MARATHON
RESOURCE ADVISORS

Performance Summary

	RAEIF, LP	S&P Global Natural Resource Index (GNR)	S&P Goldman Sachs Commodity Total Return Index (GSCI)
April	11.5%	-4.4%	5.1%
May	-2.7%	4.7%	5.1%
June	-10.4%	-15.7%	-7.6%
Q2 2022	-2.8%	-15.6%	2.0%
YTD	60.8%	-1.4%	35.1%
Since Inception (1/1/2010)	252.8%	45.9%	-16.9%

MARATHON

Resource markets, which entered 2022 like a lion in Q1, were reduced to a lamb by the end of Q2. The underinvestment-driven supply constraints, exacerbated by the invasion of Ukraine, were abruptly overwhelmed by concerns over an economic slowdown and its impact on demand. While commodities themselves traded higher in Q2 and closed the first half +35% YTD, commodity equities gave up the entirety of their gains and then some. RAEIF declined -2.7% for the quarter but still finished the first half +60.8%, outperforming the S&P Global Natural Resource Index by 12.8% and 62.2%, respectively.

YTD and Annualized Returns, net

	Year To Date	Trailing 12 Months	Annualized Returns, Net 3-Year	5-Year	7-Year	Since Inception
RAEIF, LP	60.8%	45.9%	49.9%	26.1%	17.3%	10.6%
S&P GNR	-1.4%	3.0%	8.6%	8.9%	7.1%	3.1%
GSCI TR	35.8%	45.0%	14.7%	11.7%	2.2%	-1.5%
S&P 500	-19.9%	-10.6%	10.6%	11.3%	11.1%	12.5%
Nasdaq	-28.6%	-22.7%	12.5%	13.7%	13.3%	14.8%

MARATHON

Despite consistently respectable outperformance over RAEIF's benchmarks since inception 12 ½ years ago, our focus on the resource sector left us admittedly humbled and seemingly hopelessly lagging the broader indices. When looked at through a longer-term lens, RAEIF performance now exceeds the returns of both the S&P 500 as well as the Nasdaq Composite over the last 3, 5, and 7-year timeframes. We take great pride in the fact that this was achieved over a period where financial assets in general and technology stocks in particular have enjoyed one of their most benevolent windows in history, while the resource sector suffered one of the most dismal and frustrating.

Performance Attribution

The second quarter was a mirror image of Q1, experiencing gains across the short book and losses across the long one. Energy was the one exception contributing on both sides of the ledger as long returns benefited from a tactical position in refining equities. Agriculture and Gold/PGMs were under considerable pressure for most of the quarter, with many of RAEIF's core positions in those sectors falling 25%-40%. Amongst base metal positions, lithium exposure held up relatively well while tin companies were pummeled by 30%-50%.

Q2 2022 Performance Attribution

	Long	Short	Income	Total
Agriculture	-7.2%	1.3%	0.2%	**-5.7%**
Base Metals	-6.1%	2.9%	-0.1%	**-3.4%**
Energy	3.0%	6.5%	2.0%	**11.5%**
Gold/PGMs	-11.8%	0.7%		**-11.1%**
Mining Equip/Coal	-2.5%			**-2.5%**
Shipping		0.4%		**0.4%**
Uranium	-3.1%			**-3.1%**
Utilities		3.7%		**3.7%**
Renewables		0.6%		**0.6%**
Hedge		-1.6%		**-1.6%**
Misc.		8.4%		**8.4%**
Average	-27.8%	22.9%	2.1%	**-2.8%**

MARATHON

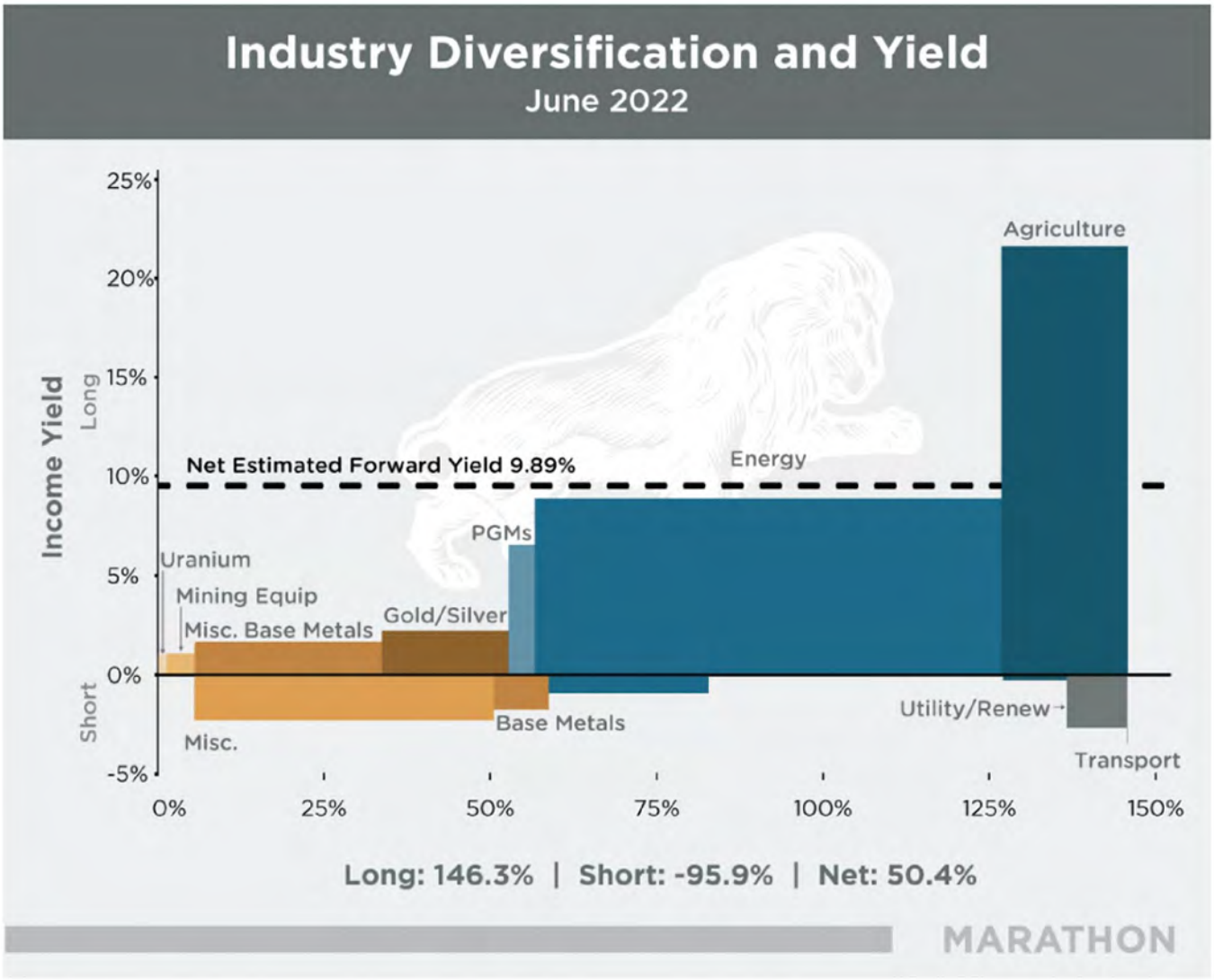
Short gains were robust across the portfolio for 2Q, driven primarily by single stock shorts/puts and a smaller contribution from index shorts and puts. Roughly half the gains were generated from positions within RAEIF's core resource subsectors. Short energy credit exposure provided exceptional risk/reward, declining precipitously early in the quarter from the rise in interest rates followed by a more modest contribution from credit spread expansion near the end of the quarter, with minimal negative carry. Our base metals shorts were primarily focused on copper equities as well as lithium, specifically those that are technically challenged and relying on direct extraction or DLE technology. The portfolio had limited short exposure in the Agriculture sector; however, Brazilian diversified chemical and European industrial gas positions fell sharply and provided some measure of protection.

RAEIF also generated strong gains on short/put positions across the Utilities and Miscellaneous segments. Timely XLU put positions complimented by shorts in expensive renewable-focused utilities positively contributed. Single-stock

shorts focused on the Canadian housing sector, expressed through a basket of specialty finance and consumer discretionary positions, also meaningfully added to performance. This has been an area of focus several times over the last decade, and the unwinding of that 30+ year bubble continues to offer opportunities as a hedge to the RAEIF portfolio from a broader economic downturn.

Portfolio Yield

Income generation of 2.1% for the quarter was primarily driven by the portfolio's energy exposure as several agriculture and base metals positions pivoted more aggressively to share buybacks and debt paydown. We expect the latter two to recover sharply into Q3 as managements are communicating that debt levels have fallen sufficiently such that an increasing proportion of free cash flow will be distributed via dividends.

