WELLINGTON MANAGEMENT®

Passion for impact, focus on performance

Wellington's Global Impact Team explains their approach to impact investing and why they believe they can generate attractive returns while addressing major social and environmental challenges.


Invest in the world you want to live in.

With Global Impact, we aim to generate competitive financial returns by investing in innovative companies whose core products and services target the world's most pressing problems. Whether ensuring access to clean water, health care, or education, or reducing carbon emissions, the companies we seek to invest in are, in our view, helping to ensure a sustainable future for people and the planet.

Here, Portfolio Manager Tara Stilwell discusses how she and her team aim to identify and invest in companies that they believe are improving the lives of people around the world and ensuring a sustainable future. She also shares the team's approach to measuring impact, a critical component of impact investing.

The views expressed herein are those of the author(s), are based on available information, and are subject to change without notice. Individual portfolio management teams may hold different views and may make different investment decisions for different clients.

Features

A talented, diverse team

Varied backgrounds and skills provide wider perspectives

As the world recognizes the role financial markets have in solving big social and environmental challenges, Wellington Management is already working on it. The firm offered its first impact investing approach to institutional investors in 2015.

Impact investing is a segment of sustainable investing that helps address issues like climate change, food and drug safety, and access to affordable housing. Tara Stilwell, Global Impact's portfolio manager, sees a direct connection between markets and solutions, saying, "Financial markets are the engines of economies, and economies drive political, social, and environmental outcomes, so finance is a great way to have a positive impact."

Tara, who has taught financial literacy to low-income teenagers in her home city, is excited to be part of the growing impact community, which she views as a key to democratizing impact.

Aiming to add value

Tara credits Global Impact's strength to her team, whose diverse backgrounds and skill sets complement one another, leading to a well-rounded perspective. "While we're all passionate about enabling our clients to align their values with their investments, we each bring something different to the table. Together, we believe we can drive value by investing in companies that are making the world a better place."

She applies 20 years of portfolio management experience and a consistent, bottom-up approach, examining each company's assets, industry structure, and capital allocation decisions, while also placing heavy emphasis on environmental, social, and governance (ESG) practices. Additionally, she has a long-term perspective, focusing more on a company's sustainable growth potential than quarterly earnings. "These companies often have positive industry structures and long runways for growth. Our job is to determine which companies we believe have competitive advantages and which managements are working to ensure the company has the impact we want to see."

Left to right: **Marjorie Winfrey**, Sustainable Investment Research Analyst; **Sean Macdonald**, Equity Research Analyst; **Tara Stilwell**, Portfolio Manager; **Jason Goins**, Equity Research Analyst; **Louise Kooy-Henckel**, Investment Director; **Joy Perry**, Investment Director

Multidimensional approach to identifying opportunities

Collaboration with Wellington's global industry analysts (GIAs), credit analysts, and ESG research analysts is part of the process. Tara's team also works closely with Campe Goodman, who manages the Global Impact Bond approach, to grow the impact opportunity set and share investment ideas.

Both Tara and Campe collaborate with Wendy Cromwell, Wellington's director of Sustainable Investment and a board member of the United Nations-supported Principles for Responsible Investment.

Tara cites her long-standing relationships across Wellington for helping to uncover attractive investments and recognize risks.

"We work with many analysts who have a very strong understanding of local industry, regulatory, or political environments. We can leverage that expertise to get better insights on issues we're thinking about. It's an amazing way of collaborating and, in my opinion, a distinct competitive advantage."

"In our view, companies addressing big global problems have long runways for growth, positive industry structures, and powerful tailwinds at their back."

What is the philosophy of Wellington's Global Impact approach?

We aim to generate strong financial returns while addressing some of the world's greatest social and environmental challenges through public-market investments. We think markets have an important role to play in supplying the capital needed to solve big problems. Governments, nongovernmental organizations (NGOs), and philanthropies may not be enough. We believe we can produce attractive investment returns with a portfolio that is helping to make the world a better place.

What are your impact investing themes?

We invest in 11 themes across three categories: life essentials, human empowerment, and environment. Within life essentials, we invest in solutions for affordable housing, clean water and sanitation, health, and sustainable agriculture and nutrition. Within human empowerment, our themes are bridging the digital divide, education and job training, financial inclusion, and safety and security. Finally, within environment, we invest in alternative energy and in solutions for better resource efficiency and resource stewardship.

How do you select stocks for the portfolio?

