

An iceberg floating in the ocean, with a small tip above the water and a much larger, jagged mass submerged below. The water is a deep blue, and the sky is a lighter blue. On the left side, there are several overlapping yellow geometric shapes, resembling a stylized arrow or a series of parallel lines pointing right.

Case study

“Sustainability with authenticity”

Our journey thus far

Loiuse Kooy-Henckel, Managing Director

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PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS AND AN INVESTMENT CAN LOSE VALUE.



Joint Committee
on Climate Change



“Sustainability with authenticity” – Our journey thus far

Today’s agenda

Wellington Management – Who are we?

Mission, Vision and Goals

Organizational Design and Governance

Our Sustainable Investing Platform today

Lessons Learned

Looking Ahead

Introduction to Wellington Management

A trusted adviser and strategic partner to clients worldwide

BUSINESS

USD 1,316B
Of client assets under management

2,385+
Clients

60+
Countries in which clients are based

USD 42B
Of UCITS fund assets under management

PEOPLE

896
Investment professionals

182
Partners all active at the firm

17 years
Of experience, on average

HERITAGE KEY DATES

1928
Wellington Fund
first US balanced fund

1979
Establishment
of private partnership

1980s onwards
Steady expansion
of global presence

1994
First long/short
strategy launched

First UCITS
fund launched

2014
First dedicated
private equity
strategy

2015
Global Impact:
Our first diversified impact
investing strategy in public
equities

As of 31 March 2021

Sustainable Investing at Wellington Management

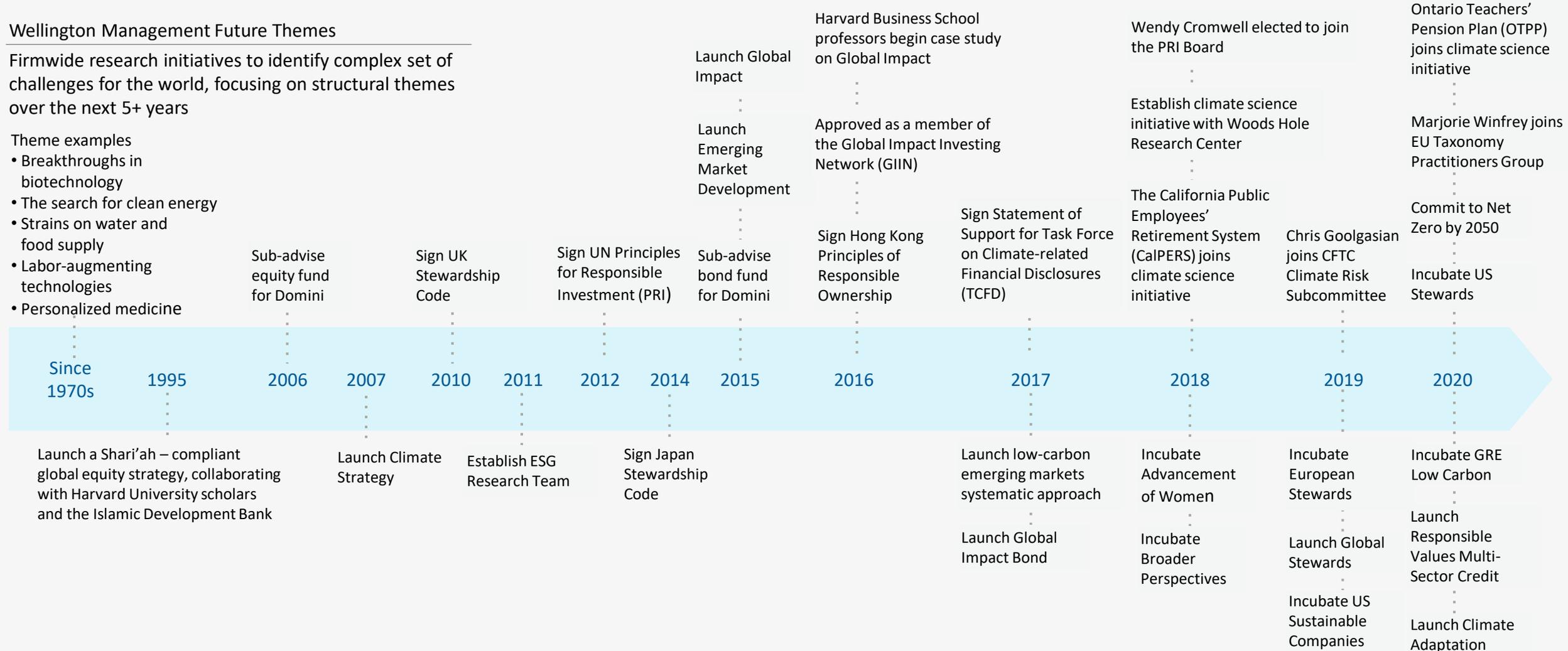
Long history of research, client solutions, and industry partnerships

