Allspring

The Allspring Core Plus Bond Fund Differentiators

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Key takeaways

- Having the ability to employ a full set of levers for generating alpha and managing risk is an important aspect of building portfolio resiliency.
- Using the right combination of levers at the right time can make the portfolio stand out versus other core plus fixed income strategies.
- Combining a robust set of exposures with the correct use of multiple levers to drive positioning can provide an all-weather portfolio with the ability to thrive in a wide set of market conditions.

Multiple levers are the key to building portfolio resiliency

An important aspect of what differentiates our approach to fixed income investing is our deep knowledge and understanding of how each component within the portfolio interacts with one another. We believe that interactions between these component parts are vital to the overall success of the portfolio and are what help drive our processes so that the whole becomes more than the sum of its parts. This consideration is guided by our six-month outlook that informs portfolio construction, including how we pull multiple "levers" to build a better portfolio.

So, what are these levers? We think about levers as any portfolio decision that helps generate alpha or manage risk. This can include rates positioning, currency exposures, industry and quality allocations, and security selection. Not only are we looking for more sources of potential income and attractive returns, we are also very intentional about our decision-making and how pulling each lever affects the portfolio *as a whole*.

We believe the divergence across fixed income markets and our willingness and ability to leverage multiple levers add value to, and differentiate, our investment process. Our process affords us the potential to be nimble and quickly exploit opportunities to take advantage of inflection points within a broader economic cycle.

Illustrated below are the portfolio allocation ranges for the Allspring Core Plus Bond Fund. The fund is constructed to manage duration and curve positioning while seeking relative values across the U.S. Aggregate sectors of U.S. Treasuries and government debt, securitized sectors, and investment-grade credit as well as from a broad palette of non-benchmark “plus” sectors.

EXHIBIT 1:

Investment guidelines

Benchmark relative duration
Defined bands balance alpha generation with acceptable tracking error

Interest rate exposure	Range
Duration	+/- 1 year to benchmark

Allocation of 65% or greater
Grounds the portfolio as a foundational fixed income solution and offers substantial flexibility to allocate to the most attractive relative values

Aggregate sector	Benchmark weight[1]	Range
Treasuries/gov’t related	44%	10–50%
U.S. securitized	29%	10–50%
U.S. investment-grade credit	27%	10–50%

Limited in total to 35%
Non-benchmark sectors offer opportunity to add alpha and diversify exposures
Separate sub-limits for each plus sector