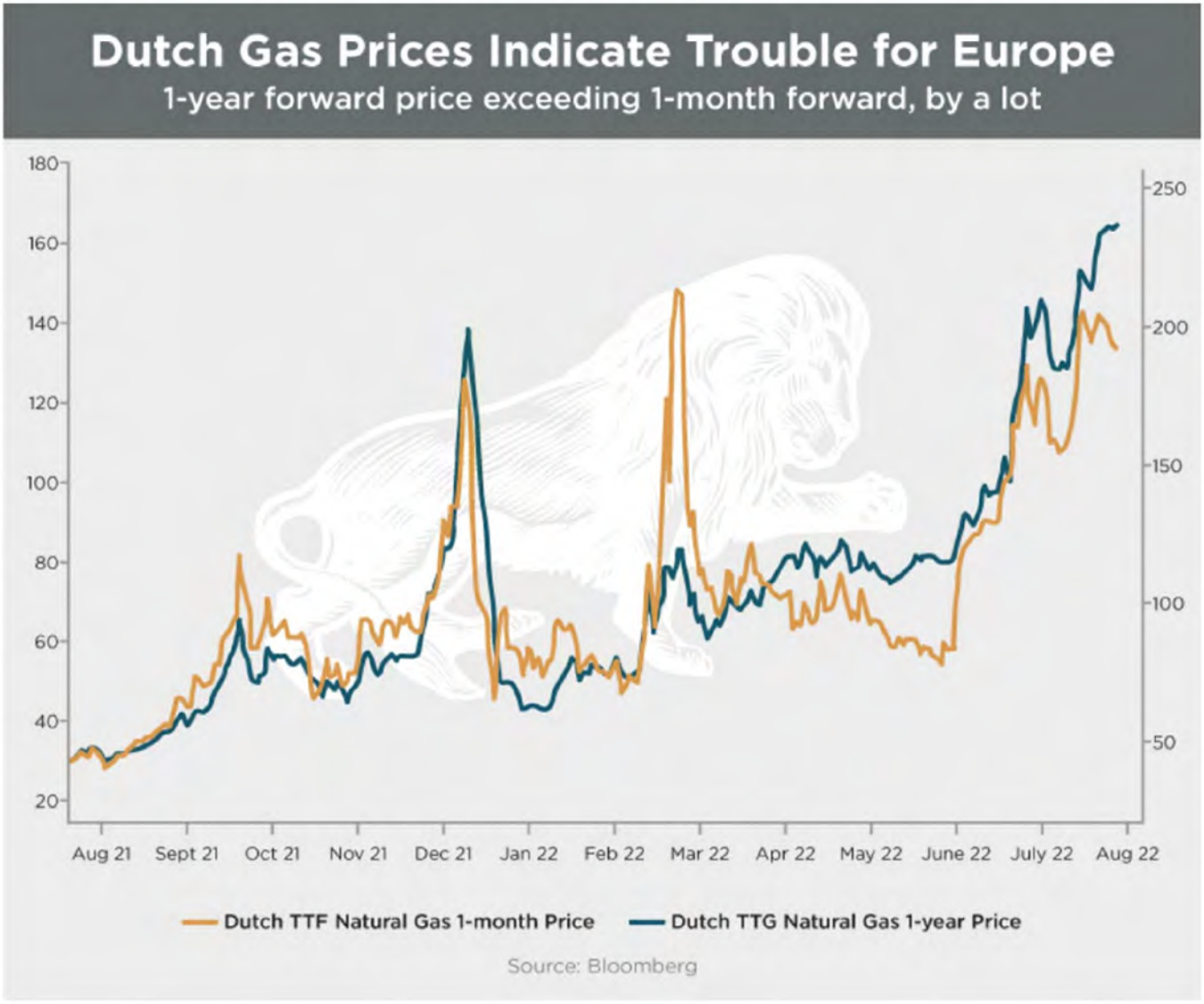


Our annual yield estimate for RAEIF remains ~10%, though it is worth noting that opportunities to increase exposure to several of our favorite and most prodigiously yielding positions in the early days of Q3 should give the portfolio additional income generation above that level. In fact, we suspect that Q3 may well mark a record quarter for yield for our partnership and will likely approach 5%.

Agriculture: Complacency Unwarranted

We have significantly expanded RAEIF's exposure to Agricultural equities over the last year and written about it extensively starting in Q3 2021. Rising long-

term trends in grain intensiveness of global eating habits, declining stocks/use balances, and similar underinvestment issues that have become endemic across most other resource sectors underpin our positive thesis on the sub-sector. The declining availability of high-quality farmland due to urban expansion, an increasing likelihood of more variable growing conditions, and the recent rise in global energy input prices have added incremental strength to our longer-term conviction that agricultural commodities are in the early stages of an extended bull market. Skyrocketing European natural gas prices last fall served as a catalyst to increase RAEIF's holdings in U.S. based nitrogen fertilizer stocks as global producers were effectively put out of business. Natural gas prices are currently spiking again and showing a more sustained rise and an elevated expectation that it will continue, indicated by the 1-year forward exceeding the spot rate.

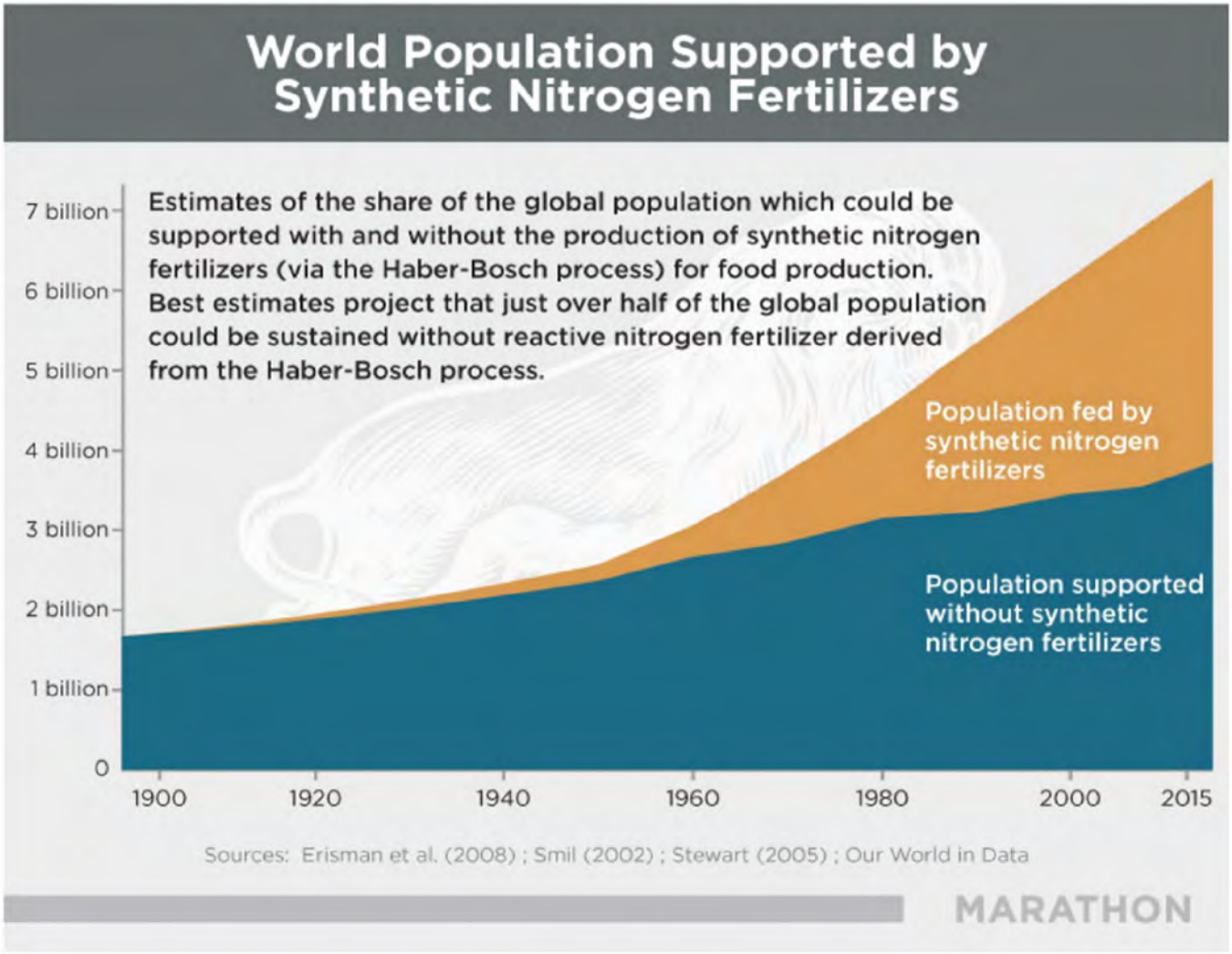


The immediate reaction to Russia's invasion of Ukraine was a scramble across energy and grain markets as worst-case scenario supply losses were feared. The reality has proven somewhat different as commodity flows have remained consistent for the time being. While Russia has toggled its supplies of natural gas to the Continent in a series of threats/relents, oil flows have remained stable though directed to different end markets. Grain sales from both Russia and Ukraine have fallen less than expectations, and other global producers have been selling out of inventories to bridge the gap. The temporary reprieve sent grain prices back to not only pre-invasion levels but negative for the year. With such volatility in crop pricing, farmers have been understandably hesitant to lock in fertilizer supplies and, in many cases, have chosen to apply less. This is being viewed as a sign it isn't needed. We strongly disagree with that premise.

