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)*	0.96	1.09	1.09	6.46	-0.72	0.08	0.88	1.76
Bloomberg Euro Corporate Bonds (1-5 Y) Index[1]	0.82	0.48	0.48	5.61	-0.59	0.12	0.86	1.76

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 0.96% in March on a net basis, the Bloomberg Euro Aggregate Corporate 1-5 Year Index which returned 0.82%, an outperformance of 14 basis points (bps). Over the first quarter, the fund returned 1.09% on a net basis, outperforming the index by 60bps.

Over the first quarter, credit spreads as measured by the Bloomberg Euro Aggregate Corporate 1-5 Year tightened by 28bps from a spread of government bonds +128bps to +101bps, leading to an excess return of 1.14%. Total return for the quarter was 0.48%; the 5-year German government bond repriced 37bps higher in yield to finish the quarter at 2.32%.

Two main themes were in play over the first quarter of 2024; a repricing in the expected number of developed rate cuts for 2024 and large flows into the asset class. This was driven by a mixture of stronger than expected data and push back in central bank messaging. From the European perspective, almost 160bps of rate cuts for 2024 were priced in at the end of 2023 which shifted to 90bps for the year as of the end of March with the first cut priced for June. This brings the market closer to our expectation for 4 x 25 bps cuts, starting in June. Whilst this led to a 37bps back up in the 5yr German government bond, it did little to dampen appetite for credit which one of the large ETF inflows and offering investors another bite at the cherry following the rapid rally in risk free rates in the final quarter of 2023.

Supply broadly kept up with investor demand as issuers have front loaded supply ahead of the election cycle that kicks in later in the year. Demand for supply has been elevated with books up to 7 x done and New Issue Premiums dropping from 40bps+ at the start of the year to zero at the end of March with expectation that supply could disappoint.

Stronger risk sentiment allowed wider sectors such as Financials and real estate to perform with the later returning to primary which has been seen as a vote of confidence from investors and allowed real estate companies to refinance their upcoming maturities.

Whilst Q4 2023 reporting was broadly supportive from a fundamental perspective, metrics have been flattered by the energy price spike dropping out of the Year-on-Year

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†

metrics such as leverage and interest coverage. Cash reserves built up by corporates as a war chest during the pandemic have begun to run down as cash is used to pay back debt to avoid refinancing at higher levels and for modest distributions.

Performance

In Q1, credit contributed 0.53% to outperformance whilst the fund's interest rate exposure contributed 0.05% (shift 0.06% and twist 0.01%). The allocation effect at a sector level was 0.07%, with security selection contributing 0.46%.

The fund's Banking overweight contributed 0.11% (allocation effect: 0.01%; selection effect: 0.10%), Other Financial (real estate) contributed 0.24% (allocation effect: 0.01%; selection effect: 0.23%).

In the banking sector, Banco de Credito Social Cooperativo contributed +4bps and Goldman Sachs +2bps.

From a real estate perspective, Heimstaden Bostad contributed +17bps and Grand City +6bps as investors returned to the perpetual bonds on the prospect of a refinancing, pushing up prices.

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 reduced risk at the start of August and recycled the proceeds into the new issue market at the start of September.

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 also 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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