GMO Climate Change Strategy

June 30, 2019

STRATEGY 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 improve the efficiency of resource consumption.

STRATEGY FACTS

Inception: 4/5/17

Benchmark: MSCI All Country World Index

Assets: $240 Million

Portfolio Management:
Lucas White
Tom Hancock

Risks:
Risks associated with investing in the Strategy may include Focused Investment Risk, Market Risk - Equities, Management and Operational Risk, Non-U.S. Investment Risk, and Market Disruption and Geopolitical Risk.

About GMO:
Founded in 1977, GMO is an independently-owned, global institutional investment manager dedicated to providing our clients with superior investment advice and performance.

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INVESTMENT THESIS – THE CASE FOR CLIMATE CHANGE EQUITIES

Climate change has moved faster than most thought possible and is having a dramatic impact on the world. Temperatures and sea levels are rising, glaciers are melting, and extreme weather events are increasing in both severity and frequency. Massive amounts of investment are needed in order to head off climate change, and we believe there will be exciting investment opportunities in companies focused on climate change mitigation and adaptation. As costs continue to fall for wind, solar, and energy storage, we are reaching an inflection point where renewable energy is becoming increasingly competitive with conventional energy, even in the absence of subsidies and incentives. Economics will drive the transition to a clean energy world, and the climate change sector is likely to experience strong secular growth.

INVESTMENT APPROACH

Defining a Universe Targeted for Impact

Our universe is predominantly comprised of companies focused on the mitigation of climate change, though companies focused on adaptation to climate change are also considered. Climate change mitigation and adaptation industries include clean energy, batteries and storage, electric grid, energy efficiency, agriculture, water, and companies that service these industries.

Strategic Allocation

We use a set of long-term targets to steer the portfolio's allocation to segments of the climate change sector. In setting targets, we attempt to balance the importance of each market segment in moving toward a clean energy world with considerations of each segment's investability. Industries for which targets are set include solar, wind, energy storage, and energy efficiency.

Stock Selection

Stock selection is driven primarily by valuation-based modeling and balances the desire to provide diversified exposure to various climate change segments with the attractiveness of the different segments within the universe. The Strategy does not control risk relative to any benchmark, though the investment team continuously monitors risk exposures.

DIFFERENTIATION OF OUR APPROACH

We believe our approach to be differentiated across a number of dimensions:

Targeted Universe Definition: We focus on identifying companies that we believe will benefit in a world increasingly impacted by climate change, either through mitigation or adaptation solutions.

Value Focus: Our value orientation and proprietary valuation models are unique in this space.

Global Scope and Lack of Size Bias: We invest globally across the capitalization spectrum, allowing us to identify attractive investment opportunities wherever they may be.

GMO Investment Platform: GMO has a broad team of talented, experienced investment professionals, including Jeremy Grantham, who contribute insight, ideas, and perspectives.

Long-Term Perspective: As an independently-owned private partnership, GMO has the willingness and ability to take short-term risk in the pursuit of long-term returns; we believe this is particularly important when investing in the climate change sector.

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STRATEGY PROFILE

Exposures by Climate Change Segment

Segment	Exposure
Clean Energy	**35.6%**
Solar	9.5%
Wind	4.9%
Other Clean Energy	1.3%
Clean Power Generation	6.5%
Batteries & Storage	13.3%
Electric Grid	**6.7%**
Copper	**11.0%**
Energy Efficiency	**20.1%**
Transportation	10.3%
Buildings	2.3%
Diversified Efficiency	6.4%
Technology	0.8%
Recycling	0.3%
Agriculture	**16.5%**
Farming	5.2%
Agricultural Productivity	5.5%
Precision Agriculture	1.4%
Timber	0.9%
Fish Farming	3.5%
Water	**5.5%**
Cash	**4.8%**

Risk Profile Since 4/28/17 [1]

	Strategy	Benchmark
Alpha	-1.56	0.00
Beta	0.97	1.00
R^2	0.73	1.00
Sharpe Ratio	0.38	0.57
Std. Deviation	14.23	12.63

Characteristics

	Strategy	Benchmark
Price/Earnings - Hist 1 Yr Wtd Median	14.7 x	20.0 x
Price/Book - Hist 1 Yr Wtd Avg	1.7 x	2.3 x
Return on Equity - Hist 1 Yr Med	12.6 %	17.2 %
Market Cap - Weighted Median $Bil	$5.3	$51.4
Dividend Yield - Hist 1 Yr Wtd Avg	2.8 %	2.5 %
Number of Equity Holdings	129	2,594
Price/Cash Flow - Hist 1 Yr Wtd Median	7.5 x	14.8 x

Top Holdings[1]

Company	Country	Segment	% of Equity
SolarEdge Technologies, Inc.	United States	Solar	6.4
Freeport-McMoRan Inc	United States	Copper	5.8
Albemarle Corp.	United States	Batteries/Storage	3.6
Sociedad Quimica y Minera	Chile	Batteries/Storage	3.3
Vestas Wind Systems A/S	Denmark	Wind	3.1
Total			**22.2**

[1] Alpha is a measure of risk-adjusted return; Beta is a measure of a portfolio's sensitivity to the market; R^2 is a measure of how well a portfolio tracks the market; 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. Risk profile data is net.

[2] Portfolio holdings 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.

PERFORMANCE NET OF FEES

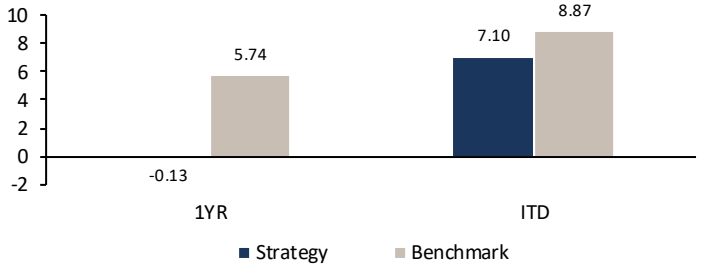
Total Return (%)

	Strategy	Benchmark
2Q 2019	**4.05**	3.61
YTD 2019	**13.46**	16.23

Annual Total Return (%)[1]

2018	**-16.13**	-9.42
2017	**21.91**	14.18

Annualized Return (%)



Performance data quoted represents past performance and is not predictive of future performance. Returns are shown after the deduction of management fees, transaction costs and other expenses, but before custody charges, withholding taxes, and other indirect expenses. The returns assume the reinvestment of dividends and other income.

Performance is shown for the GMO Climate Change Composite. The inception date of the Composite is 4/30/17.

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.

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