

WELLINGTON
MANAGEMENT®



Preparing for Level 2 of SFDR

UPDATE | DECEMBER 2021

The EU’s Sustainable Finance Disclosure Regulation (SFDR) has been a key focus for Wellington since its release in 2019. We are now actively preparing for Level 2 requirements, scheduled to take effect from 1 January 2023. Our approach is based on a philosophy of ensuring investment integrity and meeting clients’ expectations.

Since the publication of Level 1 legislation in November 2019 our efforts have centred on ensuring compliance with these Level 1 requirements. The subsequent draft Regulatory Technical Standards (RTS) published in April 2020 and, more recently, February, March and October of 2021, significantly expand many of the Level 1 requirements. Our focus is on understanding and preparing for these standards as they evolve ahead of the 1 January 2023 deadline. Wellington is fully committed to environmental, social and governance (ESG) integration and sustainability as reflected in our recent decision to create firmwide Sustainable Investment Governance, Management and Leadership teams, composed of our senior leadership and leading sustainability experts. We have also assembled a Sustainable Investment Regulatory and Third-Party Working Group to focus on the sustainability-related regulations. A crucial aspect of this effort is to extend our partnership with clients to meet both their financial and sustainable investment goals. We look forward to working with you.



Wendy Cromwell, CFA
Vice Chair and Head of Sustainable Investment



Cheryl Duckworth, CFA
Head of Sustainable Investing, Client Group



Andria Weil
Director, Sustainable Investment Policy and Chair, Sustainable Investment Regulatory and Third-Party Working Group

About Wellington Management

Wellington Management opened its London office in 1983 and today has four offices in continental Europe, as well as established fund ranges in Ireland (UCITs) and Luxembourg (UCITs and AIFs).

A STRONG EUROPEAN PRESENCE

OFFICES

- London
- Frankfurt
- Luxembourg
- Milan
- Zurich

FUND RANGES

- Ireland
- Luxembourg



About the new regulation

The 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, the 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 objectives. To achieve that goal, 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.

The 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, the 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. The regulation should improve investors' ability to compare sustainable investment products and evaluate financial services firms' commitment to ESG and advancing a lower-carbon future.

DEFINING SUSTAINABLE INVESTMENTS UNDER SFDR

According to the SFDR, sustainable investments have the following attributes:

- An investee company's activities contribute to a sustainable objective, such as:
 - Climate change mitigation or adaptation, sustainable water use, transition to a circular economy (E)
 - Reducing inequality, fostering respect for human rights, countering corruption (S)
- An investee company demonstrates good governance, including through board and management structure, compensation and tax compliance (G).
- These investments do no significant harm to any other sustainable objective.



Product classification categories

Under the SFDR, every covered product's public disclosures, reporting, prospectus and marketing materials must meet the disclosure requirements for one of three product classification categories: Article 9 (dark green), Article 8 (light green) and Article 6 (other).

The tiered categories distinguish products by whether and to what extent sustainability or ESG forms part of their investment

approach or objective. A product's classification will determine its required disclosures, which become more specific and detailed the higher it is up the sustainability scale. When the Level 2 RTS is finalised, it will provide templates for disclosure and reporting for Article 8 and Article 9 products to ensure consistency and compliance with the SFDR's stated goals.

ARTICLE 9: DARK GREEN

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 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".

All investee company holdings must be deemed to have "good governance".

Managers must also disclose whether, and how they incorporate sustainability risk considerations into the investment process.

ARTICLE 8: LIGHT GREEN

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".

All investee company holdings must be deemed to have "good governance".

Managers must also disclose whether, and how they incorporate sustainability risk considerations into the investment process.

ARTICLE 6: OTHER

Products 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."

Managers must also disclose whether, and how they incorporate sustainability risk considerations into the investment process.



ALIGNING OUR INVESTMENT PRODUCTS

With more than 70 funds and a substantial number of strategies available in separately managed accounts globally, Wellington's investment platform is broad and varied. Our Sustainable Investment Regulatory and Third-Party Working Group — in partnership with the relevant investment, client-facing and operational functions across the firm — is collaborating with individual portfolio management teams to gauge how their investment philosophy, process and portfolio guidelines align with the SFDR's product classification system.

