. Against this backdrop, the GMO Climate Change portfolio was down for the quarter, underperforming its benchmark, the MSCI ACWI, which was up.

Clean Energy, our largest segment, was hit by renewed skepticism on the likelihood and speed of interest rate cuts. Four names from this group – SunRun, SolarEdge, Ameresco, and LG Chem – were our biggest detractors this quarter. Despite being buffeted by interest rate sentiment, the long-term potential in this sector is broadly underpriced as renewable deployment increases year-on-year, cyclical pressures like inventory gluts work through, and subsidies from governments around the world begin to flow. For many of the clean energy companies that we hold – higher quality than the broader sector because of their technological edge or scale advantage over the competition – current valuations reflect a low to negative growth scenario for their future earnings and we continued to add to this basket over the quarter. The current valuation opportunity has echoes of previous dislocations in different resource markets (oil and metals); history shows us that investors with patience and willingness to accept volatility will reap significant rewards.

Providing balance to our Clean Energy exposure, other segments in the portfolio including Copper, Water, and Electric Grid companies had a strong quarter and outperformed broader equities. Copper producers generally have benefited from the unexpected supply reduction we highlighted last quarter; Ivanhoe Mines was our best relative performer for the quarter. We have a long-held allocation to copper producers, seeing it as a key energy transition metal and the current pinch point is a reminder of how resource scarcity can affect clean economy supply chains. Electric grid providers and related companies have an important role to play in rewiring the world and many stand to benefit from the next phase of the energy transition being increasing energy demand and an increasing queue of renewable projects awaiting connectivity. We have broadened our grid exposure this quarter and were also pleased that an existing long-held exposure, Nexans, was one of our top contributors.

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: Ivanhoe Mines (4.5%), Nexans (5.1%), Sunrun (5.3%), SolarEdge (5.2%), Ameresco (3.0%), and LG Chem (4.7%).

Inception Date: 5-Apr-17

Performance for the year of inception is less than a full calendar year. Returns shown for periods less than one year are not annualized.

**Risks:** Risks associated with investing in the Fund are as follows: (1) Focused Investment Risk: Because the Fund focuses its investments in securities of companies involved in climate change-related industries, the Fund will be more susceptible to events or factors affecting these companies, and the market prices of its portfolio securities may be more volatile than those of mutual funds that are more diversified. (2) Market Risk - Equities: The market price of an equity may decline due to factors affecting the issuer or its industry 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 Fund runs the risk that GMO's investment techniques will fail to produce desired results. For a more complete discussion of these risks and others, please consult the Fund's prospectus.Annualized Returns may include the impact of purchase premiums and redemption fees. 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.

If certain expenses were not reimbursed, performance would be lower. Transaction costs, if any, are paid to the fund to offset the cost of portfolio transactions to invest or raise cash. **Net Expense Ratio: 0.77%; Gross Expense Ratio: 0.82% Net Expense Ratio reflects the reduction of expenses from fee reimbursements. The fee reimbursements will continue until at least June 30, 2024. Elimination of this reimbursement will result in higher fees and lower performance. Gross Expense Ratio is equal to the Funds Total Annual Operating Expenses set forth in the Funds most recent prospectus dated June 30, 2023.**

**Performance data quoted represents past performance and is not indicative of future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance data may be lower or higher than the performance data provided herein.** The portfolio is not managed relative to a benchmark. References to an index are for informational purposes only. The local market in which the Fund is priced was closed for Good Friday on March 29, 2024. Therefore, the performance for the fund and corresponding benchmark will utilize March 28 for purposes of the ending valuation for the March return and the starting valuation for the April return.

# QUARTERLY INVESTMENT REVIEW

## PRODUCT OVERVIEW

The GMO Climate Change Fund 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. We invest globally across the capitalization spectrum, which allows us to identify attractive investment opportunities wherever they may be.

We are seeing 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.



## 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