WELLINGTON
MANAGEMENT®

EU sustainability-related investment regulations: an overview

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The EU's sustainability-related investment regulations are a continued focus for Wellington. Sustainability, in all its forms, is a strategic priority for our firm and an integral part of our long-term mindset and fiduciary commitment to our clients. We welcome the EU's developing regulatory framework as a valuable tool in helping us meet this strategic goal and support our clients on their respective sustainability journeys. In this report, we review and explain the latest developments and share our approach, which is guided by a philosophy of ensuring investment integrity and meeting clients' expectations.

SUSTAINABLE FINANCE DISCLOSURE REGULATION (SFDR)

Since the publication of the SFDR Level I legislation in November 2019, we have centred our efforts on ensuring compliance with Level I requirements. Following the subsequent publication of Regulatory Technical Standards (RTS), we have widened our focus to ensure we understand and effectively implement the expanded Level II standards that come into force on 1 January 2023.

EU ENVIRONMENTAL TAXONOMY

We have made a concerted effort to source data, make enhancements to our infrastructure and bolster our internal framework to meet our Taxonomy disclosure obligations. We are also building internal tools so that we can source and report accurately on environmental Taxonomy alignment data despite the numerous outstanding questions.

MIFID SUSTAINABILITY PREFERENCES

In line with the requirements of the EU's Sustainable Finance Action Plan, we are working to provide clients with greater clarity on their sustainability choices and to map their preferences. We are also pro-actively enhancing our Target Market Assessment approach and reporting templates.

A FIRMWIDE COMMITMENT

Wellington's commitment to environmental, social and governance (ESG) integration and sustainability is reflected in our governance structure, which brings together our senior leadership and leading sustainability experts, as well as the establishment of a dedicated regulatory working group. Another crucial aspect of our effort involves extending our partnership with clients to meet both their financial and sustainable investment goals. We look forward to working with you.

Wendy M Cromwell

Wendy Cromwell, CFA

Vice Chair and Head of
Sustainable Investment

Please note: this report should be read in conjunction with the sustainability-related literature and policies applicable to individual Wellington investment products.

For further information, visit: www.wellington.com/sustainability
and our dedicated SFDR webpage: www.wellington.com/sfdr

About Wellington

Wellington's only business is managing money for our clients, allowing us to concentrate on our goal of exceeding their investment and service expectations. Our ownership model, a private partnership that is now more than 40 years old, empowers a focus on the long term, so we are aligned with the interests of our clients as well as the careers and development goals of our talent.

A STRONG EUROPEAN PRESENCE

Since opening its London office in 1983, Wellington has expanded across Europe and established fund ranges in Ireland (UCITS) and Luxembourg (UCITS and AIFs).

OFFICES

- London
- Frankfurt
- Luxembourg
- Milan
- Madrid
- Zurich

FUND RANGES

- Ireland
- Luxembourg

A LONG-STANDING COMMITMENT TO SUSTAINABILITY

2007
Launch of first climate strategy

2011
Creation of ESG Research Team

2015
Launch of Global Impact Strategy

2017
Launch of Global Impact Bond Strategy

2018
Research collaboration with Woodwell Climate Research Center to study physical climate risks

2018
Head of Sustainable Investment Wendy Cromwell joins the UN PRI board

2020
Founding member of the Net Zero Asset Managers Initiative

2021
Groundbreaking power purchase agreement matches 100% of US office and US employees' home electricity use with renewable energy

2022
Research collaboration with the Joint Program on the Science and Policy of Global Change at the Massachusetts Institute of Technology to study climate transition risks

Key elements of the EU's sustainability-related investment regulations

SFDR overview

SFDR is part of a broader EU regulatory regime designed to help finance sustainable growth and support the transition to a lower-carbon economy. The legislative actions at the centre of this effort are in response to the EU's commitment to the Paris Agreement and United Nations Sustainable Development Goals (UN SDGs).

In the investment management context, SFDR is designed to provide asset owners and their beneficiaries with greater clarity and confidence that their investment managers are delivering on objective, transparent and quantifiable sustainable investment goals. To achieve that objective, the regulation holds asset managers accountable for clearly disclosing to their clients how they approach, measure and track progress on sustainability and ESG at the firm and product level.

