Wellington Global Credit ESG Fund

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MARKET REVIEW

Global investment grade corporate bonds produced negative total returns in October, however outperformed their duration-equivalent government bonds. Global credit spreads tightened while government bond yields rose. US dollar, Euro and Sterling-denominated corporate bonds all generated positive excess returns relative to duration-equivalent bonds.

We modestly increased the portfolio's overall credit exposure in October and the portfolio's credit exposure remains above its benchmark on a duration-times spread (DTS) basis. We continue to emphasize issuer-specific concentration of the portfolio by increasing exposure to high-conviction, idiosyncratic opportunities, focusing on higher-quality issuers or those issuers that have a positive credit catalyst which has yet to be reflected in current market pricing.

During the month, we added credit exposure primarily in the US dollar-denominated corporate bond market, adding to select high quality banks following strong third quarter earnings. Within the euro-denominated corporate bond market, we continue to favor financials, maintaining our overweight to banks and real estate. Within sterling-denominated corporate bond markets, we maintain exposure to select names within the UK water sector, having used the underperformance of the sector to opportunistically add exposure to what we believe are stronger credits. At the portfolio level, we remain overweight to issuers in the banking, communications and real estate sectors.

We continue to prefer euro-denominated corporate bonds relative to US dollar- and Sterling-denominated credit due to Europe's greater dispersion among individual issuers. We remain mindful that industry and issuer dispersion remains more limited in US dollar-denominated corporate bonds, and spreads remain tight relative to history.

Major global central banks have begun to cut short-term interest rates as they shift priorities towards avoiding a spike in unemployment rates. We continue to observe divergence in the growth and inflation outlook across economies, and we believe there is the potential for cyclical divergence to continue. We believe that global central bank responses to inflation, growth and labor market data will pave the way for a divergence in monetary policy across developed markets. We expect global economic growth to remain positive and we expect inflation to remain stubborn. However, central bank actions suggest that they are becoming increasingly acceptive of the upside risk to inflation. This could lead to greater volatility in government bond yields, which in turn could exaggerate the peaks and troughs in the economic cycle. This positions major global central banks as a potential source of market volatility going forward, rather than the primary drivers of the decline in market volatility that we experienced over the last 15 years.

FUND PERFORMANCE AND ATTRIBUTION

- The portfolio outperformed its benchmark during the month.
- Active duration and yield curve positioning had a limited impact on active returns during the month.
- The portfolio's credit spread duration position detracted from active returns over the month. This was led by an overweight to credit spread duration relative to the benchmark.
- Sector allocation contributed to active returns over the month. The portfolio's allocation effect from below investment-grade financials contributed to active returns, specifically our exposure to securities within banking. The allocation effect from below investment-grade industrials also contributed to active returns, specifically our exposure to securities within communications. Additionally, an allocation to government-related exposures contributed to active returns, specifically our exposure to local agency holdings. This was partially offset by an allocation to securitized debt which detracted from active returns, specifically our exposure to mortgage backed pass-through holdings.
- Among investment grade corporate bonds, the aggregate impact of allocation effects was limited across industrials, financials, and utilities.
- In aggregate, security selection had a positive impact on relative performance during the month. From an investment-grade perspective, security selection within financials, industrials, and utilities had a positive impact.

FUND POSITIONING AND OUTLOOK

At the end of October, the portfolio's credit exposure, as measured by the portfolio's duration times spread (DTS), was higher when compared to that of its benchmark, and the portfolio was modestly overweight interest rate duration versus its benchmark.

Over the period, we increased the portfolio's benchmark-relative active credit spread duration exposure to government, utilities, and financials debt. In terms of credit quality, the portfolio increased its active exposure to A and AA-rated debt. The portfolio's active exposure to euro, sterling, and US dollar-denominated debt increased. In terms of active industry exposures, we increased the portfolio's benchmark-relative credit spread duration exposure to banking.

At the end of October, the portfolio was primarily overweight financials and utilities and underweight industrials and government debt on a benchmark-relative credit spread duration basis. The portfolio was also primarily overweight BBB and <BBB-rated debt and underweight to AA-rated debt. The portfolio was primarily overweight euro and sterling-denominated issuers while underweight US dollar-denominated issuers. In terms of active industry exposure, the portfolio was primarily overweight banking, electric utility, and REITS, and underweight energy and

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consumer non-cyclical. In terms of active issuer exposures, the portfolio's largest benchmark-relative credit spread duration overweight exposures were PG&E and HCA.

