WELLINGTON MANAGEMENT®

# Global Impact report

**AIMING TO GENERATE COMPETITIVE RETURNS AND POSITIVE IMPACT THROUGH PUBLIC EQUITY MARKETS**

July 2024

For professional and institutional investors only

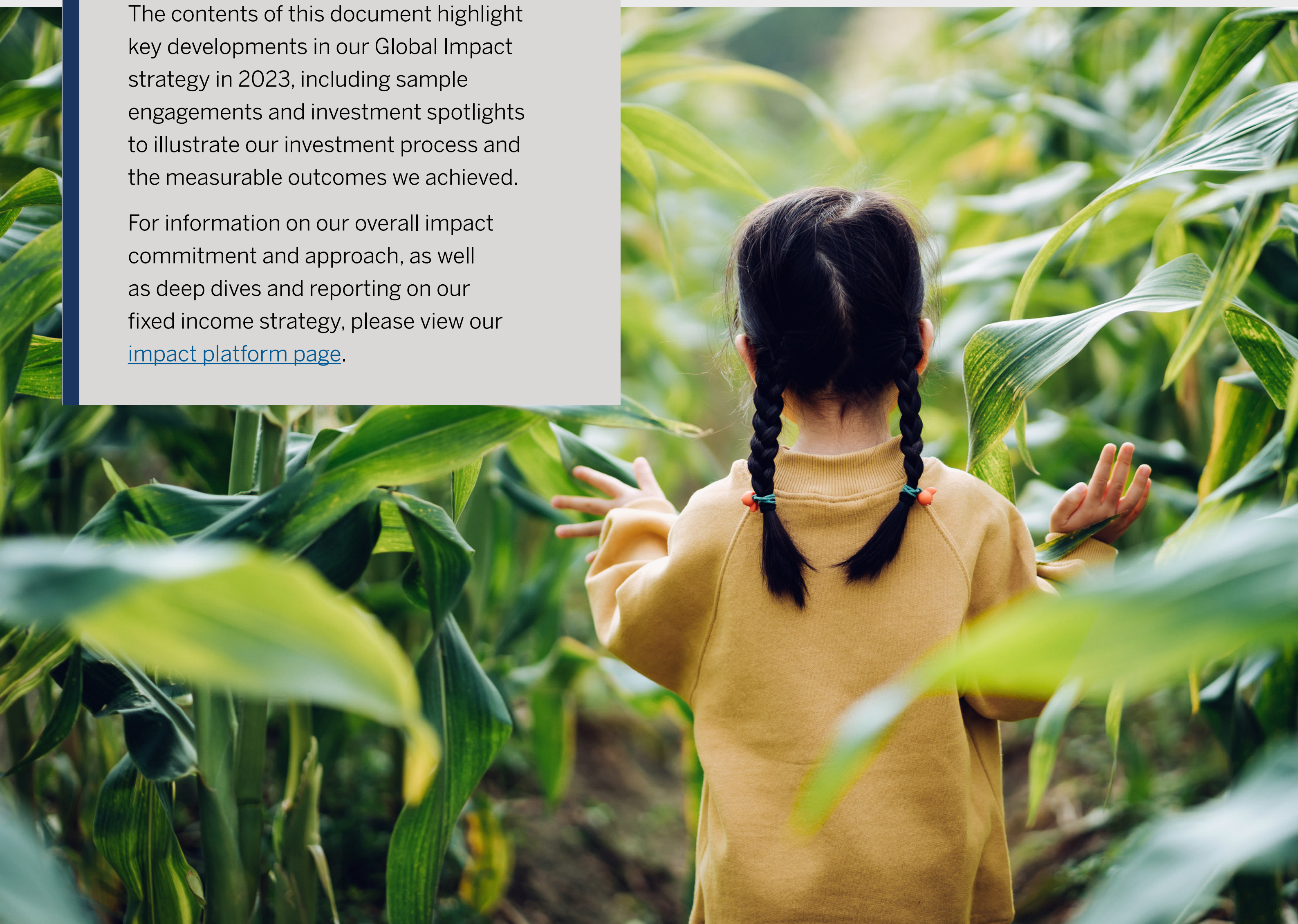
# Contents



**EVOLUTION OF OUR IMPACT REPORTING**

The contents of this document highlight key developments in our Global Impact strategy in 2023, including sample engagements and investment spotlights to illustrate our investment process and the measurable outcomes we achieved.

For information on our overall impact commitment and approach, as well as deep dives and reporting on our fixed income strategy, please view our impact platform page.



# Message of commitment

We are pleased to share the eighth annual report for Wellington's Global Impact strategy. The ongoing uncertain global backdrop continues to underscore the need for impact investing. In 2023, amid worsening climate change, we built momentum in investments levered to decarbonization, a rapidly expanding secular trend. We also saw rising food insecurity, which is driving demand for innovation in sustainable agriculture and nutrition. We have observed a steep rise in capital directed toward digital connectivity solutions, and other critical infrastructure needs, most notably water. We believe investment spending on impact themes will persist, expanding long-term growth opportunities, and enabling us to strive for attractive return generation for our clients.

In 2023, climate change remained a primary focus. The research that the Climate Research Team conducts with our climate-science partners at Woodwell Climate Research Center (Woodwell Climate) and the Massachusetts Institute of Technology Joint Program on the Science and Policy of Global Change (MIT Joint Program) reveals the urgent need to boost both resilience and mitigation efforts to protect society from the damaging, costly effects of climate change. We were pleased to see expenditure aimed at increasing resource efficiency hold up well in 2023 as well, despite ongoing macro headwinds.

In another area of focus, we continue to anticipate significant, increasing long-term demand for technologies that address widening digital inequality, particularly in rural communities. Historically, we have observed that segments associated with education and job training, such as US for-profit education companies, have demonstrated defensive qualities in recessionary environments. In the years since the COVID-19 pandemic, technological advancements within this theme have accelerated as companies invest in integrated education service and access solutions.