The main lens is our three criteria for determining impact. First, is at least 50% of a company's revenue derived from products or services that address one of our impact themes? Second, is the impact not easily addressed by other means? And third, can we measure and track impact progress and outcomes? From there, we seek companies with attractive fundamentals, including robust assets, positive industry structure, a track record of smart capital allocation decisions, and positive ESG practices. In our view, companies with strong or improving ESG metrics have the potential to outperform.

Can you give examples of impact investments you have made?

We are invested in a Brazil-based health care company that runs clinics and offers health insurance. During a recent visit to company headquarters, we met with management, hospital administrators, and doctors. We wanted to understand the company's ability to deliver quality care at a low cost. In the control room, monitors displayed real-time data on every facility the company runs across the country, showing patient volumes, wait times, doctor visits, and other information. The company has also contracted a local meteorological company to supply weather forecasts. This enables it to proactively apply pertinent data when heavy seasonal rains may increase the number of patients seeking influenza treatments.

In Japan, we are invested in a company that rehabilitates dilapidated or abandoned homes that would otherwise be torn down and resells them to first-time and lower-income homebuyers at affordable prices. We are also invested in a Japanese pharmaceuticals business developing treatments for major diseases. The company has very strong ESG practices as well, focusing on drug safety, customer satisfaction, community outreach, and a constructive approach to environmental issues.

How do you measure impact?

To measure impact, we use quantitative key performance indicators, or KPIs, such as the amount of CO2 emissions avoided, water cleaned, or patients receiving care. We work with management teams to develop meaningful KPIs that investors can use to track, as accurately as possible, progress toward impact goals. We use the KPI logic chain to measure relevant "Input, Activities, Output, Outcome, and Impact." We have also been adopting elements of the Impact Measurement Project's framework that aim to provide details and transparency on five dimensions of impact: "What" a company does and drives toward; "Who" benefits from the company's products or services; "How much" scale, depth, and duration the impact has; the "Contribution," both positive and negative, of the impact; and the elements of "Risk" that are involved or would occur if the company fails to achieve what it sets out to do. This framework complements the KPI logic chain approach.

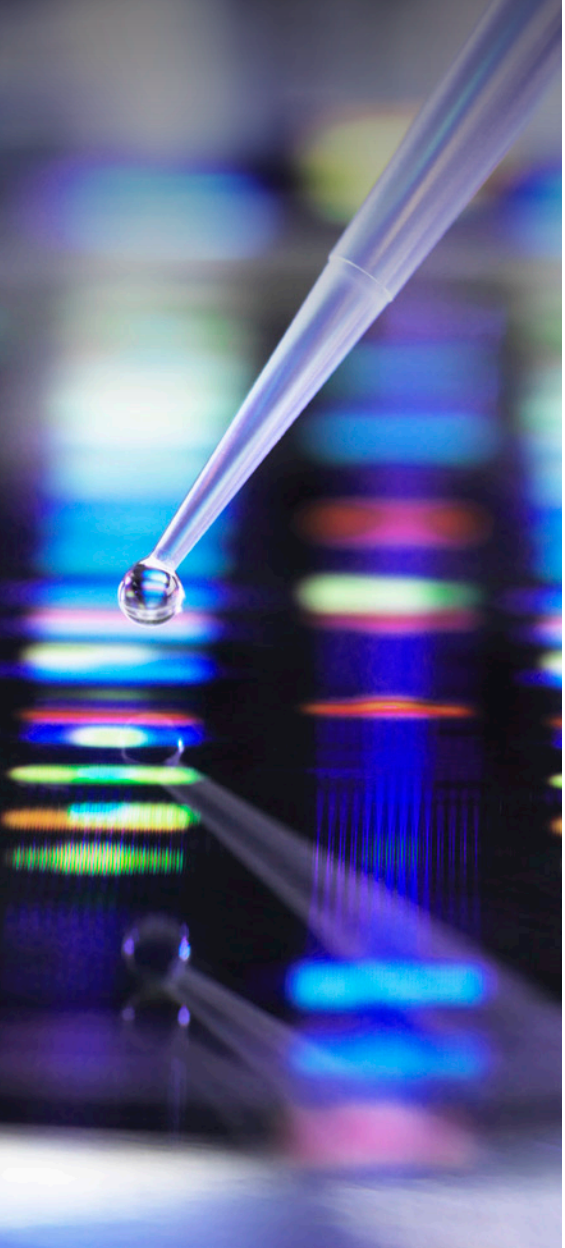
What is the importance of engagement?

To us, engagement is a critical piece of our influence as impact investors. By engaging with our companies on the metrics we track or would like to track, we deepen the impact discussion and encourage companies to tie their long-term strategies more clearly to positive-change outcomes. We want to know, for example, whether management is committed to making tangible progress and how impact metrics intersect with business strategy. We frequently ask management teams to provide more transparency or to consider elements of impact that we would like to quantify.

