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Reports & Financial Statements

For the year ended 31 December 2017

GMO UK Limited

Company Number: 04658801



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GMO UK LIMITED – Company Number 04658801

STRATEGIC REPORT

For the year ended 31 December 2017

The Directors present their strategic report of GMO UK Limited (the “Company”) and its subsidiary GMO Investment Management Company (Ireland) Limited (“GMO IMC”), (together the “Group”) for the year ended 31 December 2017.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The Company is a wholly-owned subsidiary of Grantham, Mayo, Van Otterloo & Co. LLC (“GMO LLC”), a limited liability company organised under the laws of the Commonwealth of Massachusetts, USA. The Company operates a branch in the Netherlands.

The Group’s principal activity is that of investment management services. There have not been any material changes in the Group’s principal activity in the year under review. The regulatory scope of permission of the Company was revised during the year to reflect the cessation of investment management activity that had been anticipated in previous years. The Directors are not aware, at the date of this report, of any likely major changes in the Group’s activities in the next year. The Directors are considering contingency measures to mitigate the impact on the Group of the UK’s departure from the European Union.

As shown in the Statement of Comprehensive Income, the Group’s turnover has fallen by 3% (2016: increased by 4%), administrative expenses increased by 17% (2016: decreased by 7%) and other operating income increased by 2% in the year (2016: decreased by 3%). The Group’s profit after tax decreased by 21% (2016: increased by 13%).

The consolidated balance sheet shows the Group’s net assets have increased by 22% from £16.1m to £19.6m in the current period.

Key performance indicators of the Group are:

	2017	2016
Assets serviced by the Group as at 31 December	£7.91bn	£9.50bn
Changes in Assets serviced by the Group for the year ended 31 December	-17%	-3%
New Business won by the Group for the year ended 31 December	£0.51bn	£0.30bn

DIVIDEND

A dividend of £7,400,000 (2016: £13,500,000) was paid to GMO LLC during the year. On 23rd April 2018, the Directors approved the payment of a dividend to GMO LLC of £11,000,000 reducing the equity shareholder’s funds by a corresponding amount.

EMPLOYEES

Details of the number of employees and related costs can be found in note 6 to the financial statements.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group’s primary objective is advising clients and arranging for their investment in products which deliver superior investment performance. In this context, the principal risks related to the Group’s business have been identified as: (a) poor investment performance; (b) changes in the demand of clients, which may lead them to allocate their assets away from the Group or its affiliates; (c) a material fall in financial markets, which would impact asset-based revenues; (d) the loss of clients related to unsatisfactory service and (e) loss of EU-derived revenue upon the departure of the United Kingdom from the European Union.

Additionally, the Group has identified the following other potential risks: (a) losing key personnel; (b) financial risk and fraud; (c) liquidity risk; (d) operational and information technology risk; (e) remuneration risk; (f) regulatory risk; (g) conduct risk; and (h) business continuity risk in the event of a disaster.

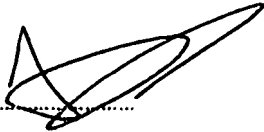
GMO UK LIMITED – Company Number 04658801

STRATEGIC REPORT (continued)

For the year ended 31 December 2017

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group closely monitors its exposure to financial risk. The Group does not enter into any hedging transactions for its own accounts. The Group's principal financial assets are bank balances and trade and other debtors. These represent the Group's exposure to credit risk in relation to financial assets. The Group has no borrowings and, therefore, its exposure to interest rate risk is limited to returns achieved on any investments of its financial assets. The Group is exposed to currency risk from the conversion of the fees received and expenses in currencies other than pound sterling, which is the functional currency of the Company and the subsidiary undertaking, and the presentational currency of the Group. These risks are within the Group's appetite.



Arron Day
Director

23rd April 2018

Registered Office:
1 London Bridge
London
SE1 9BG

GMO UK LIMITED – Company Number 04658801

DIRECTORS' REPORT

For the year ended 31 December 2017

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2017.

DIRECTORS

The Directors, who held office during the year are:

A Bark
A Day
S Harris
J B Kittredge *
J P Mittaz
U Mueller

* J B Kittredge resigned as Director effective 28 February 2018 and G Pottle was appointed Director effective 28 February 2018.

