



TURBULENCE ON THE PATH TO TRANSFORMATION: CLEAN ENERGY CHALLENGES CREATE OPPORTUNITIES

Lucas White

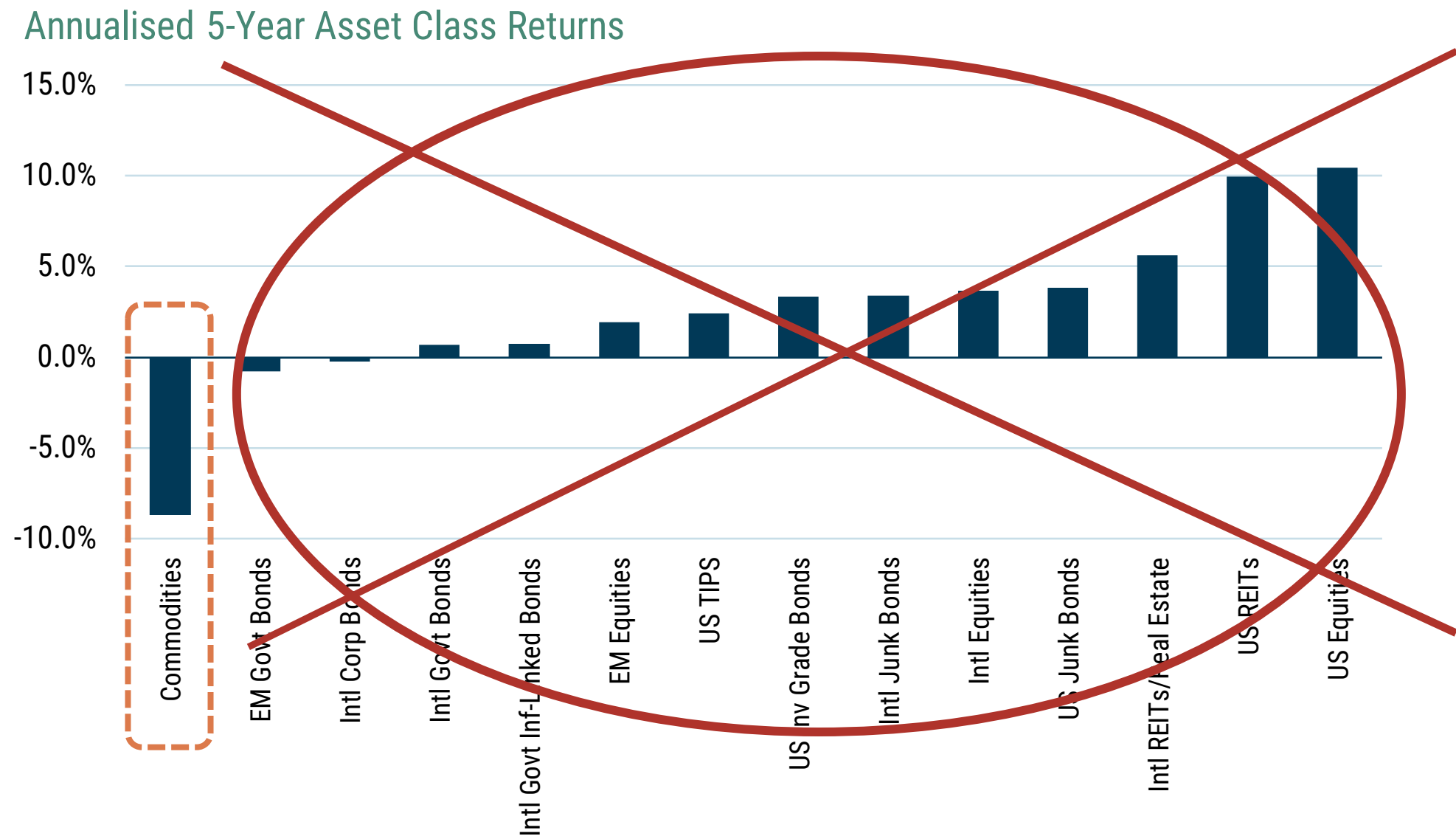
GMO

INTRODUCTION

- Factors in clean energy's struggles
- Our approach to clean energy
- Outlook

COMMODITY PRICES HAVE DROPPED...A LOT

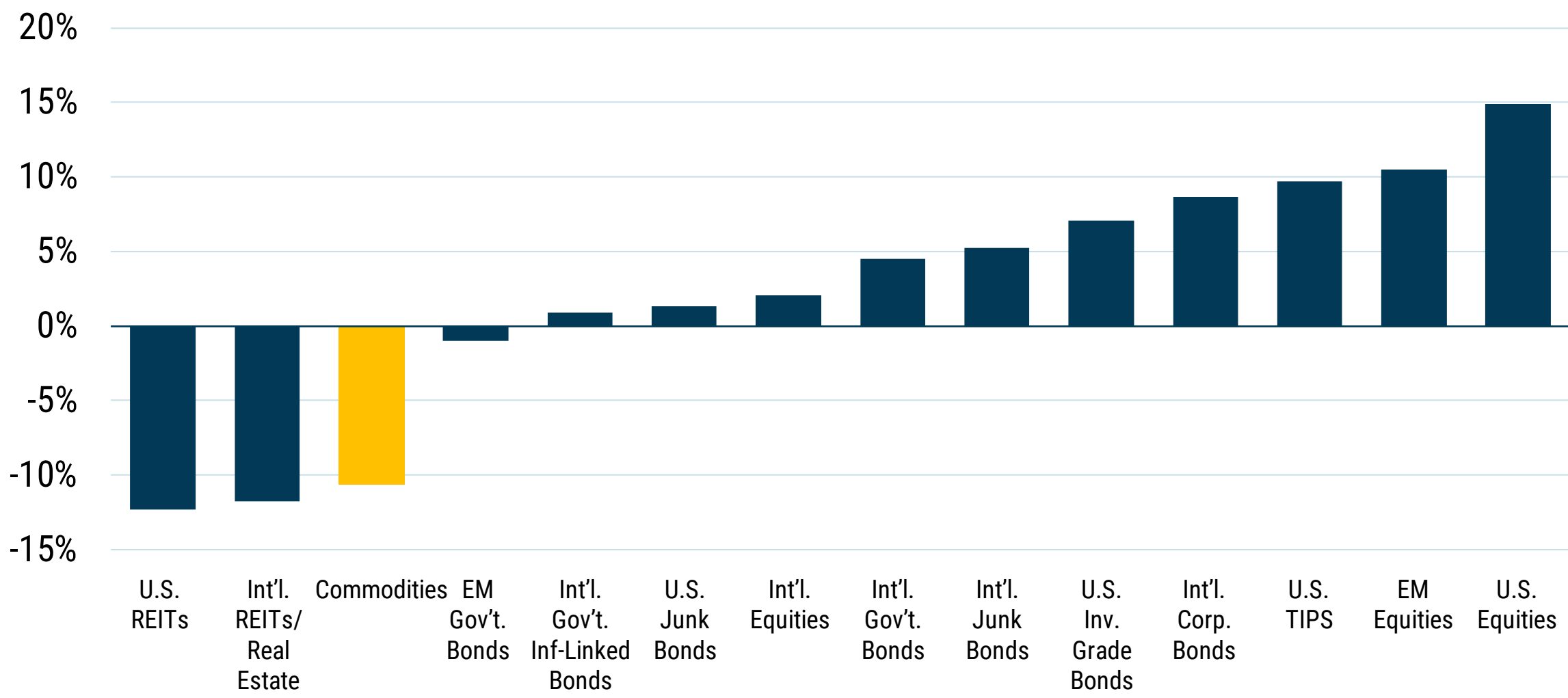
From our 2019 GMO Fall Conference:
Betting Big on Resources: Now or Never



As of 30/9/19 | Source: Bloomberg, GMO

COMMODITIES STRUGGLED AGAIN IN 2020...

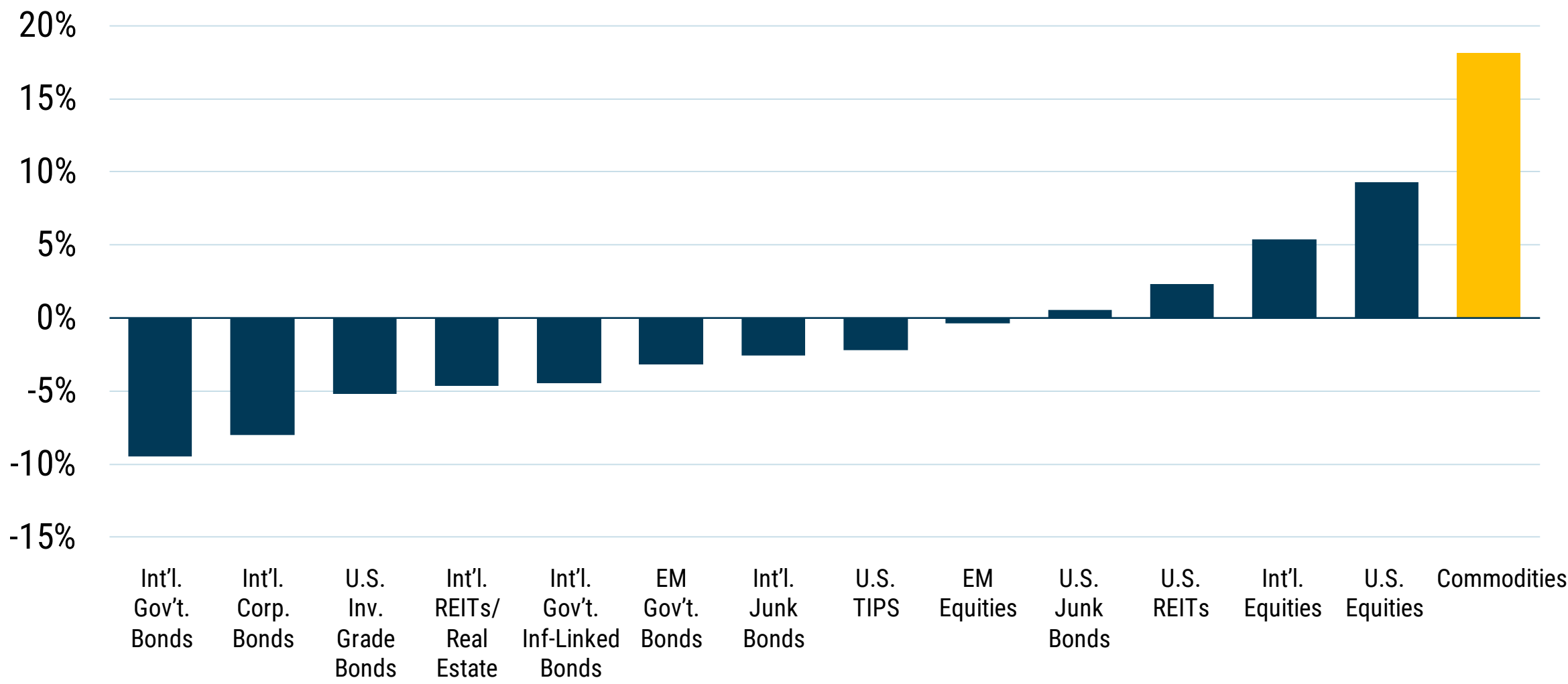
ASSET CLASS RETURNS: OCTOBER 2019 – SEPTEMBER 2020



