



Responsible Investment Policy

As of December 2023

GMO's Commitment to ESG

Stewardship has been ingrained at GMO since our founding in 1977. Our purpose is to deliver investment outcomes and advice that help our clients meet their financial goals and fulfill their objectives, in service of millions of people who are beneficiaries of these organizations. We believe ESG factors can have a meaningful impact on the long-term success of the companies and countries in which we invest, and so by integrating ESG considerations and activity into our investment processes, where possible, we seek to improve our clients' long-term, risk-adjusted returns.

Governance

GMO has an ESG Oversight Committee that is responsible for governing the implementation of our overall ESG and stewardship approach and ensuring firm-wide alignment around ESG priorities. It also acts as a conduit for ESG information flow throughout the firm, including amongst our investment teams, and ensuring that GMO has the ESG resources needed to accomplish our objectives.

The Committee includes members of GMO's management team and other senior stakeholders. Chaired by our Head of ESG and Sustainability, all Committee members are senior GMO staff empowered by the CEO to make decisions around the firm's ESG strategy. Areas represented include Investment Teams, ESG, Risk, Investment Product Strategy, Global Client Relations, Technology, Operations, Global Finance, Legal, Compliance, Human Resources, and Facilities. The Committee reports to our CEO and also provides regular updates to GMO's Board of Directors.

The GMO ESG Oversight Committee has also created three sub-committees with a greater focus on particular ESG topics – Investments, Stewardship, and Stakeholder Strategy and Communications.

The Investments sub-committee:

- Monitors ESG exposures (as measured by external and proprietary measures, such as the GMO ESG Score);
- Reviews emerging severe controversies at portfolio companies, particularly where Global Compact or other international norms and standards are potentially being breached; and
- Monitors our portfolio carbon footprint progress towards our target 65% reduction.

The Stewardship sub-committee:

- Sets our proxy voting guidelines and engagement priorities;
- Monitors our voting activities and progress on firm-wide engagements; and



- Provides a forum to hold meaningful discussions to accelerate our engagement and proxy voting strategies.

The Stakeholder Strategy and Communications sub-committee works to advance our ESG reporting to our clients and other external stakeholders.

Responsible Investment Approach

There are three main pillars to how we approach integrating ESG considerations. We aim to:

1. Integrate ESG considerations in all our investment processes where it is possible and we see benefit in doing so;
2. Influence companies to adopt sound ESG practices, and partner with industry, policymakers, and regulators to foster a better environment for our investments; and
3. Invest in opportunities for long-term growth, by looking at investments through an ESG lens.

INTEGRATION

Each of our individual investment teams is responsible for identifying and managing how ESG considerations can be included in its asset class and market-specific analysis. The ways in which any investment team integrates ESG issues will inherently vary, and as such we take a differentiated approach to ESG integration that is tailored to each team's process. Investment teams may use quantitative tools, fundamental analysis, and often a combination of quantitative and fundamental approaches in their investment processes. Investors should note, however, that, as noted above, integration approaches may vary by team and therefore each team may apply different ESG considerations and integration processes, may apply its own weights to ESG factors and may use different selection, retention, realization, and engagement strategies¹.

GMO's ESG team supports all investment teams through the provision of subject-matter expertise, centralized ESG issue monitoring, and engagement support. GMO's Proxy Voting team provides voting and corporate governance guidance.

There are some GMO strategies that do not systematically integrate ESG, including those invested in long-short portfolios, foreign exchange, and rates. While long-short portfolios may benefit from some responsible investing practices on the long side, we do not find material benefit from managing ESG considerations in these other areas. However, we continue to assess that conclusion and may integrate ESG considerations if deemed appropriate in the future.

¹ Investors should refer to the relevant offering document for each GMO fund for further information on how ESG matters are considered within any particular fund.



Integration in fundamental analysis

Equity-oriented investment teams that primarily use fundamental tools to analyze investment opportunities – including GMO's Focused Equity and Usonian Japan Equity teams – employ a long-term investment horizon to deep bottom-up assessments of companies' expected financial performance, using relevant accounting and including ESG considerations.

ESG considerations naturally play a role in the investment vetting. Unsustainable practices represent a real risk to the level and duration of future profitability, both from the perspective of tangible impact (e.g., regulatory impact on underlying economics) or in terms of perception (e.g. reputation risk to end customer demand).

Engagement with issuers can also be a useful tool for these teams. Our ESG team assists with facilitating company engagement and monitoring portfolios for emerging risks.

For companies that have passed the vetting and valuation stages and made it into our portfolio, ESG issues may still arise for us as active owners of the stock. As part of their investment approach our fundamental investment teams may regularly meet with company management and engage on ESG issues that we believe may have a material long term impact on the business. We actively vote proxies and may diverge from firmwide and advisor recommendations on a case-by-case basis.

Integration in quantitative analysis

GMO's Systematic Equity team primarily leverages quantitative investment approaches, and ESG considerations are incorporated in the risk analysis and portfolio construction processes.

