GMO

SUSTAINABILITY + RESPONSIBLE INVESTING REPORT

www.gmo.com

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FOREWORD

I am pleased to introduce GMO's Sustainability and Responsible Investing Report.

As GMO recently passed our 45th anniversary, we reflected on the influences that have shaped our firm over the years. Easily topping the list have been our unwavering focus on responsibly stewarding our clients' assets and our belief in the importance of conviction – taking a strong view about what matters most and having the courage to pursue it. In this report, we discuss how GMO is tackling sustainability and responsible investing issues as we continue to emphasize those priorities and work to generate strong investment outcomes for our client partners over the next 45 years and beyond.

This report provides details about our efforts to integrate material Environmental, Social, and Governance (ESG) factors into our investment processes. It also describes how we engage with companies and countries and collaborate with industry peers to influence sustainable change and address systemic risk.

It is clear to me that our efforts in this area are more important than ever. Looking back on 2023, we experienced the hottest summer on record in the northern hemisphere, and 28 $1 billion climate disasters took place in the United States alone. Farther afield, intense wildfires and destructive flooding around the world have offered heart-wrenching examples of climate-related devastation. We think it is critical to our future investment success to support efforts to address climate change, since a warming world is likely to present real and impactful challenges to our investments. Focusing on these issues is thus an investment imperative.

As an investment-led firm, we are focused on providing superior investment outcomes to our clients to benefit the millions of people they represent. We integrate material ESG factors in strategies where we believe they are likely to have a meaningful impact on the success and returns of both companies and countries. ESG considerations are a lens to help us identify those companies who are working to address ESG-related issues and, in turn, are likely to enhance their long-term profitability and command a higher premium into the future while also contributing to improving the state of our planet. This integration work has consistently been a strategic priority for our firm over the past several years, and our most recent progress is discussed in the pages that follow.

I would highlight the following updates as the most significant examples of sustainability-related progress over the past couple years.

- We have significantly bolstered our dedicated ESG resources. Deborah Ng joined GMO as our first Head of ESG and Sustainability in May 2022. Deborah has brought deep expertise and has already meaningfully accelerated our ESG progress. We also added Mandy Leung as an ESG Analyst in 2023 and Miekela Singh as Director of Investment Stewardship in 2024.

- GMO's Systematic Equity and ESG teams developed an Indirect Emissions Model and our Horizons Strategy. GMO Indirect Emissions is a proprietary method for estimating emissions embodied in company value chains, which provides our investment teams with a unique and powerful tool for quantifying, tracking, and managing portfolio carbon transition risk. Our new Horizons Strategy leverages this and other research to build portfolios focused on increasing green revenue exposure while minimizing carbon emissions.

- In 2023 we published our first Impact Report for the GMO Climate Change Strategy, detailing the strategy's positive impacts by measuring such issues as avoided emissions, renewable energy production, battery storage, and fresh water saved and produced.
- We strengthened our firm-wide engagement capabilities, launching a formal, centralized engagement program focused on climate change, in alignment with GMO's net-zero commitment and overall focus on environmental issues.
- After joining the Net Zero Asset Managers initiative in 2021, we developed our net-zero targets in 2022 – to reduce the carbon footprint of our net-zero portfolio by 65% between 2019 and 2030 and increase the assets covered by this portfolio from 50% to 65% by 2025. Through the end of 2023, we have achieved a 55% reduction in our net-zero portfolio carbon footprint. Please refer to page 30 for full details.
- In January 2022 GMO became one of 16 early signatories of the CFA Institute's new Diversity, Equity, and Inclusion Code. Through our commitment to the Code, we believe we can further amplify our efforts to continue to improve diversity and social awareness both within GMO's walls and more broadly in our industry, which we believe is additive to our investment outcomes.
- Recognizing the importance of our own corporate sustainability efforts in parallel with our investment initiatives, we continued to measure GMO's scope 1, scope 2, and material scope 3 emissions, which we are actively working to reduce. In conjunction with our reduction efforts and to move us toward corporate carbon neutrality, we purchased and retired gold standard certified carbon offsets from a wind farm in India to offset our estimated carbon footprint.

Over the years, the ways GMO has progressed in areas related to managing ESG and sustainability investment risk and opportunities have evolved and gathered pace. While I am proud of the work we have done to date, I believe it is critical that these efforts continue to build into the future to meet the shifting challenges of the time. This Sustainability and Responsible Investing Report describes the current state of our beliefs and the conviction with which we are executing on them. We would welcome the opportunity to discuss any part of it with those interested in learning more.

In closing, as ever, I thank our clients for their continued trust in GMO.

Scott Hayward
Chief Executive Officer

ABOUT US

ABOUT US

GMO Overview

Founded in 1977, GMO is a global investment manager committed to delivering 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 partner with a broad range of sophisticated investors, including leading endowments, foundations, corporate and public retirement plans, sovereign wealth funds, financial intermediaries, and philanthropic family offices. Our sole business is investment management, and we are privately owned, which allows us to maintain a singular focus on achieving outstanding long-term outcomes for our clients.

We offer investment solutions where we believe we can add the greatest value, including multi-asset class, equity, fixed income, and alternative strategies. Our investment teams are grounded in a common philosophical belief that a long-term, valuation-based approach will maximize risk-adjusted returns. It is our investment belief that securities and markets on occasion become mispriced because markets are inherently inefficient. All the investment processes used by GMO are aimed at adding value by first identifying these mispricing opportunities and then using disciplined, rigorous analysis to capitalize on them.

Practical application of our overall philosophy varies by investment team. Successfully applying our philosophy across asset classes requires an understanding of the unique challenges and opportunities of different markets, and each of our teams has focused expertise and employs its own active investment process best suited to generating superior performance. Our experienced investors use both innovative quantitative tools and deep fundamental analysis in managing their portfolios.

We believe that Environmental, Social, and Governance (ESG) factors are important drivers of success for companies and countries in which we invest. When we integrate ESG into our investment processes, it is therefore a natural extension of our efforts to deliver outstanding results to our clients.

A key pillar of GMO client partnerships is sharing our academically rigorous market insights and advice. We are known for our willingness to challenge the status quo and our creative approach to addressing investment problems. We candidly share our market views and take bold, differentiated portfolio positions when conditions warrant them.

Stewardship has been ingrained in our firm since our founding. It is critically important in how we manage our clients' capital and how we relate to our colleagues, our communities, and the environment. We know that we can achieve better results for our clients and higher levels of employee engagement by bringing together people with complementary skill sets who see things in different ways and have had a variety of experiences. We have a long-standing commitment to fostering a culture that celebrates and respects differences and embraces and values what each of us brings to our work, while also encouraging intellectual curiosity and open, respectful debate. These core values extend to and strengthen all our efforts in ESG and sustainability.

Global presence

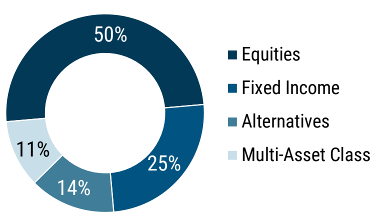
- Boston (HQ)
- Amsterdam
- London
- San Francisco*
- Singapore
- Sydney
- Tokyo**

425+ Employees

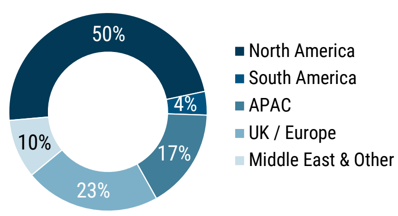
125+ Investment professionals

Assets Under Management: $60 Billion

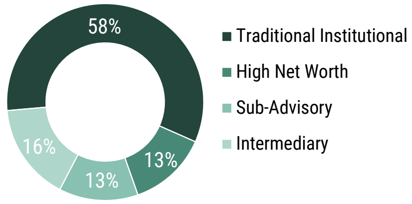
BY INVESTMENT ASSET CLASS



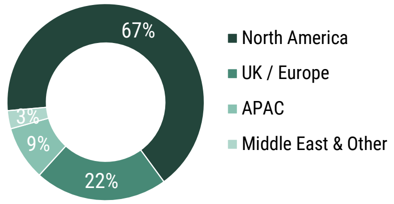
BY INVESTMENT GEOGRAPHY



BY CLIENT TYPE



BY CLIENT GEOGRAPHY



As of 31 December 2023 | Source: GMO | Assets: USD

*GMO's West Coast Hub is comprised of members of Investment, Global Client Relations, and other teams located in and around the Greater San Francisco area.

**Representative office.

ESG GOVERNANCE

ESG GOVERNANCE

GMO's emphasis on collaboration in our firm's culture forms the basis of our ESG and sustainability governance philosophy. A broad range of areas around the company participate in and contribute to ESG strategy development and application. This approach enhances awareness among employees, fosters support for ESG as a strategic objective, and makes for rigorous, consistent ESG integration across investment teams where relevant.

GMO also has dedicated committees and teams that focus on supporting different areas of our stewardship activities, as discussed below.

Firm-Wide Governance

GMO's Board of Directors holds ultimate authority on all matters and monitors GMO's firm-wide enterprise risk management practices, which include consideration of ESG and climate change. The Board is comprised of eight individuals, including Outside Directors whose sole function is service on the Board. GMO's CEO is responsible for the day-to-day management of GMO and reports to the Board, while formal risk management is the responsibility of a group of senior personnel led by our Head of Investment Risk and Trading.

ESG Oversight Committee

GMO has an established ESG Oversight Committee that is responsible for centrally 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 centrally ensuring GMO has the ESG resources we need to accomplish our objectives.

The Committee includes members of GMO's CEO management team and other senior stakeholders. Chaired by our Head of ESG and Sustainability, Deborah Ng, the Committee is 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 provides regular updates to GMO's Board of Directors.

This structure serves us well to facilitate oversight of ESG integration, stewardship, and product and communications strategy. It has also supported the breadth of our ESG and sustainability efforts, helping to make ESG a firm-wide priority and enabling seamless integration of efforts and sharing of ideas, knowledge, and resources across teams.

The ESG Oversight Committee is shown below.

ESG AND SUSTAINABILITY STRUCTURE

Board of Directors

↓

Scott Hayward | *Chief Executive Officer*

↓

Oversight Committee

Deborah Ng | *ESG & Sustainability (Chair)*

Holly Carson | *Consultant Relations*

Anna Chetoukhina | *Asset Allocation*

Roy Henriksson | *Investment Risk & Trading*

Andy Martin | *Investment Product Strategy*

Greg Pottle | *Chief Compliance Officer*

George Sakoulis | *Investment Teams*

Dina Santoro | *Chief Operating Officer*

Hylton Socher | *Chief Technology Officer*

Phil Zachos | *General Counsel*

Nicole Zimmerman | *Human Resources & Facilities*

Erin O'Keefe | *Facilitator*

ESG Sub-Committees

Supporting the GMO ESG Oversight Committee are three sub-committees – Investments, Stewardship, and Stakeholder Strategy and Communications – which include another 20+ GMO employees spanning many levels and functions from around the firm. This broad membership further ensures strong engagement on ESG across the firm and an aligned and coordinated approach at every level.

1. **Investments Sub-Committee**

   Our Investments sub-committee is charged with overseeing ESG risks at the portfolio level, including evaluating severe and developing ESG controversies within our public equity and fixed income holdings. The sub-committee also ensures we are progressing on our overall climate strategy and manages our Heightened Review process, wherein companies with high ESG risks are placed on Heightened Review, subsequently requiring the Investments sub-committee's approval before trading.

   The sub-committee is co-chaired by Head of Investment Teams and Systematic Equity George Sakoulis and Head of Investment Risk and Trading Roy Henriksson. Membership includes leaders from our investment teams in addition to Deborah Ng. By gathering our investment team leaders, we believe we can more effectively address these important topics in a centralized, coordinated way.

2. **Stewardship Sub-Committee**

   Our Stewardship sub-committee oversees investment-related stewardship and is co-chaired by General Counsel Phil Zachos and Deborah Ng. This sub-committee sets our proxy voting guidelines and monitors our voting activities, and it identifies engagement priorities and tracks progress on firm-wide engagements. It provides a forum in which we can hold meaningful discussions on proxy voting decisions and engagements.

3. **Stakeholder Strategy and Communications Sub-Committee**

   The Stakeholder Strategy and Communications sub-committee is co-chaired by George Sakoulis and Head of North American Consultant Relations Holly Carson and works to advance our ESG reporting to our clients and other external stakeholders.

   This sub-committee is made up of representatives from Investment Teams, Investment Product Strategy, Investment Data Solutions, Regulatory Reporting, and Global Client Relations. We believe this membership helps us integrate our clients' priorities with our investment strategies and improves how we share ESG outcomes with our clients. Importantly, it creates a strong link between investment activities and stakeholder expectations as relates to ESG and sustainability.

ESG SUB-COMMITTEES

Investments

CHAIRS
- George Sakoulis
- Roy Henriksson

MEMBERS
- Joe Auth
- Anna Chetoukhina
- Warren Chiang
- Drew Edwards
- Jason Halliwell
- Tom Hancock
- Steve Nazzaro
- Deborah Ng
- Erin O'Keefe
- Miekela Singh
- John Thorndike
- Tina Vandersteel
- Lucas White

MANDATE
- Govern the Responsible Investment Policy and Heightened Review process
- Oversee ESG risk and net-zero objectives

2024 WORKING GROUPS
- ESG Research

Stewardship

CHAIRS
- Phil Zachos
- Deborah Ng

MEMBERS
- Brian Buoniconti
- Holly Carson
- Drew Edwards
- Tom Hancock
- Jason Harrison
- Michelle Morphew
- Anna Rainsford
- Dina Santoro
- Miekela Singh

MANDATE
- Proxy voting and engagement, including governing related policies
- Stewardship-related commitments

2024 WORKING GROUPS
- Proxy Voting Guidelines

Stakeholder Strategy and Communications

CHAIRS
- George Sakoulis
- Holly Carson

MEMBERS
- Tommy Garvey
- Mandy Leung
- Andy Martin
- Michelle Morphew
- Deborah Ng
- Erin O'Keefe
- Tara Pari
- Steven Peck
- Melanie Rudoy
- Vineta Salale
- Mina Tomovska
- Cindy Tan

MANDATE
- Stakeholder reporting
- GMO ESG-related commitments

2024 WORKING GROUPS
- ESG Dashboard
- Regulatory Reporting

ESG And Sustainability Team

Led by Deborah Ng, GMO's ESG and Sustainability team works closely with our investment teams by providing subject-matter expertise, tools, and resources to aid their assessment of ESG. This team shares responsibilities with the investment teams on engagements, which may be conducted jointly or separately. Their work is supported by a wide array of GMO colleagues who devote part of their time to GMO's ESG efforts.

DEBORAH NG
Head of ESG and Sustainability

MIEKELA SINGH
Director of Investment Stewardship

MANDY LEUNG
ESG Analyst

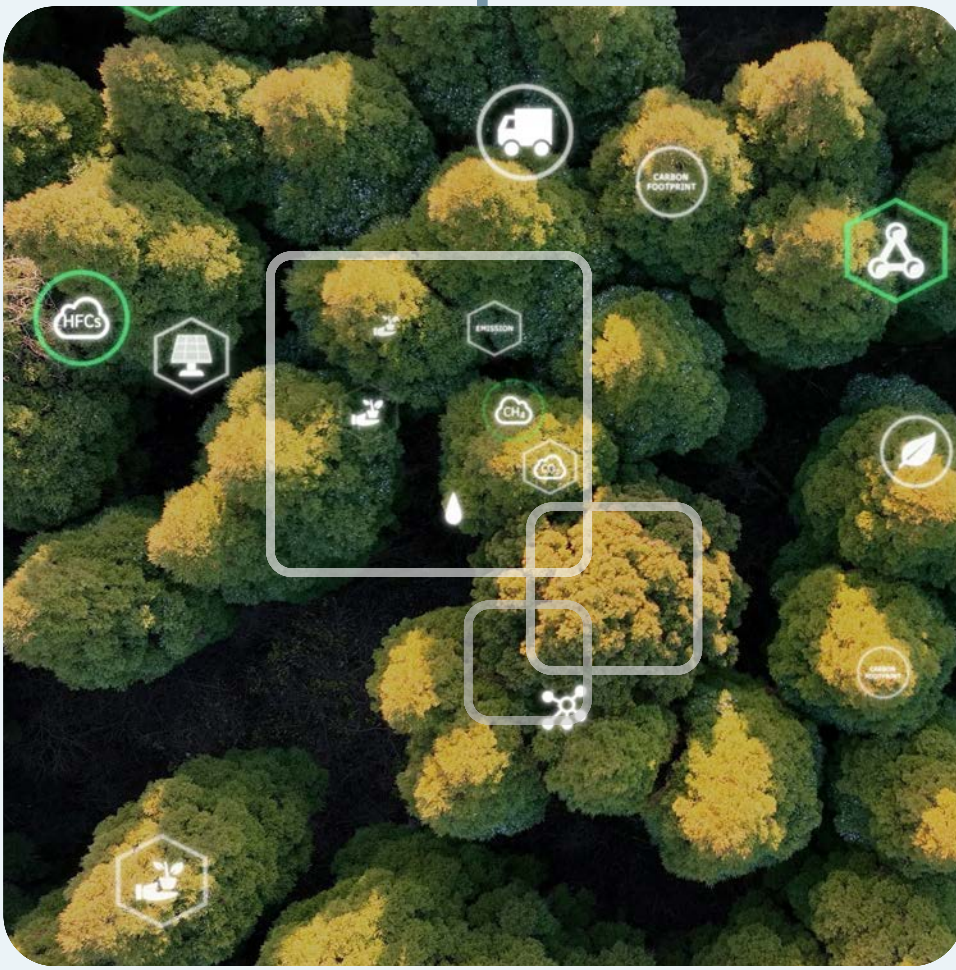
Proxy Voting Team

GMO's proxy voting efforts are overseen by the Stewardship sub-committee and executed by a three-person Proxy Voting team, each of whom has extensive experience and long GMO tenure. The Proxy Voting team serves as a liaison between our ESG and investment teams and our proxy voting advisor, ISS, to ensure GMO is voting its shares in a thoughtful manner consistent with our Proxy Voting Policy.

TARA PARI

BRIAN BUONICONTI

MEGHAN PANTELEAKOS



RESPONSIBLE INVESTING

Pillar 1: ESG Integration

- Equity
- Fixed Income
- Multi-Asset Class
- GMO ESG Score

Pillar 2: Influence through Investment Stewardship

- Engagement
- Proxy Voting

Pillar 3: Investment Solutions

- Climate Change Strategy
- Horizons Strategy

RESPONSIBLE INVESTING

We believe that material ESG issues are crucial drivers of long-term success that demand consideration in our investment strategy and process. As such, we do not have any single team exclusively dedicated to ESG investing, but we instead boast a multi-disciplinary ESG framework that promotes responsible investing, stewardship, and accountability across all areas of GMO.

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

1. Integrate ESG factors in our investment processes, where we see benefit in doing so,
2. Influence companies to adopt sound ESG practices, and partner with companies, policymakers, and regulators to foster a better environment for our investments, and
3. Invest in opportunities for long-term growth through an ESG lens, including climate solutions.