As of 30/9/20 | Source: Bloomberg, GMO

...BUT COMMODITIES HAVE BOUNCED BACK

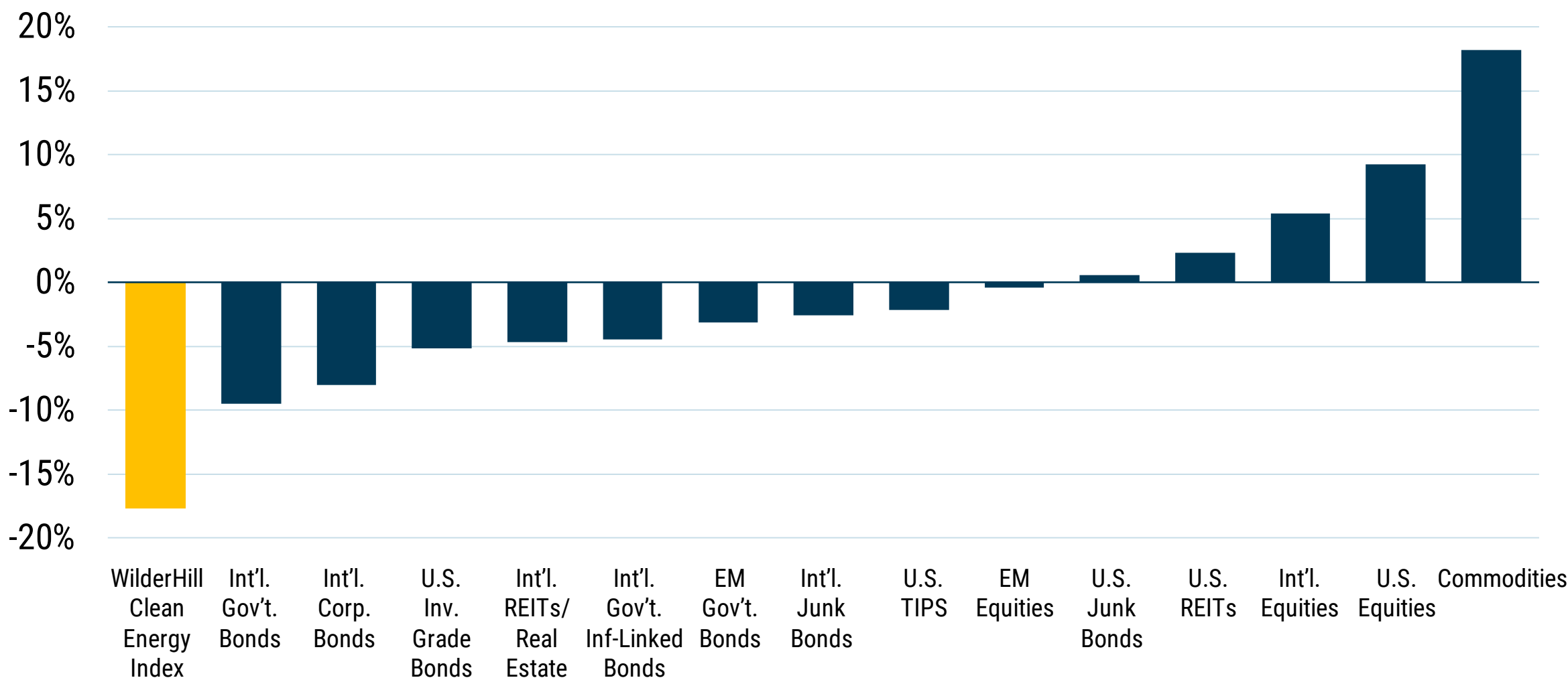
ANNUALISED 3-YEAR ASSET CLASS RETURNS



As of 30/9/23 | Source: Bloomberg, GMO

WITH A NEW WINNER COMES A NEW LOSER: CLEAN ENERGY

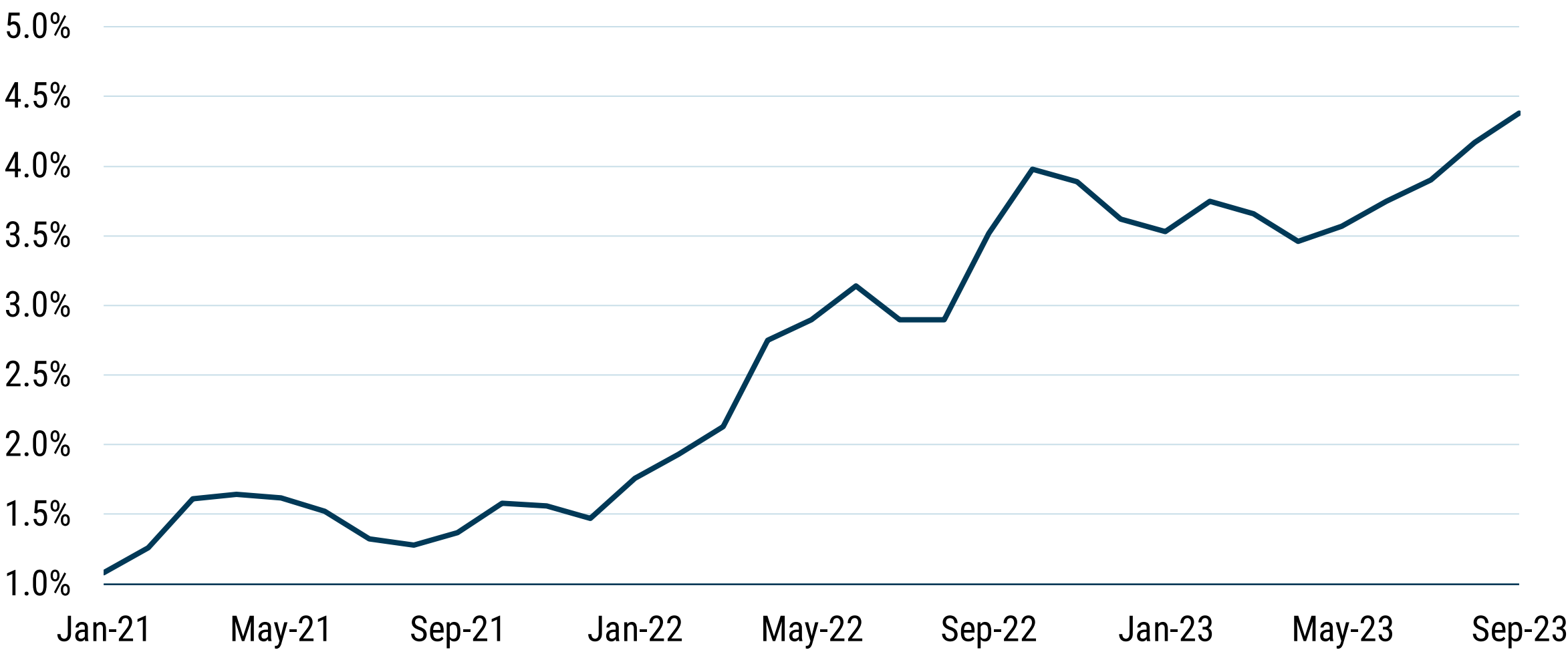
ANNUALISED 3-YEAR ASSET CLASS RETURNS



As of 30/9/23 | Source: Bloomberg, GMO

RISING INTEREST RATES HAVE BEEN A HEADWIND FOR CLEAN ENERGY

10-YEAR TREASURY YIELDS



Source: FRED (Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis (GS10) | FRED | St. Louis Fed (stlouisfed.org)

RISING RATES IMPACT THE ATTRACTIVENESS OF PROJECTS, STOCKS...AND SENTIMENT

High rates impact attractiveness of projects...

