

# 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)	0.33	-8.11	-6.91	-1.98	9.07	5.99	5.93
Resources Strategy (gross)	0.51	-7.60	-6.23	-1.28	9.84	6.72	6.68
MSCI ACWI Commodity Producers	0.63	4.83	4.81	11.81	9.72	3.54	3.12
Value Add	-0.31	-12.94	-11.72	-13.79	-0.65	+2.46	+2.81

### MAJOR PERFORMANCE DRIVERS

The third quarter seemed to mark a turning point, or a kind of reversal, for some of the dynamics that have driven global equity markets thus far. Larger cap tech companies appeared to lose some of the steam that had been driving multiples higher. Pervasive fears that China was on the brink of collapse subsided after a significant set of stimulative measures was announced. Many commodity prices - including iron ore, copper, and aluminum - rose significantly at quarter end, in line with what was expected to be a more robust demand environment. One area where the momentum didn't translate was Clean Energy. The Wilderhill Clean Energy index, a barometer of broad Clean Energy performance, was roughly flat for the quarter, all the more surprising as the U.S. Federal Reserve began its rate cutting cycle with a bumper 50 bp cut. Against this backdrop, the Resources portfolio was about flat to the MSCI Commodity Producers index, which was up slightly.

Our Energy segment, now over 60% of the portfolio, detracted in absolute terms due largely to stock selection. Kosmos and Galp, two of the largest detractors, are also two of our fossil fuel companies with the most significant free cash flow profiles over the coming years. In addition, strong performance of Clean Energy, particularly versus broader Clean Energy benchmarks, meant the overall segment added to relative performance. Our Clean Energy companies are, in many cases, starting to move past a cyclical trough and their earnings growth trajectory is becoming clearer by the day. Sunrun, a residential solar installer, and Ameresco, a biofuel producer and clean tech integrator, were two of our strongest contributors this quarter. Across Industrial Metals, higher prices helped the diversified miners while pure-play copper miners rose again. We used weakness in copper prices at the start of the quarter to add to Ivanhoe and other names, positioning that paid off. Gold and aluminum producers had a strong quarter and fall out of our investable universe, the exclusion hurting versus benchmark. Within Agriculture, our seed company Corteva, had a strong quarter and remains one of our highest conviction Ag positions given its globally diversified business and attractive valuation.

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 remain attractive, especially relative to expected earnings growth.

Portfolio weights, as a percent of equity, for the positions mentioned were: Kosmos (4.6%), Ivanhoe (5.2%), SunRun (2.8%), Ameresco (2.2%), Corteva (1.2%).

Composite Inception Date: 31-Dec-11

**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. (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. For a more complete discussion of these risks and others, please consult the Fund's offering documents. This is not a complete list of risks associated with investing in the Strategy. Please contact GMO for more information. **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 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.

# QUARTERLY INVESTMENT REVIEW

## 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.

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## 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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## ABOUT GMO

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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