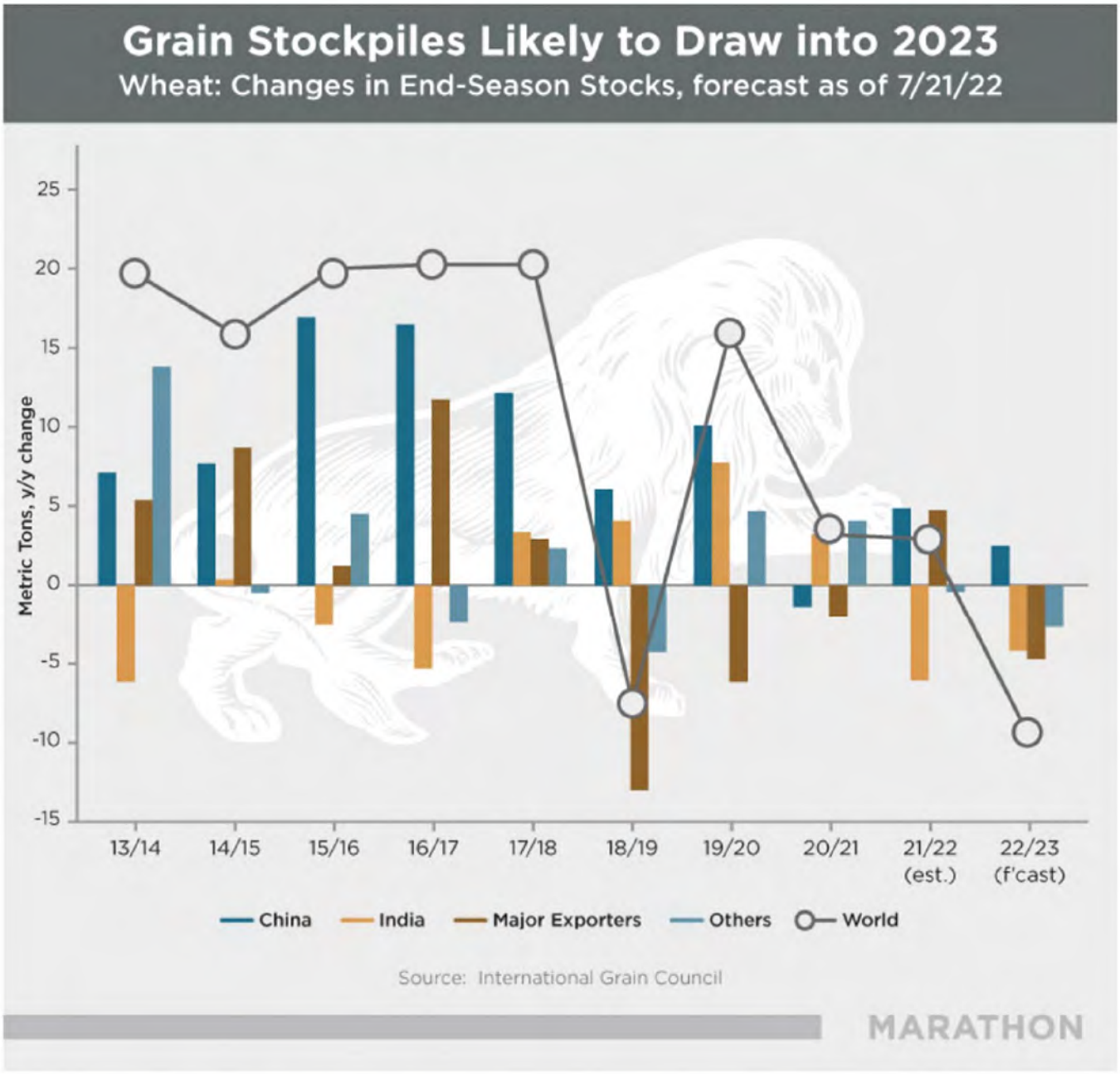
The true repercussions of the damage done to both farms and infrastructure will likely be felt more acutely in the coming months as missed planting windows, harvest and processing bottlenecks, and logistics challenges should begin to have an impact in Q3. From Q4 into 2023 the ongoing trend of reduced fertilizer application should also begin to depress crop yields. Additionally, farm-level challenges of expensive diesel, scarce specialty chemicals, and further inventory depletion should drive grain prices significantly higher. Preemptive sovereign action to secure domestic food supplies, the frequency of which is already meaningfully accelerating, has also become an increasingly important variable for the market outlook. Argentina, Algeria, Egypt, India, Indonesia, Iran, Kazakhstan, Turkey, Serbia, Tunisia, and Kuwait have already implemented export bans of various foods, seeds, and oils, and we suspect the list will continue to grow over the coming months. These measures have the potential to create a reflexive loop that exacerbate shortages and heighten tensions. As we have been warning about since late last year, the combination of rising food and fuel costs has a high correlation with social tensions and, ultimately, financial and political instability.

Our fundamental analysis for Ag leaves us very favorably disposed to the sector in general, and fertilizer equities in particular, as the only short-term fix to what we view as inevitable near-term shortages is to maximize productivity of the existing farm base. The primary tool the world uses to feed roughly half

the global population leverages hydrocarbons in the Haber-Bosch process that fuses nitrogen with hydrogen to produce ammonia, the consistent application of which increases food production several fold.

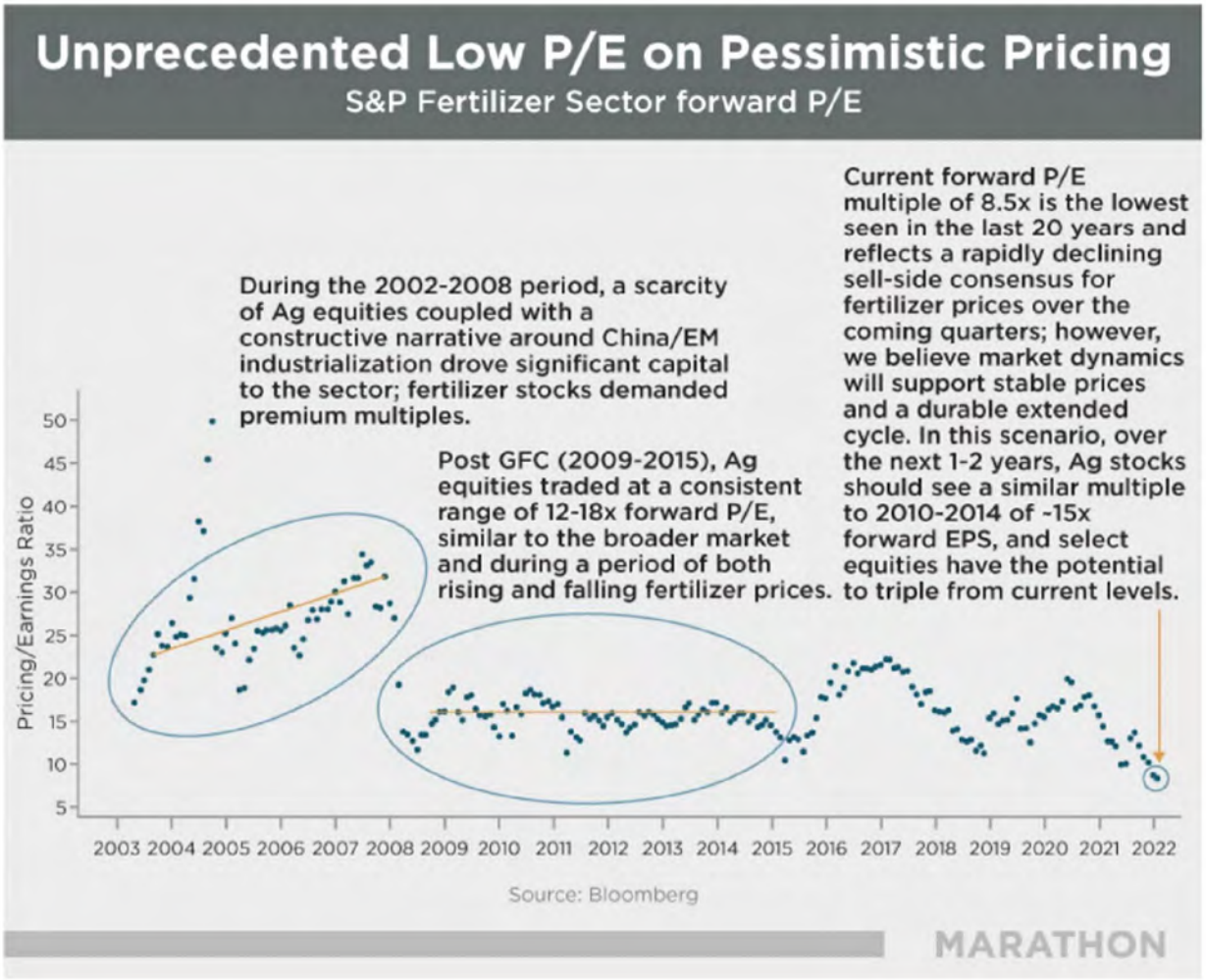


Unlike other forms of fertilizers, nitrogen-based ones must be applied annually as nutrients deplete over the growing cycle. As noted above, farmers can apply less, but doing so results in lower crop yields. The high volatility of the last 6 months has led many of them to do just that, setting the stage for lower grain inventories, and thus higher prices, as we move into 2023.



