Sustainability Risks Policy

Wellington Management established this policy document with respect to global sustainability risk integration in the investment process

INTRODUCTION

This document sets out the policy of Wellington Management Group companies which engage in investment management and advice activity ("Wellington Management"), on the integration of Sustainability Risk (as defined below) considerations in our investment decision-making and advice process ("investment decision-making"). The EU Sustainable Finance Disclosure Regulation ("SFDR") requires certain Wellington Management Group companies to formalise how Sustainability Risk consideration is integrated into our business and processes, and to make new public and client-facing disclosures on sustainability risk-related matters. This document sets out Wellington Management's policies in respect of the integration of Sustainability Risks in our investment decision-making process, as required by Article 3 of the SFDR. The policy applies to Wellington Management in respect of all investment management activities carried out by Wellington Management.

In overview, Wellington Management portfolio managers and investment teams which manage financial products that are in scope for SFDR are responsible for assessing sustainability risks in their investment decisions and considering the financial impacts that sustainability risks may have on the financial returns of their strategies. In support of this, portfolio managers and investment teams are provided with a wide range of data, research, and analysis regarding such risks. This data, research and analysis is further described below.

PURPOSE OF THIS POLICY

Under SFDR, a "sustainability risk" is defined as an environmental, social or governance ("ESG") event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of an investment ("Sustainability Risk"). This policy therefore approaches sustainability risk from the perspective of the risk that ESG events might cause a material negative impact on the value of clients' investments.

Sustainability Risks may arise in respect of an issuer itself, its affiliates or in its supply chain and/or apply to a particular economic sector, geographical or political region. Environmental risks are associated with events or conditions affecting the natural environment, including climate change. These may include both chronic and acute physical risks posed from climate change, as well as transition risks which could manifest in the forms of new policy and legal risks, introduction of new technologies, shifting market structures, pricing expectations and reputational concerns. Social risks may be internal or external to an issuer and are associated with employees, local communities, customers or the populations of companies or countries and regions. Governance risks are associated with the quality and effectiveness of company Boards, enterprise risk management, remuneration and succession decisions and oversight of executive management of companies.

Wellington Management recognises that the world faces growing ESG-related risks. A key part of Wellington Management's role as a fiduciary is to act in the best interests of its clients, and this includes appropriately taking account of how those ESG risks could impact clients' investments. This policy therefore describes how Wellington Management's portfolio managers and investment teams consider such risks and how Wellington Management supports such consideration in its investment platform.

For clarity, under SFDR, Sustainability Risk is not concerned with the risk of harm that our investment decisions may do externally to sustainability factors ("Adverse Impacts"). Consideration of the Adverse Impacts of investment decisions is a separate regime under Article 4 of SFDR. Certain of Wellington Management's investment management entities have separately published statements containing additional information on the consideration of Adverse Impacts which can be found on the relevant website for those entities.

SUSTAINABILITY RISK CONSIDERATION

Portfolio managers and investment teams are responsible for the day-to-day identification, assessment and monitoring of Sustainability Risks which they consider relevant in the context of their strategy and their fiduciary duties to clients. Relevant Sustainability Risks should be assessed using available data and research reasonably available. Portfolio managers and/or investment teams are also responsible for assessing the likely impact of Sustainability Risks on the financial returns of investment assets where they deem such impacts to be material. Assessment of sustainability risks is complex and requires subjective judgements, which may be based on data which is difficult to obtain and incomplete, estimated, out of date or otherwise materially inaccurate. Even when identified, Wellington Management understands that there can be no guarantee that the portfolio manager or investment team will correctly assess the impact of Sustainability Risks on a client's investments.

In support of the consideration of Sustainability Risks in the investment decision-making process, Wellington Management's dedicated Sustainable Investment Research Team (the "Sustainable Investment Team") is responsible for providing in-house research, training and consultation on Sustainability Risk considerations in the investment process to portfolio managers and investment teams on a periodic and ongoing basis. In addition, Wellington Management's Investment Directors are assigned to individual investment teams and are responsible for providing ongoing oversight of the consideration of portfolio level risks including Sustainability Risks.