Despite an expectation of continued interest rate volatility, we remain broadly constructive on investment grade corporate issuer fundamentals and believe that the credit cycle has been extended as a result of strong private corporate and consumer balance sheets. Furthermore, attractive all-in-yields, the presence of yield-motivated buyers in the market, and the expected flows from money-market funds all act as a strong technical support for the asset class. We therefore expect spreads to remain rangebound in the near-term, however acknowledge the potential for further bouts of credit spread volatility as the US election's ramifications for fiscal and trade policy become clearer, the mixed economic backdrop persists and with the presence of heightened geopolitical tensions. We will continue actively managing the portfolio's credit exposure to protect portfolio capital, while exploiting idiosyncratic security selection opportunities among issuers in which we have the highest conviction.

UNITED STATES: STUBBORN CORE INFLATION QUESTIONS EXTENT OF REQUIRED RATE CUTS
Although short-term interest rates have peaked, growth and labor market data are mixed, and core inflation is showing tentative signs of stabilizing above the Fed's target. We do not see evidence of a more protracted downturn, and the lagged feedthrough from recent looser policy expectations into financial conditions could prompt an upwards cyclical inflection. The outcome of the US election is critical to the inflation path for next year and could be the catalyst for further corporate credit spread widening in the near-term. This may provide an opportunity to exploit high conviction opportunities at more attractive valuations. We remain focused on sectors such as banking and communications.

EUROPE: US ELECTION POSES DOWNSIDE RISK TO GROWTH
Euro area growth showed signs of resilience in the third quarter, with GDP tracking above the ECB's expectations and tentative evidence that the German cycle may be finding a floor. However, the outcome of the US election has the potential to significantly shock growth through higher tariffs, which would likely cement the ECB's bias to deliver further cuts.
The ECB remains sensitive to the outlook for growth and the labor market, and is likely to remain biased towards delivering cuts, in the presence of potential partial offsets from fiscal or Chinese stimulus. Valuations and fundamentals amongst higher quality issuers remain attractive and demand for investment grade corporate bonds remains strong, further supported by the recent retracement in yields. In this environment, we expect further industry and issuer dispersion and favor high-quality industrials, select bank debt, real estate and select utilities in the euro-denominated market.

UK: GOVERNMENT BUDGET CREATES CONUNDRUM FOR BANK OF ENGLAND
The UK government delivered a widely anticipated expansionary budget in October against a backdrop of a tight labor market and core inflation stabilizing above the central bank's target. Furthermore, the budget highlighted the diverging assumptions of the Bank of England and UK government on the UK's growth trajectory. Our base view is that the policy in the UK is not tight contrary to the central bank's assumptions and the probability of policy missteps is significantly higher for the UK than other DM countries. Lowering rates against the backdrop of loosened fiscal policy increases the risk of inflation becoming entrenched and increases the probability of gilt yields continuing to climb higher. We have identified select security selection opportunities within the Sterling market in long duration, high quality corporates.

JAPAN: FURTHER HIKES MAY PROMPT RENEWED CREDIT SPREAD VOLATILITY
We believe the market risks underappreciating the possibility of further rate hikes. We are increasingly confident inflation has returned to the Japanese economy and therefore the current policy rates are far too accommodative, with consumer confidence remaining at multi-year highs and inflation expectations becoming embedded in the economy. A shift to tighter policy could be the catalyst for further credit spread volatility, as the increased competitiveness of JPY yields prompts domestic investors to repatriate capital, and in turn tightens financial conditions. Corporate credit spreads in the yen-denominated corporate bond market are low and do not compensate for the liquidity risks involved. Furthermore, the yen-denominated corporate bond market is highly concentrated and transaction costs tend to be relatively high, and so there are fewer opportunities to exploit mispricings.

EMERGING MARKETS: WE REMAIN OPPORTUNISTIC AGAINST UNCERTAIN BACKDROP
The ample supply of sovereign new issuance so far this year has provided attractive opportunities to add select idiosyncratic emerging markets debt issuers at significant new issuance concessions. Elections have introduced volatility allowing us to find attractive opportunities among select, high-quality emerging market sovereign issuers, particularly in Eastern Europe. Weare mindful of the adverse impact of higher short-term rates in Europe and the US, broader geopolitical uncertainty and the impact of the US election, which will have important implications for US domestic and foreign policy as well as on emerging markets.

HIGH YIELD: TECHNICALS AND FUNDAMENTALS REMAIN SUPPORTIVE
Robust fundamentals and an ensuing benign default environment have continued to support issuers rated below investment grade. Technical factors, such as a shrinking amount of outstanding debt as issuers are upgraded to investment grade, and the continued growth of private credit markets have further been supportive. Although we have reduced exposure to below investment grade issuers in recent months, the recent decompression between BBB- and BB-rated issuers provided an opportunity to add to select defensive BB issuers with strong fundamentals. We continue to avoid issuers that could be vulnerable to a potential increase in credit stress in the event of deeper cycle weakness.

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 (D+E) (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. The use of derivatives forms an important part of the investment strategy. **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. **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. **SHORT SELLING:** A short sale exposes the Fund to the risk of an increase in market price of a security sold short; this could result in a theoretically unlimited loss. **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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