FUND COMMENTARY | August 2024

Wellington FinTech Fund

WELLINGTON MANAGEMENT®

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MARKET REVIEW

Global equities rose in August despite significant market volatility. Exacerbated by an abrupt unwinding of the Japanese yen carry trade, equities fell precipitously at the beginning of August amid an uptick in recession risks and fears of excessively restrictive monetary policy in the US. However, markets rebounded amid optimism that the US economy can achieve a soft landing. Federal Reserve Chair Jerome Powell cited an impending rate cut during his Jackson Hole symposium speech stating, "the time has come for policy to adjust." Against a backdrop of declining inflation and softening global economic growth, monetary policy easing gathered pace in August as the central banks of England, Sweden, New Zealand, and Mexico lowered interest rates. The Bank of Japan faces a higher bar to raise interest rates in October after its rate hike in July destabilized markets and caused a sharp spike in the yen. Global economic data was mixed, highlighted by broad signs of cooling inflation across the global, tepid growth in Europe hindered by weak manufacturing in Germany, and a softening US labor market. Geopolitical risks remained highly elevated; the war between Ukraine and Russia escalated after Ukrainian forces breached the Russian town of Kursk, while the humanitarian catastrophe in Gaza continues to destabilize the region.

FUND PERFORMANCE AND ATTRIBUTION

- The fund delivered positive returns for the period.
- Financials was the top contributing sector, while real estate was the bottom contributing sector.
- At the issuer level, our top two absolute contributors were Trupanion and MercadoLibre, while our top two absolute detractors were Dayforce and Intuit.
- Shares of pet insurance provider Trupanion rose during the period as the company reported strong financial results for the second quarter of 2024, with significant revenue growth of 16.4% year-over-year and a reduced net loss compared to the previous year. Shares of Dayforce declined due to broader market concerns about a potential US recession, which negatively impacted various sectors including technology.

FUND POSITIONING AND OUTLOOK

FinTech's outsized exposure to software and payments companies has weighed on performance of the group this year. The "higher for longer" interest rate environment has weighed on multiples in the software sector and weakening enterprise demand has pressured growth. Leading software providers have reported a slowdown deal activity as their customers analyze the potential ROI on AI investments and debate how they should allocate their IT budgets amidst a shifting macro environment. 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 technology 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 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). We believe AI will ultimately improve both the profitability and growth rate of the industry.

In the case of payments, investors have become concerned over slowing growth and rising competitive intensity. While industry trends, such as the cash-to-card shift, have matured (particularly within the US), we still believe there is a large opportunity in international markets. This supports stable to accelerating volume growth over the coming years. Additionally, we continue to see a large opportunity in new payment flows, from both a volume opportunity (B2B, P2P, G2C) and from a revenue opportunity (value added services and embedded finance).

Both financial software and payment providers have begun to rebound in 3Q. Expectations for a continued decline in interest rates, early signs of companies earning an ROI on AI investments, and resilient 2Q earnings have driven recent performance.

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 and Japan, neither of which we had exposure to.

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

Fund performance is based on USD N Acc share class and are net of fees and expenses. Other share class performance may differ.| Index used in the calculation of attribution data: MSCI All Country World.| 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.

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