Pillar 1: ESG Integration

Each of our individual investment teams is responsible for identifying and managing how ESG factors can be included in its asset class- and market-specific analysis. The ways in which any 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 asset class, strategy, and process. 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.

GMO employs a variety of equity, fixed income, multi-asset class, and alternative investment strategies. Teams use quantitative tools, fundamental analysis, and often a combination of quantitative and fundamental approaches in their investment processes. 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 strategies. Below are examples of how we have integrated ESG into our investment processes within different asset classes.

EQUITY

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 and deep bottom-up assessments of companies' expected financial performance, using relevant accounting and ESG measures. 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) and in terms of perception (e.g., reputation risk on end customer demand). These teams also generally employ quantitative screens to aid their analysis, and they may include proprietary ESG scoring in those tools as well to uncover material risks. The GMO ESG Score can be employed as an additional measure for evaluating ESG considerations.

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

We also have a Systematic Equity team that primarily leverages quantitative investment approaches, and ESG is incorporated in this team's risk analysis and portfolio construction processes. Corporate governance has always been at the forefront of the team's analysis, and we utilize an Alerts model that combines market, management, and accounting 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 help reduce our exposure to uncompensated risk not reflected in our alpha models, leveraging the GMO ESG Score to systematically capture risk factors across companies in our investment universe. We believe the risk factors we are identifying may materially impact companies' future profitability and therefore warrant careful consideration.

Each Systematic Equity portfolio's weighted average carbon intensity may also be 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.

FIXED INCOME

GMO's Emerging Country Debt team has integrated ESG considerations into its investment process, as presented in the case study below.

Our Structured Products team includes environmental risk factors 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.

Strategy Spotlight: EMERGING COUNTRY DEBT STRATEGY

GMO's Emerging Country Debt team has integrated ESG analysis in both its sovereign and quasi-sovereign assessments. The team launched its proprietary ESG sovereign integration process in 2021 and quasi-sovereign process in 2022. Today, the team includes ESG factors in its models to evaluate creditworthiness and assess risk, alongside more traditional financial measures of economic structure, financial stability, and liquidity. The factors our team considers, including ESG, are laid out below.

Risk Assessment Process: Sovereign

Our econometric sovereign risk assessment process is enhanced with ESG factors and engagement

SYSTEMATIC RISK FACTORS ("PILLARS")

ECONOMIC STRUCTURE
- Strength of Economic Institutions
- Economic Volatility
- Human Capital and Development

FISCAL SUSTAINABILITY
- Fiscal Trends
- Debt Burden
- Fiscal Flexibility

EXTERNAL LIQUIDITY
- Balance of Payments
- External Debt
- Foreign Reserves

ESG
- Climate Sustainability, Exposure, and Adaptation
- Education Access and Quality, Infant Mortality
- Effectiveness, Reliability, and Stability of Governance

QUALITATIVE FACTORS
- Willingness to Pay
- Quality of Policymakers
- Political Regime Shifts
- ESG Insights
- Sanctions Risk

Risk Assessment Process: Quasi-Sovereign

We assess quasi-sovereign companies based on financials, strategic role, and issue-specific documentation

FINANCIAL & STRATEGIC FACTORS

STANDALONE CREDIT QUALITY
- Solvency
- Liquidity
- Management Quality
- Transition and Physical Climate Risks

SOVEREIGN'S WILLINGNESS TO SUPPORT
- Ownership Structure
- Role in the Economy

SOVEREIGN'S ABILITY TO SUPPORT
- Economic Structure
- Fiscal Sustainability
- External Liquidity
- ESG

ISSUE CHARACTERISTICS
- Issuer Ability to Change Terms
- Creditor Rights and Enforcement Features
- Additional Support, If Any
- Green, Sustainability, or Other Labeled/Linked Issues

Featured Research

GMO's Emerging Country Debt team has published several white papers on its ESG integration efforts.

Emerging Debt Energy Transition | *Sergey Sobolev and Mustafa Ulukan, March 2024*
This piece introduced our work on a novel way to finance emerging countries' transitions toward cleaner energy production.

Does Democracy Matter for Emerging Sovereign Debt? | *Eamon Aghdasi and Mina Tomovska, August 2023*
The team examined how to deal with illiberal and autocratic countries in EM, ultimately proposing an approach that prioritizes freedom and democracy while preserving the key characteristics of the asset class.

EM Corporate Debt ESG Integration | *Sergey Sobolev and Mustafa Ulukan, December 2022*
In this research, the authors discussed the team's integration of a proprietary set of ESG risk factors, which analysis shows can improve the predictive power of the EM corporate credit investment process.

Sovereign ESG Integration | *Eamon Aghdasi, March 2021*
This paper described the team's strategy for systematically involving ESG in its sovereign emerging debt analysis, improving the team's ability to evaluate sovereign credit risk.

MULTI-ASSET CLASS

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 ESG 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 earlier.

GMO ESG SCORE

Early in our experience with using ESG factors, we found that relying strictly on any one third-party ESG score was insufficient, so we developed a proprietary GMO ESG Score in 2021 that can be used by our investment teams.

We use the ESG Score to augment our view of financial materiality and potential issues such as climate risk, litigation risk, and reputational risk. We believe it is critical to differentiate between material and immaterial issues on an industry-by-industry basis, utilizing multiple lenses to form our own view.

To achieve a multi-faceted picture of companies' exposures to ESG risks, we combine data from two ESG data vendors, MSCI and Refinitiv, to create our ESG Score. Our framework considers the historical management of ESG, outcomes, and real-time events.

The ESG Score is weighted using the Sustainability Accounting Standards Board's (SASB) materiality weighting and GMO's own expertise to achieve a more well-rounded fundamental and statistical picture of the variables at play. This provides stronger conclusions than could be generated from any individual source.

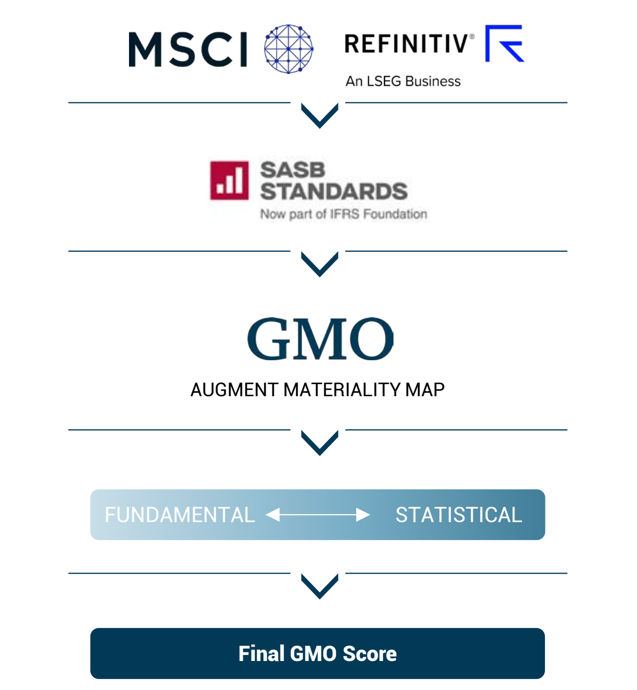
The materiality of an ESG issue for an industry is determined by SASB and augmented through the following insights:

- GMO's subject-matter expertise – our own industry research and judgment,
- Current and upcoming regulations (e.g., Modern Slavery Act, Paris Climate Agreement, G7 tax deal),
- Assessment of impact due to ESG controversies (e.g., data breaches, dam collapses, physical climate risks), and
- Third-party ESG research (e.g., insights from MSCI, Sustainalytics, etc.).

For each SASB industry, we give more weight to ESG issues that relate to quality:

- For each industry we quantify the relationship between each material issue and the quality of companies.
- We shrink the statistical materiality toward the fundamental materiality to obtain a more robust, but still dynamic, materiality.

The ESG Score is recalibrated annually to ensure that the model captures evolving ESG materiality and incorporates insights we have gained from our use of the tool. We will continue to assess and refine our GMO ESG Score regularly.



ESG INVESTMENT RESEARCH

GMO's culture of open debate and collaboration stimulates new investment research, which often results in the development of new methods to tackle investment challenges to better achieve our clients' goals and act as more effective stewards of their capital. Recent notable research activity that furthered stewardship-related objectives included:

- The ESG and Systematic Equity teams built the GMO Indirect Emissions model, which GMO investment teams can now use to estimate all direct and indirect emission flows between companies within value chains. This new model gives our investment teams insight into which companies are most and least exposed to climate transition risks.

The timeline below shows the significant strides GMO has made in the past several years to ensure our investment strategy enables effective stewardship.

EVOLUTION OF RESPONSIBLE INVESTMENT

2010

- GMO publishes: "Everything You Need to Know about Global Warming in 5 Minutes," a 13-point summary of climate change

2017

- ESG Oversight Committee formed
- Principles for Responsible Investment, CDP, and Japanese Stewardship Code signatory
- Climate Change Strategy launched
- First dedicated ESG hire
- Emerging markets ESG country model built

2018

- Climate Action 100+ member
- UK (2012 Code) and Singapore Stewardship Principles signatory

2019

- Emerging markets ESG country model expanded to developed markets
- Taskforce on Climate-related Financial Disclosures (TCFD) endorsed

2020

- Transition Pathway Initiative endorsement
- Investors Alliance Against Slavery and Trafficking Asia Pacific joined

2021

- GMO ESG Score developed
- First Sustainability and Responsible Investing report published
- ESG Research team formed with three dedicated resources
- Net Zero Asset Managers initiative joined

2022

- First Head of ESG & Sustainability hired
- EM quasi-sovereign model developed
- Initial net-zero targets established
- GMO Indirect Emissions model created
- Emerging Markets Investor Alliance joined

2023

- GMO Horizons Strategy developed
- First Impact Report created for GMO Climate Change Strategy
- Research on portfolio green revenue co-published with FTSE Russell and GIC
- UK Stewardship Code (2020) signatory

- The ESG and Systematic Equity teams developed the Horizons Strategy, which leverages the GMO Indirect Emissions model and third-party green revenue data to create a portfolio with half the emissions and three times the green revenue exposure of the benchmark index.
- As discussed above, our Emerging Country Debt team created a new ESG assessment framework for quasi-sovereign debt, complementing the sovereign debt ESG framework they implemented in 2021. Both methodologies incorporate the most relevant E, S, and G factors at the country and corporate levels to help us evaluate credit risk alongside more traditional financial measures.
- The Emerging Country Debt team also partnered with a client to develop a distressed emerging debt strategy that focuses on achieving strong returns while also engaging issuers with the aim of improving key national ESG factors such as emissions intensity, primary education enrollment, and democracy.
- The ESG team partnered with the GMO Focused Equity team to publish an Impact Report for our Climate Change Strategy. This report aims to present the positive impacts of the Climate Change Strategy by measuring avoided emissions, renewable energy production, battery storage, and fresh water saved and produced.

Pillar 2: Influence through Investment Stewardship

At GMO, investment stewardship encompasses how we actively engage with the companies and countries in which we invest. Utilizing our stewardship tools, such as engagement and proxy voting, to promote high standards of corporate governance and effective management of environmental and social factors, we believe we can support the creation of long-term value to enhance the risk-adjusted returns we deliver for our clients.

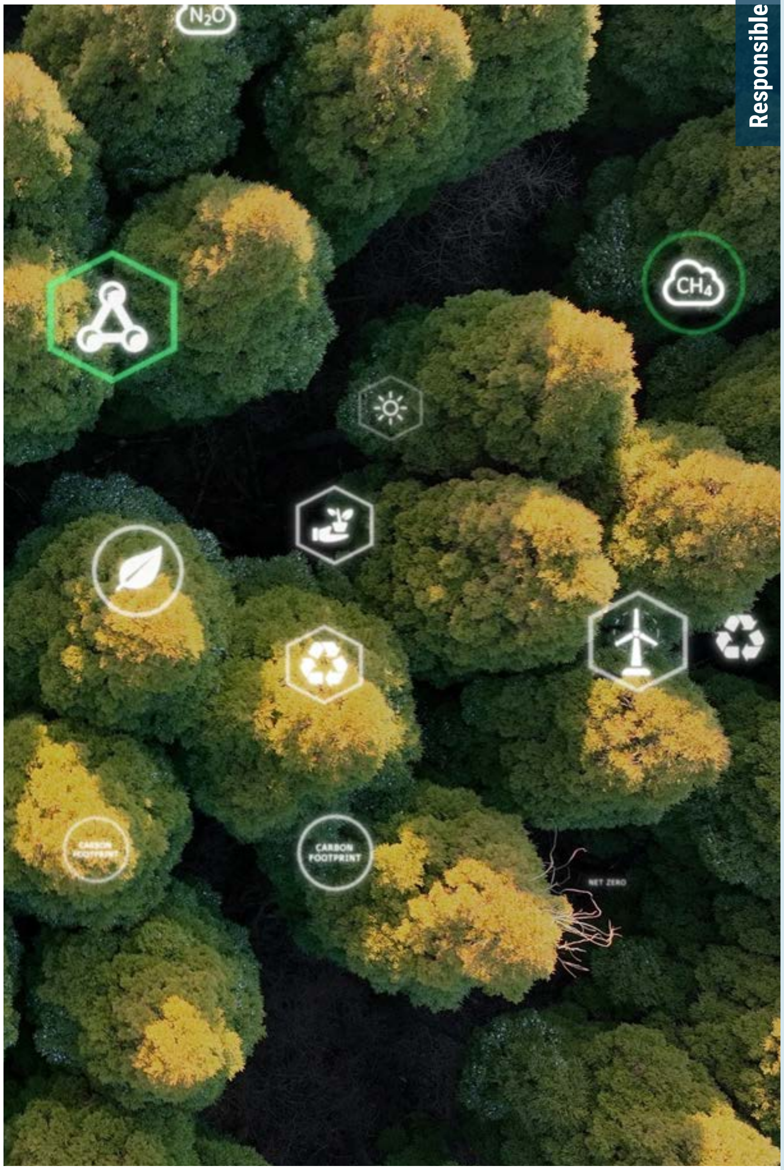
ENGAGEMENT

GMO believes that engagement with issuers can be a primary tool to protect, add, and create value in 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.

Below are seven principles that guide our overall engagement approach.

ENGAGEMENT PRINCIPLES

- We take a collaborative approach to engagements and seek to include all relevant (impacted) GMO stakeholders in the conversation. Portfolio managers should always be consulted before any engagement.
- We generally prefer to keep our engagements with companies confidential unless it is a public collaborative engagement, e.g., CDP.
- Engagement has a cost, so we must weigh the cost and likelihood of success against the expected benefits to our clients considering the size of our holding and the nature and magnitude of the risk.
- We aim to engage at the board level as engagements will be more effective if conducted at a senior level.
- We set clearly defined, specific, measurable, achievable, relevant, and timebound objectives for the engagement target before starting an engagement and track achievement of milestones.
- We align our voting decisions with engagement outcomes.
- We aim to measure and report on the effectiveness of our engagements.



Selecting and Prioritizing Engagements

In keeping with our investment-driven ESG approach, GMO investment teams undertake their own engagements on a case-by-case basis with equity or debt issuers to address ESG issues in their portfolios. Teams select and prioritize engagement based on factors such as severity of the risk, likely impact on company's valuations, ability to influence, and size of the holdings. In doing so, they consider their own fundamental analysis, GMO's ESG Scores at the country and company level, and/or controversial events that arise.

In addition, teams emphasize issues that align with strategically important themes identified by our annual Engagement Plan, which is defined by our Stewardship sub-committee. The priority theme currently selected is climate change issues, aligning with GMO's net-zero commitment and overall focus on critical environmental issues.

ENGAGEMENT CATALYSTS

	1 ***Issuer-driven***	2 ***Event-driven***	3 ***Theme-driven***
WHAT	▪ Tailored engagement aimed at addressing risks and value creation opportunities	▪ Engagement aimed at addressing material events that pose financial and / or reputation risks	▪ Engagement on thematic issues prioritized by GMO aimed at promoting specific strategic outcomes
WHEN	▪ Identified by investment teams as part of investment strategy and / or process ▪ Low GMO ESG Score ▪ Material findings uncovered during due diligence or arising during ownership ▪ Part of strategy to improve issuer decision-making and practices	▪ Controversies arising during ownership ▪ Potential Global Compact and OECD Multinational Enterprise Guidelines violation flags	▪ Climate change ▪ Cross shareholdings (cross shareholdings occur when listed companies have significant holdings of other listed companies)
WHO	▪ Investment team led with support from ESG team	▪ ESG team monitors entire GMO portfolio and advises investment teams when material issues arise ▪ Engagement conducted by investment teams or jointly with investment and ESG teams	▪ ESG team identifies targets based on materiality of issue, size of holdings, and ability to influence ▪ Engagement conducted by investment teams or jointly with investment and ESG teams
EXAMPLE	▪ We have initiated an engagement with an emerging country issuer to get concrete details on its long-term plan to industrialize the economy and shift away from fossil fuel-based power.	▪ A company was put on the Global Compact Watchlist by a vendor due to a reassessment of the scales of impact resulting from an alleged failure to obtain free and prior informed consent for a mining project. The company maintains dialogue with the NGO that brought the allegation and confirmed that there are no uncontacted groups.	▪ We met with a company to discuss the newly released Science-Based Target initiative (SBTi) guidance for forest, land, and agriculture. The company explained that they are still working on this issue. In our follow-up a year later, the company announced initial emissions reduction targets.

The above describes in more detail how our teams select and prioritize equity and debt engagements in three categories of engagements.

Core to our process is the establishment of engagement objectives and the tracking of company progress against those objectives. We aim to establish goals that are specific, measurable, achievable, relevant, and timebound. We believe engagement is an iterative process that can sometimes take years to achieve an objective, so it is important to track our progress, and we track the achievement of engagement milestones in a centralized database.

To further our engagement efforts, in 2024 we created a new dedicated corporate engagement role at GMO and hired Miekela Singh as Director of Investment Stewardship. Reporting to the Head of ESG and Sustainability, the Director of Investment Stewardship will spearhead our engagement

CONDUCTING ENGAGEMENTS

Engagement is an iterative process that may last years

IDENTIFY TARGET	DESKTOP RESEARCH	SET OBJECTIVES	OUTREACH	MEETING	MONITOR	REPORT
▪ Holding size ▪ Holding period ▪ Ability to influence ▪ Severity ▪ Likelihood of success	▪ Confirm triage ▪ Understand approach ▪ Assess performance relative to best practices	▪ Specific ▪ Measurable ▪ Achievable ▪ Relevant ▪ Timebound	▪ Letter or email ▪ Request meeting/call	▪ Develop relationship ▪ Outline concerns ▪ Communicate expectations	▪ Assess progress ▪ Reengage ▪ Abandon ▪ Escalate	▪ Track and report milestones achieved

efforts, liaising with the Proxy Voting and Investment teams, managing our ESG controversy review process, engaging collaboratively with like-minded peers, and participating in the Stewardship sub-committee.

Methods of Engagement

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.

