

# Capitalising on the mispricing of BBB vs BB credit spreads

## SCENARIO

Between January and October 2022, the S&P 500 declined 25%, while the five-year US Treasury rate rose significantly from 1.54% in January to 4.18% in October.<sup>1</sup> Credit spreads were under pressure as the market worried about an impending recession caused by the US Federal Reserve's (Fed's) tightening campaign. Benchmark-relative investment-grade credit managers generally appeared to be moving up in credit quality to minimise losses if a recession materialised.

In our view, the up-in-quality rotation led investment-grade managers to sell BBB's and buy single A's. Meanwhile, high-yield managers were rotating from CCC's into BB's (the highest-quality rating tier in high yield). This led to a compression in credit spreads between BB's (high yield) and BBB's (investment grade) to the tightest levels we had seen in 2022, despite elevated recessionary fears.

## INVESTMENT TEAM'S RATIONALE<sup>2</sup>

During the summer of 2022, we found value in owning BB's, compared to BBB's. However, between September and November 2022, given the backdrop of spread compression between BBB's and BB's, we believed we could achieve similar levels of upside by owning BBB's. We did not believe that the relative spread between the two quality tiers would tighten much further. Additionally, we felt owning BBB's — instead of BB's — would help us mitigate downside risk if the spread relationship between BBB's and BB's reverted to typical levels. We rotated approximately three years of spread duration from BB to BBB in this relative value trade. The trade performed well, with BBB's having compressed more than BB's as the credit spread relationship normalised.<sup>1</sup>

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This is a marketing communication. Please refer to the prospectus of the Fund and to the KIID/KID and/or offering documents before making any final investment decisions. Commentary provided is for illustrative purposes only and is not intended to constitute investment advice.

The Wellington Credit Total Return Fund inceptioned on 31 January 2024. Representative Account data is not to be misconstrued as Fund data.

<sup>1</sup> Bloomberg; Treasury yield data is shown using the US Generic Government Bond 2-Year Index from 1 January 2022 to 31 October 2023. <sup>2</sup> The investment team's rationale section is based on the representative account which inceptioned on 31 March 2018. Representative account information is for informational purposes only, is subject to change, and is not indicative of future Fund characteristics or returns. Representative account information is supplemental to the GIPS® Composite Report included at the end of the materials. **PAST PERFORMANCE DOES NOT PREDICT FUTURE RETURNS. AN INVESTMENT CAN LOSE VALUE.**

## CONSIDER THE RISKS

Investors should consider the risks that may impact their capital, before investing. The value of your investment may fluctuate from the time of the original investment. Please refer to the risks section enclosed. A decision to invest should take account of all the characteristics and objectives described in the prospectus and KIID/KID and/or offering documents.



Period	Gross Return (%)	Net Return (%)	Benchmark1 Return (%)	Benchmark2 Return (%)	Number of Portfolios	Internal Dispersion (%)	Composite Mkt. Value (USD Mil)	Total Firm Assets (USD Mil)
2018 <sup>3</sup>	2.14	1.76	1.49	1.29	<6	N/M	146	1,003,389
2019	12.89	12.33	8.72	10.14	<6	N/M	165	1,154,735
2020	19.19	18.61	7.51	7.47	<6	N/M	197	1,291,419
2021	1.57	1.06	-1.54	-1.00	<6	N/M	207	1,425,481
2022	-4.72	-5.20	-13.01	-9.40	<6	N/M	547	1,149,360
2023	11.71	11.16	5.53	7.29	<6	N/M	743	1,219,910

Benchmark1: Bloomberg US Aggregate Bond

Benchmark2: Bloomberg Intermediate US Corporate

<sup>3</sup> Returns reflect performance beginning 01 April 2018. Partial year returns are not annualized.

N/M: For years where there are less than six portfolios throughout the performance period, Internal Dispersion is not meaningful.

**Composite Description:** Portfolios included in the Credit Total Return composite seek to generate a consistent total return over a market cycle by making diversified investments in Treasury, Investment Grade, High Yield, and Emerging Market debt securities. Portfolios are not constrained by sector, and generally focus on exploiting the BBB/BB segment of the market with average duration of 3-6 years. While Credit Total Return is a non-benchmark-oriented approach the Bloomberg US Aggregate Bond Index and the Bloomberg US Intermediate Corporate Index may be used as reference benchmarks. In times of increased market volatility, the composite characteristics may change significantly due to various risk factors. Key risks of this composite, in no particular order, include, but are not limited to, Credit Risk, Emerging Markets Risk, Fixed Income Securities Risk, Interest Rate Risk, Non-Investment Grade Risk, and Restricted Security Risk.