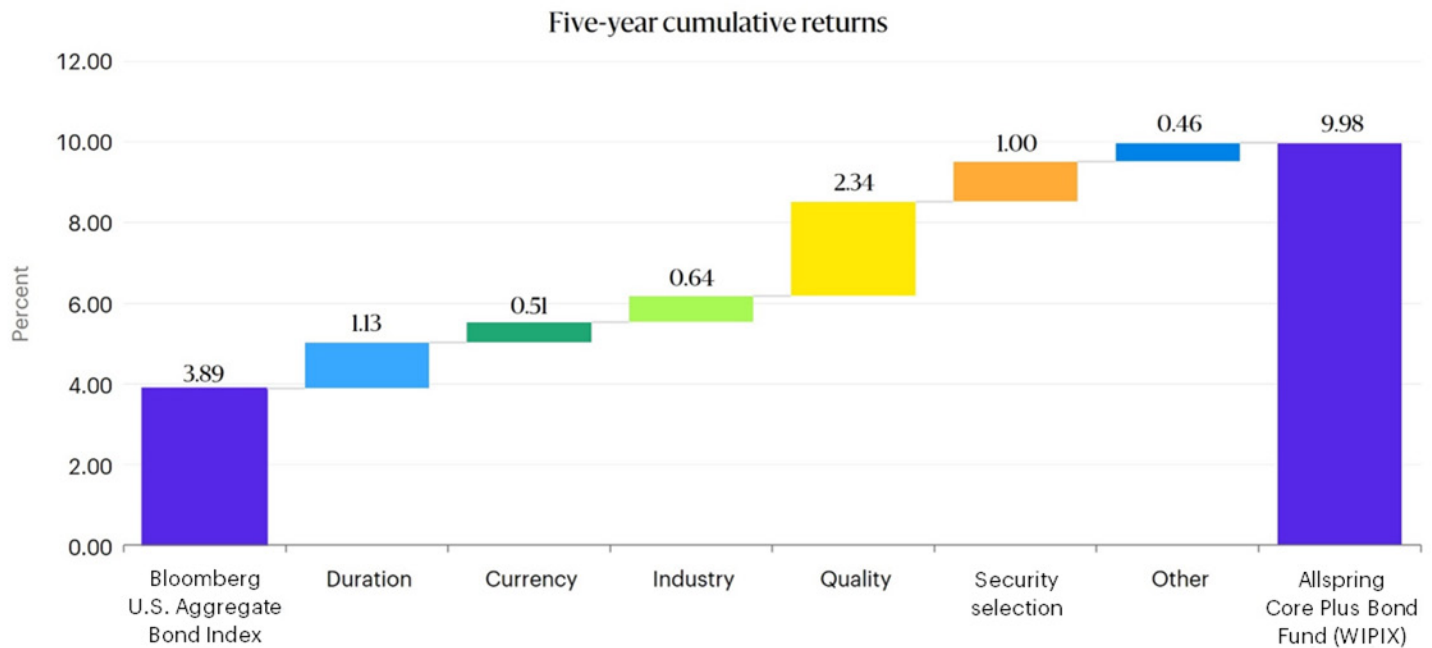
Plus sector	Maximum
U.S. high yield	25%
Bonds	
Floating-rate loans	
European investment grade	15%
European high yield	10%
Emerging markets	10%
Global government bonds	10%
Foreign currencies[2]	5%

Source: Allspring, as of 30-Jun-23. 1. Bloomberg U.S. Aggregate Index. 2. Foreign currency exposure represents non-USD exposure and may be represented in other sector allocations.

Our aim with the Core Plus Bond Fund is to deliver a foundational fixed income portfolio to serve as a bedrock, core component of an investor’s portfolio. As such, we don’t want to be overly reliant on any one source of return to drive alpha or risk. The guidelines and maximums noted in Exhibit 1 provide us a wide range of optionality while simultaneously working within a structured set of guardrails. This allows for ample flexibility while also safeguarding against the concentration risk of being overly exposed to any one sector of the market. Exhibit 2 below shows cumulative total returns over the past five calendar years for the Allspring Core Plus Bond Fund (Institutional Class) and the diversified sources of excess returns relative to its benchmark.

EXHIBIT 2:

A multiple-lever approach helps drive diversified sources of excess return



Sources: Allspring and Bloomberg, as of 30-Jun-23

Allspring Core Plus Bond Fund total returns (%) and rankings

AS OF 30-JUN-23 | 30-DAY UNSUBSIDIZED SEC YIELD: 4.50% | 30-DAY SEC YIELD: 4.67% | DURATION: 6.3 YEARS

TOTAL RETURNS (%) AND RANKINGS	YTD*	1 YEAR	3 YEAR	5 YEAR	10 YEAR
Allspring Core Plus Bond Fund–Inst (WIPIX)	2.70	0.16	-2.29	1.92	2.77
Bloomberg U.S. Aggregate Bond Index	2.09	-0.94	-3.96	0.77	1.52
Morningstar percentile rank	38	38	20	9	4

Sources: Allspring, Bloomberg, and Morningstar, as of 30-Jun-23

Figures quoted represent past performance, which is no guarantee of future results, and do not reflect taxes that a shareholder may pay on an investment in a fund. *Investment return, principal value, and yields of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted and assumes the reinvestment of dividends and capital gains. Current month-end performance is available at the funds' website, allspringglobal.com. Institutional Class shares are sold without a front-end sales charge or contingent deferred sales charge.*

The manager has contractually committed to certain fee waivers and/or expense reimbursements. Without these reductions, the fund's returns would have been lower and rankings may have been lower. These reductions may be discontinued.

