

QUARTERLY INVESTMENT REVIEW

Resources Strategy

RETURNS (%) (LOCAL)

	Cumulative (%)		Annualized (%)				
	QTD	YTD	1 Year	3 Years	5 Years	10 Years	ITD
Net of Fees (Composite)	1.30	-1.36	-1.36	6.48	12.22	7.13	7.07
Gross of Fees (Composite)	1.49	-0.66	-0.66	7.23	13.01	7.86	7.82
MSCI ACWI Commodity Producers	-0.02	3.64	3.64	17.17	9.77	2.97	2.91
Value Added (vs. MSCI ACWI Commodity Producers)	1.32	-5.00	-5.00	-10.69	2.44	4.15	+4.15

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. Against this backdrop, the Resources portfolio was up for the quarter, outperforming the MSCI Commodity Producers index, which was flat.

Our Energy segment, at just over half the portfolio, detracted in absolute terms but held up well versus broader energy markets as security selection within Fossil Fuels continued to be strong while our off benchmark allocation to Clean Energy was additive. Our focus on valuation opportunities within the Fossil Fuel sector has long steered us away from the richly valued U.S. majors like Exxon and Chevron, and toward names in emerging markets like Petrobras or in Europe like Galp and Eni Spa. Last year that was a headwind for performance but this quarter and over the long term, focusing on valuations has led to much better return outcomes. Within Clean Energy, the better quarter resulted from a significant reversal in sentiment reflecting a potential peak in U.S. interest rates and greater clarity on government incentives. 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.

Our Industrial Metals segment delivered strong absolute returns and our continued decision to have a significant allocation (>30%) to the space was rewarded. Within the segment, our long-held allocation to copper, a key energy transition metal, faced some challenges this quarter. The closure of First Quantum’s Panama operations and the reduction of Anglo American’s supply means copper is now looking increasingly like a pinch point in many clean technology and industrial supply chains. Those remaining suppliers, including some held in this portfolio like Ivanhoe Mines, are expected to benefit.

The Agriculture segment had tougher performance this quarter but has been an area we have been trimming after strong returns in previous quarters.

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. In addition, valuations within the Clean Energy sector are now increasingly attractive.

Portfolio weights, as a percent of equity, for the positions mentioned were: Galp (3.2%), Petrobras (3.6%), Eni Spa (1.8%), First Quantum (0.6%), and Ivanhoe Mines (4.2%).

Inception Date: 28-Dec-11

Risks: 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. 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. **Performance Returns:** 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. 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%.

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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.

IMPORTANT INFORMATION

Comparator Index(es): The MSCI ACWI (All Country World) Commodity Producers Index (MSCI Standard Index Series, net of withholding tax) is an independently maintained and widely published index comprised of listed large and mid capitalization commodity producers within the 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.

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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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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