Wellington Management Future Themes

Firmwide research initiatives to identify complex set of challenges for the world, focusing on structural themes over the next 5+ years

Theme examples

- Breakthroughs in biotechnology
- The search for clean energy
- Strains on water and food supply
- Labor-augmenting technologies
- Personalized medicine



Wellington Management and Domini Impact Investments are independent and unaffiliated entities, each of which offers independent investment approaches and products. Currently, Wellington Management serves as sub-adviser to the Domini Impact International Equity Fund and the Domini Impact Bond Fund.

Sustainable Investing at Wellington

Backdrop – Themes impacting our strategy and evolution

“ESG represents the largest fundamental change in the investment landscape since the introduction of ETFs...we believe that this will be the fastest growing area within the industry this decade (!)” – PWC

Clients

- Global crisis → Shift in client values and demand for sustainable products
- Ratcheting up of client ESG expectations
- Significant part of business is sensitive to ESG

Regulation

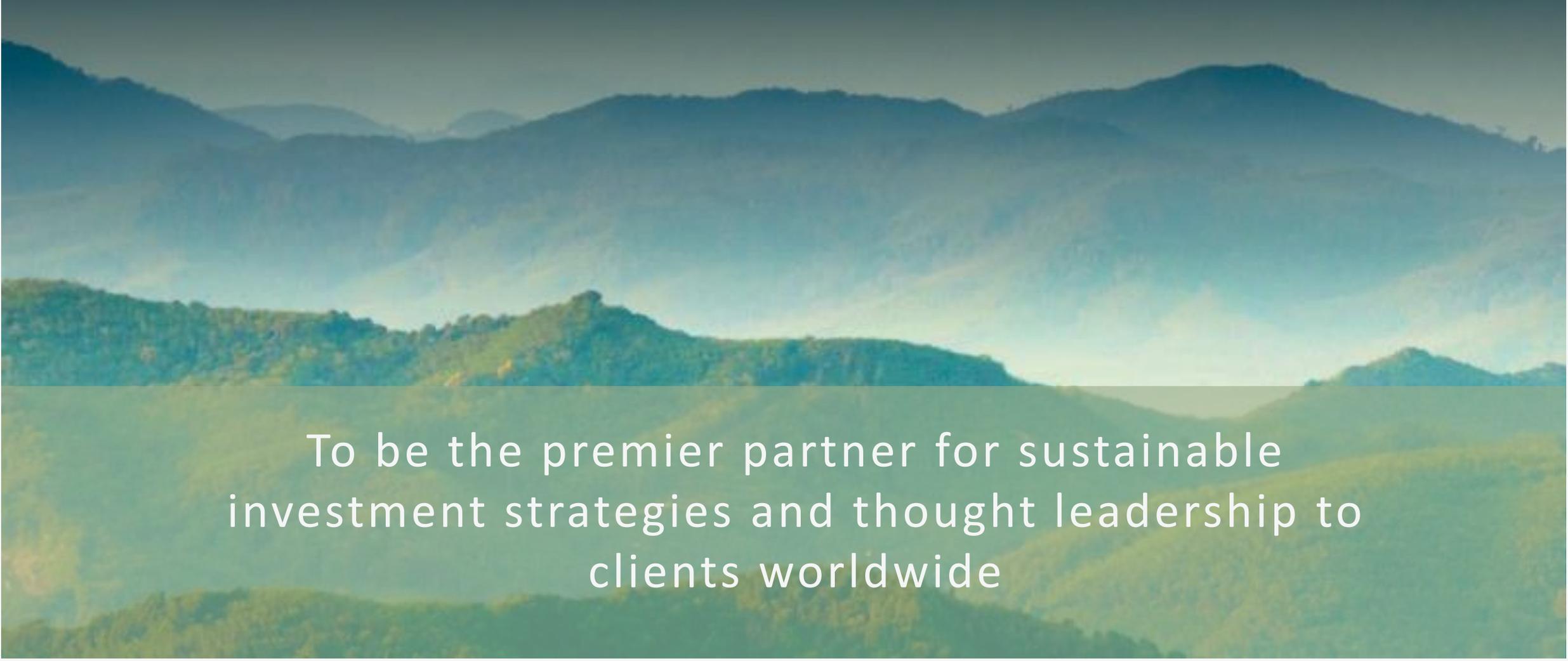
- Policymakers are accelerating industry shift towards sustainability
- Seeking to harmonize ESG taxonomy and product disclosure
- Regionally – some divergence, but all moving in the same direction