A broad palette of exposures results in a more complete picture

We believe that by using multiple levers to drive positioning, we can build a better, more resilient portfolio that thrives in a wider set of market conditions rather than waiting for conditions to come into favor. This makes the portfolio a more robust and “all-weather” offering. It allows us to add value through duration and curve positioning, quality and sector allocation, core and plus exposures, currency allocations, and individual security selection. This means we can express a view in a variety of ways rather than make concentrated bets, and, therefore, it reduces the impact any single exposure will have on the portfolio.

EXAMPLE:

If our outlook calls for higher inflation and higher rates, we can reduce duration, trade the curve, use a mix of nominal Treasuries and Treasury Inflation-Protected Securities, and allocate to credit and specifically into sectors that benefit from higher inflation such as energy.

This also provides the portfolio a high degree of optionality. If we see a given sector as trading rich, we can pivot to put money to work elsewhere.

EXAMPLE:

If we viewed U.S. credit as rich relative to the risks on the horizon, then we would reduce the fund’s exposure to U.S. credit in favor of whichever sectors are providing better relative value, like Treasuries, securitized sectors, or any of the “plus” sectors. Conversely, if U.S. credit was providing better relative-value opportunities, then we would increase the allocation to that sector and reduce the fund’s exposure to one or more of the other sectors in the portfolio where valuations were relatively less attractive.

Leveraging a large and diverse set of tools in the toolkit

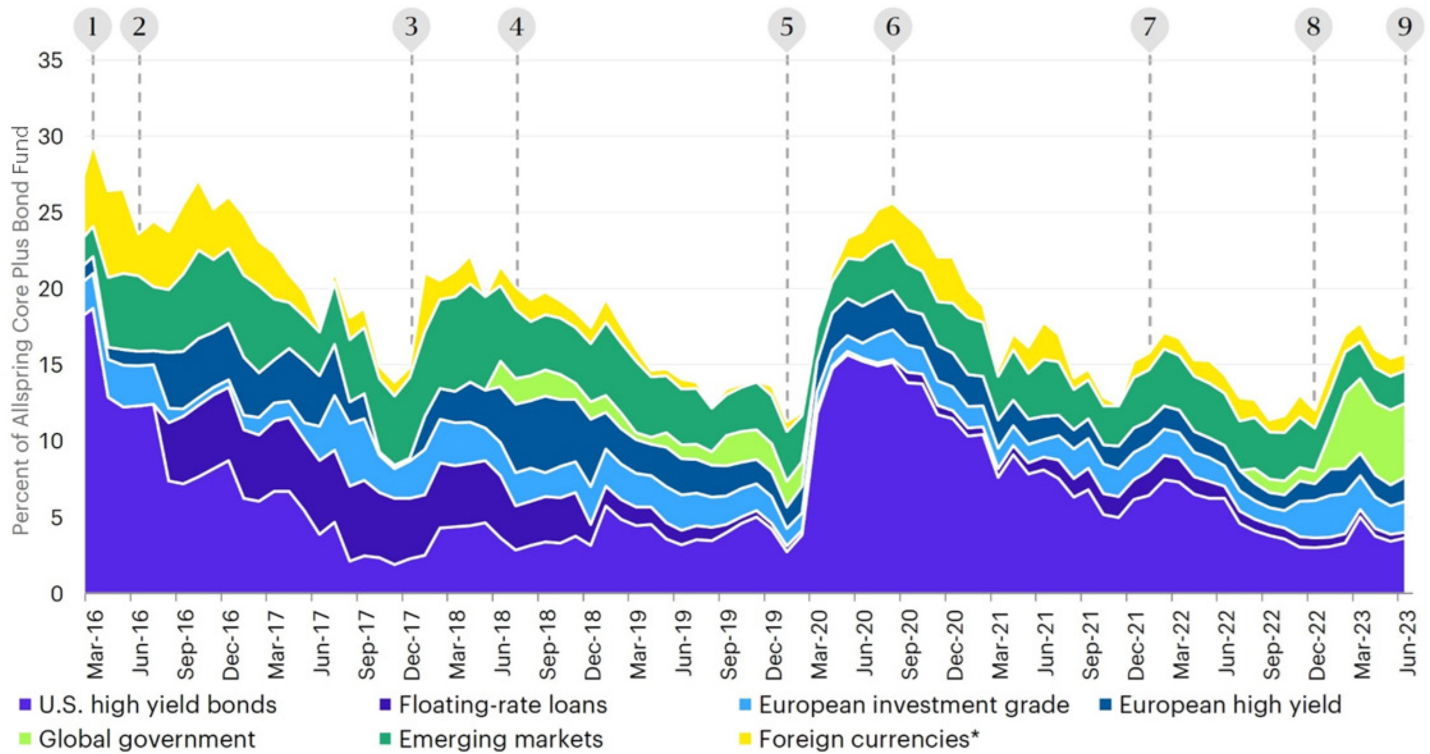
The sectors and securities used across our portfolio are not esoteric, illiquid, or private securities that only we may access; in fact, the opposite is true. The Morningstar Intermediate Core-Plus Bond category is large and diverse—as is the approach taken by many asset managers. Some may emphasize their allocations to U.S. aggregate (“core”) sectors and then complement those positions with more static exposures to U.S. high yield or emerging market debt. Others may use more sector exposures but only invest in USD-denominated securities. Still others may have broad allocations but rely heavily on synthetic exposures to gain access to certain markets as their size prohibits them from investing directly in cash bonds in meaningful scale. These strategies all have access to the same broad set of levers but they are more reliant on a small subset to drive their performance.