Cybersecurity solutions continue to be top of mind, given the number of recent high-profile corporate breaches and ongoing geopolitical tensions. Health care, too, remains an important theme, and we continue to identify impact companies that can help narrow access inequality and systemic inefficiencies. Many of these companies combine compelling business models with solutions that take advantage of groundbreaking scientific or clinical approaches.

As always, we are committed to setting a high bar for materiality, additionality, and measurability for Global Impact. Through engagement, we encourage companies to establish key performance indicators (KPIs) demonstrating positive social and environmental impact. Where appropriate, we work closely with Wellington's other investment teams to amplify the reach of our engagement. As communities increasingly value solutions that benefit people and the planet, companies are incentivized to innovate. The result is an expanding opportunity set. We believe our approach of investing across 11 impact themes puts us in a strong position to capture promising new developments across public equity markets and deliver potentially attractive investment returns for our clients.

Thank you for your trust in our team and in Wellington. We are honored to play a role in growing the impact ecosystem with your support, and we look forward to generating positive impact and competitive returns for you, our clients, in 2024.

**JASON GOINS, CFA**
Portfolio Manager, Global Impact

All investing involves risk. Investors should consider the risk that may impact their capital, before investing. The value of your investment may become worth more or less than at the time of original investment. Please refer to the Risks section for more information.

Learn more about our impact platform
Impact measurement and management

# Impact highlights

**Investments in our equity portfolio have enabled companies to achieve the following impact:**

## 145,000
Supplied or financed nearly 145,000 units of affordable housing

Equivalent to 28% of the housing supply of Stockholm[1]

## 5.4 billion
Provided or treated more than 5.4 billion cubic meters of water

Equivalent to 7% of Canada's annual freshwater consumption[2]

## 213 million
Provided health care products or services to more than 213 million patients and customers

Over 18x the average number of patients admitted annually to hospitals in Australia[3]

## 181 million
Provided digital access to more than 181 million people in developing countries

Equivalent to over 12% of Africa's population[4]

## 51.8 million
Provided education, training, and career support for 51.8 million people

Or nearly 20x the number of students enrolled in higher education in Japan[5]

## 97.4 million
Supplied access to financial services to more than 97.4 million underserved individuals and businesses

Compared to 1.4 billion unbanked individuals globally[6]

## 700,000
Protected more than 700,000 businesses and individuals with cybersecurity tools and technologies

Compared to 3,205 publicly reported data breaches in the US, which impacted more than 353 million individuals in 2023[7]

## 90.9 million
Avoided 90.9 million tonnes of greenhouse gas (GHG) emissions through renewable energy generation

Equivalent to 130.1 TWh of renewable energy generation[8]

## 601.2 million
Avoided 601.2 million tonnes of GHG emissions through improved resource efficiency and resource stewardship

Equivalent to 143.1 million fewer cars on roadways for one year[9]

68% of our holdings (as a percentage of market value) leverage a common KPI that can be aggregated. Market value % captures asset leg of a total return swap on one Global Impact holding. If a company or issuer does not report a figure that we believe aligns with one of our aggregated KPIs, we still monitor and report the individualized KPI over time, but do not include it in the above aggregated statistics which we believe provide a conservative estimate of the impact our funds enable. All reported impact KPIs are obtained from publicly available information. We do not account for fund ownership stakes in the above calculations which represent 100% of the impact of the companies or issuers in which we invest. For each aggregated KPI we provide what we believe to be a relevant reference point. These are for context only and do not imply any equivalence for our KPIs regarding benefits delivered for society and the environment. If 2023 data is not yet available, 2022 data has been used. Aggregated KPIs reflect the impact of the portfolio as of 31 December 2023. These data points do not constitute a data series and should not be compared to aggregated data points published in previous years due to changes in the portfolio holdings between each publication date. | All investing involves risk. Investors should consider the risk to their capital, before investing. These impact highlights relate to the representative accounts for our impact equity strategies, and is for informational purposes only, is subject to change, and is not indicative of future portfolio characteristics or returns. The value of your investment may become worth more or less than at the time of original investment. Please refer to the important disclosure the end of this document for more information.

[1]"Number of dwellings by region and type of building (including special housing). Year 2013 – 2023," Statistical Database, Official Statistics of Sweden. | [2]"7 Countries that waste the most water," Earth.org, 10 February 2021. | [3]"Admitted patients," Australian Institute of Health and Welfare, 16 May 2024 (2022 – 2023 figures).| [4]"Africa population," WorldOMeter, accessed 1 June 2024. | [5]"Record high number of female university students and faculty members in Japan," Nippon.com, 12 September 2022. | [6]"The Global Findex Database 2021," The World Bank. | [7]"2023 Data Breach Report," Identity Theft Resource Center (ITRC). The aggregated KPI should not be directly compared to the number of data breaches and people impacted. Instead, it should be used as an indication of scale. | [8]"Greenhouse Gas Equivalencies Calculator," United States Environmental Protection Agency, (data from 2021). | [9] Ibid. | Unless otherwise indicated, we use tonnes for metric tons throughout this report.

# Impact investing trends and developments

**ANAND DHARAN**

**Investment Director**

**OYIN ODUYA, CFA**

**Impact Measurement & Management Practice Leader**

**JOY PERRY**

**Investment Director**

**Wellington's impact investing teams actively participate in the impact ecosystem, not only through the products we manage, but also via industry events, working groups, and associations. In 2023, we observed the following trends:**

## GROWING INTEREST IN PUBLIC-MARKET IMPACT INVESTING

Increased participation from public-market investors at events led to richer discussions of best practices. In our conversations with clients, peers, and other stakeholders, we noted growing acceptance that collective effort and investment across asset classes is crucial for scaling the impact industry. A recent market-sizing survey by the Global Impact Investing Network (GIIN) found that impact investments in mature publicly traded companies increased from US$2.1 billion to US$17.9 billion from 2017 to 2022, a compound annual growth rate of 53%.[1]

We see the increasing availability of public-market impact strategies as a positive development for the industry, as it enables asset allocators to incorporate impact throughout their portfolios, not just in private markets. Our interactions with company boards and management teams indicate that they, too, are engaging in in-depth conversations about best practices in impact data calculation and disclosure.