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for this Directors' Report and for the financial statements to be prepared in accordance with applicable law and regulations.

Company law requires the Directors to prepare or cause to be prepared financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, "UK GAAP" (United Kingdom Accounting Standards, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. The Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis provided this basis continues to be appropriate.

The Directors are responsible for adequate accounting records to be kept that are sufficient to: (1) show and explain the Group's transactions, (2) disclose with reasonable accuracy at any time the financial position of the Group and (3) ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DIRECTORS' INDEMNITY

The Company's Articles of Association, subject to the provisions of, and to the extent permitted by UK legislation, provide every director or other officer (excluding an auditor) of the Company an indemnity out of the assets of the Company against any liability incurred in the actual or purported execution or discharge of duties, or the exercise or purported exercise of powers or otherwise in relation to, or in connection with such duties, powers or office, but:

- this indemnity shall not apply to any liability to the extent that it is recovered from any other person; and
- the indemnity is subject to such officer taking all responsible steps to effect such recovery, so that the indemnity shall not apply to the extent that an alternative right of recovery is capable of being enforced.

Directors' and Officers' Liability insurance cover is in place in respect of the Group's Directors.

GMO UK LIMITED – Company Number 04658801

DIRECTORS' REPORT (continued)
For the year ended 31 December 2017

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

As Directors, we have taken all the necessary steps to make us aware of any relevant information and to establish that the auditors are aware of that information.

As far as the Directors are aware, there is no relevant information of which the Group's auditors are unaware.

AUDITORS

During the year, RSM UK Audit LLP was appointed as auditor to the Company. The reappointment of RSM UK Audit LLP as auditor to the Company will be considered at a subsequent Audit Committee meeting.



Arron Day
Director

23rd April 2018

Registered Office:
1 London Bridge
London
SE1 9BG

REMUNERATION CODE

Introduction

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

Remuneration policy

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 Financial Conduct Authority’s (the “FCA”) Remuneration Code (the “Remuneration Code”) and the FCA’s principles of proportionality and reflects its size and internal organisation and the nature, scope and complexity of the Company’s activities.

Link between remuneration and performance

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, GMO group-wide 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, 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.

Quantitative information on remuneration

For purposes of compliance with Capital Requirements Directive IV and pursuant to the requirements of the Remuneration Code, the Compliance Officer, in consultation with the Co-CEOs has identified those employees who are either senior management or those whose actions have a material impact on the risk profile of the Company. The aggregate breakdown of remuneration payable by the Company to those employees is as follows:

Remuneration – Senior Management	2017	2016
	£	£
Wages and salaries	5,550,753	4,492,608
Social security costs	669,551	521,123
Pension costs	96,392	110,515
	<u>6,316,696</u>	<u>5,124,246</u>
Remuneration – Employees whose actions have a material impact on the risk profile of the Company	2017	2016
	£	£
Wages and salaries	5,813,236	4,701,285
Social security costs	801,606	648,156
Pension costs	18,621	18,621
	<u>6,633,463</u>	<u>5,368,062</u>

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF GMO UK LIMITED

We have audited the financial statements of GMO UK Limited and its subsidiary for the year ended 31 December 2017 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where: the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF GMO UK LIMITED (continued)

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out in the Directors' Report, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our Auditor's Report.

This report is made solely to the Company's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's member as a body, for our audit work, for this report, or for the opinions we have formed.


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David Fenton (Audit Partner)
for and on behalf of RSM UK Audit LLP
Chartered Accountants and Statutory Auditor
25 Farringdon Street
London, EC4A 4AB

~~23~~ April 2018

24th

GMO UK LIMITED – Company Number 04658801

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017

	Notes	2017 £	2016 £
TURNOVER	2	24,552,768	25,278,402
Administrative expenses		(21,409,571)	(18,255,945)
Other operating income	2,17	10,397,714	10,157,067
OPERATING PROFIT	3	13,540,911	17,179,524
Interest receivable and similar income	4	31,306	19,391
Interest payable and similar (expense) / income	5	(2,737)	(5,142)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		13,569,480	17,193,773
Taxation	7	(2,638,486)	(3,439,144)
PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		10,930,994	13,754,629
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		10,930,994	13,754,629

Notes on pages 14 to 27 form part of these financial statements.
All activities relate to continuing operations.

