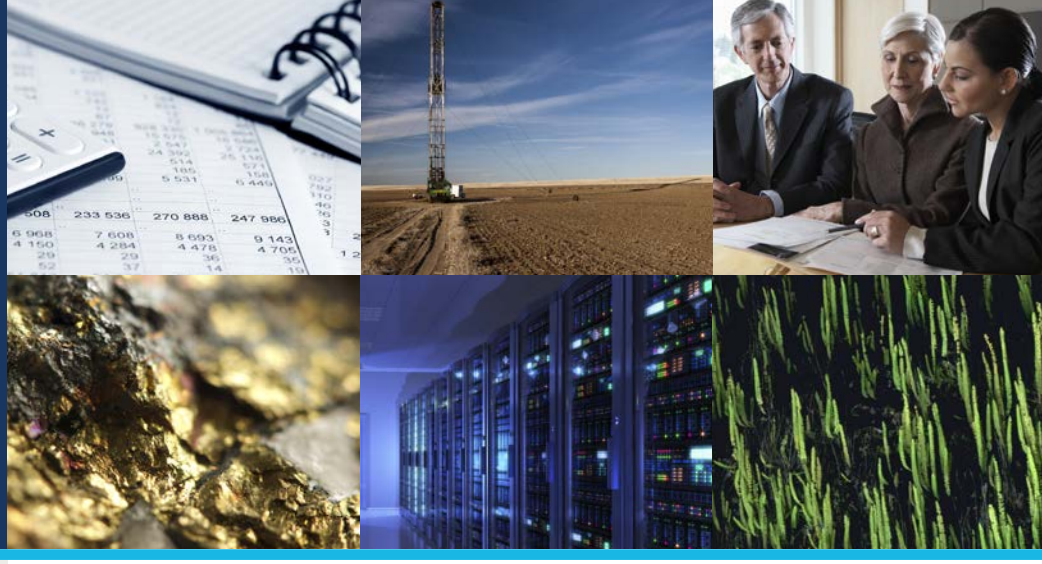
WELLINGTON MANAGEMENT®



Second quarter 2021

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[1]Net Zero Asset Managers initiative, as of 30 June 2021.

GLOBAL ESG RESEARCH UPDATE

Key sustainability initiatives

Net-zero commitment

In December 2020, Wellington became a founding member of the Net Zero Asset Managers initiative. As of this April, 87 signatories representing nearly US$37 trillion in assets under management (AUM) have signed on.[1] We are aligning strategies with a net-zero-by-2050 trajectory and defining climate-action strategies consistent each investment team's philosophy and process. This November, we will announce the value of the AUM that has been committed, in partnership with our clients, to be managed in line with our net-zero goal, with the expectation of increasing these assets over time.

Climate-risk disclosures

Following the US Securities and Exchange Commission's (SEC's) solicitation for comments, we expressed support for mandatory, standardized reporting of greenhouse gas (GHG) emissions (Scope 1, 2, and 3) and other sustainability metrics. We encouraged the SEC to align with disclosure frameworks, including the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB). In the UK, we expect economy-wide climate-risk disclosure by 2025, with other regulatory regimes following suit.

Earlier this year, after reviewing 10-K filings from 100 companies in the S&P 500 Index, we concluded that over 90% of issuers disclosed insufficient location data for us to accurately assess climate risk. To help change that, we recently published P-ROCC 2.0, an update our 2019 Physical Risks of Climate Change framework, explaining why and how executive teams can disclose location data.

Sustainable Finance Disclosure Regulation (SFDR)