Business Opportunity

- Industry data shows that ESG funds see more consistent inflows
- Active managers have an edge
- Opportunity to grow and retain business → resilience and sustainability are important factors in building long-term investment portfolios

Sustainable Investing at Wellington Management

Our vision



To be the premier partner for sustainable investment strategies and thought leadership to clients worldwide

Sustainable Investing at Wellington Management

Our mission, vision and values



VISION

To be the premier partner for sustainable investment strategies and thought leadership to clients worldwide



MISSION

To improve client outcomes and enable the firm to capture the rapid growth in sustainable investing around the world by mobilizing global resources, evolving infrastructure, and enabling a firmwide mindset shift



VALUES

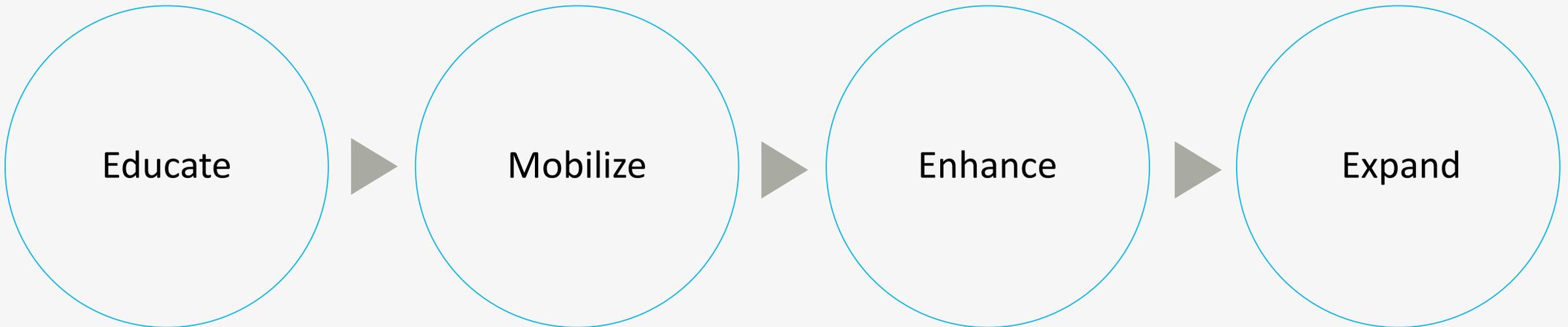
- Best in class
- Research driven
- High Integrity
- Philosophy-led
- Non-concessionary
- Value over values
- No CIO model
- Collaboration

Sustainable Investing at Wellington Management Strategy – Enabling a firmwide mindset shift

Strong aspirational tone from the top

Senior leaders are facile with sustainability topics

Employees feel compelled to apply sustainability lens to their work across all platforms