When SFDR took effect on 10 March 2021, we classified several investment products as Article 9, 8 or 6. We have subsequently classified additional products as Article 8 and 9 and will continue to do so into 2022 as we complete our assessment of investment product alignment with SFDR and continue to better embed sustainability into our investment process. Under SFDR, each investment team needs to consider carefully how to best articulate ESG and sustainability principles in a way that aligns with evolving regulatory standards.

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

REPORTING SUSTAINABLE CHARACTERISTICS

We are working across our investment platform to ensure that we continue to communicate clearly how a portfolio is managed and to provide the relevant SFDR disclosures. We are also making a concerted effort to integrate the additional principal adverse indicators to be used in "adverse impact" and "do no significant harm" assessments as listed in the most recent draft version of the SFDR Level 2 RTS. This is a work in progress, as data providers are themselves working to build out the vast data repository needed to assess these various issues and the Level 2 RTS continue to evolve.

Given our proprietary research platform and dedicated ESG Research Team, we believe we may have some advantage in developing insights on companies widely held in client portfolios, particularly in terms of EU taxonomy alignment. That said, given

the scope and scale associated with sustainable investment regulation, we look forward to benefiting from increased disclosure from companies and more widespread data collection efforts in the years to come.

Carbon measurement: We use data sourced from MSCI to manage portfolios' weighted-average carbon intensity relative to their associated benchmark. As a founding member of the Net Zero Asset Managers initiative, we are also bolstering our research on science-based net-zero targets and climate-transition planning for corporate issuers. Over the course of 2021, we have sought 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 are committed to using proprietary, internal 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. Third-party data providers often give us additional baseline information from which we can dig deeper and better understand how a company is evolving its practices.

ESG engagement: Some investment teams are setting a minimum percentage of their portfolio used 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.

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As a founding member of the Net Zero Asset Managers initiative, we are also bolstering our research on science-based net-zero targets.

Firm/entity-level compliance

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 in 2021 and beyond. Our approach to the requirements under SFDR 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 regards 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.

SUSTAINABLE INVESTMENT REGULATORY AND THIRD-PARTY WORKING GROUP

This group is structured to ensure we can meet both the SFDR requirements and our clients' expectations. It is underpinned by a new firmwide structure to support our sustainability, comprising a Sustainable Investment Governance Committee chaired by CEO Jean Hynes, a Sustainable Investment Management team led by Wellington's vice chair and head of Sustainable Investments, Wendy Cromwell, and an advisory Sustainable Investment leadership team comprised of



MEMBERS REPRESENT SEVERAL TEAMS

- Client Group
- Office of the Chief Operating Officer
- Investment Products & Fund Services
- Investment Technology
- Legal & Enterprise Risk
- Sustainable Investment Team



GROUP'S PURVIEW AND RESPONSIBILITIES

- Overall project support
- Internal communication & education
- External communication & education
- Product customisation, classification and disclosures
- Policy development
- Client reporting
- Technology

business leaders from across our Investment, Client and Infrastructure platforms.

The journey ahead

2021 continues to be a year of discovery and evolution for Wellington Management and the investment management industry, as more managers work to understand and comply with SFDR and the upcoming Level 2 requirements. We expect that key terms like "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. To date, we have taken significant steps towards preparing for the Level 2 disclosure and reporting requirements, including alignment with EU Taxonomy and the associated data required to calculate alignment consistently. While SFDR is not yet fully in place, regulators continue to clarify and supplement its application within their jurisdictions, helping us to prepare. We expect this regulatory trend to continue over the coming years and are optimistic that greater regulatory convergence and clarity will be forthcoming.

So, for now, like many of our counterparts, clients and peers, our approach is informed by a combination of market intelligence, consultations with legal counsel, discussions with industry experts, 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. Its work is an integral component of our investment platform, enabling us to manage client portfolios with ESG objectives. While we believe our ESG experience affords us an informed perspective, we are taking a humble approach to the coming year.

We are proud of our work to date and feel confident that we are well prepared for the journey ahead. Some of our sustainability policies may evolve, and we may identify different, more constructive sustainable characteristics to advance and measure. We also expect further rapid development and adoption of the market data and technological infrastructure that support sustainable investing. Ultimately, 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 SFDR compliance and our own aspiration to exceed the baseline.

