QUARTERLY INVESTMENT REVIEW

Resources Strategy

RETURNS (%) (LOCAL)

	Cumulative (%)		*Annualized (%)*				
	QTD	*YTD*	*1 Year*	*3 Years*	*5 Years*	*10 Years*	*ITD*
Net of Fees (Composite)	-0.14	-2.62	11.47	18.14	9.01	7.23	7.11
Gross of Fees (Composite)	0.03	-2.11	12.25	18.97	9.77	7.96	7.86
MSCI ACWI Commodity Producers	6.55	3.66	22.68	26.16	5.72	3.42	2.98
Value Added (vs. MSCI ACWI Commodity Producers)	-6.69	-6.28	-11.21	-8.02	3.29	3.81	4.13

Major Performance Drivers

The third quarter saw sentiment drive change across a range of markets. Bond yields, particularly at the long end, rose significantly in seeming acceptance of "higher for longer" from global monetary policy makers. Oil prices rose significantly on supply concerns driven by production cuts from Saudi Arabia and Russia. Equity markets also ended the quarter on a downbeat note, not immune to these effects and to slower growth in China – the world's second largest economy. In this environment, the Resources portfolio was flat for the quarter, underperforming the MSCI Commodity Producers index, which was up.

Our Energy segment, at just over half the portfolio, was the largest detractor. A strong quarter for our Fossil Fuel producers was not enough to offset one of the most challenging quarters for Clean Energy. The Fossil Fuel outcome was buoyed by strong stock selection as the relative underweight to the sector hurt as oil prices rose. Four of the top five contributors this quarter – Kosmos, Galp, Petrobras, and Hess – came from our Fossil Fuel portfolio. Clean Energy, an off-benchmark position, was responsible for all of our relative underperformance in the third quarter. Solar energy took the biggest hit, due largely to negative revision in forward guidance by key industry players. But it wasn't just solar, both Biofuels and Wind followed suit, contributing to the overall drawdown. Notably, four of our top five detractors – SolarEdge, Darling Ingredients, SunRun, and Ameresco – all came from these energy transition critical areas. Taking a step back, over the past year our performance within Clean Energy has been significantly more resilient than broader Clean Energy indices but a broad-based sell-off can lead to questions about future viability of a sector. An undershoot on earnings for this quarter or revised down future earnings projections can easily be extrapolated. However, a setback in earnings over a few quarters cannot overshadow the sustained progress in the Clean Energy space. These are fundamentally robust companies experiencing rapid growth. Public policy incentives contained in the U.S. Inflation Reduction Act and the EU's Green Deal Industrial Plan (and many other similar policies around the world) are pushing the energy transition into a higher gear. As a result of this dislocation, many of the companies best placed to harness this secular tailwind are now available at more attractive valuations, particularly versus broader global equities, and we have harnessed this dislocation by adding to our Clean Energy positions over this quarter. Our most recent white paper is an important complement to this quarter's review and is available here: https://www.gmo.com/americas/research-library/turbulence-on-the-path-to-transformation_whitepaper/

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Major Performance Drivers Cont.

The Industrial Metals segment was the second largest detractor as metals, broadly, did not experience the same bullish quarter as traditional energy. Our Lithium producers faced the largest drawdown as the base commodity prices continued to fall from absolute highs earlier this year.

The Agriculture segment was the strongest performer, driven in part by double-digit returns in the Farming portfolio. In fact all sub-segments besides Precision Agriculture added positive absolute returns and significantly outperformed the benchmark.

The long-term supply/demand dynamics in natural resource markets favor high and rising prices. But the deeply discounted valuations still available in some parts of this sector mean that investors don't need commodity prices to rise in order to expect strong returns. Flat commodity prices could still lead to a healthy return from a resource equity portfolio.

Portfolio weights, as a percent of equity, for the positions mentioned were: Kosmos (6.6%), Galp (4.2%), Petrobras (3.7%), Hess (3.0%), SolarEdge (2.3%), Darling Ingredients (3.7%), SunRun (2.4%), Ameresco (1.7%).

PRODUCT OVERVIEW

The GMO Resources Strategy seeks to generate total return by investing in equities in the natural resources sector. The Strategy's benchmark is the MSCI All Country World Commodities Index.

GMO's Focused Equity team believes that the increasing demand for natural resources, driven primarily by population growth in and industrialization of emerging markets, coupled with the limited supply of these resources, favors an upward trend in resource prices over time. The Strategy seeks to invest in the securities of companies that we believe will benefit from this expected long-term rise in natural resource prices.