Corporate governance has always been at the forefront of the team's analysis, and we utilize a corporate alerts model that combines market- and financial-based metrics to indicate potential red flags. Factors such as profit warnings, excessive growth, equity dilution, significant merger and acquisition activity, failure to meet regulatory requirements, and rapid changes in a balance sheet or income statement may all assist in the assessment of a company.

The team also incorporates material, non-financial data to reduce our exposure to uncompensated risk not reflected in our alpha models, leveraging both a proprietary ESG model the team built with our ESG Research team to assess industries and the GMO ESG Score to systematically capture risk factors across those companies in our investment universe for which data is available. We believe the risk factors we are identifying can materially impact companies' future profitability and therefore warrant careful consideration.

Portfolio weighted average carbon intensity is also considered, as we believe there are likely future costs to companies not reflected in their historical data, though the timing and magnitude of impacts remain uncertain.



In emerging markets, where we believe country selection is very important in driving equity returns, we saw the need for a tool to meet differentiated needs in assessing country risk. Consequently, our Systematic Equity team built an emerging markets ESG country model in partnership with the ESG team to conduct top-down emerging market country quality evaluations to complement bottom-up stock valuation methodologies.

Integration in Fixed Income

GMO's Emerging Country Debt team has integrated ESG analysis in both its sovereign and quasi-sovereign assessments. The team includes ESG considerations in its models to evaluate creditworthiness and assess risk, alongside more traditional financial measures of economic structure, financial stability, and liquidity.

Our Structured Products team includes ESG considerations in its overall risk assessments. For example, material environmental risks are considered in our commercial mortgage-backed security risk evaluation process. Some properties that serve as underlying collateral in structured asset-backed security pools may have exposure to environmental risks such as earthquakes and flooding. We work to ensure buildings have proper insurance or a specific exemption and look at the energy efficiency measures and/or green building certifications.

Integration in Multi-Asset

GMO's Asset Allocation team has integrated bottom-up GMO ESG Scores into its 7-Year Asset Class Forecast methodology. The Forecasts form the foundation of how the team allocates capital within its multi-asset strategies. To integrate the Score, the team uses quantitative methods to allow the required rates of return for various equity groups to dynamically change in lockstep with their relative ESG Scores.

When creating its multi-asset portfolios, the team invests in market-specific GMO strategies that implement exposures directly. These strategies incorporate ESG in their own ways, as discussed above.

INFLUENCE

GMO believes that using our influence to engage with issuers can be a useful tool to protect, add, and create value in our investments. We believe countries and companies that are well governed make sound decisions and are better equipped to address risks, including environmental risks, and achieve higher long-term profitability. Thus, we often engage on governance, environmental, and social issues.

We prefer to take a constructive approach to our engagements. We aim to build long-term relationships with issuers of equity and debt, working with, not against, them to address key risks and create long-term value for all stakeholders. This is a key tenet of being an active and engaged steward of our investments.

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In general, the teams that use company engagement as a key part of their process carefully consider situations in which they believe (1) management is undertaking positive change and there is an opportunity to capture the upside potential associated with the change, or (2) the value of strong management has been recognized and is already priced into the security. Ultimately, the process centers upon assessing whether management's decisions and corporate resources are sufficient to execute in a manner that will have a positive or negative impact on the company's value.

GMO views proxy voting as an integral aspect of stewardship and engagement, and the function is conducted with the same degree of prudence and loyalty accorded any fiduciary or other obligation of an investment manager. We believe the alignment of company management's goals with those of its shareholders and other stakeholders is the strongest route to protect our clients' investments as minority stakeholders. We seek to vote proxies in a manner that encourages and rewards behavior that supports the creation of sustainable long-term growth and in a way consistent with the investment mandate of the assets we manage for our clients.

For those portfolios that mandate public disclosure of proxy votes cast, such as the GMO Trust mutual funds, GMO files reports annually through regulatory channels, provides links on our website to these filings, and provides these reports directly to our clients upon request.

The Stewardship sub-committee oversees proxy voting and firm-wide corporate engagement initiatives, stewardship related policies and external commitments.

For more information on GMO's commitment to active engagement, please visit <https://www.gmo.com/americas/esg-investing/stewardship/> to view GMO's Engagement Policy Statement, and GMO's Proxy Voting Policy

Collaborations can be highly beneficial to GMO, allowing us to leverage our influence combined with others to achieve greater impact than we would by engaging one-on-one. We have added our voice as a member, supporter, and/or signatory to many groups that share our views regarding the importance of ESG. We participate in collective action through initiatives that bring together like-minded asset owners and asset managers that have the potential to magnify the impact of our engagement efforts. We seek to collaborate where objectives are aligned with ours and we can increase our likelihood of effecting change. Our approach to collaboration does not differ across asset classes or geographies.

Our ESG Oversight Committee evaluates opportunities and must approve joining collective action initiatives. With myriad opportunities and limited resources to collaborate, we weigh the benefits and costs of joining any initiative. The ESG Oversight Committee considers such factors as:

- The initiative's goals and their alignment to GMO's priorities;
- Consideration of and comparison against other initiatives with a similar expected outcome;
- The scope of impact or influence to change;
- GMO's expected commitment and our ability to meet that commitment; and

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- Legal, operational, and reputational implications.