CONSOLIDATED BALANCE SHEET
as at 31 December 2017

	Notes	2017 £	2016 £
FIXED ASSETS			
Tangible assets	9	346,917	450,224
CURRENT ASSETS			
Debtors	11	25,499,236	17,194,600
Cash at bank and in hand		6,397,296	9,519,653
		<u>31,896,532</u>	<u>26,714,253</u>
CREDITORS			
Amounts falling due within one year	12	(12,521,238)	(10,969,861)
NET CURRENT ASSETS		<u>19,375,294</u>	<u>15,744,392</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>19,722,211</u>	<u>16,194,616</u>
CREDITORS: Amounts falling due after more than one year	12	(21,892)	(28,028)
PROVISIONS FOR LIABILITIES	13	(111,134)	(108,397)
NET ASSETS		<u>19,589,185</u>	<u>16,058,191</u>
CAPITAL AND RESERVES			
Share capital		2,500,000	2,500,000
Profit and loss account		17,089,185	13,558,191
EQUITY SHAREHOLDER'S FUNDS		<u>19,589,185</u>	<u>16,058,191</u>

Notes on pages 14 to 27 form part of these financial statements.

Approved and authorised by the Board of Directors on 23rd April 2018 and signed on their behalf by:


Arron Day
Director

23rd April 2018

GMO UK LIMITED – Company Number 04658801

**COMPANY BALANCE SHEET
as at 31 December 2017**

	Notes	2017 £	2016 £
FIXED ASSETS			
Tangible assets	9	346,917	450,224
Investments	10	84,153	84,153
		<u>431,070</u>	<u>534,377</u>
CURRENT ASSETS			
Debtors	11	25,271,847	17,196,042
Cash at bank and in hand		6,122,450	9,263,105
		<u>31,394,297</u>	<u>26,459,147</u>
CREDITORS			
Amounts falling due within one year	12	(12,248,085)	(10,934,558)
NET CURRENT ASSETS		<u>19,146,212</u>	<u>15,524,589</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>19,577,282</u>	<u>16,058,966</u>
CREDITORS: Amounts falling due after more than one year	12	(21,892)	(28,028)
PROVISIONS FOR LIABILITIES	13	(111,134)	(108,397)
NET ASSETS		<u>19,444,256</u>	<u>15,922,541</u>
CAPITAL AND RESERVES			
Share capital		2,500,000	2,500,000
Profit and loss account		16,944,256	13,422,541
EQUITY SHAREHOLDER'S FUNDS		<u>19,444,256</u>	<u>15,922,541</u>

Notes on pages 14 to 27 form part of these financial statements:

The Company is exempt under Section 408 of Companies Act 2006 from disclosing its own Statement of Comprehensive Income. The profit of the Company for the year was £10,921,715 (2016: £13,721,705).

Approved and authorised by the Board of Directors on 23rd April 2018 and signed on their behalf by:



Arron Day
Director
23rd April 2018

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

	Share capital	Profit and loss account	Total
	£	£	£
As at 1 January 2016	2,500,000	13,303,562	15,803,562
Profit for the year	-	13,754,629	13,754,629
Total comprehensive income	2,500,000	27,058,191	29,558,191
Dividends	-	(13,500,000)	(13,500,000)
As at 31 December 2016	2,500,000	13,558,191	16,058,191
Profit for the year	-	10,930,994	10,930,994
Total comprehensive income	2,500,000	24,489,185	26,989,185
Dividends	-	(7,400,000)	(7,400,000)
As at 31 December 2017	2,500,000	17,089,185	19,589,185

Reserves

Profit and loss account

The profit and loss account reserve represents cumulative profits and losses of the Group.

