Wellington US Dynamic Equity Fund

WELLINGTON MANAGEMENT®

MARKET REVIEW

US equities advanced in a volatile month. Stocks tumbled in the first week of September, led lower by technology stocks, after continued signs of a softening labor market and weak manufacturing activity in August spurred anxiety about the slowing US economy and tight monetary policy. However, equities quickly rebounded amid beliefs of oversold conditions, a 50 bps interest-rate cut by the Fed, and some encouraging economic indicators that supported views that the economy remains healthy. The Fed kicked off its long-anticipated monetary-easing cycle with an oversized rate cut, signaling its intent to support the labor market in an effort to engineer a soft landing for the economy. The Fed's Summary of Economic Projections showed that policymakers' median forecast is for an additional 50 bps of cuts this year followed by 100 bps of cuts in 2025. Inflation continued to moderate, with the core Personal Consumption Expenditures Price Index rising at a slower-than-expected pace of 0.1% in August (2.7% annually).

With five weeks until the US presidential election, polling showed that the race between Vice President Kamala Harris and former President Donald Trump is extremely close. Economic data released during the month was mixed. In August, consumer spending moderated but remained resilient amid still-strong wage gains. According to the Conference Board, consumer sentiment dropped sharply, reflecting anxiety about the job market and the economy. The services sector expanded at a modest pace, but manufacturing continued to contract in September.

The S&P 500 returned 2.1% for the period. Within the index, 8 out of 11 sectors rose over the period. Consumer discretionary and utilities were the top performing sectors, while energy and health care were the bottom performing sectors for the month.

FUND PERFORMANCE AND ATTRIBUTION

- The fund delivered positive returns over the month.
- On an absolute basis, all sectors contributed over the period. Consumer discretionary and information technology were the top contributing sectors.
- At the issuer level, our top two absolute contributors were Exact Sciences and DraftKings, while our top two absolute detractors were Liberty Media and Pinterest.
- Shares of Exact Sciences rose during the period. The company announced that its blood-based colorectal screening test showed 88% sensitivity for colorectal cancer and 31% sensitivity for precancerous lesions. The test will allow for an effective way in which to screen for lesions at a low cost and management is working towards an FDA submission. Encouraging data from a multi-cancer early detection blood test was also shared. Shares of Liberty Media rose over the period. The mass media company released mixed second quarter results wherein revenue exceeded while EPS missed analysts' estimates. Revenue for the first half of 2024 increased, driven by three additional races and robust sponsorship growth.

FUND POSITIONING AND OUTLOOK

US Dynamic Equity outperformed the S&P 500 in September after another volatile month for equities. Outperformance was driven by our positions in DraftKings and Exact Sciences. The share price of DraftKings rose in September as strength in user engagement led shares higher and helped by market's pivot into growthier assets. Shares of Exact Sciences rose during the period after the company's blood-based colorectal screening test showed promising results.

The largest detractors from relative performance were our position in Liberty Media and our underweight to Tesla. Shares of Liberty Media, which owns the Formula One Group of companies, fell after the company released weaker-than-expected results. Shares of Tesla rose over the period as the company continues to grow their market share of EV charging with GM and Ford customers moving towards utilizing Tesla Superchargers in the United States and Canada.

At the end of the month, we held 11 individual positions and a 56% weight in the S&P 500 E-mini futures.

Our active positions reflect our strategic approach as we explore more opportunities and re-evaluate our portfolio allocation on an individual stock basis, trusting in the future earnings potential of the underlying holdings. The positions spanned 5 sectors by the end of September and each one continues to have an attractive upside to downside ratio.

At the end of the period, our largest overweights were communication services and consumer discretionary. We were most underweight to industrials, consumer staples and energy, all of which we had no exposure to.

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