2024 TCFD REPORT

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:

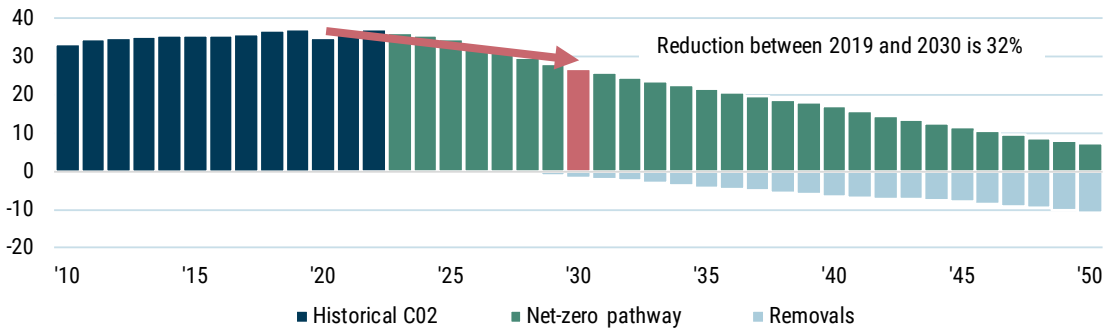
- Engaging with companies to set credible transition plans,
- Increasing investments in companies contributing to the clean energy transition,
- Increasing the proportion of emissions covered by a science-based target aligned with the standards of the Science-Based Target initiative (SBTi), and
- Broadening 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]

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

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

$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 tCO2e/$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)