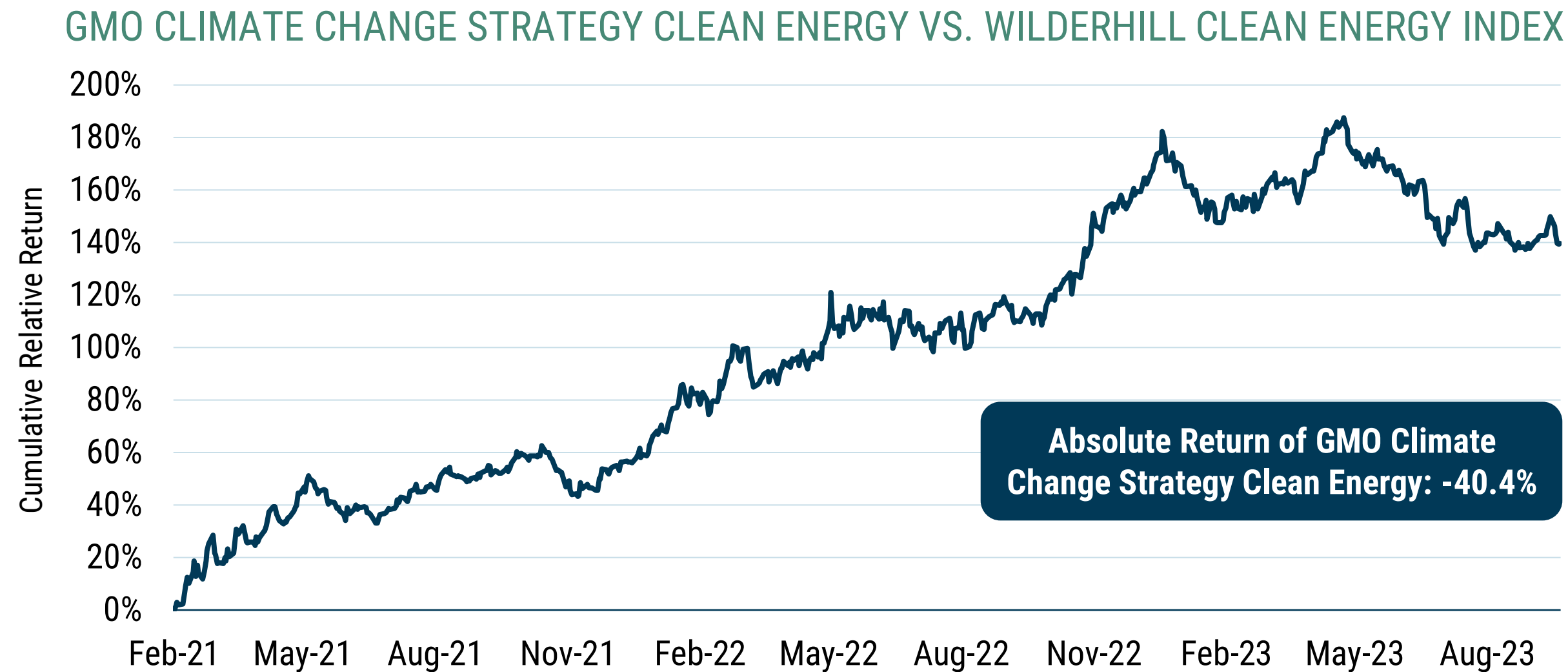
- Higher financing costs.
- Future cash flows discounted at a higher rate.
- Capital directed towards other activities.

To this point, high rates have mostly impacted sentiment.

OUR APPROACH

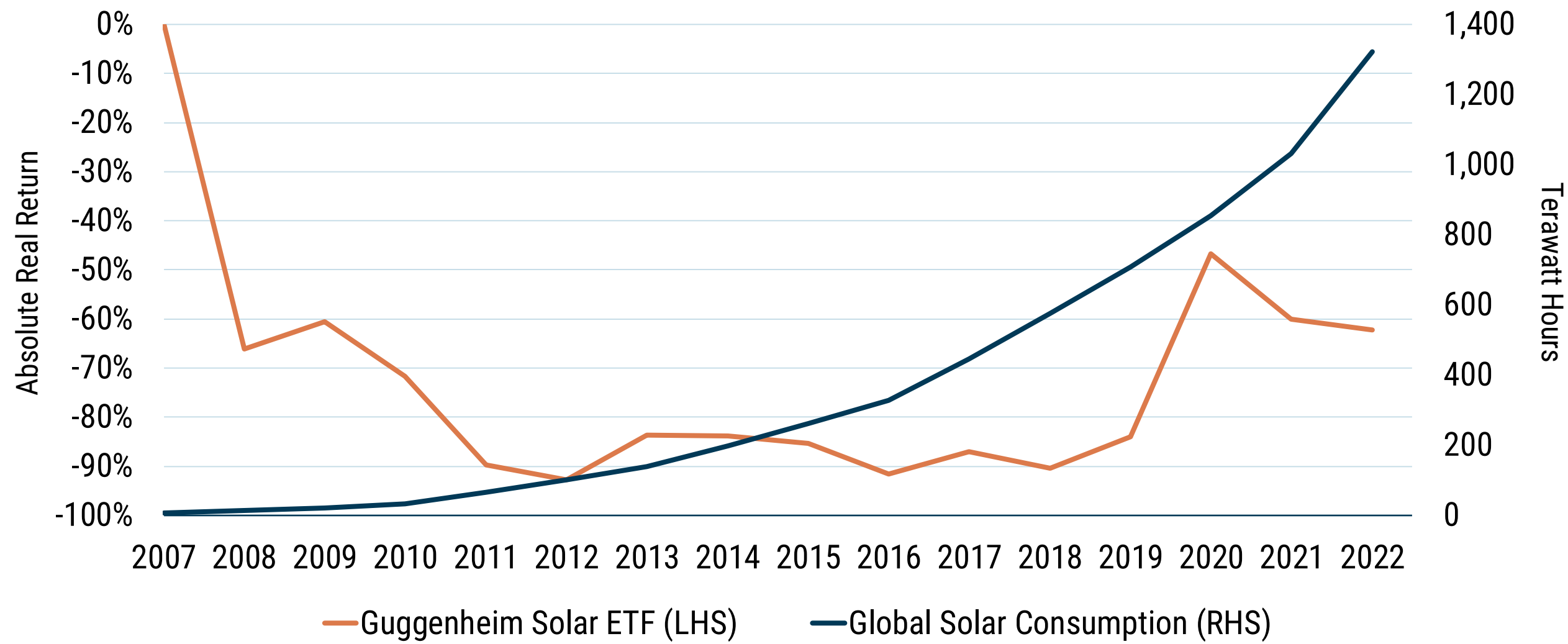


OUR CLEAN ENERGY INVESTMENTS HAVE PERFORMED RELATIVELY WELL SINCE THE CLEAN ENERGY PEAK



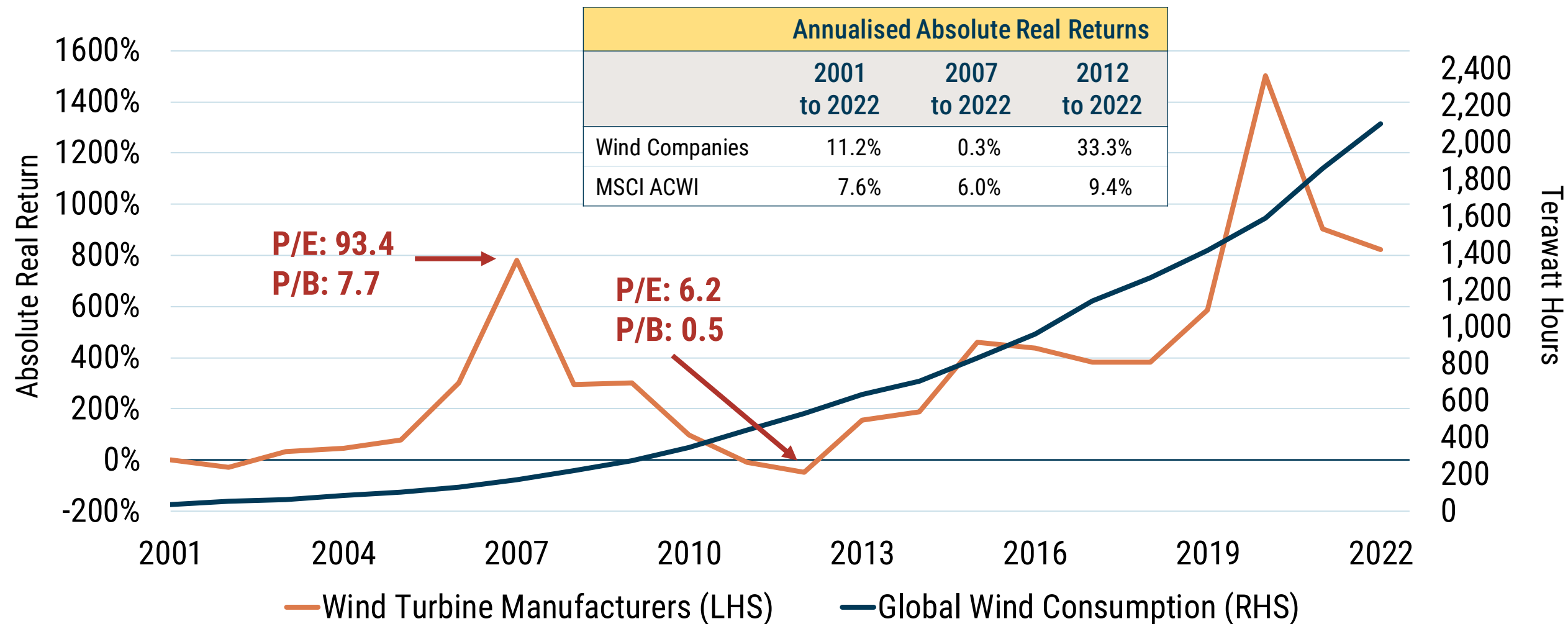
Data from 9/2/21 – 30/9/23 | Source: Bloomberg, GMO
GMO Climate Change Strategy Clean Energy represents the clean energy exposure within GMO's Climate Change Strategy and are net of a model fee.

