



# Global Impact Bond investment spotlights

ADDENDUM TO OUR 2022 GLOBAL IMPACT BOND REPORT

September 2023



# Contents

This report, an addendum to our [Global Impact Bond report](#), showcases four impact themes and sample investment spotlights, including impact theory of change and key performance indicators (KPIs), qualitative assessment, engagement updates, and the measurable outcomes we achieved.

The purpose of this report is to highlight the impact case for one sample investment spotlight in four of our impact themes that span our three broad categories of Life essentials, Human empowerment, and Environment. While all companies in our portfolio meet the financial criteria that we believe enable us to deliver competitive investment returns for our clients, these sample investment spotlights are solely intended to illustrate metrics regarding our impact objectives and outcomes.

For information on our overall impact commitment and approach, as well as deep dives and reporting on our both our equity and fixed income strategies, please view our [impact platform page](#).

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Portfolio spotlight examples are based on non-performance-based criteria. For information on how we selected the portfolio spotlight examples, please see the Important disclosures section. Portfolio spotlight examples are for illustrative purposes only, are not representative of all investments made by the portfolio, and should not be interpreted as specific security recommendations or advice. It should not be assumed that an investment in the examples has been or will be profitable. Actual holdings vary for each client, and there is no guarantee that a particular client's account will hold the examples presented. Key performance indicator (KPI) data is based on issuer or company reporting, press releases and websites, proxy data, and Wellington analysis. While data is believed to be reliable, no assurance is being provided as to its accuracy or completeness.

For all investment spotlights, Wellington's impact investment teams determine the UN SDG goals and targets that, in our view, each portfolio company or issuer is aligned with. Language for the goals and targets has been abbreviated, but not otherwise altered, from UN.org. Sources for SDG logos and targets: Wellington Management, [www.un.org](http://www.un.org).

THEME OVERVIEW

# Clean water & sanitation

## QUANTITY | QUALITY | DISTRIBUTION

2.8 billion people in urban areas could face water scarcity by 2050, equivalent to half the world's urban population.<sup>1</sup>

In 2022, nearly 3.5 billion people lacked safely managed sanitation, including 1.5 billion without basic sanitation services.<sup>2</sup>

For billions of people, securing clean water is a constant struggle that can hamper economic development and impair health outcomes. At the community level, water scarcity can contribute to social unrest, particularly in regions where economic inequality is high and governance is weak.

Increasing water demand and the growing risk of droughts and floods associated with climate change may make water insecurity worse. The Intergovernmental Panel on Climate Change (IPCC) estimates that without adequate adaptation, the water-related impacts of climate change will lower GDP in many low- and middle-income countries.<sup>3</sup> Access to sanitation also remains a major challenge for many underserved populations. According to UNICEF, 3.5 billion people still lack safely managed sanitation.<sup>4</sup>

We believe that products and technologies that help alleviate water stress and secure better health outcomes could see rising investment spending and secular demand growth. The UN estimates that capital investment in water infrastructure needs to triple by 2030 in order to meet this goal.<sup>5</sup> Our research with Woodwell Climate Research Center has reaffirmed the opportunity in this theme. We expect to see increased capital expenditure directed toward improving water and sanitation infrastructure, including delivery, safety, and treatment.

<sup>1</sup>"Partnerships and Cooperation for Water," UN World Water Development Report 2023, United Nations Educational, Scientific and Cultural Organization (UNESCO). | <sup>2</sup>"Progress on household drinking water, sanitation and hygiene 2000 – 2022: Special focus on gender," New York: United Nations Children's Fund (UNICEF) and World Health Organization (WHO), 2023. | <sup>3</sup>"Climate Change 2022: Impacts, Adaptation and Vulnerability," IPCC Sixth Assessment Report, Intergovernmental Panel on Climate Change. | <sup>4</sup>Previously cited UNICEF report. | <sup>5</sup>"Water Infrastructure and Investment," United Nations Department of Economic and Social Affairs.



