



YEAR-END LETTER FOR 2025

Focused Equity Team: Climate Change Strategy

Dear Client,

The GMO Climate Change Strategy delivered very strong performance in 2025, ending the year up 39% net of fees, about 17% better than the MSCI All Country World Index (ACWI). As discussed in last year's letter, pessimism surrounding clean energy festered in the wake of Donald Trump's election with widespread fear that the Inflation Reduction Act, President Biden's landmark energy legislation, would be repealed. We believed that the dismal sentiment had exacerbated substantial dislocations in some of the industries that we invest heavily in and that the strategy was poised to deliver strong returns.

We weren't necessarily expecting a big year in 2025 (the market is hard to predict!), but valuations had fallen to such low levels that a sliver of good news likely would have driven a re-rating. As it turned out, good news arrived in quantities substantially larger than slivers. From a fundamental perspective, the companies we held generally reported very strong revenue and earnings growth over the course of the year. Areas of particular strength included solar, wind, geothermal, lithium, and automotive suppliers for the EV industry.

On the policy front, the One Big Beautiful Bill Act settled U.S. policy uncertainty in what we consider to be a quite positive manner. While EV tax credits were wound down and some relatively trivial incentives were axed, companies are poised to continue to capitalize on solar and wind credits for years to come, and credits for energy storage, biofuels, geothermal, and nuclear were either left in place or extended further into the future. The continued drop in interest rates represented another positive for many clean energy efforts.

Perhaps most importantly, the market has started to recognize the burgeoning growth in energy demand and the challenges in meeting this demand. Data centers, industrial demand, EVs, heat pumps, and other factors are driving electricity demand growth at a pace not seen since the 1960s. With natural gas turbines sold out for the next few years, nuclear an even longer timeframe, and new coal a non-starter in almost all countries, renewables are set to continue to dominate new power capacity additions. Renewables (primarily solar, wind, and storage) accounted for 94% of U.S. power capacity additions in 2024 and are expected to have registered a similar level for 2025. Renewables are cheap, clean, and rapidly deployable, an extremely competitive combination.

Beyond renewables, our portfolio stands to benefit from growing electricity demand in a variety of ways. Our grids will need to be expanded and updated to handle a far greater load. Energy storage will increasingly be relied upon to help balance electricity supply and demand and help iron out the intermittency of renewables. As demand grows, electricity price spikes create tailwinds for energy efficiency efforts. Our positions in grid equipment, energy storage, copper, lithium, and energy efficiency stand to benefit from this activity.

Despite the plentiful good news, valuations remain subdued with many companies in our universe trading at significant discounts to the broad equity market despite superior growth prospects. From its February 2021 peak through its April 2025 trough, the WilderHill Clean Energy Index dropped an astounding 89%. We've argued that clean energy's implosion is unprecedented in modern financial history. When has a group of growing companies, many profitable, with strong long-term secular prospects, lost almost 90% of its value? Even more remarkably, it happened in an up market!

While the WilderHill Clean Energy Index rallied to finish the year strong, the index still sat 75% below its 2021 peak. When major market dislocations form, they typically take years to develop and years to correct. We suspect that last year's strong performance was the beginning of a rebound that will take years to play out.

Heading into 2025, we had substantial positions in solar, biofuels, and energy storage. Despite a great run in 2025, we still see significant upside in our top solar positions. Biofuels and energy storage delivered strong performance last year, but we

largely believe these investments have yet to play out. Hence, we continue to maintain substantial exposure to all three industries. We also see significant electric grid and energy efficiency opportunities.

From a business perspective, we've been heartened by our clients' resolve and willingness to stick with the strategy through the tumultuous market swings. After difficult performance in 2023 and 2024, it was perhaps inevitable that flows would be challenged in 2025, but net flows improved every quarter and were positive in the fourth quarter. The vast majority of our clients have stuck with the strategy, and some have even added to their allocations. As of the end of last year, assets in the strategy sat at around \$1.25 billion.

We appreciate your patience and the trust you've placed in us to navigate a volatile sector on your behalf. The wild swings have enabled us to build positions in high-quality companies at attractive prices, and we expect you to continue to benefit from these investments in the years to come.

Sincerely,



Lucas White
Lead Portfolio Manager, Climate Change Strategy

<i>Annualized Returns as of 12/31/2025 (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>
Climate Change Composite	04/30/2017	38.97%	-1.17%	-0.69%	N/A	6.86%
MSCI ACWI		22.34%	20.65%	11.19%	N/A	11.59%

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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