Wellington Global Credit ESG Fund

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MARKET REVIEW

Global investment grade corporate bonds produced positive total returns in the September, outperforming their duration-equivalent government bonds. Global credit spreads tightened while government bond yields fell. US-denominated bonds generated positive excess returns relative to duration-equivalent bonds, whereas Sterling and Euro-denominated bonds generated negative excess returns.

We increased the portfolio's overall credit exposure in September, taking advantage of more attractive valuations amid increased credit spread volatility. 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 euro- and sterling-denominated corporate bond markets. Within the euro-denominated corporate bond market, we continue to favor financials, maintaining our exposure to banks and adding to select opportunities within real estate. Within sterling-denominated corporate bond markets, we have identified select idiosyncratic opportunities in the UK water sector, using the recent underperformance of the sector to opportunistically add exposure to what we believe are stronger credits.

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.

FUND PERFORMANCE AND ATTRIBUTION

- The portfolio outperformed its benchmark during the month.
- Active duration and yield curve positioning contributed to active returns during the month.
- The portfolio's credit spread duration position detracted from active returns over the month. This was led by an underweight to credit spread duration relative to the benchmark.
- Sector allocation had a limited impact on active returns over the month. The portfolio's allocation to government-related exposures detracted from active returns, specifically our exposure to supranational debt holdings. An allocation to securitized debt also detracted from active returns, specifically our exposure to covered holdings. This was offset by the allocation effect from below investment-grade utilities which contributed to active returns, specifically our exposure to securities within electric utility. The allocation effect from below investment-grade financials also contributed to active returns, specifically our exposure to securities within other finance.
- Among investment grade corporate bonds, the aggregate impact of allocation effects was limited across industrials, financials, and utilities. In particular, our underweight to industrials contributed to relative results, specifically a lack of exposure to energy had a positive impact. The allocation impact from utilities and financials was muted.
- In aggregate, security selection had a positive impact on relative performance during the month. From an investment-grade perspective, security selection within industrials and utilities contributed positively, while security selection within financials was muted.

FUND POSITIONING AND OUTLOOK

At the end of September, 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 underweight interest rate duration versus its benchmark.

Over the period, we increased the portfolio's benchmark-relative active credit spread duration exposure to utilities and financials debt, while reducing the portfolio's active exposure to government debt. In terms of credit quality, the portfolio increased its active exposure to BBB and <BBB-rated debt while decreasing its active exposure to AA-rated debt. The portfolio's active exposure to euro and US dollar-denominated debt increased, while our active exposure to sterling-denominated debt decreased.

At the end of September, the portfolio was primarily overweight financials and utilities and underweight industrials and derivative index debt on a benchmark-relative credit spread duration basis. The portfolio was also primarily overweight BBB and <BBB-rated debt and underweight to A and AA-rated debt. The portfolio was primarily underweight US dollar and euro-denominated issuers. In terms of active industry exposure, the portfolio was primarily overweight communications, and underweight energy and consumer non-cyclical. In terms of active issuer exposures, the portfolio's largest benchmark-relative credit spread duration overweight exposures were PG&E, Charter Communications, and HCA.

We expect global economic growth to remain positive and we expect inflation, while on a declining path, to remain stubborn. However, central banks have signaled a strong preference to cut short-term interest rates in response to deteriorating economic data. Central bank reactions to economic and market events 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 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. The market's heightened focus on a possible recession was one of several factors that drove a bout of credit spread volatility in the third quarter and provided opportunities to selectively add to high conviction investment opportunities. Recent economic data supports our expectations for a mixed economic backdrop.

Against this backdrop, 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. Although corporate credit spreads remain less compelling relative to history, 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 continued bouts of credit spread volatility as the US election's potential ramifications for fiscal and trade policy become clearer, the global cycle moderates and geopolitical tensions persist. 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: FED FRONT-LOADS CUTTING CYCLE FOLLOWING SOFTER INFLATION AND GROWTH DATA
Short-term interest rates have peaked, as softer inflation and growth data opened the door for additional rate cuts by the end of the year. Near-term, we expect further bouts of volatility as the market engages with mixed economic data. We do not see evidence of a more protracted downturn, as consumers and the labor market remain resilient, however manufacturing data shows signs of softening. The upcoming US elections could be the catalyst for further corporate credit spread widening, providing an opportunity to exploit high conviction opportunities at more attractive valuations. We remain focused on sectors such as banking and communications.

EUROPE: FURTHER CUTS EXPECTED AMID GROWTH WEAKNESS
Economic activity has moderated given renewed bumps in the global manufacturing cycle. Events ahead provide downside (Trump tariffs) and upside (Chinese fiscal stimulus) risk to the cycle from hereon. The ECB remains sensitive to the outlook for growth and the labor market, however risks engraining inflation by speeding up rate cuts. Valuations and fundamentals amongst higher quality issuers remain attractive and demand for investment grade corporate bonds remains strong, despite the recent decline in yields. In this environment, we expect further industry and issuer dispersion and favor high-quality industrials, senior and subordinated bank debt, real estate and select utilities in the euro-denominated market.

UK: GROWTH AND INFLATION OUTLOOK REMAINS COMPLICATED
The Bank of England's preoccupation with both financial market stability and economic growth continues to suggest that it will remain accommodative even though inflation remains elevated. 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. In fact, service sector inflation, wage growth and GDP growth continues to suggest that the level of rates in the UK has not been restrictive, and lowering rates will increase the risk of inflation becoming entrenched. Our upcoming attention is on the UK budget at the end of October, which will be pivotal in shaping the UK's growth outlook. We are finding select security selection opportunity within the Sterling market in long duration, high quality corporates.

JAPAN: FURTHER HIKES MAY PROMPT RENEWED CREDIT SPREAD VOLATILITY
While there may be a pause in the BOJ decision-making process due to leadership changes in government, 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. 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: SLOWER ECONOMIC GROWTH AND CONTINUED RATE CUTS EXPECTED
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. While elections have introduced volatility allowing us to find attractive opportunities among select, high-quality sovereign issuers, particularly in Eastern Europe we remain opportunistic in Emerging Markets and are mindful of the adverse impact of higher short-term rates in Europe and the US, election and broader geopolitical uncertainty, and expectations for slower economic growth.

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.

DISCLOSURE