Multiple levers in action

There are many examples of when the changing market environment created opportunity for us to leverage our robust capabilities and put them into action. Exhibit 3 shares details of market environment changes and our response through the utilization of our broad set of levers.

EXHIBIT 3:

Examples of putting portfolio decision-making into action



PERIOD	DATE	TOTAL PLUS SECTORS ALLOCATION[1]	“LEVERS” BEING PULLED
1	March 2016	29.5%	Dislocations in the energy sector led high yield credit spreads to widen out materially in late 2015 and early 2016, offering attractive exposures in U.S. high yield bonds.
2	June 2016	23.6%	As high yield spreads narrowed, we reduced our exposure but also added floating-rate loans to continue earning spread while moving up in the capital structure. We added to European high yield and emerging market debt.
3	December 2017	14.8%	As spreads narrowed, we reduced European high yield exposure and continued to bring down our allocations to U.S. high yield bonds and floating-rate loans. Our exposure to U.S. investment-grade credit was close to its cyclical high. The portfolio was positioned with a short duration posture as the team expected the U.S. Federal Reserve to continue raising rates.
4	July 2018	20.1%	The outcome of Italian elections prompted European credit spreads to widen and global government bond yields to rise. We added to European high yield and global government bonds on a FX-hedged basis.
5	January 2020	11.3%	As credit spreads narrowed near post–Global Financial Crisis tights, we reduced credit exposures with U.S. high yield bonds and loans reaching cyclical lows and reduced exposures in European credit and non-USD FX. The core allocations were moved up in quality and U.S. investment-grade credit reduced. Total plus exposure reached its cyclical low.
6	August 2020	25.6%	The onset of the pandemic and the liquidity crisis of March 2020 sent spreads to their widest levels in over a decade. We added first to U.S. high yield bonds and then trimmed that exposure as spreads narrowed and added allocations to sectors that hadn’t seen as much spread compression. We were active in the core portion with new issue investment-grade credit markets offering attractive values and a wide range of securitized opportunities providing carry.
7	February 2022	17.1%	Spreads widened in early 2022 off their post–Global Financial Crisis tights set during the summer of 2021 and we modestly added to U.S. high yield credit. We also added to some USD emerging market credit in early 2022, which benefited from the supply chain shake-up prompted by Russia’s invasion of Ukraine. Spreads continued to widen throughout 2022, but we trimmed risk exposures as we believed that even with these wider spreads investors were not being compensated for the risks on the horizon.