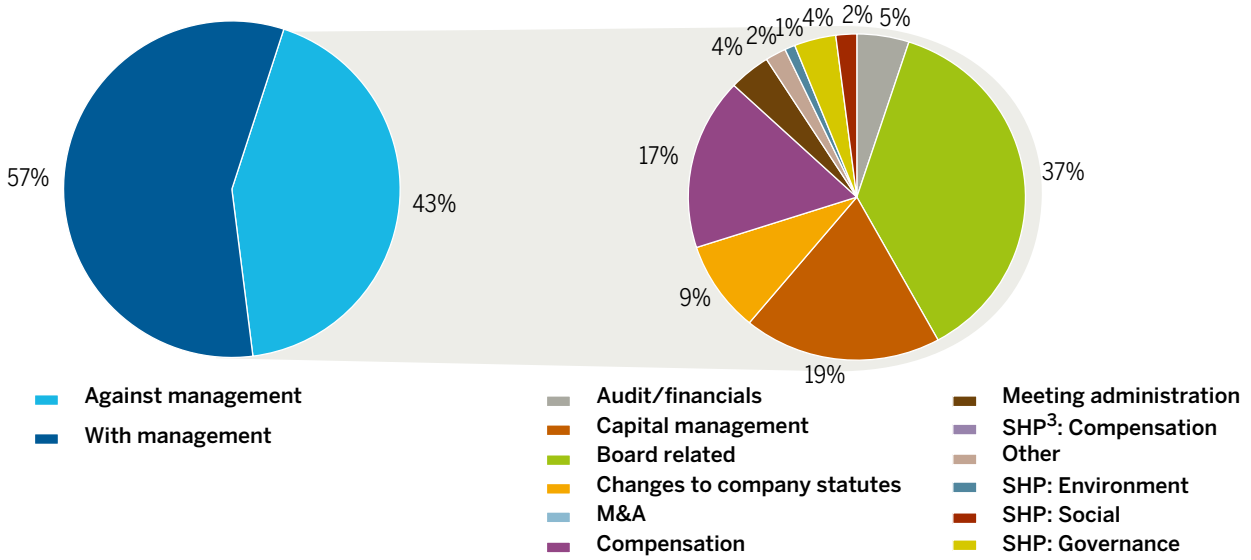
In March, the Level 1 requirements of the SFDR took effect. We have transitioned 26 investment strategies to meet Article 8 ("light green") requirements and four strategies to comply with Article 9 ("dark green"). We expect to include more strategies next year and are reviewing Level 2 requirements for EU Taxonomy alignment and Principal Adverse Indicators (PAIs). We aim to capture new data, enhance reporting, and consider the research implications of these efforts. Finally, updates to the delegated acts for MiFID II, UCITS, and AIFMD detail how to assess, manage, and monitor sustainability risks and assess ESG product suitability.

2Q21 firmwide proxy-voting results

Proxy voting can be a powerful tool that we leverage when engaging with company management teams. Our team examines each proxy proposal and votes against issues that we believe would have a negative effect on shareholder rights or on the current or future market value of the company's securities. **Figure 1** shows the breakdown of the past quarter's global proxy voting.

Figure 1

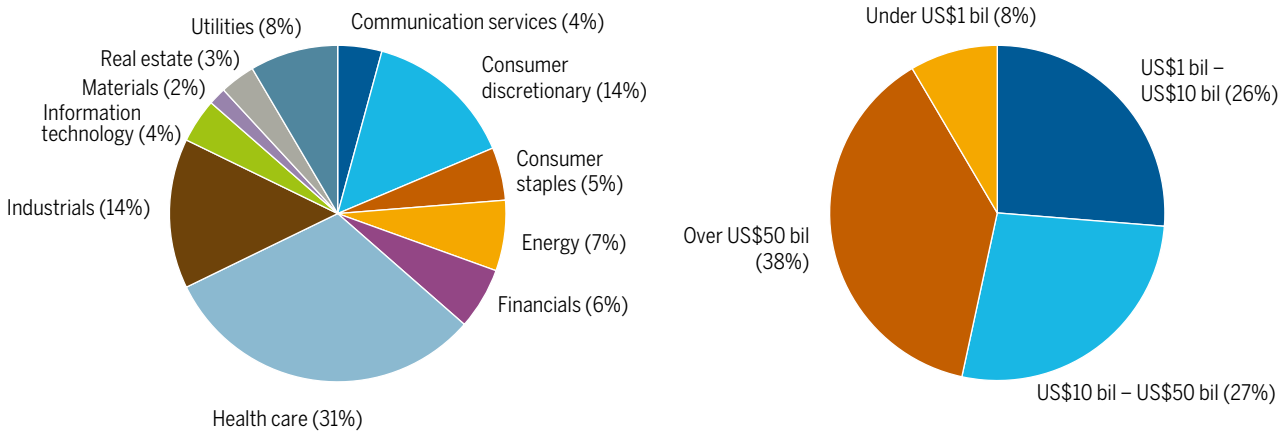
Wellington Management's 2Q21 proxy-voting results[2]



2Q21 ESG engagement activity

In the second quarter of 2021, our team engaged with 118 portfolio companies in 14 countries (**Figure 2**) on ESG topics ranging from board composition and executive compensation to climate resiliency and disclosure. See the list of our engagement discussions for the quarter below.

