

For professional and accredited investor use only. Not for further distribution.

## MARKET REVIEW

Global equities remained steady for most of the month but sold off in the final days, as investors awaited key US elections, navigated heightened geopolitical tensions in the Middle East, and assessed ongoing policy easing measures. Favorable US economic data, including subdued inflation, drove expectations that the US Federal Reserve (Fed) may slow its pace of rate cuts. This sentiment was further emphasized by the notable rise in 10-year Treasury yields, which reached 4.28% in October, up from a 15-month low of 3.62% in late September, underscoring the market's expectations for the pace of Fed rate cuts, positive economic indicators, and improved prospects for a soft landing. In Europe, third-quarter GDP exceeded expectations, and the European Central Bank lowered interest rates by 25 basis points, to 3.25%, amid waning inflation and a weak economic outlook. Emerging markets faced pressure from a stronger US dollar, while the conflict in the Middle East reached its one-year mark, with military strikes escalating between Israel and Iran.

## FUND PERFORMANCE AND ATTRIBUTION

- On an estimated net basis, Climate Strategy was down in October and underperformed relative to the benchmark. YTD, Climate Strategy is up in absolute terms but has underperformed relative to the benchmark.
- On an absolute basis, one climate theme contributed to this month's return while four detracted. Contribution by theme sorted from highest to lowest:
  - Low Carbon Transport
  - Energy Efficiency
  - Climate Resilient Infrastructure
  - Water and Resource Management
  - Low Carbon Electricity
- Among our top absolute contributors:
  - Acuity Brands – part of our energy efficiency theme. They are a leading provider of energy efficient technology with a focus on innovative lighting solutions. Continued momentum from September's positive quarterly earnings along with positive investor sentiment gleaned from news of the acquisition of QSC, a global engineering solutions company, led to positive price movement this month.
  - Vertiv – part of our energy efficiency theme. They are an electrical equipment provider specializing in providing immersive cooling systems for data center and other heavy compute environments. Their technologies are used by customers to help drive energy efficiency and resilience given the critical workloads running on increasingly more intense compute requirements. Positive quarterly earnings including 19% year-over-year revenue growth and raised FY guidance resulted in positive stock movement in October.
  - Daimler Truck – part of our low carbon transport theme. They are a leading producer of low-emission trucking fleets that are critical for companies to lower their carbon footprint and comply with increasing emissions standards. A slight beat in Q3 sales, particularly given depressed trading at an industry level in autos, encouraged stock performance this month.
- Among our top absolute detractors:
  - TopBuild – part of our energy efficiency theme. They are a leading supplier and installer of insulation and building materials, which helps reduce carbon footprint, improve energy efficiency, and conserve natural resources. Building-product stocks were broadly challenged in October, in part due to a strong jobs report which brought long-term rates, including mortgage rates, up. Additionally, there may have been some investor trepidation going into earnings given industry headwinds, though Q3 earnings have subsequently come in above expectations.
  - Enphase Energy – part of our low carbon electricity theme. They are a leading solar panel producer specializing in microinverter technology. This technology converts direct current (DC) from solar panels into alternating current (AC) for home use. Additionally, the company provides energy management software and battery storage solutions, empowering customers to generate, store, and manage clean and affordable energy. Weaker than expected European demand led to lowered revenue guidance, leading to challenged stock performance this month.
  - Xylem – part of our water and resource management theme. They design, manufacture, and service solutions for water and wastewater collection, distribution, and treatment. Decelerated organic growth in Q3 and softer than expected organic growth guidance in Q4 led to challenged stock performance in October, however several sell-side analysts contend that the stock response was potentially overreactive given the potential upside from their continued efforts in business simplification and margin expansion.

## FUND POSITIONING AND OUTLOOK

We maintain strong conviction in several insights and have been adding to them or adjusting our positioning based on our fundamental and valuation analysis. For example, we added an advanced HVAC and energy solutions provider for data centers and AI infrastructure expansion that we believe offers a more attractive absolute and relative valuation with higher return on equity versus a similar company that we eliminated. We believe select industrial companies that can be thought of as the laborers, executing the electrical and mechanical work for data centers, will continue to experience accelerated growth due to the adoption of AI and cloud services. Additionally, another insight that has been consistent within the strategy is industrial software. We believe these companies often feature strong margins, growing demand, and AI-enabled solutions that help their customers improve productivity, quality, and sustainability by optimizing resources, reducing waste, and enhancing resilience. To that end, and to increase business model diversity within the portfolio, we added a global testing, inspection, and certification (TIC) company

### 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: MSCI All Country World. | 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.

that provides software and advisory services including carbon footprint verification, greenhouse gas validation, and sustainability advisory.