## GLOBAL POLICY TAILWINDS TRANSFORMING THE OPPORTUNITY SET

Policymakers globally are recognizing the urgency of identifying equitable solutions for climate-change mitigation, while directing funding to projects with the greatest emissions-reduction potential. These policy trends could transform how public markets are harnessed to finance sustainable outcomes, creating attractive investment opportunities. In the past year, we have observed:

- The continued rise of green industrial policy, as more countries experiment with new models for public/private collaboration at the intersection of climate resilience, economic development, and national security goals
- Growing support from multilateral development banks to close the projected multi-trillion-dollar shortfall for climate financing in emerging markets, including through closer private-sector collaboration and experimentation with blended-finance structures
- Increased governmental experimentation with green and transition taxonomies occasionally as part of comprehensive policy programs to direct resources to sustainable financing (e.g., Japan's GX strategy to reduce CO2 emissions from steelmaking)

Each of these policy trends has created investment or engagement opportunities for us. These include investing in solar asset-backed securities whose issuance is facilitated by government programs to scale renewable generation; investing in inaugural sovereign-green-bond issuances (after sharing feedback on green taxonomy best practices); and engaging with development banks on how their lending programs can more effectively finance the energy transition.

Across impact equities, we are seeing positive effects from the 2022 US Inflation Reduction Act on spending for low-carbon solutions in areas including clean electricity, transportation, and building construction and systems, as well as energy-efficiency technology. As a result, we expect to see increased spending on opportunities that fit within our Clean water & sanitation and Resource efficiency themes.

[1] Dean Hand et al., "2023 GIINSight: Impact investing allocations, activity, and performance," GIIN, June 2023.

## TRANSPARENCY AND INTEGRITY ARE KEY PILLARS

As impact AUM has grown, so has scrutiny over the real-world social and environmental impact that impact asset managers claim their investments are making. Wellington's research-driven approach underpins the impact theories of change we document for each holding. The Impact Measurement & Management (IMM) Practice are thought partners to our impact investment teams during this process. As an example, to validate the positive social impact of our investments in emerging markets microfinance providers, the IMM Practice utilized the 60 Decibels 2023 Microfinance Index, an annual survey that provides high-quality, comparable social impact data on the effects of microfinance institutions. Using this data, they developed a research and engagement checklist highlighting key aspects of microfinance, including group lending services and customer longevity, which are typically associated with better social outcomes.

The IMM Practice also contributes to the GIIN's listed equities working group, which recently published guidance on best practices for pursuing impact in listed equities. This framework closely aligns with Wellington's IMM approach and is an important step toward defining impact in the context of listed equities. This definition helps asset allocators evaluate funds against a recognized, high-integrity standard, allowing them to make allocation decisions that can drive meaningful change while aiming to generate financial returns.

## IMPACT MEASUREMENT GOES BEYOND THE DATA

While measurement remains a cornerstone of any credible impact investing product, it is equally important to consider how metrics are used. We are increasingly asked about impact analysis and management alongside data collection and reporting. Although 89% of impact investors consistently review each investment's impact performance, only 39% actively use impact data to enhance their processes and strategies.[2] Over the past year, we spent more time refining our systems and tools for impact management in support of our mission to make impact data easier to find and analyze by integrating KPIs into investor processes. The underlying objective of this work is to enhance the firm's research mosaic, facilitate investment discussion, and broaden real-world impact.

Challenges in measuring impact remain. The quality and consistency of disclosed data vary significantly across companies and sectors. A perpetual tension also exists between the development of bespoke KPIs that align with our theory of change or opting for simpler, output-based KPIs that are consistently disclosed. Transparency is also key here; while we may not always select the perfect metric, we aim to document the rationale behind our chosen KPIs consistently. Our ultimate objective is not to attain flawless impact data, but rather to recognize trends within that data. By doing so, we seek to help investors gain a deeper understanding of the real-world impact of their holdings and empower them to have more meaningful engagements with companies.

[2] "Benchmarking Impact Management Practice," BlueMark, May 2023.

# 2023 Industry participation and accolades

**Phenix Capital Impact Summit**
MARCH

**PEI Impact Investor Global Summit**
MAY

**SuperReturn International**
JUNE

**GreenFin 23**
JUNE

**Reuters Sustainability Reporting Europe**
SEPTEMBER

**Square Mile Investment Conference**
SEPTEMBER

**Conexus Top1000funds sustainability in Practice Forum**
OCTOBER

**GIIN Impact Forum**
OCTOBER

**PRI in Person Tokyo**
OCTOBER

Environmental Finance IMPACT Awards 2023 Winner Impact investing platform of the year

Wellington Management did not pay a fee to be considered for this award. Winners were selected by Environmental Finance. This award was announced in March 2024 and is based on the following time period: 1 April 2022 to 30 September 2023. Wellington Management was the only winner in the Impact investing platform of the year category, and the selection methodology was determined by an advisory panel consisting of industry experts who reviewed a submitted written entry. Judges scored each entry individually and any conflicts of interest were removed. The award may not be representative of any one client's experience. The award is not indicative of Wellington Management's future performance. Past performance is no guarantee of future results.

# Engagement examples

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

**Overall, in 2023, we engaged with 76 portfolio companies on 242 topics, and had further engagements with 45 potential candidates for the portfolio.**

Last year, we sought to increase our knowledge of and engagement on dynamics affecting our companies amid a tighter funding environment, a challenging consumer backdrop, and isolated cases of industry-level disruption. In 2024, we remain focused on how our companies can deliver both financial performance and impact amid these headwinds. We are watching interest-rate policies, given the broad implications for companies in our portfolio, and we are mindful of a potentially contentious political environment amid the upcoming US election cycle. Regardless of near-term volatility, however, it is clear that the underlying trends hold much promise for secular growth over the long-term in impact relevant areas.

