Wellington Emerging Local Debt Fund

WELLINGTON MANAGEMENT®

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MARKET REVIEW

Emerging markets external debt returned 1.87%, as measured by the JP Morgan Emerging Markets Bond Index Global Diversified (EMBIGD) in US-dollar terms. Spreads widened 9 basis points to 400 bps, detracting from performance, while a decrease in US treasury rates had a positive impact. Latin America was the best-performing region in the index, while the Middle East lagged. Investment grade issuers underperformed non-investment grade issuers. From a country perspective, Ukraine, Ethiopia, and Ecuador were the best performers in the index during the period, while Lebanon, Sri Lanka and Gabon lagged.

Emerging local markets debt returned 2.27% in US-dollar terms, as measured by the JP Morgan Government Bond Index - Emerging Markets Global Diversified (GBI-EMGD). Emerging Markets (EM) currencies appreciated, driving positive performance, while EM rates also had a positive impact. Middle East/Africa was the best-performing region in the index, while Latin America lagged. From a country perspective, Peru, South Africa, and Hungary were the best performers in the index, while Uruguay, Mexico, and Brazil lagged. Among the benchmark countries, Colombia (-50bps to 10.75%), Czech Republic (-25bps to 4.50%), Hungary (-25bps to 6.75%), Romania (-25bps to 6.75%), China (-10bps to 3.35%), decreased their benchmark interest rates, while increased their benchmark interest rates.

EM corporate debt, as measured by the JP Morgan CEMBI Broad Diversified Index (CEMBIBD), posted a total return of 1.50% in US-dollar terms. Credit spreads widened by 12 basis points to 279 bps. Investment grade credits slightly outperformed non-investment grade credits. Real Estate and TMT were the best performers, while financial and consumer lagged.

In July, the U.S. Federal Reserve left interest rates unchanged, while Hungary, Romania and Colombia each cut their policy rates. Russian troops advanced on Pokrovsk, a key supply route for Ukraine's troops, as the Russia-Ukraine war continues. The conflict in the Middle East escalated, as a Hezbollah attack killed 12 Israeli children and other attacks in the region killed the political and military leaders of Hamas. Strikes against Hamas leaders took place in Beirut and Tehran, which have increased tensions in the broader region. In the U.S., former President Donald Trump was the target of an unsuccessful assassination attempt, while President Joe Biden endorsed Kamala Harris for the Democratic nominee, following his decision not to seek re-election. Venezuela held national elections, that have led to uncertainty and protests as both incumbent President Maduro and opposition candidate Gonzalez claimed victory in the election.

FUND PERFORMANCE AND ATTRIBUTION

- The portfolio performed in line with its benchmark during the month.
- Duration strategies contributed to performance over the period. Specifically, our overweight positioning in local duration in Hungary, Colombia, and the Czech Republic contributed positively to performance. Conversely, the portfolio's underweight positioning in local duration in China and Malaysia detracted from results.
- The portfolio's currency positioning detracted from results. There were a number of currencies that detracted slightly. In contrast, our overweight to the Chinese renminbi contributed to relative performance.
- Security selection detracted from results. Security selection within Brazil detracted due to an overweight to short- and mid-dated local debt. Security selection within Colombia had a negative impact on performance due to our overweight exposure to mid- and long-dated local debt . Our underweight to the front-end of the curve and an overweight to long-dated debt within Hungary also detracted from results. Security selection within Turkey contributed due to an overweight to mid- and long- dated local debt.

FUND POSITIONING AND OUTLOOK

The Federal Reserve is steering towards their objective of a "soft landing" with the market pricing a shallower than expected easing cycle starting in September. Hard currency fixed income stands to benefit from developed market interest rate cuts when they eventually occur, while elevated local yields and a cyclical tailwind for EM local rates provide a buffer for EM local debt.