QUALITY IS CRITICAL IN EVALUATING CLIMATE OPPORTUNITIES



As of 2022 | Source: BP, GMO

A VALUE ORIENTATION TO A SECULAR GROWTH SECTOR CAN PRODUCE OUTSTANDING RESULTS

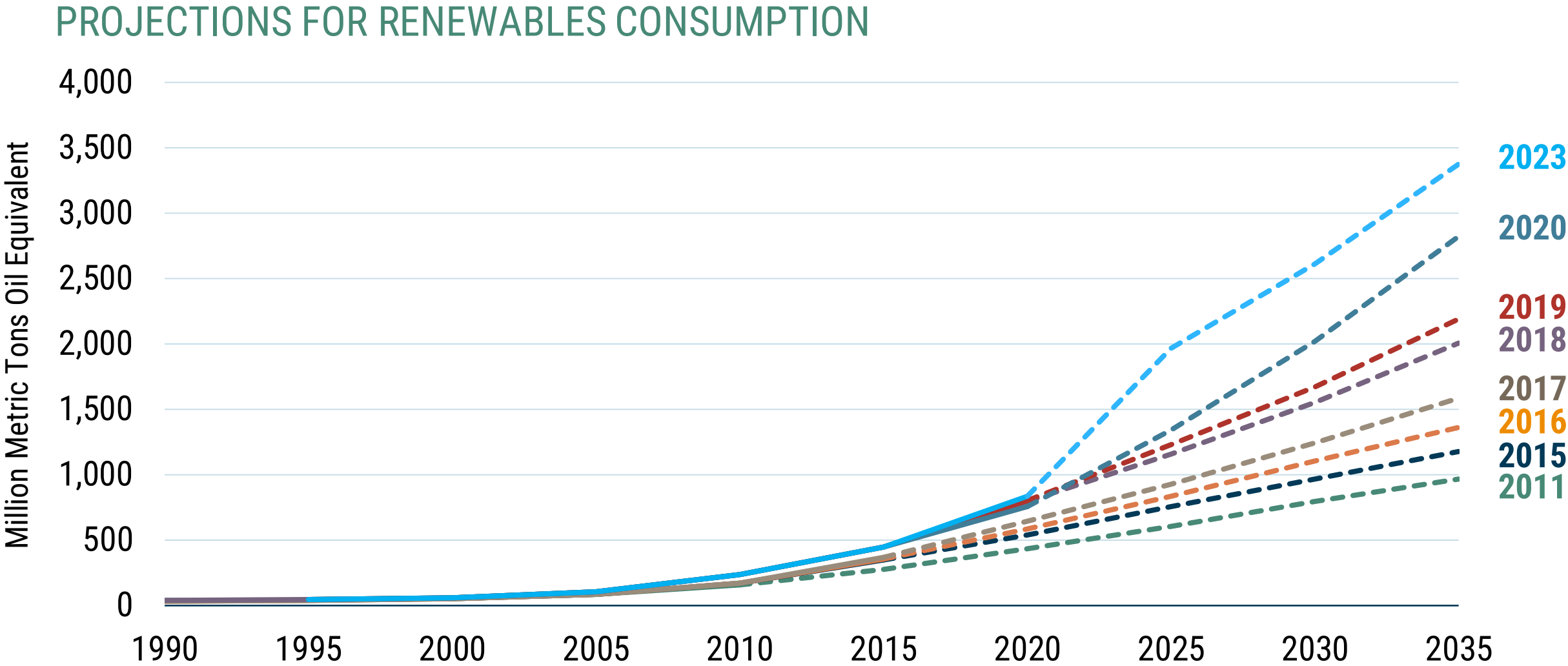


As of 2022 | Source: BP, GMO
Whole period: 1/2002–12/2022. Valuation peak: 12/2007. Valuation trough: 12/2012.
Wind turbine manufacturers are Vestas, Gamesa, and Nordex. P/E ratios are based on normalized earnings.
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OUTLOOK



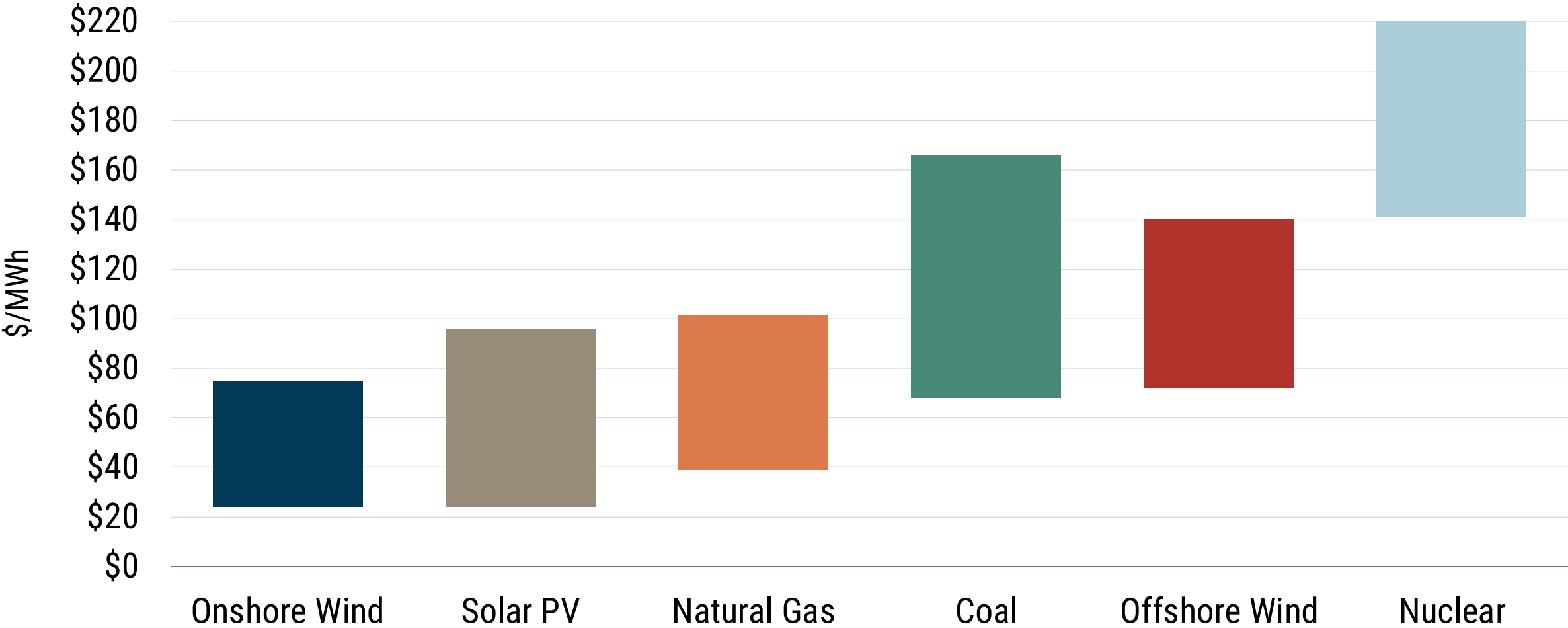
THE LONG-TERM PROSPECTS FOR CLEAN ENERGY CONTINUE TO IMPROVE



As of 2023 | Source: BP
Projections are subject to change and may vary significantly from the data shown.

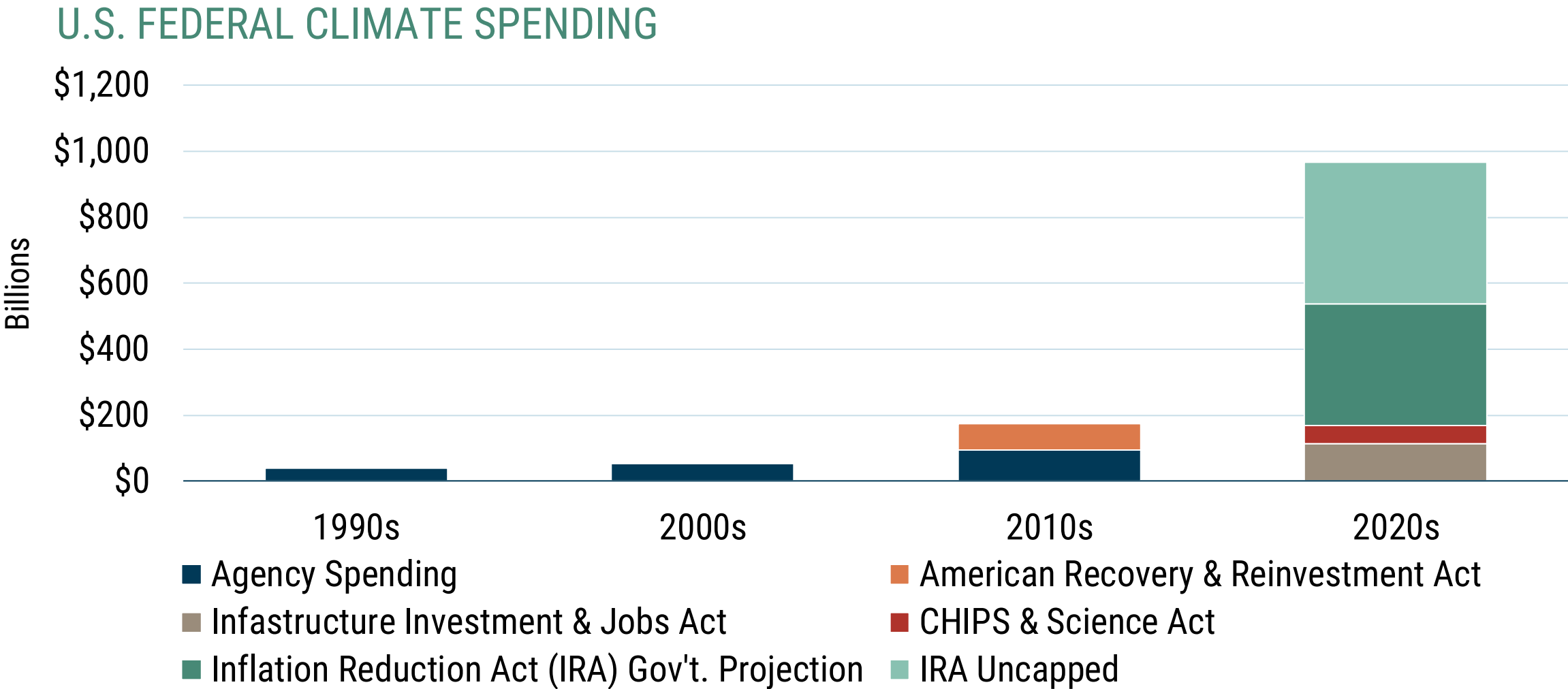
DESPITE THE UPTICK IN COSTS, WIND AND SOLAR CONTINUE TO BE THE CHEAPEST FORMS OF GENERATION EVEN WHEN EXCLUDING SUBSIDIES

