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2021 Impact Engagement Report

A REVIEW OF EQUITY ENGAGEMENTS BY OUR GLOBAL IMPACT TEAM

2021 GLOBAL IMPACT ENGAGEMENT SUMMARY

224

engagements

80

portfolio companies

65

additional engagements
with potential
candidates for
the portfolio

90%

year-over-year increase
in engagements by the
Global Impact Team

We believe that partnership and engagement with our portfolio companies and issuers can enhance our positive social and environmental impact and create lasting value for our clients. In our view, material environmental, social, and governance (ESG) issues 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 analysis that spans equity, impact, and ESG perspectives. We take a hands-on approach, meeting in person with boards and management teams, writing letters, or hosting calls multiple times each year. 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. We also believe that this approach is the most effective way to achieve our intended positive impact on people and the planet.

Objectives of engagement

Our engagements provide valuable and additive insight into companies' strengths and weaknesses. These discussions also help us confirm companies are delivering impact and have the potential to generate strong long-term financial returns. During our engagements, we have three main objectives:

- To understand each company's material ESG issues
- To appreciate matters relevant to our investment thesis and impact thesis
- To educate management on our 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. Because engagement creates an important feedback mechanism for delivering and measuring impact, we encourage companies to enhance disclosure of their firm's impact. We find that companies are increasingly receptive to requests for transparency or additional reporting on business strategies or practices given rising stakeholder interest. We believe transparency leads to better alignment across stakeholder groups.

A successful engagement starts by defining the opportunity. We tend to approach engagement with the initial objective of understanding how management thinks about a company's ability to affect positive change. From there, we can help outline longer-term goals. Positive engagement outcomes generally create better communication about how a company's business strategy might align with its impact contribution. With this ability, management teams can potentially articulate a stronger value proposition, attract lower-cost funding, expand their customer base, and — ultimately — increase their impact.

Sample engagements and outcomes from 2021

In 2021, engagement remained a vital part of our investment process. The topics covered ranged from companies' methods of support for their communities, employees, and customers to broader social and environmental themes. With the 2021 United Nations Climate Change Conference (COP 26) highlighting the need for urgent action, we found boards and management teams to be more engaged than ever on climate change and biodiversity. We discussed with many companies the effects of "the great resignation" as a fallout of the COVID-19 pandemic, and the need for strong talent management. Finally, supply-chain accountability was a key focus amid growing awareness of modern slavery.

We are committed to evolving and enhancing the engagements we have on your behalf with investee companies and look forward to sharing the results we achieve.

ENGAGEMENT WITH PRIVATE COMPANIES

Over the years, we have engaged with pre-IPO impact companies and social enterprises, helping them successfully enter the market and showcase their impact credentials. While visibility of successful social enterprises is low in private-equity markets, in a vibrant public-equity market success stories are much more visible. In our view, this visibility can attract new investors and inspire other emerging social enterprises to go public. We see many benefits of public-market impact investments, which can play an important part in responsible exits for private impact companies for two reasons:

Critical support: Public-market impact investments can help social enterprises stay true to their objectives as they grow. Many high-quality companies get stuck at a suboptimal size, struggling to attain enough funding to expand. The dearth of public-market impact investors signals an unwillingness to invest in private impact companies or IPOs; their innovative business models, untested technologies, and relatively long payoffs can render them uninvestable. Without this crucial source of capital, founders may be forced to sell a promising enterprise, losing control of its impact potential.

Broader financial resources: Public-market impact investors also enlarge the pool of potential investors after an IPO. Given a tendency among impact investors toward patience and longer time horizons, this capital may help reduce stock-price volatility, boosting a company's ability to raise additional equity, issue debt, borrow from banks, pay employees, and ultimately reinvest to scale its impact mission.