**Composite Inception Date:** The composite inception date is 31 March 2018.

**Composite Creation Date:** The composite creation date is May 2018.

**Composite Membership:** All fully discretionary, fee paying portfolios are eligible for inclusion in the composite.

**Fee Schedule:** Effective March 2023, the institutional separate account fee schedule for this product is:

Market value	Annual fee
On the first US \$100 million	0.50%
Over US \$100 million	0.45%

**Benchmark Definition:** Bloomberg Intermediate US Corporate is the Intermediate component of the U.S. Corporate Investment Grade Index Bloomberg US Aggregate Bond measures the performance of the U.S. investment grade bond market.

**Benchmark Change:** As of March 2023, the Bloomberg US Aggregate Bond Index and the Bloomberg US Intermediate Corporate Index are presented in the performance table for all periods. The additional benchmarks have not resulted in any material changes to the investment philosophy or process.

**Firm:** For purposes of GIPS® compliance, the Firm is defined as all portfolios managed by Wellington Management Company LLP, an independently owned, SEC-registered investment adviser, as well as its affiliates (collectively, Wellington Management). Wellington Management provides investment advisory services to institutions around the world.

**GIPS®:** Wellington Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Wellington Management has been independently verified for the periods 1 January 1993 to 31 December 2022. The verification reports are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

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**Performance Calculation:** Gross performance results are net of trading expenses. Returns are gross of withholding taxes on dividends, interest and capital gains and include reinvestment of any earnings. Returns, market values, and assets are reported in USD except when otherwise noted. Returns, market values and assets reported in currencies other than USD are calculated by converting the USD monthly return and assets using the appropriate exchange rate (official 4:00 p.m. London closing spot rates). Policies for valuing investments, calculating performance, and preparing GIPS composite reports are available upon request.

Net of fees performance reflects the deduction of the highest tier investment management fee ("model fee") that would be charged based on the fee schedule appropriate to you for this mandate, without the benefit of breakpoints and is calculated by subtracting

1/12th of the model fee from monthly gross composite returns. In certain instances Wellington Management may charge certain clients a fee in excess of the standard model fee, such as to legacy clients or clients receiving additional investment services. Performance net of model fees is intended to provide the most appropriate example of the impact management fees would have for you.

Pool investors will experience costs in excess of investment management fees, such as operating expenses and custodial fees. These indirect costs are not reflected in the model fee, or net of fees performance.

**Internal Dispersion:** The dispersion measure presented is the asset-weighted standard deviation. The asset-weighted standard deviation measures the dispersion of individual portfolio gross returns relative to the asset-weighted composite return. Only portfolios that have been included in the composite for the full period are included in the standard deviation calculation. Limitations imposed by client guidelines or by law on a portfolio's ability to invest in certain securities or instruments, such as IPO securities, and/or implementation of the firm's Trade Allocation Policies and Procedures, may cause the portfolio's performance to differ from that of the composite.

**External Dispersion:** The dispersion measure presented is the three-year annualized ex-post standard deviation. It measures the variability of the composite gross returns and the benchmark(s) over the preceding 36-month period. For periods prior to 1 January 2011, the Firm was not required to present the three-year annualized ex-post standard deviation.

3-year standard deviation (%)						
Year	2018	2019	2020	2021	2022	2023
Composite	N/A*	N/A*	N/A*	5.65	7.87	7.33
Benchmark1	N/A*	N/A*	N/A*	3.35	5.77	7.14
Benchmark2	N/A*	N/A*	N/A*	4.81	6.27	5.75

\*N/A for performance periods with less than 36 months of data based on composite inception date.

**Composite Listing:** Wellington Management's list of composite descriptions is available upon request.

**Pooled Fund Listing:** Wellington Management's list of pooled fund descriptions is available upon request.

**Other Matters:** This material contains summary information regarding the investment approach described herein and is not a complete description of the investment objectives, policies, guidelines, or portfolio management and research that supports this investment approach. Any decision to engage Wellington Management should be based upon a review of the terms of the investment management agreement and the specific investment objectives, policies, and guidelines that apply under the terms of such agreement.

**Past Performance:** Past performance does not predict future returns. An investment can lose value.

## Fund 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. | **Manager:** Investment performance depends on the investment management team and their investment strategies. If the strategies do not perform as expected, if opportunities to implement them do not arise, or if the team does not implement its investment strategies successfully; then a fund may underperform or experience losses. | **Sustainability:** 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.

**Please refer to the fund prospectus and KIID/KID for a full list of risk factors and pre-investment disclosures.**

The Wellington Credit Total Return Fund is actively managed and seeks long-term total returns by investing primarily in a global portfolio of US Dollar-denominated treasury, corporate, high yield and emerging market fixed income instruments.





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