**Learn more about our impact platform**
Approach to engagement

The examples shown on the following page are presented for illustrative purposes only and are not to be viewed as representative of actual holdings. It should not be assumed that any client is invested in the (or similar) examples, nor that an investment in the examples 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 the examples presented. Please refer to the Important disclosures section for information on investment examples. | The companies mentioned comprise a partial list of all engagement meetings in which Wellington's ESG analysts and impact investing teams participated in 2023. The specific securities identified are not representative of all securities purchased, sold, or recommended for clients. 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. They are chosen based on meetings held during the year and our priority areas of focus, with the aim of giving insight into our process. There is no assurance the strategy would hold companies such as these or that they would be profitable in the future.

## SAMPLE ENGAGEMENTS FROM 2023

### ENVIRONMENT (E)

We engaged with a small US manufacturer of impact-resistant doors and windows. Its products help provide homes and commercial buildings with structural integrity during severe weather events, protecting human lives and property. Over a pair of engagements, we communicated the importance of disclosing Scopes 1, 2, and 3 emissions and discussed the company's recent decision to implement a "poison pill" for a hostile takeover attempt. In our first discussion with the board and general counsel, we shared our views on why we believe emissions disclosures help investors appreciate the long-term secular climate tailwinds of the business. During a separate engagement, we probed the company's decision to adopt a poison pill. The company shared that it wanted to bring the potential acquirer, who had bought shares without first contacting the company, to the table. Through our conversation, we understood the rationale for the decision. We appreciated that the measure was time restricted and focused on encouraging the shareholder to engage. Later in the year, competing takeover offers reflected the value of this small-cap company, which subsequently accepted an acquisition offer from a larger competitor in the doors and windows industry.

### SOCIAL (S)

We visited a US manufactured homebuilder at one of its plants. Companies in this category offer people who might otherwise be unable to afford a home access to safe, quality housing. The company's construction process also uses materials more efficiently than traditional homebuilding, including mitigating construction waste. Our tour of the plant highlighted the efficiency and quality of the company's operations as well as its focus on affordability and creating homes at various price points. This engagement confirmed for us both the impact and fundamental cases for the company.

### GOVERNANCE (G)

We engaged with an Israel-domiciled cybersecurity company to better understand its growth trajectory. At a customer event, we spoke to consumers about how they are using the company's products. We wanted to assess their familiarity with the company's recent innovations and gauge their perspectives about its tech roadmap. These discussions underscored customers' enthusiasm for the company's existing identity security offerings as well as their willingness to purchase an expanded lineup of solutions. During a separate engagement, we discussed the new CEO's incentive compensation. That meeting revealed strong alignment between the company's publicly stated initiatives and the executive's compensation. Both engagements reinforced our view that the company can execute on its revenue growth and profitability goals.

### IMPACT (I)

We engaged with a Brazilian higher education company that had solicited our feedback on areas for improvement. During our discussion, we emphasized that there was an opportunity for the company to better communicate the positive outcomes associated with its products and services. We explained that providing metrics, such as salary improvements from gaining an advanced degree, would underscore the potential benefits of continued education to prospective students and demonstrate the company's value proposition to investors. Following our conversation, the company updated its investor presentation, adding a slide focused on the link between advanced education and higher income potential. We were pleased the company proactively solicited our feedback and later implemented our suggestions for highlighting the positive impact it is having on students' lives.

**For complete engagement descriptions and a list of companies we engaged with in 2023, please see our** Impact engagement report.

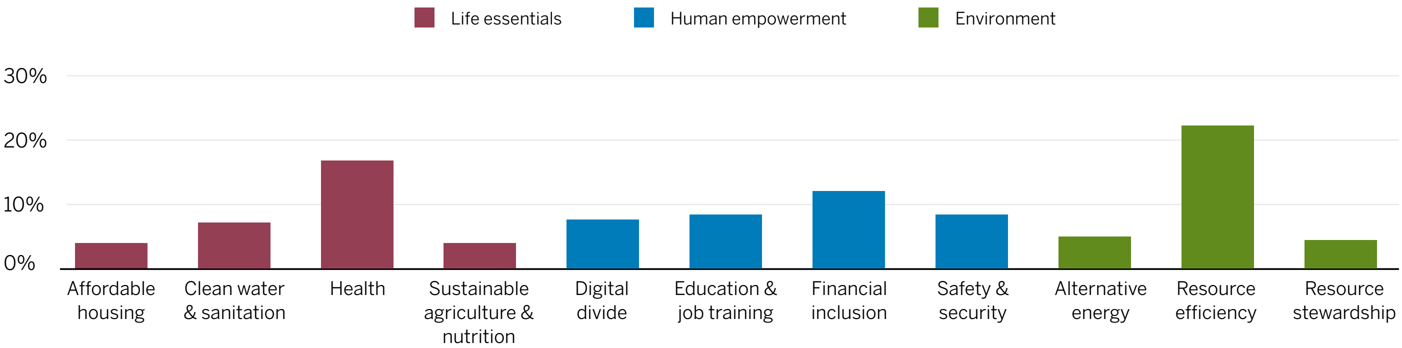
# Thematic allocation and UN SDG alignment

Wellington's Global Impact and Global Impact Bond teams support the 17 United Nations Sustainable Development Goals (SDGs) and believe that the private sector has an integral role to play in bridging the funding gap to achieve them. In 2015, we launched Global Impact, our first impact approach, followed by Global Impact Bond in 2019. Through extensive research and consultation, we developed our 11 impact themes aimed at identifying the key forces driving a just transition to a sustainable future. When the SDGs were adopted, we were pleased to see how closely our themes overlapped.

We invest in companies and issuers aligned directly with our proprietary impact themes and denote the relevant SDG and specific target(s) to which they contribute. We do this to better contextualize their activities alongside the efforts of other financial, government, and nongovernment organizations. In our view, reporting by asset managers on SDG alignment helps governments and market participants assess the amount of private capital that is funding progress toward the goals.