ENVIRONMENT (E)

RESOURCE STEWARDSHIP

We engaged on CO2 emissions with a US-listed company that converts liquid and solid waste into energy. While its business generates much lower emissions than landfills, this holding contributed the most to the weighted-average carbon intensity of our equity impact portfolio in 2021. The engagement helped clarify the company's sustainability goals. Following our engagement, the business reduced CO2 emissions from its

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Our engagement confirmed that management is actively planning for increasing climate events and is building resiliency to protect its assets.

operations by 4.2 million tonnes at the end of 2021. We agreed to report progress on these reduction efforts on a quarterly basis. We were pleased with the commitment to enhanced and more frequent disclosure.

AFFORDABLE HOUSING

We engaged with a US-based manufactured home community operator. This company had recently hired a head of sustainability, who should help the business more effectively collect and better manage its impact data. We discussed frictions between the company's business model and external certification green-building frameworks. Mobile homes are typically unable to receive LEED certification, leading to lower environmental scores from ESG rating providers relative to other affordable home providers. We will continue to ensure that the company is developing energy-efficient communities regardless of certification. We also encouraged the management team to consider how it can support residents by leveraging the company's position in local communities, for example, by petitioning transit authorities to ensure nearby access to public transportation.

RESOURCE EFFICIENCY

We met with members of a company's management team on a joint venture focused on renewable biofuels and on the company's climate-risk exposure. The company is a leader in innovative solutions for used cooking oil and meat by-products. We also discussed the company's exposure to climate risk. Although we believe its coastal location is a competitive advantage in some respects, our research collaboration work with Woodwell Climate Research Center indicates the business will face increasing hurricane and flooding risk. Using data from a recent Category 4 hurricane as a case study, we found that operations sustained minimal disruption. Our engagement confirmed that management is actively planning for increasing climate events and is building resiliency to protect its assets.

SOCIAL (S)

EDUCATION & JOB TRAINING

An engagement with an Australian education and job training company that matches employers with job seekers centered on modern slavery issues and the protection of vulnerable job seekers. The company has developed a methodology for analyzing and managing exploitation risks integrating multiple factors, including US State Department data on human trafficking. It also closely monitors at-risk recruitment listings and performs deeper due diligence as needed. We will remain involved in assessing the company's evolving practices and policies for combating modern slavery.

FINANCIAL INCLUSION

We met with a US financial inclusion firm that creates digital connectivity for artisans and small businesses, primarily those run by women. We engaged to better understand its talent management approach, specifically how it integrates diversity and inclusion. Recognizing the need to attract and retain talent in a competitive market, the company has redesigned its interview process to ensure equitable treatment of employees and mitigate bias. It has specific processes in place to evaluate equitably applicants applying for the same role, based on skills alone. The company has also updated its corporate governance guidelines, committing to actively seek out diverse board candidates. In 2021, women represented more than 50% of its executive team and board.

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While we believe the company is sufficiently considering investor concerns, we will keep pushing for stronger alignment between the board, management, and shareholder interests.

SAFETY & SECURITY

We engaged with an engineering company on labor relations (a common theme across many engagements this year). In our engagement, we discussed the company's labor needs and how it has managed incremental labor demands amid growing project backlogs. For example, the company was awarded a significant contract to redirect river flow, helping to protect homes and sustain wetlands. This contract will require the company to relocate many current skilled employees and make a meaningful number of new hires. Despite the current tight labor environment, the company has been able to attract top talent, thanks in part to its stated environmental mission and commitment to delivering sustainable solutions, both of which help motivate its employees.

GOVERNANCE (G)

FINANCIAL INCLUSION

We engaged on a number of issues with a US financial services company that helps lower-income consumers obtain credit at competitive rates. First, we discussed the company's inaugural issuance of a social bond, the terms of which state that at least 75% of loans must go to women or people of color. Next, we expressed our disappointment that one board member's attendance rate at board meetings was below 75%. During the engagement, we learned that this director was associated with one of the two private-equity owners and his attendance record was flawed due to a clerical reporting error. Given this error, and knowing that the board's private-equity representation will decrease and independent directorship will increase as private-equity firms sell their ownership stakes, we came away confident that the company will continue to improve its governance.