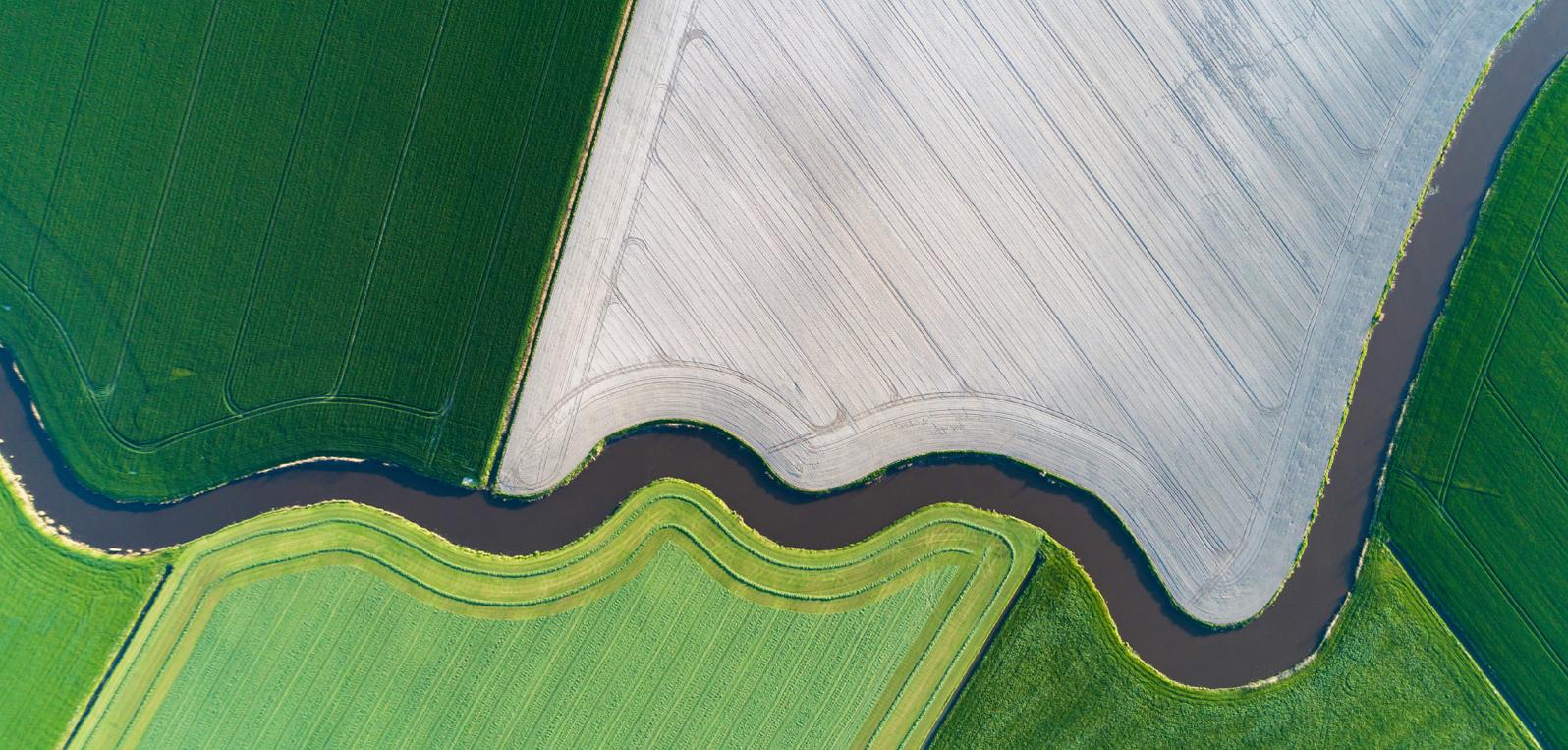
For more information, please explore:

wellington.com/en/sustainable-investing
wellingtonfunds.com/sustainable-investing

or visit our dedicated SFDR webpage:

wellington.com/sfdr
wellingtonfunds.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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Unless specified otherwise, all data is as of November 2021.

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