SFDR applies to a broad range of financial products that are marketed and sold into and out of the EU, including pooled funds and separately managed accounts. If a regulated product claims to support, promote or improve environmental or social characteristics or has a sustainable outcome as an investment objective, it must provide specified technical disclosures.

Whether and how sustainability risks may impact investments must be disclosed. In many cases, this also includes disclosing the extent to which investments may harm the environment or society.

Asset managers are required to disclose firm-level and/or entity-level policies regarding sustainability risks, and, if of a certain size, consider and disclose the adverse impacts of their investments on sustainability factors. Additional policies may need to be developed or implemented to meet SFDR requirements on an ongoing basis as the RTS continue to evolve.

Through its detailed criteria and disclosure requirements, SFDR also aims to prevent "greenwashing" — marketing an investment vehicle as sustainable or ESG-focused when it is not, or grossly overstating its sustainability or ESG attributes and/or its ability to meet stated sustainability or ESG objectives. The regulation should enhance investors' ability to compare sustainable investment products and evaluate financial services firms' commitment to ESG and to advancing a lower-carbon future.

As regulatory clarity, issuer transparency and data availability continue to improve, we will provide additional insights into how we incorporate ESG and sustainability into our investment process.

PRODUCT CLASSIFICATION CATEGORIES EXPLAINED

ARTICLE 9: DARK GREEN	ARTICLE 8: LIGHT GREEN	ARTICLE 6: OTHER
Products have a core sustainable objective, along with the goal of producing positive financial returns. Managers must report performance for both targets. The product's sustainable objectives and any environmental/social (E/S) characteristics promoted must be binding (cannot be overridden by the portfolio manager), measurable and reportable, based on objective criteria. Substantially all holdings must be sustainable investments and meet the standard of "do no significant harm", using the 14 mandatory Principal Adverse Impacts (PAIs). All investee company holdings must be deemed to have "good governance". Where the strategy has environmental features, it will also have to be measured against the EU Taxonomy. Managers must also disclose whether and how they incorporate sustainability risk considerations into the investment process.	Products promote at least one E/S characteristic, but they are not required to have a specific sustainable investment objective. The E/S characteristics must be binding, measurable and reportable. Managers may designate a portion of the portfolio as sustainable investments, with no minimum requirement defined. Those holdings must contribute to an environmental or social objective and meet the standard of "do no significant harm", using the 14 mandatory PAIs. Outside those sustainable holdings, managers may consider certain PAIs in a variety of ways. All investee company holdings must be deemed to have "good governance". Where the strategy has environmental features, it will also have to be measured against the EU Taxonomy. Managers must also disclose whether and how they incorporate sustainability risk considerations into the investment process.	Products that fall under Article 6 of SFDR make no claim to being sustainable or to promote any ESG characteristics. Pre-contractual product documents must state that: "The investments underlying this financial product do not take into account the EU criteria for environmentally or socially sustainable investments." Under Article 6 of SFDR, managers must also disclose whether and how they incorporate sustainability risk considerations into the investment process.

Key sustainability considerations in products

Wellington's large and varied client base has a wide variety of sustainability goals and requirements, which we discuss on an ongoing basis. As a firm, we have also made a concerted effort to work with individual portfolio management teams to understand how their investment philosophy, process and portfolio guidelines align with the SFDR's product classification system. We have deliberately taken a conservative approach based on investment integrity and client need. We continue to evolve our offering based on those principles.

In selecting an investment strategy that aligns with any sustainability goal, there are three key SFDR-related concepts that are important to consider:

1. **Principal Adverse Impacts (PAIs)** – the extent to which the investment strategy considers and attempts to avoid or mitigate the harmful effects that an investment can have on the environment or society;
2. **Sustainable investments** – the extent to which an investment strategy seeks to identify and invest in assets that are considered sustainable according to its own criteria;
3. **EU Environmental Taxonomy alignment** – the extent to which an investment strategy invests in economic activities that are classified as "environmentally sustainable" under the criteria developed by the European Union.

These three concepts are described in further detail below.

Since 2 August 2022, for the investment strategies we offer under MIFID we are also integrating these three concepts into our broader suitability analysis and the target market assessments that we use to determine which investment strategies are appropriate for our clients. We look forward to continuing our dialogue with clients around these features and how they are embedded in our strategies.