## IMPACT THEORY OF CHANGE

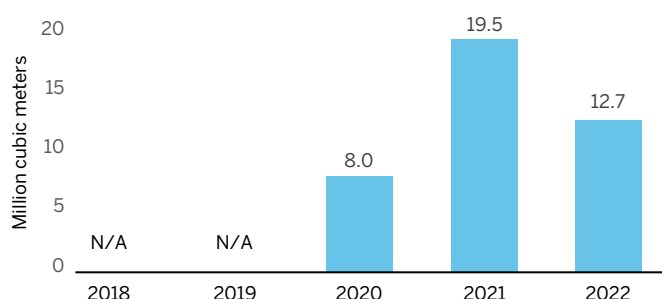
Water scarcity is a significant concern in Australia due to the arid climate and periodic droughts. The country's repeated water shortages are largely due to a more than 50% reduction in annual inflows to its largest river system, the Murray-Darling Basin, over the past 20 years.<sup>1</sup> Investments financed by the Queensland Treasury Corporation's (QTC's) green bonds will help improve the region's resilience to extreme water events resulting from climate change, with a focus on both flood defense and drought resilience (including storage, treatment, and a backup desalination plant). Much of the proceeds from QTC's previously issued green bonds has funded water infrastructure, enabling the issuer to play a crucial role in mitigating water scarcity in the region.

## FIVE DIMENSIONS OF IMPACT

<b>What</b>	Improved the region's climate water resilience through investments in pipelines, treatment facilities, and desalination plants
<b>Who</b>	3.6 million people and enterprises benefiting from access to clean drinking water and reduced exposure to the impact of physical climate risks, including droughts and floods <sup>2</sup>
<b>How much</b>	Annual water savings of 12.7 million cubic meters, <sup>3</sup> equivalent to approximately 5,080 Olympic-sized swimming pools <sup>4</sup>
<b>Contribution</b>	QTC has issued five green bonds (AU\$ 10.545 billion) focused on supporting the region's progress toward greater climate resilience
<b>Risk</b>	External: As the Gold Coast Desalination plant is not yet fully operational, it is possible that the potential water savings may not be realized

## PROGRESS OVER TIME OF CORE KPI\*

Annual water saved



Source: Queensland Treasury Corporation



**UN SDG ALIGNMENT** Ensure availability and sustainable management of water and sanitation for all

**TARGET 6.4** By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity

**Year of initial investment:** 2018

**Three-year annualized change in core KPI:** N/A

**Assessment:** Meets expectations

## QUALITATIVE ASSESSMENT

With scientists predicting more severe and frequent water risks associated with climate change, we are pleased with the water-saving potential associated with QTC's green bonds.

In the first half of 2023, QTC issued five green bonds. As well as meeting our financial criteria, we believe this investment continues to support our theme of clean water & sanitation as approximately 60% of the issuance has been allocated to water infrastructure. The largest allocation (22%) is for the construction of dams and weirs, followed by 20% for pipelines. Investments in these projects have enabled the construction of more than 600 km of pipeline connecting the water treatment plants with water sources. As a result of these projects, the risk of water scarcity in southeast Queensland, which suffered significantly during the Millennium Drought, has declined.<sup>5</sup>

We are particularly impressed with the potential water savings associated with the region's Gold Coast Desalination Plant, which could convert 133 million liters daily when fully operational, an amount equivalent to 15% of the region's daily urban water consumption. As this plant is not yet fully operational, it is possible that these potential savings may not be realized. We are aware of this execution risk and will continue to monitor the plant's progress through our engagement.

<sup>1</sup>"Australia 'experiencing impact of climate change' but policymakers cannot agree on meaning of water security," ABC News, 2022. | <sup>2</sup>"2023 Green Bond Annual Report," Queensland Treasury Corporation. | <sup>3</sup>Ibid. | <sup>4</sup>The calculation assumes that an Olympic-sized pool requires 2,500 cubic meters of water. | <sup>5</sup>Intergovernmental Panel on Climate Change Sixth Assessment Report, 2022. | <sup>6</sup>"2023 Green Bond Annual Report," Queensland Treasury Corporation. | \* Our calculations assume the 2021 Green Bond Annual report reflects data for the 2019-20 financial year, meaning our 2022, 2021 and 2020 KPIs correspond respectively to 2023, 2022 and 2021 report data.