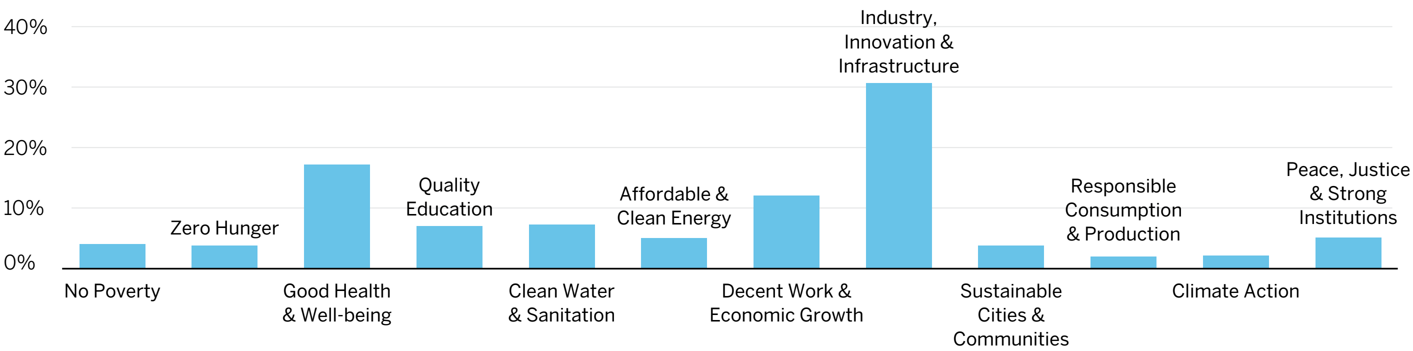
While our investments may not directly cover some SDGs, we believe they can represent indirect pathways to progress. Bridging the digital divide and expanding financial inclusion, for instance, may enhance gender equality and reduce inequalities (SDGs 5 and 10).

## 2023 REPRESENTATIVE ACCOUNT EXPOSURES BY THEME (WEIGHT, %)




Data as of 31 December 2023 | Source: Wellington Management.

## 2023 PRIMARY SDG DISTRIBUTION (WEIGHT, %)




Data reflects primary SDG for each holding. The graph shows the distribution of the representative account for our impact equity strategy across each primary SDG as of 31 December 2023. Market value % for this graph captures asset leg of a total return swap on one portfolio holding. Our impact equity approach supports SDG 17 at the strategy level. We do not manage the portfolio to any targeted level of alignment with regard to the UN SDGs. | The data shown relates to a representative account, is for informational purposes only, is subject to change, and is not indicative of future portfolio characteristics or returns. | Totals may not agree due to rounding. Excludes cash, cash equivalents, interest-rate, and currency derivatives. | Sources: FactSet, Wellington Management. | Please refer to the Important disclosures page for additional information.

# Impact themes and investment spotlights

Wellington's impact investing teams invest globally across three broad impact categories — Life essentials, Human empowerment, and Environment — which we then divide into 11 impact themes. Impact opportunities can represent innovative solutions across sectors, asset classes, and market capitalizations. All impact investments must meet our thresholds for materiality, additionality, and measurability. That is, companies must generate most of their revenue from products and services related to at least one of our impact themes; the impact they generate must have a low prospect of being achieved by other means; and we must be able to track and measure the impact.

Once we determine whether a company meets our impact criteria, we add it to our opportunity set. In parallel, our fundamental analysis seeks to identify those investments with the most attractive long-term return potential.

**Learn more about our impact platform**
Impact themes
Impact measurement and management

On the following pages, we share sample 2023 equity investment spotlights, highlighting one theme in each category.

## 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

### IMPORTANT NOTE

Portfolio spotlight examples are based on nonperformance-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 data is based on issuer reporting, press releases and websites, proxy data, and Wellington analysis. While the data is believed to be reliable, no assurance is being provided as to its accuracy or completeness.

For all investment spotlights, Wellington's impact investing teams determine the UN SDG 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. Sources for SDG logos and targets: Wellington Management, www.un.org | Wellington Management supports the UN SDGs.

THEME OVERVIEW

# Affordable housing

**SCALE | ACCESSIBILITY | RESOURCES**

**LIVING CONDITIONS**

By 2030, 40% of the world's population may lack adequate housing, meaning an estimated demand for 96,000 new housing units per day.[1]

**POVERTY REDUCTION**

In the last 10 years, US home prices rose by an average of 1.5 times household income. Today, 52% of households spend 30% or more of their income on housing, a potentially unsustainable quantum.[2]

Demand for affordable housing, driven by the ongoing increase in urban dwelling, intensified in 2023. Rising rents and home prices often outpace household income growth. At the same time, a diminishing supply of options compounds the challenge for low- and middle-income households. With inflation continuing to drive up the cost of goods and services, low-income households, which typically spend a higher proportion of their income on essentials such as housing costs, are hit hardest.[3] Government responses to housing vulnerability have been patchy and slow, exposing many households to increasingly precarious situations.

We see affordable housing as an ongoing essential need that can accrue health and wellness benefits to families and communities while creating and sustaining economic value. We believe access to safe, affordable housing allows people to focus more on their overall well-being — health, education, and career-building — and less on basic survival. Put another way: Access to safe, affordable housing may lead to better educational outcomes, higher earning potential, and lower health care costs. In our view, investments in this category also have long-term growth potential and expanding addressable markets.

In 2023, in the equity portfolio, we invested in companies combating homelessness and addressing the need for safe, affordable shelter. We owned shares of a manufactured home-community operator with sites across the US and Canada. The company offers single-family homes for sale or rent at approximately one-half to one-third of the rental or purchasing cost of local two-bedroom apartments. The provider is also making a concerted effort to improve the energy efficiency of its units. We also initiated a position in a US homebuilder focused on affordable manufactured housing. The company, which is the third-largest player in the segment, leverages its production efficiency and automation to lower labor costs and construction time. In Japan, we continued to maintain exposure to a company that rehabilitates dilapidated or abandoned homes that would otherwise be torn down and resells them to first-time and low-income homebuyers at affordable prices.

[1] "Housing," UN-Habitat.

[2] "Why the new starter home is a rental for many low and middle-income households?", "World Economic Forum.