UNSUBSIDISED LEVELISED COST OF ENERGY IN THE U.S. BY SOURCE



As of 2023 | Source: Lazard, IJGGC, EIA

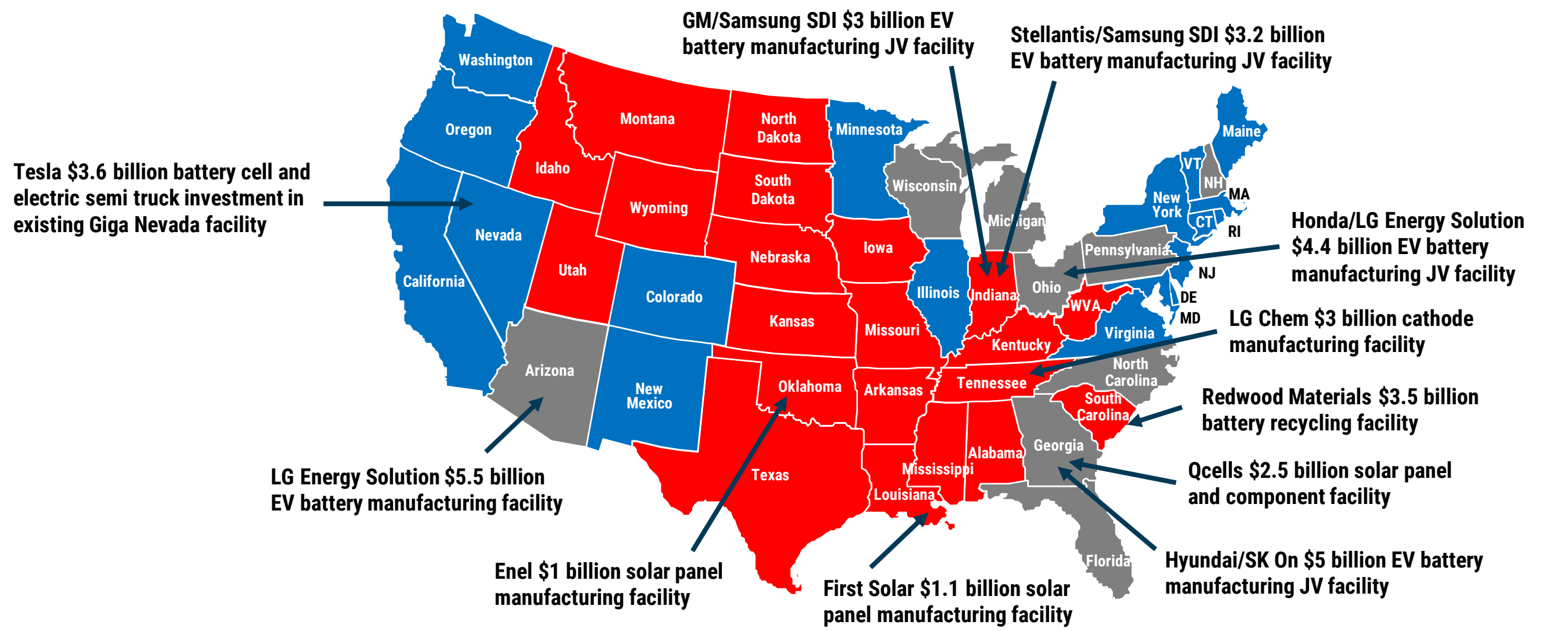
THE INFLATION REDUCTION ACT REPRESENTS A TIPPING POINT IN CLIMATE ACTION



As of 30/9/23 | Source: Rocky Mountain Institute (RMI), Government Accountability Office (GAO), Joint Committee on Taxation (JCT), Credit Suisse, GMO
Estimates are adjusted for inflation. 2000s (2000–2008) to consolidate the impact of the American Recovery and Reinvestment Act to one bar. 2010s (2009–2017) addresses missing data during the Trump presidency. 2020s (2022–2029) CHIPS spending is based off authorized amounts. IRA Uncapped is based on Credit Suisse clean energy activity estimates.

THE IRA HAS ALREADY SPURRED CLEAN ENERGY INVESTMENT IN THE U.S.

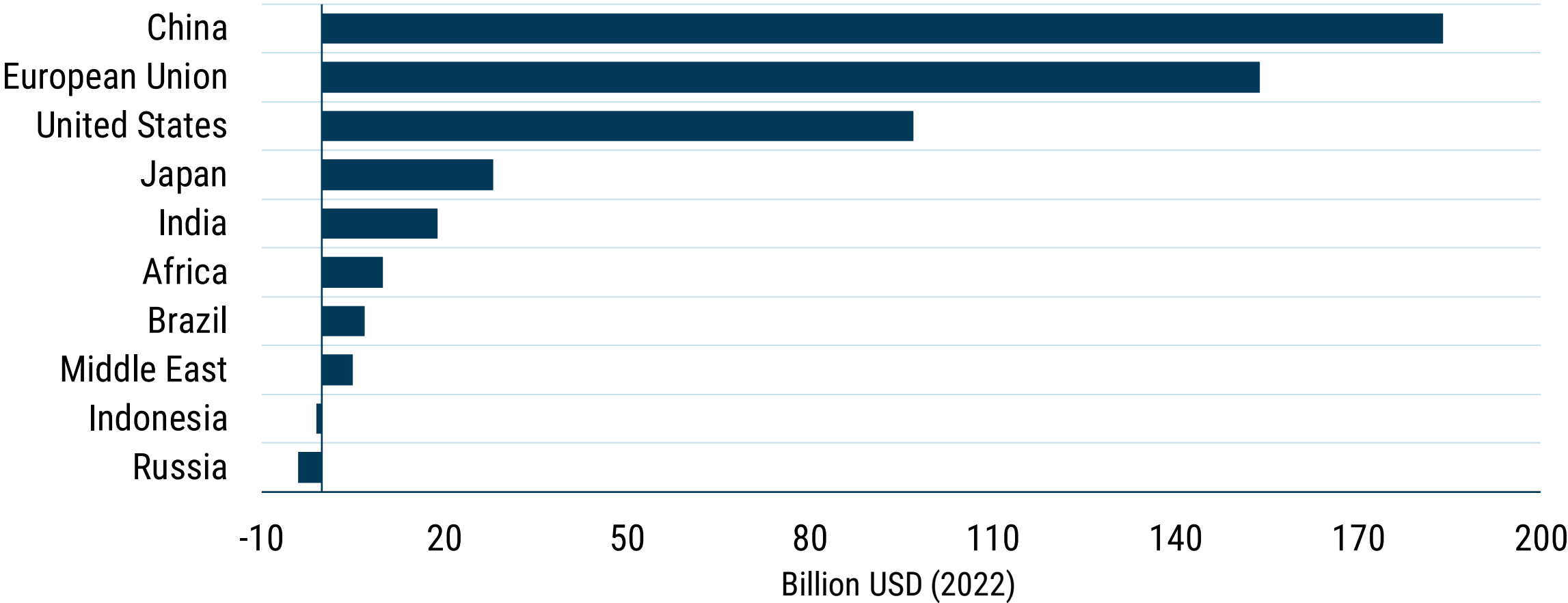
Projects announced since the passage of the IRA



OF COURSE, CLIMATE IS A GLOBAL ISSUE...

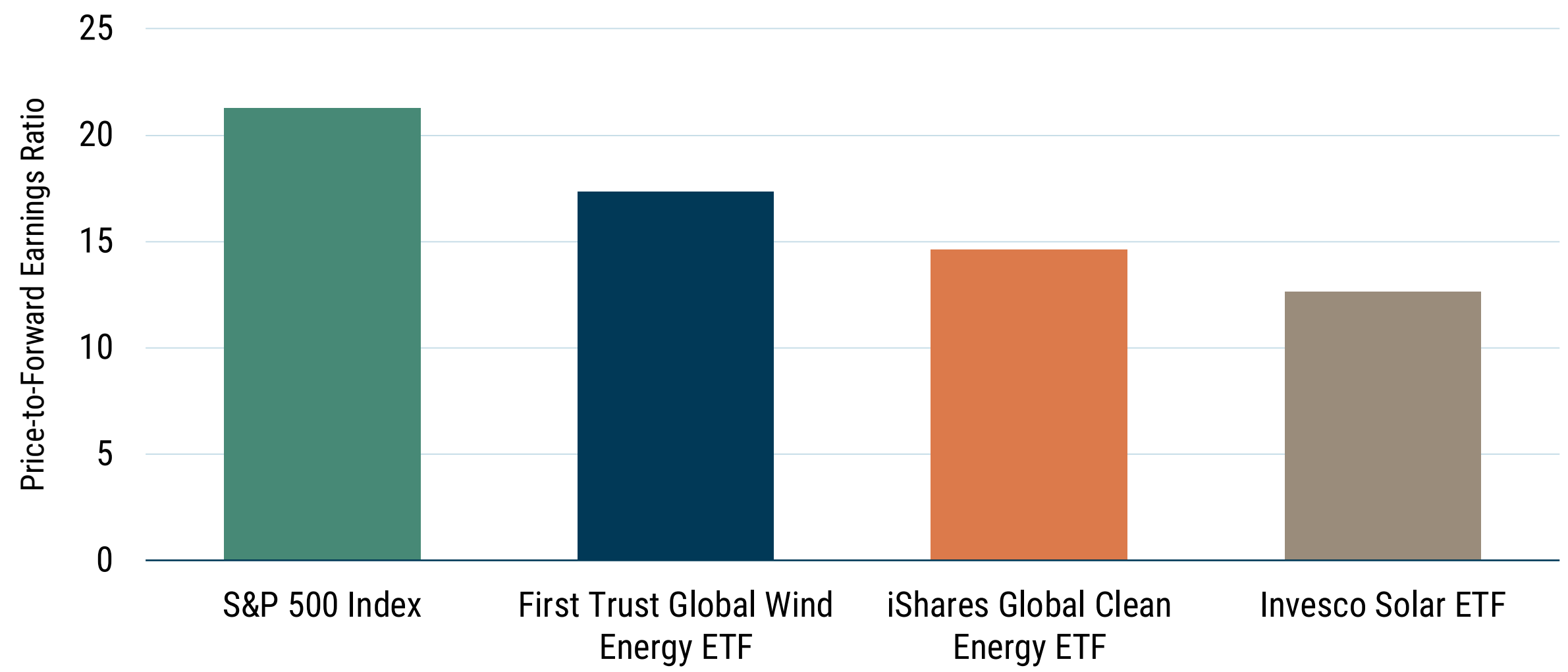
...and the U.S. has lagged China and Europe