PAIS EXPLAINED

Under SFDR, PAIs or Principal Adverse Impacts, are intended to capture the ways in which investments can negatively impact or harm the environment or society. Under SFDR Level I, this concept is broadly defined to refer to where investment strategies may take into account the harmful effects investments may have on sustainability factors, including environmental, social and employee matters; respect for human rights; anti-corruption and anti-bribery matters. SFDR Level II further defines the specific indicators that may be used to assess adverse impacts, including, but not limited to:

CLIMATE

- Scopes 1, 2 and 3 greenhouse gas emissions
- Carbon footprint
- Greenhouse gas intensity of investee companies and countries
- Exposure to companies active in the fossil fuels sector
- Exposure to fossil fuels through real estate assets
- Exposure to energy-inefficient real estate assets
- Share of non-renewable energy consumption and production
- Energy consumption per high-impact climate sector

OTHER ENVIRONMENTAL IMPACTS

- Activities negatively affecting biodiversity-sensitive areas
- Emissions to water
- Hazardous waste and radioactive waste ratio

SOCIAL

- Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises
- Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises
- Unadjusted gender pay gap
- Board gender diversity
- Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)
- Investee countries subject to social violations

HOW ARE PAIS CONSIDERED?

Investment products that consider one or more of the above PAIs, or any other PAIs, can do so in a variety of ways depending on the ESG strategy and guidelines, including via engagement, reporting of outcomes, strict exclusions, the application of specific tolerance thresholds or other investment restrictions.

SFDR SUSTAINABLE INVESTMENTS EXPLAINED

SFDR defines a sustainable investment as "an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance."

Individual investment products may assess how their investments meet these criteria using different methodologies. In addition, the metrics and data used to assess the contribution to these objectives may vary from one investment strategy to another.

THE DO NO SIGNIFICANT HARM (DNSH) TEST

Sustainable investments must also be assessed to not significantly harm any environmental or social objective. Currently, under SFDR, this assessment may be done in a variety of ways using qualitative and quantitative inputs. For instance, at Wellington, we currently conduct DNSH tests with reference to an investee company's compliance with the United Nations Global Compact Principles (UNGC). The UNGC is a broad set of environmental and social sustainability principles, the violation of which, in our view, is indicative of potential significant harm to the environment or society.

Under SFDR Level II, the DNSH test must incorporate at least 14 mandatory PAIs, including those listed above. While investment products must disclose confirmation of how these PAIs were used to assess DNSH, the ways in which these are assessed may vary from one investment strategy to another, including with regard to any specific thresholds used to determine whether harm can be considered "significant" and whether qualitative and/or quantitative elements are used in the assessment.

WHICH INVESTMENT PRODUCTS DOES THIS APPLY TO?

SFDR Article 9 products have a sustainable investment objective, and as a result, substantially all investments must be assessed to ensure they are sustainable investments that contribute to the environmental and/or social objectives of the strategy. Article 8 products are not required to invest in sustainable investments. Some Article 8 products may elect to invest a defined portion in sustainable investments, however, and these portions may vary from one Article 8 product to another. Article 8 and 9 products are currently required to disclose details around how any Sustainable Investments are identified and monitored. Under SFDR Level II, these disclosures will also include details of how the individual PAIs are assessed and monitored under the DNSH test.

HOW ARE WE SUPPORTING CLIENTS?

As Level II SFDR takes the concept of the consideration of adverse impacts from the high level to the very specific, we are, as mentioned above, in the process of sourcing, analysing and integrating the data on the full list of 14+ PAIs while recognising that the data is still very much a work in progress. However, we expect that data to improve incrementally as issuers increase their disclosure.

EU TAXONOMY EXPLAINED

The EU Taxonomy on sustainable activities, or EU Environmental Taxonomy, is a defined methodology that the EU has developed to classify whether an economic activity can be considered "environmentally sustainable". Where SFDR allows individual products to develop and disclose various methodologies used to assess the sustainability of an investment, the EU Environmental Taxonomy has defined six environmental objectives that an economic activity must "significantly contribute" to for it to be considered environmentally sustainable:

- Climate change mitigation
- Climate change adaptation
- The sustainable use and protection of water and marine resources
- The transition to a circular economy
- Pollution prevention and control
- The protection and restoration of biodiversity and ecosytems

Each environmental objective has its own technical screening criteria, which include detailed requirements specific economic activities must meet to be considered environmentally sustainable or "Taxonomy-aligned". Activities must also align with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. In addition, they must "do no significant harm" to any of the other environmental objectives listed above according to the EU Taxonomy's prescribed methodology.

