Allspring

Climate Transition Global Investment Grade Credit Fund

OBJECTIVES AND PROCESS

- Seeks total return, maximising investment income whilst preserving capital.
- Invests two-thirds of its assets in investment grade credit debt, graded such at the time of purchase, securities issued by corporate issues domiciled anywhere in the world.
- May invest up to one-third of its total assets in below investment grade debt securities
  - Will hedge non-US$-denominated investments to the US dollar.
  - Will target to decarbonise the Sub-Fund by 2050
  - Uses a negative screen to exclude securities issued by companies based on their exposure to ESG risks
- May also use derivatives, for hedging, efficient portfolio management or for investment purposes.
- Focus on bottom-up credit research with a focus on well-underwritten credits and relative value.
- Seeks to balance income whilst aiming for a competitive yield to drive total returns

KEY RISKS

Debt securities risk: debt securities are subject to credit risk and interest rate risk and are affected by an issuer's ability to make interest payments or repay principal when due. **Global investment risk:** securities of certain jurisdictions may experience more rapid and extreme changes in value and may be affected by uncertainties such as international political developments, currency fluctuations and other developments in the laws and regulations of countries in which an investment may be made. **High yield securities risk:** high yield securities are rated below investment grade, are predominantly speculative, have a much greater risk of default and may be more volatile than higher-rated securities of similar maturity. **Derivatives risk:** the use of derivatives presents risks different from, and possibly greater than, the risks associated with investing directly in traditional securities. The use of derivatives can lead to losses because of adverse movements in the price or value of the underlying asset, index or rate, which may be magnified by certain features of the derivatives. **ESG risk:** applying an ESG screen for security selection may result in lost opportunity in a security or industry resulting in possible underperformance relative to peers, ESG screens are dependent on third party data and errors in the data may result in the incorrect inclusion or exclusion of a security.

Calendar-year performance (%)

Past performance is not indicative of future results.

	2023	2022	2021	2020
Class I Dist. (USD) (8 Nov 2019)*	9.51	-15.52	-0.93	8.48
Bloomberg Global Aggregate Corporate Index (USD Hedged)[1]	9.10	-14.11	-0.79	8.26

Performance (%)

	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since incep.
Class I Dist. (USD) (8 Nov 2019)*	-1.94	-1.75	-1.22	4.01	-2.54	–	–	-0.20
Bloomberg Global Aggregate Corporate Index (USD Hedged)[1]	-1.89	-1.74	-1.79	3.06	-2.17	–	–	0.03

Past performance is not indicative of future results. Performance calculations are net of all applicable fees and are calculated on a NAV-to-NAV basis (with income re-invested). Performance shown is for class and currency indicated and returns may increase/decrease as a result of currency fluctuations. *Share class inception date

Market overview

The fund returned -1.94% in April on a net basis, underperforming the Bloomberg Global Aggregate Corporate Index (USD Hedged) which returned -1.89%.

Credit spreads as measured by the Bloomberg Global Aggregate Corporate Index (USD Hedged) tightened by 3bps from a spread of government bonds +100bps to +97bps, leading to an excess return of +0.23%. Total return for the month was -1.89%; the 10-year US Treasury bond repriced 48bps higher in yield to 4.68%, whilst the benchmark German government bond repriced 28bps higher in yield to 2.58%.

Economic Review

After a very strong first quarter of the year for financial markets, the start of the second quarter was much tougher, with losses being registered across a number of asset classes throughout April. The S&P ended a run of 5 consecutive monthly gains to return -4.1% in April and US Treasuries also recorded their worst month of 2024 (-2.1% in April), as concerns over sticky inflation grew. Markets also had to grapple with growing geopolitical tensions coming out of the Middle East after Iran launched a drone missile attack on Israel.

Hawkish US data prints were a common and dominant theme throughout April. The month began with ISM manufacturing heading back into expansionary territory for the first time since October 2022, with the prices paid indicator at its highest since July 2022. Tight labour market conditions continued to be evident with the US Non-Farm Payrolls reporting an increase of 303k jobs in March and most significantly, the US inflation report showed that March Core CPI was running at a monthly pace of +0.4% for a third consecutive month, making it very difficult to argue that the stronger prints in January and February were just a blip.