PERIOD	DATE	TOTAL PLUS SECTORS ALLOCATION[1]	"LEVERS" BEING PULLED
8	December 2022	12.0%	We reduced our market value in U.S. high yield, though we rotated some exposure into a small, diversified basket of CCC-rated bonds. We added to duration as rates were near the peak of the cycle and tactically traded curve positioning. We reduced U.S. investment-grade credit and reduced our underweight to agency mortgage-backed securities. We added to European credit in the fourth quarter and increased our positioning in FX-hedged global government bonds.
9	June 2023	15.7%	We tactically traded our duration exposure throughout the first six months of 2023 with an eye toward a more bullish position relative to the benchmark. We modestly added to our exposures in European investment-grade and high yield credit to bring our exposures closer to a neutral allocation. Global government bonds continued to add attractive carry on a FX-hedged basis, and we increased that exposure closer to the high end of our cyclical range.

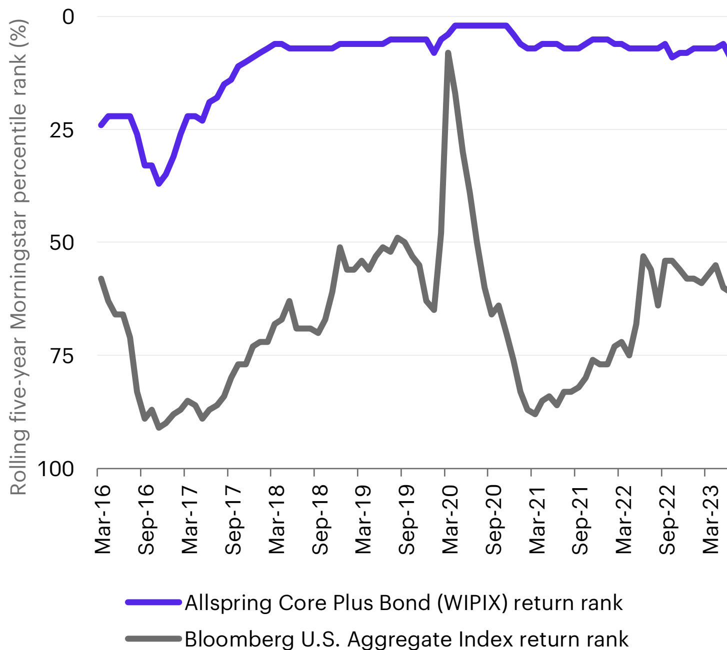
Sources: Allspring and Bloomberg, as of 30-Jun-23. 1. Percent of Allspring Core Plus Bond Fund.

The result is more resilience

Using the full set of sectors and securities available offers us optionality and flexibility. We focus on using the *right combination of levers at the right time*. Leveraging our six-month outlook gives us more conviction in our portfolio construction and allows us to make changes as market conditions shift. This approach has resulted in strong risk-adjusted returns throughout the cycle.

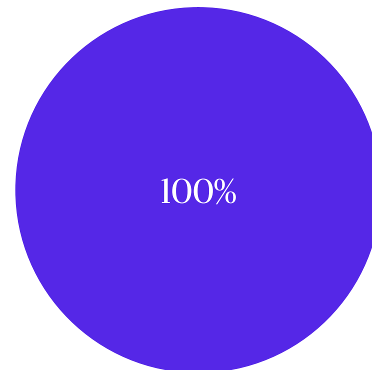
Exhibits 4 and 5 show the rolling five-year return rank and information ratio ranks for the Allspring Core Plus Bond Fund (Institutional Class) versus the peer group average as well as the percent of rolling five-year periods with the information ratio in the top quartile.

Exhibits 4 & 5: The use of multiple levers has resulted in strong risk-adjusted returns



Allspring Core Plus Bond Fund (WIPIX):

Percent of rolling five-year periods with information ratio in top quartile for Morningstar Intermediate Core-Plus Bond category



Source: Morningstar. As of 30-Jun-23. Rolling five-year total return rank and information ratio rank in the Morningstar Intermediate Core-Plus Bond category.