As often-contrarian investors, our significantly out of consensus enthusiasm for the Ag sector is not particularly unusual. Despite what we believe to be the best fundamental setup in the last 20 years, fertilizer equities are currently valued at the lowest level of estimated forward EPS since 2003. Consensus estimates are projecting a 50% decline in earnings over the coming year, an outcome we think is highly unlikely given the fundamental backdrop described above. In fact, we strongly believe a recovery in grain prices is paramount for global food balances to be met and will sustain fertilizer profitability near current levels throughout 2023. In this scenario, the sector is trading at ~4x

forward earnings. While Ag equities may never revisit the "go-go" times of 2005-2007, a period when multiples were north of 25x, we do believe a sustained cyclical upswing in the sector might well warrant the 12-15x allocated during 2009-2015. Should that prove to be the case, a significant and highly profitable rerating of fertilizer equities lies ahead.

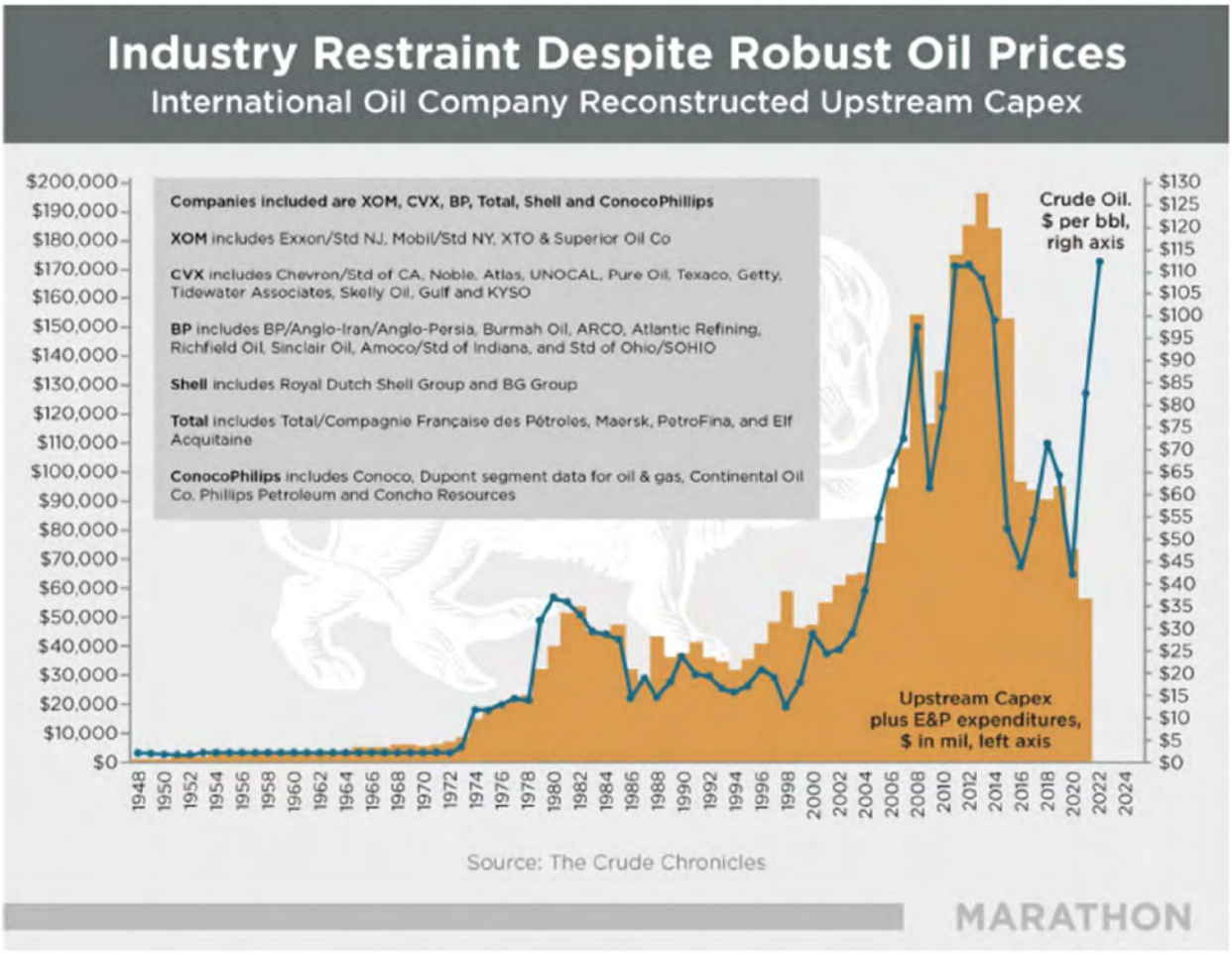


Energy Markets: Floors, Ceilings, and Structural Pivots in Asymmetry

Last quarter we discussed several facets of the undersupplied energy markets, focusing on the refining bottleneck well before it was popular to do so. We now turn our attention to a somewhat broader topic, one that requires a longer-term lens.

Since 1980 the world has become complacent with the view that the risks in the global oil market were consistently skewed to the downside. High oil prices were generally met with a combination of incremental excess capacity (either from geologically endowed OPEC nations or motivated and sufficiently funded Western industry) and demand destruction. In other words, "the cure for high prices was high prices." Conversely, there was little support during oil price declines, at least in the short term. Economic downturns were accompanied by over-leveraged companies unwilling to reduce production and OPEC often expanding supply at inopportune times, effectively "piling on" during price declines in a generally effective effort to discourage non-OPEC capital from investing in the sector. This dynamic helped oil to hit $10 in '85, $12 in '98, $40 in '09, $33 in '16, and the now-infamous negative print in 2020. In all these instances, prices went well below the marginal cost of production, often for an extended period of time. ***For the last 40 years oil was effectively a market with a ceiling, but no floor.***

Oil market dynamics today possess very different features relative to recent decades. OPEC excess capacity has declined to roughly 2 million BPD (barrels per day) split between Saudi and the UAE, with a few question marks across a handful of heavily sanctioned or failing states. In a 100 million BPD market that typically grows at ~1.5-2% a year, it is operating within a rather slim margin. Global capital expenditures remain well below levels needed to maintain existing production much less grow. An increasingly high share of global integrated energy company capex is being diverted to green and carbon capture initiatives that will not result in additional traditional hydrocarbon supply. Western governments browbeating the industry with threats of price caps, export bans and windfall profits taxes, in addition to inconsistent and often hostile regulatory/permitting environment, are certainly not encouraging a long-term commitment to adding incremental capacity.



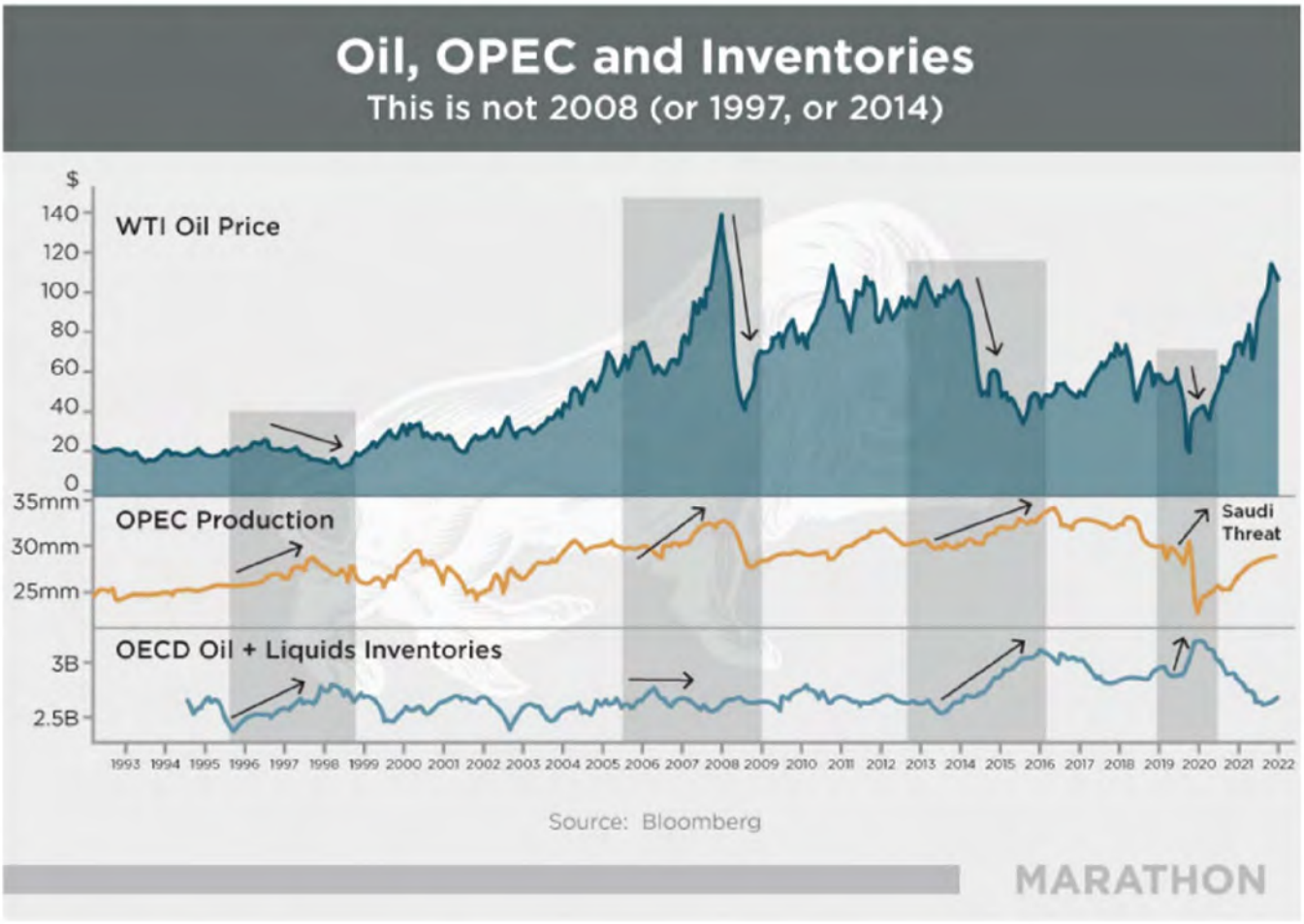
This brings us to the topic of demand destruction. Crude prices recently traded to $130 / bbl but the world actually got a taste of $170+ oil as abnormally elevated refining crack spreads drove gasoline, diesel, and jet fuel prices to levels that reflected $40+ above the recent oil highs. The strength of the US dollar is also serving to inflict record high local prices to consumers around the world, and recent spikes in European natural gas and electricity prices have hit levels equating to over $300 / bbl! And while there was certainly some measure of consumers crying "uncle" at those levels, it is difficult to disaggregate price-driven demand destruction from rapidly slowing global economy and artificially constrained consumption in China due to Covid lockdowns. In short, two out of the three caps that previously tended to limit the upside in crude oil, OPEC spare capacity and the industry capex response, are rapidly losing potency. The third, demand destruction, while still certainly a factor at some point, has just been stretched to nominal levels well above all-time highs.

