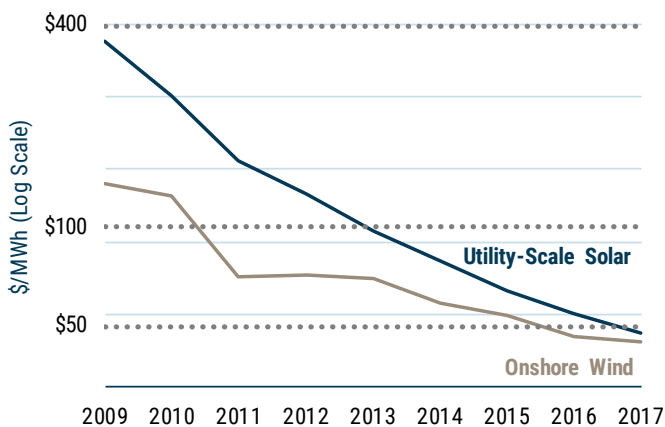


# CLIMATE CHANGE STRATEGY

## The Opportunity

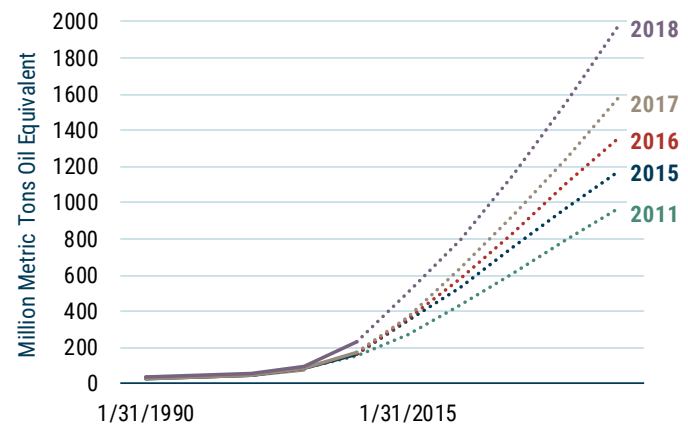
Climate change has moved faster than most thought possible and is having a dramatic impact on the world. Temperatures and sea levels are rising, glaciers are melting, and extreme weather events are increasing in both severity and frequency. Massive amounts of investment are needed in order to head off climate change, and we believe there are 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 will experience strong secular growth. Though we believe there are tremendous opportunities in the climate change sector, we also believe that a disciplined, value-oriented approach and a careful examination of the fundamentals are critical in navigating a sector likely to be rife with hype and stories.

UNSUBSIDIZED LEVELIZED COST OF ENERGY OVER TIME



As of 11/30/17 | Source: Lazard

PROJECTIONS FOR RENEWABLES CONSUMPTION



As of 2/2018 | Source: BP

Projections are subject to change and may vary significantly from the data shown.

Beyond the ability to benefit from secular growth, we believe the GMO Climate Change Strategy has other features that make it an attractive addition to many client portfolios:

- **Diversification:** We expect the strategy to deliver returns in a manner different from the broad equity market. Efforts to combat climate change will be the main drivers of returns, as opposed to broad economic profitability.
- **Divestment:** For those interested in fossil fuel divestment, clean energy solutions (solar, wind, clean power generation, electric vehicles, etc.) provide indirect exposure to fossil fuel prices, as clean energy solutions compete with fossil fuels.
- **Inflation Protection:** Because of direct investments in materials, agriculture, infrastructure, water, etc., and indirect exposure to fossil fuel prices via clean energy solutions, we would expect the strategy to perform well in certain inflationary environments.
- **An Inefficient Opportunity Set:** The companies addressing climate change are typically small- to mid-cap companies with little analyst coverage, often operating in new, poorly understood industries. In addition, value managers are unlikely to frequent this part of the market given the growth and uncertainty. To the extent that value managers shun this sector, we expect to find better opportunities.

## The GMO Solution

The GMO Climate Change Strategy seeks to deliver high total return by investing in companies focused on climate change solutions. 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.

### GLOBAL SCOPE AND LACK OF SIZE BIAS

- We can invest globally across the capitalization spectrum, which allows us to identify attractive investment opportunities wherever they may be.



### VALUE FOCUS

- Our value orientation and proprietary valuation models are unique in this space.

### 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.

## The Client Fit

Clients have typically positioned the GMO Climate Change Strategy in one of three ways in their portfolios. Clients have most frequently invested in it as part of their real assets allocation. In addition, clients have invested in our strategy as part of a growing trend toward making specific allocations to ESG, impact, and sustainable investments. Finally, some clients have allocated to the strategy as a global equity alpha play with the expectation that the strategy will outperform the broad equity market over a long period of time.

## Who We Are

Founded in 1977, GMO is a private partnership whose sole business is investment management. The firm manages global portfolios with offices and clients around the world. Investment offerings include equity, fixed income, multi-asset class, and alternative strategies. GMO is known for blended fundamental and quantitative investment research expertise and a long-term orientation toward value opportunities.

## The Team

The GMO Climate Change Strategy is managed by the Focused Equity team. GMO employs a team approach to portfolio management and research so that responsibilities are shared among several team members. Lucas White and Tom Hancock, portfolio managers for the Climate Change Strategy, oversee idea generation, research, and portfolio positioning.

## RISK

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.