In terms of eliminations, we exited a position in a manufacturer of residential and commercial water heaters and boilers, known for its innovative and energy-efficient products this month. While we maintain our thesis that US housing has been structurally undersupplied and provides significant opportunities in the medium and long-term, short-term fundamentals may prove more volatile as home affordability remains a challenge. Additionally, this eliminated company has material exposure to China, which may face significant tariffs given the current political landscape.

As been consistent for over a decade, we believe our diverse, continually evolving and growing universe of climate solutions-oriented companies, can deliver solid performance across market cycles while making a positive impact on the environment.

## RISKS

**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. **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. **DERIVATIVES (C) (MKT):** Derivatives may provide more market exposure than the money paid or deposited when the transaction is entered into (sometimes referred to as Leverage). Market movements can therefore result in a loss exceeding the original amount invested. Derivatives may be difficult to value. Derivatives may also be used for efficient risk and portfolio management, but there may be some mismatch in exposure when derivatives are used as hedges. **EMERGING MARKETS:** Emerging markets may be subject to custodial and political risks, and volatility. Investment in foreign currency entails exchange risks. **EQUITIES:** Investments may be volatile and may fluctuate according to market conditions, the performance of individual companies and that of the broader equity market. **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. **SMALL AND MID-CAP COMPANY:** Small and mid-cap companies' valuations may be more volatile than those of large cap companies. They may also be less liquid. **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.

**DISCLOSURE**

This material has been prepared exclusively for use with professional, accredited or institutional investors, wholesale clients and non-retail investors for general information purposes only and does not take into account the investment objectives, financial situation or needs of any particular person. By accepting this material, you acknowledge and agree that this material is provided for your use only and that you will not distribute or otherwise make this material available to any person.

This material and its contents may not be reproduced or distributed, in whole or in part, without the express written consent of Wellington Management. This document is intended for marketing purposes only. It is not an offer to anyone, or a solicitation by anyone, to subscribe for units or shares of any Wellington Management Fund ("Fund"). Nothing in this document should be interpreted as advice, nor is it a recommendation to buy or sell securities. Investment in the Fund may not be suitable for all investors. Any views expressed in this document are those of the author at the time of writing and are subject to change without notice. Fund shares/units are made available only in jurisdictions where such offer or solicitation is lawful. The Fund only accepts professional clients or investment through financial intermediaries. Please refer to the Fund offering documents for further risk factors, pre-investment disclosures, the latest annual report (and semi-annual report), and for UCITS Funds, the latest Key Investor Information Document (KIID) or Key Information Document (KID) before investing. For each country where UCITS Funds are registered for sale, the prospectus and summary of investor rights in English, and the KIID / KID in English and an official language, are available at [www.wellington.com/KIIDs](http://www.wellington.com/KIIDs). For share/unit classes registered in Switzerland, Fund offering documents in English can be obtained from the local Representative and Paying Agent – BNP Paribas Securities Services, Selnaustrasse 16, 8002 Zurich, Switzerland. Wellington Management Funds (Luxembourg) and Wellington Management Funds (Luxembourg) III SICAV are authorised and regulated by the Commission de Surveillance du Secteur Financier and Wellington Management Funds (Ireland) plc is authorized and regulated by the Central Bank of Ireland. The Fund may decide to terminate marketing arrangements for shares/units in an EU Member State by giving 30 working days' notice.