GMO's Commitment to Decarbonization and Climate-Related Risk Management









- We believe that climate-related risks have the potential to become an existential threat to the world over the coming years. GMO is therefore committed to identifying, monitoring, managing, and reporting climate-related risks and opportunities in our portfolios. Climate risks include both transition risks (i.e., impact resulting from the decarbonization of the world economy) as well as physical risks (i.e., damage caused by hurricanes, typhoons, droughts, wildfires, and other extreme weather events).
- For this reason, GMO has committed to reducing net emissions for our Net Zero Portfolio to zero by 2050 or sooner, in line with global efforts to limit global warming to 1.5 degrees Celsius. Our Net Zero Portfolio does not include certain assets, including those held in separately managed accounts, unless we have been directed by the client to include.

GMO's participation in industry initiatives relating to ESG, Stewardship and Climate Change are listed below.

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GMO Participation in Collaborative Initiatives

Below is additional detail on GMO's participation in collaborative ESG-related initiatives.

	<i>Initiative</i>	<i>Purpose</i>	<i>How GMO Participates</i>
MEMBERSHIPS			
	UN-supported Principles for Responsible Investment Signatory since May 2017	To incorporate ESG issues into investment practice	Report annually on responsible investing activities Member of the PRI Global Policy Reference Group, which promotes engagement and alignment of public policy with the goals of signatories In 2022-2023 , reviewed and provided feedback on ASCOR framework, detailed in previous section
	IFRS Sustainability Alliance Member since February 2021	To improve disclosures to help manage risks	IFRS materiality matrix is an input in GMO ESG Score
	Asian Corporate Governance Association Member since August 2021	To promote effective corporate governance practices throughout Asia	Member of the Japan Working Group, see above section for 2022 activity details
	Net Zero Asset Managers initiative Signatory since October 2021	To support the global goal of net zero greenhouse gas emissions by 2050	Set initial portfolio carbon footprint reduction targets in 2022, covering 53.5% of our AUM, see Principle 1 for details
	Emerging Markets Investors Alliance Member	To tackle ESG challenges in emerging markets	Participate in working groups, collaborative engagements, and webinars In 2022, the Emerging Markets Select Equity team joined the EMIA (the Emerging Country Debt team was already a member) Joined the newly formed Materials working group to engage with emerging markets companies on toxic chemical use
PUBLIC ENDORSEMENTS			
	Japan Stewardship Code Endorsed 2017	To promote sustainable growth of companies and enhance the medium- and long-term investment return of beneficiaries	Apply the principles in our stewardship activities
	Singapore Stewardship Principles for Responsible Investors Endorsed October 2018	To foster good stewardship in discharging our responsibilities and creating sustainable long-term value for all investors	Apply the principles in our stewardship activities
	Taskforce on Climate-related Financial Disclosures Endorsed December 2019	To provide relevant, complete, comparable disclosures on management of climate-related financial risks	In 2022 engagements, recommended that companies adopt TCFD disclosure Working to adopt TCFD recommendations for our own disclosure

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GMO Participation in Collaborative Initiatives (Con't)

	<i>Initiative</i>	<i>Purpose</i>	<i>How GMO Participates</i>
PUBLIC ENDORSEMENTS (CON'T)			
	<p>Transition Pathway Initiative</p> <p>Endorsed December 2020</p>	To assess companies' management of climate-related risks	Committed to support TPI TPI tool was one input into the 2022 prioritization and objective setting of our corporate engagements TPI led the work on ASCOR (see above)
	<p>2022 Global Investor Statement to Governments on the Climate Crisis</p>	Joint statement to all world governments urging them to implement policies consistent with a just transition that limits global temperature rise to no more than 1.5C	Signed the statement along with 531 other institutional investors representing US\$39 trillion in AUM
COLLABORATIVE ENGAGEMENTS			
	<p>CDP (formerly Carbon Disclosure Project)</p> <p>Signatory and member since January 2017</p>	To manage climate risk by providing a platform for companies to report their practices in three core areas: climate, water, and forests Provides opportunities for us to influence companies to disclose to CDP	Lead or participate in CDP collaborative engagement campaigns, such as Non-Disclosure and Science-Based Targets, 2022 NDC examples detailed above
	<p>Climate Action 100+</p> <p>Joined January 2018</p>	To engage with public companies that are the largest emitters of greenhouse gases	No activity in 2022
	<p>Investors Alliance Against Slavery and Trafficking, Asia Pacific</p> <p>Joined in October 2020</p>	To influence Asia-Pacific companies on effective action in finding, fixing, and preventing modern slavery in operations and supply chains	Involved in engagements with two companies. In 2022 GMO had meetings with one company but has struggled to get a meeting with the second (though we finally did in 2023).
	<p>Diversity, Equity, and Inclusion Code (USA and Canada)</p> <p>Joined 2022</p>	To commit to improving DEI programs within the organization and across the investment industry	GMO commits to implement the DEI Code by adopting a DEI policy and statement, have senior leadership ownership, establish oversight governance practices, and implement a plan to integrate DEI in our people processes and policies.