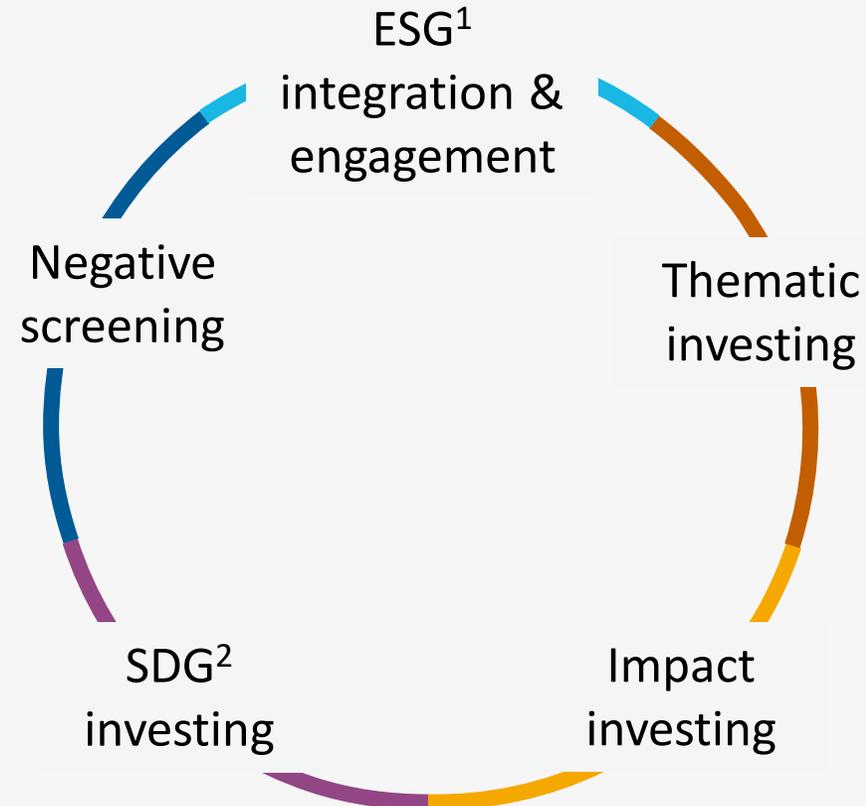
Sustainable Investing at Wellington Management

An ecosystem of complementary approaches

Investment strategies can incorporate any combination below

Return profiles vary within the spectrum of approaches

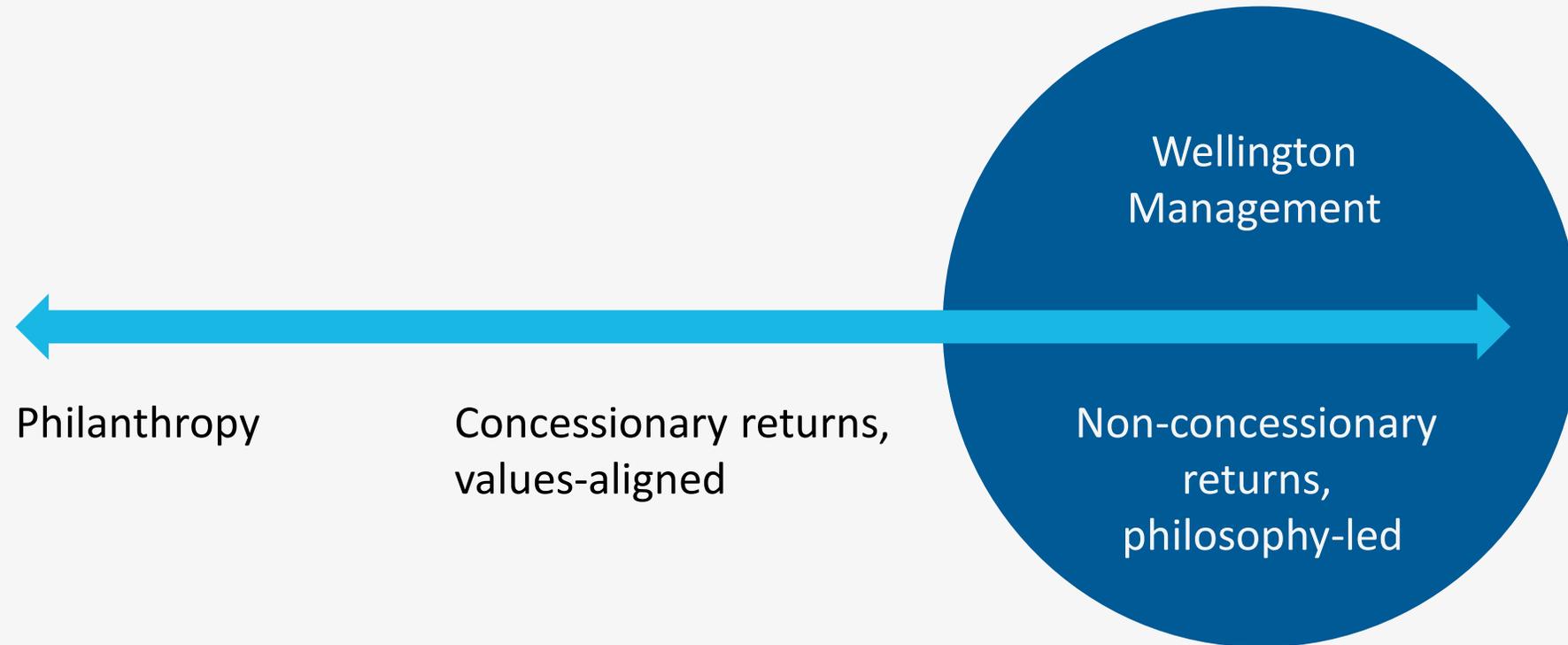
All sustainable investment strategies at Wellington Management seek to outperform



