Wellington Global Impact Bond Fund

WELLINGTON MANAGEMENT®

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MARKET REVIEW

- Mounting concerns over weaker US economic growth contributed to a sharp rise in volatility in early August, though stability returned after more constructive global economic releases and US Fed rhetoric signaling rate cuts. Most fixed income sectors generated positive excess returns over duration-equivalent government bonds.
- Most global sovereign bond yields moved lower across developed markets mainly driven by softening labor market data in the US and expectations that the Fed will start cutting rates in September. At the Jackson Hole Symposium, Chair Powell stated the time has come for the US Fed to soon begin reducing interest rates. The Bank of England cut interest rates for the first time in over four years.
- Global credit markets outperformed duration-equivalent government bonds over the month. All three major sectors – financials, industrials, and utilities – generated positive excess returns. Broadly, municipal bonds underperformed duration-equivalent Treasuries. Within the securitized sectors, agency mortgage-backed securities and commercial mortgage-backed securities outperformed, while asset-backed securities performed in line with duration-equivalent government bonds, respectively.

FUND PERFORMANCE AND ATTRIBUTION

- The portfolio generated a positive total return during the month and modestly outperformed the Bloomberg Global Aggregate hedged to USD index.
- The portfolio's corporate credit positioning benefited results overall. At the broad sector level both high yield credit and US investment grade corporates outperformed duration-equivalent government bonds. Positioning within developed US and non-US investment grade credit had a muted impact on performance, while high yield credit index derivatives exposure benefited results. An allocation to emerging markets high yield corporates also aided relative results.
- An overweight to agency mortgage back securities in support of the Affordable Housing theme detracted modestly from results.
- An allocation to taxable municipals, primarily allotted to Education & Training and Health themes, had a negligible impact on results.
- Overall duration and yield curve positioning detracted from performance over the month. The portfolio was positioned modestly overweight duration during the period, but was underweight Yen duration as Japan rates rallied following expectations that the Bank of Japan might reverse course on more hawkish monetary policy.

FUND POSITIONING AND OUTLOOK

- We believe that US economic growth will moderate as excess savings are depleted, demand normalizes, and the fiscal tailwind fades. In our view, there is growing evidence of less demand pull and cost push inflation pressures, but unemployment may not rise sufficiently to slow wage growth to a level consistent with the Fed's 2% inflation target. The portfolio is positioned with a below average credit risk profile, while preserving high-quality liquid instruments to take advantage of future market dislocations.
- From a sector perspective, the portfolio maintains an off-benchmark allocation to select taxable municipals, emphasizing healthcare and education issuers.
- The portfolio holds select below investment-grade corporates and bank loan issuers that in our view carry attractive credit spreads.
- The portfolio maintains positioning in agency MBS issuers with a focus on supporting housing affordability for low-income borrowers. We continue to hold select single-asset single borrower CMBS backed by LEED certified buildings.
- The portfolio maintains exposure to labelled use-of-proceeds government and agency bonds intended to fund green, social, and sustainability-related projects.

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. **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. **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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