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2022 Global Impact engagement report

A REVIEW OF ENGAGEMENTS BY OUR IMPACT EQUITY TEAM

2022 HIGHLIGHTS OF OUR GLOBAL IMPACT ENGAGEMENT ACTIVITY

239

engagements across ESG
and impact topics

71

portfolio companies

33

engagements with potential
portfolio candidates

We believe that partnership and engagement with our portfolio companies can enhance the positive social and environmental impact of our investments and help create lasting value for our clients.

In our view, material environmental, social, and governance (ESG) matters are strategic business issues that can affect a company's financial performance, competitiveness, and sustainability. The better we understand material ESG issues, the more informed our investment decisions. To ensure the viability of our theory of change — the impact thesis — for each company, we seek to support and influence positive outcomes through informed and active ownership.

Our team approaches engagement as we do our investment research, leveraging multidisciplinary analyses that span equity, impact, and ESG perspectives. As a fiduciary of our clients' capital, we believe it is our duty to understand the full mosaic of a company's business model, industry structure, and capital allocation decisions. We also believe that this approach is the most effective way to achieve the strategies' intended positive impact on people and the planet.

Objectives of engagement

The Global Impact Investment Team, collaborating with Wellington's ESG Research Team, takes a hands-on approach to engagement, meeting in person with boards and management teams, writing letters, and hosting calls multiple times each year. During our engagements, we have three main objectives:

1. To understand material E, S, and/or G considerations for companies in the portfolio or potential portfolio candidates.
2. To gain a deeper insight into matters relevant to our investment and impact theses and take corrective action if repeated engagement does not provide the necessary levels of comfort.
3. To educate management teams and boards on the strategies' impact goals and develop key performance indicators (KPIs) to measure the impact generated.

Active engagement helps us identify where improvements can be made, encourage companies to measure their impact — both positive and negative — and report meaningful data.

In practice, we tend to approach an engagement with the initial objective of understanding how management sees the company's ability to effect positive change; this helps us define the opportunity and outline longer-term goals. Companies are increasingly receptive to our requests for transparency or additional reporting on business strategies. However, they may require more time and support to evolve their practices and develop the resources and tools needed for assessing and measuring impact. Engagement allows us to work with companies on how their business strategy can enhance impact contribution, which in turn can enable management to articulate a stronger value proposition. We believe improved communication and transparency also lead to greater alignment across stakeholder groups.



Overall, in 2022, we engaged on 239 topics with 71 portfolio companies and had further engagements with 33 potential candidates for the portfolio. Throughout the year, we revisited the investment thesis for each of our holdings and used our engagements as a key mechanism to gain a deeper understanding of the companies in our portfolio and validate the underwriting of our investments.

In 2023, we are devoting significant time to discussions on how inflation and lingering supply chain disruptions have affected our investee companies and their customers, particularly in lower-income groups. With the pandemic abating and travel restarting, we welcome the renewed opportunity to visit management teams, operations, and factories in person.

Sample engagements and outcomes from 2022

Below we share examples of material ESG and impact engagements that we conducted in 2022 across our 11 impact themes in the pursuit of investment and impact outcomes that we believe will enhance both the value and positive impact of our clients' investment over the longer term.

OUR IMPACT THEMES



LIFE ESSENTIALS

- Affordable housing
- Clean water & sanitation
- Health
- Sustainable agriculture & nutrition

HUMAN EMPOWERMENT

- Digital divide
- Education & job training
- Financial inclusion
- Safety & security

ENVIRONMENT

- Alternative energy
- Resource efficiency
- Resource stewardship

Major areas of focus included¹:

Supply chain risks — Supply chain risks remained a key consideration for many companies, with geopolitical and energy security concerns emerging as new threats. “Nearshoring” — having suppliers in locations closer to production and distribution — was a growing theme among our portfolio companies as they looked to enhance supply chain stability, curb costs, and improve transparency on material impact risks and opportunities.

Rising inflation — Many of our engagements on social topics intersected with impact themes as we sought to understand the effect of inflation on both companies and customers.

Robustness of business models — In our governance-focused engagements, we have probed companies’ ability to withstand reduced client demand given an uncertain economic outlook and remaining supply backlogs.

¹ For illustrative purposes only, areas of focus will vary by company

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Many of our engagements focused on the social impact of inflation.

ENVIRONMENT (E)

RESOURCE STEWARDSHIP

We met with a leading US low-cost supplier of renewable diesel feedstock. Its scalable offering can help reduce emissions from transport, which accounts for 14% of global greenhouse gas (GHG) emissions. Following a visit to the company's headquarters and one of its plants, we came away with a strong conviction about the prospects for innovation in new product lines. We also saw increased potential to return capital to shareholders alongside reinvestment in the company's newest renewable production facility. We believe the market underappreciates this production ramp-up, which should come to fruition in future years.

