



ESG integration philosophy

At Wellington Management, we see environmental, social, and governance (ESG) considerations as one set of factors among many that should be weighed appropriately to inform investment decision making.

The firm's leadership team believes that material ESG issues are strategic business concerns that can affect the value of assets we invest in on behalf of our clients. We view the analysis and integration of ESG considerations as both return enhancing and risk mitigating. Our objective is to provide investment teams with the information and resources they need to integrate ESG as appropriate into their individual investment philosophy and process (P&P).

OUR APPROACH

ESG research at Wellington is centralized and available to all portfolio managers and investment teams. In this way, ESG analysis is a shared responsibility.

Wellington's ESG Research Team is a global team of sector specialists who focus on developing and sharing ESG research and insights. ESG Analysts conduct bottom-up analysis of material considerations in their respective coverage areas. They work closely with Global Industry Analysts and Credit Analysts to gather intelligence on ESG and help investment teams integrate these considerations into their P&P as appropriate.

We do not have a chief investment officer directing investment decisions. Instead, each of our portfolio managers and investment teams develops their own investment P&P. We believe this aligns our investment teams with the outcomes they pursue for clients and strengthens our investment dialogue, as teams with different investment philosophies can share and debate ideas.

Our north star is the belief that material ESG issues can affect the long-term value of assets we invest in; therefore, it is in our clients' best interest for us to analyze them.

Each investment team incorporates this research into its decision making to the extent it considers appropriate and in a way that is consistent with its investment P&P. For example, some investment teams may focus on companies they believe have best-in-class practices that will help the business compound value over time. Other investment teams may focus on companies that, in their view, have improving practices that have not been incorporated into the security's assessment. We believe this type of tailored assessment allows ESG integration to become more intrinsic to the investment process.

For many teams, ESG research is an input or lens to help assess the value of investments. The "weight" or prominence of this input differs, in large part, on the ESG topic, asset type, and team P&P. ESG considerations can manifest in the investment thesis or portfolio weighting for a particular security, as well as in proxy voting and company engagement efforts. In some cases, teams consider ESG as the primary lens for evaluating investment opportunities.

WHAT WE MEAN BY ESG

In our view, ESG is a broad term that refers to one or multiple environmental, social and/or governance considerations. For example:

- E** | Understanding whether a manufacturer's supply chain faces physical climate risk
- S** | Understanding a service provider's employee engagement levels
- G** | Understanding a company's capital allocation and compensation approach

While certain areas, such as climate risk, have become areas of research focus recently, most of these concepts are not new and have long been considered by many teams as part of their investment process.



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We believe having regular conversations with management and boards enables us to assess a company’s corporate culture, adaptability, and responsiveness, and ensure that incentives are aligned with long-term targets.

YOLANDA COURTINES, CFA

Equity Portfolio Manager



ENGAGEMENT

Investors and analysts engage with boards and management teams on many topics, including ESG topics that they consider as material and relevant to a company’s long-term success.

Engagements on ESG issues, which are focused purely on financial materiality, cover manifold topics, including climate-related risks, environmental regulation, employee training and development, executive compensation, or senior-level succession planning, for example. Engagements with investee companies can involve members of our investment teams as well as members of our ESG Research, Climate Research, Global Industry Research, and/or Credit teams who are interested or invested in a particular security. These engagements can also be coordinated at the firm level, with a specific or shared objective in mind.

When engaging on financially material climate-related issues, we adhere to a foundational principle recognizing that companies may be at very different stages, depending on their region, location, and other factors. We typically start these engagements by assessing company representatives’ understanding of climate physical and transition risks. Many companies do not yet disclose detailed climate-relevant information, so we may begin by encouraging them to measure and disclose their greenhouse gas emissions and the physical locations of property, plant, and equipment to the extent we believe doing so would enable our investment teams to better assess value and risk.

