QUARTERLY INVESTMENT REVIEW

Resource Transition Strategy

Performance returns (USD)

ANNUALIZED RETURNS (QUARTER-END)	Quarter-End	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Resource Transition Strategy (net)	-8.44	-8.44	-17.69	–	–	–	-18.65
Resource Transition Strategy (gross)	-8.24	-8.24	-16.97	–	–	–	-17.94
MSCI ACWI Commodity Producers ex-Energy	-2.60	-2.60	-1.06	–	–	–	0.47
Value Add	-5.83	-5.83	-16.64	–	–	–	-19.12

Major Performance Drivers

The first quarter of 2024 saw a stark reversal in sentiment around the path of rate cuts in the U.S. Renewed skepticism on the size and speed of rate cuts was particularly dominant in January and saw those sectors with a perceived high delta to the rate cycle fall significantly, in many cases reversing gains from the previous quarter. The Wilderhill Clean Energy index was down over 20%. However broad global equity indices shrugged off this concern, continuing to be buoyed by large cap tech and rising commodity prices in some areas, including oil and copper. OPEC+ production cuts and continued tensions in the Middle East ensured crude oil made significant gains over the quarter. Against this backdrop, the Resource Transition portfolio was down for the quarter, underperforming the MSCI Commodity Producers ex-Energy index, which was also down.

Our Energy segment, roughly one-third of the portfolio, was flat in absolute terms but is essentially an off-benchmark position in Clean Energy. Clean Energy was hit by renewed skepticism on the likelihood and speed of interest rate cuts; three Clean Energy names – SunRun, SolarEdge, and Ameresco – were in our top five detractors. The long-term potential for this sector is broadly underpriced, we believe, as renewable deployment increases year-on-year, cyclical pressures like inventory gluts work through and subsidies from governments around the world begin to flow. Yet for many of the higher quality Clean Energy companies that we hold, current valuations reflect a low to negative growth in future earnings. The current valuation opportunity has echoes of previous dislocations in other resource markets (Oil in 2020 and Metals in 2016); history shows us that investors with patience and willingness to accept volatility will reap significant rewards.

Our Industrial Metals segment was also down for the quarter, due primarily to falling prices in Metals markets like iron ore and lithium whilst being overweight the sector versus benchmark. The Diversified Miners were hit primarily by lower iron ore prices and our holding in Vale/Bradespar was the biggest detractor over the quarter albeit one with a fair value likely to be triple that of its current share price. Copper producers were the standout performers, having benefited from the unexpected supply reduction from First Quantum, Anglo American, and others that we highlighted last quarter. Ivanhoe Mines was our best relative performer for the quarter. We have a long-held allocation to copper producers, seeing it as a key energy transition metal, and the current pinch point is a reminder of how resource scarcity can drive prices higher quickly (and directly affect clean economy supply chains). Conversely our allocation to Lithium, an overweight versus benchmark, dragged on performance as lithium prices continued to correct following inventory gluts along the battery supply chain. Despite much talk of a slowdown in electric vehicle uptake, lithium is still a volatile and maturing market such that many expect lithium demand to significantly outstrip supply over the coming years; we continue to find lithium producers available at attractive valuations.

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: SunRun (4.6%), SolarEdge (3.9%), Ivanhoe (7.4%), Vale (2.7%), Bradespar (5.4%).

Inception Date: 15-Feb-23
Performance for the year of inception is less than a full calendar year. Returns shown for periods less than one year are not annualized.

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PRODUCT OVERVIEW

The GMO Resource Transition Strategy seeks to generate total return by investing primarily in equities of companies in the resource transition sector. The Strategy's benchmark is the MSCI ACWI Commodity Producers ex-Energy Index.

GMO's Focused Equity team believes that global population growth, the industrialization of emerging markets, and the clean energy transition will increase global demand for natural resources and that, given their finite supply, the prices of these resources will increase over time. The Strategy seeks to invest in the securities of companies that we believe will benefit from – and avoid companies we believe will be adversely affected by – this expected long-term rise in natural resource prices as well as the increasing demand for clean energy.

IMPORTANT INFORMATION

Comparator Index(es): The MSCI ACWI (All Country World) Commodity Producers ex-Energy Index is an independently maintained benchmark comprised of listed large and mid capitalization commodity producers within the global developed and emerging markets, excluding companies in the energy sector as defined by GICS. 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.