THEME OVERVIEW

# Education & job training

## REMOTE ACCESS | IMPROVING FINANCIAL FUTURES

In 2022, US adults with a high-school diploma earned 25% more than those who did not finish high school.<sup>1</sup>

An estimated 773 million adults worldwide are illiterate, most of whom are women.<sup>2</sup>

Education is a basic human right, yet an estimated 78 million children do not attend school, owing to social conflict, climate-related disasters, or other reasons for displacement.<sup>3</sup> Children who do not receive an education may face significant obstacles as adults in finding employment opportunities that can sustain them economically. They are also likely to be more vulnerable to ill health, discrimination, and exploitation.

The COVID-19 pandemic and associated lockdowns have highlighted how crucial access to education is for children around the world. At the same time, the pandemic has turbocharged the use of technology in providing remote education. While COVID-related restrictions are no longer in place, we believe innovations that improve distance learning will remain in high demand, especially among low-income countries and communities. For adults, job training and skills development can help to lower the likelihood of unemployment and lead to higher-quality and better-paid work.

In our view, companies and issuers whose products and services provide affordable online learning and vocational training could enjoy significant growth potential. The impact they can have in narrowing the education gap and increasing access to economic opportunity is potentially widespread and enduring.

<sup>1</sup>"Education pays, 2022," US Bureau of Labor Statistics, May 2023. | <sup>2</sup>"What you need to know about literacy," United Nations Educational, Scientific and Cultural Organization (UNESCO) Institute for Statistics (UIS), June 2023 update. | <sup>3</sup>"78 million children don't go to school at all, warns UN chief in call for action," UN News, February 2023.





## IMPACT THEORY OF CHANGE

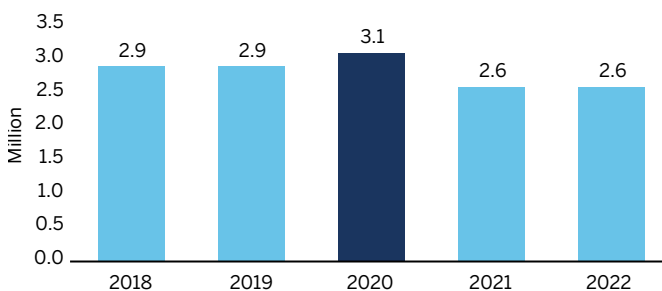
Unemployment insurance is an important social safety net. Unédic, France's unemployment insurance agency, helps unemployed people reintegrate into the workforce by providing financial support and job training programs. Investments in Unédic's social bonds help the agency fulfill its role as a social safety net and support the reintegration of job seekers into the labor market. These efforts reduce the risk of more negative economic and social outcomes.

## FIVE DIMENSIONS OF IMPACT

<b>What</b>	Mitigating the negative impact of job loss through a social safety net
<b>Who</b>	Contributed to the support of 2.6 million recipients of unemployment insurance in 2022 <sup>1</sup>
<b>How much</b>	Specifically, through its social bonds, Unédic allocated €27 billion to support the unemployed in 2020 and 2021 <sup>2</sup>
<b>Contribution</b>	Unédic's furloughing scheme protected eight million jobs, mostly at small- and medium-sized enterprises (SMEs) during the COVID-19 pandemic <sup>3</sup>
<b>Risk</b>	External: Factors outside Unédic's control that limit job seekers' ability to regain work

## PROGRESS OVER TIME OF CORE KPI

Number of people who received unemployment assistance



Source: Unédic ASSEO

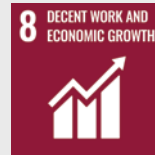
**Year of initial investment:** 2020

**Three-year annualized change in core KPI:** -3.3%

**Assessment:** Meets expectations

## QUALITATIVE ASSESSMENT

The COVID-19 pandemic highlighted the importance of unemployment insurance as a tool to manage the impact of economic volatility and mitigate the negative consequences of job loss for individuals and communities.