RESOURCE EFFICIENCY

Many industrial companies have been using working capital to hold more inventory and avoid "the golden screw" problem, where missing a single small component can hamper overall production. Our engagement with a health-care-focused company reflected this trend; the management team was looking to nearshore some of the company's supply chain to manage costs and avoid potential supply disruptions.

The emphasis on managing supply chain volatility and nearshoring may lead to opportunities for portfolio companies in seemingly unrelated themes. For example, as semiconductor manufacturers seek to nearshore chip production, clean water & sanitation companies with services to help increase water recycling and reduce water usage may see new business opportunities and further opportunities for growth.

SOCIAL (S)

HEALTH

We engaged with a US provider of low-cost vision care whose customers predominantly live in underserved rural areas. We wanted to understand the company's commitment to its mission, recognizing that competitors were increasing prices to offset cost inflation. The company reassured us that its culture is not built around upselling, and it remains focused on providing access to eye care at affordable prices. This gave us conviction on the company's commitment to its long-term mission and client base.

We sought a subsequent meeting, following disappointing quarterly results and amid ongoing retail-market volatility. The management team acknowledged that inflation had forced the company to raise the entry price for its eyewear for the first time in 15 years, but emphasized the strong value proposition the company retains with its core customers.

A final engagement in the closing months of 2022 brought further reassurance in the management team's ability to remain focused on offering value to customers while maintaining margins. We still believe the company to be one of the best-value providers of vision care in the US and have confidence that management has the skill and experience to navigate the difficult quarters ahead.

DIGITAL DIVIDE

We engaged with a telecommunications company to understand the implications of inflation in an industry that has grown accustomed to price decreases due to the falling cost of technology. Our discussions reassured us that the management team is focused on mitigating the impact of this changed price dynamic on the company's cost base and demand from its underserved customers.

GOVERNANCE (G)

FINANCIAL INCLUSION

We met with one of the largest nonprime consumer finance companies in the US, following an earlier engagement in 2021 on governance. Subprime lending is one of the few options available for low-income consumers to obtain credit in the US, and this provider consistently extends credit at rates below alternatives. We are pleased with the work the company has done to understand and implement ESG best practices. We have shared new ideas for improvement, such as declassifying the board to enhance accountability and increasing transparency around diversity metrics. We look forward to reporting on this company's ESG journey.

EDUCATION & JOB TRAINING

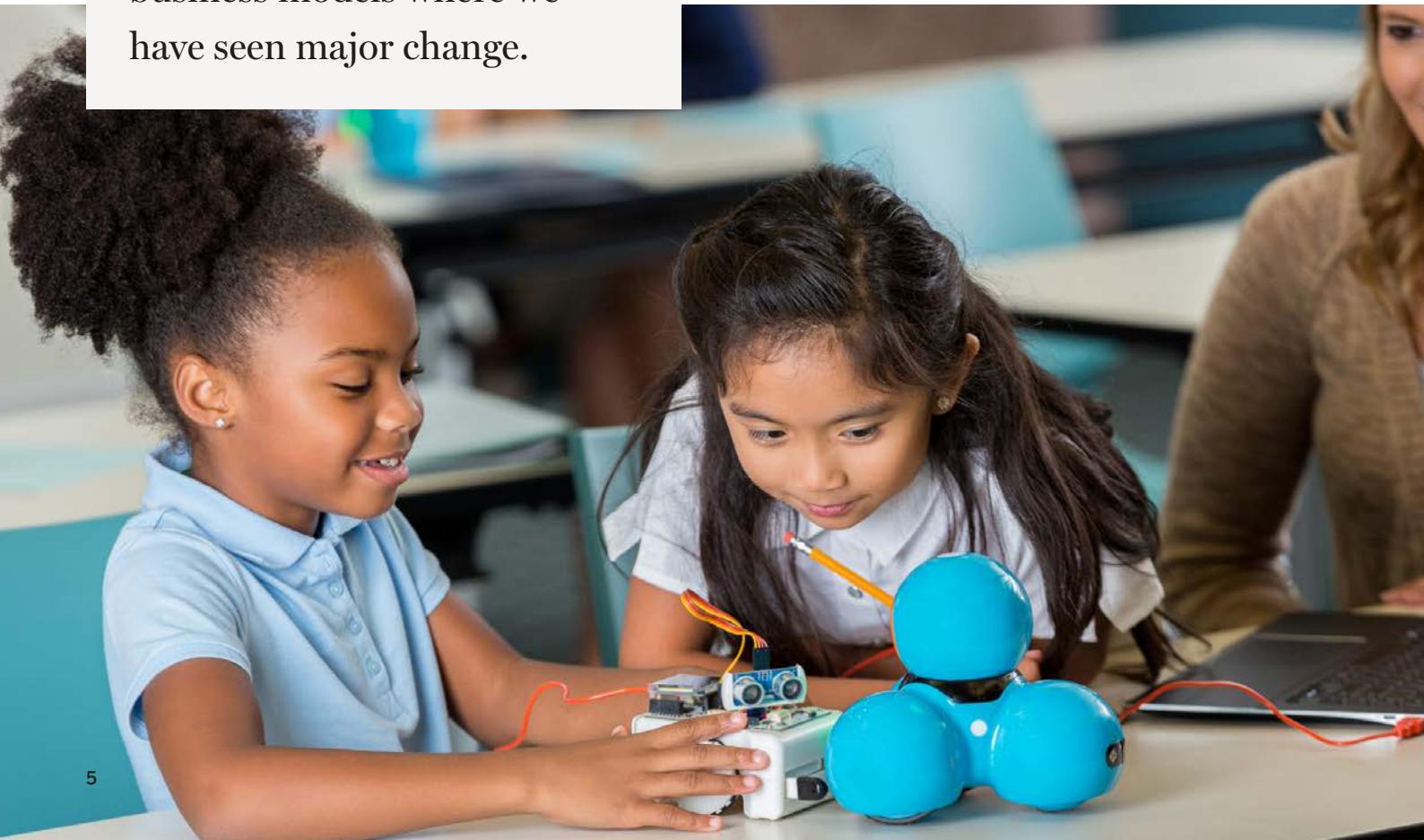
We met in person with the CEO of a Latin American-focused education provider for the first time since the company had streamlined its business operations. Prior to the pandemic, the company was the world's largest for-profit provider of degree-granting education. During the pandemic, the organization exited operations in its noncore geographies to focus on building its brand in Mexico and Peru, two countries with growing education-participation rates. The divestitures have left the company with a much-improved balance sheet, which is now net-cash positive. During the engagement, we also discussed our impact thesis, as we believe that management could better capture the company's impact on its students through disclosures and case studies. Management signaled this is an area of focus, and we will continue to engage with the team on this topic.