HEALTH

After a voluntary product recall, we engaged throughout the year with the management team of a global health-technology provider. We wanted to better understand and monitor the company's processes and controls. Following these discussions, we eliminated the position, as we had become less confident in the company's ability to execute its strategy.

We engaged with another health-care-related company on board independence. While we have supported management on all of its board elections for the past two years, in 2021 we backed a shareholder proposal to lower the threshold to call a special meeting from 25% to 10%. We believe the board is very well qualified, with experience reflective of the company's businesses and end markets. However, we acknowledge that the company lacks best practices for board independence, largely because of the long tenure on the board of its co-founders. Through repeated direct engagements (including with one of the co-founders) to specifically address these concerns, we have become more comfortable. While we believe the company is sufficiently considering investor concerns, we will keep pushing for stronger alignment between the board, management, and shareholder interests. The company has taken steps in response to our concerns and those of other investors; these have been reflected in our ongoing dialogue.

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Through this engagement, we also aim to help the company enhance understanding of its impact proposition among external stakeholders.

IMPACT (I)

CLEAN WATER & SANITATION

We engaged with a small, US-based consulting company that provides science-driven engineering solutions for government and commercial clients on water and other environmental and sustainability issues. We sought to understand the implications of the new US infrastructure bill. The company believes it will benefit from incremental spending, thanks to its expertise on water infrastructure. It has differentiated “digital-water” technology capabilities, particularly for remote water-use monitoring and water treatment. It also specializes in cybersecurity. To increase these proficiencies, the company recently acquired a highly sophisticated digital-water firm, which should help it provide more in-depth analytics to clients. Through this engagement, we also aim to help the company enhance understanding of its impact proposition among external stakeholders. To that end, we encouraged management to expand its impact-metric disclosures.

HEALTH

Our discussion with a vertically integrated, low-cost health insurer operating in Brazil’s rural markets allowed us to assess how the company coped with the second wave of COVID-19, which put significant strain on the health care system. Given our concern about potential health care inflation across Brazil in 2022, we explored how the company plans to work with Brazil’s regulator to smooth out costs for its patients over time.

FINANCIAL INCLUSION

Our conversation with a financial services company centered on climate change and social inclusion. The company made an aggressive net-zero by 2030 commitment at the end of 2020, inclusive of its Scopes 1, 2, and 3 emissions. We discussed its net-zero plans, including reforestation, the use of bio-oil, and better supply-chain management. We also asked the company how it thinks about energy efficiency and reducing the environmental impact of cryptocurrencies by powering related processes with renewable energy. The company is committed to ensuring that its net-zero commitment supports its mission of economic empowerment. It maintains targeted initiatives to expand financial inclusion, specifically integrating inclusivity considerations into product launches and closing the wealth gap for minority communities. We will follow up with the company on these initiatives.

SUSTAINABLE AGRICULTURE & NUTRITION

We engaged with a company that helps address malnutrition and obesity through the development of fortified food and micronutrients and by reducing the salt and sugar content in processed food. Our engagement sought to understand progress of key innovations, including the use of algae rather than fish to create omega-3 nutrients, and a livestock food additive to reduce bovine methane emissions. We appreciate the company’s concentration on agricultural sustainability, improving human health outcomes, and the impact of climate change on nutrition and health outcomes.

EDUCATION & JOB TRAINING

Prior to investing in an education and job-training provider, we engaged to help the company think more explicitly about its impact proposition and how to communicate its efforts to investors. We would like to see the company get credit for the work it is already doing and help management better express its future goals. We have been pleased with the progress the company made following our feedback, including hiring its first sustainability-dedicated employee. We also discussed its approach to a competitive labor market, and how its IPO in the summer of 2021 has helped the company attract and retain talent.

