

# QUARTERLY INVESTMENT REVIEW

## Climate Change Strategy

### Performance returns (USD)

ANNUALIZED RETURNS (QUARTER-END)	Quarter-End	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Climate Change Strategy (net)	23.95	28.08	1.83	-0.92	3.50	-	6.04
Climate Change Strategy (gross)	24.21	28.87	2.68	-0.10	4.34	-	6.90
MSCI ACWI	7.62	18.44	17.27	23.12	13.55	-	11.52
Value Add	+16.32	+9.64	-15.44	-24.03	-10.05	-	-5.48

### MAJOR PERFORMANCE DRIVERS

The third quarter saw equity markets continue in a risk-on manner, with the S&P hitting an all-time high and many technology-linked sectors seeing the same. Interest rates fell broadly. The U.S. Federal Reserve also cut rates by 25 bps, and U.S. 10-year yields ended the quarter down. Clean Energy was broadly up as the mix of risk-on, lower rates, and policy certainty continued to drive a re-rating of the sector. Many of the climate-relevant commodity markets also ended the quarter up – including copper, lithium, and uranium. Against this backdrop, the Climate Change portfolio outperformed the MSCI ACWI Index by one of the largest margins since the inception of the portfolio.

This was a quarter of exceptional performance across our Clean Energy portfolio, with nearly every name re-rating and several posting triple-digit gains. Ameresco led the pack, surging 120%, as improved project pipeline visibility and rising demand, particularly from datacenters, boosted sentiment. Many of our Solar stocks were not far behind as the tailwinds for the sector became clear to a broader audience. This marked the third consecutive quarter of earnings beats, with cyclical pressures like inventory gluts and high rates easing. Policy uncertainty has largely cleared, giving companies a clearer runway for planning and expansion. The structural growth case for renewable energy remains strong. Electricity demand is booming due to datacenter appetite for energy, EV adoption, and electrification, creating urgency for fast-to-deploy generation. Renewables and storage can be built faster and cheaper than fossil fuel solutions, making them attractive to a range of electricity customers.

### RISKS

Risks associated with investing in the Strategy may include: (1) Focused Investment Risk: the Fund invests its assets in the securities of a limited number of issuers, and a decline in the market price of a particular security held by the Fund may affect the Fund's performance more than if the Fund invested in the securities of a larger number of issuers; (2) Market Risk - Equities: the market price of equities may decline due to factors affecting the issuer, its industries, or the economy and equity markets generally. Declines in stock market prices generally are likely to reduce the net asset value of the Fund's shares; and (3) Management and Operational Risk: the risk that GMO's investment techniques will fail to produce desired results, including annualized returns and annualized volatility. This is not a complete list of risks associated with investing in the Strategy. Please contact GMO for more information.

Composite Inception Date: 30-Apr-17

**Performance Returns:** Performance for the year of inception is less than a full calendar year. Returns shown for periods greater than one year are on an annualized basis. To obtain performance information to the most recent month-end, visit [www.gmo.com](http://www.gmo.com). **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. Gross returns are presented gross of management fees and any incentive fees if applicable. These returns include transaction costs, commissions, withholding taxes on foreign income and capital gains and include the reinvestment of dividends and other income, as applicable. If management and incentive fees were deducted performance would be lower. For example, if, before fees, the strategy were to achieve a 10% annual rate of return above its hurdle rate each year for ten years, and an annual advisory fee of 1% and incentive fee of 20% of net returns above the hurdle rate were charged during that period, the resulting average annual net return (after the deduction of management and incentive fees) would be approximately 7.20%. **GMO LLC claims compliance with the Global Investment Performance Standards (GIPS®). A Global Investment Performance Standards (GIPS®) Composite Report is available at [www.gmo.com](http://www.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 actively-managed, is not managed relative to a benchmark and uses an index for performance comparison purposes only and, where applicable, to compute a performance fee.

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## MAJOR PERFORMANCE DRIVERS CONT.

We also saw strong results in some of the critical mineral segments. Supply shocks in copper, lithium, and uranium served as a timely reminder of how imbalanced the supply of minerals can be with expected demand, and how much prices can respond as a result. Our miners in these three areas did well. In addition, China is increasingly restricting exports of rare earth metals. Most notably, our small holding in Sunrise Energy Metals, an Australian producer of critical minerals, was up over 500% for the quarter thanks to a doubled resource estimate and a letter of interest from the U.S. government.

Within the Energy Efficiency portfolio, our auto part manufacturers, Valeo and BorgWarner, were strong performers after a good earnings season and strong downstream demand for EV manufacturers. We trimmed into some of this strength. It was a tougher quarter for HVAC producers as demand remains muted in the U.S.

Finally, we have been adding to a range of names across our Agriculture and Timber portfolios as valuations have started to look more attractive.

Despite wavering federal support in the U.S., many states – and much of the world – remain committed to the decarbonization of economies. As growth continues in the Climate Change sector, we continue to believe this portfolio is well-positioned to benefit. The Climate Change portfolio continues to trade at a historically sized discount to broader global equities, indicating substantial upside to come for patient capital.

Portfolio weights, as a percent of equity, for the positions mentioned were: Ameresco (5.5%), Valeo (2.5%), BorgWarner (1.3%), and Sunrise Energy Metals (1.1%).

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## PRODUCT 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 help the world adapt to climate change through improved efficiency of resource consumption. The Strategy invests globally across the capitalization spectrum, which allows GMO to pursue attractive investment opportunities wherever they may be.

The Focused Equity team believes 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.

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## ABOUT GMO

Founded in 1977, GMO is a global asset manager committed to delivering superior performance and advice to our clients. We are privately owned, which allows us to singularly focus on our sole business – achieving outstanding long-term client investment outcomes. Offering multi-asset, equity, fixed income, and alternative strategies, we invest with a long-term, valuation-based philosophical approach.

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\*GMO's West Coast Hub is comprised of members of Investment, Global Client Relations, and other teams located in and around the Greater San Francisco area

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