GMO UK LIMITED – Company Number 04658801

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital	Profit and loss account	Total
	£	£	£
As at 1 January 2016	2,500,000	13,200,836	15,700,836
 Profit for the year	-	13,721,705	13,721,705
Total comprehensive income	<u>2,500,000</u>	<u>26,922,541</u>	<u>29,422,541</u>
 Dividends	-	(13,500,000)	(13,500,000)
 As at 31 December 2016	<u>2,500,000</u>	<u>13,422,541</u>	<u>15,922,541</u>
 Profit for the year	-	10,921,715	10,921,715
Total comprehensive income	<u>2,500,000</u>	<u>24,344,256</u>	<u>26,844,256</u>
 Dividends	-	(7,400,000)	(7,400,000)
 As at 31 December 2017	<u>2,500,000</u>	<u>16,944,256</u>	<u>19,444,256</u>

Reserves

Profit and loss account

The profit and loss account reserve represents cumulative profits and losses of the Company.

GMO UK LIMITED – Company Number 04658801

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2017

	2017	2016
	£	£
Operating activities		
Operating profit	13,540,911	17,179,524
Adjustments for:		
Depreciation of tangible assets	112,236	145,275
Loss on disposal of tangible assets	-	751
Foreign exchange loss / (gain)	207,288	(428,436)
	<hr/>	<hr/>
Operating cash flow before movement in working capital	13,860,435	16,897,114
Increase in trade and other debtors	(8,304,636)	(4,983,800)
Increase in trade and other creditors	1,989,760	1,976,411
Interest received	31,306	19,391
Income tax paid	(3,083,004)	(3,142,417)
	<hr/>	<hr/>
Net cash flows from operating activities	4,493,861	10,766,699
Investing activities		
Purchase of tangible assets	(8,485)	(33,088)
	<hr/>	<hr/>
Net cash flows used in investing activities	(8,485)	(33,088)
Financing activities		
Dividends paid	(7,400,000)	(13,500,000)
Interest paid	-	-
	<hr/>	<hr/>
Net cash flows used in financing activities	(7,400,000)	(13,500,000)
Net decrease in cash and cash equivalents	(2,914,624)	(2,766,389)
Cash and cash equivalents at the beginning of the year	9,519,653	11,861,882
Effect of exchange rates on cash and cash equivalents	(207,733)	424,160
	<hr/>	<hr/>
Cash and cash equivalents at end of the year	6,397,296	9,519,653

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

1. ACCOUNTING POLICIES

(a) General information

GMO UK Limited ('the Company') is a limited company incorporated in the United Kingdom. The address of its registered office and principal place of business is 1 London Bridge, London, SE1 9BG. The Company, and its subsidiary undertaking, together referred to as the "Group" carry out investment management services. The Company operates a branch which is based in the Netherlands.

These financial statements have been presented in Pound Sterling as this is the currency of the primary economic environment in which the Company operates.

(b) Basis of preparation

These financial statements have been prepared in accordance with FRS 102, The Financial Reporting Standard Applicable in the UK and Republic of Ireland and applicable legislation as set out in the Companies Act 2006 and Schedule 1 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. These financial statements have been prepared under the historical cost convention.

In preparing the Company financial statements, the Company has taken advantage of the disclosure exemptions, as permitted by FRS 102 paragraph 1.12. The Company has therefore complied with the applicable conditions, including providing notification of the use of exemptions to the Company's shareholder who has not objected to the use of such disclosure exemptions.

In preparing the Company financial statements, the Company has taken advantage of the following exemptions:

- (i) from preparing a Cash Flow Statement in accordance with Section 7 *Cash Flow Statements*;
- (ii) from providing the financial instrument disclosures, required under paragraphs 11.39 to 11.48A and paragraphs 12.26 to 12.29, as this information is provided in the Group consolidated financial statement; and
- (iii) from disclosing the Company's key management personnel compensation, as required by paragraph 7 of Section 33 *Related Party Disclosures*.

(c) Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertaking made up to 31 December 2017.

A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(d) Investments in subsidiary undertakings

Investments in subsidiary undertakings are recognised at cost less any provision for impairment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

(e) Turnover

Turnover represents fees receivable from discretionary and advisory segregated client accounts, net fees receivable from pooled funds managed or sponsored by GMO LLC and its affiliates, including fees received through net revenue sharing income from GMO LLC and GMO Europe. Turnover from the provision of asset management services is recognised when the services have been provided and the fees can be ascertained and charged.