The examples shown 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 a similar) example, nor should it be assumed that an investment in the example 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.

What is the difference between ESG investing and impact investing?
Impact investors focus on the change that can result from what a company produces and sells. ESG investors are concerned with how a company does business and treats its stakeholders; we evaluate issues like customer safety, employee relations, or board structure in the course of our company analysis. To be considered for our impact portfolio, however, a company must be having a measurably positive effect on society or the environment through its core products and services.

With the impact universe, we believe companies with positive ESG have the potential to outperform the market and may do so with less volatility. We incorporate ESG as part of our research mosaic for those same reasons, but our research starts with our impact criteria. Ultimately, our intention is to invest in companies having a positive impact by virtue of what they sell and how they conduct their business operations.



What do you think is Wellington's advantage in impact investing?

We believe our competitive advantage is a combination of factors. First is the collaboration among our team and across our global bench of equity, credit, ESG, and macro analysts. Another advantage, in our view, is our experience. We have been investing in public equities in the impact universe for several years now. Finally, the merging of our Global Impact and Global Impact Bond investment and research teams has been incredibly valuable to us. We think this cross-asset synergy enables us to source more opportunities and analyze potential impact investments in an even more rigorous manner.

Is there a reason to think that impact investing is risky due to the late-stage economic cycle?

We take a long-term approach and are mainly interested in companies that we believe have extended runways for growth driven by tailwinds from these impact themes. We also look for businesses whose underlying fundamentals — assets, industry structure, capital allocation, and ESG — indicate sustainability. We are not unconcerned with the economic cycle, but there's nothing to suggest that our portfolio includes companies that are more, or less, at risk of an economic downturn than the broader market.

How will impact investing evolve over the next three to five years?

We believe the impact opportunity set will continue to expand. First, the problems impact companies are addressing will take many years to overcome, even with large amounts of capital from public markets. Second, as more asset owners — from large institutions to small investors — realize they can help solve major issues while potentially earning competitive returns, the more demand there should be for impact investing strategies. Finally, we expect to see more innovative technologies that enable remote access to health care, protect us from cyberattacks, make our automobiles safer and more energy efficient, and solve many other global challenges. We are excited to see what the next few years will bring, and to be working toward a sustainable future on behalf of clients.

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

APPROACH TYPE:	LAUNCH DATE:	BENCHMARK:
Equity	September 2015	MSCI All Country World

Source: Wellington Management as of 31 December 2019. For illustrative purposes only.

Theme	CLEAN WATER & SANITATION	EDUCATION & JOB TRAINING
Business	Water technology company	Education service provider
Investment case	Innovative water management solutions are an underappreciated component of energy and water efficiency that we believe can drive financial outperformance, as smart metering devices and water infrastructure can deliver significant cost savings and environmental benefits.	Providing education and comprehensive job placement support to student populations from disadvantaged socioeconomic groups can close generational wealth gaps and increase overall economic prosperity.
Key performance indicators		
What	Water technology solutions including smart meters, network software, and advanced data analytics	Education service provider offering vocational training and job placement primarily for low-income students
Who	More than 56,000 utilities More than 135,000 households	875,000 students
How much	More than 80 million meters installed Millions of customers in 150 countries served 2% – 14% average energy savings per device	26% average starting salary premium for graduates of top institutions
Contribution	CO2 emissions avoided through efficient water solutions (aspirational)	Improved quality of life from education
Risk	Challenge to quantify total portfolio contributions for products, as impact is often location-specific	Risks of impact drop-off or cyclicality are effectively managed and monitored. Job placement outcomes and profitability will depend on market demand.
Core KPI	**10% increase in individuals with access to clean water**	**26% average starting salary premium for graduates of top institutions**

KPI Logic Chain metrics	Output	Outcome	Impact
	US$5.2 billion in revenue from water infrastructure	Water and energy conserved (in progress)	Improved water quality and prevention of water scarcity (aspirational)
	Company statistics as of December 2018.		

KPI Logic Chain metrics	Output	Outcome	Impact
	875,000 students enrolled	26% average starting salary premium	Improved income and quality of life from education (aspirational)
	Company statistics as of December 2019.		