The Sustainable Investment Team and Wellington Management's broader investment platform provides research, data, and tools to its investment professionals in support of Sustainability Risk analysis by portfolio managers and investment teams, including through Wellington Management's collaborative Woodwell Climate Research Center which seeks to better integrate climate science and asset management through advanced research and scenario analysis. Because of this, Wellington Management expects portfolio managers and investment teams whose products are in scope for SFDR to use reasonable best efforts to implement available Sustainability Risk-related data, research and tools where these are, in the opinion of the portfolio manager and/or investment team, reliable and relevant to the management of a given investment strategy.

RELEVANT SUSTAINABILITY RISKS

Sustainability Risks are an ever-evolving concern involving many dynamic variables. Although it is not possible to enumerate every single type of Sustainability Risk, the below is a non-exhaustive summary of the types of Sustainability Risks which Wellington Management's Sustainable Investment Team has identified and considers to generally be most significant. The below examples are intended to provide an illustrative roadmap for consideration only and individual consideration of any one Sustainability Risk will be at the discretion of the portfolio manager or investment team unless otherwise agreed to with a Wellington Management client. Where the portfolio manager or investment team, using the resources available and as consistent with the investment strategy and objective, identifies a Sustainability Risk listed below or otherwise as being materially relevant to the risk/return profile of the strategy, Wellington Management expects that the portfolio manager or investment team to use its best efforts to assess the materiality of the impact to the strategy and incorporate this information into its investment decision-making.

ENVIRONMENTAL RISKS

PHYSICAL RISKS FROM CLIMATE CHANGE

Certain portfolios may have exposure to potential physical risks resulting from climate change, for example the tail risk of significant damage due to increasing erratic and potentially catastrophic weather phenomena such as droughts, wildfires, flooding, heat/cold waves, or hurricanes. As the frequency of extreme weather events increases, a portfolio's assets exposure to damages from these events increases, too.

Alongside these acute physical risks, portfolios might also be exposed to the chronic physical risks stemming from climate change, including, amongst others coastal erosion, soil degradation and erosion, water stress, changing temperatures or changing wind or precipitation patterns.

Such risks may arise in respect of a company's fixed sites, supply chain, labour force, and/or customer base, and/or apply to a particular economic sector, geographical or political region.

The physical impacts of climate change may necessitate significant capital investments by companies to improve resilience of their business models.

TRANSITION RISKS FROM CLIMATE CHANGE

Many economic sectors, regions and/or jurisdictions, including those in which a portfolio may invest, are currently and/or in the future may be, subject to a general transition to a lower carbon economic model. Drivers of this transition include regulatory and legal intervention and/or evolving consumer, capital provider, and other stakeholder preferences.

Market mechanisms could also threaten the business models and cost structures of carbon-intensive industries and the financial firms that back them. As carbon pricing continues to be a mechanism through which various policymakers seek to mitigate climate change, companies may be impacted in different ways based on their industry, structure and region of operations. Companies with higher risk of reduced earnings and business disruption from a low-carbon transition may be unable to meet their loan obligations, and the value of the company/its collateral could decrease. These companies could also experience increased insurance premiums or be denied insurance coverage on secured assets. A growing subset of investors willing to implement divestment could also reduce liquidity for certain high-carbon companies. Litigation risks are also growing for carbon extractors, high-emitting companies, and those resisting the low-carbon transition. The same is true for companies that may have misled consumers and investors. Any of the foregoing may result in a material loss in value of an investment linked to such businesses. On the investment side, as the market appreciates tightening regulation and accounts for higher carbon prices, repricing of carbon-intensive sectors occurs, reducing the value of these securities. As regulators increasingly focus on climate-related financial risks, climate change scenarios could become part of regular stress testing. If this happens banks with greater exposure to fossil fuel companies could end up shorter on capital under these scenarios, credit spreads could widen as a result.

