GMO

Responsible Investment Policy
As of May 2022

GMO’s Commitment to ESG

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 therefore our policy to incorporate ESG factors into investment decision-making and issuer engagement activities. Over our 40+ year history, our work to include ESG considerations into our portfolios has taken many forms. For example, since 1987, we have worked with our clients to incorporate social and environmental screens. In 2004, we launched the GMO Quality Strategy, a concentrated equity portfolio emphasizing companies with especially strong governance, among other factors. Since 2017, we have managed a standalone Climate Change Strategy. We are committed to continuing our work on developing and enhancing best-in-class, ESG-integrated strategies and solutions.

From a research perspective, our focus is on continuously improving our understanding of how integrating ESG factors into security analysis can improve risk-adjusted investment results. Our investment teams continue to actively pursue research in this area and several teams have incorporated standalone ESG inputs into their investment processes. We expect that our use of ESG factors and the role they play in GMO investment solutions will continue to evolve and expand along with our internal research and analysis of market-based ESG information. Included in these efforts is improving external reporting regarding how we incorporate ESG information into our 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 senior investment, risk, and business professionals. This Committee reports to GMO’s CEO, with regular updates to our Board. While the relevance of ESG factors varies across our investment teams and strategies, our ESG risk monitoring process, which includes regular discussion and review of ESG factors, applies firm-wide. By including both investment and business professionals in our oversight processes, we ensure that representatives of all stakeholder groups are included in our discussions. 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 available on ESG metrics, we differentiate our approach by limiting our focus to those considerations that can improve a strategy’s risk-adjusted return potential. We aim to identify factors that can provide forward-looking information for differentiating expected returns within an investment strategy’s targeted investment horizon.
Our equity and fixed income teams all include qualitative or quantitative assessments of corporate and/or sovereign governance, though we have not historically categorized these as standalone ESG factors. Additionally, our research suggests that several other investment characteristics we consider in our investment processes 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 ESG Research, Refinitiv, TruValue Labs, S&P Trucost, and the CDP. In 2021, we built the GMO ESG Score, a proprietary company-level ESG scoring model that fundamentally and statistically identifies what we believe are material ESG signals, using the aforementioned data sources combined with GMO analysis and alternative data sets. In addition to company-level ESG analysis, as noted above we believe that country-level ESG risks also have a potential to significantly impact returns. To that end, we make use of a proprietary country-level ESG assessment framework that we built in 2017, which incorporates data from a variety of public sources.

Today, 85% of GMO portfolios utilize ESG factors in their investment methodologies. As the available ESG information expands across asset classes, we will continue to enhance our ability to differentiate using existing and new measures.

**GMO's Stewardship Commitment**

Various investment teams at GMO engage directly with companies. In some cases, the team may meet with company management to confirm impressions gleaned from our 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 security. Ultimately, the process centers upon assessing whether management’s decisions and corporate resources are sufficient to execute in a manner that will have a positive or negative impact on the company’s value. In 2021, GMO began a centralized thematic engagement program and created a firm-wide centralized engagement tracking tool.

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 as well as prudent management of environmental and social issues can be identified and rewarded.

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

**GMO’s Collaboration Commitment**

We believe transparency in how we integrate ESG into our investment process will help develop meaningful dialogue amongst stakeholders, including asset owners, investment managers, and companies. As a signatory to the UN-sponsored Principles for Responsible Investment (“PRI”), we complete the PRI reporting process on an annual basis. Our PRI Transparency and Assessment Reports, which highlight GMO’s activities and progress made towards implementing the six principles of the PRI, are available upon request.

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

In addition to the PRI, we have added our voice as a member, supporter, or signatory to other groups that share our views regarding the importance of ESG factors, including: the CDP (formerly Carbon Disclosure Project), the CDP Science-Based Targets Campaign and CDP Non-Disclosure Campaign, the Transition Pathway Initiative, the Net Zero Asset Managers Initiative, Investors Against Slavery and Trafficking APAC, the ACT Accelerator, the SASB Alliance, the Financial Stability Board’s Taskforce on Climate-related Financial Disclosures (TCFD), the Japan Stewardship Code, the Japan Working Group of the Asian Corporate Governance Association, and the Singapore Stewardship Principles. We are in the process of reapplying to the 2020 U.K. Stewardship Code. GMO also participates 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.

We also support the CFA Institute in the development of the Global ESG Disclosure Standards for Investment Products. In 2020, GMO’s ESG Practice Lead was selected as one of the 15 global experts on the CFA’s inaugural ESG working group that led the development of this standard. He has also represented asset managers’ views on the CFA’s ESG verification subcommittee since 2021.

**GMO’s Commitment to Decarbonization and Climate-Related Risk Management**

GMO supports the Paris Climate Agreement’s ambition to keep temperature rise well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C. We have signed up to the Net Zero Asset Managers Initiative, and as part of our commitment, we are developing an
interim target for a proportion of our assets under management to be managed in line with the attainment of net zero emissions by 2050 or sooner.

We believe that climate-related risks have the potential to become an existential threat to the world over the coming years. GMO is therefore committed to identifying, monitoring, managing, and reporting climate-related risks and opportunities in our portfolios. Climate risks include both transition risks (i.e., impact resulting from the decarbonization of the world economy) as well as physical risks (i.e., damage caused by hurricanes, typhoons, droughts, wildfires, and other extreme weather events). We support the TCFD’s recommendations and are working towards developing climate scenario analysis for each of our key portfolios, which will support disclosures in line with the recommendations of the TCFD.