[3] Peter Hourston, "Cost of living crisis," Institute for Government, 7 February 2022.

# Cavco Industries

## IMPACT THEORY OF CHANGE

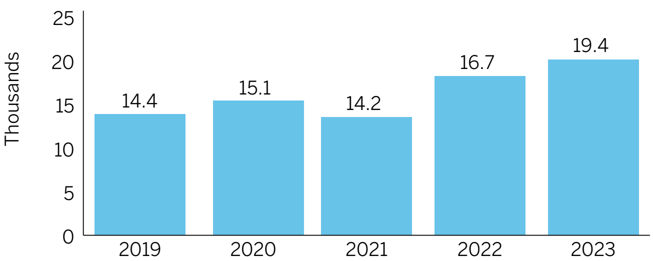
As rising home prices and mortgage rates continue to outpace wage growth, an increasing number of US citizens can find it difficult to afford a home. Manufactured homes, which can be built more quickly and at a lower cost than traditional site-built homes, are a potentially valuable solution for the growing shortage of affordable housing. Cavco is one of the largest manufacturers of these homes in the US and, in our view, plays a pivotal role in narrowing the affordable housing gap.

## FIVE DIMENSIONS OF IMPACT

| | |
|---|---|
| **What** | Improving lives and communities by providing access to affordable housing |
| **Who** | Provided 19,376 affordable housing units in the US and Canada in 2023[1] |
| **How much** | Reaches 48 US states and Canada through its large distributor network[1] |
| **Contribution** | Cavco's manufactured homes are, on average, 10% to 30% less expensive than site-built homes in the same region[2] |
| **Risk** | Execution: Maintaining a balance between quality and affordability of homes |

## PROGRESS OF CORE KPI

Number of affordable homes provided




Source: "Annual report," Cavco Industries, Inc., June 2023.

**Year of initial investment:** 2023
**Three-year annualized change in core KPI:** 9%
**Assessment:** Meets expectations

**UN SDG ALIGNMENT** Making cities and human settlements inclusive, safe, resilient and sustainable

**TARGET 11.1** By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums

## QUALITATIVE ASSESSMENT

In 2023, the average price of a single-family home in the US was 7.5 times the median annual household income, surpassing levels seen in the 2006 housing bubble.[3] In addition, significant homeownership costs, including mortgage and insurance, now consume a third of the average national wage.[4] Cavco is helping low- to middle-income earners in the US, for whom home buying is becoming more challenging, by providing factory-built homes, which are, on average, 10% to 30% less expensive than homes built on location.

In 2023, Cavco introduced the first manufactured duplex home approved by the US Department of Housing and Urban Development. Its innovative solution includes multiple floor-plan configurations that help address local space and size constraints by enabling multiple units on a single lot. Homeowners also have the option of living in one unit and renting out another to offset mortgage payments. In a market grappling with rising construction costs and limited inventory, the duplex home is a creative, practical approach to expanding affordable housing options.

While the increasing number of houses provided may not directly demonstrate the social outcomes that affordable housing can ultimately lead to, we believe it serves as a sufficient proxy to demonstrate Cavco's impact. Adequate housing forms the foundation for stability and security for individuals and families.[5]

## ENGAGEMENT PRIORITIES

In 2023, we engaged with the company on the affordability of its homes. We were impressed by the efficiency, quality, and affordability of Cavco's manufactured units, along with its ability to deliver homes promptly. We believe these attributes are differentiating factors. Going forward, we intend to further explore the affordability advantages compared to site-built homes, the expansion of product offerings, and the potential to leverage technology in its business model.

[1] "Annual report, Cavco Industries, Inc.," June 2023.
[2] "Frequently Asked Questions," Cavco.
[3] "Home Price to Income Ratio (US)," Longtermtrends, data as of 31 December 2023.
[4] "Home Affordability Remains Difficult Across U.S. During Fourth Quarter Even as Prices Dip Downward," ATTOM, 21 December 2023.
[5] "The human right to adequate housing," UN Human Rights Office of the High Commissioner, 2023.

THEME OVERVIEW

# Digital divide

**INFORMATION ACCESS | COMMUNICATIONS INFRASTRUCTURE**

**INTERNET ACCESS**

In 2023, internet usage in high-income countries reached 93% of individuals, compared to 27% in low-income countries.[1]

**AFFORDABILITY**

Mobile broadband is also 20 times less affordable in low-income countries than in high-income countries.[2]

Digital inclusion can help improve educational and employment outcomes by enabling people to acquire knowledge, collaborate, and access opportunities online. It can also improve social inclusion, reduce structural inequality, and create avenues for empowerment and participation in the economy. We believe digital services should be affordable and accessible to everyone, regardless of their abilities or where they live. People and businesses without access to reliable digital services risk falling behind their peers financially and socially. Digital penetration remains a challenge in many places, however, with connectivity in rural areas and developing countries still unequal or nearly nonexistent. Despite the acceleration of online access during the COVID-19 pandemic, 2.6 billion people around the world are still offline, with low-income countries the most affected.[3]

In 2023, we invested in companies that increase access to digital services and strengthen connectivity for underserved markets. Equity investments included a Taiwanese specialty chipmaker that increases the availability of low-cost handsets. By designing, developing, manufacturing, and distributing chips for wireless communications and handheld mobile devices, the company benefits individuals who would otherwise lack digital connectivity.

Recognizing the need to support small businesses in a digital-first world, we invested in a provider focused on helping small businesses and entrepreneurs establish an online presence. We maintained exposure to a South African company providing communication services and infrastructure to support digital access across Africa. We also maintained exposure to a Brazilian provider of fixed and wireless infrastructure/services that improve digital connectivity for individuals, households, and businesses, particularly in rural areas of Brazil.

[1] "Facts and Figures 2023: Internet use," itu.int, 2024.
[2] "Facts and Figures 2023: Affordability of ICT services," itu.int, 2024.
[3] "Facts and Figures 2023: Internet use," itu.int, 2024.