With expectations of rate cuts from the US diminishing, investors began to consider how this may constrain other central banks. For instance, the market pricing for ECB cuts by the December meeting had come down to just 66bps at the end of the month, having been pricing 89bps of cuts at the start of the month, though expectations remained that the first cut from the ECB would still come in June.

Despite the geopolitical concerns and the rates volatility, credit spreads remained firm and anchored close to the YTD tights with outright yield levels continuing to look

Investors should note that, relative to the expectations of the Autorité des Marchés Financiers, this fund presents disproportionate communication on the consideration of non-financial criteria in its investment policy.

For Professional/Qualified investors only

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GENERAL FUND INFORMATION

Portfolio managers: Scott M. Smith, CFA®; Henrietta Pacquement, CFA®; Alex Temple; and Jonathan Terry, CFA®

Benchmark: Bloomberg Global Aggregate Corporate Index (USD Hedged)[1]

Fund inception: 8 Nov 2019

Management approach: Actively managed

Sustainable Finance Disclosure Regulation: Article 8†

attractive and fund inflows to the asset class continuing to be a supportive technical. European supply was surprisingly robust in April (€59bn) and was relatively evenly split between non-financials and financials (€27.5bn and €31.5bn respectively). Demand remained strong with healthy book coverage driving new issue premiums to a minimum.

Performance

Credit contributed -0.06% to performance whilst the fund's interest rate exposure contributed +0.01% (shift: +0.02%; twist: -0.02%). Whilst the fund's net duration was comparable to the benchmark, the fund's relative overweight to both the Euro and USD curve detracted -0.07% (-0.01% EUR and -0.06% USD). Whilst the fund's relative underweight to the GBP curve contributed +0.01%.

The allocation effect at a sector level was -0.04%, with security selection contributing -0.02%. The fund's off-index position in government bonds detracted -0.02% to performance, whilst a Banking underweight contributed -0.02%. However, positioning in Energy contributed +0.01% (allocation effect: +0.00%; selection effect: +0.01%).

From a single name perspective, Scandinavian real estate company Heimstaden Bostad (HEIBOS) detracted 1bp with the issuer impacted by the return of the higher for longer underlying rates narrative. Thames Water was also a detractor to performance (-2bp) after the parent company Kemble failed to repay its £190m loan.

Outlook

Looking ahead, we expect strong demand, higher credit yields, and robust supply technicals to remain supportive of the Global Investment Grade Credit market:

Spread outlook: Spreads have gradually moved tighter YTD and are approaching the post-GFC tights in the US. We expect to see spreads remain range-bound moving forward, as the effects of slowing growth are offset by tailwinds from strong demand.

Macroeconomic outlook: Economic activity has proven resilient in 2024, despite aggressive tightening of monetary policy and tightening financial conditions. However, we believe that the monetary policy transmission mechanism is simply taking longer to impact the real economy: we expect to see slowing economic activity in 2H 2024.

Government yield outlook: Governement bond yields moved meaningfully higher in the four months of the year as market expectations about the pace and magnitude of monetary policy tightening in 2024 softened. Strong economic data, a tight labour market and resilient inflation prints has resulted in a shift in market expectations.

Monetary policy outlook: The market was too aggressive in its expectations of the pace and timing of monetary policy loosening – we expect to see strong economic and inflation data delay a cut by the Federal Reserve, initially pencilled in for July 2024. We expect 4 x 25bps cuts in the deposit rate from the ECB this year, starting at their meeting in June.

†Promotes environmental and social characteristics but does not have a sustainable investment objective.

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1. The Bloomberg Global Aggregate Corporate Index (USD Hedged) is a flagship measure of global investment grade, fixed-rate corporate debt. This multi-currency benchmark includes bonds from developed and emerging markets issuers within the industrial, utility and financial sectors. You cannot invest directly in an index. The Fund uses the Bloomberg Global Aggregate Corporate Index (USD Hedged) for performance and carbon intensity comparison. The investments of the Sub-Fund may deviate significantly from the components of and their respective weightings in the benchmark. The benchmark index is not consistent with the environmental or social characteristics promoted by the Sub-Fund.

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