■ In Canada, this material is provided by Wellington Management Canada ULC, a British Columbia unlimited liability company registered in the provinces of Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario, Prince Edward Island, Quebec, and Saskatchewan in the categories of Portfolio Manager and Exempt Market Dealer. ■ In the UK, issued by Wellington Management International Limited (WMIL), authorised and regulated by the Financial Conduct Authority (Reference number: 208573). ■ In Europe (ex. UK and Switzerland), issued by marketing entity Wellington Management Europe GmbH which is authorised and regulated by the German Federal Financial Supervisory Authority (BaFin). Shares of the Fund may not be distributed or marketed in any way to German retail or semi-professional investors if the Fund is not admitted for distribution to these investor categories by BaFin. In Spain CNMV registration number 1236 for Wellington Management Funds (Luxembourg) and CNMV registration number 1182 for Wellington Management Funds (Ireland) plc. ■ In Dubai, this material is provided by Wellington Management (DIFC) Limited (WM DIFC), a firm registered in the DIFC with number 7181 and regulated by the Dubai Financial Services Authority ("DFSA"). To the extent this document relates to a financial product, such financial product is not subject to any form of regulation or approval by the DFSA. The DFSA has no responsibility for reviewing or verifying any prospectus or other documents in connection with any financial product to which this document may relate. The DFSA has not approved this document or any other associated documents nor taken any steps to verify the information set out in this document, and has no responsibility for it. Any financial product to which this document relates may be illiquid and/or subject to restrictions on its resale. Prospective purchasers should conduct their own due diligence on any such financial product. If you do not understand the contents of this document, you should consult an authorised financial adviser. This document is provided on the basis that you are a Professional Client and that you will not copy, distribute or otherwise make this material available to any person. ■ In Hong Kong, Wellington Management Hong Kong Limited (WM Hong Kong), a corporation licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), and Type 9 (asset management) regulated activities. Wellington Private Fund Management (Shanghai) Limited (WPFM), which is an unregulated entity incorporated in China, is a wholly-owned subsidiary of WM Hong Kong. Wellington Global Private Fund Management (Shanghai) Limited (WGPFM) is a wholly-owned entity and subsidiary of WPFM and is registered as a private fund manager with Asset Management Association of China to conduct qualified domestic limited partnership and management activities. ■ In mainland China, this material is provided for your use by WPFM, WGPFM, or WMHK (as the case may be). ■ In Singapore, Wellington Management Singapore Pte Ltd (WM Singapore) (Registration Number 201415544E), regulated by the Monetary Authority of Singapore. WM Singapore is regulated by the Monetary Authority of Singapore under a Capital Markets Services Licence to conduct fund management activities and deal in capital markets products, and is an exempt financial adviser. ■ In Australia, Wellington Management Australia Pty Ltd (WM Australia) (ABN19 167 091 090) has authorized the issue of this material for use solely by wholesale clients (as defined in the Corporations Act 2001). ■ In Japan, Wellington Management Japan Pte Ltd (WM Japan) (Registration Number 199504987R) is registered as a Financial Instruments Firm with registered number: Director General of Kanto Local Finance Bureau (Kin-Sho) Number 428 a member of the Japan Investment Advisers Association, the Investment Trusts Association, Japan (ITA) and the Type II Financial Instruments Firms Association (T2FIFA). WM Hong Kong and WM Japan are also registered as investment advisers with the SEC; however, they will comply with the substantive provisions of the US Investment Advisers Act only with respect to their US clients. Wellington Management Funds ("the Funds") may not be offered to citizens and residents of the United States or within the United States, its territories, or possessions (other than to distributors and financial intermediaries). None of the Funds have been or will be registered under the US Securities Act of 1933, as amended (the "Securities Act"), and none of such shares may be offered, sold, transferred or delivered, directly or indirectly, in the United States or to United States residents or citizens (other than to distributors and financial intermediaries). None of the Funds have been or will be registered as an investment company under the US Investment Company Act of 1940, as amended (the "1940 Act"). Interests in the Funds may be offered through an affiliate of Wellington Management Company LLP; Wellington Funds Distributors, Inc., an SEC-Registered Broker/Dealer, Member FINRA and SIPC. Office of Supervisory Jurisdiction: 280 Congress Street, Boston, MA 02210. Tel: 617-951-5000 Fax: 617-951-5250. Not FDIC Insured – No Bank Guarantee – May Lose Value.

©2024 Wellington Management. All rights reserved. As of 12 April 2024. WELLINGTON MANAGEMENT FUNDS® is a registered service mark of Wellington Group Holdings LLP