It is at this point we turn to floors, which have also evolved considerably from the regime of the last 40 years. As noted above, during economic contractions of the last several decades, crude oil declines were exacerbated by two main drivers: industry and OPEC. Industry, often having just invested in considerable new excess capacity and carrying the debt to show for it, repeatedly crested each economic cycle with several years of additional flush production already "in the pipeline," effectively accelerating into (and often right through) a brick wall of stagnating demand. At the same time, OPEC has repeatedly executed a clear, albeit unacknowledged, strategy to use its excess crude capacity during periods of fundamental weakness to drive oil prices low enough to discourage Western capital from over investing.

In the case of industry spending, it is clear that oil markets have entered, at least for the time being, a new era. Major oil company capex remains near all-time lows, whether on an inflation- or asset-adjusted basis. The reluctance to spend is a byproduct of several factors including prior profligacy and the shareholder value that was destroyed by it. Additionally, investors are not rewarding the Majors for growth, instead punishing the companies for signaling it and demanding instead a focus on balance sheet improvement and capital return. Finally, Western governments continue to send wildly erratic messages that effectively boil down to "do everything you can to help us now but we're going to put you out of business as fast as possible." The U.S. is the poster child for this strategy, simultaneously cancelling domestic lease sales and pipeline permits as well as chastising gas station operators for raising prices while begging brutal dictatorships and failed states abroad to produce more. One can hardly blame industry for their newly developed spendthrift ways, and it is this restraint that should help reduce the downside in oil prices relative to prior cycles.

As mentioned above, the other driver of excessive declines in the oil price has been OPEC's inclination to augment supplies at exactly the wrong moments. There is no clearer example of this tactic than Saudi Arabia's March 2020 threat to increase its oil output by 2.5 million barrels a day on the cusp of the Covid lockdowns, which ultimately drove prices down by over 80%. This "crazy like a fox" behavior is more easily understood when one views it through a strategic lens. The most significant vulnerability that OPEC nations face in their ultimate

revenue objectives for their oil is excessive competition that drives down their realized price. Periods of extended high oil prices encourage investment from competition around the world, ultimately leading to lower OPEC revenues. However, significant bouts of volatility, particularly expressed to the downside, keep this spending in check. While short term revenues may suffer along with the competition, OPEC's longer term objectives are achieved.



It is our contention that *<u>the current climate/green/decarbonization environment has effectively replicated OPEC's 'dirty work' to achieve the same outcome of suppressing Western spending and investment.</u>* Broad-based shaming of fossil fuel investments has decapitalized them by denying insurance, credit, and shelf space in generalist portfolios. As oil and gas companies now must rely only on their own cash flows to fund investment (and receive unprecedentedly depressed multiples on that same cash flow from investors), it is no wonder that industry is responding with a steady diet of debt reduction, dividends and share buybacks. In the bigger picture, this

removes the need for OPEC+ to contribute to sharp, deep declines in the oil price, as their objective of discouraging investment is already realized. When one combines this dynamic with the exceptional discipline showed by OPEC+ in the aftermath of the initial Covid lockdowns in 2020, effectively removing almost 10 million barrels a day from global production and stabilizing prices during the worst bout of demand destruction in history, it becomes clearer that its stated objective of a floor in the $70-$80 range seems eminently achievable. Thus, in our humble opinion, ***the global oil market is quickly evolving from having a firm ceiling with little in the way of a floor, to one with a fairly firm floor and a vastly diminished ceiling.***

This concept is wildly out of step with the current investor view of the industry, and at the same time utterly incongruous with the deeply depressed multiples of publicly traded companies in the sector. We suspect in the short-term, this shift may well not matter to investors and all attention will be paid to the current economic downturn, the demand concerns arising from it, and deeply flawed comparisons to the 2008 and 2014 oil price declines. As such, we believe Q3 2022 will bring an opportunity to acquire energy exposure with extremely attractive risk/reward characteristics. Fourth quarter crude balances should tighten considerably due to seasonal demand acceleration, declining SPR releases, continued restraint of incremental supply from industry and a modest recovery in Chinese demand as it comes out of widespread lockdowns. If we are correct, then anything short of a severe global recession will not be enough to reverse the current trend of global inventory liquidation supporting WTI prices of $90+. As we have noted numerous times over the last several years, the very real and welcome growth in renewables will do little to stunt fossil fuel demand over at least the next decade given heavy reliance on traditional energy inputs as well as the vast scale of the existing energy system. The story of 2023 will be realizations that 1) the hydrocarbon economy cannot be cancelled on the timeline that politicians have promised and 2) the potential outcomes for crude oil prices have moved from their historically downside bias to asymmetrically skewed to the upside. Should this come to pass, then higher multiples on longer production timelines have the potential to drive select energy equities to many multiples of current levels.

Global Trade Flows, Currency Chaos and the Resource Wrecking Ball

One would be hard pressed to find two more different countries than Germany and Sri Lanka. The former is both a political and industrial juggernaut at the core of Continental Europe while the latter is a small island nation off the southern coast of India with a population slightly larger than the New York metropolitan area. Both are currently suffering severe economic and political strains; we think it's worth exploring why.

For the last 30 years, Germany has enjoyed a consistent substantial trade surplus as one of the premier manufacturers of high value-added goods in the world. In June 2022, it recorded its first trade deficit since 1991, primarily due to its skyrocketing cost of energy. As a result of well-intentioned but disastrous policy decisions that led it to deconstruct its domestic nuclear and fossil fuel industry in exchange for a rush to renewables, German reliance on Russian natural gas has left this former powerhouse in its most vulnerable position since World War II. A nation known for Teutonic efficiency and reliability is now urging its citizens to shower less and turn down thermostats as the country scrambles to reopen recently shuttered coal plants in a struggle to make it through the upcoming winter.

Sri Lanka, on the other hand, has generally supported itself via subsistence and plantation farming for hundreds of years, making the most of its tropical climate to produce a wide range of agricultural goods. The long a colorful history of the island, which can lay claim to human inhabitants almost 38,000 years ago, traversed a period of colonial influence from the 16th century until declaring its independence from British rule and assuming the status of a Republic in 1972.

Despite occasional severe bouts of internal political strife, Sri Lanka was heralded as a poster child for global development a few years ago. However,

owing to the accumulation of significant debt and constant political infighting, the country has fallen on more challenging times since the Covid outbreak of 2020. Its recent descent into protests, government collapse and anarchy were in many ways triggered by a decision just over a year ago to ban all chemical fertilizers (as well as pesticides, weedicides, and fungicides) in the country. As noted in the Agriculture section above, the use of these nutrients and growth aids lies at the very core of the world's ability to feed its population, and the rollback comes with inevitable consequences including severely falling crop yields. The result has been a transition from a country that could easily support its domestic consumption of rice to one that needs to spend $500m annually to import enough to provide the populace with the staple of the daily diet. In addition, the decline in production of tea, which has been the country's primary export crop, has been similarly severe, leaving Sri Lanka with little ability to secure the imported goods its economy requires. Difficult times indeed.

