



YEAR-END LETTER FOR 2023

Focused Equity Team: Resources Strategy

Dear Client,

The GMO Resources Strategy fell 1.4%¹ net of fees in 2023, lagging its official benchmark, the MSCI ACWI Commodity Producers Index, which rose 3.6%. Strong stock selection, particularly in fossil fuels and agriculture, was more than offset by our out-of-benchmark allocation to clean energy.

After two years of torrid returns, fossil fuels delivered muted returns in 2023. On the mining front, metals prices held up well despite concerns about lukewarm Chinese demand, and mining companies fared a bit better than fossil fuel companies. In agriculture, companies struggled as commodity prices fell from the elevated levels reached in the wake of Russia's invasion of Ukraine.

Clean energy stocks had their third straight rough year in 2023. The struggles can be traced to various factors, but the pinch of rising interest rates had the biggest impact. Yet, the big picture is exciting for clean energy. Solar and wind costs continue to fall. The Inflation Reduction Act (IRA) in the U.S. and the Green Deal Industrial/RePowerEU Plans in Europe are poised to drive trillions of dollars of investment. Interest rates are expected to begin declining in 2024, which would make projects more attractive through cheaper financing and lower discount rates. Furthermore, many of the higher quality stocks that we hold have been strengthening their positioning and taking advantage of the recent weakness to grow market share.

Valuations look extremely attractive across much of our opportunity set. Fossil fuel and metal mining valuations continue to hover at levels never seen prior to the last few years, and after three years of falling share prices, many clean energy companies trade at a substantial discount to the market despite strong growth prospects. Opportunities in agriculture and water aren't quite as attractive generally, but we find strong opportunities in these industries as well.

As we look to the future, demand for commodities continues to grow due to three relentless drivers: population growth, the development of emerging markets, and the energy transition. While the energy transition is clearly in progress, fossil fuel consumption continues to hit record levels. If we intend to reduce fossil fuel consumption, copper, lithium, nickel, cobalt, vanadium, and aluminum will be needed in abundance. The demand for materials used in wind, solar, and electric vehicles is expected to surpass anything we've seen before.

On the supply side, resource companies have continued to show remarkable capex restraint, which will impact supply over at least the next decade given long project lead times. Supply deficits are forecast for many commodities before the end of the decade. Copper is a particularly interesting commodity given its scarcity and heavy usage in renewables and electrification; copper supply deficits are expected to be substantial within the next few years.

These long-term supply/demand dynamics bode well for commodity producers. Yet, given the depressed valuations, many companies are poised to generate double digit free cash flow yields going forward at current commodity prices.

On the business front, there continues to be strong global interest in our suite of resources strategies, and we had net positive flows across the suite in 2023. We launched the Resource Transition Strategy as a complement to the Resources Strategy near the beginning of last year. The Resource Transition Strategy is an implementation of the Resources Strategy excluding fossil fuels. As such, it has larger allocations to clean energy, metals, agriculture, and water. We've seen interest in the new strategy from clients who are either overweight fossil fuels within their Real Assets allocation or have decided to divest from fossil fuels.

We also continue to build the team. Jack Lloyd joined the team last summer as an Investment Associate and has already been contributing significantly to our efforts. Jack's previous experience in clean energy investing has added to the team's knowledge base as well.

Given the attractive valuations and growth drivers, the resources sector is an exciting place to invest right now. While there will be bumps along the road, we expect the ultimate rewards to be fruitful. As always, we appreciate the trust that you've put in us, and we look forward to generating strong returns on your behalf.

Sincerely,

Lucas White

Lead Portfolio Manager, GMO Resources Strategy

¹ Preliminary data.

<i>Preliminary Annualized Returns as of 12/31/2023 (Net, USD)</i>	<i>Inception</i>	<i>1-Year</i>	<i>3-Year</i>	<i>5-Year</i>	<i>10-Year</i>	<i>ITD</i>
GMO Resources Strategy	12/31/2011	-1.37%	6.47%	12.21%	7.12%	7.07%
MSCI ACWI Commodity Producers		3.64%	17.15%	9.77%	2.97%	2.91%

Final performance numbers are generally available on GMO's website five to ten business days after month end. Investors should not rely on preliminary numbers to make investment decisions.

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.

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