Wellington Global High Yield Bond Fund

WELLINGTON MANAGEMENT®

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MARKET REVIEW

Most fixed income spread sectors generated positive total returns and outperformed duration-equivalent government bonds as spreads narrowed. Most global sovereign yields declined markedly on cooling US economic releases, receding European election risks, and expectations of more aggressive Fed policy easing.

US economic data releases were mixed. Consumers remained positive, according to the Conference Board survey, despite high borrowing costs and elevated prices. The labor market stalled as the unemployment rate edged higher, nonfarm payrolls posted lackluster gains, and jobless claims rose steadily. Retail sales stabilized, and excluding autos posted a modest gain, while the producer price index inched higher on account of higher service costs. The trade deficit widened, led by a large drop in pharmaceutical imports; meanwhile, wholesale inventories growth missed expectations. Manufacturing PMI fell on a significant drop in new orders' demand. Durable goods orders plunged owing to a steep decline in transportation, led by commercial aircraft. New home sales declined, following a more pronounced downward revision the prior month, and construction spending missed expectations.

Eurozone manufacturing PMI fell further into contractionary territory, and industrial production declined, led by Germany and France. Germany's industrial production plummeted, owing to supply chain challenges impacting the automotive segment. UK's manufacturing and services PMIs each expanded.

FUND PERFORMANCE AND ATTRIBUTION

- The portfolio outperformed its benchmark during the month.
- Quality positioning had a negligible impact on relative performance during the month.
- Regional allocation had a positive impact on relative returns during the month. We maintain an overweight to North America against an underweight to Emerging Markets.
- In aggregate, sector allocation had a positive impact on relative performance during the month. An overweight to the wirelines sector and underweight to automotive contributed to relative results. In contrast, an overweight to the packaging sector and underweight to cable and satellite detracted from relative results.
- In aggregate, security selection had a positive impact on relative performance during the month. From a sector perspective, the largest contributors were security selection within media and entertainment and the government & government related industries. In contrast, the largest negative detractors were security selection within wirelines and health care.
- The largest relative contributor was an overweight to E.W. Scripps and the largest relative detractor was an underweight to Level 3 (Lumen Technologies).
- E.W. Scripps (SSP), together with its subsidiaries, operates as a media enterprise through a portfolio of local and national media brands. We maintain a constructive outlook on SSP given the strength of its local TV stations, free cash flow generation, and management team. Lumen Technologies, Inc. (LUMN) is an American telecommunications company. We remain cautious on Lumen moving forward as we expect the company's operating performance to remain hampered by management's business strategy and aggressive financial policy shift.

FUND POSITIONING AND OUTLOOK

We advocate for a modestly defensive risk profile for high-yield investors, primarily due to valuations. High yield spreads remain inside historical medians, although all-in yields in the high single digits create an attractive entry point for longer-term focused investors. Corporate fundamentals are only marginally deteriorating from a very strong starting point and the quality composition of the high-yield market remains strong relative to history. From a macroeconomic perspective, we continue to see disinflationary trends in many developed market economies, although the tight job market will likely push the Fed's first cut out to later in 2024 or early 2025. Additionally, the consumer remains more resilient than anticipated, as strong home prices and lower household leverage relative to past cycles have buoyed spending. While we remain cognizant of the possibility of recession in global economies, the probability of a soft-landing scenario has increased thus far in 2024.

While the impact of higher borrowing costs has had a limited impact on corporate earnings and credit profiles so far, we expect that to change in the coming quarters as the economy slows. We envision that default rates could move modestly higher but do not see a full-scale default cycle on the horizon. Despite concerns about the lagged impact of past rate increases, we do not believe higher interest expense alone will trigger a wave of defaults. The starting point of strong earnings and interest coverage provide ample cushion for deterioration, in our view. Still, we prefer to stick to more stable credit profiles and are wary of the high rate of growth and weaker underwriting standards of deals financed in the private credit market which could portend rising future defaults. The quality of recent new issuance remains generally healthy and we are not yet seeing widespread aggressively structured deals or use of proceeds that increase leverage. Security-selection will take on increased importance moving forward.

At the end of the month, our largest overweight was to B-rated issuers, and our largest underweight was to the BB segment of the market. Our largest industry overweights were the technology and packaging industries. In particular, within technology, our largest overweights include TeamSystem Holding and McAfee, and within packaging, our largest overweights include Crown Holdings and Trivium Packaging. The largest industry underweights in the portfolio were the utilities and automotive industries. During the month, we added to our wirelines and metal/mining exposure while trimming our exposure to the cable and satellite and leisure industries.

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. **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. **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.

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