Wellington Opportunistic Fixed Income Fund

WELLINGTON MANAGEMENT®

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MARKET REVIEW

- Additional signs of economic weakness in the US prompted a greater-than-expected Fed rate cut. In Europe, monetary policy easing continued as the euro area economy remained at a standstill while inflation pressures abated. Most fixed income sectors produced positive total returns and outperformed duration-equivalent government bonds.
- US economic data releases lagged, highlighted by a fragile labor market amid weaker non-farm payroll report in August and elevated continuing claims. Consumer confidence sank to a three-year low driven by a negative assessment of business conditions and the labor market. Year-over-year headline CPI growth moderated to its lowest level since February 2021. S&P global manufacturing PMI continued to recede, while services and composite PMIs were little changed. Retail sales posted modest gains, wholesale inventories rose, durable goods orders were flat, and industrial production improved slightly, related in part to the recovery of motor vehicles and parts. In housing data, the interest rate decrease bolstered refinancing activity and housing starts.
- Eurozone manufacturing activity moved deeper into contraction. Germany's industrial production declined on a slowdown in the automotive sector, and the IFO business climate index fell for a fourth straight month. UK's S&P global manufacturing PMI dipped below estimates but stayed in expansionary territory, while year-over-year CPI remained steady on account of sticky energy prices.

FUND PERFORMANCE AND ATTRIBUTION

- The portfolio generated positive total returns during the month of September.
- Positive total returns were driven by our Strategic sector and Relative Value positions. Tactical positions modestly detracted over the period. Duration drove positive total returns at the portfolio level, while credit and currency exposure also benefitted performance.
- Within our Strategic sector, exposure to EM Opportunities and Activist Governments were the largest contributors. Within emerging markets, local markets debt outperformed external debt. Spread narrowing contributed favorably to external debt performance, while a decrease in US Treasury yields also had a positive impact. EM currencies appreciation drove the positive performance within local markets, and EM rates also had a positive impact.
- Within our Relative value theme, exposure to Opportunistic Currencies and Discretionary Macro Rates had a positive impact on results. The USD experienced a broad-based weakening against most major developed market and EM currencies, driven by the Fed's larger-than-expected rate cut and softening economic data in the US. Among the G10, the AUD and the GBP led gains. The RBA's hawkish stance on its interest rate trajectory provided support for the AUD. The GBP also outperformed thanks to relatively high interest rates, fewer rate cuts priced in, and a positive near-term growth outlook. The JPY rallied, boosted by the BOJ's signal that it is prepared to raise rates again, and the election of new Prime Minister Shigeru Ishiba who supported a faster BOJ exit. Within EM FX, performance was broadly positive. The ZAR extended its gain from the prior month. The BRL and the CLP led gains among LATAM FX, lifted by bets of aggressive Fed rate cuts and China's stimulus package that spurred a risk-on move.
- Within our Tactical sector, exposure to Credit and FX hedging had a negative impact on performance over the period.

FUND POSITIONING AND OUTLOOK

- Over the last year, we have been positioning the portfolio for decelerating US data particularly compared to the rest of the world. This has largely not occurred because of robust fiscal spending in the US despite very high level of interest rates. However, the growth rate of government spending is slowing and consumer excess savings accumulated during Covid have been largely exhausted, leading US economic data to start weakening markedly.
- We also believe that the inflation data has now come in weak enough to justify the beginning of a Fed cutting cycle. The June core CPI print showed a month-over-month change of only 0.065%; this is the lowest monthly change since the US economy was in the throes of the pandemic. In addition, core CPI less shelter has been in deflation over the past two months, and has only grown 1.8% over the past year, which is similar to its growth rate pre-pandemic. Shelter inflation, which is the largest component of CPI, has been very high and sticky, but even this component is starting to decelerate. Shelter tends to be the most lagging part of inflation, and it makes very little sense for the Fed to wait to cut interest rates until shelter inflation returns to trend. In our opinion, the Fed already has enough data that inflation will converge to its 2% target over the medium term.
- We view the opportunity set in fixed income as 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. Despite the initiation of rate cutting cycles around the world, we believe that clients have not yet missed the opportunity to add fixed income to their portfolios. History has demonstrated that bonds outperform cash after the Federal Reserve stops hiking, making now an opportune time to move out on the risk spectrum from cash to high quality total return fixed income strategies like Opportunistic Fixed Income.

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

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.

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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