Wellington FinTech Fund

WELLINGTON MANAGEMENT®

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MARKET REVIEW

Global equities remained steady for most of the month but sold off in the final days, as investors awaited key US elections, navigated heightened geopolitical tensions in the Middle East, and assessed ongoing policy easing measures. Favorable US economic data, including subdued inflation, drove expectations that the US Federal Reserve (Fed) may slow its pace of rate cuts. This sentiment was further emphasized by the notable rise in 10-year Treasury yields, which reached 4.28% in October, up from a 15-month low of 3.62% in late September, underscoring the market's expectations for the pace of Fed rate cuts, positive economic indicators, and improved prospects for a soft landing. In Europe, third-quarter GDP exceeded expectations, and the European Central Bank lowered interest rates by 25 basis points, to 3.25%, amid waning inflation and a weak economic outlook. Emerging markets faced pressure from a stronger US dollar, while the conflict in the Middle East reached its one-year mark, with military strikes escalating between Israel and Iran.

FUND PERFORMANCE AND ATTRIBUTION

- The fund delivered positive returns over the period.
- Financials was the top contributing sector, while industrials was the bottom contributing sector.
- At the issuer level, our top two absolute contributors were Trupanion and Dayforce, while our top two absolute detractors were WEX and Equifax.
- Shares of pet insurance provider Trupanion rose during the period. The company delivered another strong set of quarterly results, beating earnings estimates and demonstrating continued margin improvement. Improving margins are supporting improved IRR on pet acquisition spend, allowing the company to pivot back to growth and deploy additional capital to help reaccelerate new pet additions. Shares of WEX fell over the period after reporting third quarter results that missed earnings and revenue estimates along with a revised guidance range for the fourth quarter. The company lowered its revenue guidance to $630-$640 million from the $688-$698 million provided in the preceding quarter.

FUND POSITIONING AND OUTLOOK

FinTech equities were flat in October, modestly outperforming the broader market. Earnings results for the leading banks started on a positive note, with top line results coming in better-than-feared supporting the narrative of resilient consumer spending environment. Asset managers and investment banks also performed well amidst lower rates, while payment companies provided mixed results and underperformed the group.

Changes to portfolio positioning were limited for the month. We reduced exposure to leading merchant acquirer Global Payments as we lack a near-term catalyst for a reacceleration in the company's growth. We believe the landscape for continued M&A in the payments space remains unattractive at this juncture and the market has concluded that growth for Global Payments will continue to slow from here which has driven multiple compression. Elsewhere, we trimmed Trupanion on strength. Shares of the pet insurance provider rallied 30% during the period. The company delivered another strong set of quarterly results, beating earnings estimates and demonstrating continued margin improvement. Improving margins are supporting improved IRR on pet acquisition spend, allowing the company to pivot back to growth and deploy additional capital to help reaccelerate new pet additions.

Over the intermediate term, we remain optimistic in our outlook for the FinTech industry. While AI investments are delaying decision making when it comes to technology upgrades at leading financial services providers, we ultimately believe it will be a significant tailwind for providers of financial software. We believe the industry is well positioned to continue to ramp up and capitalize on AI products and applications at both the consumer and enterprise level and see continued opportunity for massive productivity and efficiency gains through utilization of this technology. Examples include but are not limited to, credit decisioning, fraud detection, customer service (chatbots), inventory management, process automation, dynamic pricing, advertising and consumer and small business applications (AI to help solve tax, accounting, cashflow, investing and other personal finance problems).

At the end of the period, our largest overweights were financials and industrials. We were most underweight to health care, communication services and consumer staples, all of which we had no exposure to. From a regional perspective, our largest overweight was North America and we were most underweight to Emerging Markets, which we had no exposure to.

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