Figure 2



[2]Figures may not sum to 100 due to rounding | [3]Shareholder proposal | Source: Wellington Management

2Q21 ESG engagement activity by company

Company	E	S	G
Communication services			
Alphabet		●	●
Bandwidth Inc		●	●
Cable One		●	●
Cinemark Holdings			●
Facebook		●	●
Consumer discretionary			
Amazon	●	●	●
Aramark	●	●	
Choice Hotels Intl			●
Churchill Downs			●
Dollar General Corp			●
Five Below			●
General Motors	●	●	●
Hilton Worldwide			●
Home Depot		●	●
Lennar Corp		●	●
Lowe's Companies	●	●	●
McDonald's Corp		●	●
Sanyo Shokai		●	●
ThredUp Inc		●	●
TJX Companies	●	●	
VF Corp			●
Wolverine World Wide	●	●	●
Target	●	●	●
Consumer staples			
Colgate-Palmolive			●
Diageo PLC	●	●	●
Mondelez Intl	●	●	●
Nestle SA	●		
PepsiCo		●	●
Philip Morris Intl	●	●	
Energy			
Chevron	●		●
Delek US Holdings		●	●
Energy Transfer	●		
EOG Resources	●	●	●
Imperial Oil	●		
Kinder Morgan	●		
Suncor Energy	●	●	
Financials			
AIB Group PLC		●	●
American Express		●	
Bank of America Corp		●	●
JAFCO Group	●	●	
JPMorgan Chase		●	●
OneMain Holdings			●
VEF Ltd			●
Health care			
Abbott Laboratories		●	●
Abcam PLC			●
Accolade		●	●
Adverum Biotechnology		●	●
Akebia Therapeutics			●
ALK-Abello A/S		●	●
Argenx SE			●
Avanos Medical		●	●
Baxter International		●	
Biogen		●	
Bio-Techne Corp		●	●
Cardiovascular Systems		●	●
Centene Corp			●
ConvaTec Group PLC		●	●
Dexcom		●	
Globus Medical			●
HCA Healthcare	●		
Health Catalyst			●
Illumina Inc		●	●
Incyte Corp		●	●
IQVIA Holdings		●	●
Johnson & Johnson		●	●
Kodiak Sciences			●
Koninklijke Philips		●	●
Lab Corp of America		●	
NuVasive			●
Pfizer		●	●
Qiagen NV			●
Royalty Pharma PLC			●
Sage Therapeutics			●
Seagen		●	●
Tricida		●	●
UnitedHealth Group		●	●
Vertex Pharmaceuticals			●
Zai Lab	●	●	●
Industrials			
Atlas Copco			●
Canadian Natl Railwy	●		
Cie de Saint-Gobain			●
Deere & Co	●		●
DXP Enterprises		●	
Echo Global Logistic			●
Ferguson PLC			●
Fortive Corp	●		
JGC Holdings Corp		●	●
Kuehne & Nagel Intl		●	●
Northrop Grumman Crp		●	●
nVent Electric PLC			●
Raytheon Technologies	●	●	●
Ryanair Holdings PLC			●
Schneider Electric		●	●
SThree PLC			●
Information technology			
CommScope Holding			●
Everbridge			●
Intel Corp		●	●
Paycom Software			●
Softcat PLC		●	●
Wex			●
Materials			
Linde PLC	●		●
Sealed Air Corp			●
Real estate			
Arima Real Estate			●
Prologis			●
SL Green Realty Corp			●
Xenia Hotels & Resorts			●
Utilities			
American Elec Power	●		●
Dominion Energy	●		●
Duke Energy Corp		●	●
Eversource Energy			●
Iberdrola SA	●	●	●
National Grid PLC	●		●
NextEra Energy	●		●
Oglethorpe Power	●		●
Sempra Energy	●		●
Southern Co	●		●

E = environmental, S = social, and G = corporate governance discussions. The companies shown comprise a complete list of all engagement meetings in which Wellington Management's ESG Team participated in 2Q21. These companies are not representative of all of the securities purchased, sold, or recommended for clients. It should not be assumed that an investment in the companies listed has or will be profitable. Actual holdings will vary for each client and there is no guarantee that a particular client's account will hold any or all of the companies shown. This material is not intended to constitute investment advice or an offer to sell, or the solicitation of an offer to purchase shares or other securities.

As part of our commitment to net zero by 2050, we continue to engage with and encourage companies such as Chevron to set net-zero commitments, as we believe alignment with the energy transition is fundamental to the investment case.

2Q21 ESG engagement examples

Chevron

Overview

A global industry analyst, ESG analyst, and several investors engaged with Chevron's chair and CEO to discuss management's response to a 2021 shareholder proposal requesting the company to reduce its Scope 3 emissions. This was a follow-up engagement to a meeting earlier this year, and we reiterated our message that aligning the company's long-term strategy with the energy transition and making a net-zero commitment would bolster its investment case.