¹Environmental, Social, Governance | ²United Nations Sustainable Development Goals

Sustainable Investing at Wellington Management

Sustainable investment continuum



What is ESG and why is it important? Wellington Management's philosophy

We believe

Material ESG issues are strategic business issues that can impact performance

Through informed and active ownership, we can support actions that benefit our clients

Environmental



Water
efficiency



Production
costs

Social



Labor conflicts



Net margins

Governance



CEO
compensation



Share price

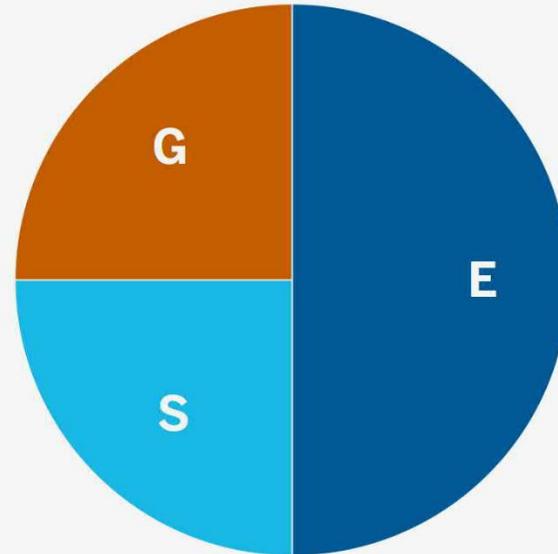
These examples are not intended to be representative of all ESG factors considered

Fundamental ESG analyst ratings

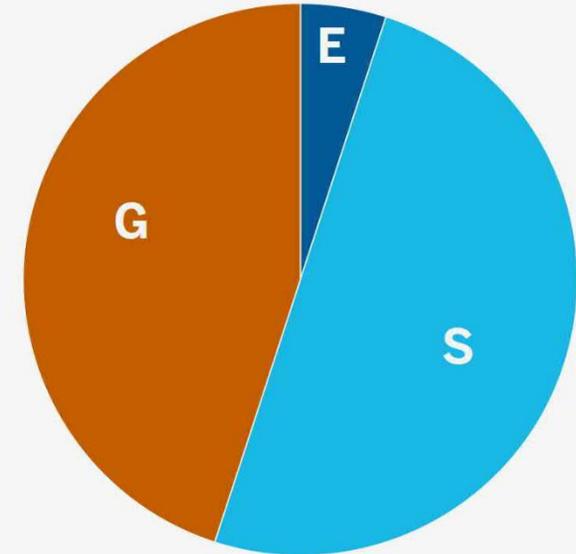
Materiality frameworks and weightings

Investment-led approach: focus on the ESG issues most relevant to investment outcomes

Energy



Healthcare



For illustrative purposes only

ESG Materiality frameworks

Informing our systematic ESG ratings and fundamental research

Framework example

ESG Issue

Environmental

- Climate and energy management

Social

- Human capital (safety, culture, diversity)

Governance

- Board effectiveness

Why it matters

Reduce costs, mitigate remediation liabilities or regulatory penalties

Attract & retain talent, boost employee productivity, reduce costs due to turnover

Effective boards act as a fiduciary, holds management accountable, and informs strategic direction

How to assess

Climate strategy and scenario analysis; absolute and normalized emissions; reduction targets; energy consumed

- Employee engagement
- Turnover
- Diversity % and targets
- Injury rates, fatalities

Board structure, skills and diversity; receptive to shareholder engagement

This sample framework is being provided for illustrative purposes to represent the ESG Research team's research process. It is for due diligence purposes, is for the recipient's use only, and is not for redistribution without the express consent of Wellington Management.