INCREASE IN ANNUAL CLEAN ENERGY INVESTMENT: 2019 – 2023E



As of 2023 | Source: IEA

MANY CLEAN ENERGY COMPANIES TRADE AT SUBSTANTIAL DISCOUNTS



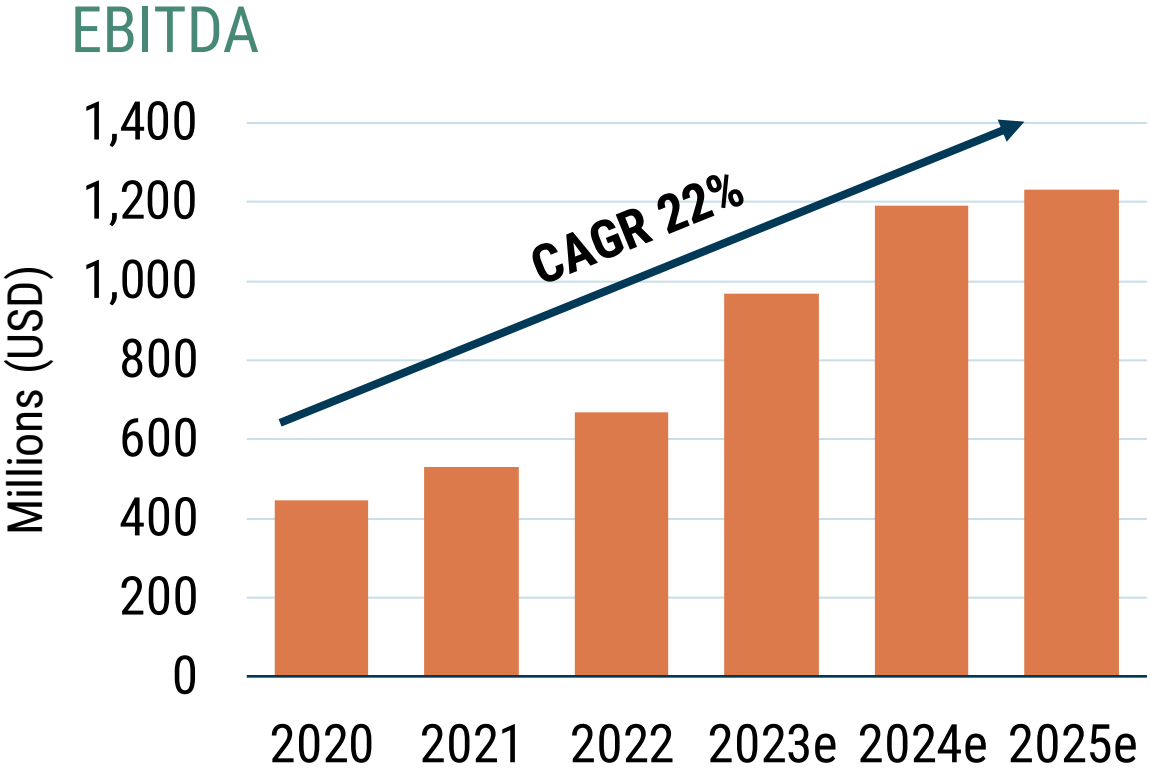
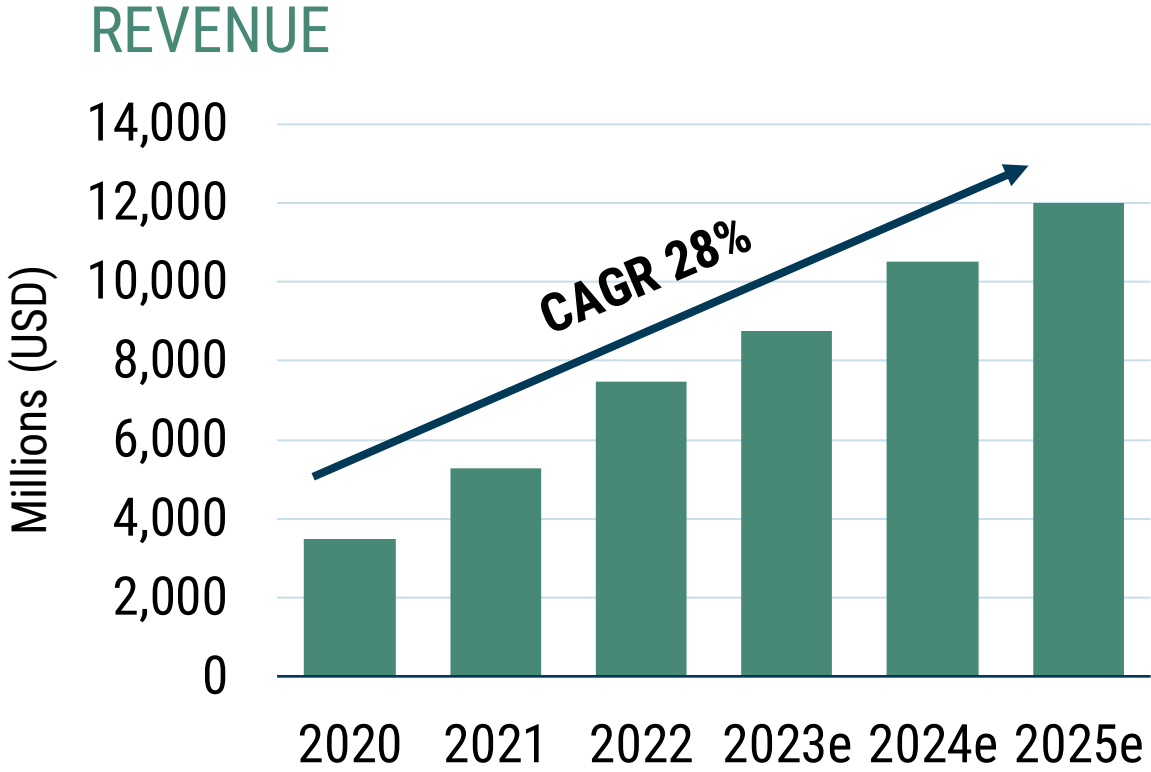
As of 30/9/23 | Source: Bloomberg, GMO
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VALUATIONS IN CLEAN ENERGY #1




CanadianSolar

Ticker: CSIQ
Industry: Solar
P/E: 3.8x

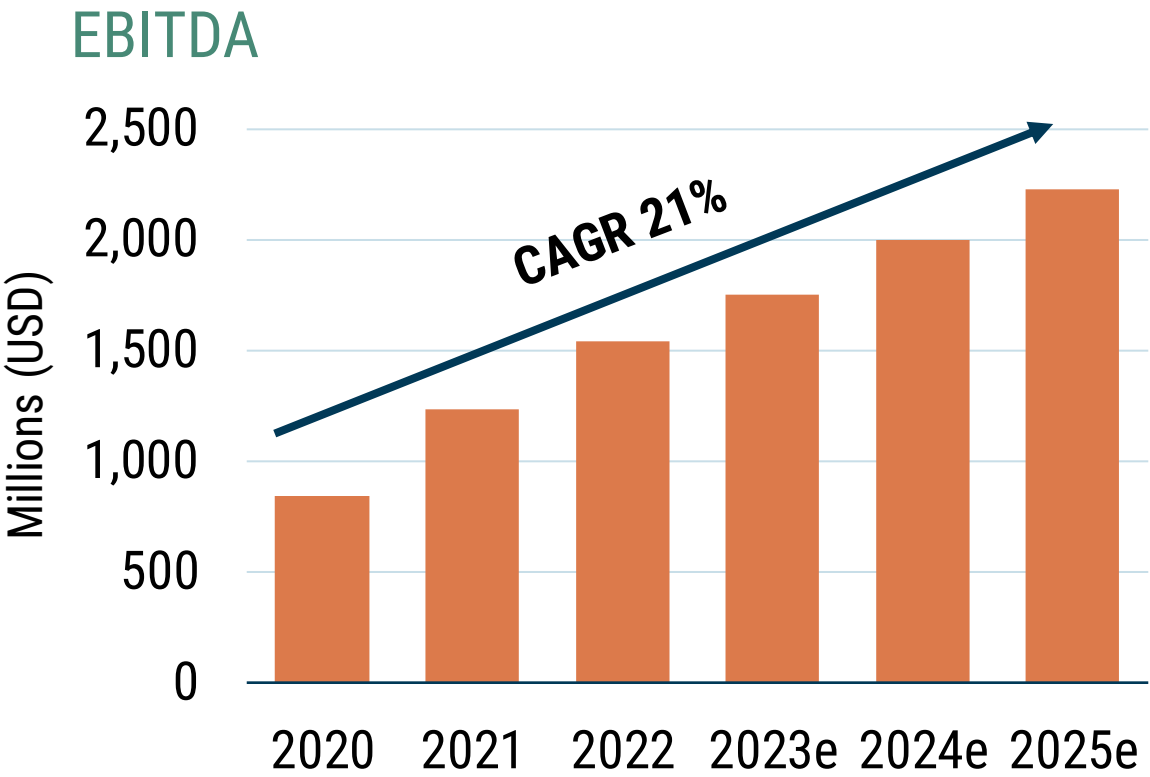
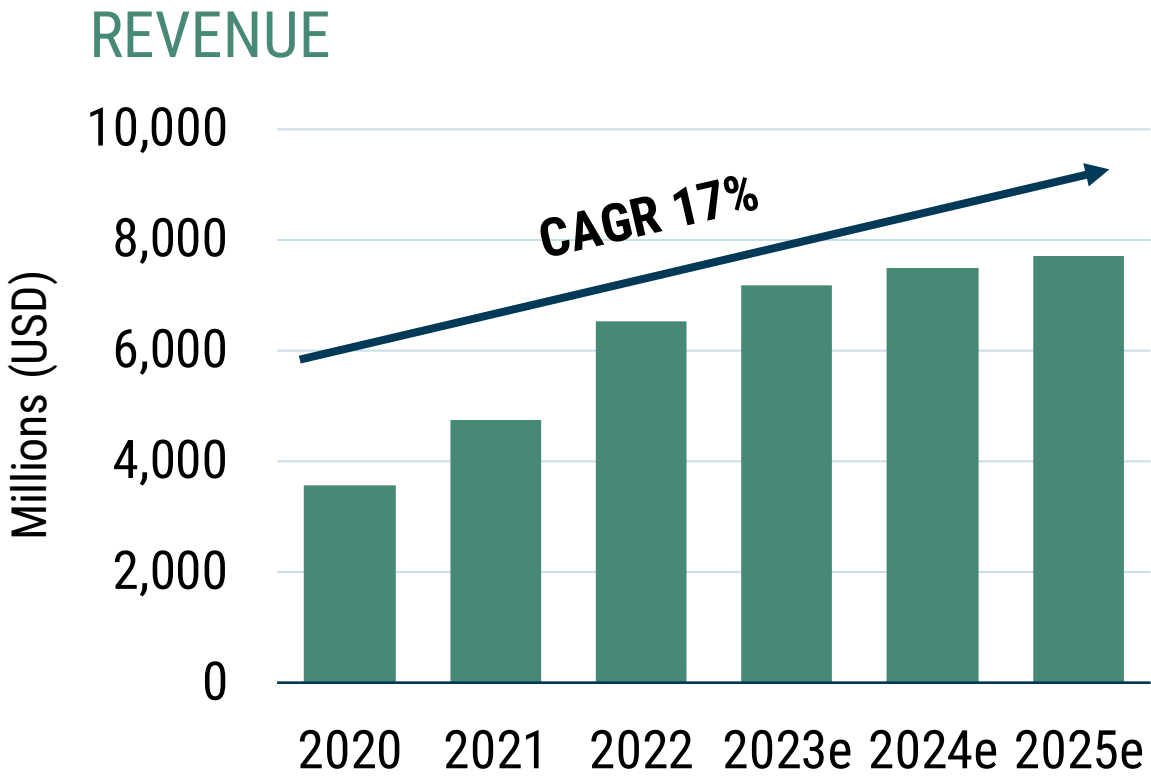