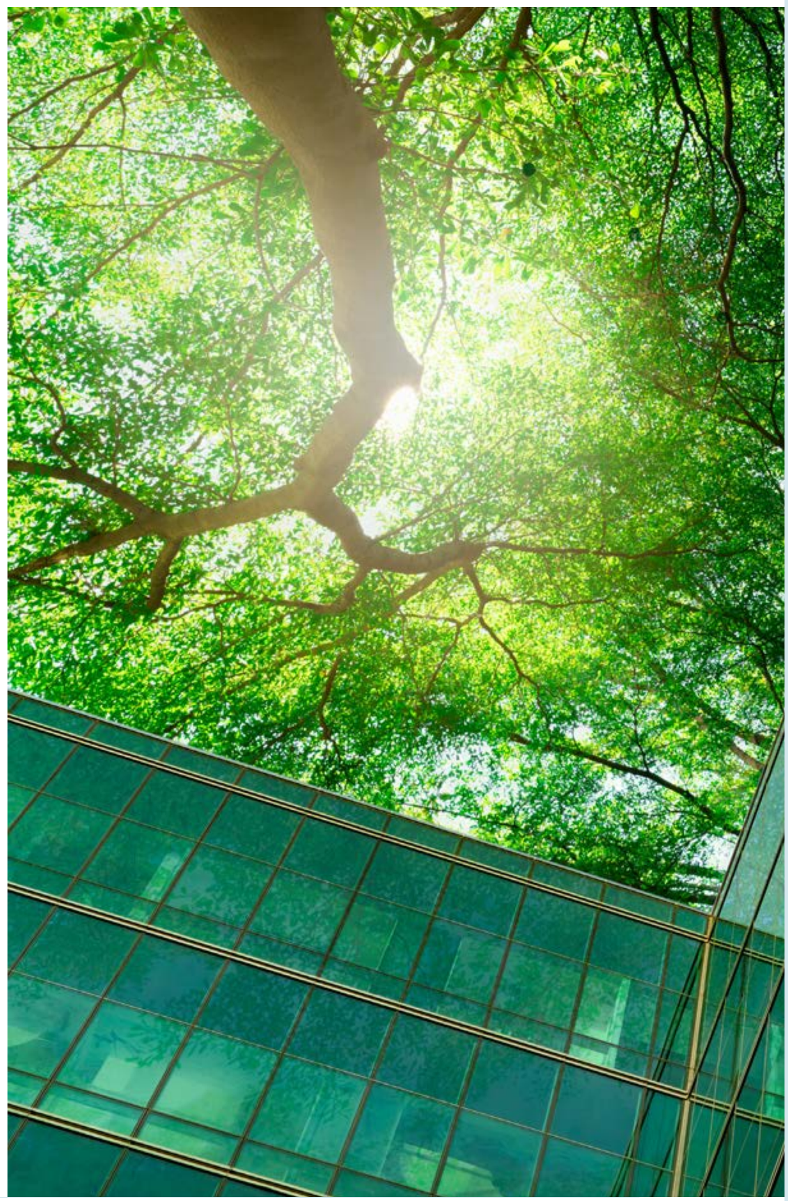
We engage 1) directly with issuers, 2) collectively with peers, or 3) through advocacy at the industry level. Our teams engage in open and constructive dialogue, utilizing both written communications and virtual or in-person meetings.

When engaging with equity issuers, we seek to communicate with senior management or members of the board. In the case of engagements with fixed income issuers, we have dealt with both government officials representing sovereign debt issuers and investor relations teams at the corporate level.

The diagram above details our typical method of engagement.

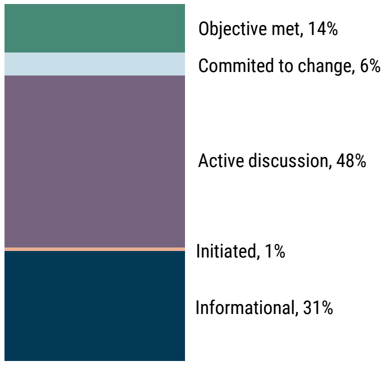
2023 Engagement Statistics and Case Studies

In 2023, investment teams conducted 205 interactions with 110 companies. Going into 2024, 118 engagements remained open. The breakdowns below show the number of engagements by milestone, by topic, and by E, S, and G category. Provided below the charts are a sampling of case studies of equity and fixed income engagements that had activity in 2023.

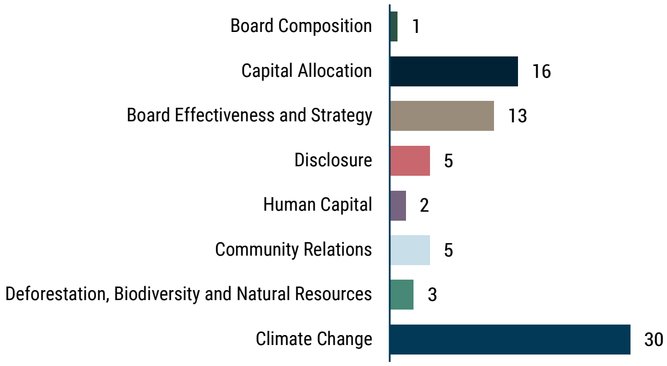


2023 ENGAGEMENT STATISTICS AND CASE STUDIES

Engagement Progress



Number of engagements on specific topics



Equity Engagements

Company	*Graphite electrodes and petroleum coke manufacturer*
Initiation Date	5 Dec 2023
Last Contact Date	12 Dec 2023
Issue	ESG and climate disclosures
Format	Video call
Company Attendees	Vice President, Investor Relations and Corporate Communications
GMO Attendees	ESG Team (Deborah Ng, Mandy Leung)
Objective	Provide more comprehensive disclosures to CDP
Actions	Discussed the company's climate-related disclosures, conferred about fossil fuel-based raw material and stranded asset risks, and encouraged more comprehensive reporting, including articulating the board's oversight on climate risks and publicly disclosing emission reduction targets.
Outcomes	Company will take our comments into consideration and look to publish their first CDP report in 2024.
Status and Next Steps	We will check back after reporting season to see if they adopted our suggestions.

Company	*Insurance company*
Initiation Date	12 Sep 2023
Last Contact Date	12 Sep 2023
Issue	Transparency
Format	In-person meeting
Company Attendees	CFO, Investor Relations
GMO Attendees	Focused Equity (Tom Hancock)
Objective	Encourage a more transparent business model
Actions	We met with the company to discuss transparency and the Pharmacy Benefits Model (PBM). PBMs are generally regarded poorly due to the complexity of the structure and lack of transparency about how various parties in the drug supply channel get paid and by whom. We encouraged the company to adopt a more transparent model, the costs of which would be outweighed by a high valuation of the company.
Outcomes	None yet
Status and Next Steps	Open

Equity Engagements (con't)

Company	*Financial services company*
Initiation Date	23 Jun 2023
Last Contact Date	18 Dec 2023
Issue	Board composition
Format	In-person meeting and phone calls
Company Attendees	Directors, CEO, CFO
GMO Attendees	Usonian Japan Equity (Takeo Asahara, Fumie Kikuchi)
Objective	Enhance board composition
Actions	We have had a number of interactions with the company regarding better board composition so that the board can manage the company more strategically. Ahead of our vote against the chair and another director, the board responded by introducing an independent board candidate.
Outcomes	Board introduced an independent board candidate.
Status and Next Steps	Open. We will continue to monitor and engage.

Fixed income Engagements

Issuer	*Republic of Suriname*
Initiation Date	31 Mar 2022
Last Contact Date	7 Feb 2024
Issue	Governance and social stability
Format	Multiple in-person meetings
Government Attendees	Minister of Finance, Minister of Foreign Affairs
GMO Attendees	Emerging Country Debt (Eamon Aghdasi, Carl Ross)
Objective	Restructure debt using value recovery mechanism linked to oil production that would reduce the opportunity for corruption and improve governance
Actions	We traveled to Suriname for debt restructuring discussions with officials. We proposed a governance structure for a value recovery mechanism linked to oil production that would reduce the opportunity for corruption and improve governance, allowing maximum financial resources for social welfare and development objectives. We also sought to achieve a restructuring arrangement that avoided adverse social consequences and maintained the current administration's ability to govern amid political pressure.
Outcomes	Issuer added transparency clauses relating to the release of consolidated information on indebtedness and made a commitment to hold quarterly macroeconomic and financial updates.
Status and Next Steps	Closed

SPOTLIGHT: *GMO Usonian Japan Equity Engagement Approach*

Influencing positive outcomes through engagement has always been an integral facet of the GMO Usonian Japan Equity team's investment approach. The team believes there are significant engagement opportunities in Japan, where management teams tend to be receptive to collaborative and constructive feedback.

As long-term investors, the team works as collaboratively as is practical with Japanese companies to unlock value. With each company, they identify several ways they think management can increase the value of the firm.

Usonian continues to be at the forefront of GMO's engagement activities, accounting for about 53% of total engagements in 2023. They epitomize engagement best practices at GMO.

Engaging on shareholder rights and capital allocation

A significant corporate governance issue in Japan is the propensity for firms to hold significant numbers of shares in related companies. We refer to this as "cross shareholdings" and it is an issue because cross-held companies frequently have interests that conflict with the interests of minority shareholders. This dynamic can also make it difficult for management of listed subsidiaries to stand up to their parent company. At times, this has led to the perverse outcome where the valuation of the parent company is worth less than the value of the shares it holds in its listed subsidiaries.

In February 2021, the Usonian Japan Equity team sent letters to companies to provide notice of a change in our proxy voting policy. We informed companies that we would be withholding support for top management that does not commit to and execute on plans to reduce or unwind cross shareholdings. This was followed in June 2021 with a letter ahead of companies' annual general meetings previewing our voting decisions. Throughout 2022 and 2023, Usonian continued to engage with companies on this issue through one-on-one meetings with board members and executive teams, written letters, and voting decisions.

To date, the Usonian Japan Equity team has engaged with 38 companies with the objective of reducing and eventually eliminating all cross shareholdings. As of 31 December 2023, we voted against directors in five companies for having a strategic holding ratio over 10%. Five companies announced reductions in cross shareholdings, while another one has committed to do so in 2024. Twenty companies remain in active engagement.

CORPORATE ENGAGEMENT TOOL KIT

We think about our engagement in four categories of objectives, each of which we believe enhances our investment returns over the long term.

UNDERSTANDING

Early engagement to understand how management thinks about specific strategic issues

RELATING

Constructive, value-added engagement to deepen relationships and trust with management teams, which can be critical in Japan and important in influencing management later

SUPPORTING

Providing value-added support initiatives to companies, which can include:

- Providing global competitive benchmarking
- Helping with IR activities
- Introducing potential director and/or corporate allegiance candidates
- Explaining "the investor perspective"

INFLUENCING OUTCOME

Spurring performance improvement by submitting formal written suggestions to corporate boards highlighting corporate governance shortcomings, leveraging relationships with other market participants and lobbying proxy advisors

CASE STUDY: TOYOTA INDUSTRIES CORPORATION

The impact of cross shareholdings on shareholder value is exemplified by the case of Toyota Industries Corporation (TIC), the world's largest manufacturer of forklift trucks and a producer of cars, textiles, and electronics. As value investors, we are attracted by the company's compelling valuation, operational strength, and return potential, with opportunities to unlock further value through engagement. The company illustrates the nuanced difficulties with ESG matters – despite the governance shortcomings and emissions scandals, the company has done well for shareholders, and we have conviction that it is a great company that will continue to contribute to long-term returns. We believe that if it were to improve its governance, it would perform even better.

Following the latest series of the group's data scandals, we decided to make the first public expression of our concern over the portfolio company. While our engagement policy is generally to not comment publicly on companies with whom we are engaging, we felt that the lack of progress over Usonian's 13+ year investment in the company warranted an extraordinary response. In February 2024, the team issued a letter to explain our position and contributed to an article on the topic in the Financial Times. We view the scandal as just one symptom of a larger problem of its broken corporate governance. The letter is available to read here.

At the end of January, TIC released an investigation report, by the special investigating committee composed of outside experts, which documented that TIC personnel repeatedly altered and manipulated data to certify that TIC-manufactured engines met emissions standards. This followed earlier reports of the same kind of misconduct by Toyota Group members Hino Motors and Daihatsu.

The day after the TIC report, Akio Toyoda, Chairman of Toyota Motor Corporation (TMC), set out the Toyota Group's corporate governance challenges with admirable honesty. He candidly described the Toyota Group as a "weird hierarchy" of companies without clear direction, vision, or lines of authority.

Between TMC and TIC, the "weird hierarchy" takes the form of cross shareholdings in which TIC owns 7.3% of TMC, and TMC and other Toyota Group member companies own over 45% of TIC. The same cross-shareholding pattern appears across the eleven publicly listed member companies comprising the Toyota Group.

A closer look at TIC's portfolio reveals a web of allegiant shareholdings that is even more expansive than shares directly cross-held within the Toyota Group. Logistics companies, financial services firms, and other transaction counterparties shield TIC management from general shareholders utilizing a network of allegiant holdings. The shield's effectiveness was evident at TIC's most recent annual meeting, where a majority of general shareholders (i.e., those who were neither Toyota family members nor allegiant transaction counterparties) voted against TIC top management. Nonetheless, TIC's allegiant shareholders protected TIC management to preserve allegiant shareholders' conflicted commercial interests.

Below shows the non-supporting ratio for TIC's Chairman and President in the most recent AGM. "Against" votes exceeded "For" in both cases, excluding large allegiant shareholders mentioned in TIC's annual filing. Note: our calculation of large allegiant shareholders underestimates the true magnitude of actual allegiant holdings, as smaller allegiant holders are too small to detect in regulatory filings.

Over the years of our investment in TIC, we have regularly engaged with management on various governance topics. On behalf of our clients, we will continue to do so, with a particular focus on progressing our recommendations on the following topics. Specifically, we continue to focus on advancing our existing engagement objectives with the company with a greater sense of urgency on three fronts: 1) unwinding of tangled cross shareholdings within the group, 2) urgent establishment of an independent and diverse leadership team and board of directors, and 3) honestly accounting for, and addressing, past failures.

AGM (6/2023)

	Supporting Ratio	For (excluding allegiant shareholders)	Against
Tetsuro Toyoda, Chairman	74.9%	23.0%	25.1%
Akira Onishi, President	74.2%	22.3%	25.8%

Allegiant Shareholders**	51.9%
Non Allegiant Shareholders	48.1%

** Toyota group + policy holding stocks

PROXY VOTING

GMO views proxy voting as an integral aspect of security ownership, and we conduct the function with the prudence and duty expected of us as a fiduciary and steward. We believe the alignment of company management's goals with those of its shareholders and other stakeholders provides the strongest protection for our clients' investments as minority stakeholders. We seek to vote proxies in a manner that encourages and rewards effective governance structures and practices, supporting the creation of sustainable long-term growth, and in a way consistent with the investment mandates of the assets we manage for our clients.

We aim to encourage sustainable practices at portfolio companies, which includes promoting environmental protection, human rights, and fair labor and anti-discrimination practices. To guide us, we consider globally accepted frameworks such as those defined by the United Nations Global Compact Principles and Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, and the International Labour Organization.

GMO's Proxy Voting Policy and voting records are publicly accessible on GMO's website.

Our proxy voting activities are governed by GMO's Proxy Voting Policy, which outlines GMO's corporate governance principles and proxy voting guidelines. The Policy establishes ISS as our proxy voting advisor and adopts ISS' Sustainability Policy recommendations as our default position. It also outlines our proxy voting procedures, as well as how we identify and manage potential conflicts of interest in our proxy voting.

GMO's proxy voting process relies on analysis from both ISS and our investment teams. In certain instances (e.g., when voting against management and for U.S. director elections, or when investment teams specifically request additional information) proxy research and recommendations for each agenda item are provided to the investment teams prior to votes being cast. Investment teams consider the ISS Sustainability Policy recommended vote and will make decisions in the best interest of our clients. Deviations from the ISS Sustainability Policy recommendations totaled less than 1% of GMO's votes cast in 2023.

2023 Equity Proxy Voting Outcomes

In 2023, GMO voted 98% of votable proposals (31,252 of 32,033).

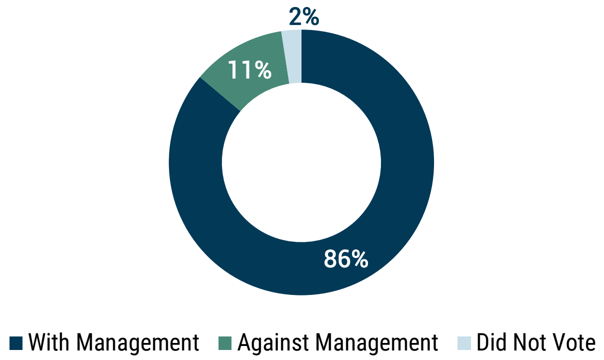
We voted with management 86% of the time and did not vote on 2% of votable proposals. GMO aims to vote on 100% of proposals, but in a small number of situations we did not vote because of market- and meeting-specific restrictions (e.g., share-blocking or power of attorney requirements) or legal restrictions (e.g., sanctions on countries). Regionally, our votes were roughly split equally across the Americas, Asia-Pacific, and Europe, Middle East, and Africa (EMEA).

Among votes against management, almost half (48%) were related to Business Ethics, Transparency, and Accountability, followed by Board Structure and Operation (22%) and Board Diversity (18%). Escalation of ESG risks attributed to 8% of votes against management, while 4% were related to Board Quality.

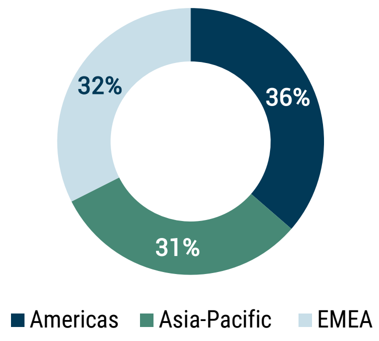
Shareholder and management proposals in 2023 continued to be dominated by governance-related matters. Environmental and social topics represented 1% of total proposals, of which 68% were from shareholder proposals.

2023 PROXY VOTING

Votes with/against management

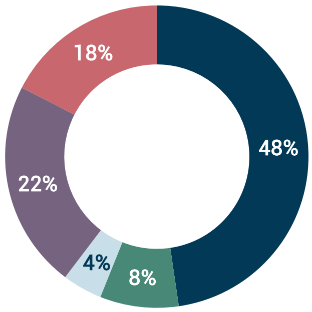


Votes by region

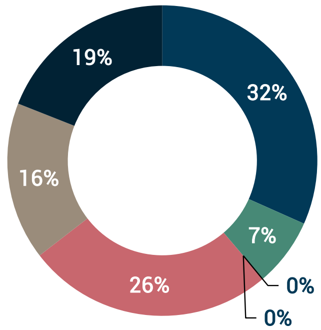


2023 PROXY VOTING (CON'T)

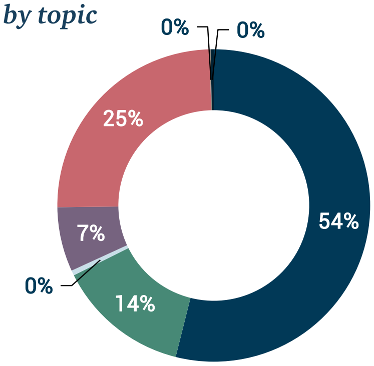
Votes against management by topic



Shareholder proposals by topic



Management proposals by topic



PROXY VOTING CASE STUDIES

Company	***Real Estate Company***
Issue	Lack of board diversity
Best Practice	Board should be comprised of at least 30% under-represented gender identities
Voting Decision	We met with the company twice in 2022 to discuss ESG, diversity, and organizational structure. We voted against ISS' recommendation and supported a board member despite the lack of board diversity because the company was actively seeking to address this and we wanted to give the company time to implement.