ESG research and investment outcome

E: Climate change transition risk

ESG issue

Most scenarios used by the energy industry show fossil fuels losing share to carbon-free energy sources

While some oil and gas companies are aligning their long-term strategies with the energy transition, some have greater alignment with the climate transition than others

Research

Lack of credible energy transition strategy entails business risk

Reputational and litigation risks also heightened

Although reflected in equity valuations, it was not reflected in spreads

Outcome

FI portfolio manager invested in the oil and gas company aligning with the energy transition and eliminated overweight position in company lacking a credible strategy

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ESG research and investment outcome

S: Human capital management is critical after a merger

ESG issue

Human capital management is critical part of a company's success, particularly after a merger and acquisition (M&A)

Research

Engaged with company to understand its M&A strategy

Observed multiple concerns, including an aggressive focus on share price rather than internal values, and lack of willingness to invest in human resources despite business growth

Outcome

Portfolio manager reduced the position size after the engagement

Eliminated the full position a week later, after the CEO announced his retirement, signaling a messy transition period ahead

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Wellington's engagement edge

Our size and **access** to management teams and board of directors

- 15,000+ company meetings a year across regions
- “Constructivists” influencing positive outcomes for our clients

Active management

- Companies care about our opinion because we are potentially the marginal buyers and sellers of their securities

Multi-disciplinary industry analysis across equity, credit and ESG research

- Global
- Triangulation of the value of a security
- Deep understanding of the investment mosaic through expertise in each dimension

ESG Research insights

Board diversity

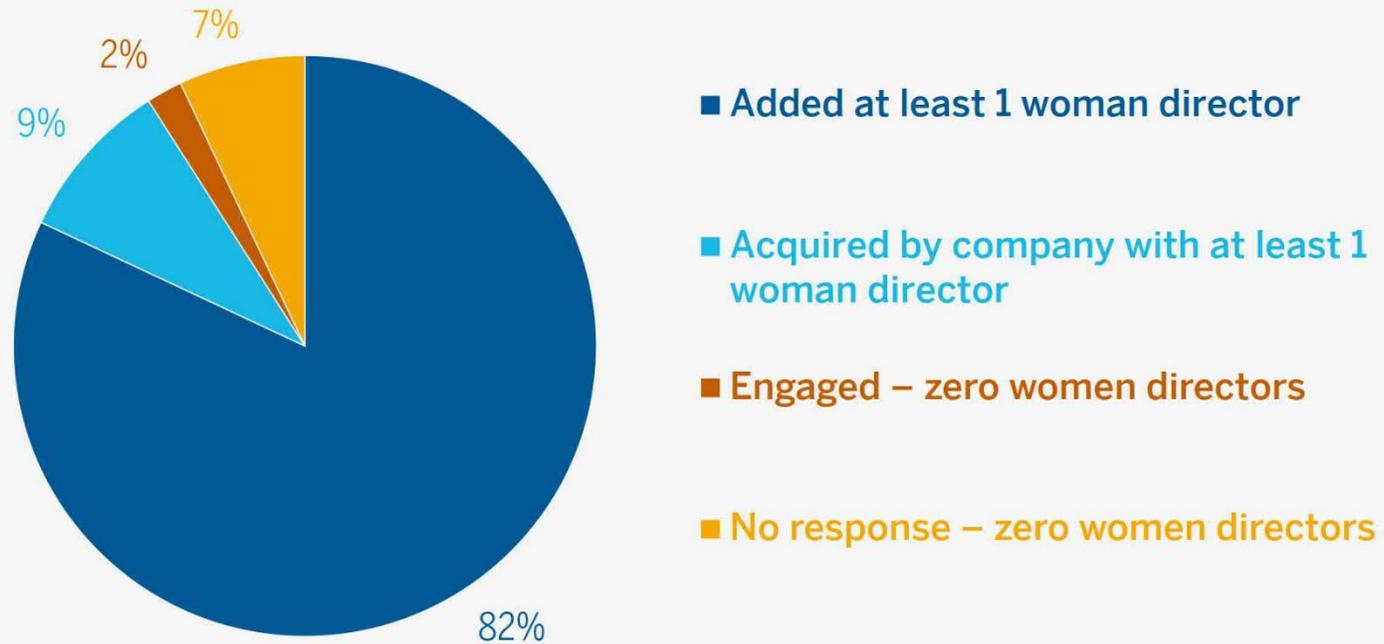
Requesting engagement on diversity through written letter to boards of 54 US mid/large cap companies with no women directors

