Wellington Climate Strategy Fund

WELLINGTON MANAGEMENT®

MARKET REVIEW

Global equities rose in November. Donald Trump's presidential reelection and the Republican Party's sweep of both chambers of Congress led the US to significantly outperform other regions amid expectations for deregulation, additional tax cuts, and a more accommodative US business environment. The breadth of change anticipated from the new US administration reverberated across the globe with far-reaching implications for foreign policy, trade dynamics, inflation, and economic growth. Elon Musk's appointment to the newly formed US Department of Government Efficiency extended a strong risk appetite in markets. Prospects for a soft landing appeared to remain intact, and central banks in the US, UK, New Zealand, Mexico, and Sweden continued to lower interest rates. Inflation neared central bank targets in many regions. However, in November, a key measure of US inflation rose for the first time since March, and UK inflation surged to its highest level in six months, highlighting the ongoing sensitivity of prices to economic changes. Eurozone business activity sank to a 10-month low, while Germany's coalition government collapsed, and the country's manufacturing sector remained mired in a deep downturn. In France, Prime Minister Michel Barnier's Cabinet confronted a possible vote of no confidence. A stronger US dollar pressured emerging markets, and Chinese equities declined amid limited government aid and low consumer demand. Geopolitical risks remained heightened, while the US and France brokered a ceasefire agreement between Israel and Hezbollah.

FUND PERFORMANCE AND ATTRIBUTION

- In November, Climate Strategy generated strong performance on an absolute basis and relative to the strategy's reference index.
- Over the month, four out of five climate themes contributed to returns - Energy Efficiency, Climate Resilient Infrastructure, Water and Resource Management, and Low Carbon Electricity. Meanwhile, our Low Carbon Transport theme detracted slightly.
- The top absolute contributor to monthly performance was AZEK, a holding within our Climate Resilient Infrastructure theme. AZEK manufactures premium sustainable building materials from recycled plastic, such as composite decking. The stock rallied on the back of their quarterly earnings beat. The growth of their alternative decking category, as well as their other non-decking markets, continues to look strong.
- The top absolute detractor to monthly performance was HA Sustainable Infrastructure Capital (HASI), a holding within our Energy Efficiency theme. HASI is an investment firm focused on energy efficiency, renewable energy, and sustainable infrastructure projects. The stock was weak leading up to and after the US election, in line with other solar players. This weakness was likely driven by Trump's negative rhetoric regarding clean energy, especially around the Inflation Reduction Act (IRA), despite HASI's lack of IRA exposure. There was also some stock weakness following the company's headline EPS miss. HASI continues to execute on its strategic evolution following their partnership with KKR and the evolution of their joint venture model, which could support multiple expansion and earnings growth through lower capital intensity.

FUND POSITIONING AND OUTLOOK

While Trump returning to the US Presidency creates potential headwinds to select areas of climate investing, it is critical to reiterate that climate investing has become far more than renewable energy and electric vehicles. Essentially every sector, industry, and company around the world is marching toward being more efficient and resilient which, in addition to contributing to a more sustainable world, is good business in that efficiency and resiliency allow businesses to be more profitable and durable.

As the election approached and we saw Trump rising in the polls, we reduced our exposure to renewable energy and select engineering and construction companies that benefit from Biden administration policies and acts including the Inflation Reduction Act (IRA) that could come under pressure. However, we believe a wholesale IRA repeal is unlikely provided "red states", states with Republican majorities, are receiving the majority of incentives and benefits.

In addition, we anticipate Trump's proposal to expand and increase tariffs could result in increased inflationary pressure and volatility, especially when coupled with US demographic challenges which could exacerbate labor shortages. Taken together, this inflationary pressure could hinder the pace and degree of Federal Reserve interest rate cuts. This could increase mortgage rates and impact housing affordability and housing stocks, but also presents potentially attractive valuations for long-term investors to invest in companies that can convert rising prices into additional earnings.

We continue to evaluate risks and opportunities related to a change in administration but believe Trump's proposed policies, including pro-US production and lower taxes, create opportunities and serve as tailwinds for many companies and ideas in our opportunity set including:
• AI and the energy transition – AI is pulling the energy transition forward given the enormous amount of power it requires, creating compelling fundamental opportunities in companies that provide innovative and efficient data center construction and cooling solutions.
• US housing – we believe we are experiencing a secular bull market for housing given the structural undersupply/overdemand of homes. This coupled with increasing energy, water, and resource efficiency standards and savings is benefitting select companies focused on building newer, more efficient homes and buildings.
• Global industrialization – we believe an industrial renaissance is underway, increasing demand for select industrial software companies that use their data-driven, analytical, and AI-powered solutions to increase sustainability via energy and resource efficiency solutions as well as

companies that are critical to rebuilding an aging infrastructure that must be redesigned for increasing energy demand and to be more resilient.
• Climate repricing – we believe select financial services companies that are on the forefront of incorporating the risks of climate into the financial system are underappreciated for their critical role in pricing climate within financial markets and quality of compounding earnings.

In November, we added one new position to the portfolio, Smurfit WestRock, a global leader in sustainable paper and packaging solutions. We are favorable on Smurfit WestRock's sustainable solutions, which use paper instead of plastic, and potential synergies from the merger (of Smurfit Kappa and WestRock in July) which we believe will support an increase in earnings power going forward.

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