Company	***Real Estate Company***
Issue	Lack of independent directors on board
Best Practice	Have at least 50% of the board members be independent from management
Voting Decision	We believe the company should have a board composition and structure that minimizes the potential for conflicts of interest and protects minority shareholders' interests. We voted against two directors for failing to achieve a 50% independent director ratio.

Company	***Medical Device Company***
Issue	Over-boarding and conflict of interest
Best Practice	Board members should not sit on more than two active boards
Voting Decision	One of the directors was concurrently serving on the boards of three other major health-related public companies, including Moderna. We were concerned about the amount of time the director could devote to overseeing company management and the inherent conflict from serving on three other boards in the same sector.

Pillar 3: Investment Solutions

Climate change has moved faster than most thought possible and is having a dramatic impact on the world. Efforts to mitigate its effects are creating investment opportunity. Investment in the solutions and technologies that enable us to reduce reliance on emissions-intensive activities is critically needed.

GMO has created investment solutions that seek to invest in companies that are meeting the needs of a carbon-constrained world, as we believe these companies will experience significant and durable growth for years to come.

CLIMATE CHANGE STRATEGY

The Climate Change Strategy was launched in 2017, designed to capitalize on opportunities relating to climate change mitigation and adaptation efforts. The Strategy invests in sectors such as renewable and low-carbon energy, energy storage, electric vehicles, electric grids, climate technologies, energy efficiency solutions, and the resulting supply chains to each of these areas, as well as in industries such as sustainable agriculture, timber, and water.

Our Focused Equity team uses both quantitative and fundamental analysis to identify higher quality, attractively valued companies with robust management of risks. Many of the technologies and materials that are vitally needed to support the transition are in high-impact sectors, and careful ESG assessment and engagement with companies are core to the investment process.

The Climate Change Strategy invests in companies that we expect to benefit significantly, either directly or indirectly, in a world increasingly impacted by climate change.

MITIGATION	ADAPTATION
Clean Energy	Agriculture
Batteries & Storage	Water Treatment, Efficiency & Recycling
Electric Grid	Energy-efficient Air Conditioning
Energy Efficiency	
Technology & Materials	

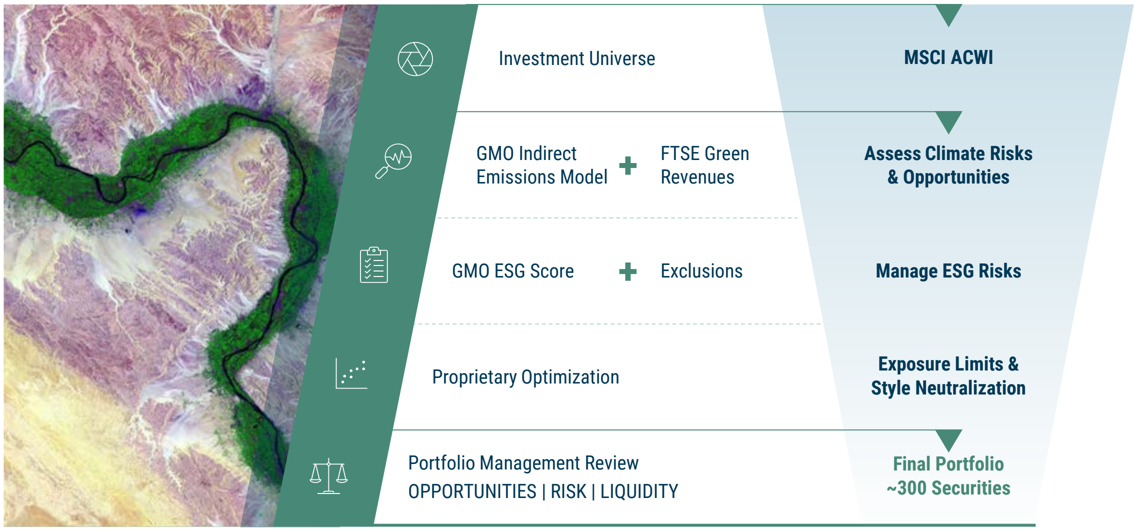
HORIZONS STRATEGY

GMO created our Horizons Strategy in 2023, a global strategy reflecting the view that the world economy is transitioning to a lower carbon future and that this process will create growth opportunities across all sectors of the economy. We believe the strategy is well suited to clients looking to increase their exposure to sustainable investments and to make progress on net-zero goals, delivering higher-than-benchmark exposure to climate solutions as well as lower-than-benchmark carbon emissions by using a rigorous, style neutral approach that incorporates both direct and indirect emissions. We expect to launch the strategy in 2024.

GMO Horizons manages total emissions risk using reported scope 1 direct emissions and the GMO Indirect Emissions model. Other available sustainable solutions focus on managing risk from only scope 1 and scope 2 emissions, which misses emissions risks embodied in company value chains that account for approximately 80% of total company emissions. This is particularly critical when constructing portfolios on the basis of emissions. Without considering the total emissions footprint, investors may end up selecting companies that have lower scope 1 and scope 2 footprints but higher total emissions footprints, as could be the case with a company that outsources all its production and/or marketing. The GMO Indirect Emissions model is a proprietary model that integrates bottom-up and top-down data in a global company supply chain network to estimate flows between companies based on specific combinations of reported revenue segments. This enables us to distinguish company value chains from peers using reported supply chain relationships.

GMO HORIZONS INVESTMENT PROCESS

Yields a core global equity portfolio with low total emissions and high exposure to green revenues



GMO's Indirect Emissions Model is used to manage total portfolio emissions relative to the benchmark

Strategies that focus on just one facet of climate change, such as emissions, may miss out on opportunities among "green" business activities – for example, companies that enable the emissions reductions. Climate solutions are often thought of as pureplay renewable energy and electric vehicles. In reality, however, sustainable opportunities span a diverse range of activities across value chains. For instance, energy management and efficiency have constituted at least a third of the green economy since 2016, driven by building and industry energy efficiency measures. The green revenues in Horizons are derived from activities such as renewable and low-carbon energy, energy storage, material inputs for climate technologies, energy efficiency, and climate technologies, as well as in industries such as sustainable agriculture, water, and circular economy. To measure our portfolio's exposure to green revenues, we aggregate them by multiplying the proportion of a company's green revenues by its portfolio weight. (We chose to define green companies using weighted average green revenue, or "WAGR," rather than an arbitrary green revenue threshold.)

Traditional climate strategies may suffer from a number of other shortcomings as well. There is an inherent tradeoff between maximizing green opportunities and minimizing emissions risks. Tracking error, style biases (e.g., growth), and sector concentrations (e.g., IT), tend to get traded off from the magnitude of climate impact. Through our Systematic Equity team's optimization program, we are able to achieve very high levels of exposure to green revenues and very low exposure to total emissions across developed and emerging markets, while remaining country, sector, and style neutral, to deliver a solution that has an MSCI ACWI-like risk-return profile, low turnover, and low tracking error.

In 2023, we introduced our research related to weighted average green revenue and the development of GMO's Indirect Emissions model. During 2024, we have published two papers discussing how we are applying this research in our Horizons Strategy. The first discusses measurement of emissions, titled Scope 1 and Scope 2 Account for Only 18% of GHG Emissions, while the second examines how investors Employ Green Revenues in the Pursuit of Net-Zero Objectives.

Featured Research

Weighted Average Green Revenue (WAGR): Integrating Climate Solutions into Portfolio Construction

Chris Heelan, Kenneth Hsu, Deborah Ng, and Timothy Wheeler, June 2023

GMO's ESG team and ESG Research team collaborated with Government Investment Corporation (GIC, Singapore) (Rachel Teo, Wong De Rui) and FTSE Russell (Lily Dai, Jaakko Kooroshy) to co-author a paper discussing why WAGR is advantaged versus other common approaches for measuring portfolios' climate impact. The authors conclude that WAGR is the most effective of the available tools to integrate climate solutions into investment portfolios. In the paper, GMO introduces the Horizons Strategy as a case study on how a portfolio can use WAGR to target an increase in its exposure to climate solutions and the green economy.

CASE STUDY: MEASURING INDIRECT EMISSIONS FOR PORTFOLIO CONSTRUCTION

Climate change presents a significant source of transition risk for investors as companies face increasing pressures from regulators, consumers, and shareholders to lower their carbon footprints. To fully measure portfolio exposure to emissions risk, we believe investors must go beyond capturing scope 1 and scope 2 emissions to consider all indirect emissions exposure across end-to-end company value chains. However, we believe reported scope 3 data used for measuring indirect emissions is inadequate for this purpose. Inconsistent scope 3 estimation methodologies prohibit the comparison of values across companies, which interferes with portfolio construction.

To address this important challenge, in 2022 our ESG Research team developed the GMO Indirect Emissions model, a proprietary method for estimating emissions embodied in company value chains. Our novel approach aggregates underlying direct scope 1 and household emissions across end-to-end value chains and has the following advantages over existing practices:

- Ensures consistent double counting across all companies by controlling how indirect emissions are allocated and enables tracing the origin of all indirect emissions.
- Directly incorporates reported company supply chain relationships, industry segment revenue, and scope 1 emissions into a global company-level supply chain model.
- Distinguishes companies from their peers based on characteristics of their specific value chains, instead of relying on traditional industry intensity metrics.

By estimating all direct and indirect flows between companies with a consistent global methodology, the GMO Indirect Emissions model provides our investment teams with a unique and powerful tool for quantifying, tracking, and managing portfolio carbon transition risk.

Featured Research

Estimating Value Chain Emissions for Portfolio Construction
Chris Heelan, Kenneth Hsu, Deborah Ng, and Timothy Wheeler, July 2023

The ESG team and ESG Research team collaborated to publish research discussing their work. In the paper, they explain why measuring indirect emissions is so important to asset managers – and so challenging currently – and introduce the GMO Indirect Emissions model as a solution.

GMO Horizons: Employing Green Revenues in the Pursuit of Net-Zero Objectives
Systematic Equity Team, March 2024

Investing in climate solutions is part of a holistic and comprehensive approach to managing climate change risks. But strategies that focus on just one facet of climate change, namely emissions, may miss out on opportunities among "green" business activities, for example, companies that enable emissions reductions. This paper discusses how the GMO Horizons Strategy utilizes green revenues data to provide a more comprehensive and impactful climate solution.

Scope 1 and Scope 2 Account for Only 18% of GHG Emissions
Systematic Equity Team, February 2024

To date, public equity owners have focused on scope 1 and scope 2 GHG emissions, a fraction of total emissions, because they are easier to measure and increasingly available. Reported scope 3 data tries to capture indirect emissions. However, since both data quality and reporting inconsistency make reported scope 3 unsuitable for portfolio measurement and management, public equity investors aiming to align with Net Zero face a significant challenge. This paper discusses the GMO Indirect Emissions Model, which was developed to address the challenge of calculating total emissions.

INDUSTRY LEADERSHIP ON AVOIDED EMISSIONS

GMO is a founding member of the Avoided Emissions Factors Database Initiative, led by Robeco and Mirova. The purpose of the database is to facilitate credible and widely accepted estimation of company-level avoided emissions. The project would standardize some of the critical choices that need to be made when calculating avoided emissions. Widespread use of the database could allow for a better understanding of climate solutions' potential to decarbonize the economy and help better global redirection of finance to support the energy transition.

GMO'S FOCUS ON CLIMATE CHANGE

Jeremy Grantham, Climate Advocate and Investor

GMO'S FOCUS ON CLIMATE CHANGE

GMO's position and approach to climate change is grounded in science. The impact of a rising temperature poses long-term systemic risks to our planet, civilization, and investment markets. One way that GMO has decided to act is by committing to achieve net-zero portfolio emissions by 2050. In line with this, we joined the Net Zero Asset Managers initiative, and in 2022 we developed and announced our net-zero targets and plan, discussed below. We also support the Taskforce on Climate-related Financial Disclosures (TCFD) and have included our TCFD Report in the Appendix.

We aim to address climate risk through active engagement at international, regional, and industry levels to encourage clear, stable, and long-term policy making and regulations. Our firm-wide issuer engagement focus has been on climate change for a number of years, and so we have prioritized engagements in this area.

GMO'S NET-ZERO COMMITMENT

There are stark differences between how the world will be impacted by warming of 1.5 degrees Celsius and by warming of 2 degrees Celsius or more (as compared to the pre-industrial era). Aside from having profound, concerning effects on the world, the impact of this variation is also likely to pose challenges to our ability to help our clients achieve their financial goals. For this reason, GMO has committed to reducing net emissions by 65% for our net-zero portfolio (described below) by 2030, and 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 assets held in separately managed accounts unless we have been directed by the client to do so.

Affirming our commitment, GMO became a signatory to the Net Zero Asset Managers initiative (NZAM) in October 2021. As part of our pledge, we were required to submit our initial net-zero targets within one year of joining NZAM. During 2022, our Net Zero Task Force, made up of senior investors and others from around the organization and led by Deborah Ng, our Head of ESG and Sustainability, guided the creation of our targets and plan, which are backed by rigorous analytics.

Our initial targets, which we released in 2022, and the progress we made in 2023 are presented below.

Achieving our net-zero ambition will not come through divestment – we cannot divest our way there – but rather by working with companies to support their decarbonization. Our net-zero strategy includes:

- Engaging with companies to set credible transition plans,
- Increasing investments in companies contributing to the clean energy transition,
- Increasing the proportion of emissions covered by a science-based target aligned with the standards of the Science-Based Target initiative (SBTi), and
- Broadening the scope of our net-zero strategy to include scope 3 emissions and government bonds.

We continue to believe that achieving these targets will help us achieve the best long-term investment returns for our clients.

The Investments sub-committee oversees GMO's net-zero portfolio carbon footprint and reviews it on a quarterly basis. GMO's ESG Oversight Committee and Board of Directors receive annual updates on progress made.

GMO'S NET ZERO PROGRESS

Targets

65% Reduction
of net-zero portfolio carbon footprint by 2030[1]

60% of GMO's AUM
included in net-zero portfolio by 2025[2]

Progress as of December 2023

55% Reduction
of net-zero portfolio carbon footprint[1]

49% of GMO's AUM
included in net-zero portfolio

55% of Portfolio Emissions
covered by an SBTi[3]

$2B of GMO's AUM
invested in the Climate Change Strategy

Our initial net-zero target disclosure can be found here.

The GMO portfolio carbon footprint (PCF) reduction between 2023 and 2019 was driven by inflows into strategies with lower emission intensities, such as the Quality Strategy, and outflows from higher emission strategies, such as the Emerging Markets Strategy. This was partly offset by inflows into the higher intensity Resources Strategy. Other impacts include lower exposure to Russian materials and energy companies, and carbon reduction strategies in some of our equity strategies.

The decline in AUM coverage was mainly driven by outflows from the Benchmark-Free Allocation Strategy, as well as from Emerging Markets and U.S. Equity Strategies, which were only partially offset by inflows into the Climate Change and Quality Strategies.

1 From 202.6 tCO_2e/$M in 2019.
2 From 53.5% in 2019. Net-zero portfolio excludes certain asset classes, strategies, and separately managed accounts.
3 Proportion of GMO's portfolio emissions that have or commit to have a science-based target.

Climate Change-Oriented Solutions

As an asset manager, we orient some investment portfolios around climate risks and opportunities. Since 2011, we have managed a Resources Strategy, designed to invest in companies that stand to benefit from the economic outcomes of resource scarcity. In 2022, we developed a variation of this portfolio that excludes fossil fuels, called the Resource Transition Strategy, officially launched in early 2023. We also have managed a Climate Change Strategy since 2017 that invests in companies helping the world to mitigate or adapt to the impacts of climate change. Similarly in 2022 we launched a version of the strategy that excludes companies that violate Global Compact principles. And in 2023 we built the GMO Horizons Strategy, which reflects our view that the world economy is transitioning to a lower carbon future and that this process will create secular opportunities for investors. This systematic and diversified solution provides materially lower total emissions and high levels of exposure to companies that sell green products and services. It also excludes companies that violate Global Compact principles, among other things.

Collaborating to Support Net Zero

In support of our pledge, GMO also signed the 2022 Global Investor Statement to Governments on the Climate Crisis, a joint statement addressed to all world governments urging them to implement policies that limit global temperature rise to no more than 1.5 degrees Celsius and to act consistently with a just transition.

Furthermore, in 2022 GMO signed on to the CDP Non-Disclosure Campaign (NDC), a collaborative initiative that enables investment managers to drive corporate transparency around companies' management of climate change-related exposures. We previously signed on to the CDP Science-based Targets initiative (SBTi) in 2021 and continued to support it in 2022 and 2023. Through our participation in the NDC, GMO investment teams have led a number of engagements to improve climate-related risk disclosure from companies held in our portfolios.

Climate Change-Focused Engagement

As discussed, our 2024 Engagement Plan continues our climate-focused work from 2022 and 2023. We are engaging with the largest contributors to our net-zero portfolio carbon footprint to encourage them to report scope 1, scope 2, and scope 3 greenhouse gas emissions, adopt climate change risk reporting following the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), and set science-based targets that are aligned with keeping global warming to 1.5 degrees Celsius at most.

OVERVIEW OF GMO APPROACH TO CLIMATE CHANGE-FOCUSED ENGAGEMENT

WHAT ARE WE ASKING?

Phased approach depending on where the company is at

1. Report scope 1, 2, and material scope 3 emissions
2. Adopt TCFD-aligned reporting
3. Consider setting science-based target aligned with 1.5C or net zero

WHY WOULD WE DO THIS?

- Addresses systemic risk from physical impacts
- Regulations are moving in this direction, increasing transition risk
- Supports GMO's net-zero commitment
- Supported by GMO Proxy Voting Guidelines

Voting Policy on Climate Accountability

Vote against the board chair, or the responsible incumbent director(s), where company is not taking the minimum steps:

- Detailed disclosure of climate-related risks, such as TCFD
- Well-defined GHG emissions reduction targets

INDICATORS

1. Comprehensive CDP or TCFD-aligned disclosures
2. Science-based or net-zero targets set

METRICS

1. Scope 1, 2, and material scope 3 emissions

OUTCOMES

1. Science-Based Targets initiative (SBTi) certification
2. Reduction in emissions in line with sector decarbonization pathways
3. Level 4 Transition Pathway Initiative assessment of management

In general, we vote against the board chair or responsible incumbent director of high-risk companies where we feel the company is not taking minimum steps toward managing climate risks. In 2023, we voted against the directors of 33 such companies and had 30 engagements where climate change was a topic.

Jeremy Grantham

Climate Advocate and Investor

Jeremy Grantham, a co-founder of GMO, a member of GMO's Board of Directors, and our Long-Term Investment Strategist, is recognized as a leading global advocate for climate change efforts and investment.