THE IMPORTANCE OF PROXY VOTING

We see proxy voting as an important engagement tool that allows us to be more transparent and drive change across our holding companies for the benefit of our clients. During the 2022 proxy season, we engaged extensively with a health care company about a board member who we viewed as being overboarded, with multiple responsibilities competing for his time. While we ultimately exited our position in the company in the third quarter due to fundamental financial reasons, we discussed our overboarding concerns prior to the vote, which allowed the company to revisit the topic with the board member and plan ahead.

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We have probed companies' business models where we have seen major change.



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We engaged with several portfolio companies on impact measurement and management aspects.

IMPACT (I)

HEALTH

We engaged with a company at the forefront of innovative, lifesaving research, whose advanced product lines seek to help to improve patients' quality of life, to understand how it articulated its impact on patients across its product portfolio. Management informed us that they are developing new ways to measure patient impact. Currently, the company lacks a single impact metric given its diverse product lines, but it is exploring options and dedicating resources to this effort, with a senior manager leading this work.

DIGITAL DIVIDE

We approached a digital technology company following its third-quarter earnings release. We were concerned with the growth prospects of its business in India and wanted to discuss impact measurement. The company was confident about its ability to grow the top line in India, thanks to network build-outs and the potential for associated operating leverage. We also discussed additional levers the company can use to improve its margin trajectory, and we explored its ability to connect customers in remote areas. The company has been working to expand its digital infrastructure, including with Native American tribes in the US. We shared our perspective that management can do more to highlight how they are enhancing the digital connectivity of local communities and rural areas. We have been impressed by management's solicitation of, and receptiveness to, feedback.

EDUCATION & JOB TRAINING

We met with an education company's management team in person, for the first time since we started following it as a private company. The team was confident in the business and the level of pent-up consumer demand, and we believe the company is relatively insulated from macro factors. Management shared that the company's end market has seen negative growth just once in the last 30 years, and that education spending has been increasing post-COVID. Further, we believe teacher shortages can increase the value proposition of the business as its products help to reduce teachers' administrative time by up to 12.5 hours per week, according to company data.

Looking ahead

Our engagements in 2022 gave us valuable and additive insight into companies' strengths and weaknesses. These discussions also helped us to confirm that our impact companies are delivering impact and have the potential to generate strong long-term financial returns. In 2023, we will remain focused on both objectives while keeping a close eye on new developments that may have a bearing on our financial and impact goals. We are monitoring the implications of China's reopening and the evolution of global consumer demand amid economic uncertainty and cost-of-living challenges in many regions. We look forward to reporting on our continued work and the results we achieve with investee companies.