**UN SDG ALIGNMENT** Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

**TARGET 8.5** By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value

We believe Unédic's bonds support both our financial and impact goals. From an impact perspective, we see a close alignment with our Education & job training theme given the agency's social mission, which is to provide protection against the socio-economic uncertainties of the labor market and to assist qualifying individuals in finding or returning to work. In 2022, Unédic supported 2.6 million job seekers.<sup>1</sup> At the height of the pandemic in 2020, Unédic adapted quickly to support those in need, issuing what was then the largest social bond worldwide to deal with the adverse impact of COVID-19 on employment.<sup>2</sup>

While the KPI we have chosen is a good measure of Unédic's impact, the broader context must be considered. Factors such as France's unemployment rate and the number of job seekers registered with Unédic help us interpret our KPI each year. Considering the macroeconomic challenges of the past few years, we see Unédic's positive impact as meeting expectations.

Moreover, a sizable portion of the agency's social bonds is allocated to furloughing, which allows companies to temporarily suspend workers from their jobs if needed and provide them with a percentage of their gross hourly pay. In this way, eight million jobs have been protected in the last two years, 70% of which were in SMEs with fewer than 50 employees.<sup>3</sup> The agency also provides training to help the unemployed acquire new skills. In 2022, 86% of the French population believed that job seekers would be "unable to live with dignity" without unemployment benefits.<sup>4</sup>

## ENGAGEMENT PRIORITIES

We are impressed with Unédic's detailed and transparent reporting, including breakdowns by gender, age, qualifications, and industry of former employment. We would like to use future engagements to obtain more information on the long-term impact of Unédic's services, such as the percentage of individuals returning to work per year, and how Unédic continues to adapt to changes in the labor market characterized by more frequent job changes and new occupations.

<sup>1</sup> Indicateurs de suivi de l'Assurance chômage — les données ouvertes de l'Assurance chômage, Unédic. | <sup>2</sup> "Unédic — Allocation and Impact Reporting - Social Bonds 2021," February 2023. | <sup>3</sup> "Unédic — Activity Report 2021," Unédic. | <sup>4</sup> "Unédic — Activity Report 2022," Unédic.

THEME OVERVIEW

# Financial inclusion

## FINANCIAL TECHNOLOGY | ACCESS TO CAPITAL

Approximately 24% of people worldwide lack an account at a bank or regulated financial institution.<sup>1</sup>

Small- and medium-sized enterprises (SMEs) represent approximately 90% of businesses and employ more than 50% of workers worldwide.<sup>2</sup>

The UN calls financial inclusion “an enabler and accelerator of broad-based economic growth and resilience, improved financial health, job creation, and development,” adding that “an inclusive financial system is essential infrastructure in every country.”<sup>3</sup> Although bank account ownership in developing economies rose by eight percentage points between 2017 and 2021,<sup>4</sup> significant gaps in financial access persist for small businesses and underserved adults, particularly women, whose lower rates of account ownership can limit independence and economic empowerment.

Technology can help close the financial inclusion gap by reducing the use of high-cost or unreliable mechanisms to manage money.<sup>5</sup> For instance, millions of unbanked adults still receive payments in cash from governments and employers. Digitalizing these cash payments can increase account ownership and financial inclusion.<sup>6</sup> We believe companies that expand access to financial products and services, especially via digital mobile technology, have long runways for growth through expanding addressable markets around the world. We also think these solutions can help foster financial stability and economic development, and, in doing so, improve the lives of underserved individuals, companies, and communities.

<sup>1</sup>The Global Findex Database, The World Bank, 2022. | <sup>2</sup>“Small and Medium Enterprises (SMEs) Finance,” The World Bank, 2020. | <sup>3</sup>“The Imperative of Financial Inclusion,” United Nations Secretary-General’s Special Advocate for Inclusive Finance for Development, 2023. | <sup>4</sup>The Global Findex Database, The World Bank, 2021. | <sup>5</sup>Ibid. | <sup>6</sup>Ibid.