For further information

We want to help clients build for successful outcomes, defend portfolios against uncertainty, and create long-term financial well-being. To learn more, investment professionals can contact us.

allspringglobal.com

Contact details

- For retail clients, contact your financial advisor.
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- To reach our retirement professionals, contact your dedicated defined contribution investment only specialist, or call us at +1-800-368-1370.
- To discuss sustainable investing solutions, contact Henrietta Pacquement, head of Sustainability, and Jamie Newton, deputy head of Sustainability, at henrietta.pacquement@allspringglobal.com and jamie.newton@allspringglobal.com.

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Carefully consider a fund's investment objectives, risks, charges, and expenses before investing. For a current prospectus and, if available, a summary prospectus, containing this and other information, visit allspringglobal.com. Read it carefully before investing.

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The 30-day SEC yield is calculated with a standardized formula mandated by the SEC. The formula is based on maximum offering price per share and includes the effect of any fee waivers. Without waivers, yields would be reduced. The 30-day unsubsidized SEC yield does not reflect waivers in effect. A fund's actual distribution rate will differ from the SEC yield and any income distributions from the fund may be higher or lower than the SEC yield.

Bond values fluctuate in response to the financial condition of individual issuers, general market and economic conditions, and changes in interest rates. Changes in market conditions and government policies may lead to periods of heightened volatility in the bond market and reduced liquidity for certain bonds held by the fund. In general, when interest rates rise, bond values fall and investors may lose principal value. Interest rate changes and their impact on the fund and its share price can be sudden and unpredictable. High yield securities have a greater risk of default and tend to be more volatile than higher-rated debt securities. Loans are subject to risks similar to those associated with other below-investment-grade bond investments, such as credit risk (for example, risk of issuer default), below-investment-grade bond risk (for example, risk of greater volatility in value), and risk that the loan may become illiquid or difficult to price. The use of derivatives may reduce returns and/or increase volatility. Certain investment strategies tend to increase the total risk of an investment (relative to the broader market). This fund is exposed to foreign investment risk, high-yield securities risk, and mortgage- and asset-backed securities risk. Consult the fund's prospectus for additional information on these and other risks.

The ratings indicated are from Standard & Poor's, Moody's Investors Service, and/or Fitch Ratings Ltd. Credit-quality ratings: Credit-quality ratings apply to underlying holdings of the fund and not the fund itself. Standard & Poor's rates the creditworthiness of bonds from AAA (highest) to D (lowest). Standard & Poor's rates the creditworthiness of short-term notes from SP-1 (highest) to SP-3 (lowest). Ratings from A to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the rating categories. Moody's rates the creditworthiness of bonds from Aaa (highest) to C (lowest). Ratings Aa to B may be modified by the addition of a number 1 (highest) to 3 (lowest) to show relative standing within the ratings categories. Moody's rates the creditworthiness of short-term U.S. tax-exempt municipal securities from MIG 1/VMIG 1 (highest) to SG (lowest). Moody's rates the creditworthiness of short-term securities from P-1 (highest) to P-3 (lowest). Fitch rates the creditworthiness of bonds from AAA (highest) to D (lowest).

Diversification does not ensure or guarantee better performance and cannot eliminate the risk of investment losses.

Morningstar total return rankings for the Allspring Core Plus Bond Fund Institutional Class are 199 of 621 intermediate core-plus bond funds for the 1-year period, 84 of 552 funds for the 3-year period, 43 of 518 funds for the 5-year period, and 9 of 368 funds for the 10-year period as of 30-Jun-23. Morningstar rankings represent a fund's total return rank relative to all funds that have the same category. The percentile ranking is based on the fund's total return percentile rank relative to all funds that have the same category for the same time period. The highest (most favorable) percentile rank is 1% and the lowest (least favorable) percentile rank is 100%. The Morningstar absolute ranking is based on the fund's total return rank relative to all funds that have the same category for the same time period. Morningstar rankings do not include the effect of sales charges. **Past performance is no guarantee of future results.**

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