The Group has entitlement to earn performance fees from a number of clients where the actual performance of the clients' assets managed by the Group and/or its affiliates exceeds certain benchmarks by an agreed level of performance in a set time period. Performance fees are recognised when the quantum of the fee can be ascertained and charged, which is normally at the end of the performance period when this occurs on or before the reporting date.

(f) Tangible fixed assets

Tangible fixed assets are initially recognised at cost, which is the purchase price plus any directly attributable costs, and subsequently measured at cost less accumulated depreciation and impairment losses.

Tangible fixed assets are depreciated over their expected useful lives on the straight line basis using the following rates per annum:

Leasehold improvements - Over the life of the lease

Office equipment - 25%

Furniture and fittings - 25%

(g) Deferred taxation

Tax expense for the period comprises current and deferred tax. Tax currently payable, relating to UK corporation tax, is calculated on the basis of the tax rates and laws that have been enacted or substantively enacted as at the reporting date.

Provision is made in full for all taxation deferred in respect of timing differences that have originated but not reversed by the reporting date. No provision is made for taxation on permanent differences. Deferred tax assets and liabilities are not discounted. Deferred tax assets are recognised only to the extent it is deemed probable that the assets will be recovered.

(h) Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the reporting date. Income and expenses expressed in foreign currencies are translated into sterling at the rates of exchange prevailing on the date of the transaction. Differences arising on the translation of such items are dealt with in the Profit and loss account.

(i) Operating leases

Lease arrangements are classified as a finance lease where the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other lease arrangements are classified as an operating lease.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

The Group as a lessee

Payments made under operating lease arrangements are charged to profit or loss on a straight-line basis over the lease term. Benefits receivable as operating lease incentives are recognised within profit or loss on a straight-line basis over the lease term.

(j) Financial Instruments

Financial assets and liabilities are recognised when the Group becomes party to the contractual provisions of the financial instrument. The Group holds basic financial instruments, which comprise cash and cash equivalents, trade and other debtors and trade and other creditors. The Group has chosen to apply the provisions of Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments*.

Financial assets – classified as basic financial instruments

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

Trade and other debtors

Trade and other debtors are recognised at the transaction price, including any transaction costs. Amounts that are receivable within one year are measured at the undiscounted amount of the cash expected to be received, net of any impairment.

At the end of each reporting period, the Group assesses whether there is objective evidence that any debtor amount may be impaired. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the debtors. The amount of any provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of any provision is recognised immediately in profit or loss.

Financial liabilities – classified as basic financial instruments

Trade and other creditors

Trade and other creditors are initially measured at the transaction price, including any transaction costs, and where appropriate are subsequently measured at amortised cost using the effective interest method. Amounts that are payable within one year are measured at the undiscounted amount of the cash expected to be paid.

(k) Provisions

Provisions are recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that the obligation will be required to be settled, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Provisions are discounted when the time value of money is material.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

(l) Employee benefits

Short term benefits

The Company provides short term benefits, including holiday pay and other similar non-monetary benefits to its employees. Short term benefits are recognised as an expense in the period in which the service is received. An accrual is recognised for short term compensated absences where entitlement has accumulated, but has not been taken, at the reporting date.

The Company operates a defined contribution pension scheme. Obligations for contributions to the defined contribution pension scheme are charged to the profit or loss in the period to which the contributions relate.

(m) Judgements and estimates

In applying the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions in determining the carrying amounts of assets and liabilities. The Directors' judgements, estimates and assumptions are based on the best and most reliable evidence available at the time when the decisions are made, and are based on historical experience and other factors that are considered to be applicable. Due to the inherent subjectivity involved in making such judgements, estimates and assumptions, the actual results and outcomes may differ.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The critical judgements that the Directors have made in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the statutory financial statements are discussed below.

Assessing indicators of impairment

In assessing whether there have been any indicators of impairment of assets, the Directors have considered both external and internal sources of information such as market conditions, counterparty credit ratings and experience of recoverability. There have been no indicators of impairments identified during the current financial year.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Recoverability of debtors

The Group establishes a provision for any debtors that are estimated not to be recoverable. When assessing recoverability the directors consider factors such as the aging of the debtor, past experience of recoverability, and the credit profile of individual or groups of customers.