As we move further into the 2024 election cycle, the focus remains on political stability and governance. The first quarter brought the first leadership change in over a decade to Indonesia, while the second quarter saw better than expected performance from the Regeneration Movement (Morena) in Mexico, and underperformance relative to expectation for the Bharatiya Janata Party (BJP) and African National Congress (ANC) in India and South Africa's elections, respectively. Looking at the balance of the year, the focus will be on the US election in November. We continue to monitor other key global factors such as the conflicts between Israel and Hamas, and between Russia and Ukraine.

In many EM countries fundamentals remain largely constructive, supported by manageable balance of payments, improving fiscal deficits, supportive commodity prices, and waning inflation. As defaults have risen within the cohort of countries with weaker policies and a lack of access to capital, we continue to find select opportunities. Many EM corporates continue to exhibit considerable financial strength amidst rising cost pressures and elevated refinancing costs. While improvements to corporate fundamentals may have reached a plateau, attractive opportunities in the sector continue to be met with demand from both dedicated emerging markets investors as well as crossover buyers.

In July, the investment grade and high yield cohorts of both EM sovereign and EM corporate spreads widened. Investment grade spreads

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

Fund performance is based on USD GR Acc share class and are net of fees and expenses. Other share class performance may differ.| Index used in the calculation of attribution data: JPM GBI- Emg Mkts Global Diversified.| 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.

widened more than high yield spreads across both sovereign and corporate sectors. Dispersion within the opportunity set still provides an opportunity to leverage our deep country and corporate analysis as well as to utilize relative value in security selection.

EM local market yields remain high by historical standards in many countries, and rate cutting cycles are still in their early stages. EM central banks, including those of Mexico, Colombia, Costa Rica, the Czech Republic, Chile, Hungary, Brazil, Poland, Peru, the Dominican Republic, and Uruguay, have initiated rate cutting cycles. Several other EM central banks have reached pause points as they await further clarity on the trajectory of Fed rate cuts. Turning to EM currencies, several factors dominate, including USD directionality and rate volatility. In the long term, we anticipate that proactive action by EM central banks and wide US fiscal and external deficits will eventually pose a challenge to USD strength.

In July, hard currency and local currency funds saw outflows over the month. Both EM sovereign and corporate new issue supply increased on a year-over-year basis and was slightly higher than the 5-year average issuance for July.

The strategy has a positive outlook on local bonds and a more conservative lean on currencies, reflecting the view that local rate markets have a favorable tailwind from the economic cycle and still-compelling valuations. EM local rates allocations are focused where central banks preemptively and aggressively raised rates to address inflation and are now in a position to ease significantly as inflation recedes. In Latin America we see opportunities in Colombia, Mexico, and Peru while in Europe we favor Czech and Hungary. We are also moderately constructive in South Africa as bond yields remain elevated relative to history, inflation remains under control, and markets seem to be underpricing the potential for a cutting cycle over the balance of 2024 and 2025. We have, however, trimmed our position reflecting uncertainty around future governance stability. In many countries in Asia, however, policy rates remain low and local rate market valuations are less attractive. We remain cautious specifically in China, Thailand, and Malaysia. Over the longer term, proactive efforts by most EM central banks and supportive commodity prices leave us constructive on select EM currencies. Our emphasis remains on exchange rates where fundamental, technical, and valuation factors are consistently supportive. There is meaningful dispersion among currencies which provides opportunities for alpha in proper currency selection without taking undue beta risk. We favor fundamentally attractive, higher yielding currencies in Central Europe and Latin America that have room to appreciate including the Colombian peso and Polish zloty. We also find currency yields in Turkey to be compelling now that the central bank is firmly focused on controlling inflation with orthodox policy. In contrast, we are limiting exposure to the Mexican peso and Chilean peso. We maintain exposure to select Asian currencies including the Indian rupee, though we remain less constructive on the Malaysian ringgit and Indonesian rupiah.

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. **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. **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. **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.

DISCLOSURE