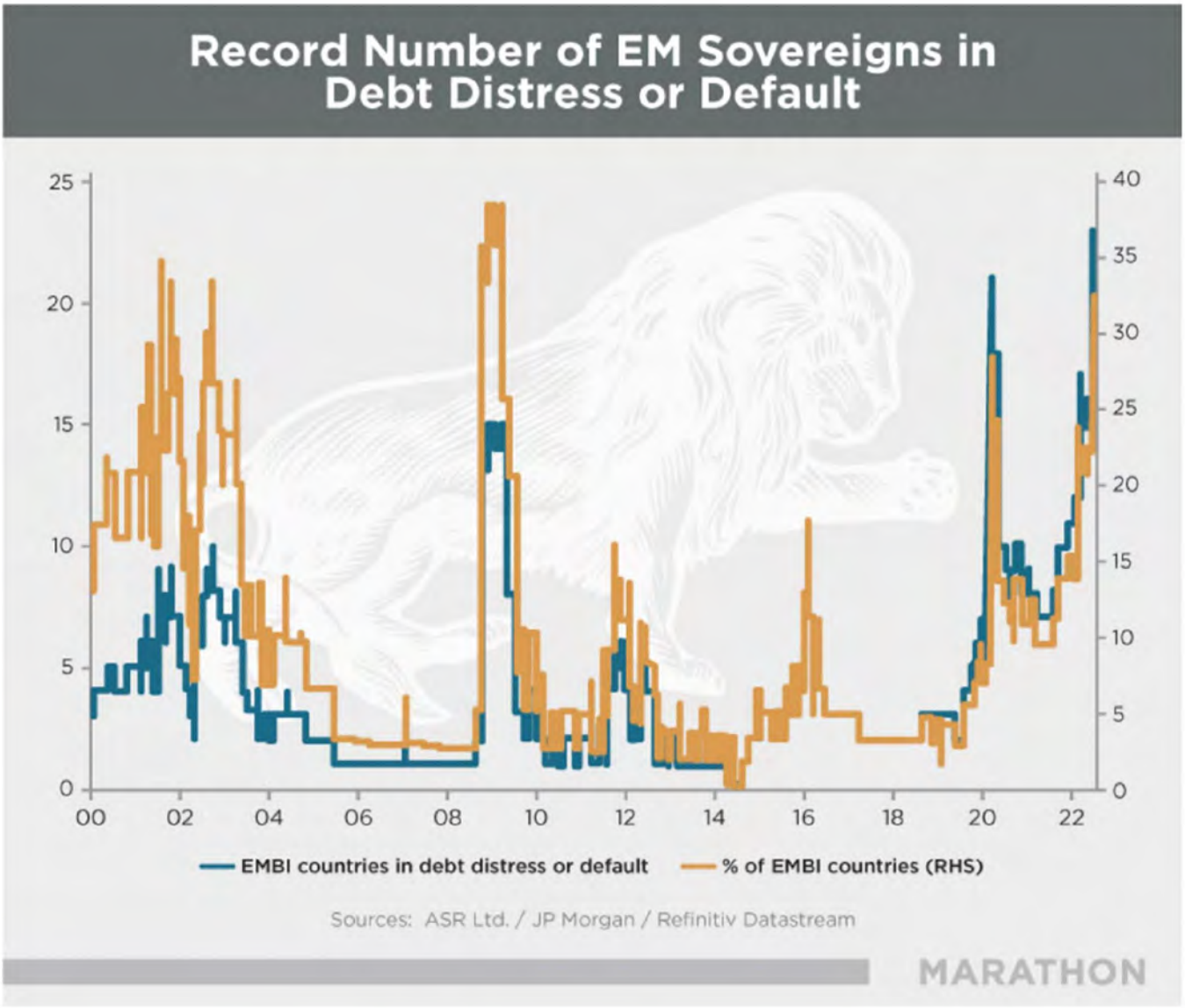
The common thread between the two countries is one of policy errors surrounding resource production. As we have written about at length over the last several years, the global complacency regarding a country's ability to secure necessary commodities at tolerable prices has come to an end. Its demise was triggered by capital starvation after the commodity bust of 2010-2020 and exacerbated by ESG and decarbonization policies geared to phase out the fossil fuel energy system before the "green and renewable" replacement is ready for primetime. The outcome has been soaring trade deficits and rapid currency depreciations, the latter being particularly acute versus countries with, at least for the moment, more stable and secure commodity supplies.

We suspect this will be an important theme of the global economy for some time as the current trajectory has neither fast nor easy fixes. Over the intermediate to longer term, embracing nuclear and natural gas to reduce reliance on coal, encouraging the development of critical materials necessary to facilitate growing renewable power, and emphasizing efficient use of existing technologies such as hybrid vehicles represent the path of least inconvenience towards reduced carbon emissions. Sadly, global policymakers seem increasingly intent on "doubling down" on the very same decisions that have led to the disastrous consequences in Germany, Sri Lanka and so many other countries.

A few short weeks ago, images of farmers in the Netherlands blocking roads with tractors briefly made the evening news. The catalyst for the disruption was a statement by the Dutch government of its intention to reduce nitrogen pollution by up to 70% by 2030, effectively sending a message to farmers that their livelihoods would be coming to an end by the end of the decade. As the Netherlands is the second largest exporter of food in the world behind the United States, this is no trivial matter. Italian farmers fear the same, and Canada seems intent on exploring a similar path. It is almost as if policymakers, in the effort to avoid potential environmental challenges 20-50 years from now, have become intent on starving people and collapsing both economies and quality of life as rapidly as possible.

When it comes to materials critical to the development of renewables, there is no shortage of similar stories across the globe. Without tremendous growth in the production of affordable copper, electrification of the global transportation system cannot happen, and yet the newly elected leftist administration in Chile (also known as the Saudi Arabia of copper) has recently rejected a series of mine expansion proposals that would help meet that goal. Closer to home, the state of Nevada has recently stopped development of two lithium mines and a geothermal power plant as the environmentalists claim they will impact "a rare desert flower and the Dixie Valley toad" respectively. If there is to be any hope of meeting aggressive decarbonization goals, there must be more pragmatic discussions regarding the trade-offs necessary to get there.

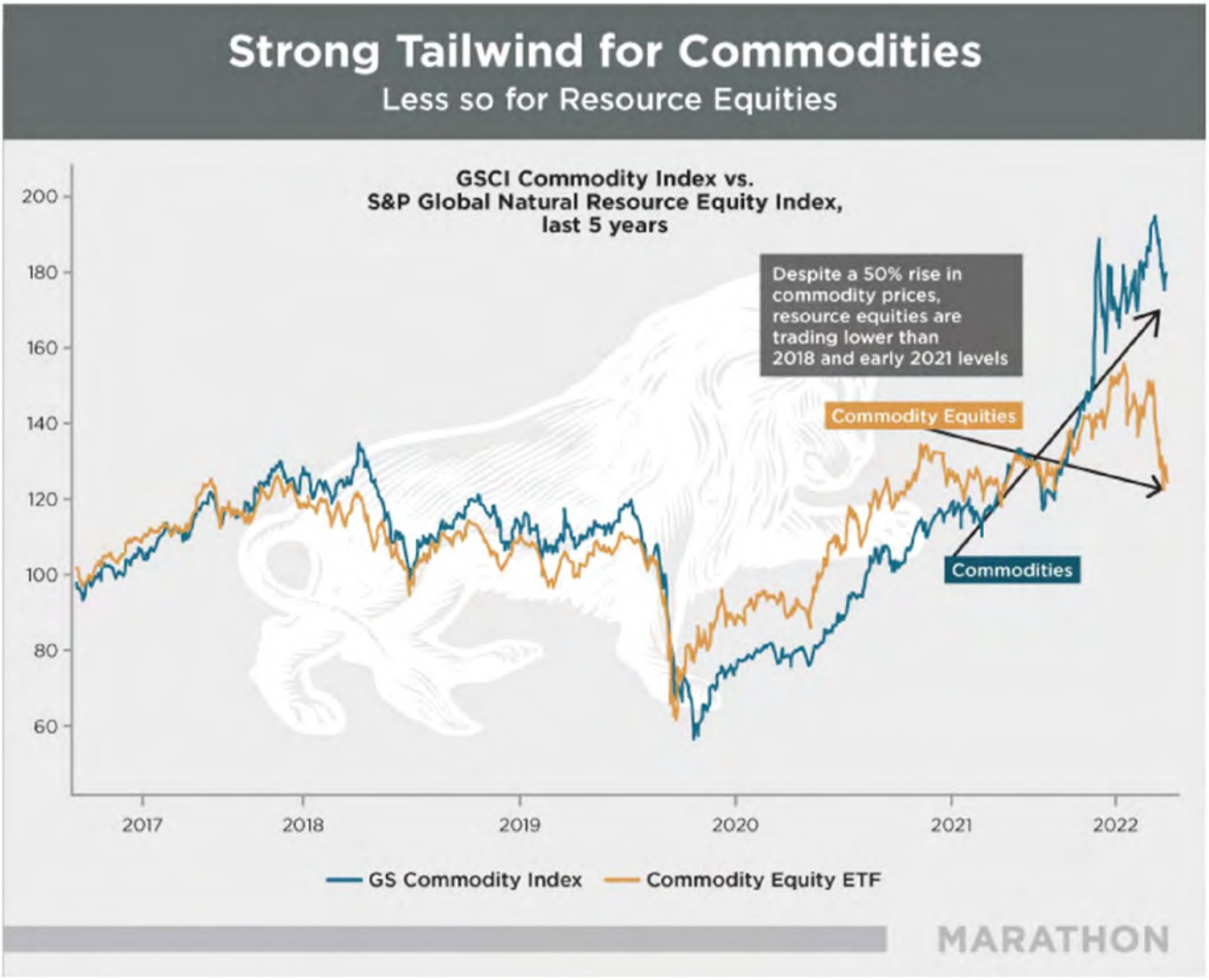
The outcome of all of this will be rapid shifts in fortune for those countries with serious and thoughtful resource policies versus those lacking the same. This will make for continued lively times in the currency markets, and we expect both victors and victims to assert themselves in short order. We believe allocating capital to well positioned commodity producers in the former, during a time of generally indiscriminately compressed valuations across global resource companies, will serve our partners well.