As of 30/9/23 | Source: Bloomberg, GMO


VALUATIONS IN CLEAN ENERGY #2



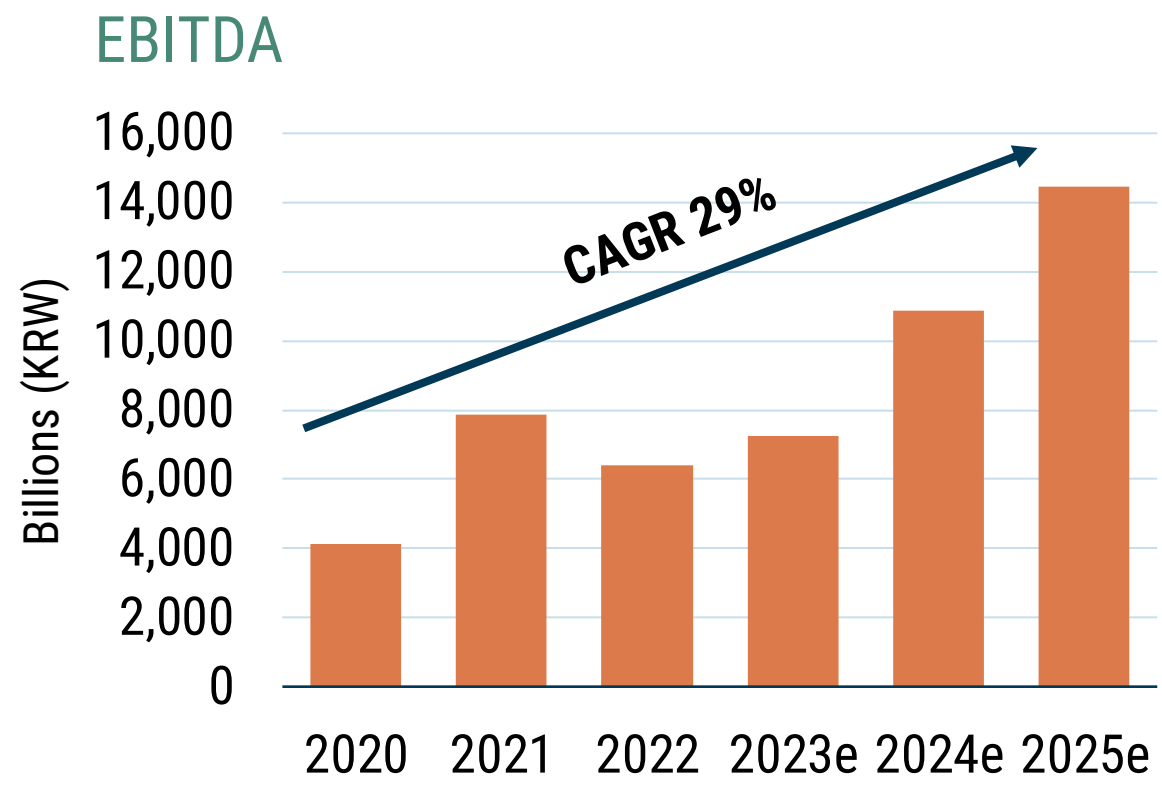
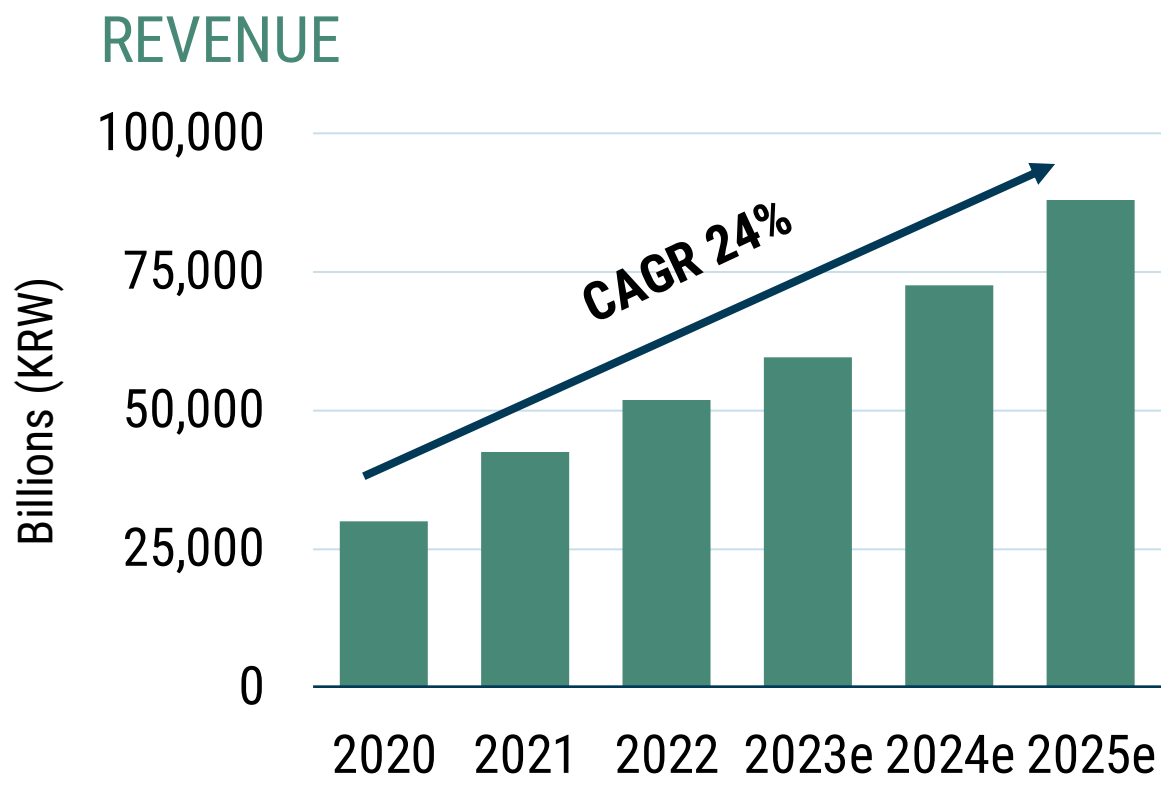
Ticker: DAR
Industry: Biofuels
P/E: 8.9x



VALUATIONS IN CLEAN ENERGY #3

**LG Chem**

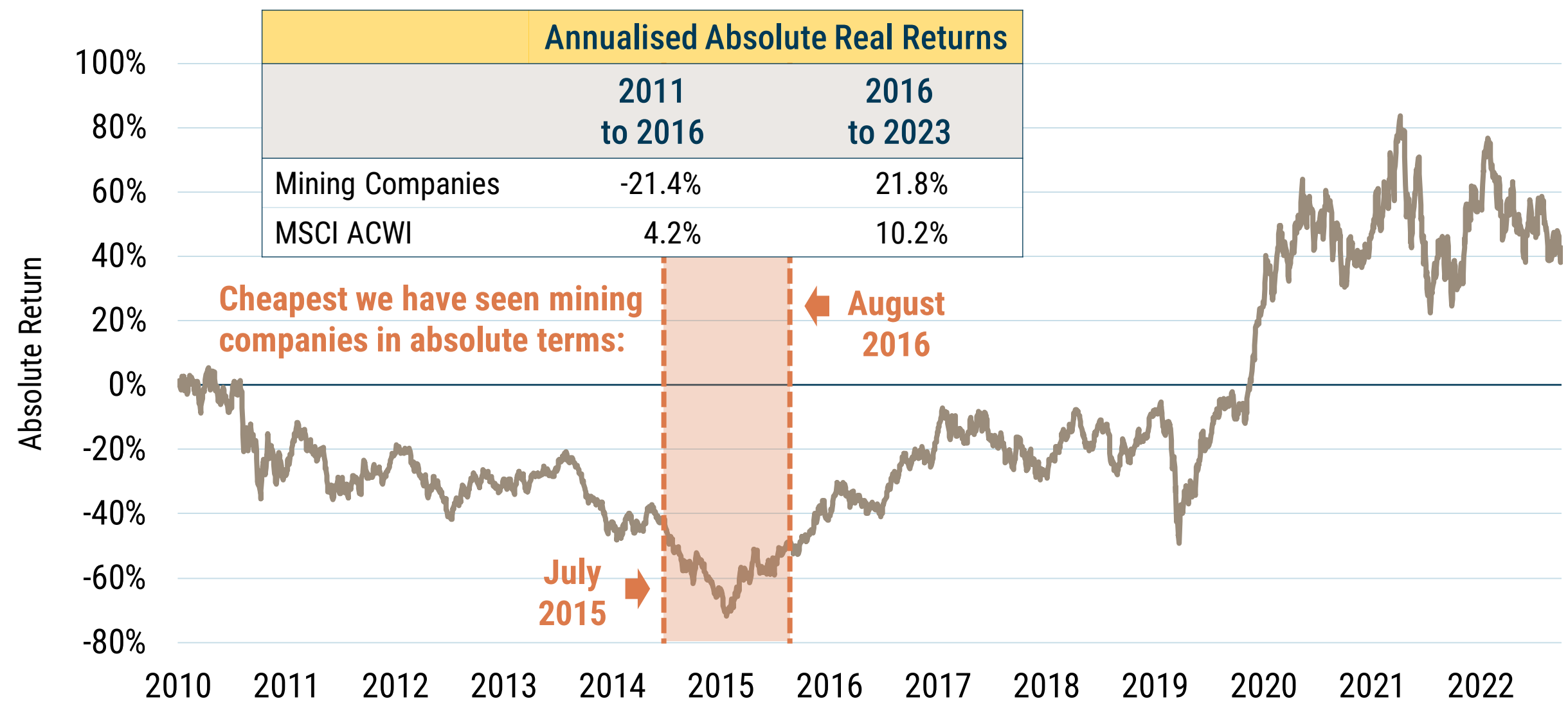
Ticker: 051910 KS
Industry: Electric Vehicle Batteries
P/E: 11.3x



