Wellington FinTech Fund

WELLINGTON MANAGEMENT®

MARKET REVIEW

Global equities declined in December. Market sentiment was dented by anxiety about tighter central bank policies amid weakening global economic growth and cautious corporate commentary that added to signs of recession. In contrast, investors were encouraged by milder inflation, which provided greater scope for some major central banks to slow their pace of interest-rate hikes. Chinese equities continued to rise on the back of the country's COVID pivot, as mass testing, lockdowns, and quarantine for international travelers were scrapped. However, China's transition away from strict pandemic measures is expected to be challenging amid soaring COVID infections that are severely straining the health care system and the economy. The Bank of Japan surprised markets by unexpectedly tweaking its yield curve control policy, allowing long-term interest rates to rise to ease some of the costs of prolonged monetary stimulus and pave the way for policy normalization. European Union (EU) member states agreed to a cap on natural gas prices, following months of debate over whether the measure will protect European households and businesses from extreme price spikes as temperatures plummet. EU governments set a US$60 a barrel price cap on Russian seaborne oil, and Russia retaliated by banning the sale of its oil and petroleum products to countries that impose the cap.

FUND PERFORMANCE AND ATTRIBUTION

- The fund delivered negative returns over the period.
- On an absolute basis, all sectors detracted over the period. Information technology was the bottom contributing sector. On a regional basis, stock selection was weakest in United Kingdom.
- At the issuer level, our top two absolute contributors were Charles Schwab and Edenred, while our top two absolute detractors were Network International Holdings and Nuvei.
- Shares of Charles Schwab climbed higher after the Federal Reserve raised its benchmark interest rate to the highest level in 15 years and indicated there would be no reductions until 2024. Higher interest rates could help boost Schwab's net interest income going forward. Shares of Network International fell during the period. In December, the Dubai-based payments processor appointed Sandeep Chouhan as new Group Chief Business Transformation and Technology Officer.

FUND POSITIONING AND OUTLOOK

December capped a unique year for the fintech sector. Inflation and Fed policy were the main overhang on the industry as fundamentals remained healthy for most of the year. Fast growing companies with the highest multiples felt the most pain, while high quality incumbents with strong, durable business models were relative outperformers as competitive threats from new entrants waned. IPOs, M&A activity, and private company financing slowed dramatically after strong years in 2020 and 2021 and the cryptocurrency ecosystem saw significant pressure. While consumer spending, employment trends, and digital transformation efforts remained resilient during the year, the team remains diligent on how recessionary pressures will impact these factors heading into 2023.

Transactions for the month were limited. We introduced two new names into the portfolio, MSCI and Paycom. MSCI is a provider of investment data and tools including indices, portfolio risk and performance analytics, and corporate governance products and services. Owning MSCI gives us exposure to ETFs and ESG data, two of the fastest growing elements of the asset management industry. We believe these verticals will provide more durable growth than the market expects. Paycom is, a leading payroll company that we believe will be a long-term share gainer in the industry.

While it is difficult to predict the depth and duration of a potential recession, the team has managed fintech portfolios through prior periods of stress and can lean on historical perspective to form judgments into how much is discounted in current stocks prices. When viewed through a longer-term lens, we believe the portfolio's risk/reward is compelling, as the blended relative valuation the compounded growth potential remains as attractive as ever. We think that our focus on owning the companies with strong structural tailwinds, and which we believe are leveraged to the most compelling mega-trends in fintech (e.g., digital transformation, migration to cloud, leveraging data through AI/ML), has resulted in a portfolio that has the potential to shine during a period of economic weakness.

At the end of the period, our largest overweight was information technology and we were most underweight to consumer discretionary and had no exposure to health care and consumer staples. From a regional perspective, our largest overweight was North America and we were most underweight to Emerging Markets and Japan, neither of which we had exposure to.

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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. **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 (C) (MKT):** Derivatives may provide more market exposure than the money paid or deposited when the transaction is entered into (sometimes referred to as Leverage).

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