Theme	ALTERNATIVE ENERGY			AFFORDABLE HOUSING		
Business	Renewable power producer			Low-cost-apartment operator		
Investment case	Utility-scale renewable energy projects are necessary for helping economies decarbonize quickly and efficiently.			We believe the undersupply of housing — particularly affordable housing — in Germany, combined with relatively high incomes at all levels, supports strong rent-growth potential.		
Key performance indicators						
What	Renewable-energy plant operator providing large-scale wind and solar energy infrastructure and energy storage solutions			Regional apartment operator		
Who	3.1 million customers 7,000 employees			360,000 primarily low- and middle-income residents		
How much	17.5 TWh energy generated in wind, hydroelectric, and solar photovoltaic segments			Scale: 134,000 affordable housing units Average rent/m2: 25% below national average Energy efficiency: 7,300 metric tons of CO2 reduced		
Contribution	12.4 million metric tons of CO2 emissions avoided, equivalent to 0.04% of total global emissions			Quality affordable housing contributes to personal and community well-being and drives economic growth		
Risk	We believe the environmental costs of wind and solar energy projects and regulatory risks are quantified and mitigated.			We believe material risks are understood and managed. Risks could include building products and safety, management and governance, or regulatory changes.		
Core KPI	**12.4 million metric tons of CO2 emissions avoided, equivalent to 0.04% global emissions**			**€2.7 billion (US$2.9 billion) in local income gains, defined as local tax revenue (3.1% year-over-year improvement)**		
KPI Logic Chain metrics	Output	Outcome	Impact	Output	Outcome	Impact
	17.5 TWh electricity produced	12.4 million metric tons of CO2 emissions avoided	0.04% of global CO2 emissions avoided	134,000 affordable housing units	360,000 residents served	€2.7 billion (US$2.9 billion) in local income gains, defined as local tax revenue

Company statistics as of December 2019. Greenhouse gas (GHG) equivalencies based on US Environmental Protection Agency calculator. Total GHG estimates based on BP Statistical Review of Energy and World Resources Institute estimates of annual global CO2 emissions.

Company statistics as of December 2018 (number of units); December 2019 (number of residents).

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Campe Goodman, Portfolio Manager, Global Impact Bond; **Wendy Cromwell**, CFA, Vice Chair and Director of Sustainable Investment; **Tara Stilwell**; Portfolio Manager, Global Impact

Tara Stilwell, CFA, Portfolio Manager, Global Impact

As portfolio manager for Wellington's Global Impact and Global Opportunities teams, Tara manages equity assets on behalf of our clients, drawing on research from Wellington Management's global industry analysts, equity portfolio managers, and team analysts. She provides research to her team on the financials, health care, and media/telecommunications sectors. Tara earned both her BS in economics (Wharton) and her BA in history from the University of Pennsylvania (1994). Additionally, she holds the Chartered Financial Analyst designation and is a member of the CFA Society Boston.

Campe Goodman, CFA, Portfolio Manager, Global Impact Bond

Campe is a portfolio manager on Wellington's Global Impact and Broad Markets teams. He has been managing multi-sector fixed income portfolios for nearly two decades. He is also the lead manager on Multi-Sector Credit portfolios and leads a specialist team responsible for the development of sector rotation strategies. Outside the firm, he is a board member of a Boston-based nonprofit organization that helps individuals, including immigrants and refugees, find employment and develop their careers.

Wendy Cromwell, CFA, Vice Chair and Director of Sustainable Investment

Wendy sets the research agenda and strategies for the firm's sustainable investment practice, including impact, climate, and long-term engagement strategies. As a vice chair of the firm, she is also a senior member of the firm's management team and works with the CEO on strategic initiatives and external affairs of the organization. She also serves as a director on the board of the United Nations-supported Principles for Responsible Investment.

Common Stock: Common stock are subject to many factors, including economic conditions, government regulations, market sentiment, local and international political events, and environmental and technological issues as well as the profitability and viability of the individual company. Equity security prices may decline as a result of adverse changes in these factors, and there is no assurance that a portfolio manager will be able to predict these changes. Some equity markets are more volatile than others and may present higher risks of loss. Common stock represent an equity or ownership interest in an issuer.

Concentration: Concentration risk is the risk of amplified losses that may occur from having a large percentage of your investments in a particular security, issuer, industry, or country. The investments may move in the same direction in reaction to the conditions of the industries, sectors, countries and regions of investment, and a single security or issuer could have a significant impact on the portfolio's risk and returns.

Currency: Active investments in currencies are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Active currency risk may be taken in an absolute, or a benchmark-relative basis. Currency markets can be volatile, and may fluctuate over short periods of time.

Emerging Markets: Investments in emerging and frontier countries may present risks such as changes in currency exchange rates; less liquid markets and less available information; less government supervision of exchanges, brokers, and issuers; increased social, economic, and political uncertainty; and greater price volatility. These risks are likely greater relative to developed markets.

Smaller-Capitalization Stock: 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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