Allspring

EUR Short Duration Credit Fund

OBJECTIVES AND PROCESS

- Seeks to maximise investment income whilst preserving capital.
- Invests at least two-thirds of its assets in investment grade euro-denominated short-term credit debt securities
- Have an average weighted duration of up to 3.5 years or less.
- Invests at least two-thirds of its total assets in issuers that have a proprietary overall ESGiQ score that is favourable by meeting the threshold specified in our methodology, and will exclude issuers that have less favourable or do not have an ESGiQ score. Sovereign issuers, cash, derivatives and investments in underlying funds will not be required to have an ESGiQ score.
- Uses fundamental credit research combined with active top-down allocation decisions within a controlled risk framework seeking to generate superior investment returns.
- Uses a negative screen to exclude securities issued by companies based on their exposure to ESG risks.
- Targets a carbon intensity that is lower than the benchmark.
- The fund may invest:
  - up to one-third of its assets in currency-hedged non-euro-denominated debt securities and foreign agencies
  - up to 10% of its assets in investment grade asset-backed securities
  - up to 10% of its assets in below investment grade debt securities
  - in derivatives for hedging, efficient portfolio management or for investment purposes

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. **Asset-backed securities risk:** asset-backed securities may be more sensitive to changes in interest rates and may exhibit added volatility, known as extension risk, and are subject to prepayment risk. **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	2019	2018	2017	2016	2015	2014
Class I (EUR) (4 Nov 2011)*	6.54	-8.92	-0.23	0.83	3.55	-1.15	1.72	2.81	0.64	4.05
Bloomberg Euro Corporate Bonds (1-5 Y) Index[1]	6.39	-8.00	-0.08	1.11	2.77	-0.47	1.16	2.60	0.58	3.96

Performance (%)

	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since incep.
Class I (EUR) (4 Nov 2011)*	-0.40	0.14	0.68	5.57	-0.88	-0.11	0.78	1.71
Bloomberg Euro Corporate Bonds (1-5 Y) Index[1]	-0.36	-0.12	0.13	4.68	-0.74	-0.04	0.78	1.72

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 Institutional Accumulating Euro share class (LU0694366682).

Market overview

The fund returned -0.40% in April, on a net basis, underperforming the Bloomberg Euro Aggregate Corporate 1-5 Year Index which returned -0.36%, an underperformance of 4 basis points (bps). Year to date, the fund has returned +0.68%, on a net basis, versus +0.13% for the index.

Credit spreads as measured by Bloomberg Euro Aggregate Corporate 1-5 Year Index tightened by 3bps from a spread of government bonds +101bps to +98bps, leading to an excess return of +0.42%. Total return for the month was -0.36%; 5-year German government bond repriced 30bps higher in yield to finish the month at 2.62%.

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.

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.

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GENERAL FUND INFORMATION

Portfolio managers: Henrietta Pacquement, CFA®; and Alex Temple

Benchmark: Bloomberg Euro Corporate Bonds (1-5 Y) Index[1]

Fund inception: 4 Nov 2011

Management approach: Actively managed

Sustainable Finance Disclosure Regulation: Article 8†

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 attractive and fund inflows to the asset class continuing to be a supportive technical. 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

In April, credit detracted -0.03% to performance whilst the fund's interest rate exposure detracted -0.02% (twist -0.02%, shift +0.00%). The allocation effect at a sector level was +0.02%, with security selection detracting -0.06%.

The fund's overweight to Other Utilities detracted -0.03% during the period (allocation effect: +0.00%; selection effect: -0.03%), but this was partly offset by the fund's overweight to Government Owned but with No Guarantee sector which contributed +0.02% (allocation effect: +0.02%; selection effect: +0.00%).

From a single name perspective, the strategies allocation to Permanent TSB Group, Electricite De France (EDF) and Enel Finance contributed +3bps to performance (1bps each). However, Thames Water was also a detractor to performance (-3bp) after the parent company Kemble failed to repay its £190m loan.

Outlook

Recession, end of cycle dynamic remains the playbook. Long and variable lags: expectations for a soft landing are common but rare in reality. Neutral real rate of interest expected to be higher than in the prior decade, there is a bias to steeper risk-free curves as ECB, BOE constrained in the short-term by stickier core prices. We expect 4 x 25bps cuts in the deposit rate from the ECB this year, starting at the meeting in June. Embedded expectation that bonds will remain a risk diversifier.

The fund has adopted a barbell position to its credit curve positioning with an overweight (OW) to the 0–1-year bucket and the offsetting 5-7year bucket to benefit from the additional carry at the front end and allow for reinvestment into high coupon high quality bonds as we move through 2024.

The fund is overweight banks that should still benefit from the higher rate environment and market volatility. As the asset class is not eligible for the CSPP, it should outperform as non-financial eligible corporates adjust to life post ECB buying.

The shift towards high quality financials has led to an increase in the funds allocation to A rated and above credits at the expense of the BBB bucket.

We continue see value in selected real estate issuers which have been able to benefit from inflation linked rents and maintain very high levels of occupancy. Many of these companies have undertaken creditor friendly actions such as turning off dividends, raising additional equity and have also used bank funding to replace capital markets.

Expectations for 2024 include circa €500 billion of gross supply and €50 billion of net supply.

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

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1. The Bloomberg Euro Corporate Bonds (1-5 Y) Index contains fixed-rate, investment-grade euro-denominated securities from industrial, utility and financial issuers only with a maturity of at least one year and up to, but not including 5 years. Inclusion is based on currency of the issue, not the domicile of the issuer. The Fund uses the Bloomberg Euro Aggregate Corporate Bonds 1-5 Yr. Index (EUR Unhedged) for performance comparison. The investments of the Sub-Fund may deviate significantly from the components of and their respective weightings in the benchmark.

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