Key discussion topics

Net-zero commitment/climate transition risks

We have had an ongoing engagement with Chevron encouraging it to enhance its efforts to address transition risk. More recently, we have also encouraged the company to commit to net zero by 2050 as part of our engagement, consistent with Wellington's own commitment to the Net Zero Asset Managers initiative, in which we intend to work with portfolio companies on credible transition strategies to decarbonize over time. While Chevron has yet to fully address the transition risks it confronts, specifically its Scope 3 emissions, we appreciate that the company has disclosed these emissions and is actively seeking investor feedback on climate concerns.

In our view, Chevron has the opportunity to make more ambitious commitments to align with the energy transition and address its Scope 3 emissions. For this reason, we supported the shareholder proposal asking management to do so at the 2021 Annual General Meeting. In our engagement, we had a constructive discussion about the strategic options available to the company.

Physical climate risks

We believe Chevron has been a leader among its US peers in meeting rising climate-disclosure expectations from investors, and we were pleased that feedback we provided during a previous engagement on physical climate risk disclosure was incorporated into the company's latest climate report, with reference to our 2019 Physical Risks of Climate Change (P-ROCC) Framework. We recently launched P-ROCC 2.0, a new framework encouraging companies to disclose the physical location of assets and operations to help investors better assess physical climate risks.

Conclusion/follow-up

As part of our commitment to net zero by 2050, we continue to engage with and encourage companies such as Chevron to set net-zero commitments, as we believe alignment with the energy transition is fundamental to the investment case. We appreciate the company's willingness to engage and receptivity to feedback.

While we acknowledged the company's desire to retain top key talent, we expressed our view that management's incentives should align with long-term shareholder interests.

Wex

Overview

During the COVID-19 pandemic and ensuing recession, the need for boards to better align executive incentives with company growth and performance became evident. We met with Wex, a corporate payments company, to offer advice on how to restructure its incentive plan for 2021 and beyond in ways that more closely connect executive pay with shareholder interests.

Key discussion topics

Executive compensation

Toward the peak of the COVID-19 pandemic, Wex announced changes to metrics for management's annual bonus plan. Instead of focusing on growth in total company operating metrics, cash bonuses would now be awarded based on cost-cutting initiatives and growth metrics within just one business segment. We reached out to the board to request an engagement to better understand the rationale behind the changes. While we acknowledged the company's desire to retain top key talent, we expressed our view that management's incentives should align with long-term shareholder interests. We encouraged the company to install a compensation plan that emphasized total company growth.

Wex reached out to the majority of its shareholders to discuss the changes made to the plan. We were surprised to learn that only a limited number of shareholders were interested in engaging with Wex on the subject, despite the company's broad shareholder outreach.

Conclusion/follow-up

We are pleased that Wex decided to revert its executive compensation plan to the pre-pandemic structure to include growth-oriented performance metrics as we had hoped. We believe this result underscores the importance of being an engaged shareholder and working in partnership with companies to contribute to positive outcomes for all stakeholders. The company noted that our concerns were a significant reason behind the changes and thanked us for providing thoughtful feedback.

Following our call, the company informed us that beginning in the second quarter, it will engage with peers and its trade associations involved in energy policy to advance a standardized disclosure template.

Sempra Energy

Overview

We engaged with Sempra ahead of its 2021 Annual General Meeting to discuss a proposal on the ballot requesting greater disclosure on the company's climate-related lobbying activities. Management reached out to us to provide context around existing lobbying disclosures.

Key discussion topics

Climate-related lobbying disclosure

Sempra received a shareholder proposal requesting a report on the alignment of the company's lobbying activities with the goals set out under the Paris Agreement. The company relayed to us its view that its existing lobbying disclosures, including the board-evaluated report addressing the alignment of the company's lobbying activities with the Paris Agreement, was sufficient and adequately addressed the information requested by the proposal.

Following our call, the company informed us that beginning in the second quarter, it will engage with peers and its trade associations involved in energy policy to advance a standardized disclosure template. We believe the next logical step in transparency is for trade associations to disclose their own climate positions and related lobbying activities. Sempra will be working to get its trade associations to complete the template, with reporting expected to be available in the first quarter of 2022.

We appreciate the company's proactive response, and we are aligned with its view that greater disclosure is in shareholder interests. Sempra's efforts will enable shareholders and other stakeholders to make more informed decisions when assessing the degree of alignment between its climate commitments and lobbying activities.

Conclusion/follow-up

We voted with management and did not support the shareholder proposal, given the company's existing disclosure and proactive efforts. Our action illustrates the importance of addressing shareholder proposals on a case-by-case basis. We look forward to reviewing the company's standardized disclosure template for trade associations later this year. ■

Notes

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