## IMPACT THEORY OF CHANGE

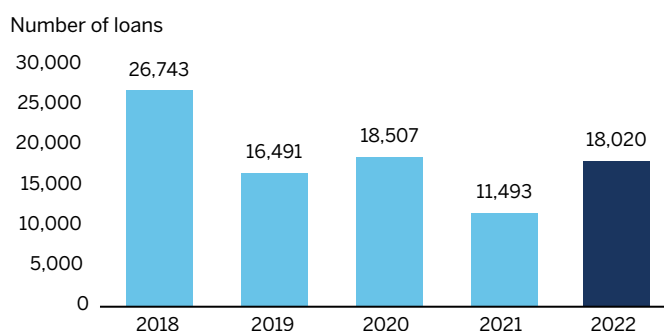
Prestige Auto (Prestige) offers car loans to borrowers in the US who have previously experienced bankruptcy but currently demonstrate an ability to repay. As a result of bankruptcy, these individuals have typically reduced their debt burden, as their debt includes only that which a bankruptcy court has approved. Nevertheless, these borrowers may still struggle to access financing.

In 2022, roughly 374,000 US consumers filed for bankruptcy, an event that can affect an individual's credit score for a decade, making it harder to secure credit.<sup>1</sup> Prestige undertakes extensive due diligence on individuals' long-term credit history to gain comfort on their ability to pay. Prestige provides financing at a lower rate than comparable lenders and by helping customers rebuild their credit histories, we believe the company facilitates financial (re)inclusion.

## FIVE DIMENSIONS OF IMPACT

<b>What</b>	Car loans to consumers struggling to access credit
<b>Who</b>	Extends loans to recently bankrupt customers with low credit scores and/or low incomes
<b>How much</b>	Provided 18,020 car loans in 2022 <sup>2</sup>
<b>Contribution</b>	Prestige's annual interest rate is nearly 400 basis points (bps) lower than rates offered by its competitors to borrowers with similar credit scores <sup>3</sup>
<b>Risk</b>	Execution: Ensuring low-income borrowers can repay loans

## PROGRESS OF CORE KPI

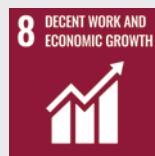


Source: S&P Global Presale Report

**Year of initial investment:** 2022

**Three-year annualized change in core KPI:** 3%

**Assessment:** Meets expectations



**UN SDG ALIGNMENT** Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

**TARGET 8.10** Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all

## QUALITATIVE ASSESSMENT

Overall, we are pleased with our investment in Prestige from both a return and impact perspective. Prestige has grown its loan portfolio by 3% annually over the past three years, helping more than 18,000 people improve their credit scores.<sup>4</sup>

Prestige loans help increase financial access for low-income Americans. The company requires no minimum credit score or minimum down payment. Prestige's annual interest rate is nearly 400 bps lower than the rate associated with other asset-backed securities comprised of borrowers with similar credit scores. Prestige may lower the interest rate if a borrower makes payments on time and maintains full insurance coverage.<sup>5</sup> We see this flexibility as particularly important for low-income borrowers.

Our core KPI cannot capture the full benefits for Prestige customers, including the ability to build a history of loan repayments that could, over time, help them avoid subprime lending options and access mainstream credit at a much lower cost. Despite the more advantageous loan conditions that Prestige provides, its low-income customers may still encounter economic challenges. Our research suggests that Prestige is adopting measures to alleviate these risks, based on customer feedback and engagement with management.

## ENGAGEMENT PRIORITIES

Given the rising US interest-rate environment, we'd like to speak to management about the repayment trends they are seeing in the loan portfolio and how they think about balancing flexibility with adequate assessment of credit risk. A more detailed breakdown of the socioeconomic characteristics of their portfolio (beyond income levels) would be a useful disclosure to support our impact case. As the risks and opportunities of the use of AI in credit underwriting become more apparent, we'd like to discuss how Prestige is using AI to manage risk and potentially increase its customer base.