Sectors, regions, businesses and technologies which are carbon-intensive, higher polluting or otherwise cause a material adverse impact on Sustainability Factors may suffer from a significant fall in demand and/or obsolescence, resulting in stranded assets the value of which is significantly reduced or entirely lost ahead of their anticipated useful life. Attempts by sectors, regions, businesses, and technologies to adapt so as to reduce their impact on Sustainability Factors may not be successful, may result in significant costs being incurred, and future ongoing profitability may be materially reduced. In addition, significant technological innovation is required to achieve a low-carbon economy, and this necessitates significant capital investments by companies that must transition their business models. For example, energy and utilities companies may need to embrace the energy transition to lower their cost of capital, maintain their license to operate, and/or align their production with shifting demand for lower-carbon sources of energy. The evolution of emerging and low-carbon technologies may also be disruptive to certain incumbent industries.

OTHER ENVIRONMENTAL RISKS

Natural resources: the relationship between businesses and natural resources is becoming increasingly important due to the scarcity of fresh water, loss of biodiversity and risks arising from land use. Water is critical to agricultural, industrial, domestic, energy generation, recreational and environmental activities. Reduced supply or allocation of water and/or increased cost in supply and controls over its use may adversely impact the operations, revenue, and expenses of certain industries in which the product may invest. Biodiversity underpins ecosystem services such as food, clean water, genetic resources, flood protection, nutrient cycling, and climate regulation. A continued loss of biodiversity may adversely affect the operations, revenue and expenses of certain industries in which the product may invest, such as land users and marine industries, agriculture, the extractives industries (cement and aggregates, oil, gas and mining) forestry and tourism. Land use and land use management practices have a major impact on natural resources

Pollution and waste: pollution adversely affects the environment and may for example, result in negative impact on human health, damage to ecosystems and biodiversity and reduced crop harvests. Measures introduced by governments or regulators to reduce pollution and control and reduce waste may adversely impact the operations, revenue, and expenses of industries in which the product may invest.

SOCIAL RISKS

Internal social factors: human capital considerations such as human rights violations, lack of access to clean water, food and sanitary living environment, human trafficking, modern slavery / forced labour, inadequate health and safety, discrimination, breaches of employee rights and use of child labour which may, in particular, give rise to negative consumer sentiment, fines and other regulatory sanctions and/or investigations and litigation. The profitability of a business reliant on adverse treatment of human capital may appear materially higher than if appropriate practices were followed.

External social factors: for example, restrictions on or abuse of the rights of consumers including consumer personal data, management of product safety, quality and liability, relationships with and infringements of rights of local communities and indigenous populations may, in particular, give rise to negative consumer sentiment, fines and other regulatory sanctions and/or investigations and litigation.

Social “megatrends”: trends such as globalisation, automation and the use of artificial intelligence in manufacturing and service sectors, inequality and wealth creation, digital disruption and social media, changes to work, leisure time and education, changes to family structures and individual rights and responsibilities of family members, changing demographics including through health and longevity and urbanisation are all examples of social trends that can have a material impact on businesses, sectors, geographical regions and the vulnerability and inability to adapt or take advantage of such trends may result in a material negative impact on the products investments.

GOVERNANCE RISKS

Lack of diversity at board or governing body level: the absence of a diverse perspectives and relevant skillset within a board or governing body may result in less well informed decisions being made without appropriate debate and an increased risk of groupthink. This includes appropriate representation of ethnic and gender diversity on the board. Further, the absence of an independent chairperson of the board, particularly where such role is combined with the role of chief executive officer, may lead to a concentration of powers and hamper the board’s ability to exercise its oversight responsibilities, challenge and discuss strategic planning and performance, input on issues such as succession planning and executive remuneration and otherwise set the board’s agenda.

