



YEAR-END LETTER FOR 2023

Focused Equity Team: Climate Change Strategy

Dear Client,

The GMO Climate Change Strategy fell 7.5% net of fees in 2023, well behind the AI-fueled broad equity market but handily outpacing clean energy more generally with both the WilderHill Clean Energy Index and the S&P Global Clean Energy Index dropping around 20%.

Clean energy's struggles can be traced to various factors, but the pinch of high interest rates had the biggest impact. Many clean energy companies have been able to grow rapidly even as interest rates have risen the last few years, but growth rates slowed last year as rates were hiked repeatedly, the European renewables boost related to the Ukraine conflict tempered, and projects were delayed pending the finalization of the Inflation Reduction Act (IRA) incentives. The unexpected slowdown in growth led to inventory build-ups and spooked markets.

Despite the challenges, 2023 was still a record-setting year for climate efforts. Renewables deployment, electric vehicle sales, and investment in clean energy more broadly continued their upward trends. Toward the end of the year, some positive clean energy data points and the Federal Reserve's rate cut guidance for 2024 helped finish the year on a high note with the Climate Change Strategy rallying around 21.2% net in the last two months of the year, besting the MSCI All Country World Index (ACWI) by 6.7%.

The big picture is encouraging for climate investing. Clean energy costs continue to fall. The IRA in the U.S. and the Green Deal Industrial/RePowerEU Plans in Europe are poised to drive trillions of dollars of investment into climate efforts. Interest rates are expected to fall in 2024, which would make projects more attractive through cheaper financing and lower discount rates. Furthermore, many of the higher quality names that we hold have been strengthening their positioning and taking advantage of the recent weakness to grow market share.

Perhaps most importantly, after poor performance the last three years, clean energy stocks are trading at cheaper levels than they have historically. In many cases, high-growth companies are trading at a substantial discount to the broad equity market, a state of affairs ripe for generating strong returns. Over the last few months, we've repositioned the portfolio by adding to a basket of relatively high-quality clean energy companies facing short-term headwinds. We believe the prospects for the clean energy sector are strong and that valuations are deeply discounted relative to fair value.

On the business front, there continues to be strong global interest in the strategy, and we had net positive flows on the year. As our business continues to grow, we continue to add resources to the team. Jack Lloyd joined the team last summer as an Investment Associate and has already been contributing significantly to our efforts. Jack's previous experience in climate investing has added to the team's knowledge base as well.

While frustrated with last year's performance, we're accustomed to taking advantage of market dislocations to generate superior returns. In recent years, we've benefited from similar dislocations in other sectors. While buying precisely at the bottom is nearly impossible, we're excited to have the opportunity to invest in profitable, growing climate companies that trade at such attractive levels.

Our investment thesis is a long-term one, and there will inevitably be bumps along the road. However, we expect the destination will ultimately be profitable for our investors, and we're heartened that our clients have trusted us to navigate this tricky, volatile sector for them. We hope to reward you for that trust in 2024 and beyond.

Sincerely,

A handwritten signature in black ink, appearing to read 'L White'.

Lucas White

Lead Portfolio Manager, GMO Climate Change Strategy

<i>Annualized Returns as of 12/31/2023 (Net, USD)</i>	<i>Inception</i>	<i>1-Year</i>	<i>3-Year</i>	<i>5-Year</i>	<i>10-Year</i>	<i>ITD</i>
GMO Climate Change Strategy	4/5/2017	-7.49%	-2.54%	10.77%	N/A	8.32%
MSCI All Country World Index		22.20%	5.75%	11.72%	N/A	9.21%

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 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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