Jeremy was elected a member of the American Academy of Arts and Sciences in 2015, was appointed Commander of the Order of the British Empire (CBE) in 2016, and received, with his wife, Hannelore, the Carnegie Medal for Philanthropy in 2017, all for leadership in climate change activities. He has been featured on Barron's list of "The 20 Most Influential People in ESG Investing" and frequently speaks to activists and allocators at industry events, including delivering the keynote session at the Financial Times Live (FT Live) Investing for Good USA conference as well as the Economist "Investing for Impact" Conference in 2020.

Jeremy and Hannelore founded the Grantham Foundation for the Protection of the Environment in 1997 in support of a mission to protect and conserve the natural environment. They also helped establish the Grantham Institute - Climate Change and the Environment at Imperial College in 2007 and the Grantham Research Institute on Climate Change and the Environment at the London School of Economics in 2008. More recently, they assisted with launching the Divecha Centre for Climate Change at the Indian Institute of Science (along with Arjun Divecha, a Partner of GMO) and the Grantham Centre for Sustainable Futures at the University of Sheffield.

Together they have committed to donating the vast majority of their net worth during their lifetimes to addressing the effects of climate change and toxicity.

THE GRANTHAM FOUNDATION FOR THE PROTECTION OF THE ENVIRONMENT

Jeremy and Hannelore believe that innovation and technology are the best hope to protect and conserve our environment for an enduring future. Consistent with this belief, the Grantham Foundation takes early-stage positions in important yet underfunded climate opportunities that require new science and new ways of thinking.

Highlights of Jeremy's published commentary:

Everything You Need to Know about Global Warming in 5 Minutes (July 2010)
Jeremy's "Summer Essays" included this section, a 13-point summary of climate change. Jeremy concluded by stating, "Global warming will be the most important investment issue for the foreseeable future."

The Race of Our Lives (April 2013)
Jeremy analyzed why our global economy, reckless in its use of resources and natural systems, might cause the collapse of civilization, also articulating ways we could avoid that fate, including necessary progress in alternative energy.

The Race of Our Lives Revisited (August 2018)
This sequel to the 2013 paper comprehensively updated Jeremy's research on the dire risks of climate change, population growth, and environmental toxicity. Jeremy concluded that humans could still address these issues by decarbonizing the economy and advancing green technologies, but that it would be a very close race requiring all the leadership, all the science and engineering, and all the luck we can muster.

Chemical Toxicity and the Baby Bust (February 2020)
In this piece, Jeremy argued that toxicity is having a profound impact on global fertility and that the economic and social ramifications will be severe.

COVID-19, Climate Change, and the Need for a New Marshall Plan (October 2020)
Jeremy advised the incoming U.S. administration to launch a major fiscal program to create new infrastructure for energy, transportation, and industry, which would help the climate, help the economy, and become a long-term geopolitical advantage for the U.S.

Putin's Invasion Reminds Us That We Live in a Finite World (April 2022)
Decarbonizing our economy to get to full sustainability will be spectacularly resource intensive, yet all key commodities required are finite in supply. Jeremy outlined the implications of resource scarcity, warning that we will have to innovate around bottlenecks, shortages, price spikes, and climate damage that are almost certainly coming our way.

Sustainability or Bust: The Sheer Impossibility of Eternal Compound Growth (March 2024)
Unsaleable as it may be, nothing can compound forever. Workforces decline for the foreseeable future, resources get scarcer, climate damage escalates, and the squeezed environment becomes toxic to life. But if we can deliver technological advances focused on quality of products and life, rather than increasing resource use, we can still thrive.

The venture capital industry can be reluctant to invest in risky technologies with externalized benefits or in speculative business models that rely on the maturation of climate policy, leading to a gap in the market where many ideas with enormous climate potential currently fall. The Foundation invests in this gap, researching overlooked sectors and often investing at very early stages – sometimes first capital, sometimes even first experiment.

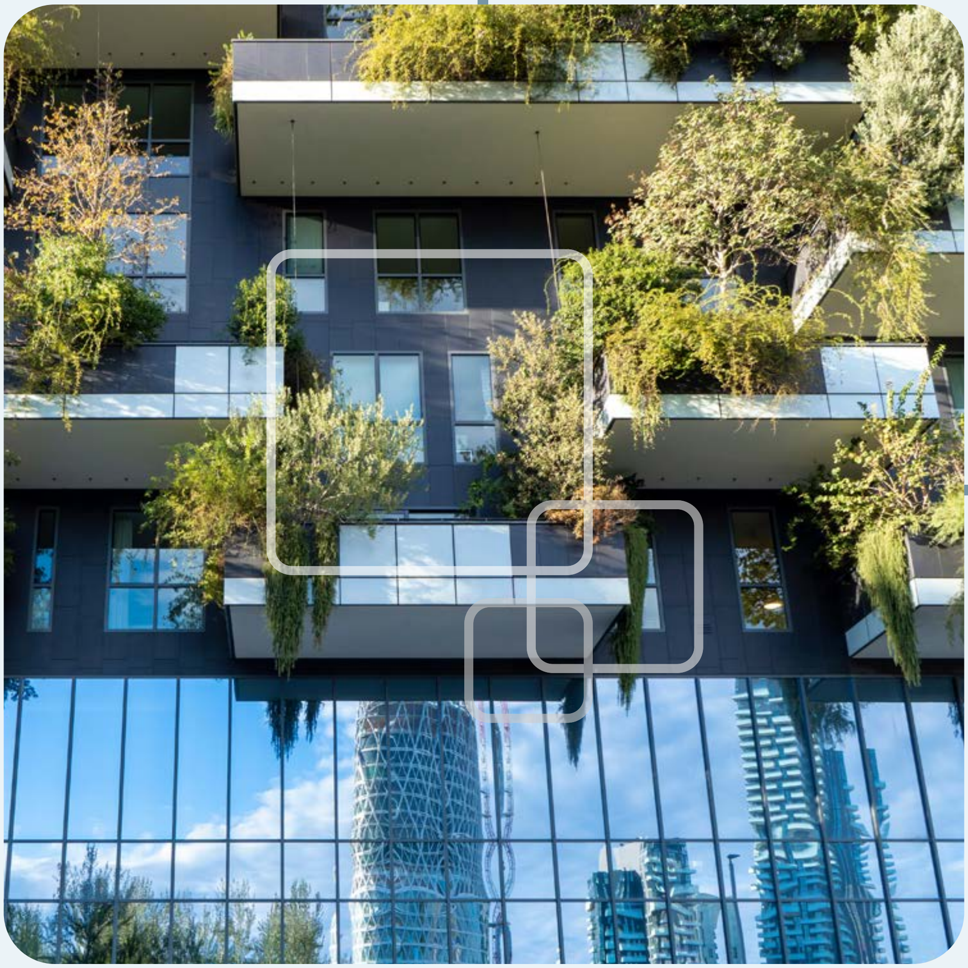
Examples of the types of investments the Foundation has made include redesigning energy systems, improving soil health, sparing the ocean from acidification, recapturing carbon from the atmosphere, and more.

The Foundation has long-standing relationships with Rare, The Nature Conservancy, World Wildlife Fund, Rocky Mountain Institute, and Environmental Defense Fund, working with these organizations to advance novel environmental and climate solutions.

At GMO we have benefited tremendously from our relationship with the Grantham Foundation. This partnership has included information sharing sessions with our GMO Focused Equity team to discuss developments in climate change science and technology and the private markets that could potentially have implications for public equities, to help the team in managing GMO's Climate Change Strategy.

CLIMATE RESEARCH

Jeremy has published numerous white papers articulating the existential environmental and social challenges we face and how we can rise to address them, including climate change, resource scarcity, population growth, agricultural limitations, toxicity, and more. He has written deep dives on singular topics in long-form papers and many times has included topical overviews and updates within his regular high-profile GMO Quarterly Letters, enabling him to reach the broadest audience possible. He educates and inspires action, encouraging others to join him in the fight against climate change.



INDUSTRY COLLABORATION

INDUSTRY COLLABORATION

GMO believes in the power of meaningful dialogue about ESG issues between asset owners, investment managers, and companies. We have added our voice as a member, supporter, and/or signatory to many groups that share our views regarding the importance of ESG factors. To magnify the impact of our engagement efforts, we participate in collective action through initiatives that bring together like-minded asset owners and asset managers. We seek to collaborate where objectives are aligned with ours and we can increase our likelihood of effecting change.

Collaborations can be highly beneficial to GMO, allowing us to leverage our influence combined with the influence of others to achieve greater impact than we would by engaging one-on-one. Professionals across GMO are encouraged to seek new opportunities to engage in initiatives to further our stewardship objectives, and indeed many of the groups we have joined to date have been as a result of a suggestion from a member of a GMO investment team (as opposed to our ESG team). We believe this model encourages buy-in from our teams to participate actively with the initiatives.

Role of ESG Oversight Committee

While suggestions can come from any GMO employee, 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
- Legal, operational, and reputational implications.

2023 Collaborative Initiative Highlights

GMO participates in a wide range of collaborative initiatives, which are summarized at the end of this section. Some of our collaborative focus areas in 2023 included the following examples.

COLLABORATING FOR SUSTAINABILITY

Initiative	*CDP Non-Disclosure Campaign (NDC)*
Issue	Transparency around companies' management of climate change-related exposures
GMO Participants	Systematic Equity: Michelle Morphew; ESG: Deborah Ng; Usonian Japan Equity: Fumie Kikuchi
Objective	GMO participates in the NDC, a collaborative initiative that enables investment managers to drive corporate transparency around companies' management of climate change-related exposures. This complements our involvement in the CDP Science-Based Targets initiative (SBTi). Through our participation, GMO investment teams encourage improved environmental risk disclosure from companies held in our portfolios.
Action	In 2023, via letters and phone calls, we led engagements with 11 non-disclosing companies, one to which we had previously sent a letter in 2022.
Outcome	As of 31 December 2023, four companies had submitted their CDP questionnaires and two had accessed the portal.

COLLABORATING FOR SUSTAINABILITY (CON'T)

Initiative	***Investors Alliance Against Slavery and Trafficking, Asia Pacific***
Issue	Effective action in finding, fixing, and preventing modern slavery in operations and supply chains
GMO Participants	ESG: Mandy Leung
Objective	To improve companies' management of modern slavery in their supply chains.
Action	We have been engaging with a company since 2021 to no avail. In 2023, the company finally agreed to meet with representatives from the Investors Alliance Against Slavery and Trafficking, Asia Pacific, which GMO supports, but bi-laterally with each participant rather than the consortium. Prior to meeting with the company, the group agreed on the key messages we would deliver.
Outcome	The company has made progress in setting up supplier tracking systems to identify cases of slavery and trafficking, but the group is concerned about the unrealistically high compliance rate and will focus subsequent engagement on board oversight and understanding the depth of the supply chain management.

Initiative	***Emerging Markets Investor Alliance (EMIA)***
Issue	Lack of transparency
GMO Participants	Emerging Country Debt: Eamon Aghdasi
Objective	To include transparency clauses in bond contracts coming out of debt restructuring.
Action	GMO serves on a small working group of investor firms being organized by the Emerging Markets Investors Alliance that is seeking to insert transparency clauses into the bond contracts coming out of the current debt restructuring. It is hoped that these clauses could become the norm going forward. The clauses relate to investor relations initiatives and debt transparency.
Outcome	This engagement is still in the Active Discussion stage (Milestone 3)

POLICY AND REGULATORY ADVOCACY

When advocating for policy change, we recognize that it is not usual to achieve immediate concrete outcomes in a particular year. Our collaborations focus on joining others in advocating for long-term change that takes time to realize.

Initiative	***Asian Corporate Governance Association (ACGA)***
Issue	Corporate governance in Japan
GMO Participants	Usonian Japan Equity: Fumie Kikuchi
Objective	We promoted issues we believe would improve corporate governance.
Action	GMO joined an ACGA delegation to meet with two Japanese officials from the Tokyo Stock Exchange (TSE) and Financial Services Agency (FSA). We discussed with the TSE cost of capital practices among Japanese corporations, and we covered with the FSA how to organize better market control in Japan. We requested they publish more detailed information, including best practices.
Outcome	TSE announced best practices and sample case studies in February, along with an investors' perspective presentation. FSA revised a large shareholding reporting system in December 2023 to clearly define collaborative engagement. We look forward to another opportunity to discuss and promote these issues.

GMO Participation in Collaborative Initiatives

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

	Initiative	*Purpose*	*How GMO Participates*
MEMBERSHIPS			
PRI Principles for Responsible Investment	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
IFRS Sustainability Alliance	IFRS Sustainability Alliance Member since February 2021	To promote standardized sustainability reporting by companies	Attend the annual Sustainability Alliance meeting; IFRS materiality matrix is an input in GMO ESG Score
ACGA	Asian Corporate Governance Association Member since August 2021	To promote effective corporate governance practices throughout Asia	Member of the Japan Working Group
The Net Zero Asset Managers initiative	Net Zero Asset Managers initiative Signatory since October 2021	To manage portfolio risk and support the global goal of net-zero greenhouse gas emissions by 2050	Set initial emission reduction and AUM coverage targets of -65% and 60%, respectively; report annually on our progress
Emerging Markets Investors Alliance	Emerging Markets Investors Alliance Member since February 2022	To work with other investors to tackle ESG challenges in emerging markets	Participate in working groups, collaborative engagements, and webinars; participate on the Materials Working Group to engage with emerging markets companies on toxic chemical use
COMMITMENTS			
UK Stewardship Code	UK Stewardship Code Signatory since October 2023	To promote stewardship activities that meet the needs of clients and beneficiaries	Annually report on how we meet the Stewardship Principles though our actions and outcomes
Financial Services Agency	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
Stewardship Asia	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
ENDORSEMENTS			
TCFD	Taskforce on Climate-related Financial Disclosures Endorsed December 2019	To foster good stewardship in discharging our responsibilities and creating sustainable long-term value for all investors To provide relevant, complete, comparable disclosures on management of climate-related financial risks	In engagements, recommended that companies adopt TCFD disclosure; report on our management of climate-related financial risk and opportunity following the TCFD Recommendations; initial report prepared in 2023
Transition Pathway Initiative	Transition Pathway Initiative Endorsed December 2020	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

GMO Participation in Collaborative Initiatives (Con't)

	Initiative	Purpose	How GMO Participates
ENDOREMSENTS (CON'T)			
THE INVESTOR AGENDA	2022 Global Investor Statement to Governments on the Climate Crisis	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			
CDP	CDP (formerly Carbon Disclosure Project) Signatory and member since January 2017	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 2023 NDC examples detailed above
Climate Action 100+	Climate Action 100+ Joined January 2018	To engage with public companies that are the largest emitters of greenhouse gases	We signed onto Phase 2 in 2024
IAST APAC	Investors Alliance Against Slavery and Trafficking, Asia Pacific Joined in October 2020	To influence Asia-Pacific companies on effective action in finding, fixing, and preventing modern slavery in operations and supply chains	Involved in one on-going collaborative engagement as support investor, provided research input on engagement topics to be raised with the company
CFA Institute	CFA Diversity, Equity, and Inclusion Code (USA and Canada) Joined 2022	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

SPOTLIGHT: *Evaluating Suppliers for Modern Slavery Risk*

Modern slavery covers a set of specific legal concepts including forced labor, debt bondage, forced marriage, slavery and slavery-like practices, and human trafficking. In recent years, GMO Australia has undertaken an assessment to evaluate the risk that modern slavery practices might be present in the activities of our suppliers. Most of our suppliers were assessed as low risk, with a small proportion considered moderate risk and none identified as high risk. We did not find any instances of modern slavery practices in our supply chain.

GMO Australia obtains products and services from over 200 suppliers. While most of its suppliers are located in Australia and the U.S., some have offices in other offshore locations. For our risk assessment, we selected suppliers based on the value and criticality of the product or service that they provide to GMO Australia. We then chose from this list suppliers that have operations in countries that are at high risk of modern slavery and/or provide products or services that are at high risk of modern slavery as per the Global Slavery Index (GSI) 2018.

To produce our risk ratings, we assessed these shortlisted suppliers against the following criteria:

A. Is the product or service at risk of forced labor?

B. Is the country of operation listed as a high-risk country for that product or service?

C. How does the supplier rank in the KnowTheChain benchmark?

D. Are there any severe labor or human resource controversy (with reference to MSCI ESG Research data)?

If we had assessed any supplier as high risk, we would have requested they complete a questionnaire about their modern slavery risk and also contacted them for further conversation to better understand their practices.

If a supplier had maintained a high-risk rating, demonstrated it is engaged in modern slavery practices, or otherwise failed to prove to us that their risk monitoring and management approach is satisfactory, we would demand improvement. If we saw no improvement within a reasonable period, we would seek to employ appropriate remediation, including altering the nature of GMO Australia's business relationship with the supplier or engaging via the Investors Against Slavery and Trafficking (IAST) APAC collaborative engagement initiative.

GMO'S PARTICIPATION IN IAST APAC

IAST APAC is a coalition of investors representing AU$8 trillion in assets under management who are calling on companies to pursue real action to combat modern slavery, human trafficking, and labor exploitation. GMO was one of the earliest asset managers to participate in this initiative (since October 2020). Influenced by the Find It, Fix It, Prevent It project being run by CCLA Investment Management in the UK, IAST APAC focuses on companies in Australia as well as the APAC region, which account for most of the modern slavery risks in supply chains in the geography.

DIVERSITY, EQUITY, AND INCLUSION

DIVERSITY, EQUITY, AND INCLUSION

A core value of GMO is our organizational belief that diverse perspectives achieve better results for our clients, while an inclusive culture that celebrates and respects differences results in higher levels of employee engagement.

Our focused attention on diversity, equity, and inclusion (DEI) allows GMO to forge deeper relationships with globally diverse groups, including prospective employees, clients, and business partners. We believe that by leveraging varied perspectives across these dimensions we can more effectively tackle business and investment challenges with higher levels of innovation and productivity. Plus, inclusive workforce benefits, such as flexible work arrangements, open paid time-off policies, parental leave, back-up dependent care, a charitable gift matching program, and more, support our diverse employees and increase retention and new talent attraction.

Through our efforts, we believe we can also help to improve the overall investment industry's diversity and social awareness. Consistent with this belief, in 2022 GMO became one of 16 early signatories of the CFA Institute's new Diversity, Equity, and Inclusion Code. Signatories of the Code must demonstrate ongoing commitment to six key Principles in the areas of Pipeline, Talent Acquisition, Promotion and Retention, Leadership, Influence, and Measurement. Through our commitment to the Code, we believe we can further amplify our efforts to continue to improve diversity and social awareness both within GMO's walls and more broadly in our industry, as well as across our clients, partners, and suppliers. We submitted our first progress report to the CFA Institute in 2023 and our second in 2024. As a firm with offices around the world, GMO encourages DEI globally. Cindy Tan, CEO of GMO Singapore, has been working with the CFA Institute, CFA Society of Singapore, and industry peers on adapting the CFA DEI Code and Implementation Guidance for Singapore and APAC more broadly and we expect it to launch in these regions in Q4 2024. In early 2024, she also organized and hosted a CFA DEI Code Singapore adoption event.

For several years our efforts have been led by our employees through a formal Diversity, Equity, and Inclusion Group across three areas of focus: Outreach, Inclusion, and Communications. The group includes individuals from all our global offices and areas of the firm. Our Engagement and Talent Acquisition Lead, Melissa Gallagher, evaluates our DEI activity overall and helps design best practices.

