Allspring

Climate Transition Global High Yield Fund

OBJECTIVES AND PROCESS

- Seeks total return, consisting of a high level of income and capital appreciation
- Invests two-thirds of its assets in below investment-grade debt securities rated below investment grade of corporate issues domiciled anywhere in the world
- May invest no more than 10% of its net assets in unrated or lowest rated categorised 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
- Focuses 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 many factors, including, but not limited to, changes in interest rates and an issuer's ability and willingness to make payments when due. **Global investment risk:** Securities of certain jurisdictions 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. These may result in rapid and extreme changes in securities prices. **High yield securities risk:** High yield securities are rated below investment grade, have a higher risk of default and prices may be more volatile than higher-rated securities of similar maturity. **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. **Convertible Securities Risk**: These instruments can be converted into common stock because of the occurrence of certain predetermined trigger events including when the issuer is in crisis resulting in possible price fluctuations and may be subject to redemption at the election of the issuer. **Contingent Convertible Bonds Risk:** These instruments can be converted from debt into equity because of the occurrence of certain predetermined trigger events including when the issuer is in crisis resulting in possible price fluctuations and potential liquidity concerns. **Currency Risk:** Currency exchange rates may fluctuate significantly over short periods of time and can be affected unpredictably by intervention (or the failure to intervene) by relevant governments or central banks, or by currency controls or political developments. **Leverage Risk**: the use of certain types of financial derivative instruments may create leverage which may increase share price volatility.

Performance (%)

	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since incep.
Class I Dist. (USD) (6 Jun 2023)*	1.49	4.05	6.16	12.37	–	–	–	11.64
ICE BofA Developed Markets High Yield Constrained Index Hedged	1.51	4.27	6.38	12.80	–	–	–	12.29

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

August was an incredibly volatile month for financial markets, as highlighted by the VIX Index of volatility, which reached levels last seen in March 2020 during the Covid-19 market turmoil. The driver for the volatility was a weak US jobs report at the start of the month. The report showed that nonfarm payrolls were much softer-than-expected at +114k in July (vs expectations of +175k). There were also downward revisions to the previous couple of months which meant the US unemployment rate rose to 4.3% (previously 4.1%) leading to suggestions that a recession in the US was underway.

Risk assets, in particular, Japanese equities had already been on the back foot post the Bank of Japan (BOJ) hawkish rate hike at the end of July. With growing fears that a weakening US labour market would lead to a significant economic slowdown in the US, investors began to dial up their expectations for rate cuts from the Federal Reserve (FED). A more hawkish BOJ and dovish FED would narrow the interest rate differentials between the US and Japan. This put the profitability of the "Yen carry trade" (where investors borrowed YEN at low interest rates and invested in higher yielding currencies, such as the USD) in doubt. By the 5th of August the Nikkei was down almost 20% and this weakness quickly spread to other markets, leading to a decline of over 3% for the S&P 500 in one day (its worst daily performance since September 2022).

However, further data throughout the month pointed to a more positive outlook for the US economy, leading to most markets recovering their losses (Nikkei closing the month -1.1%), and in some cases even finishing the month higher (S&P 500 +2.4%). On the US employment side, the weekly initial jobless claims came in lower than expected and we saw July retail sales accelerate +1% month-on-month (versus +0.4% expected) which showed a marked improvement on the revised -0.2% June reading. Comments from Fed Chairman Powell also eased investor fears that the FED could be too slow in cutting rates. At the annual Jackson Hole synopsis, the FED Chair stated that "The time had come for policy to adjust". With US Core CPI also falling to its lowest level since April 2021 (+3.2%), investors' expectations of a rate cut in September increased, with some investors even looking for a potential 50 basis point (bps) cut.

Performance

Credit spreads as measured by the ICE BofA Developed Markets High Yield Constrained Index ended August tighter at +324bps.

For the month ended August 30, the Fund returned 1.49% on a net basis, underperforming the ICE BofA Developed Markets High Yield Constrained Index which returned 1.51%, an underperformance of 2 basis points (bps). Sectors that positively contributed to relative performance were Specialty Retail (OW), Health Services (OW) and Electric-Generation (OW). Sectors that detracted from performance include Telecom – Wirelines (UW) and Managed Care (OW).

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: Michael Schueller, CFA®; Jens Vanbrabant, CFA®; Chris Lee, CFA®; and Sarah Harrison

Benchmark: ICE BofA Developed Markets High Yield Constrained Index Hedged

Fund inception: 6 Jun 2023

Management approach: Actively managed

Sustainable Finance Disclosure Regulation: Article 8†

Second quarter results season has so far been mixed, with increasing signs of fatigue coming from consumer-facing companies as well as those in areas such as auto parts and building materials. Earnings from chemicals names have also varied but the sector has shown brighter signs as the destocking cycle from the last two years comes to an end. In what could be a different trend from that observed so far year-to-date, the few names that posted poor Q2 results have generally been punished relatively hard by a drop in prices of their debt instruments. If this continues to be the case, credit selection is likely to become a more important driver of performance in the remaining part of the year than it has been so far.

Market Outlook

Macro

We believe we are at the end of the hiking cycle in both the United States and Europe, with “higher for longer” as our base case. We expect a modest amount of rate cuts between now and year-end, with Europe leading the way whilst constrained by Fed activity. We continue to favour Europe over the US.

Fundamentals

We believe credit fundamentals will erode from here and that defaults will rise, but from a low base and to a manageable level. Consumers and corporates alike went into this period of volatility in a strong position with the ability to weather the storm. Security selection in the single B space will be a key driver of performance. We have turned neutral on Cyclicals, having been OW for most of the year.

Technicals

We expect demand to continue to return the asset class now that is more clarity around where we are in the rates cycle. From a supply perspective, we expect issuance to remain muted in the near-term, but see signs of a pick-up in transaction activity which may increase net new issuance in the medium-term. We expect rising stars to outpace fallen angels, further contributing to a positive technical. We expect the maturity wall to continue to shrink.

Valuation

We believe that valuation from a credit spread perspective appears stretched, but this is partially an illusion due to the shorter duration and maturity of the index relative to historical norms. Valuation remains attractive from an all-in yield perspective given where breakevens are. We expect credit spreads to remain rangebound.

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

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