While the EU has made significant progress in its work towards classifying the environmental sustainability of economic activities, the scope and ambition of the project is vast, and significant work and several critical questions remain outstanding before asset managers can accurately and transparently disclose a meaningful level of alignment of portfolio investments with the EU Environmental Taxonomy.

WHAT DOES TAXONOMY ALIGNMENT MEAN?

For an economic activity to be considered "Taxonomy aligned", it must:

- Substantially contribute to an environmental objective listed above;
- Comply with the screening criteria prescribed for the activity;
- Comply with the minimum safeguards; and
- Do no significant harm.

Taxonomy alignment is assessed at the economic activity level and is typically expressed as a percentage of an investee company's overall revenue that can be attributed to its Taxonomy-aligned activities. As a result, individual companies may be anywhere from 0%–100% Taxonomy-aligned depending on the nature and scope of their business activities.

The overall Taxonomy alignment of an investment product is expressed as the total percentage of Taxonomy-aligned economic activities that the product is invested in based on the market value of its investments.

WHEN IS TAXONOMY ALIGNMENT REQUIRED?

Article 9 products that have sustainable investment objectives tied to environmental goals, as well as Article 8 products that promote environmental characteristics, are required to disclose their overall Taxonomy alignment.

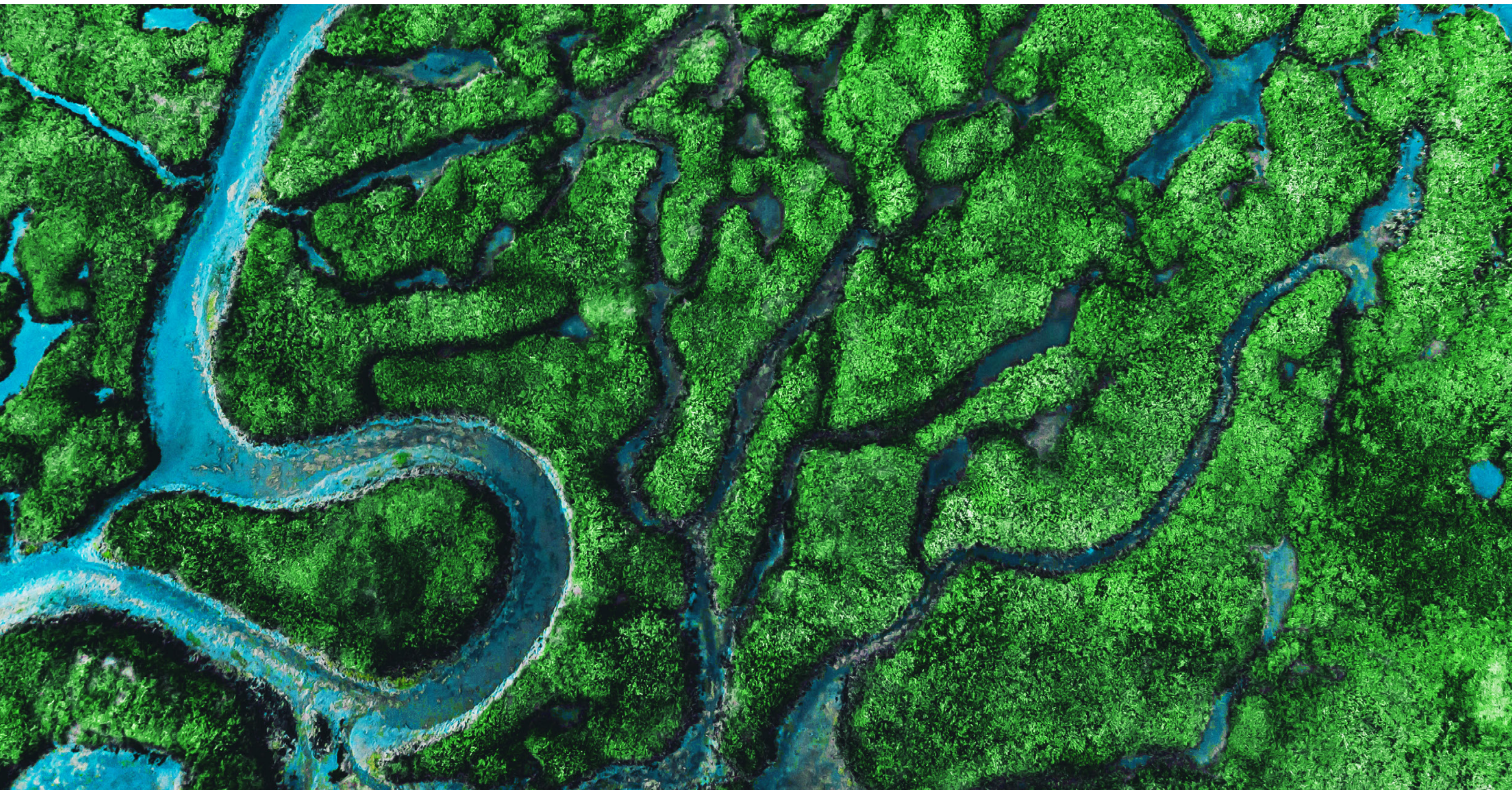
WHAT ARE THE CURRENT IMPLEMENTATION CHALLENGES?