Building a Diverse, Inclusive, Caring Firm

Identifying and hiring candidates from different backgrounds and with different perspectives is a critical element in building a diverse workforce. The importance of diversity in hiring is reflected throughout our recruitment process, and GMO provides training to our hiring managers and interviewers on how to conduct the process while avoiding unconscious bias.

When recruiting, we prioritize partnerships with search firms that have a stated and proven commitment to diversity, and we hold them accountable for providing diverse candidate slates. For example, one of our newest recruitment partners, hellohive, is a hiring platform that focuses on new graduates

GMO'S DEI STRATEGIC FOCUS AREAS

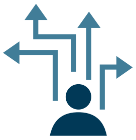
RECRUITMENT & EXTERNAL PARTNERSHIPS

- Partnerships that source and foster diverse talent
- One of the first 16 signatories to the CFA Institute's Diversity, Equity, and Inclusion Code for the investment profession in the U.S. and Canada
- Internal interview training emphasizing selection from diverse candidate pools and utilizing diverse interview teams
- Rotational associate program aimed at attracting diverse talent to the industry

EMPLOYEE BENEFITS & SUPPORT

- Comprehensive benefits to support self-care, parents, domestic partners, and care givers
- Flexible work arrangements, paid leave of absence and open paid time-off practices
- Recognition, celebration, and education of diverse cultural topics and events (e.g., Black History Month, Pride Month, International Women's Day, Social Responsibility, World Mental Health Day, etc.)
- Financial support for participation in professional affinity and industry groups
- 100% GMO match for employee charitable contributions

CAREER DEVELOPMENT & PROGRAMMING



- GMO cross-functional DEI Working Groups
- GMO Mentoring Program
- Sponsorship of employee participation in affinity group conferences (e.g., Simmons Leadership Conference, etc.)
- GMO-sponsored global networking events (GMO Connect), including a series of "Investment Conversations for Women"
- Training sessions focused on DEI (e.g., Implicit Bias, Harassment and Discrimination Policies, Intersectionality, DiSC, etc.)

or early career candidates from groups that are traditionally underrepresented in higher education. We provide career mentoring to members of these organizations and participate in panel discussions with them, both supporting members' career growth and improving our ability to hire more diverse employees.

GMO also partners with several organizations focused on developing young talent in underrepresented areas, including Girls Who Invest, Northeastern University's chapter of Women in Finance, the United Negro College Fund Asset Management Lighted Pathways program, the 10,000 Black Interns program, and Apprentice Learning.

Additionally, GMO offers a multi-year rotational associate program with diversity as a key objective in recruiting and developing junior talent. The rotational program places associates in several different teams within Investments, Technology, and Operations. Throughout their time at GMO, the associates are afforded the opportunity to gain insight into the industry and have frequent meetings with various leaders of the firm. We add new associates annually. In its fifth year, the program has helped develop a diverse pipeline of exceptional early-career talent for GMO, including ten people of color and seven women.

GMO provides ongoing benefits to support our diverse workforce as well. These include flexible work arrangements, open paid time-off policies, parental leave, back-up dependent care, and a charitable gift matching program. We financially support our employees' participation in an external affinity group of their choosing.

Beyond these benefits, GMO has several programs and initiatives designed to promote DEI internally as well as within our industry, detailed below.

- We sponsor employee participation at women's leadership conferences, including the Simmons Leadership Conference, The Massachusetts Conference for Women, and the CFA Institute's Women in Investment Management Conference.
- We recognize and celebrate diverse cultural events throughout the year, including Lunar New Year, Black History Month, Pride Month, and International Women's Day, among many others.
- We host global networking events through a series we call GMO Connect, including with our client and consultant partners, aimed at improving diversity and social awareness in the investment industry.
- We require annual training on our policies against harassment and discrimination.

Ensuring fairness in compensation is an important component of treating all employees equitably. GMO reviews compensation decisions to ensure that fair and equitable compensation practices are followed from a gender lens perspective and that all individuals are compensated based on merit and impact. We run a rigorous set of blind data assessments on proposed compensation decisions prior to approval. If we were to find statistically significant discrepancies across genders, we would discard the compensation proposals and reinitiate the process. We have never found significant gaps in compensation decisions.

GMO has been recognized by the Human Rights Campaign Corporate Equality Index for several years running as a leader in workplace inclusion, earning a score of 100 on the Human Rights Campaign Foundation's 2023-2024 Corporate Equality Index. GMO was one of 545 U.S. companies from nearly every industry that met the criteria to earn a designation, recognizing that we have taken concrete steps to establish and implement comprehensive policies, benefits, and practices that ensure greater equity for LGBTQ+ workers and their families.

Also, for two years in a row GMO was awarded Highly Commended status by 100 Women in Finance for their Americas Industry DEI Awards, which recognizes organizations that are driving forward and shaping the future for women in the finance industry.

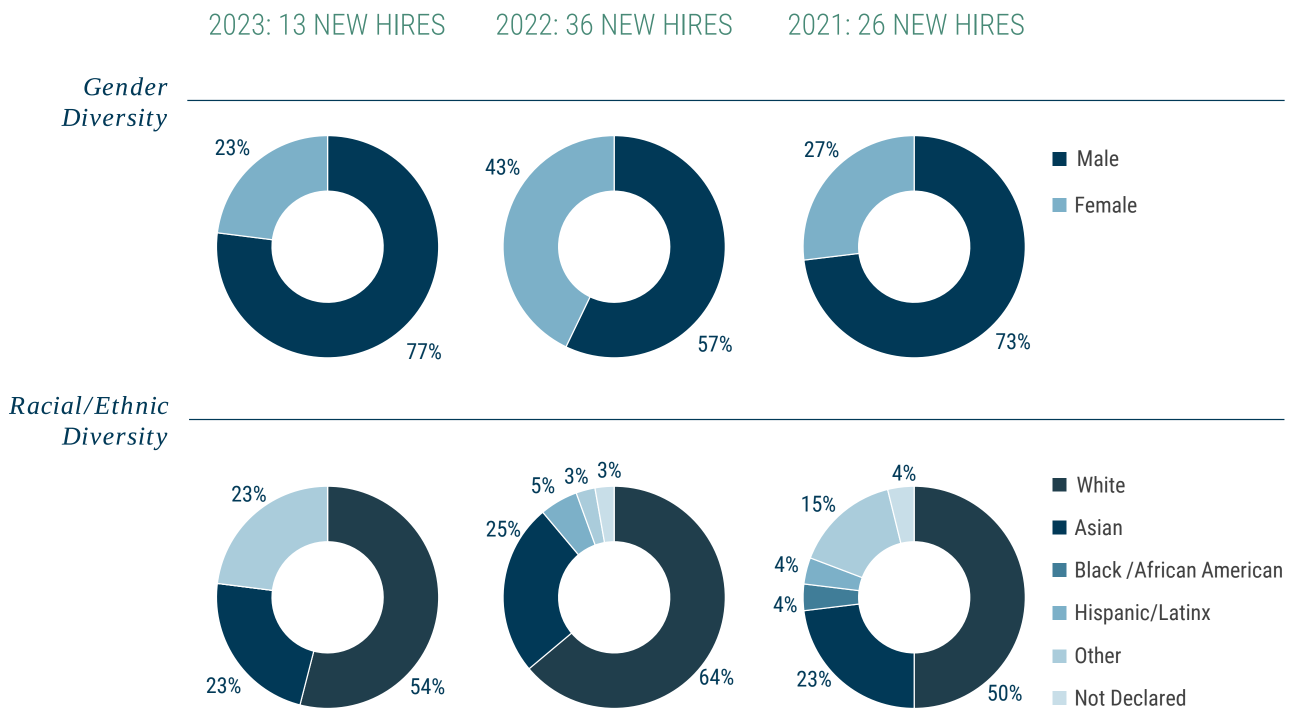
We are proud of this recognition acknowledging our ongoing dedication to supporting each other and creating an environment that celebrates and respects differences.

Diversity Measurement

We believe diversity of thought, knowledge, experience, and background leads to better results for our firm and our clients. We also recognize that the investment industry has historically not been particularly diverse.

We are committed to doing our part to ensure our industry and communities experience diversity, equity, and inclusion. As described, we have programs in place to generate diversity in our talent acquisition practices and have established processes to ensure equity in compensation and development opportunities. We measure the results of these practices as well as our employee engagement. To the extent possible, given privacy laws in different jurisdictions and each employee's willingness to self-identify, we report on the diversity of our employees. Ultimately, we focus on encouraging and rewarding diversity, equity, and inclusion among teams in as many ways as possible.

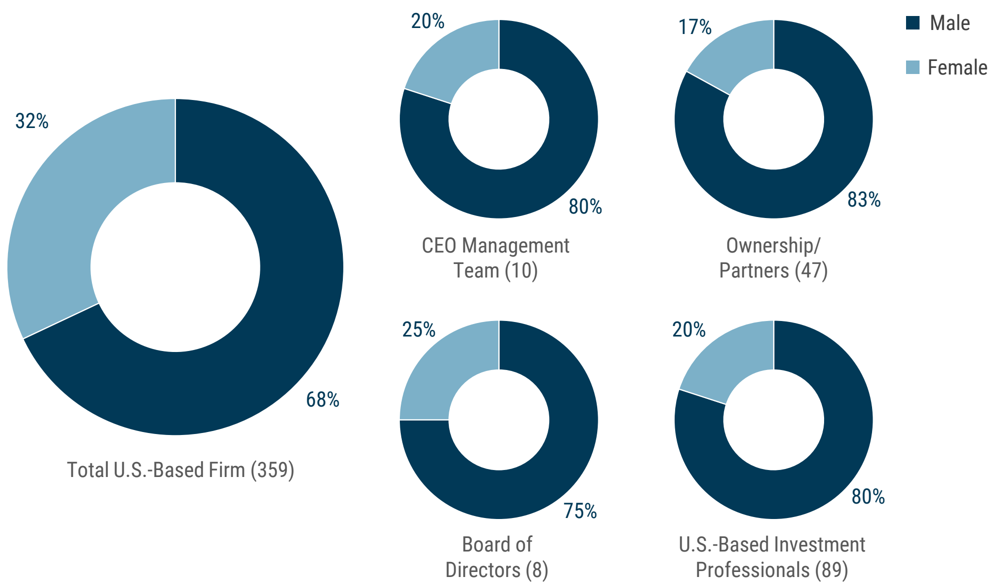
ANNUAL U.S. HIRING STATS



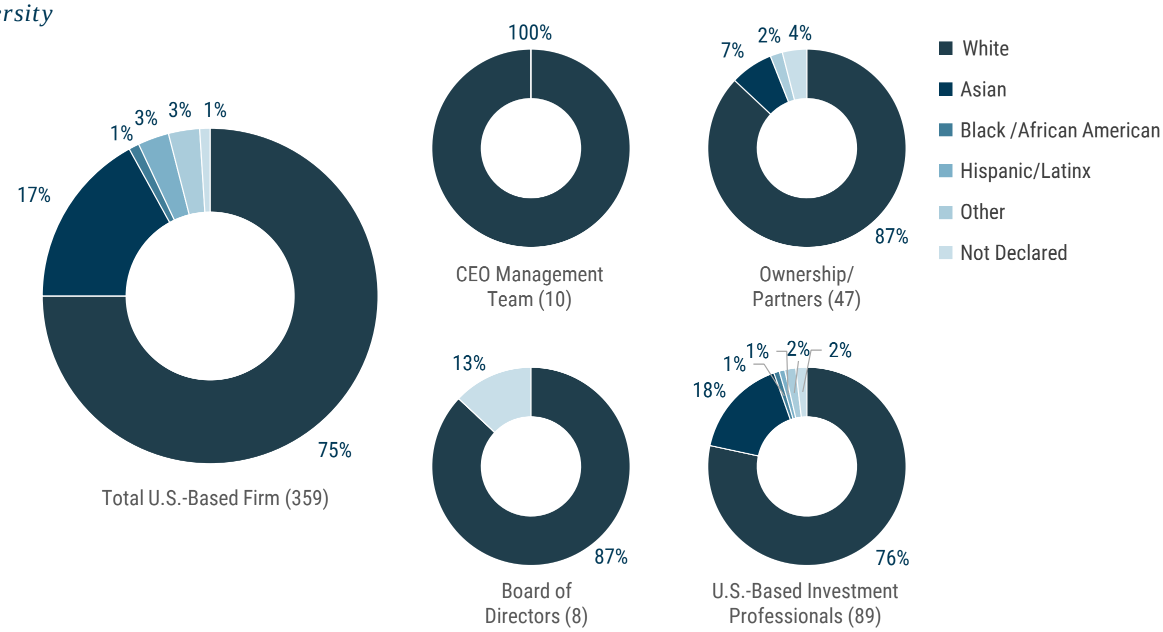
As of 31 December 2023
These statistics are self-reported by our U.S.-based employees and provision of these details is not compulsory. Where individuals have not specified race/ethnicity/gender, we have included that data under the category of "Not Declared." Figures may not sum to 100% due to rounding.

GMO U.S. DIVERSITY MEASUREMENT

Gender Diversity



Racial/Ethnic Diversity



As of 31 December 2023
These statistics are self-reported by our U.S.-based employees and provision of these details is not compulsory. Where individuals have not specified race/ethnicity/gender, we have included that data under the category of "Not Declared." Figures may not sum to 100% due to rounding.
Ownership/Partner statistics are full global counts and include data for both our U.S. and Non-U.S.-based owners/partners

SUSTAINABILITY AT GMO

SUSTAINABILITY AT GMO

Alongside our focus on ensuring the companies we invest in take a proactive approach to managing and mitigating the impact of ESG factors on and from their operations, we believe that GMO should approach running our business with the same care. One way we do this is by reducing the environmental footprint of our day-to-day operations. Our employee-led Green Initiatives Working Group is dedicated to finding new ways to make our workplace more sustainable and to help educate our colleagues on how to reduce their environmental impact at work and at home. The Group is made up of GMO employees across many departments and geographies of the firm and draws support from senior management, the ESG Oversight Committee, the ESG team, and our Facilities and Human Resources teams.

GMO Global Offices

GMO seeks to lease office space from landlords that are active in mitigating the impacts of climate change and that demonstrate a commitment to highly sustainable buildings. Summary details of each of our global offices are below.

BOSTON
LEED Gold and Fitwel certified

LONDON
100% Renewable Energy Guarantee of Origin (REGO), with backed renewable energy certificates

AMSTERDAM
Netherlands Sustainability Certificate

A+ energy efficiency label

SYDNEY
Certified CARBON NEUTRAL Building with 100% accredited GreenPower

5.0 star NABERS* Energy Rating

4.0 star NABERS Water Rating

6.0 star NABERS Waste Rating

SINGAPORE
Certified Building and Construction Authority Green Mark Platinum Development

*National Australian Built Environment Rating System

In 2023, GMO moved our Boston headquarters to 53 State Street, several streets away from our prior, long-time office location at Rowes Wharf. In choosing our new "home," sustainability matters were an important consideration for us. 53 State Street is a LEED Gold building and is Fitwel certified, which is a rating of the health-affecting aspects of the building environment designed to improve occupant wellbeing. The building is more efficient than 75% of similar buildings nationwide, according to its rating by the Energy Star Certification Program.

Our Singapore office also moved during 2023 to Six Battery Road, a certified Green Mark Platinum building. In choosing the new space, we considered the sustainability rating of the building and the footprint needed given our desire for energy efficiency and our hybrid work culture. Both our Boston and Singapore moves have effectively contributed to an overall reduction in our operational carbon footprint.

In all of our offices, we also seek ways to improve our energy efficiency. Our London office, for example, signed up for the Mayor of London's Business Climate Challenge (BCC), an energy efficiency program that helps businesses reduce energy consumption and accelerate building decarbonization efforts. Participants committed to reducing their energy consumption by 10% throughout 2023, a goal GMO London exceeded. The changes we implemented included increasing the temperature of our communications room by three degrees Celsius, modifying light sensor timings, and switching from desktops to laptops. With our successful reduction, we were labeled a "London Bridge Net Zero Hero" and received a certificate of recognition from London Mayor Sadiq Khan.

Carbon Footprint

We have calculated all the material components of our operational carbon footprint (see our data in the Appendix) across our offices and remain committed to identifying ways to reduce our footprint first and purchase high-quality offsets for what remains.

Between 2019 and 2023, our operational carbon footprint declined by 20%. The decline was due to significantly lower scope 2 emissions, partially offset by increased scope 3 emissions from our migration to Microsoft Azure data centers (detailed below).

A small portion of the decline came from reduced business travel. Over the years, business travel has been the largest contributor to our operational carbon footprint. During the Covid-19 pandemic and subsequent years, our business travel declined substantially. Though it continued to increase throughout 2023, business travel remains slightly lower than it was in 2019. While it is not possible to completely eliminate this important aspect of our business, we have embraced virtual meetings whenever possible.

Scope 2 emissions are the second largest contributor to our operational carbon footprint. During 2023, we have achieved a significant reduction in scope 2 emissions as a result of our consideration of new office spaces, as discussed, as well as from our technology strategy. Over the past few years, we have been migrating applications, infrastructure, and services from proprietary data centers to Microsoft Azure, which allows GMO to scale dynamically while reducing the overall energy requirements. This has resulted in the official closure of one of our largest proprietary data centers in 2023. In each specific area, our electricity consumption has been reduced by roughly 30% from our Boston office move, 40% from our Singapore office move, and 50% from the data center migration.

In 2023 we purchased more than 6,000 tons of gold standard certified carbon offsets from a wind farm in India to offset our estimated total operational carbon footprint. Combined with previous offset purchases, we have now completely offset GMO's scope 1, scope 2, and material scope 3 emissions from 2019 through 2022.