Closing remarks

Our engagements provide us with valuable and additive insight into companies' strengths and weaknesses. These discussions also help us confirm that companies are delivering impact and have the potential to generate strong long-term financial returns. We look forward to discussing our ongoing work and the results we achieve with investee companies.

The engagement case studies presented are for illustrative purposes only and should not be viewed as representative of actual holdings. The case studies chosen are based on meetings held during the year, with the aim of giving insight into our process. There can be no assurance our impact strategies would hold companies such as these or that they would be profitable in the future.



2021 engagements

	E	S	G	I
LIFE ESSENTIALS				
AFFORDABLE HOUSING				
Katitas Co	●	●	●	
Nexity	●		●	●
Sun Communities		●		●
Vonovia			●	
CLEAN WATER & SANITATION				
Evoqua	●			●
Tetra Tech	●	●	●	●
Watts Water Tech	●	●	●	
Xylem Inc	●		●	●
HEALTH				
Agilent Technologies		●	●	●
Agilon Health		●	●	●
Amedisys	●	●	●	●
Baxter International	●	●	●	
Boston Scientific		●	●	
Danaher	●	●	●	●
Eisai Co	●	●	●	
Health Catalyst		●	●	●
Hikma Pharmaceuticals		●	●	
Illumina	●	●	●	●
Insulet		●	●	●
National Vision			●	●
Shenzhen Mindray	●	●	●	
Hapvida*		●	●	●
Invitae*			●	
Philips*		●	●	
Tigermed*		●	●	
SUSTAINABLE AGRICULTURE & NUTRITION				
Genus	●		●	●
Koninklijke DSM	●	●	●	●
Nomad Foods			●	●
Zoetis*			●	
HUMAN EMPOWERMENT				
DIGITAL DIVIDE				
GoDaddy	●	●	●	●
GrameenPhone				
MediaTek	●	●	●	●
Vodacom Group			●	●
FINANCIAL INCLUSION				
Bank Rakyat	●	●	●	
Block	●	●	●	●
Etsy	●	●	●	●
Globe Life		●	●	●
Old Mutual			●	●
OneMain Holdings		●	●	●
Popular Inc		●	●	●

	E	S	G	I
Safaricom			●	
Shriram Transport			●	
PAGS*		●	●	●
Stone*	●	●	●	●
SAFETY & SECURITY				
Chroma Ate		●	●	
Cyber-Ark Software		●	●	●
Mimecast	●	●	●	●
MIPS		●	●	●
PGT Inc	●	●	●	
Rapid7	●	●	●	●
Stantec Inc	●	●	●	●
Sentinelone*				●
EDUCATION & JOB TRAINING				
Laureate Education		●	●	●
PowerSchool	●	●	●	●
Seek Ltd		●		
Upwork Inc	●	●	●	●
YDUQS		●	●	●
Duolingo*		●		●
Udemy*				●
ENVIRONMENT				
RESOURCE EFFICIENCY				
Advanced Drainage Systems	●	●	●	
Alexandria	●		●	●
Boston Properties	●		●	●
Hubbell	●		●	●
Itron		●	●	●
Landis+Gyr Group	●	●		●
Niu Technologies	●	●	●	●
Rivian Auto			●	●
Samsung SDI			●	●
Schneider Elec	●	●	●	●
Signify NV		●	●	●
Trane Technologies	●	●	●	●
Wabtec Corporation	●		●	●
SK*		●	●	
RESOURCE STEWARDSHIP				
Ball Corp	●	●	●	●
Darling Ingredients	●	●	●	●
Covanta*	●		●	●
ALTERNATIVE ENERGY				
Acciona	●	●	●	
Brookfield TRS				
First Solar	●	●	●	
Vestas*	●	●	●	

*Sold during 2021 | E = Environment, S = Social, G = Governance; 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 2021. The specific securities identified are not representative of all 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 securities listed. This is not to be construed as investment advice or a recommendation to buy or sell any specific security.

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