<sup>1</sup> Bankruptcy Statistics, American Bankruptcy Institute. | <sup>2</sup> S&P Global Presale Report, 2022. | <sup>3</sup> Figure based on data provided in the most recent Prestige Auto offering memorandum and Wellington research on comparable peers. | <sup>4</sup> Prestige Offering Memorandum 2023. | <sup>5</sup> Ibid.



THEME OVERVIEW

# Resource efficiency

## PRESERVATION | ADVANCEMENT | SUSTAINABILITY

Global electricity demand is expected to reach 50,000 terawatt hours (TWh) in 2050, almost double the 2021 level.<sup>1</sup>

To ensure a sustainable and equitable future and promote long-term economic growth potential, we believe society must use its natural resources more efficiently. The UN estimates that more efficient production and consumption of materials in G7 countries could help cut estimated CO2 emissions between 2016 and 2060 by approximately 25 gigatons (Gt).<sup>2</sup> The twin trends of rising consumption and dwindling supply of nonrenewable and mostly finite resources including fossil fuels, minerals, and arable land pose a substantial risk to economic activity worldwide. We are already seeing signs of growing resource scarcity in areas as diverse as power generation and transmission, manufacturing, and construction.

The natural resource challenge is not just environmental. For many people, the more difficult resources are to obtain, the harder it is to maintain living standards and economic stability. Recent difficulties ensuring reliable access to energy supplies and the associated rise in energy prices have underscored the importance of efficient production and consumption. Prudent use of finite resources is also essential for a successful transition to a sustainable and more inclusive economic model. Innovating and modernizing existing resource extraction, production, and distribution methods can help reduce waste and pollution, contribute to climate-change mitigation, and safeguard human health. While requiring significant up-front investment, better processes could also save money over time.

We see a growing number of attractive investment opportunities within this theme as companies seek to decarbonize their manufacturing and production by sourcing renewable energy, investing in carbon capture and storage technology, and developing more efficient systems for water and energy use. Our research indicates that these solutions will not only be increasingly economically viable, but they could also help companies establish competitive and reputational advantages.

<sup>1</sup> Raimi, Daniel et al. "Global Energy Outlook 2023: Sowing the Seeds of an Energy Transition," Resources for the Future, March 2023. | <sup>2</sup> "Resource efficiency and climate change," UN Environment Programme, International Resource Panel, 2020.



## IMPACT THEORY OF CHANGE

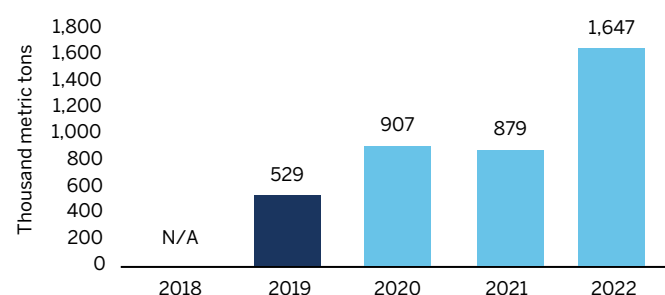
The transition to a low-carbon, resilient, environmentally sustainable economy will require vast amounts of capital. Investments in Danske Bank's green bonds support Nordic societies in achieving their ambitious environmental goals. The intended use of proceeds covers a wide range of categories that address the challenge from multiple angles: clean transport, alternative energy, and emissions-efficient products and buildings, for example.