Global Inflation-Fighting Efforts Target Symptoms, Not Underlying Conditions

Our case for a secular bull market in resource equities has been based on two fundamental pillars. The first is that significant underinvestment in productive capacity over the last decade would lead to an extended period of constructive pricing for commodities. The second is that deeply compressed resource stock valuations offer considerable convexity to pillar #1, often with the bonus of robustly positive carry in the form of double-digit dividend yields. We believe

both pillars remain firmly intact. In fact, we believe the case has been made stronger over the course of Q2 as commodity prices remained quite firm while resource equities somehow managed to fall back to levels first seen when prices were 30% lower than today.

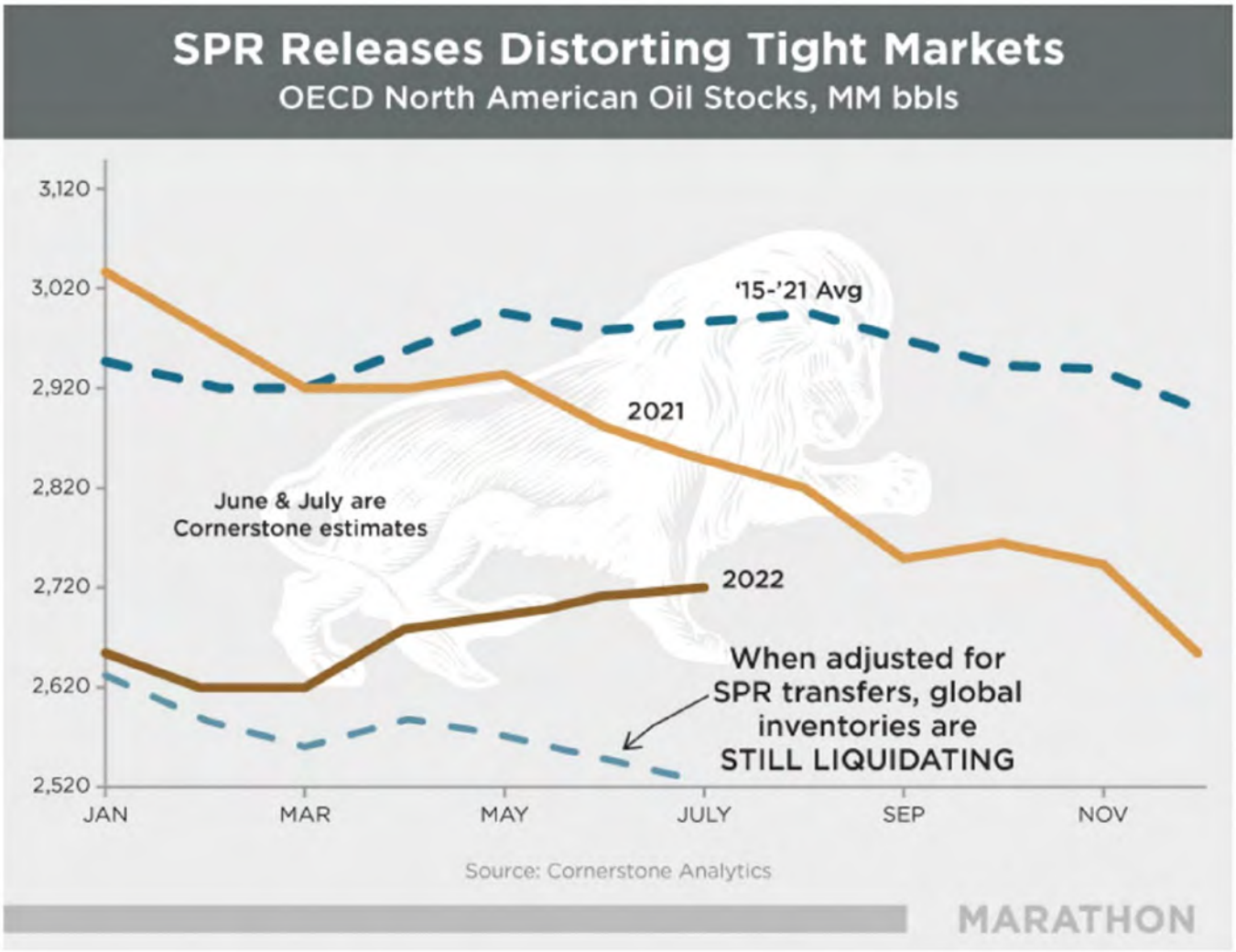


If we attempt to diagnose the root causes of these declines over the course of the second quarter, we are struck that none of them appear particularly fundamental or structural. We understand well the inherent pressures on commodities during economic slowdowns and have, in many ways, been positioning the portfolio for this since we wrote extensively on it in our Q1 letter. That said, as we scan the landscape of broader macro factors impacting resource equities, the recent catalysts seem predominantly fleeting and/or artificial.

A prime example of this is China, which has been implementing several major policy measures over the last 18 months. While the official explanations are varied, the resulting suppression of commodity demand has been universal across their various efforts. The banning of bitcoin mining, the curtailment of video games, the laissez-faire allowance of the property sector implosion and the often bewildering zero tolerance Covid policies of locking down entire metropolises with negligible cases and de minimis fatalities all retain similar impacts in relation to the consumption of food, fuel and other essential raw materials. It is our suspicion that these measures will not remain in place forever and, at some point, their return to normalcy will drive a considerable snapback of both economic activity and resource consumption.

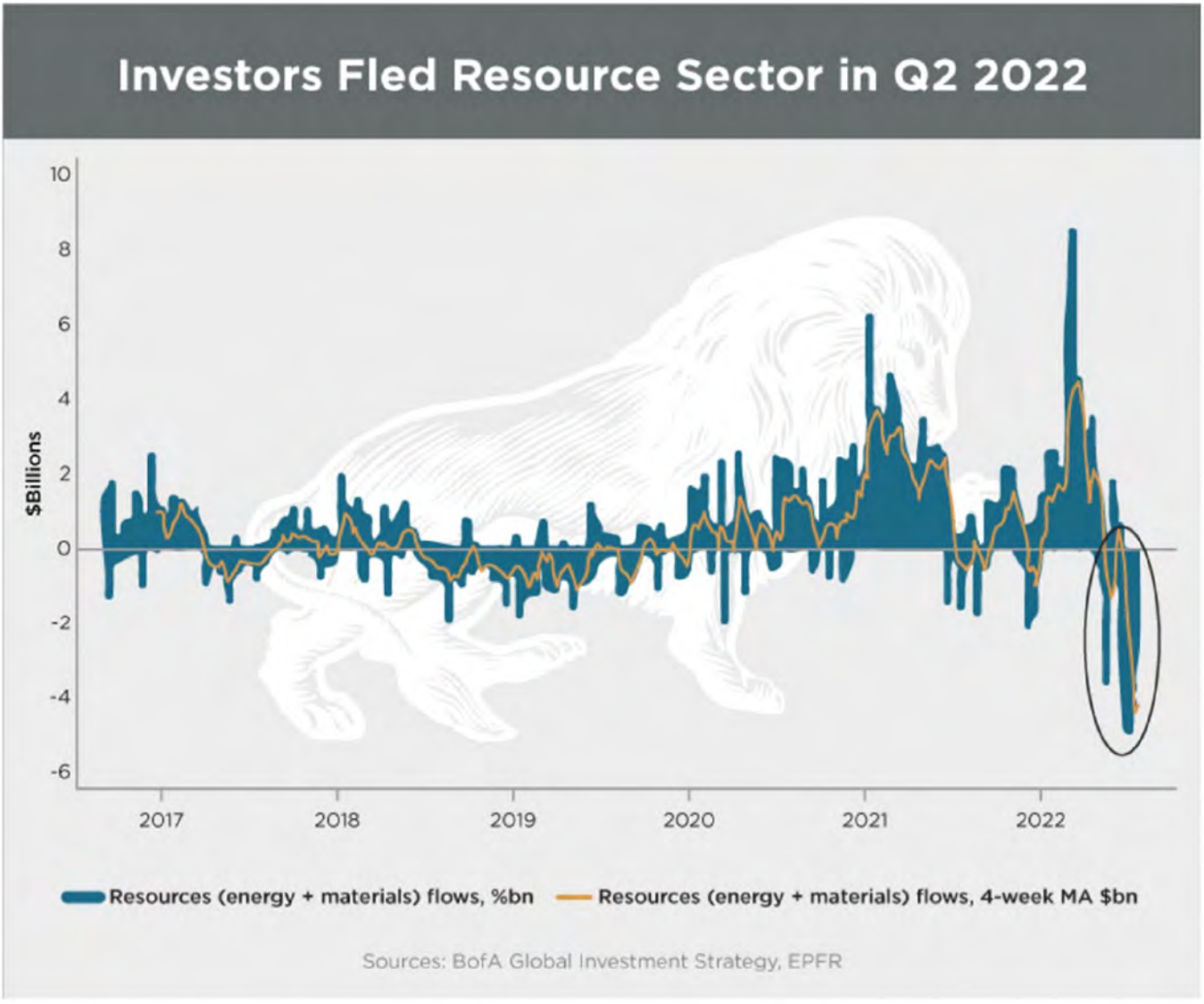
In the same vein, the U.S. and several other nations have begun to rapidly tighten financial conditions using monetary policy towards a similar end of crushing demand in an overt attempt to alleviate increasingly uncomfortable inflationary conditions. We suspect this path may prove treacherous as such a blunt instrument will be hard pressed to impact rents, wages and specific commodities such as food and fuel prices that feed directly into inflation expectations before they also destabilize financial assets.