Taxonomy alignment of individual investment products may vary significantly, with some products identifying investments as environmentally sustainable in a way that does not align with the EU Environmental Taxonomy methodology.

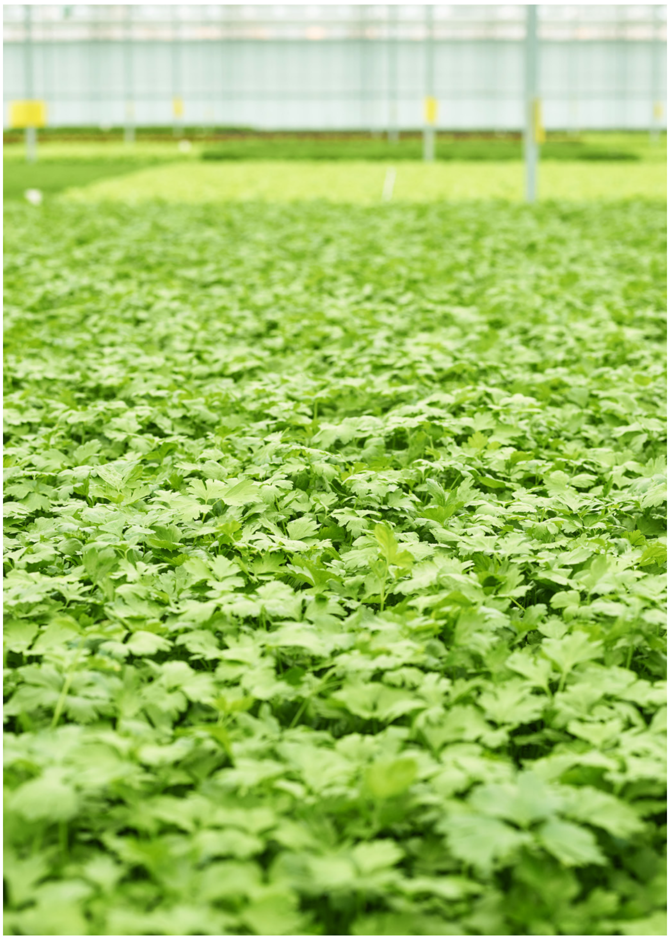
Moreover, only the technical screening criteria for the climate change mitigation and adaptation categories are currently in effect, with the remaining four categories not expected to come into force until 2023. Another difficulty is the limited extent to which individual companies or issuers disclose the details necessary to accurately assess the Taxonomy alignment of their activities. Regulations requiring corporate issuer disclosure of Taxonomy alignment will likely not become official until 2024.

HOW ARE WE SUPPORTING CLIENTS?