Determining useful economic lives of property, plant and equipment

The Group depreciates tangible assets over their estimated useful lives. The estimation of the useful lives of assets is based on historic performance as well as expectations about future use and therefore requires estimates and assumptions to be applied by management. The actual lives of these assets can vary depending on a variety of factors, including technological innovation, product life cycles and maintenance programmes.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

2. REVENUE

	2017	2016
	£	£
Turnover by geographical analysis		
United Kingdom	9,223,590	15,599,063
Europe & Rest of World	15,329,178	9,679,339
	<u>24,552,768</u>	<u>25,278,402</u>

The geographical segmentation of turnover disclosed above is determined by the domicile of the clients.

Turnover by category		
Asset based fees	18,859,971	22,020,448
Performance based fees	5,692,797	3,257,954
	<u>24,552,768</u>	<u>25,278,402</u>

Other operating income by category		
Management re-charges	15,139,596	14,638,851
Royalty expenses	(484,866)	(497,562)
Parent company cost allocation	(4,011,816)	(3,649,122)
Investment advisory fee in respect of GMO IMC	(245,200)	(335,100)
	<u>10,397,714</u>	<u>10,157,067</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

3. OPERATING PROFIT

	2017	2016
	£	£
Operating profit is stated after charging / (crediting):		
Staff costs (see note 6)	18,324,871	15,726,970
Depreciation of tangible fixed assets	112,237	148,852
Loss on disposal of fixed assets	190	751
Foreign exchange loss / (gains)	207,733	(424,160)
Fees payable to the Company's auditor for the audit of the Group's annual accounts	42,000	40,000
Fees payable to the Company's auditor and its associates for other services:		
- The audit of the Company's subsidiary pursuant to legislation	7,102	6,118
- Advisory services	-	3,800
Operating lease charges:		
- Land and buildings	435,396	430,370

4. INTEREST RECEIVABLE & SIMILAR INCOME

	2017	2016
	£	£
Interest arising on cash at bank	31,306	19,391
	<u>31,306</u>	<u>19,391</u>

5. INTEREST PAYABLE & SIMILAR CHARGES

	2017	2016
	£	£
Interest expense	-	2,405
Finance costs arising on provisions	2,737	2,737
	<u>2,737</u>	<u>5,142</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

6. KEY MANAGEMENT PERSONNEL AND EMPLOYEE INFORMATION

Remuneration - All Group and Company employees	2017	2016
	£	£
Wages and salaries	15,954,297	13,687,322
Social security costs	2,009,313	1,660,570
Pension costs	361,261	379,078
	<u>18,324,871</u>	<u>15,726,970</u>

The average monthly number of persons (including executive Directors) employed by the Group and Company during the period was:

	2017	2016
By activity:		
Management and administration	20	20
Client service professionals	9	10
Investment professionals	8	9
	<u>37</u>	<u>39</u>

Remuneration – Directors and key management personnel

	2017	2016
	£	£
Aggregate remuneration	4,377,566	3,310,788
Pension contributions	41,587	55,976
Total remuneration of Directors and key management personnel	<u>4,419,153</u>	<u>3,366,764</u>
Total Director emoluments (including pension contributions)	4,419,153	3,366,764
Total emoluments of the highest paid Director	2,127,603	1,514,827

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

7. TAXATION ON THE PROFIT FOR THE YEAR

	2017	2016
	£	£
(a) Total tax expense recognised in the statement of comprehensive income, other comprehensive income and equity:		
Current tax:		
UK corporation tax	2,630,967	3,446,839
Foreign tax	33,356	32,983
Double taxation relief	(31,993)	(29,211)
Adjustment in respect of prior periods	7,739	(826)
	<hr/>	<hr/>
Current tax charge for the year	2,640,069	3,449,785
Deferred tax:		
Origination and reversal of timing differences	(1,583)	(8,898)
Effect of tax rate change on opening balance	-	(1,743)
	<hr/>	<hr/>
Total deferred tax	(1,583)	(10,641)
	<hr/>	<hr/>
Total tax	<u>2,638,486</u>	<u>3,439,144</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

