Wellington Opportunistic Fixed Income Fund

WELLINGTON MANAGEMENT®

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MARKET REVIEW

- Most fixed income spread sectors underperformed duration-equivalent government bonds as spreads widened. Sovereign yields declined fueled by weakness in global economic data releases, leading to more dovish central bank policy expectations in some regions.
- US economic data releases were mixed. Consumer confidence dipped lower driven by cooling current conditions' component, and personal consumption remained soft. The NFIB small business optimism index rose although owners cited that inflation remained a core concern. Retail sales inched slightly higher but missed expectations, while the producer price index fell slightly on account of lower energy costs. The labor market posted healthy results, with strong payroll gains, a modest uptick in the unemployment rate, and relatively stable jobless claims. Manufacturers navigated high interest rates and shifting consumer habits with both durable and non-durable goods orders advancing; meanwhile, the S&P global manufacturing PMI rose more than anticipated. Housing starts fell, particularly the single-family segment, amid high mortgage rates.
- Eurozone composite PMI fell as both manufacturing and service sectors were weaker than anticipated. Germany's higher inflation expectation curbed the rise of the ZEW survey expectations and the IFO business climate index declined amid persistent economic challenges. UK's year-over-year core and headline inflation edged down.

FUND PERFORMANCE AND ATTRIBUTION

- The portfolio generated positive total returns during the month of June.
- Positive total returns were driven by our Strategic sector and Relative value positions. Tactical positions were neutral. Duration drove positive total returns at the portfolio level.
- Within our Strategic sector, exposure to Activist Governments and Short Cycle Credit were the largest contributors. Within emerging markets, local markets debt underperformed external debt. Spread widening detracted from external debt performance, while a decrease in US Treasury yields had a positive impact. EM currencies depreciation drove the negative performance within local markets, while EM rates movement benefited results.
- Within our Relative value theme, exposure to Global Credit Absolute Return and Discretionary Macro Rates had a positive impact on results. The USD appreciated versus most major currencies driven by investors' elevated risk-off sentiment amid soft economic data and concerns about fiscal deficits spurred by France's snap election.
- Within our Tactical sector, exposure to Agency Mortgages and Duration Management contributed to performance over the period.

FUND POSITIONING AND OUTLOOK

- We believe the opportunity set in fixed income is one of the most attractive we have seen in our careers, and although volatile, it is an environment where our philosophy and process have served us well in the past. We believe alpha will be made by identifying cyclical inflection points faster than central banks and the market. With the market fully embracing goldilocks, we think we are at one of those turning points and have positioned OFI accordingly. We continue to run with elevated levels of duration in the portfolio and close to the lowest level of aggregate credit risk since inception.
- Given how drawn out and uncertain the rate cycle has been, we continue to think that higher quality total return strategies that are less constrained by benchmarks can better help clients navigate the cycle while protecting on the downside. As global central banks chart different paths toward policy normalization, as the Fed, BOJ, and ECB deal with differing inflation dynamics in their respective regions, we think dispersion across markets will increase and will create a fertile ground for Opportunistic Fixed Income to add value through sector rotation and relative value trading.
- With major central banks signaling different paths to rate normalization, we anticipate more tactical trading of global rates intra-quarter. This comes as we transitioned from the quantitative global rates allocation under John Soukas (Government Relative Value) to a discretionary G7 rates relative value strategy – Discretionary Macro Rates (DMR), managed by Jeremy Forster, a member of the Broad Markets team at Wellington who has run a similar strategy since 2016. DMR takes directional views on global rate markets, and we think is well-positioned to take advantage of the higher volatility interest rate market with which we find ourselves.
- We continue to think that in an environment of slower growth and inflation that is stickier and more volatile in its path downward, inflation-linked bonds offer better relative value than nominal bonds. In our view, real rates are too high, and with slowing growth and rate cutting cycles starting soon globally, we think real rates have room to come down. Within the portfolio we have roughly 23% in inflation linked bonds through our Activist Governments theme. Currently, we favor US TIPS, Swedish Linkers, and New Zealand Linkers.
- We continue to own Emerging Local Debt as part of our Emerging Market Opportunities theme within Strategic Sectors. The investment thesis for this theme is that after the Pandemic, a majority of EM central banks acted in a highly orthodox manner, preemptively raising interest rates well ahead of the Fed, effectively controlling inflation in their countries. As a result, most EM countries have started their easing cycles. Brazilian Central Bank, for example, had cut its policy rates by 50 bps for the 6th consecutive time. We continue to like Latam local currency bonds, which still offer historically attractive nominal and real yields. The monetary easing cycle should allow Latam central banks to gradually reduce still high policy rates, which we believe will be a tailwind for emerging local assets.
- With IG corporate spreads remain near historical tight, we prefer owning higher coupon TBAs because of the attractive carry, relative yield advantage, and cheap valuation as measured by historical spread levels. We think that the biggest obstacle for the asset class has been the sluggish demand from the US banks, who used to be one of the largest buyers of the asset class. The banks have stopped buying mortgages, because they are worried about the increase in their funding costs and the extension of their existing holdings. Now that US policy rates are likely at peak levels and banks are holding a lot of cash (~$3 trillion), we expect them to return to Agency MBS when the Federal Reserve

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Fund performance is based on USD S Acc share class and are net of fees and expenses. Other share class performance may differ.| Index used in the calculation of attribution data: Non-benchmark Relative Strategy.| 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.

starts the rate cutting cycle as banks will be more confident about their liabilities and less worried about extension risk.

- We maintain short exposures across Investment Grade Corporates, Emerging Market External Debt, and High Yield Credit where valuations in our view are far too tight as outlined earlier. In the meantime, we continue to find attractive idiosyncratic opportunities across structured credits, convertible bonds, bank loans, and capital securities.

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. **CONCENTRATION:** Concentration of investments within securities, sectors or industries, or geographical regions may impact performance. **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. **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. **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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