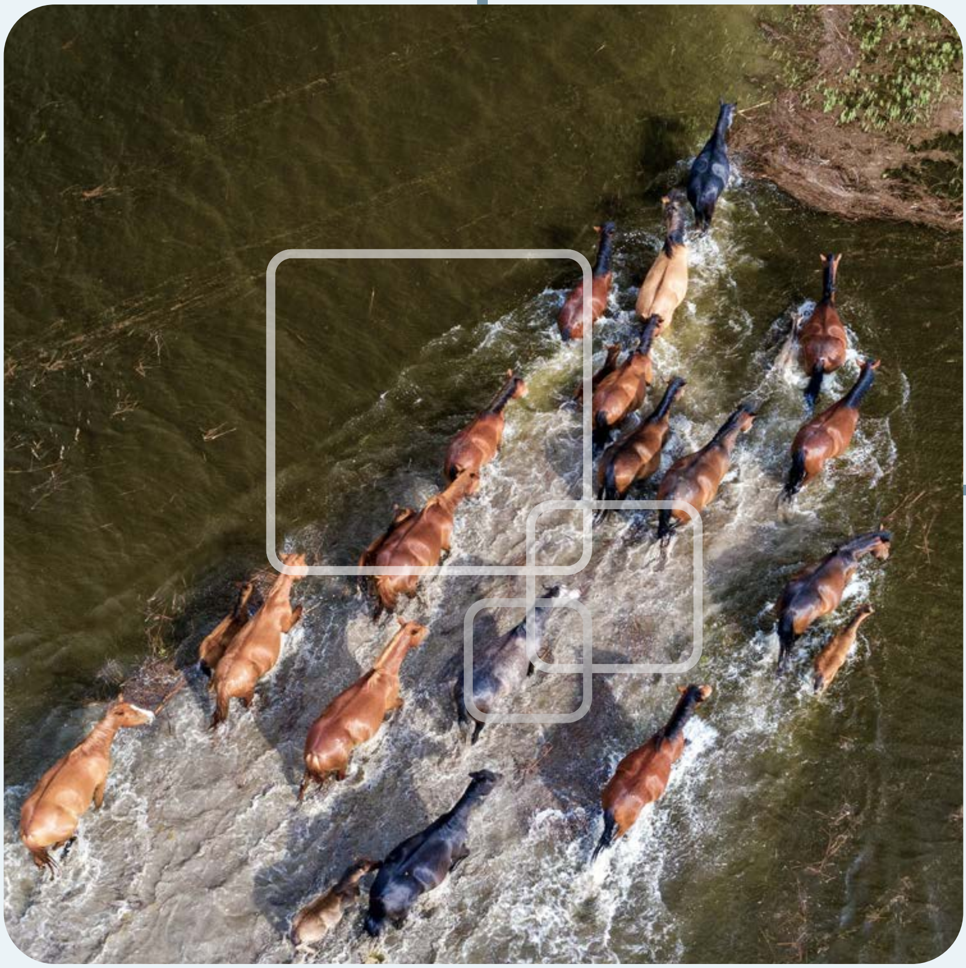
Charitable Support

In 2022 and 2023, GMO has supported Green Again Madagascar, an organization helping to fight deforestation with sustainable, long-term solutions, such as training farmers to reforest their lands and create opportunities for sustainable land use practices.

87% of Madagascar's rainforest has been lost in the last 100 years. Green Again Madagascar has set a goal to restore the rainforest canopy in Madagascar within ten years. True ecological restoration is more than simply replanting trees, though. Green Again Madagascar encourages sustainable practices and engages with local leadership to ensure a more permanent recovery of the ecosystem. Also central to their work is collecting scientific data on the growth and survival of tree species involved in the restoration. The team uses a rigorous approach in collecting and analyzing data to improve future results.

To date, Green Again Madagascar has planted 66 Malagasy species, and the trees are growing fast. There's already a slight canopy forming, and several invasive species, such as eucalyptus, acacia, and guava, are being naturally eliminated as the native rainforest is restored.

During 2022 and 2023, GMO supported the planting of over 9,500 trees in Madagascar. We do not include this as an offset to our emissions.



CONCLUSION

CONCLUSION

GMO is committed to being an effective steward of our clients' investments. We strongly believe that our focus on the areas detailed in this Sustainability and Responsible Investing Report serves our clients' best interests, contributes to a healthy financial system, and positively impacts global sustainability efforts.

In the years to come, we will strengthen our commitment to making GMO a leader in sustainability across all parts of our business. We believe that incorporating these principles into our investment approach, hiring and recruiting practices, day-to-day operations, and other areas is a critical part of building a business that lasts, being a good corporate citizen, and delivering value to our clients. We look forward to keeping you informed about our efforts.

APPENDIX

TCFD Report

APPENDIX: TCFD REPORT

As an investment manager, we recognize the paramount importance of addressing climate-related risks and opportunities to ensure the resilience and sustainability of our portfolios. In alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), this report presents an analysis of the climate risks and opportunities that impact our investments. We are committed to integrating climate considerations into our decision-making processes, enhancing transparency, and fostering long-term value for our stakeholders. This report outlines our strategic approach to managing climate-related risks, including governance, strategy, risk management, and metrics and targets, reflecting our dedication to responsible and sustainable investment practices in a rapidly evolving global landscape.

Governance

GMO's Board of Directors oversees the integration of climate considerations into our overall strategy, risk management processes, and decision making. At every quarterly Board meeting, senior management and the Head of ESG and Sustainability provide updates on our overarching responsible investing progress, including discussion of climate change. The Board also gets specific updates or education from time to time. For example, in 2023 the Board received presentations on our Indirect Emissions Model and related Horizons Strategy, both of which are discussed earlier in this Sustainability and Responsible Investing Report. Finally, the Board reviews GMO's annual reporting, such as this Sustainability and Responsible Investing Report and our UK Stewardship Code Report.

The Board supports GMO's commitment to achieve net-zero carbon emissions by 2050 and our joining the Net Zero Asset Managers initiative in 2021. Related, in 2022 the Board approved our initial targets of reducing GMO's portfolio carbon footprint intensity by 65% between 2019 and 2030 and increasing the assets covered by this commitment from 50% to 60% by 2025.

Scott Hayward, GMO's CEO, has established the ESG Oversight Committee, which includes members of the senior management team, to create an executive leadership group with the aim of advancing our consideration of ESG and climate-related risks. The ESG Oversight Committee is responsible for setting the firm's ESG and climate change priorities, developing strategies to meet those priorities, and overseeing the responsible investing program.

Based on corporate priorities and needs, the ESG Oversight Committee uses a few sub-committees to help in the discharge of its responsibilities. The relevant sub-committees for our climate change work are:

- Investment Sub-Committee: This sub-committee is led by GMO's Head of Investment Teams and Systematic Equity and Head of Investment Risk and Trading, and it includes representation from GMO investment teams. The group governs progress on our net-zero commitment and climate change-related strategy and monitors GMO's fund-level ESG exposures.
- Stewardship Sub-Committee: This sub-committee is led by GMO's General Counsel and Head of ESG and Sustainability. It oversees GMO's proxy voting and engagement activities and monitors the firm's thematic engagement areas, such as climate change.

Strategy

Our approach to climate change is built on the recognition that climate-related risks and opportunities can have a significant impact on investment outcomes across all time horizons. We invest for our clients over the long term. "Long term" means different time periods for different investment teams at GMO, based on the dynamics of different investment theses and markets. For the purposes of this report, we consider the following time horizons: short term = 1-3 years; medium term = 5-7 years; and long term = 7+ years.

We focus on fostering dialogue across our investment teams to qualitatively assess the direction of travel for potential climate change pathways. Identifying and analyzing the potential ways the world could change in the future must encompass a number of plausible scenarios that depart from history and "business-as-usual." While popular guidance is to conduct quantitative scenario analysis, we do not think that the current methodologies for modeling transition and physical risk pathways and translating that to financial and economic growth capture potential outcomes accurately or reliably enough for use in investment decision-making processes, hence our choice of qualitative assessment.

CLIMATE-RELATED RISKS

2023 was the warmest year on record based on analysis from the World Meteorological Organization, with a global average temperature 1.45 degrees Celsius above pre-industrial levels. This warming climate has led to more frequent and extreme weather events. In 2023, wildfires in Canada, Europe, and the U.S. led to loss of life, the destruction of homes, and large-scale air pollution. Flooding associated with extreme rainfall from Mediterranean Cyclone Daniel affected Greece, Bulgaria, Turkey, and Libya, with particularly heavy loss of life in Libya.[1] Global insured losses from natural catastrophes in 2023 exceeded $100 billion for the fourth consecutive year, with earthquakes in Turkey and Syria being the costliest catastrophes (estimated insured losses of $6.2 billion); total economic losses were estimated to be around $280 billion.

Aside from having profound, concerning effects on the world, the impact of this scale is also likely to pose challenges to our ability to help our clients achieve their financial goals.

The physical risks from a warming climate are anticipated to increase significantly over the period to 2100 and beyond. Climate change could have financial implications for organizations such as damage to assets, negative impacts on employee health and safety, interruption of operations, and disruption to supply chains.

At the same time, actions taken to mitigate global temperature rise can also create transition risk for companies. Financial implications of transition risk include increased costs due to policies and regulations aimed at curbing emissions, loss of market share as consumers shift away from high-emissions products and services, and disruption and premature obsolescence of assets from newer, climate-friendly technologies.

The interaction between transition risk and physical risks poses a challenge for investors like GMO, who must manage short-, medium-, and long-term risks for clients. We must tolerate transition risks in order to avoid what we expect to be far more damaging physical risks in the future.

1 World Meteorological Organization

WE MONITOR 5 KEY CLIMATE CATALYSTS

	Policy and Regulations	State of Technology	Consumer Demand	Investor Capital Flows	Physical risks
	Climate policy can support improved capital allocation and consumption decisions by companies and households	**Technology needs to be commercially available to allow businesses and households to decarbonize**	**On the demand side, consumers need to shift consumption patterns toward low and zero-carbon alternatives**	**Providers of capital can help technologies commercialize and scale, which in turn enhances technological adoption by consumers**	**As physical risks mount in socioeconomic impacts, the greater the urgency to transition the economy**
What do we look for?	• How much of global emissions are covered by a net zero policy? • What is the global average price on carbon?	• What low carbon alternatives exist and how does their cost and quality compare to their emissions-intensive alternatives? • How much does it cost to remove emissions?	• What inroads have been made in low carbon alternatives? • What is the EV penetration rate?	• Where are investors putting their capital to work? • How much capital is being managed to net zero commitments?	• What is the trend in financial losses due to climate change factors?
Where are we today?	• As of June 2024, about 88% of global emissions were covered by net zero commitments, but only 13% were enshrined in law. In 2022, global emissions had risen past their pre-pandemic levels. • In 2023, global carbon prices ranged between USD $0.46 and USD $167, with a weighted average of about USD $6 per tonne. Only 1% of global emissions were priced at the recommended level.	• Technology exists to enable decarbonization, but many are not economic. The levelized cost of wind and solar are lower than the lowest cost fossil-fuel-based energy, and other technologies such as concentrated solar power and geothermal are lower than the highest cost fossil fuels.	• IEA's Tracking Clean Energy Progress found that only 3 of the 50 components tracked were evaluated as fully on track on a net zero trajectory, so we are a long way away on this front. However, many components experienced rapid growth in 2022, with record growth in EVs and heat pumps, as well as strong growth in nuclear, electrolyzers, and energy efficiency.	• There are over 675 firms spanning 50 countries that support the Glasgow Financial Alliance for Net Zero (GFANZ), a global coalition of eight independent net-zero financial alliances whose members have committed to support the transition to net zero by 2050 and help achieve the objectives of the Paris Agreement. • As of June 10, 2024, investment institutions numbered 605 firms with about USD $143.8 trillion in AUM.	• Global insured losses from natural catastrophes in 2023 exceeded USD $100 billion for the fourth consecutive year, with earthquakes in Turkey and Syria being the costliest catastrophes (estimated insured losses of USD $6.2 billion); total economic losses were estimated to be around USD $280 billion.

Sources: https://zerotracker.net/, Jones et al. (2024) – with major processing by Our World in Data (https://ourworldindata.org/greenhouse-gas-emissions), https://www.gfanzero.com/about/#leadership

The speed and timing of transition has a direct bearing on the risks and opportunities faced by GMO. To try and understand this, we monitor how five key characteristics of the economy are progressing.

We believe these climate catalysts can indicate the status of climate-related opportunities and risk. For example, as more and more countries make net-zero commitments that are followed up by policies, regulations, and actions to support decarbonization, portfolio companies face greater financial risk through potentially higher input costs as suppliers need to adjust to new requirements. In another example, as the costs for fossil fuel-free alternatives continue to decline, companies that are completely dependent on the continued demand for fossil fuels may become stranded, while companies that produce or supply these technologies could financially benefit.

CLIMATE RISK AND OPPORTUNITY IN THE SHORT AND MEDIUM TERM

As previously mentioned, we are already experiencing the physical risks arising from warming temperatures. Over the short to medium term, acute risks can impact physical assets directly. For instance, flooding can cause premature or rapid depreciation, increased costs, decreased productivity, and reduced profit margins. Water scarcity and drought can also heighten risks for companies such as those engaged in agriculture, food, and mining. Consideration of physical impacts over the short term is incorporated in our ESG analysis and may be a topic of engagements with companies.

While the technology exists today to decarbonize our economy, it is not always ready for commercial scale – but this is changing quickly. The costs for wind and solar have dropped 63% and 83% between 2009 and 2023, respectively, and have been competitive with conventional power generation in many markets since 2015. Similarly, battery costs continue to fall – today, batteries are 88% cheaper per kilowatt hour than in 2010. The decline in the cost of renewable power generation and storage poses risks to fossil fuel-based power sources and opportunities for those investing in renewables. We have oriented some of our investment portfolios around these short- and medium-term opportunities.

In 2017, we launched the Climate Change Strategy, which seeks total return by investing in companies helping the world to mitigate or adapt to the negative impacts of climate change. And in 2023, we created the Horizons Strategy, which takes a systematic approach to investing in green revenue opportunities while reducing portfolio carbon emissions.

Importantly, investments in climate solutions are critically needed to transition the economy towards a net-zero future. Investments such as these contribute to mitigating longer-term risks from a warming climate.

CLIMATE RISK AND OPPORTUNITY IN THE LONG TERM

GMO has a Climate Action Plan that incorporates four primary areas for long-term impact: 1) investing in climate solutions (outlined earlier in this section); 2) reducing our portfolio carbon footprint primarily through integration of climate risk assessments; 3) engaging with companies to disclose and execute on transition plans; and 4) encouraging policymakers and regulators to take proactive and orderly responses to climate change mitigation.

Given the significant risk stemming from global warming as a result of carbon emissions, GMO has committed to support a transition to a net-zero economy by 2050 and has set an initial target of reducing our net-zero portfolio carbon footprint intensity by 65% by 2030 and to zero by 2050 or sooner, in line with global efforts to limit global warming to 1.5 degrees Celsius. Our net-zero portfolio currently covers about 50% of our assets, and we are looking to grow that to 60% by 2025. Our ne-zero portfolio does not include assets held in separately managed accounts unless we have been directed by the client to include their assets.

Demand growth for clean energy materials as the energy transition unfolds will be significant. The World Bank estimates that the production of minerals such as graphite, lithium, and cobalt could increase by nearly 500% by 2050. Over 3 billion tonnes of minerals and metals will be needed to deploy wind, solar, and geothermal power, as well as to build energy storage, if we are to keep global warming to less than 2 degrees Celsius. Added to this is industrialization of developing economies, population growth, and declining supplies of cheap, easy-to-access natural resources. Combined, we believe all of these factors will cause a broad rise in resource prices, and so we manage a Resources Strategy seeking to identify companies in public equity markets that we believe will benefit from these price dynamics across a diversified portfolio of energy, metals, agriculture, and water.

Risk Management

Our ESG Oversight Committee discusses and prioritizes how we can respond to the investment risk implications of climate change. One way that GMO has decided to act is by committing to achieve net-zero emissions by 2050. In line with this, we joined the Net Zero Asset Managers initiative, and in 2022 we developed and announced our interim net-zero targets and plan.

Achieving our net-zero ambition will not come through divestment – we cannot divest our way there – but rather by working with companies to support their decarbonization. Our net-zero strategy includes:

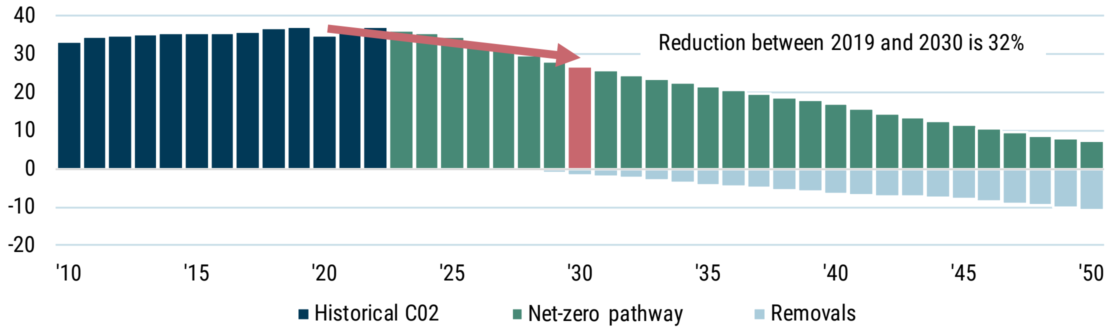
- Engaging with companies to set credible transition plans,
- Increasing investments in companies contributing to the clean energy transition,
- Increasing the proportion of emissions covered by a science-based target aligned with the standards of the Science-Based Target initiative (SBTi), and
- Broadening the scope of our net-zero strategy to include scope 3 emissions and government bonds.

We continue to believe that achieving these targets will help us achieve the best long-term investment returns for our clients. The Network for the Greening of the Financial System has developed a set of scenario pathways going out to 2100. In its net-zero scenario, emissions need to decline by 32% from 2019 levels. As such, we feel confident that our target of 65% is aligned to a net-zero pathway.

Our progress:

HISTORICAL EMISSIONS

NGFS Net-Zero Emissions Pathway



Source: NGFS' PIK (REMIND-MAgPIE model)
The Network for Greening the Financial System (NGFS) is a group of central banks and financial supervisors that aims to accelerate the scaling up of green finance and to develop recommendations for central banks' roles related to climate change. The NGFS partnered with an expert group of climate scientists and economists to design a set of hypothetical climate scenarios. In the net zero 2050 scenario, global warming is limited to 1.5 degrees Celsius through stringent climate policies and innovation, reaching global net-zero emissions around 2050.

OUR PROGRESS

Progress as of December 2023

55% Reduction
of net-zero portfolio carbon footprint[1]

49% of GMO's AUM
included in net-zero portfolio

55% of Portfolio Emissions
covered by an SBTi[3]

$2B of GMO's AUM
invested in the Climate Change Strategy

The GMO portfolio carbon footprint (PCF) reduction between 2023 and 2019 was driven by inflows into strategies with lower emission intensities, such as the Quality Strategy, and outflows from higher emission strategies, such as the Emerging Markets Strategy. This was partly offset by inflows into the higher intensity Resources Strategy. Other impacts include lower exposure to Russian materials and energy companies, and carbon reduction strategies in some of our equity strategies.

The decline in AUM coverage was mainly driven by outflows from the Benchmark-Free Allocation Strategy, as well as from Emerging Markets and U.S. Equity Strategies, which were only partially offset by inflows into the Climate Change and Quality Strategies.

1 From 202.6 tCO_2e/$M in 2019
2 From 53.5% in 2019. Net-zero portfolio excludes certain asset classes, strategies, and separately managed accounts.
3 Proportion of GMO's portfolio emissions that have or commit to have a science-based target.

We also aim to address climate risk through active engagement at an international, regional, and industry level to encourage clear, stable, and long-term policy making and regulations. For example, we support the IFRS who has set standards for climate disclosure, which we believe will help support global decarbonization.

Integration of ESG factors into GMO investment processes is overseen by our ESG Oversight Committee, but portfolio managers are ultimately accountable for implementing ESG policies within their strategies. In practice, they and their investment team colleagues have integrated ESG factors into various portfolio construction processes.

Broadly speaking, sector analysts handle corporate engagement within their coverage areas, although portfolio managers may assign team members specific engagement responsibilities. The teams continue to evolve and enhance their approaches by conducting focused research within their respective areas of expertise, and they coordinate and collaborate across the firm to share insights on an ad-hoc, project, or committee basis. In some cases, products have specific climate-related constraints.