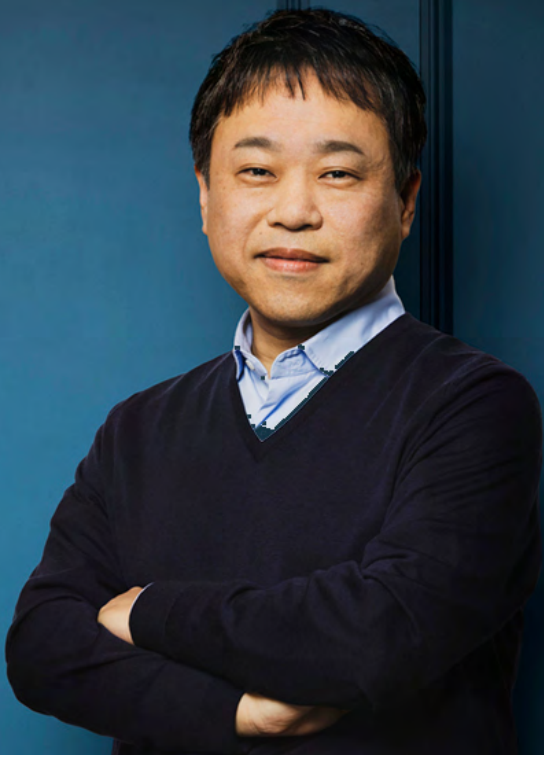
Over time, we believe our company ESG engagements will enable us to influence corporate behavior in ways that have the potential to unlock value or better manage risks, for instance, by encouraging companies to align executive compensation with business outcomes or helping them set science-based emissions-reduction targets to better prepare them for future. We are increasingly tracking and measuring these engagements across the firm to monitor and share outcomes, assess effectiveness, and identify potential areas for potential escalation.

PROXY VOTING

Proxy voting is a powerful tool that can provide leverage in company management discussions and opportunities that help us maximize investment returns for our clients.

Many clients ask us to vote proxies on their behalf, and we take that responsibility seriously. Our custom proxy voting guidelines are based on Wellington’s fiduciary obligation to act in the best financial interest of its clients as shareholders. These guidelines are research-driven, refreshed annually, and approved by the Investment Stewardship Committee. While these guidelines are designed to be applied globally, we consider jurisdictional differences to make more informed decisions. Our guidelines are not rigid rules nor do we enforce a “house view” or seek top-down consensus.

Manual voting represents a fraction of our total vote volume each year; the majority of voting is done by a third-party proxy agent in accordance with our custom proxy voting guidelines. When



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In my view, the key to successful engagements is the ability to tap a global set of equity, credit, and ESG analysts who help us analyze a company’s risks and opportunities holistically.

KATSUHIRO IWAI, CFA

Equity Portfolio Manager

manually voting on a shareholder proposal related to social or environmental issues, we generally vote in favor if we determine that the company’s adoption of the proposal would promote long-term shareholder value. In making this determination, we consider numerous factors, including but not limited to the anticipated benefits of the proposal to the company and whether:

- the proposal addresses the general interests of the company’s shareholders and not just the interests of those putting forward the shareholder proposal
- the company is currently addressing the issue motivating the proposal or has engaged with those putting forward the shareholder proposal
- the company can implement the proposal effectively
- the proposal’s adoption would impose material costs on the company or could result in unintended consequences

In addition, because proxy voting provides only limited means (i.e., voting “for” or “against”) to express our views on a particular issue, we may support shareholder proposals in cases where we do not support every recommended action or where the proposal is accompanied by a supporting statement that we do not support (so long as we are directionally aligned with the issue motivating the proposal). In these cases, we aim to engage directly with the company to clarify the nuanced view that our vote represents.

ESG-RELATED INITIATIVES

Wellington is a signatory to several industry initiatives focused on ESG. We believe participation helps us gain knowledge, stay current on key issues, and help shape discourse for our industry.

We will participate in ESG-related initiatives only to the extent that we believe that doing so is consistent with our fiduciary duties to our clients. To maximize the research impact of our participation, we are discerning in our evaluation of the wide range of initiatives we are asked or encouraged to join. We consider the credibility of an organizing body and its participants, materiality of the group’s focus to investee companies, and the expertise available to influence outcomes and content.

Importantly, as a participant in these industry initiatives, we do not form groups, act in concert, or make any collective-investment decisions with other investor participants; nor do we ask, encourage, or allow other participants to represent our views or speak on our behalf. These initiatives do not issue any individual or collective recommendations, arrangements, agreements, or understandings with respect to any company or its securities, including voting or investment decisions.

A full list of our external ESG-related partnerships is available in our annual Sustainability Report, available on our [web site](#).



About Wellington Management

USD 1T+

Assets under management

1,063

Investment professionals

2,565

Number of clients

61

Client locations (by country)

All figures are for the Wellington Management Group of companies as of 31 March 2023.

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