CLEAN ENERGY CHAOS RHYMES WITH HISTORICAL EPISODES

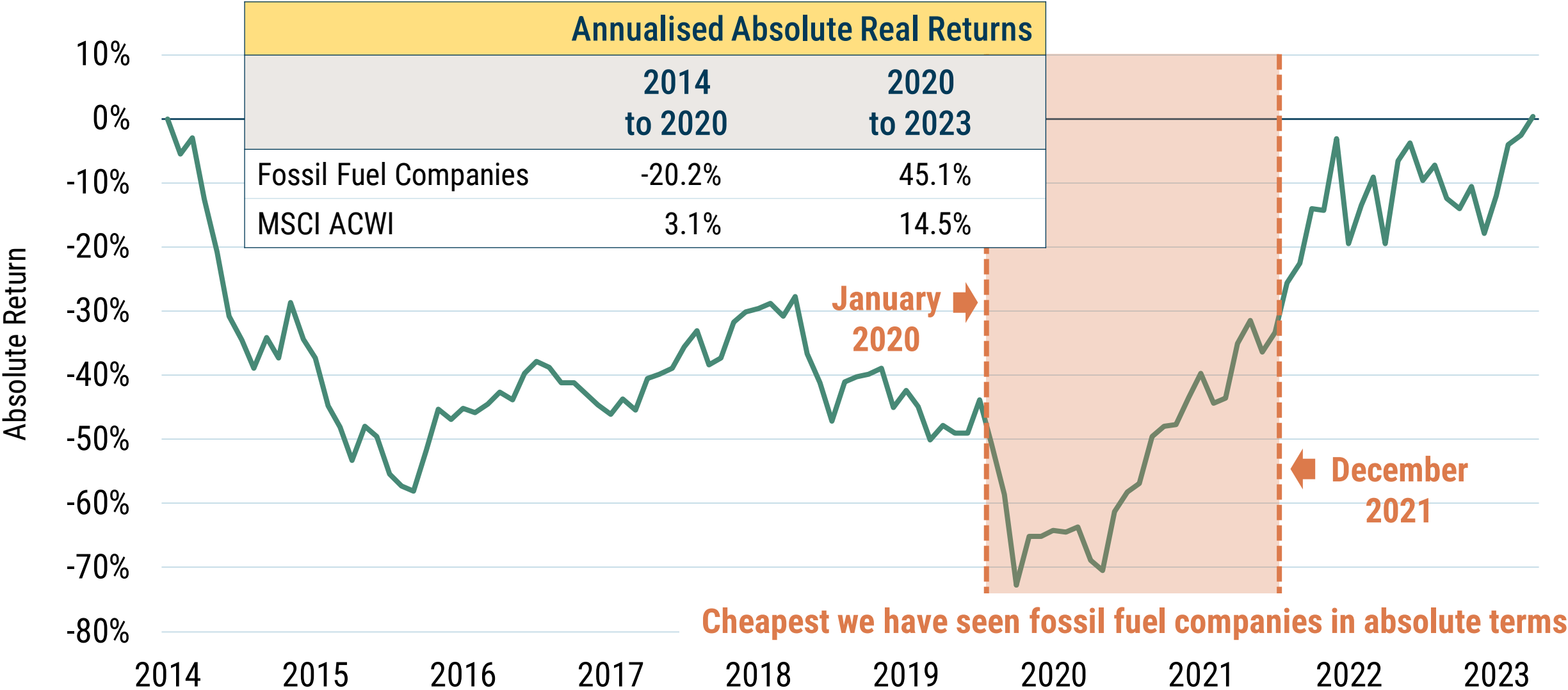


MINING CIRCA JANUARY 2016



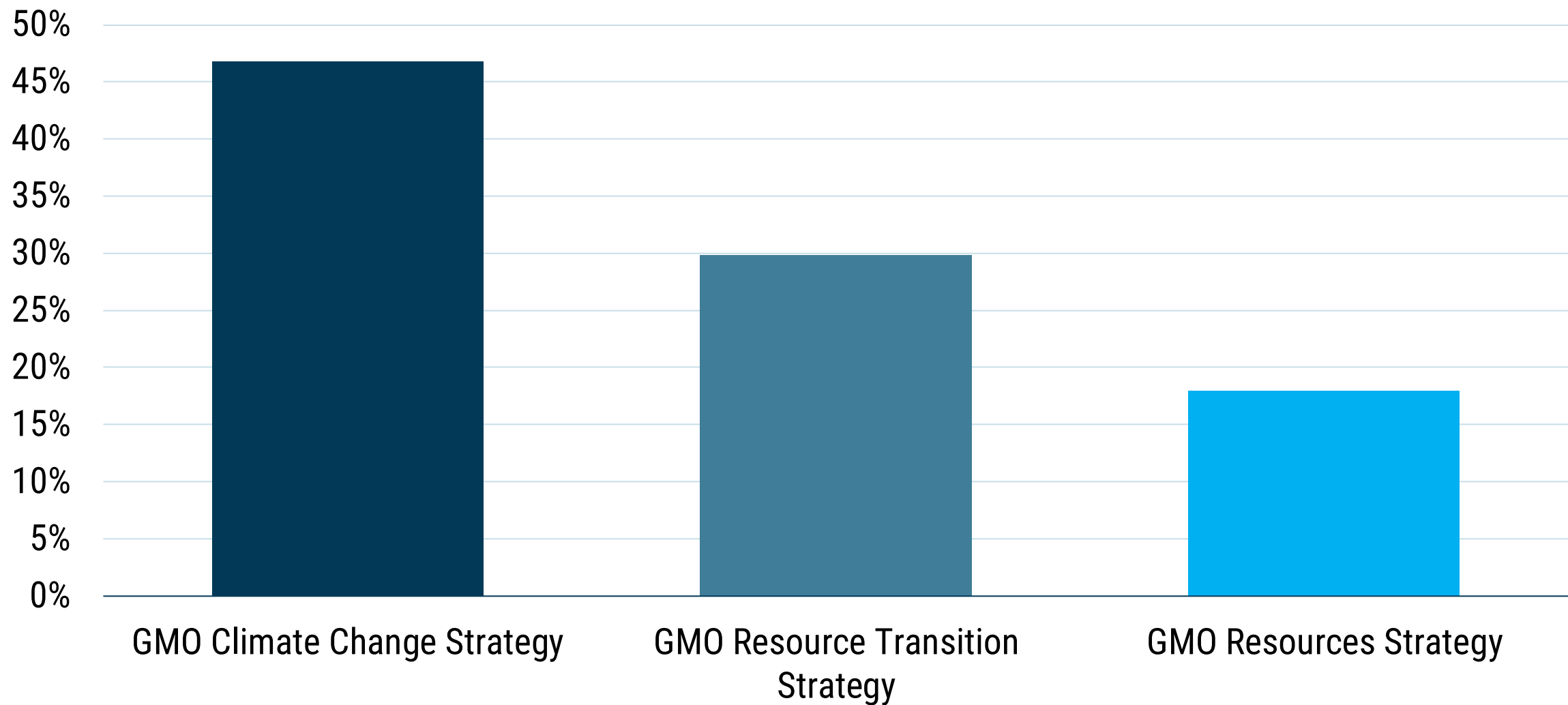
Whole period: 1/11–9/23 | Trough: 20/1/16 | Source: Bloomberg, GMO

FOSSIL FUELS CIRCA 2020/2021



Whole period: 7/14–9/23 | Trough: 3/20 | Source: Bloomberg, GMO
X-axis labels represent the middle of each year shown.

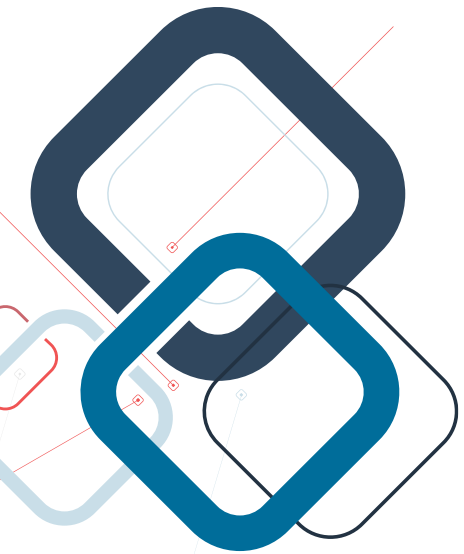
EXPOSURE TO CLEAN ENERGY



As of 30/9/23 | Source: GMO
Clean energy exposure as a percentage of portfolio equity as of 30/9/23 for the GMO Climate Change Strategy, Resource Transition Strategy, and Resources Strategy. 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.

CONCLUSIONS

- Clean energy performance has been terrible.
- Yet, many clean energy companies have grown rapidly, and the long-term growth prospects remain strong.
- Valuations have fallen to levels that imply these will be shrinking industries, a prospect difficult to square with any reasonable base case.
- We've seen movies like this before...



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