Wellington Credit Total Return Fund

WELLINGTON MANAGEMENT®

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MARKET REVIEW

- Tariff tensions and recession fears weighed on sentiment, contributing to lower government bond yields. Credit spreads widened, leading most spread sectors to underperform government bonds on an excess return basis. US economic data released were mixed. Jobless claims rose steadily, pointing to labor market softening, and nonfarm payrolls grew below expectations in January while consumer confidence tumbled according to the Conference Board.
- Most global sovereign global bond yields declined due to concerns over economic growth, stagflation risks, and uncertainty surrounding Trump's trade policy. US Treasury yields fell as softening economic data and tariff uncertainty fueled recession fears.
- US dollar investment grade corporate bonds generated total returns of 2.04%, underperforming duration-equivalent Treasuries by 0.55%, as measured by the Bloomberg US Aggregate Corporate Index. Spreads widened from 79 basis points to 87 basis points. The financials, industrials, and utilities sectors underperformed relative to duration-equivalent Treasuries.
- High Yield generated total returns of 0.67% in February as measured by the Bloomberg US High Yield Index. High yield underperformed duration equivalent Treasuries by 0.52%, while the option-adjusted spread of the index widened 19 basis points to 280 basis points.
- EM corporate debt, as measured by the JP Morgan CEMBI Broad Diversified Index (CEMBIBD), posted a total return of 1.55% in US-dollar terms. Credit spreads widened by 7 basis points to 253 basis points.

FUND PERFORMANCE AND ATTRIBUTION

- The Credit Total Return portfolio generated positive total returns during the month of February.
- The portfolio's positive total returns were driven by our duration and yield curve positioning as US Treasury yields fell, reflecting market concerns around the impact of tariffs and US policies to growth.
- Our investment grade credit allocation detracted from total returns as credit spreads widened mostly over the month, as the impact from the Trump administration's policies has led to business uncertainty and potential impact to fundamentals.
- Our high yield credit allocation modestly detracted from total returns, as credit spreads ended the month wider for the same reasons as the investment grade credit markets.
- Our emerging market credit exposure also modestly detracted from total returns.

FUND POSITIONING AND OUTLOOK

- We have shifted the portfolio to a more balanced duration position relative to our 3-6 year range, ending the month at 4.59 years. The risks that have begun to materialize that will impact US growth this year such as tariffs, trade wars, business uncertainty and consumer spending leave us leaning longer duration than we have been in the past year, concentrated in the intermediate segment of the Treasury curve.
- We continue to believe investment grade credit in the 3 to 7 year range of maturities remains attractive, relative to other parts of fixed income. We believe this segment of the market offers a compelling balance of duration, credit, risk, and total return under a variety of different outcomes.
- We have reduced credit risk in the past month. Despite our overall view that credit spreads are tight and there is marginal room for tightening left at the index level across investment grade, high yield and emerging markets, we acknowledge that there are idiosyncratic opportunities in these sectors. Our focus has been rotating the portfolio into higher quality credits that offer ample liquidity and have capacity to tighten further, and increasing our US Treasury allocation as we weigh the potential for deteriorating fundamentals in credit.
- We are maintaining above average levels of liquidity as we await bouts of volatility to take advantage of better prices in fixed income markets. We have more duration in the portfolio due to concerns around a negative growth shock in the US due to President Trump's policies and their impact to business and consumer confidence.

PAST PERFORMANCE DOES NOT PREDICT FUTURE RETURNS. AN INVESTMENT CAN LOSE VALUE.

Fund performance is based on USD S Acc share class and are net of fees and expenses. Other share class performance may differ.| Index used in the calculation of attribution data: Non-benchmark Relative Strategy.| Fund performance is net of actual (but not necessarily maximum) withholding and capital gains tax but are not otherwise adjusted for the effects of taxation and assume reinvestment of dividends and capital gains.| If an investor's own currency is different from the currency in which the fund is denominated, the investment return may increase or decrease as a result of currency fluctuations.| The views expressed are in the context of the investment objective of the Fund only and should not be considered a recommendation or advice.

RISKS

BELOW INVESTMENT GRADE: Lower rated or unrated securities may have a significantly greater risk of default than investment grade securities, can be more volatile, less liquid, and involve higher transaction costs. **CAPITAL:** Investment markets are subject to economic, regulatory, market sentiment and political risks. All investors should consider the risks that may impact their capital, before investing. The value of your investment may become worth more or less than at the time of the original investment. The Fund may experience a high volatility from time to time. **CONCENTRATION:** Concentration of investments within securities, sectors or industries, or geographical regions may impact performance. **CREDIT:** The value of a bond may decline, or the issuer/guarantor may fail to meet payment obligations. Typically lower-rated bonds carry a greater degree of credit risk than higher-rated bonds. **CURRENCY:** The value of the Fund may be affected by changes in currency exchange rates. Unhedged currency risk may subject the Fund to significant volatility. **EMERGING MARKETS:** Emerging markets may be subject to custodial and political risks, and volatility. Investment in foreign currency entails exchange risks. **HEDGING:** Any hedging strategy using derivatives may not achieve a perfect hedge. **INTEREST RATES:** The value of bonds tends to decline as interest rates rise. The change in value is greater for longer term than shorter term bonds. **LEVERAGE:** The use of leverage can provide more market exposure than the money paid or deposited when the transaction is entered into. Losses may therefore exceed the original amount invested. **MANAGER:** Investment performance depends on the investment management team and their investment strategies. If the strategies do not perform as expected, if opportunities to implement them do not arise, or if the team does not implement its investment strategies successfully; then a fund may underperform or experience losses. **SUSTAINABILITY:** A Sustainability Risk can be defined as an environmental, social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of an investment.

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