We have made a concerted effort to source data, make enhancements to our systems and infrastructure and build out the internal framework needed to meet our Taxonomy disclosure obligations. However, while it is important to us that we provide timely, accurate and transparent Taxonomy-alignment data for our in-scope portfolios, we are unable to commit to or provide Taxonomy-alignment figures for strategies today given the regulatory and data gaps outlined above. There are, however, some high-level requirements around Taxonomy that came into effect on 1 January 2022 as part of the Level I SFDR rules, which allow us to disclose which products are in scope and which are not. We are also able to provide some additional details on the environmental objectives of our sustainable investments, which may lead to eventual Taxonomy alignment.



Firm/entity-level compliance and client support



SFDR includes various firm- and entity-level requirements designed to provide transparency into how an asset management firm incorporates sustainability into its investment processes and to consider and disclose the negative environmental and social impacts of its investments. As a global firm with over 200 investment approaches serving institutional and intermediary clients worldwide, our firm-level compliance with sustainability regulations will evolve over time. We expect additional guidance from European regulators to continue. Our approach must also take into account sustainability-related requirements in the multitude of other jurisdictions in which we operate, including Singapore, Hong Kong and the UK.

While we expect regulators to set the baseline requirements, we anticipate engaging extensively with our clients to understand and meet their expectations with regard to the sustainability of investments we manage on their behalf, over and above a baseline. Our goal is to provide clients with detailed, transparent reporting on our strategies' E/S characteristics, sustainable objectives and sustainability risk management.

In addition, as part of MIFID, we have created a high-level European ESG Template (EET) for our funds, which we will refine as more information becomes available.

HOW ARE WE SUPPORTING CLIENTS?

ROBUST GOVERNANCE

Our dedicated Sustainable Investment Regulatory and Third-Party Working Group is designed to help ensure we can meet both the requirements of the EU's sustainable investment regulations and our clients' expectations. It is underpinned by a firmwide governance structure in support of our sustainability commitments that encompasses our CEO and senior leaders from across our Investment, Client and Infrastructure platforms.

DEVELOPING TOOLS AND RESOURCES

Carbon measurement: As a founding member of the Net Zero Asset Managers initiative, we are bolstering our research on science-based net-zero targets and climate- transition planning for corporate issuers. Where consistent with our fiduciary obligations and our client's sustainability goals, we seek to advance the net-zero agenda across multiple related fronts: discussing net-zero implementation options and measurement approaches with clients; engaging with companies to promote science-based targets as part of credible climate transition plans; enhancing our proprietary investment research tools; and taking an active role on the net-zero advisory board and in associated working groups.

ESG scoring: Several of our investment teams use proprietary research and third-party ESG scores to hone their opportunity sets and broaden coverage. This approach spurs portfolio managers to allocate higher portfolio weights to companies with good ESG practices and encourages engagement with management teams to improve ESG practices.

ESG engagement: Some investment teams are allocating a minimum percentage of their portfolio to support an environmental or social characteristic and have committed to using engagement to increase that exposure. As our reporting evolves, we plan to report more consistently on the broad range of engagement discussions our investment teams are holding with companies.

The journey ahead

Implementing the EU's evolving sustainability-related investment regulations — most notably the Level II requirements of the SFDR —remains a journey of adaptation for Wellington Management and the investment management industry. We expect that key terms such as "good governance", "do no significant harm", "sustainable objective" and "environmental or social characteristics" will continue to evolve both in terms of the regulatory standards applied to them and with respect to the industry's understanding of them. We are optimistic that regulators will continue to clarify the application of the new regulations within their jurisdictions.