An example of more scalpel-like action by Western governments has been rapidly releasing strategic stockpiles of both energy and food items, not because there are physical shortages, but because voters are frustrated with high prices. These releases have been unprecedented in their size and scope yet have barely made a dent in the rapid depletion of global stockpiles. As well, additional measures implemented by the same entities capping prices, waiving taxes or sending direct stimulus payments to offset those higher prices are effectively blunting their impact.



And yet, despite all these measures, commodity inventories remain low and demand remains robust. While all of these factors have the ability to provide a stiff headwind to resource equities, what they also have in common is that they are attempts to treat the symptoms of high commodity prices without addressing the root cause, which is structural undersupply. At some point, the impact of all the above will reverse, and it's our contention that a recovery in Chinese demand coupled with an eventual pivot in Western central bank policy will ultimately result in a restoration of artificially suppressed demand that will prove profoundly inconvenient to global policymakers. In addition to being blamed for inflicting high prices on their constituents, they will need to explain why the strategic buffers that countries had thoughtfully accumulated over the last 30+ years will not be available to meet true emergency shortages. Awkward.

The sentiment shift above will likely serve to once again whipsaw resource equity holders who have rushed for the exits over the last several months. Flows out of commodity and resource equity investments have been as lopsided as any time in the last 5 years as noted in the BofA chart below, which is a timeframe that sets a fairly high bar for revulsion in the sector. Goldman Sachs Hedge Fund positioning released in early August indicated that most large players missed the majority of the move up, pressed positions at or near the highs in late Q1/early Q2 as they represented "the only game in town," and subsequently aggressively liquidated positions late in Q2 as economic concerns took center stage. By their measure the hedge fund community is now net short energy and commodities, a stance which may prove perilous into powerful earnings beats, dividend raises and stock buyback announcements. We say "good riddance" as well as "see you again soon."



Summary: Near-Term Turbulence Likely, Fundamentals and Long Term Opportunities Remain Intact

We remain generally optimistic across a broad range of commodity segments as prolonged underinvestment has left the world in the problematic position of lacking the ability to supply the incremental volumes necessary to satisfy even the most modest of forward growth assumptions. This is due to both investor revulsion driven by the memory of dismal capital allocation by the sector in prior cycles as well as popularly-imposed capital starvation resulting from government and financial industry ESG and decarbonization movements. These underpinnings are substantial, formidable and, in our humble opinion, inevitable. Fundamental sustained oversupply in these markets is virtually impossible until the trillions of dollars denied them over the last decade are spent. The secular case for physical assets remains very much intact, and it is our belief that we are in the early stages of its recovery. Supporting this contention is not only a broad range of historical valuation and cycle data but also the fact that speculative tech continues to receive significant inflows despite clearly deteriorating fundamentals while the massive improvement in resource company profitability has been met with an effective yawn of net redemptions. Old habits die hard.

A notable feature of secular commodity bull markets is considerable volatility and variability in the path, and it is here where our 30 years of accumulated scar tissue inflicted by the sector comes in handy. The fundamental drivers of returns in the sector, rising commodity prices and accelerating inflation, are inherently highly destabilizing to the broader markets. This often leads to dislocations across equities, fixed income and currency markets that drive corrections taking everything down at once. While it would be nice to have a slow and steady, 'up and to the right' decade as investors in the technology and healthcare sectors typically enjoy, those are simply not the cards we in the resource world are dealt. It is for this reason that we have been embracing a

more tactical mandate and flexible structure for RAEIF over the past several years. A substantial short book and opportunistic allocations to inexpensive volatility across a range of asset classes should allow the portfolio to deliver a more balanced return stream. While this may lead to occasional bouts of underperformance, typically during periods of rapidly rising financial asset prices, our intent is to position RAEIF to aggressively take advantage of the inevitable dislocations and compelling valuations that will undoubtedly appear.

RAEIF's focus on income-generating resource equities was born from an observation made during the 2008 Global Financial Crisis. The very short list of commodity stocks that generated positive returns that year had several features in common. A combination of minimal financial leverage, low-cost positioning and high free cash generation enabled these companies to not only survive the GFC but radically improve their respective positions via accretive debt and equity repurchases as well as opportunistic acquisitions to significantly improve asset positions. An interesting feature of today's market is that the number of companies that fit those criteria has expanded drastically. Part of this may be a result of lessons learned during prior cycles, but defunding via the ESG and decarbonization movements has also played a hand. Whether this discipline is learned or forced, we are thankful for the bountiful opportunity it brings with it.

These same equities, when valuations are as compressed as they are, bring with them a "positive carry convexity" that is the distilled essence of RAEIF's investment process. Across the last decade, usually in much less robust commodity backdrops, this strategy consistently delivered high single-digit income generation from a varied mix of global resource equities. In the current environment, with many companies trading at 25%-75% free cash flow yields, we believe the opportunity set is as rich as any time since RAEIF's inception in 2010. As noted above, we expect income generation to approach 5% for Q3 2022 alone, an unprecedented level well in excess of anything the portfolio has previously delivered. Perhaps as notable is that 5% yield comes from a level 60% higher than in January. In other words, when viewed through the lens of initial capital, LPs that have been invested since start of the year will receive roughly an 8% yield in a single quarter. We can't think of a more vivid example of positive carry convexity at work.

The combination of decelerating economic momentum and tightening financial conditions may well provide stiff headwinds to supply constrained resource markets over the coming months. However, as we move through Q3 and into Q4, we believe the fundamental underpinnings for both the energy and agricultural markets will tighten considerably regardless of the economic backdrop. In the energy sector, we anticipate this will be a result of a seasonal demand acceleration, declining SPR releases, and a combination of modestly accelerating Chinese demand and reduced Russian supply. On the agricultural front, current crop forecasts seem wildly optimistic given early growing conditions and reduced fertilizer application, and the likely politicization of global food supplies should exacerbate shortages into next year. As such, Q3 should mark an opportune window to acquire significant upside convexity in those areas for what we believe will be a much more constructive outlook for the sector into the end of the year and through 2023+.

As always, many thanks for your interest and support.

Robert Mullin
General Partner/Portfolio Manager

Twitter LinkedIn Website IR@MRAFunds.com (415)793-3990

Disclosure and Cautionary Note regarding Forward-Looking Information: All performance is provided by ALPS/Price Meadows Inc., Administrator to the Fund, and is subject to revision and audit adjustment. Past performance is no indication of future performance. This is not an offer to sell an interest in the Fund. Except for the statements of historical fact contained herein, the information presented constitutes "forward-looking statements", within the meaning of the U.S. Securities Act of 1933, the U.S. Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Forward-looking statements can generally be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "continue", "plans", or similar terminology. Forward-looking

statements are subject to known and unknown risks, uncertainties and other important factors that may cause the actual results, level of activity, performance or achievements of the Fund to be materially different from those expressed or implied by such forward looking statements, including but not limited to: the impact of general business and economic conditions, fluctuation in foreign exchange rates and interest rates and stock market volatility. Accordingly, readers should not place undue reliance on forward-looking statements. The Fund does not undertake to update any forward-looking statements that are contained or incorporated by reference, except in accordance with applicable securities laws.

The information contained herein has been obtained from sources believed to the best of our knowledge to be reliable and complete. However, its validity and completeness cannot be guaranteed by Marathon Resource Advisors. Nothing herein constitutes investment or other advice and should not be relied upon as such. This document has been prepared solely for informational purposes and does not constitute an offer or invitation to buy or sell securities. The opinions expressed in this document are those of the author as of the date of the writing and are subject to change. References to stocks, securities or investments in this writing should not be considered recommendations to buy or sell. Securities that are referenced may be held in portfolios managed by Tocqueville or by principals, employees and associates of Marathon, and such references should not be deemed as an understanding of any future position, buying or selling, that may be taken by Marathon. References to stocks, securities or investments in this writing should not be considered recommendations to buy or sell. Securities that are referenced may be held in portfolios managed by Marathon or by principals, employees and associates of Marathon, and such references should not be deemed as an understanding of any future position, buying or selling, that may be taken by Marathon.