

RESOURCES STRATEGY

The Opportunity

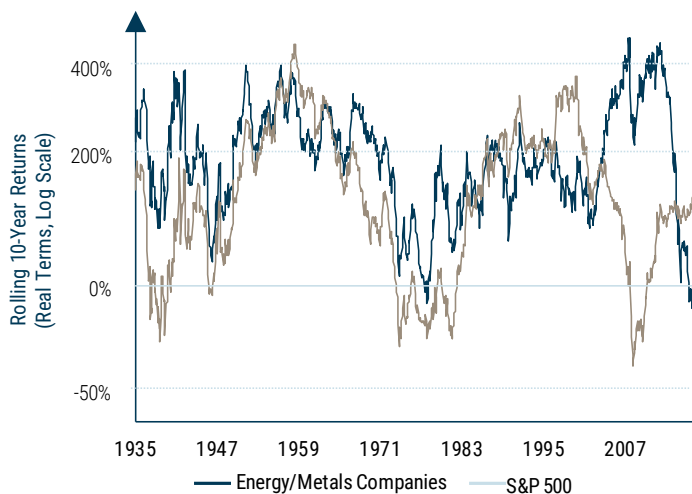
We believe the long-term supply and demand dynamics in the natural resource markets favor an upward trend in natural resource prices. More specifically, demand growth, driven by population growth and the development of the emerging markets, is likely to put increasing pressure on the limited supply of cheap, easy to access natural resources. We expect natural resource equities to perform well in the event that this thesis plays out.

Even if commodity prices don't trend upward, we believe the case for resource equities is compelling. Over long timeframes, resource equities have outperformed and delivered positive real returns more consistently than the broad market (see Exhibit 1), even as they have been more volatile over shorter periods. Resource equities have also performed well historically during dangerous inflationary periods. In addition, resource equities typically trade at a discount and tend to be inefficiently priced, providing long-term investors with significant alpha opportunities.¹

Diversification, however, is perhaps the most compelling argument for investing in resource equities. Over long periods of time, resource equities have displayed low-to-negative correlations with the broad equity market (see Exhibit 2) while also outperforming over the very long term. An asset class that delivers equity-like (or better than equity-like) returns with low-to-negative correlations to the broad market should be exciting for long-term investors, yet resource equities continue to be an unloved asset class.

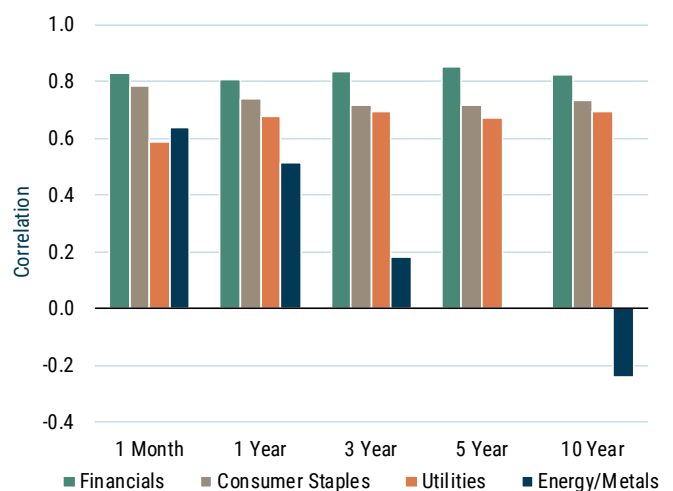
From a more tactical perspective, resource equities look particularly attractive on a valuation basis right now, and historically, they've performed well when they've been cheap.

EXHIBIT 1: RESOURCE EQUITIES HAVE ACTUALLY BEEN SAFER LONG-TERM INVESTMENTS THAN THE S&P 500



As of 9/30/18 | Source: CRSP, S&P, GMO
Prior to March 1957, the S&P 500 is represented by the S&P 90 Index.

EXHIBIT 2: CORRELATIONS BETWEEN SECTORS AND THE REST OF THE RUSSELL 1000: 1970-2018



As of 9/30/18 | Source: Russell, MSCI, CRSP, GMO

¹ For supporting information, see [“An Investment Only a Mother Could Love: The Case for Natural Resource Equities,”](#) Lucas White and Jeremy Grantham, 2016.

The GMO Solution

The GMO Resources Strategy seeks to deliver total return by investing in companies that produce natural resources as well as those that service the commodity producers. We believe our approach is differentiated across a number of dimensions:

TARGETED UNIVERSE DEFINITION

- We focus on identifying companies that will benefit from a broad rise in resource prices, and we avoid those that may be hurt by rising resource prices (e.g., refiners, smelters, etc).

RESOURCE DIVERSIFICATION

- The Strategy is designed to provide diversified exposure to energy, metals, agriculture, and water.



VALUE FOCUS

- Our proprietary valuation models have performed well in this space.

GLOBAL SCOPE AND LACK OF SIZE BIAS

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

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 are not trying to market-time commodity prices.

The Client Fit

Clients have typically positioned the GMO Resources Strategy within a real asset allocation or as a diversifier within an overall equity program. The Strategy is also used as a liquid complement to private resource investments or as an alternative to futures-based strategies.

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 Resources 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 Resources Strategy, oversee idea generation, research, and portfolio positioning.

RISK

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