ESG MONITORING

Our Investments sub-committee is charged with overseeing ESG risks at the portfolio level. The sub-committee also evaluates severe and developing ESG controversies within our public equity and fixed income holdings, manages our Heightened Review process described in Principle 4, and ensures we are progressing on our overall climate strategy.

The sub-committee is co-chaired by Head of Investment Teams, George Sakoulis, and Head of Investment Risk and Trading, Roy Henriksson. Membership includes leaders from our investment teams in addition to Deborah Ng. The Investments sub-committee oversees ESG exposures at the fund level. The committee oversees and monitors our progress in meeting our interim portfolio carbon footprint reduction target.

The sub-committee regularly reviews GMO's ESG Score at the portfolio and asset classes levels, and across each E, S, and G element to identify significant worsening of scores or concentrated exposures.

Centrally, we have developed an internal ESG dashboard for investment teams to monitor their ESG Score metrics as well as climate-related exposures relative to their benchmarks and any GMO targets over time. Our "Carbon Dashboard" tracks portfolio carbon footprints and intensities and measures the weighted average carbon intensity of company revenues against market benchmarks and our portfolio carbon footprint reduction targets. It provides attribution capabilities so that portfolio managers can better understand what is driving their carbon footprint performance.

Below is a snapshot of our carbon attribution, where we can see that stock selection in materials and energy sectors have driven a decline in our portfolio carbon footprint from our 2019 baseline. This was offset somewhat by allocating more to these high-intensity sectors.

Many portfolio management teams have systematized parameters around ESG principles within their portfolio construction processes, including a number of models that consider climate risk factors, such as the following examples.

In 2022, our ESG Research team completed building a GMO Indirect Emissions model, which we can now use to estimate

CARBON FOOTPRINT ATTRIBUTION REPORT

Brinson Attribution for Filled Carbon Footprint Intensity

GICS Sector Name	*2023 Weight (%)*	*2019 Weight (%)*	*Active Weight (%)*	*2023 Portfolio Carbon Footprint (tCO2e/$mil)*	*2019 Portfolio Carbon Footprint (tCO2e/$mil)*	*Allocation Effect (tCO2e/$mil)*	*Selection Effect (tCO2e/$mil)*	*Total Effect (tCO2e/$mil)*	*2023 Contribution (tCO2e/$mil)*	*As % of Portfolio Carbon Footprint*	*2019 Contribution (tCO2e/$mil)*	*As % of Portfolio Carbon Footprint (%)*
Industrials	13.5	10.3	3.2	118.5	148.9	(2.3)	(4.1)	(6.4)	16.0	17.5	15.4	7.0
Information Technology	19.9	16.8	3.1	20.3	33.4	(5.7)	(2.6)	(8.3)	4.0	4.4	5.6	2.6
Energy	7.2	5.9	1.3	309.4	891.9	8.9	(42.2)	(33.3)	22.4	24.5	52.8	24.0
Consumer Discretionary	10.7	9.9	0.8	26.6	195.7	(0.2)	(18.1)	(18.3)	2.9	3.1	19.4	8.8
Materials	7.9	7.1	0.8	449.2	1,165.2	7.1	(56.5)	(49.4)	35.5	38.7	83.2	37.8
Consumer Staples	8.2	7.6	0.6	56.8	56.5	(1.0)	0.0	(1.0)	4.7	5.1	4.3	2.0
Health Care	11.9	11.4	0.5	6.2	8.4	(1.1)	(0.3)	(1.3)	0.7	0.8	1.0	0.4
Communication Services	5.3	5.6	(0.3)	7.5	20.5	0.5	(0.7)	(0.2)	0.4	0.4	1.1	0.5
Real Estate	1.5	3.4	(2.0)	10.0	17.3	4.0	(0.1)	3.9	0.2	0.2	0.6	0.3
Utilities	1.2	3.5	(2.3)	377.4	1,035.5	(18.6)	(8.1)	(26.7)	4.6	5.0	36.3	16.5
Financials	12.6	18.1	(5.5)	2.2	2.5	12.0	(0.1)	12.0	0.3	0.3	0.5	0.2
Other	0.0	0.2	(0.2)	401.3	7.2	0.4	0.0	0.4	0.0	0.0	0.0	0.0
TOTAL	**100.0**	**100.0**	**-**	**91.6**	**220.2**	**4.0**	**(132.6)**	**(128.6)**	**91.6**	**100.0**	**220.2**	**100.0**

INVESTMENT MODELS THAT CONSIDER CLIMATE CHANGE

Model	ESG Score for Companies	Emerging Market Score for Equities	Emerging Market Scores for Sovereign and Quasi-Sovereign Debt
Climate Risk Factors Addressed	▪ Energy management ▪ GHG emissions ▪ Materials sourcing ▪ Physical risk ▪ Product lifecycle management	▪ Renewable energy ▪ GHG emissions ▪ Physical risk ▪ Fresh water ▪ Protection of natural resources ▪ Pollution	▪ Energy transition ▪ Environmental impact ▪ Physical risk

all direct and indirect emission flows between companies within value chains. This new model can give our investment teams insight into which companies are most and least exposed to climate transition risks and is discussed earlier in this Sustainability and Responsible Investing Report.

Training and Education

GMO conducts ESG training on an as-needed basis. In 2023, the ESG team held training sessions on a variety of topics including the GMO ESG Score, Portfolio Carbon Footprints, Indirect Emissions, Corporate Engagement, Impact Reporting, and GMO Horizons. Aside from these formal interactions, much of GMO's ESG learning comes from peer-to-peer interactions as one investment team adapts the practical knowledge acquired by another.

ENGAGING WITH COMPANIES AND POLICYMAKERS

The Stewardship sub-committee oversees progress on GMO's firm-wide engagement plan. Our 2023 Engagement Plan continues our climate-focused work from 2022. We are focused on the largest contributors to our net-zero portfolio carbon footprint to encourage them to report scope 1, scope 2, and scope 3 greenhouse gas emissions, adopt climate change risk reporting following the recommendations of TCFD, and consider setting science-based targets that are aligned with keeping global warming to 1.5 degrees Celsius at most.

GMO works collaboratively with peers to further our climate change engagement. We signed on to the CDP Non-Disclosure Campaign (NDC), a collaborative initiative that enables investment managers to drive corporate transparency around companies' management of climate change-related exposures. We previously signed on to the CDP Science-based Targets initiative in 2021 and continued to support it in 2022.

OVERVIEW OF GMO APPROACH TO CLIMATE CHANGE-FOCUSED ENGAGEMENT

WHAT ARE WE ASKING?

Phased approach depending on where the company is at

1. Report scope 1, 2, and material scope 3 emissions
2. Adopt TCFD-aligned reporting
3. Consider setting science-based target aligned with 1.5C or net zero

WHY WOULD WE DO THIS?

- Addresses systemic risk from physical impacts
- Regulations are moving in this direction, increasing transition risk
- Supports GMO's net-zero commitment
- Supported by GMO Proxy Voting Guidelines

Voting Policy on Climate Accountability

Vote against the board chair, or the responsible incumbent director(s), where company is not taking the minimum steps:

- Detailed disclosure of climate-related risks, such as TCFD
- Well-defined GHG emissions reduction targets

INDICATORS

1. Comprehensive CDP or TCFD-aligned disclosures
2. Science-based or net-zero targets set

METRICS

1. Scope 1, 2, and material scope 3 emissions

OUTCOMES

1. Science-Based Targets initiative (SBTi) certification
2. Reduction in emissions in line with sector decarbonization pathways
3. Level 4 Transition Pathway Initiative assessment of management

Through our participation in the NDC, GMO investment teams have encouraged improved environmental risk disclosure from companies held in our portfolios.

In support of our climate change priorities, GMO also signed the 2022 Global Investor Statement to Governments on the Climate Crisis, a joint statement addressed to all world governments urging them to implement policies that limit global temperature rise to no more than 1.5 degrees Celsius and to act consistently with a just transition. The 2024 letter is currently out for review.

In general, we vote against the board chair or responsible incumbent director of high-risk companies where we feel the company is not taking minimum steps toward managing climate risks. In 2022, we voted against the directors of 33 such companies and had 30 engagements where climate change was a topic.

CASE STUDIES

Company	*Graphite electrodes and petroleum coke manufacturer*
Initiation Date	5 Dec 2023
Last Contact Date	12 Dec 2023
Issue	ESG and climate disclosures
Format	Video call
Company Attendees	Vice President, Investor Relations and Corporate Communications
GMO Attendees	ESG Team (Deborah Ng, Mandy Leung)
Objective	Provide more comprehensive disclosures to CDP
Actions	Discussed the company's climate-related disclosures, conferred about fossil fuel-based raw material and stranded asset risks, and encouraged more comprehensive reporting, including articulating the board's oversight on climate risks and publicly disclosing emission reduction targets.
Outcomes	Company will take our comments into consideration and look to publish their first CDP report in 2024.
Status and Next Steps	We will check back after reporting season to see if they adopted our suggestions.

Issuer	*Government of Bolivia*
Initiation Date	12 Apr 2023
Last Contact Date	12 Apr 2023
Issue	Climate change
Format	In-person meetings
Company Attendees	Bolivian Finance Ministry
GMO Attendees	Emerging Country Debt (Eamon Aghdasi)
Objective	Disclosure of long-term plans to industrialize economy and shift away from natural gas
Actions	We met with ministers to discuss economic policies, as well as the government's long-term plan to industrialize the economy and shift concentration away from natural gas.
Outcomes	Details on this were sparse. Further engagement is necessary to flesh out the government's plan for decarbonization.
Status and Next Steps	Open

CLIMATE RISK IN OUR OWN OPERATIONS

As discussed, we also believe that climate change poses risks to our operations and that our operational decisions can impact the climate, so we accordingly manage an operational climate-related strategy.

GMO has offices located in different parts of the world, and adverse climate events could have a direct impact on our business. GMO has business continuity plans for all its office locations in the event of severe business disruptions, including disruptions resulting from physical climate risks.

The financial impact would be limited as most of the office facilities are leased. We also maintain insurance to mitigate any financial impact of extreme weather events.

We believe GMO should seek to reduce our own climate impact by reducing the environmental footprint of our day-to-day operations. Our employee-led Green Initiatives Working Group is dedicated to finding new ways to make our workplace more sustainable and to help educate our colleagues on how to reduce their environmental impact at work and at home. The Group is made up of GMO employees across various departments and geographies of the firm and draws support from senior management, the ESG Oversight Committee, ESG team, and our Facilities and Human Resources teams.

In our global offices, GMO partners with office landlords that are active in mitigating the impacts of climate change and that demonstrate a commitment to highly sustainable buildings.

Summary details of each of our global offices are below:

BOSTON
LEED Gold certified
Energy Star certified
Fitwel certified

LONDON
100% Renewable Energy Guarantee of Origin (REGO), with backed renewable energy certificates

AMSTERDAM
Netherlands Sustainability Certificate

A+ energy efficiency label

SYDNEY
Certified CARBON NEUTRAL Building with 100% accredited Green Power

4.0 star NABERS* Water Rating

5.0 star NABERS Energy Rating

6.0 star NABERS Waste Rating

SINGAPORE
Certified Building and Construction Authority Green Mark Gold Development

*National Australian Built Environment Rating System

In 2023, GMO moved our Boston headquarters to 53 State Street, several streets away from our prior, long-time office location at Rowes Wharf. In choosing our new home, sustainability matters were an important consideration. 53 State Street is a LEED Gold building and is Fitwel certified, which is a rating of the health-affecting aspects of the building environment designed to improve occupant wellbeing. The building is also more efficient than 75% of similar buildings nationwide, according to its rating by the Energy Star Certification Program.

Our London office signed up for the Mayor of London's Business Climate Challenge (BCC), an energy efficiency program that helps businesses reduce their energy consumption and accelerate building decarbonization efforts in London. Participants committed to reducing their energy consumption by 10% throughout 2023, a goal we exceeded. Our changes included increasing the temperature of our communications room by three degrees Celsius, modifying light sensor timings, and switching from desktops to laptops. The results we achieved culminated in us being labeled a "London Bridge Net-Zero Hero" and receiving a certificate of recognition from London Mayor Sadiq Khan.

Additionally, we have been migrating applications, infrastructure, and services from proprietary data centers to Microsoft Azure, which allows GMO to scale dynamically while reducing the overall energy requirements. The energy efficiency we have been able to achieve from this move has significantly reduced GMO's scope 2 carbon emissions.

We have calculated all the material components of our operational carbon footprint across our offices and remain committed to identifying ways to reduce our footprint first and purchase high-quality offsets for what remains.

In 2023 we purchased more than 6,000 tonnes of gold standard certified carbon offsets from a wind farm in India to offset our estimated operational carbon emissions. Combined with previous offset purchases, we have now completely offset GMO's scope 1, 2, and material scope 3 emissions from 2019 through 2022. We are currently evaluating options to offset our 2023 operational carbon footprint.

Metrics and Targets

GMO'S NET-ZERO PORTFOLIO CARBON FOOTPRINT

GMO is on track toward our 2030 target of a 65% reduction in portfolio carbon footprint (PCF) versus our 2019 baseline, with an observed 55% reduction from 2019 to 2023. In absolute terms, we have reduced portfolio scope 1 and scope 2 emissions by 55% while the weighted average carbon intensity of our portfolio companies has declined by 62%. The AUM covered by a net-zero target declined slightly from 53% to 49%.

The PCF reduction was driven by inflows into strategies with lower emission intensities, such as the Quality Strategy, and outflows from higher emission strategies, such as the Emerging Markets Strategy. This was partly offset by inflows into the higher intensity Resources Strategy. Other impacts include lower exposure to Russian materials and energy companies, and carbon reduction strategies in some of our equity strategies.

GMO NET ZERO PROGRESS

	2019 baseline	2023	Change
Financed Scope 1 and Scope 2 Emissions (tCO2e)	6,296,516	2,827,928	-55%
Portfolio Carbon Footprint (tCO2e/Million$ AUM)	202.6	91.6	-55%
Weighted Average Carbon Intensity of Portfolio Company Revenues (tCO2e/Million$ Revenue)	295.9	112.4	-62%

Sources: S&P Global Sustainable, MSCI

The decline in AUM coverage was mainly driven by outflows from our Benchmark-Free Allocation Strategy, as well as from Emerging Markets and U.S. Equity Strategies, which were only partially offset by inflows into the Climate Change and Quality Strategies.

	2019	2023
Proportion of net-zero portfolio committed to set SBTi target	29.7%	55.2%
Proportion of net-zero portfolio covered by an SBTi certified target	12.3%	31.2%

Meanwhile, 55.2% of our net-zero portfolio is committed to set an SBTi target.

GMO'S OPERATIONAL CARBON FOOTPRINT

As shown in the table below, our operational carbon footprint declined by 20% between 2019 and 2023.

The decline was due to significantly lower scope 2 emissions, partially offset by increased scope 3 emissions from the migration to Azure data centers. A smaller portion of the decline came from reduced business travel.

Over the years, business travel remain the largest contributor to our operational carbon footprint. During 2021-2022, our business travel was reduced substantially due to travel restrictions. In 2023, business travel has resumed, but not to the same level as 2019. While it is not possible to completely eliminate this important aspect of our business model, we have embraced virtual meetings whenever possible.

Scope 2 emissions are the second largest contributor to our operational carbon footprint. During 2023, we have seen significant reduction in our scope 2 emissions as a result of thoughtful consideration of new office spaces and our technology strategy. In total, the electricity consumption was reduced by about 30% at the Boston office, 40% at the Singapore office, and 50% due to the migration of external data centers.

GMO OPERATIONAL CARBON FOOTPRINT

Emission Category	Source	2023	2022	2021	2020	2019
Scope 1	Stationary Combustion	15.7	21.2	25.1	17.0	0.9
Scope 2	Purchased Electricity (location-based)	576.5	1,013.5	1,106.75	1,172.3	1,278.8
Scope 3	Business Travel	2,124.7	1,246.8	108.4	324.6	2,278.2
	Data Center	152.1	140.8	53.2	48.7	20.0
	Total Scope 3	2,276.8	1,387.6	161.6	373.3	2,298.1
GMO's Operational Carbon Footprint (tCO2e)		2,869.1	2,422.3	1,293.4	1,562.6	3,577.8
Carbon Intensity (tCO2e/employee)		6.6	5.0	2.8	3.3	7.6

Source: GMO estimates

Portfolio Carbon Footprint Methodology

GMO's PCF covers equity and corporate fixed income investments. It excludes certain assets classes (e.g., sovereign bonds, structured products, commodities, and foreign exchange), strategies (e.g., global macro, long/short strategies, and emerging country debt), and separately managed accounts. In total, it covered 53% of GMO's total AUM ("Net-Zero AUM") at the end of 2019. We have selected to use 2019 as a baseline, as it represents a typical pre-COVID year.

In calculating our PCF we are guided by the Partnership for Carbon Accounting Financials, a widely recognized standard for assessing emissions associated with loans and investments. Our portfolio carbon footprint covers scope 1 and scope 2 emissions of our equity and fixed income investments as defined by the Greenhouse Gas Protocol, an international standard for emissions accounting. We include the delta-notional value of derivatives and apply a look-through on index investments where available. Short positions are first netted across the portfolio. Any net short positions at the aggregate level are eliminated from the calculations and the AUM coverage.

Emissions data are sourced from S&P Global Sustainable,[1] which covers approximately 84% of our AUM. We use emissions data from MSCI to fill in any gaps, which brings us to 85% coverage. Any investments without data are excluded from the calculation of both the PCF and the AUM coverage.

Portfolio company emissions are allocated to GMO on the basis of our ownership share, i.e., GMO's investment divided by the company enterprise value (EVIC) and normalized by our Net-Zero AUM.

Specifically:

$$PCF = \frac{1}{Net\ Zero\ AUM} * \sum_{i=1}^{n} \frac{Investment_i}{Net\ Zero\ AUM} * \frac{Emissions_i}{EVIC_i}$$

$$Financed\ Emissions = \sum_{i=1}^{n} Investment_i * \frac{Emissions_i}{EVIC_i}$$

$$Weighted\ Average\ Carbon\ Intensity\ (WACI) = \sum_{i=1}^{n} \frac{Investment_i}{Net\ Zero\ AUM} * \frac{Emissions_i}{Revenue_i}$$

Operational Carbon Footprint Methodology

GMO's Operational Carbon Footprint (OCF) covers scope 1, scope 2, and material scope 3 emissions of GMO's offices in Boston, London, Amsterdam, Singapore, and Sydney using the guidelines provided by the Greenhouse Gas Protocol and using actual and estimated data. Operational emissions covered include stationary combustion at the offices, purchased electricity and heat, business travel, and data centers. We aim to use the best available emissions factors that consider energy source and location.

In calculating our flight emissions, the largest contributor to our operational carbon footprint, we utilize the atmosfair[2] flight emissions calculator. It is one of the online tools that were selected in the Business Travel GHG Emission Analysis[3] by WRI in 2021 based on its well-documented methodological practices and regular updates to the latest scientific findings.

1 S&P Trucost Limited © Trucost 2024
2 https://www.atmosfair.de/wp-content/uploads/flight-emissionscalculator-documentation-calculationmethodology.pdf
3 Business Travel GHG Emissions Analysis | World Resources Institute (wri.org)

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