## FIVE DIMENSIONS OF IMPACT

<b>What</b>	Supporting the transition to a low-carbon, resource-efficient economy
<b>Who</b>	Predominantly supporting Nordic countries' environmental goals, including becoming fossil-fuel free by 2050 <sup>1</sup>
<b>How much</b>	Projects supported by Danske Bank's green bonds avoided 1.65 million greenhouse gas (GHG) emissions in 2022 <sup>2</sup>
<b>Contribution</b>	Systematically supporting the low-carbon energy transition by directing proceeds toward various categories that align with the EU taxonomy and the ambitious goals set by the Nordic countries
<b>Risk</b>	Efficiency: Allocating proceeds to projects best suited to achieve the greatest impact most effectively

## PROGRESS OVER TIME OF CORE KPI

GHG emissions avoided



Source: Danske Bank

**Year of initial investment:** 2019

**Three-year annualized change in core KPI:** 46%

**Assessment:** Meets expectations

## QUALITATIVE ASSESSMENT

Nordic countries have pledged to omit fossil fuels from their energy supply by 2050 through ambitious environmental initiatives. Most of these fossil-fuel-free policies rely on



**UN SDG ALIGNMENT** Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

**TARGET 9.4** By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities

the promotion of renewable energy and energy-efficient technologies.<sup>3</sup> Per capita energy consumption and GHG emissions in the Nordic region are relatively high by global standards, due in part to long, cold winters; transportation distances in sparsely populated regions; high material consumption; and the prevalence of energy-intensive industries. These factors have long made energy efficiency an important social and political issue in the region.<sup>4</sup>

Danske Bank's green bonds focus on eight environmental categories that closely align with the EU taxonomy regulation and primarily aim to achieve the ambitious Nordic targets.<sup>4</sup> In line with policy priorities, the bank's 2022 allocations mainly centered on renewable energy and energy-efficiency improvements. For example, it allocated proceeds to the NEAS Group, an electric utility for municipalities in western Norway. This investment helped to refurbish NEAS's hydropower facilities and parts of the transmission grid. Consisting of approximately 800 km of cable lines and 500 transformer stations, the grid ensures a reliable power supply for more than 26,000 customers.<sup>5</sup>

We are pleased that our investment in Danske Bank's green bonds is achieving both our financial return targets and a significant reduction in GHG emissions. We also appreciate the transparency and level of detail in the bank's annual allocation report, which includes information on each supported project, including impact achieved — from energy transferred or saved, to aggregated GHG emissions avoided.

## ENGAGEMENT PRIORITIES

We would like to engage with Danske Bank about how its approach ensures the selection of highly impactful yet efficient projects. Specifically, as green buildings remained one of the largest categories (57%) in Danske Bank's green bond portfolio in 2022, while accounting for less than 1% of total avoided GHG emissions, we would like to learn more about the projects supported in this category.

<sup>1</sup> "Sustainalytics Evaluation Summary" (of Danske Bank's green bonds), November 2022. | <sup>2</sup> "Green Bond Report 2022," Danske Bank, 2023. | <sup>3</sup> "Nordic action on climate change," Nordic Council of Ministers, 2017. | <sup>4</sup> Ibid. | <sup>5</sup> "Green Finance Framework," Danske Bank Group, November 2022.

# Important disclosures

## ABOUT THIS REPORT

Data provided is as of 30 September 2023.

The views expressed herein are those of the author(s), are based on available information, and are subject to change without notice. Individual portfolio management teams may hold different views and may make different investment decisions for different clients. The material and/or its contents are current as of 30 June 2023. Forward-looking statements or estimates may be made. Actual results and occurrences may vary significantly. Certain data provided is that of a third party. While data is believed to be reliable, no assurance is being provided as to its accuracy or completeness. Wellington determines the goals and targets that, in our view, each portfolio issuer is aligned with. Language for the goals and targets has been abbreviated, but not otherwise altered, from UN.org. Wellington Management supports the United Nations Sustainable Development Goals. These are not to be construed as a recommendation of any of the specific securities presented or indicative of their past or future performance.

Investment examples are based on holdings of the representative account as of 30 June 2023. For Global Impact Bond, the representative account shown became effective on 1 May 2019 because it was the only account at the time of selection. Each client account is individually managed; individual holdings will vary for each account and there is no guarantee that a particular account will have the same characteristics as described.

