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GMO UK Limited Pillar 3 Disclosure
Updated 7 2020

Background and Regulatory Context

The Pillar 3 disclosure of GMO UK Limited ("GMO UK" or the "Company") is set out below (the "Pillar 3 Disclosure") as required by the Capital Requirement Directive ("CRD").

The CRD for financial services is a supervisory framework in the European Union which reflects the rules on capital measurements and standards. The framework consists of three pillars:

- Pillar 1 requires that a firm maintains sufficient capital to satisfy the FCA's capital resources requirement. For IFPRU 50k limited license firms, the minimum capital resource requirement is calculated as the higher of (a) the base requirement (€50k), (b) the sum of Credit Risk and Market Risk requirements or (c) the Fixed Overhead Requirement ("FOR").

- Pillar 2 requires that a firm must, amongst other things, assess regularly the amount of internal capital it considers adequate to cover the nature and level of the risks to which it is or might be exposed within the context of its overall risk management framework and whether a firm should hold additional capital with respect to risks not addressed under Pillar 1.

- Pillar 3 requires that a firm develops a set of disclosures which provides for market participants to assess key information on risks, risk management and capital position

At the direction of the GMO UK Board of Directors (the "Board"), the Pillar 3 Disclosure has been prepared by, and is maintained by, the GMO UK Head of Finance (the "HOF") and the GMO UK Chief Executive Officer (the "CEO") in accordance with the requirements of Chapter 11 of the Prudential sourcebook for Banks, Building Societies and Investment Firms.

The Pillar 3 Disclosure is reviewed and approved by the Board at least annually. When considering its approval, the Board relies on input from the CEO and HOF.

Business Strategy and Risk Appetite

GMO UK's primary objective is advising clients and/or arranging for their investment in products managed by GMO UK's parent company Grantham, Mayo, Van Otterloo & Co. LLC ("GMO") or its affiliates (together with GMO, collectively, the "Group"), with the goal of delivering superior investment performance. The Group offers investment strategies in many of the major asset classes (e.g., emerging and global equities; emerging and global fixed income) as well as multi asset, and absolute return strategies. GMO UK's revenue is derived from servicing clients whose assets are invested in strategies managed and offered by the Group.

GMO UK's risk appetite is determined by the Board and derived from the objective to manage the Company in an effective way in order to achieve the Company's mission. Significant capital is not required for strategic purposes and the primary objective is the retention of sufficient capital to be able to operate under potential loss-making scenarios and to meet both Pillar 1 and Pillar 2 capital requirements.

The CEO and other senior managers (collectively, "Management") and the Board periodically review the Company's risk appetite as part of their review of capital planning.

Risk Management

The Company operates a risk management framework that sets out the responsibilities and escalation procedures for the identification, monitoring and management of operational and business risks.

Management at GMO UK is responsible for ensuring the Company has an effective framework for risk management, and for ensuring that Management has in place effective processes to identify, assess, manage, and where appropriate, mitigate actual and/or potential risks to the Company and its business. The CEO has constituted a Risk Management Group (the "RMG") to assist in the performance of

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these functions. The RMG meets at least quarterly and more frequently if called by the CEO, and reports periodically to the Board with respect to those matters that are necessary or appropriate for the Board's oversight function.

The RMG has considered all the key risk categories as referred to in General Prudential Sourcebook ("GENPRU") 1.2.30(2) R and deemed the below as the key risks GMO UK is exposed to.

1. Business Risk

The Company considers the main risks to its business are: (a) poor investment performance by the Group leading to loss of client revenue; (b) changes in the demands of clients, which may lead them to allocate assets away from the Group; (c) a material fall in financial markets (including, for example, recent market volatility arising from the coronavirus public health emergency ("COVID-19")), which would impact asset based revenues; and (d) the loss of clients related to unsatisfactory service.

Poor Investment Performance

Portfolio investment performance and risk management are the responsibility of the Group's investment teams and are implemented through a number of proprietary portfolio management and risk controls. These vary by investment team but generally include: (i) the blending of complementary investment disciplines; (ii) limits on exposures; and (iii) regular monitoring of those exposures. Additionally, investment guideline monitoring is a fundamental focus of GMO's compliance program.

Changes in the Demand of Clients & Concentration Risk

The Group seeks to limit the impact of changes in the demands of clients through offering a range of strategies to the Company's clients and through diversification of its business by domicile, client and consultant channels. The Group seeks to keep abreast of industry trends and to incorporate market feedback into the Group's decision making process when evolving its product range and reviewing existing products.