2022 engagements

	E	S	G	I
ENVIRONMENT				
ALTERNATIVE ENERGY				
Acciona SA	●		●	●
Brookfield	●	●	●	●
First Solar Inc	●	●	●	●
Hannon Armstrong	●	●	●	●
SolarEdge Tech Inc	●	●	●	●
RESOURCE EFFICIENCY				
Aalberts Industries	●	●	●	●
Advanced Drainage Sy			●	●
Alexandria	●	●	●	
Autodesk Inc	●		●	●
Boston Prop Inc*	●		●	
Hubbell Inc	●	●	●	●
Itron Inc				
Landis+Gyr Group AG				
Niu Technologies ADR*		●	●	
Rivian Auto Inc*			●	
Samsung SDI Co Ltd	●	●	●	●
Schneider Elect SE	●	●	●	●
Signify NV	●	●	●	●
Trane Technologies	●	●	●	
Wabtec Corporation	●		●	●
RESOURCE STEWARDSHIP				
Ball Corp*	●	●	●	●
Cleanaway Waste	●	●	●	●
Croda Intl PLC	●	●	●	●
Darling Ingredients	●	●	●	●
HUMAN EMPOWERMENT				
DIGITAL DIVIDE				
GoDaddy Inc		●	●	●
GrameenPhone Ltd				
MediaTek Inc	●	●	●	
Nokia Oyj	●	●	●	●
Telefonica Brasil SA			●	●
Vodacom Group Ltd			●	●
EDUCATION & JOB TRAINING				
Laureate Education-A		●	●	●
PowerSchool Hldgs	●	●	●	●
Seek Ltd				
Upwork Inc		●	●	●
YDUQS Participacoes		●	●	●
FINANCIAL INCLUSION				
Bank Rakyat Indonesi	●	●	●	●
Block Inc		●	●	●
Etsy Inc	●	●	●	●

	E	S	G	I
Globe Life Inc		●	●	
Old Mutual Ltd		●	●	●
OneMain Holdings Inc		●	●	●
Popular Inc	●	●	●	
Safaricom PLC				
Shriram Finance Ltd				
Shriram Transport Fi	●	●	●	
SAFETY & SECURITY				
Chroma Ate Inc		●	●	●
CyberArk Software	●	●	●	●
F5 Inc	●	●	●	
Mimecast Ltd				
MIPS AB RgSS	●	●	●	●
PGT Innovations Inc	●		●	●
Rapid7 Inc*	●	●	●	●
Stantec Inc	●	●	●	●
LIFE ESSENTIALS				
AFFORDABLE HOUSING				
Katitas Co Ltd	●	●	●	
Nexity*	●	●	●	
Sun Communities REIT			●	●
Vonovia SE*			●	
CLEAN WATER & SANITATION				
Evoqua Water Technol	●	●	●	●
Tetra Tech Inc	●	●	●	●
Watts Water Tech Inc				
Xylem Inc	●	●	●	●
HEALTH				
Agilent Technologies	●	●	●	●
agilon health Inc			●	●
Amedisys Inc	●	●	●	●
Baxter International*	●	●	●	●
Boston Scientific	●	●	●	●
CSPC Pharm Grp Ltd	●	●	●	●
Danaher Corp	●	●	●	●
Eisai Co Ltd*	●	●	●	●
Hangzhou Tigermed	●	●	●	●
Health Catalyst Inc*	●	●	●	
Hikma Pharmaceutical		●	●	●
Illumina Inc	●	●	●	●
Insulet Corp	●	●	●	●
National Vision Hold	●	●	●	●
Shenzhen Mindray	●	●	●	●
SUSTAINABLE AGRICULTURE & NUTRITION				
Genus Plc	●	●	●	
Koninklijke DSM NV	●	●	●	●
Nomad Foods Ltd	●	●	●	●

*Sold during 2022| E = Environment, S = Social, G = Corporate governance discussions; I = Impact. The companies shown comprise a complete list of all engagement meetings in which Wellington Management's ESG Research and Impact Investing teams participated in 2023. The specific securities identified are not representative of all the securities purchased, sold, or recommended for clients. It should not be assumed that an investment in the securities identified has been or will be profitable. Actual holdings will vary for each client and there is no guarantee that a particular client's account will hold any or all the securities listed. This is not to be construed as investment advice or a recommendation to buy or sell any specific security.

The engagement case studies presented are for illustrative purposes only and should not be viewed as representative of actual holdings. The engagement case studies chosen are based on meetings held during the year and our priorities, giving insight into our process. There can be no assurance that the portfolio would hold companies such as these or that they would be profitable in the future. Please refer to the annual and semi-annual report for the full holdings.

Risks

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

Currency: Investments in currencies, currency futures contracts, forward currency exchange contracts, 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.

Equity markets: Equity markets are subject to many factors, including economic conditions, government regulations, market sentiment, local and international political events, and environmental and technological issues.

Foreign markets (includes 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 than developed markets.

Smaller-capitalization stock: 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 those of larger-capitalization companies.

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