PORTFOLIO INVESTMENT SPOTLIGHT

# Telefônica Brasil

## IMPACT THEORY OF CHANGE

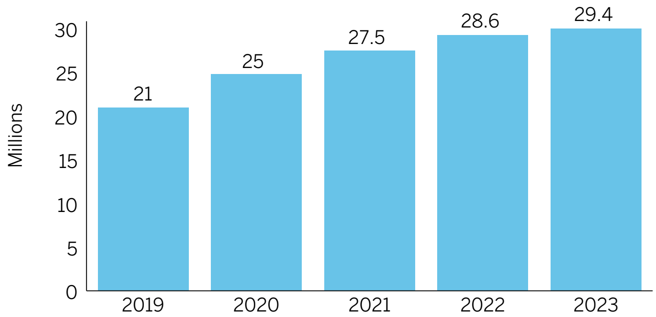
As Brazil's mobile and fiber networks market leader, Telefônica Brasil plays a crucial role in enhancing digital connectivity for individuals and businesses. By providing reliable communication connectivity across the country, the company is working to bridge the digital divide by laying the foundation for seamless data exchange, real-time collaboration, and access to information, ultimately facilitating access to essential services and participation in the economy.

## FIVE DIMENSIONS OF IMPACT

| | |
|---|---|
| **What** | Providing high-quality connectivity to Brazil's population |
| **Who** | Connected 29.4 million homes to fiber networks, covering 439 cities in Brazil [1,2] |
| **How much** | Provided services to all states in Brazil, of which 37% contribute less than 1% to Brazil's GDP[1] |
| **Contribution** | Leading telecommunication provider, fostering digital inclusion for many underserved customers[3] |
| **Risk** | Execution: Overcoming awareness and affordability challenges to scale high-quality fiber coverage to those who can access it. |

## PROGRESS OF CORE KPI

Number of emerging markets customers provided with digital access




Source: 2023 Annual Report, Telefônica Brasil

**Year of initial investment:** 2022
**Three-year annualized change in core KPI:** 6%
**Assessment:** Meets expectations

[1]"Telefônica Brasil 2023 Annual Report," 22 February 2024.

[2]"Accelerating Value-Based Growth," Institutional presentation, Telefônica Brasil.

[3]National Telecommunications Agency of Brazil, data as of 27 March 2024.

[4]"FFTH Panorama for Latin America 2022," Fiber Broadband LatAm Chapter, December 2022.

[5]"Internet access and use in Latin America and the Caribbean," World Bank Group, September 2022.

[6] Broadband Portal, Organisation for Economic Co-operation and Development, updated 2024.

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

**TARGET 9.C** Significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries by 2020

## QUALITATIVE ASSESSMENT

With a population exceeding 214 million, Brazil grapples with unique challenges in implementing technological solutions, owing to the country's geographic size, economic inequality, and uneven population distribution. Telefônica Brasil actively enhances connectivity and coverage, not only in urban centers but also in underserved, low-income, remote communities. Remarkably, 37% of the regions where the company operates contribute less than 1% to GDP, including areas like Piauí and Maranhão. Other services areas, such as Amazonas, present geographic challenges.

According to the International Telecommunication Union (ITU), in Latin America, a 10% increase in broadband penetration in mobile corresponds to a 1.7% increase in GDP, while a 10% increase in fixed technologies penetration translates to 1.6% boost to GDP.[4] Beyond the economic impact, internet connectivity can also positively influence social and economic outcomes, including in education, health care, and employment, given the expansion of remote work since the pandemic.[5] Telefônica Brasil significantly contributes to digital inclusion for individuals, households, and businesses nationwide.

The share of fixed broadband connections in Brazil rose from 15% to 23% between 2019 and 2023.3 Our impact KPI, demonstrating Telefônica Brasil's expanding reach in providing digital access to homes, underscores its contribution to this improvement. Because the country's share of connection still lags the OECD average of 38%,[6] we believe that Telefônica Brasil has further opportunities to create a lasting impact.

## ENGAGEMENT PRIORITIES

We engaged with the company in the second quarter on its business-to-business strategy, including cybersecurity, cloud and Internet of Things services, particularly for small- and medium-sized enterprises (SMEs) in Brazil. We believe that the company's efforts to become the preferred partner for SMEs, which are still less digitized but account for most business activity in Brazil, are an important factor in the company's long-term success.

THEME OVERVIEW

# Alternative energy

**RENEWABLE ENERGY GENERATION | STORAGE AND DISTRIBUTION**

**GHG EMISSIONS**

Electricity accounts for 28% of annual GHG emissions.[1]

**LOW-CARBON ELECTRICITY**

Capacity expanded by nearly 50% in 2023, reaching 510 GW, the fastest pace of growth in the last 20 years.[2]

The December 2023 UN Climate Change Conference of the Parties saw continued cooperation and negotiations for climate targets. The United Arab Emirates pledged US$30 billion to support global climate solutions,[3] while 118 companies committed to tripling renewable energy capacity by 2030.[4] Despite this significant progress, there is still a long way to go to prevent further irreversible social and environmental damage caused by GHG emissions.

The shift toward alternative energy is an opportunity for investors to have a positive impact while potentially earning attractive financial returns. The US Inflation Reduction Act's tax incentives have resulted in US$282 billion in clean energy investment across 280 projects.[5] The European Commission launched its Wind Power Package, with the aim of fortifying Europe's wind industry, enhancing energy security, and meaningfully contributing to climate and energy goals.[6] Generating more energy from renewable sources helps reduce GHG emissions, slow global temperature rise, and clear polluted air over time. Because ambient air pollution from fossil fuel use is estimated to cause more than five million deaths per year, transitioning to clean energy carries significant social and health benefits as well as environmental ones.[7]

In 2023, our equity investments provided capital to companies and issuers generating renewable energy, mostly through wind and solar power. We maintained exposure to a solar company that designs, manufactures, markets, and distributes photovoltaic systems and modules. We continued to own shares of a specialty lender focused on projects developed or sponsored by companies in the US energy efficiency, renewable energy, and sustainable infrastructure markets. We moved exposure from a Spanish company investing in utility-scale renewable energy projects to a European renewable energy developer that builds and operates onshore and offshore wind farms and solar arrays.