7. TAXATION ON THE PROFIT FOR THE YEAR (continued)

(b) Reconciliation of tax charge

The tax assessed for the period is higher than the standard rate of corporation tax in the UK of 19.25% (2016: higher than the standard rate of 20%). The differences are explained below:

	2017 £	2016 £
Profit on ordinary activities before tax	13,569,480	17,193,773
Profit on ordinary activities multiplied by the standard rate of corporation tax in UK of 19.246% (2016: 20%)	2,611,582	3,438,755
<i>Effects of:</i>		
Fixed asset differences	10,294	3,008
Expenses not deductible for tax purposes	9,440	2,372
Income not taxable for tax purposes	(192)	(200)
Adjustments in respect of previous periods	7,840	(826)
Foreign tax credits	-	(29,211)
Foreign tax	(719)	28,083
Effect of profits subject to lower tax rate	-	(2,664)
Other movements	32	-
Adjust closing deferred tax to average rate	(2,531)	(3,659)
Adjust opening deferred tax to average rate	2,740	3,486
Total tax charge for the year	<u>2,638,486</u>	<u>3,439,144</u>

(c) Deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2017 £	2016 £	2017 £	2016 £	2017 £	2016 £
Accelerated capital allowances	-	-	19,149	20,732	19,149	20,732
Tax (assets) / liabilities	<u>-</u>	<u>-</u>	<u>19,149</u>	<u>20,732</u>	<u>19,149</u>	<u>20,732</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

8. DIVIDEND

	2017 £	2016 £
Dividend paid on 2,500,000 ordinary shares - £2.96 per share (2016: £5.40 per share)	7,400,000	13,500,000

9. FIXED ASSETS – TANGIBLE ASSETS

	Leasehold Improvements £	Office Equipment £	Furniture and Fittings £	Total £
COST				
As at 1 January 2017	600,219	235,435	145,516	981,170
Foreign exchange difference	1,366	862	169	2,397
Additions	-	5,537	2,948	8,485
Disposals	-	-	(3,763)	(3,763)
As at 31 December 2017	601,585	241,834	144,870	988,289
DEPRECIATION				
As at 1 January 2017	221,450	186,992	122,504	530,946
Foreign exchange difference	1,211	634	108	1,953
Charge for the year	63,567	30,924	17,745	112,236
Disposals	-	-	(3,763)	(3,763)
As at 31 December 2017	286,228	218,550	136,594	641,372
NET BOOK VALUE				
As at 31 December 2017	315,357	23,284	8,276	346,917
As at 31 December 2016	378,769	48,443	23,012	450,224

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

10. FIXED ASSET INVESTMENTS

Investments in subsidiary undertakings	Company
At 1 January and 31 December 2017	£
	84,153

Additional information regarding the subsidiary held by GMO UK Limited:

Name of Company	Country of incorporation/registration and operation	Class of share held	Percentage of share held	Nature of business
GMO Investment Management Company (Ireland) Limited	Ireland	€1 Ordinary	100%	Investment management

11. DEBTORS

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Due within one year:				
Trade debtors	-	183,463	-	183,463
Other debtors	267,041	67,659	43,458	67,659
Amounts due from parent undertaking	17,084,263	8,508,355	17,084,263	8,508,355
Amounts due from fellow subsidiary or other group undertakings	6,159,439	2,330,012	6,159,439	2,331,454
Prepayments and accrued income	1,988,493	6,105,111	1,984,687	6,105,111
Total debtors	25,499,236	17,194,600	25,271,847	17,196,042

Amounts due from the parent undertaking and other group undertakings are unsecured, interest-free and repayable as soon as is practicable after the conclusion of each fiscal quarter.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Trade creditors	76,870	206,595	70,270	195,137
Other creditors	112,454	236,020	91,728	235,997
Amounts due to parent undertaking	245,200	4,500	-	-
Taxation and social security	2,810,766	4,080,427	2,810,383	4,080,403
Corporation tax	1,557,023	2,001,541	1,556,779	1,998,091
Accruals and deferred income	7,718,925	4,440,778	7,718,925	4,424,930
Total creditors	<u>12,521,238</u>	<u>10,969,861</u>	<u>12,248,085</u>	<u>10,934,558</u>

Amounts due to the parent undertaking are unsecured, interest-free and repayable as soon as is practicable after the conclusion of each fiscal quarter.

CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Deferred tax liability	19,149	20,732	19,149	20,732
Deferred income	2,743	7,296	2,743	7,296
Total creditors	<u>21,892</u>	<u>28,028</u>	<u>21,892</u>	<u>28,028</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2017

13. PROVISIONS FOR LIABILITIES AND CHARGES

	Group 2017 £	Company 2017 £
At 1 January 2017	108,397	108,397
Charge for the year	-	-
Unwind of discount	2,737	2,737
	<u> </u>	<u> </u>
At 31 December 2017	<u>111,134</u>	<u>111,134</u>

The above obligation relates to the expected cost of £126,395 for restoring the office back to its original state at the end of the lease agreement in 2023. The cost is an estimate based on a professional quote and the timing of payment may vary if the lease is renewed.

14. PENSION COMMITMENTS

The Company operates a defined contribution pension scheme with assets held in a separately administered pension fund for each member. Contributions totalling £Nil (2016: £Nil) were payable to the fund at year end. Contributions charged to the profit or loss for the year was £361,261 (2016: £379,078).

15. CAPITAL AND OTHER COMMITMENTS

As at 31 December 2017, the Group had the following total minimum commitments under non-cancellable operating leases:

	2017 £	2016 £
Land and buildings:		
Not later than one year	500,930	409,801
Later than one year and not later than five years; and	2,209,670	2,005,823
Later than five years	351,951	872,788

16. ULTIMATE PARENT UNDERTAKING

The immediate and ultimate parent undertaking and controlling party is GMO LLC, a Limited Liability Company organised under the laws of Massachusetts USA, which is the parent of both the Company and the Group for which group accounts are drawn up.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

17. RELATED PARTY TRANSACTIONS

During the year, the Group received net revenue sharing income totalling £21,700,348 (2016: £18,276,524) from GMO LLC (the immediate and ultimate parent undertaking) and GMO Europe LLC (a fellow subsidiary undertaking), which is included as part of Turnover. The Group also received net other operating income totalling £10,397,714 (2016: £10,157,067) from GMO LLC and GMO Europe LLC as detailed below.

	2017 £ Group	2016 £ Group
Management re-charges	15,139,596	14,638,851*
Royalty expenses	(484,866)	(497,562)
Parent company cost allocation	(4,011,816)	(3,649,122)
Investment advisory fee in respect of GMO IMC	(245,200)	(335,100)
	<hr/>	<hr/>
Net other operating income	10,397,714	10,157,067
	<hr/>	<hr/>

* Effective January 1, 2016, the Company amended and restated its agreement with its parent, GMO LLC, with respect to the payment dates for the Company's "management re-charges" included in other operating income. Specifically, the Company and GMO LLC agreed that GMO LLC would be obligated to pay for the Company's expenses accrued (but not yet paid) in the period in which the Company provides its services. For the year ending 31 December 2016, this resulted in a one-time acceleration of other operating income of £2,507,374, representing such accrued but unpaid expenses.

As of the balance sheet date, a net amount of £17,084,263 (2016: £8,508,355) was due from GMO LLC in respect of revenue sharing, other operating income and other intercompany re-charges and £6,143,712 (2016: £2,313,947) was due from GMO Europe LLC in respect of revenue sharing and other operating income.

During the year, GMO IMC received fee income from GMO Investments ICAV, for serving as the investment manager. Fees receivable from the funds for the year amounted to £309,451 (2016: £400,297). At the balance sheet date, GMO IMC was due £223,582 (2016: £8,299) from GMO Unit Trust and GMO Investments ICAV.

18. POST BALANCE SHEET EVENTS

G Pottle was appointed as Director of GMO UK Limited, effective 28th February 2018 and JB Kittredge resigned as Director of GMO UK Limited, effective 28th February 2018. There were no other post balance sheet events relevant to these financial statements.