QUARTERLY INVESTMENT REVIEW

Climate Change Strategy

RETURNS (%) (LOCAL)

	Cumulative (%)		*Annualized (%)*				
	QTD	*YTD*	*1 Year*	*3 Years*	*5 Years*	*10 Years*	*ITD*
Net of Fees (Composite)	3.41	-7.49	-7.49	-2.54	10.77	–	8.32
Gross of Fees (Composite)	3.83	-6.00	-6.00	-1.49	11.84	–	9.32
MSCI ACWI	11.03	22.20	22.20	5.75	11.72	–	9.21
Value Added (vs. MSCI ACWI)	-7.62	-29.70	-29.70	-8.29	-0.96	–	-0.89

Major Performance Drivers

The fourth quarter ended with yet another reversal in equity and bond markets, closing out a year where the only constant was change. Bond yields fell after the U.S. Federal Reserve indicated the rate hiking cycle is likely to have peaked. Equity markets rose significantly on "soft landing" sentiment and those sectors with a perceived high delta to rate cuts rose even higher. Across commodity markets, oil prices fell despite the outbreak of conflict in Gaza and copper prices rose as supply concerns increased. In December at the COP28 Climate summit, world leaders pledged to triple global clean energy capacity by 2030. However, when the dust settled, it was still the same story from other quarters in 2023 of larger-cap tech driving any relevant indices closer to bull market territory. Against this backdrop, the GMO Climate Change portfolio was up for the quarter, although it still underperformed the MSCI ACWI index.

Clean Energy, still the largest segment by weight, had a better quarter after a significant reversal in sentiment reflecting a potential peak in U.S. interest rates and greater clarity on government incentives. A timely reminder that performance can turn ahead of a re-rating in earnings if sentiment swings are a big enough driver. We have been adding to a broad basket of higher-quality clean energy companies over the past six months, anticipating a reversal of some of the cyclical trends and poor sentiment that have driven many otherwise structurally strong companies to significantly sell off. It was comforting to see some of this work pay off as the fourth quarter progressed. Our two strongest contributors this quarter came from solar and wind respectively (SunRun and Vestas), highlighting SunRun's ability to navigate in a high interest rate environment and Vestas's ability to come out as the winner from broader turmoil in the wind market. But sentiment swings may not be efficient capital drivers as other high-quality names within Clean Energy are yet to reprice in a material way, meaning there continues to be upside left on the table.

Conversely, we have a long-held allocation to copper, a key energy transition metal, and that sector faced some challenges this quarter. First Quantum's operations in Panama were closed by the government, also closing off a significant supply source into global markets as this was due to be one of the biggest producers in South America. Along with some other supply constraints, copper is now looking increasingly like a pinch point in many clean technology supply chains. First Quantum's drawdown was at least partly offset by our other copper positions, like Ivanhoe Mines, as many expect remaining suppliers to benefit from an increased scarcity premium.

Our Agriculture segment has been a source of funding this year, as we trimmed many of these positions after strong performance. This quarter the Agriculture segment also fell, but the effect was muted due to the smaller position. Water, conversely, had another strong quarter with Ebara Corp one of our strongest performers.

As the world makes the transition to clean energy and economies grapple with adapting to climate change, we continue to believe this portfolio is well positioned to benefit. Despite some green shoots of better sentiment peeking through the climate sector this quarter, the Climate Change portfolio continues to trade at a significant discount to broader global equities and its benchmark, indicating substantial upside to come for patient capital.

Portfolio weights, as a percent of equity, for the positions mentioned were: SunRun (7.1%%), Vestas (3.2%), First Quantum (0.6%), Ivanhoe Mines (4.2%), and Ebara Corp (1.6%).

Inception Date: 5-Apr-17

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PRODUCT OVERVIEW

The Strategy seeks to deliver high total return by investing in companies GMO believes are positioned to benefit, directly or indirectly, from efforts to mitigate the long-term effects of global climate change, to address the environmental challenges presented by global climate change, or to help the world adapt to climate change through improved efficiency of resource consumption. We invest globally across the capitalization spectrum, which allows us to identify attractive investment opportunities wherever they may be.

Exceptional opportunities for long-term investors abound in a world mobilizing to address climate change, and profitability associated with efforts to mitigate and adapt to climate change is largely independent of the global economy. Climate change investors can benefit from this unique, diversifying source of return, historically available at attractive valuations given the secular tailwinds of change.

IMPORTANT INFORMATION

Comparator Index(es): 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. Please visit https://www.gmo.com/americas/benchmark-disclaimers/ to review the complete benchmark disclaimer notice.

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.