Issuer examples are for illustrative purposes only, are not representative of all investments made by the portfolio and should not be interpreted as a recommendation or advice. Portfolio spotlight examples are based on nonperformance criteria. For Global Impact Bond the largest position in each impact theme is selected. If the largest position was highlighted last year, then another example is selected. If there is more than one additional issuer in the theme, the largest trade is highlighted (based on the number of shares).

The featured holding was largest by size in a theme as of 30 June 2023 for: Xylem, PowerSchool, Bank Rakyat, Hubbell Incorporated (Hubbell is tied for largest position, but the other holding was highlighted last year).

The key performance indicators (KPIs) shown for each issuer have been developed by Wellington. These metrics are proprietary to Wellington and are used to assess an issuer's progress toward its particular business objectives. Information is from multiple sources including the following: annual and quarterly reports; industry research pieces; websites; press releases; case studies; and issuer engagements. Only holdings that had applicable and available KPI data were included. In cases where the 2021 data was not available at the time of publication, we have used 2020 or the nearest to 2021 data.

## INVESTMENT RISKS

All investing involves risk. If an investor is in any doubt as to the suitability of an investment, they should consult an independent financial adviser. Past results are not necessarily indicative of future results and an investment can lose value.

**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.

**Derivatives:** Derivatives can be volatile and involve various degrees of risk. The value of derivative instruments may be affected by changes in overall market movements, the business or financial condition of specific companies, index volatility, changes in interest rates, or factors affecting a particular industry or region. Derivative instruments may provide more market exposure than the money paid or deposited when the transaction is entered into. As a result, a relatively small adverse market movement can not only result in the loss of the entire investment but may also expose a portfolio to the possibility of a loss exceeding the original amount invested. Derivatives may also be imperfectly correlated with the underlying securities or indices it represents and may be subject to additional liquidity and counterparty risk.

**Asset/mortgage-backed securities:** Mortgage-related and asset-backed securities are subject to prepayment risk, which is the possibility that the principal of the loans underlying the securities may prepay differently than anticipated at purchase. Because of prepayment risk, the duration of mortgage-related and asset-backed securities may be difficult to predict.

**Concentration:** Concentration of investments in a relatively small number of securities, sectors or industries, or geographical regions may significantly affect performance.

**Credit:** The value of fixed income securities may decline, or the issuer or guarantor of that security may fail to pay interest or principal when due, as a result of adverse changes to its financial status and/or business. In general, lower-rated securities carry a greater degree of credit risk than higher-rated securities.

**Currency:** Investments in currencies, currency derivatives, or similar instruments, as well as in securities that are denominated in foreign currency, are subject to the risk that the value of a particular currency will change in relation to one or more other currencies.

**Fixed income securities markets:** Fixed income securities markets are subject to many factors, including economic conditions, government regulations, market sentiment, and local and international political events. In addition, the market value

of fixed income securities will fluctuate in response to changes in interest rates, currency values, and the creditworthiness of the issuer.

**Foreign and emerging markets:** Investments in foreign markets may present risks not typically associated with domestic markets. These risks may include changes in currency exchange rates; less-liquid markets and less available information; less government supervision of exchanges, brokers, and issuers; increased social, economic, and political uncertainty; and greater price volatility. These risks may be greater in emerging markets, which may also entail different risks from developed markets.

**Interest rate:** Generally, the value of fixed income securities will change inversely with changes in interest rates. The risk that changes in interest rates will adversely affect investments will be greater for longer-term fixed income securities than for shorter term fixed income securities.

**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.

**Real estate securities:** Risks associated with investing in the securities of companies principally engaged in the real estate industry such as REIT securities include: the cyclical nature of real estate values; risk related to general and local economic conditions; overbuilding and increased competition; demographic trends; and increases in interest rates and other real estate capital market influences.

**Smaller-capitalization stocks:** The share prices of small- and mid-cap companies may exhibit greater volatility than the share prices of larger capitalization companies. In addition, shares of small- and mid-cap companies are often less liquid than larger capitalization companies.

**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.

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