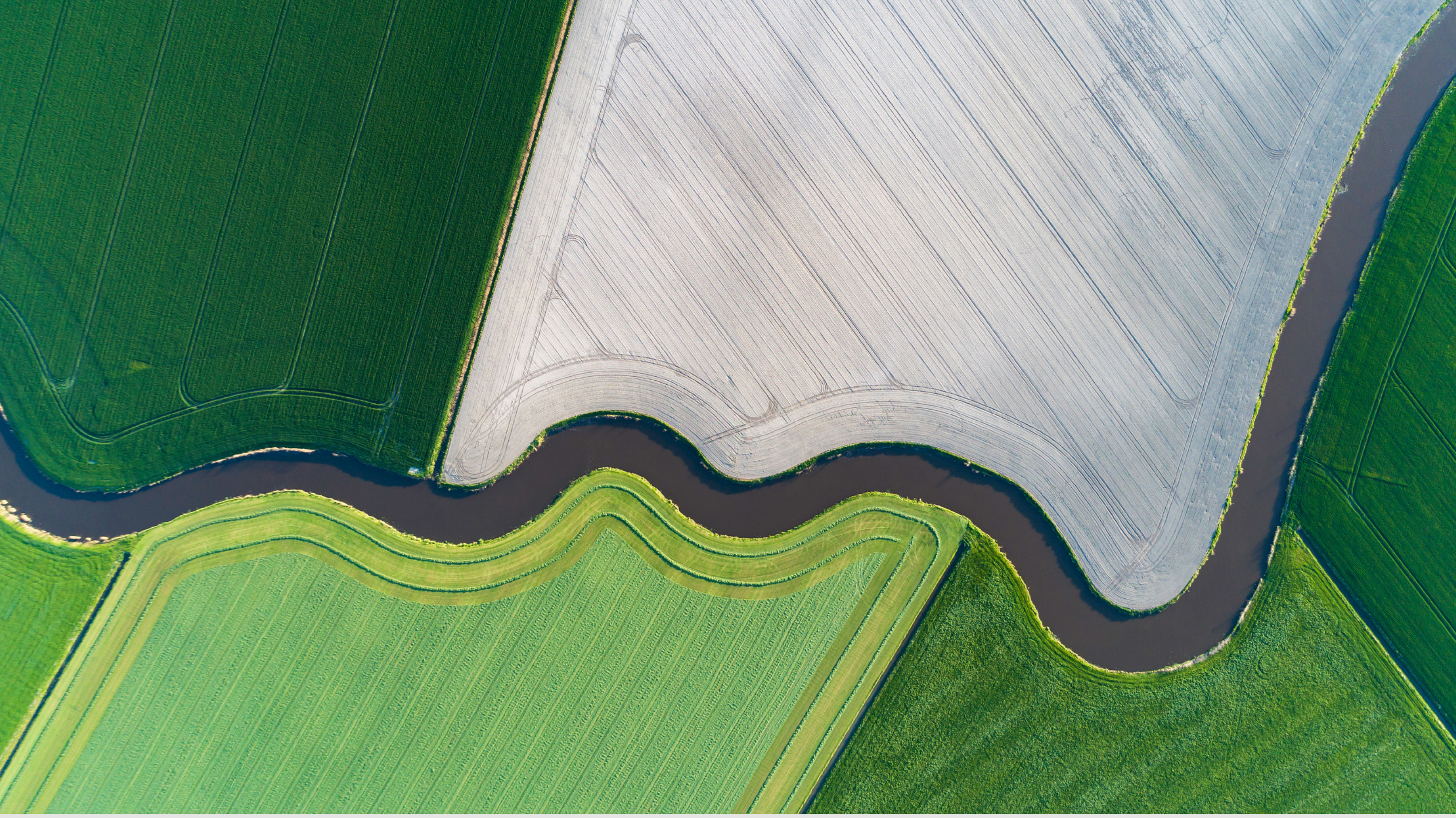
In the meantime, like many of our clients and peers, we rely on a combination of market intelligence, legal counsel, discussions with industry experts and our deep experience with ESG research and engagement as well as simple common sense.

Our dedicated ESG Research Team has been developing knowledge and engaging with clients on a range of issues since 2012, providing us, we believe, with an informed perspective. We are proud of our work to date and feel confident that we are well prepared for the journey ahead. Yet we take a humble approach to this major transformation, recognising that some of our sustainability policies and approaches may evolve as we advance our knowledge. We also expect further rapid development and adoption of the market data and technological infrastructure that support sustainable investing. We believe we have the teams, research and data in place to meet the expectations of regulators and funds' boards of directors as well as clients, consultants and other evaluators, in relation to our compliance with these sustainability-related regulations and our own aspiration to exceed the baseline.

For more information, please explore:
www.wellington.com/sustainability

or visit our dedicated SFDR webpage:
www.wellington.com/sfdr

To set up a call with a member of Wellington's Sustainable Investment Team, please contact your relationship manager.



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