



RESPONSIBLE INVESTMENT POLICY

As of September 2018

GMO's Commitment to ESG

A core component of successful security analysis is the evaluation and incorporation of information beyond that reflected solely in company-reported financial information. Since the firm's founding in 1977, GMO has sought to reflect the insight gained from systematic evaluation of formerly non-traditional financial measures (such as asset class valuation and company quality) and non-financial measures (such as corporate behavior and default risk) into our investment strategies.

GMO believes that Environmental, Social and Governance ("ESG") factors can have a meaningful impact on the long-term success of companies and countries. It is our policy to incorporate ESG factors into the investment decision-making and issuer engagement activities, where doing so will improve risk-adjusted returns and furtherance of client-specific objectives. Since 1987, we have worked with our clients to incorporate ESG-related factors, such as social or environmental screens, into their separately managed portfolios. We are committed to continuing to work with our clients to implement solutions that reflect client-specific views on ESG.

We are committed to continuously improving our understanding of how the integration of ESG factors can improve our clients' investment results. We expect that our use of ESG factors and the role they play in GMO investment solutions will continue to evolve and expand as both our internal research and analysis of market-based ESG information expand. In addition, we are also committed to improving the transparency regarding how ESG information is considered in our investment strategies.

GMO's Firm-wide Oversight Commitment

The integration of ESG factors into GMO's investment processes is overseen by our ESG Oversight Committee, which consists of our Head of Investment Teams and select senior investment and business professionals. While the importance of ESG factors varies across our investment teams and strategies, we have established a firm wide ESG risk monitoring process, which includes regular discussion and review of ESG Factors. By including both investment and business professionals in our oversight processes, we ensure that representatives of all stakeholders are included in our conversations. Our ESG Practice Lead brings subject-matter expertise to the forefront of discussions.

GMO's Investment Research Commitment

While there is a plethora of data becoming available on ESG metrics, we look to differentiate our approach by limiting our focus to those considerations which can improve a strategy's risk-adjusted return potential. We evaluate such measures on an equal-footing with other areas of investment research, looking to identify factors whose inclusion can provide forward-looking information for differentiating expected investment returns, within an investment strategy's targeted investment horizon.



While not historically categorized as stand-alone ESG factors, our equity and fixed income teams all include qualitative or quantitative assessments of corporate and sovereign governance. Additionally, our on-going research suggests that a number of the investment characteristics we consider today are highly correlated with traditional ESG factors, and have served as an effective ESG proxy.

We subscribe to a variety of ESG-related data sources such as MSCI, Sustainalytics and CDP. Ongoing projects include building a proprietary ESG database to score countries and companies using data from these external sources combined with our own internal resources. As the available ESG information expands across asset classes, we will continue to enhance our ability to differentiate across asset classes based on existing and new measures.

GMO's Stewardship Commitment

For all companies in which we invest, we look to identify key drivers for the creation or destruction of shareholder value, and understand the actions taken by company management that may influence these drivers. Aggressive accounting, management behavior and shareholder friendliness are examples of factors which can influence our assessment.

For investment teams that engage directly with company management, the degree to which they do so varies. In some cases, the team may meet with company management to confirm impressions gleaned from in-depth research, or to encourage the systematic reporting of non-financial information to improve transparency on ESG metrics. In other cases, the team may utilize conversations with management and on-site visits as an integral part of the investment process. In general, the teams that use company engagement as a key part of their process, carefully consider situations in which they believe (1) management is undertaking positive change and there is an opportunity to capture the upside potential associated with the change, or (2) the value of strong management has been recognized and is already priced into the stock. Ultimately, the process centers upon assessing whether management's decisions and corporate resources are sufficient to execute in a manner that will have a positive or negative impact on the company's value. We are also participants in the Climate Action 100+, a multi-year initiative to engage systematically important greenhouse gas emitters and other companies across the global economy that have significant opportunities to drive clean energy transition.

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

While each investment team may utilize a different approach to fulfill its stewardship responsibilities, in all cases we believe that strong corporate governance can be identified and rewarded.



GMO's Collaboration Commitment

We believe transparency in how we integrate ESG in our investment process will help develop meaningful dialogue amongst stakeholders, including asset owners, investment managers and companies. Therefore, on an annual basis starting in 2019, we will make available our transparency report in accordance with the PRI reporting framework. This report will highlight GMO's activities and progress made towards implementing the six principles of the PRI.

For those portfolios which mandate public disclosure of proxy votes cast, such as the GMO Trust mutual funds, GMO files reports annually through regulatory channels; provides links on our website to these filings; and provides these reports directly to our clients upon request. GMO reports proxy votes directly to clients whose investments are not subject to public disclosure.

We are signatories to the UN sponsored Principles for Responsible Investment ("PRI") and have added our voice as a member or signatory to other groups that share our views regarding the importance of ESG factors, including: the CDP (formerly Carbon Disclosure Project), the Japan Stewardship Code, the Singapore Stewardship Principles, and the U.K. Stewardship Code.