[1] "The Five Grand Challenges," Breakthrough Energy.

[2] "Executive Summary, Renewables 2023," International Energy Agency.

[3] William James, "UAE president announces $30 bln fund to bridge climate finance gap," Reuters, 1 December 2023.

[4] Kate Abnett et al., "Countries promise clean energy boost at COP28 to push out fossil fuels," Reuters, 2 December 2023.

[5] Joseph Lelieveld et al., "Air pollution deaths attributable to fossil fuels: observational and modelling study," The British Medical Journal (BMJ), 29 November 2023.

[6] "Wind Power Package: game-changer for Europe's energy security," Wind Europe, 24 October 2023.

[7] Joseph Lelieveld et al.,"Air pollution deaths attributable to fossil fuels: observational and modelling study," BMJ, 29 November 2023.

# EDP Renováveis

## IMPACT THEORY OF CHANGE

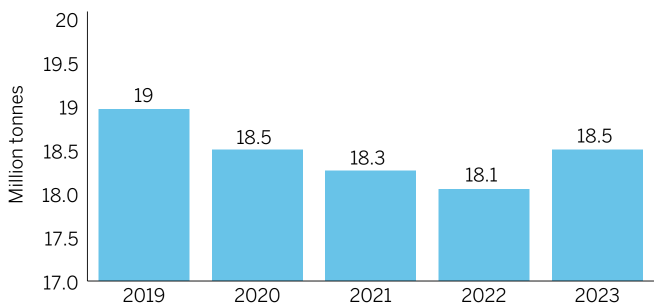
EDP Renováveis (EDPR) is a European-based renewable energy development company that specializes in constructing and managing wind and solar farms. Its broad portfolio and the anticipated growth of global renewable energy capacity in the next five years positions EDPR to play a significant role in establishing a more resilient, efficient, sustainable energy system. We believe investing in EDPR helps address the world's future energy requirements while reducing GHG emissions.

## FIVE DIMENSIONS OF IMPACT

| | |
|---|---|
| **What** | Climate change mitigation through the generation of clean energy |
| **Who** | Over 9 million customers in 28 countries, contributing to decarbonization efforts worldwide[1] |
| **How much** | Generated 34.6 TWh of renewable energy in 2023[1] |
| **Contribution** | Avoided 18.5 million tonnes of $CO_2e$ emissions in 2023[1] |
| **Risk** | External: Weather conditions may undermine the production of renewable energy and the associated emissions avoided |

## PROGRESS OF CORE KPI

GHG emissions avoided




Source: "We Choose Earth: Annual Report 2023," EDP Renewables.

**Year of initial investment:** 2023
**Three-year annualized change in core KPI:** 0.01%
**Assessment:** Meets expectations

**UN SDG ALIGNMENT**
Affordable and Clean Energy

**TARGET 7.2**
By 2030, increase substantially the share of renewable energy in the global energy mix

## QUALITATIVE ASSESSMENT

In 2023, the International Energy Agency reported a 50% increase in renewable energy capacity, and EDPR was one of the major contributors to this energy transition. The company added 2,524 MW of capacity and generated 34.6 TWh of renewable energy, avoiding 18.5 million tonnes of $CO_2e$.[1] We are pleased with the company management team's revised growth plan to accelerate and diversify the company's clean energy.

EDPR achieved several milestones in 2023, including launching the largest European solar project to date in Poland, installing its first stand-alone battery storage system in the UK, and commissioning Portugal's and Spain's first hybrid projects combining wind and solar power generation at a single location each. The hybrid parks developed contributed to the annual avoidance of 226,796 tonnes of $CO_2$ emissions, equivalent to removing more than 53,000 cars from the road.[2]

EDPR faced several challenges during the year as well, including lower-than-average wind speeds and regulatory clawbacks in Eastern Europe aimed at restricting the revenues earned by renewable energy producers and other market participants. Given that EDPR operates over 1,200 MW of renewable energy capacity in this region, the company will continue to evaluate these financial and impact-related risks in the upcoming year.[3]

## ENGAGEMENT PRIORITIES

In the third quarter of 2023, we had a productive conversation with EDPR to discuss the challenges confronting the offshore wind market, including higher interest rates, supply chain issues, and unfavorable weather conditions. Despite these challenges, we are pleased to hear that EDPR's portfolio in Europe has been delivering strong results, and we remain confident in the company's potential to make a significant contribution in meeting the world's future energy needs while mitigating GHG emissions.

[1] "We Choose Earth: Annual Report 2023," EDP Renewables.
[2] "Greenhouse Gas Equivalencies Calculator," United States Environmental Protection Agency.
[3] "EDPR informs about clawback taxes in Romania and Poland," EDP Renováeis, January 2023.

# Important disclosures

## ABOUT THIS REPORT

Data provided is as of 31 December 2023.

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Investment examples are based on holdings of the representative account from 1 January to 31 December 2023. For Global Impact, the representative account shown became effective on 1 September 2017 because it was the least restrictive 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.

Company 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, the largest position in each impact theme is selected. If the largest position was highlighted within the past two years, then the second-largest position in a theme is selected. If the largest two positions in a theme have been highlighted in the past two years, then a new position within the theme is selected. If there is more than one additional company, or no new positions in the theme, the largest trade is highlighted (based on the number of shares).

- Holding was largest by size in the theme in the portfolio as of 31 December 2023: Cavco Industries
- Largest holding had been previously highlighted in either the 2021 or 2022 report, but for 2023, we used the second-largest position in the theme: EDP Renováveis; Telefónica Brasil

The KPIs shown for each company have been developed by Wellington. These metrics are proprietary to Wellington and are used to assess a company's progress toward its particular business objectives. Company information is from multiple sources including the following: annual and quarterly reports; industry research pieces; company websites; press releases; case studies; and company engagements. Only holdings that had applicable and available KPI data were included. In cases where the 2023 data was not available at the time of publication, we used 2022 or the nearest to 2023 data.

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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.

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**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.

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