Inadequate external or internal audit: ineffective or otherwise inadequate internal and external audit functions may increase the likelihood that fraud and other issues within a company are not detected and/or that material information used as part of a company’s valuation and/or the [Investment Manager’s] investment decision making is inaccurate.

Infringement or curtailment of rights of (minority) shareholders: the extent to which rights of shareholders, and in particular minority shareholders (which may include the portfolio) are appropriately respected within a company’s formal decision making process may have an impact on the extent to which the company is managed in the best interest of its shareholders as a whole (rather than, for example, a small number of dominant shareholders) and therefore the value of an investment in it.

Bribery and corruption: the effectiveness of a company’s controls to detect and prevent bribery and corruption both within the company and its governing body and also its suppliers, contractors and sub-contractors may have an impact on the extent to which a company is operated in furtherance of its business objectives.

Lack of scrutiny of executive pay: failure to align levels of executive pay with performance and long-term corporate strategy in order to protect and create value may result in executives failing to act in the long-term interest of the company.

Poor safeguards on personal data / IT security (of employees and/or customers): the effectiveness of measures taken to protect personal data of employees and customers and, more broadly, IT and cyber security will affect a company’s susceptibility to inadvertent data breaches and its resilience to “hacking”.

The absence of appropriate and effective safeguards for employment related risks: discriminatory employment practices, workplace harassment, discrimination and bullying, respect for rights of collective bargaining or trade unions, the health and safety of the workforce, protection for whistle-blowers and non-compliance with minimum wage or (where appropriate) living wage requirements may ultimately reduce the talent pool available to the company, the wellbeing, productivity and overall quality of its workforce and may lead to increased employment and other business costs.

REMUNERATION AND SUSTAINABILITY RISK INTEGRATION

This disclosure is made in accordance with Article 5 of the Sustainable Finance Disclosure Regulation ("SFDR") with respect to the consistency between the remuneration policies of Wellington Management group companies ("Wellington Management") and the consideration of Sustainability Risks as defined under SFDR.

Wellington Management believes that its remuneration policies, practices and procedures ("Remuneration Policies") are consistent with the appropriate consideration of relevant Sustainability Risks in the investment decision-making process. Sustainability measures are considered as part of the firm's investment processes which implicitly drive compensation outcomes through investment performance achievement. In addition, Wellington Management's remuneration of both its investment professionals and those who are tasked with monitoring and overseeing investment activity at the firm incentivises compliance with explicit obligations to consider such Sustainability Risks as may be created through client guidelines or fund documentation. Wellington Management's Remuneration Policies are also consistent with and promote sound and effective risk management and do not encourage inappropriate risk taking.

More generally, our investment professionals develop their own investment approach whereby environmental, social and governance ("ESG") and sustainability considerations are integrated into their research and decision-making processes to the extent that they believe these issues may affect the long-term success of a company and investment returns. This can manifest itself within the investment thesis or portfolio weighting for a particular security, as well as within our proxy voting and company engagement efforts.

For the teams responsible for providing ESG and sustainability research and analysis support to investment professionals, a key input into the determination of variable compensation is the peer review process. ESG and Sustainable Investment analysts are eligible to receive variable compensation based upon their success in having their recommendations implemented in client portfolios across the firm and feedback from portfolio management teams regarding their overall effectiveness. These analysts receive feedback from the investment professionals with whom they work most closely on ESG and sustainability research, engagement, and portfolio integration. For investment professionals managing strategies classified as Article 9, ESG and/or sustainable performance are also incorporated in the goal setting, evaluation, and remuneration process.

Wellington Management is a global firm which is controlled by the partners of Wellington Management Group, LLP, many of which are investment professionals and key decision-makers. Wellington Management believes the equity interest provided by this corporate structure provides an incentive for partners and prospective partners to act in a manner that is consistent with the long-term success of the firm and helps foster a culture of accountability with respect to risk-taking and appropriate Sustainability Risk consideration.