Gender board diversity voting policy since 2020 for US and other markets

Gender board diversity voting policy extended to Japan for 2021

Action taken since September 2017¹

Targeted engagement has resulted in 42 companies improving the gender diversity of their boards



¹Through industry research, we have determined that multiple shareholders have also tried to influence change on the issue of board diversity through a variety of methods including letter-writing, engagement, and proxy voting | Results shown are as of 31 July 2020. The letter was sent to companies in September 2017. | Figures may not sum to 100 due to rounding.

Understanding how climate change affects investments Partnership with Woodwell Climate Research Center

Began multi-year research collaboration with Woodwell Climate Research Center in September 2018

- #1 ranked global climate think tank by ICCG1 over the last four years
- Collaborators include The World Bank, NASA, USAID, The Nature Conservancy
- Staff of 70 working around the globe

Research collaboration focused on physical climate risk

- Implications of heat, drought, wildfire, hurricanes, floods, water access
- Bridging the gap between science and finance



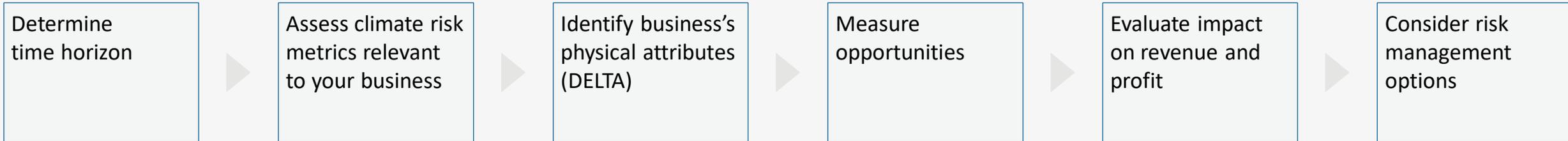
“I could give 100 more speeches and nothing will change but if we get 100 security prices to move, something may change”

– Phil Duffy, Executive Director
Woodwell Climate Research Center

Understanding how climate change affects investments

Helping Companies Understand & Disclose Physical Risk of Climate Change (P-ROCC)

Physical Risk of Climate Change (P-ROCC) - Components of disclosure



For assessing physical attributes we recommend

- **Demand**: Changing location, health, resilience, and finances of customers. Disclose percentage of revenue and profit derived from countries or regions most at risk.
- **Expenditures**: Fixed asset augmentation, repairs, and impairment
- **Logistics**: Business of supply chain/inventory disruptions, including travel and security of inputs (energy and raw materials)
- **Talent**: Employee health and safety and location of labor pool
- **Acquisition**: Strategy to assess geographic climate risks that may arise as a result of potential mergers, acquisitions, or expansion plans

Our net zero by 2050 commitment

Wellington Management commits to

Work in partnership with asset owner clients on decarbonization goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all assets under management ('AUM')

Set an interim target for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or sooner

Review our interim target at least every 5 years, with a view to increase the proportion of AUM covered until 100% of assets are included

Sustainable Investing at Wellington

What have we learned on our journey?



Expect skepticism

Educate, educate, educate!

Challenges across asset classes

Pros and cons of a “No-CIO structure”

- Alignment differs, takes longer
 - But bottom-up articulation is more sustainable long-term
-

Time – “Rome wasn’t built in one day”

“Do not let perfect be the enemy of good”

Conclusion

The sustainable investment landscape is rapidly evolving

Market inefficiencies abound!

Exploring and exploiting these inefficiencies provides the opportunity to add value

Everyone is on a journey – the starting point differs and there is no “one size fits all”

Being Authentic matters!

Disclosure

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