

# QUARTERLY INVESTMENT REVIEW

## Resources Strategy

### Performance returns (USD)

ANNUALIZED RETURNS (QUARTER-END)	Quarter-End	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Resources Strategy (net)	14.78	12.55	0.55	1.42	9.06	10.62	5.53
Resources Strategy (gross)	14.99	13.16	1.28	2.16	9.84	11.39	6.28
MSCI ACWI Commodity Producers	12.24	22.55	10.41	12.39	18.36	9.31	3.64
Value Add	+2.54	-10.00	-9.86	-10.97	-9.30	+1.31	+1.90

### 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. The U.S. Federal Reserve cut rates by 25 bps, and U.S. 10-year yields ended the quarter down. Commodity markets were mixed, with energy markets flat to down, but metals and minerals were broadly up, with markets such as precious metals significantly higher. 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. Against this backdrop, the Resources portfolio was up, outperforming the MSCI Commodity Producers Index, which was also up.

Our Energy segment remained the standout performer this quarter, driven by exceptional returns across our Clean Energy portfolio, with nearly every name re-rating and several posting triple-digit gains. The solar sector was top of the pack; Sunrun and SolarEdge were our two strongest contributors. This marked the third consecutive quarter of broad earnings beats, with cyclical pressures such as inventory gluts and high interest rates easing. Policy uncertainty has largely cleared, giving companies a clearer runway for planning and expansion.

Within our oil and gas portfolio, our integrated producers had a decent quarter, particularly BP, where we have built a sizeable position, seeing it pivot back to core oil and gas operations as value accretive, along with a significant offshore discovery in Brazil. Conversely, some of our exploration-focused holdings faced headwinds, particularly in Argentina, where political volatility weighed on performance.

### 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) Commodities Risk: commodity prices can be extremely volatile, and exposure to commodities can cause the value of the Fund's shares to decline or fluctuate more than if the Fund had a broader range of investments; and (3) 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. This is not a complete list of risks associated with investing in the Strategy. Please contact GMO for more information.

Composite Inception Date: 31-Dec-11

**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.

# QUARTERLY INVESTMENT REVIEW

## MAJOR PERFORMANCE DRIVERS CONT.

Within metals and minerals, rising prices across copper, iron ore, lithium, and precious metals were a boon to the diversified miners and their pure-play equivalents. Some of this price moment reflected supply shocks – reduction in copper production from Indonesia and reduction in lithium production in China - a timely reminder of how imbalanced the supply of minerals can be with expected demand, and how much prices can respond as a result. 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. Frustratingly, given it sits outside of this portfolio's mandate, gold continued its rally and was a major driver of benchmark returns.

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

The long-term supply/demand dynamics in natural resource markets favor high and rising prices. But the deeply discounted valuations still available in many 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 remain attractive, especially relative to expected earnings growth.

Portfolio weights, as a percent of equity, for the positions mentioned were: Sunrun (2.7%), SolarEdge (2.8%), BP (4.9%), and Sunrise Energy Metals (0.6%).

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## PRODUCT OVERVIEW

The GMO Resources Strategy seeks to deliver total return by investing in the equities of companies in the natural resources sector. Long-term supply and demand dynamics in natural resource markets favor upward price trends – demand growth is being driven by population growth and the development of emerging markets, while supplies of cheap, easy to access natural resources are declining. To harness this trend, we focus on identifying companies in public equity markets that we believe will benefit from a broad rise in resource prices, across a diversified portfolio of energy, metals, agriculture, and water.

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

## 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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