Client Service Risk

To mitigate the risk that clients are not serviced effectively, client service at GMO UK is handled internally by a group of experienced and qualified client relationship managers in combination with key investment personnel. This structure assists to develop strong relationships beyond the provision of strong investment results.

2. Operational Risk

The Company faces certain operational and Information Technology risks, including but not limited to those relating to client operations and shareholder services, handling of cash flows, client reporting, logical and physical access, recoverability of systems and application outages, identifying and protecting against cyber security threats, data transmissions, backup and retention. The controls relating to these risks are discussed in GMO's Type II SOC 1 report and additional oversight is provided by the Group's Risk Management Steering committees, as appropriate. Furthermore, cyber security risk is also mitigated by ongoing training to all employees of the Group's IT and Security awareness guidelines and a culture of IT security awareness. GMO UK has implemented a business continuity plan, which includes procedures and preparations that would be invoked in an event impacting the GMO offices or its employees and business operations. The purpose of the plan is to coordinate communication and operations during the emergency and facilitate the resumption of normal business operations once the emergency has passed. The plan is reviewed and updated at least on an annual basis by GMO's Head of Business Continuity and reviewed by the firm's CEO. The business continuity plan is periodically reviewed by the Board.

The Group has taken steps to mitigate the impact of the current COVID-19 public health emergency, including implementing a temporary global work from home policy and suspending all non-essential business travel in order to protect the health and well-being of our employees.

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3. Market Risk

The Company is not exposed to market risk other than foreign exchange risk in respect of its accounts receivable and cash balances held in currencies other than GBP. Foreign exchange risk is not considered to be a material risk for the purpose of this disclosure.

4. Credit Risk

The Company is only exposed to credit risk in respect of fees receivable (from clients and intercompany transactions such as revenue sharing) and cash held at large international credit and regulated institutions. Credit risk of GMO UK counterparties is monitored on an ongoing basis. The Company divides its cash deposits between several credit-worthy banks and, where appropriate, short-term investments, in order to diversify the underlying credit risk.

Clients are requested to settle invoices within 30 days. Outstanding debtors are monitored on a regular basis by the GMO UK Finance team. Material intercompany transactions such as revenue sharing and services are governed by contractual agreements between the parties.

Capital Requirements

Pillar 1 requires that GMO UK maintains sufficient capital to satisfy the FCA's capital resources requirement. For IFPRU 50k limited license firms, the minimum capital resource requirement is calculated as the higher of (a) the base requirement (€50k), (b) the sum of Credit Risk and Market Risk requirements or (c) the Fixed Overhead Requirement ("FOR"). For GMO UK, the minimum resource requirement, calculated at 31 December 2019, was £2,147,632.

Pillar 2 requires that GMO UK must, amongst other things, assess regularly the amount of internal capital it considers adequate to cover the nature and level of the risks to which it is or might be exposed within the context of its overall risk management framework and whether a firm should hold additional capital with respect to risks not addressed under Pillar 1.

In accordance with Pillar 1 and Pillar 2 requirements, GMO UK should hold minimum capital in the amount of £2,147,632. As of the date of this document, GMO UK has adequate capital to withstand the risks to which it is exposed and to meet both Pillar 1 and Pillar 2 capital requirements.

Remuneration Code

This report has been prepared in accordance with the Remuneration Code (the "Code") adopted pursuant to SYSC 19A of the Financial Conduct Authority (the "FCA") Handbook as applicable to the Company, which is classified as a Level 3 Company.

The Company's remuneration policy is intended to ensure that the Company has a risk-focused remuneration policy which is consistent with, and promotes, effective risk management and does not expose the Company to excessive risk. The policy reflects the application of the FCA's Remuneration Code (the "Remuneration Code") and the FCA's principles of proportionality and reflects the Company's size and internal organisation and the nature, scope and complexity of its activities.

The Company considers all appropriate factors in determining remuneration, including but not limited to: the Remuneration Code and the Company's remuneration policy, the Company's revenue and operating income for the current year, the Company's revenue and operating income forecasts for the next year, Group long-term and short-term performance, the scope of the employee's responsibilities, whether the employee achieved the objectives outlined at the beginning of the review period, the employee's performance during the year and over the long-term (including how the employee demonstrated: that the employee acted in the best interest of the Company, including compliance with Company policies, and the employee's commitment to the Company, the employee's focus on the Company's directions and goals), the relevant business unit's performance during the year, client satisfaction levels and client relationship matters and any feedback from risk management and compliance functions.

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The foregoing was reviewed and approved by the Board on 7 April 2020.