

# Compounding Income Can Build Resiliency

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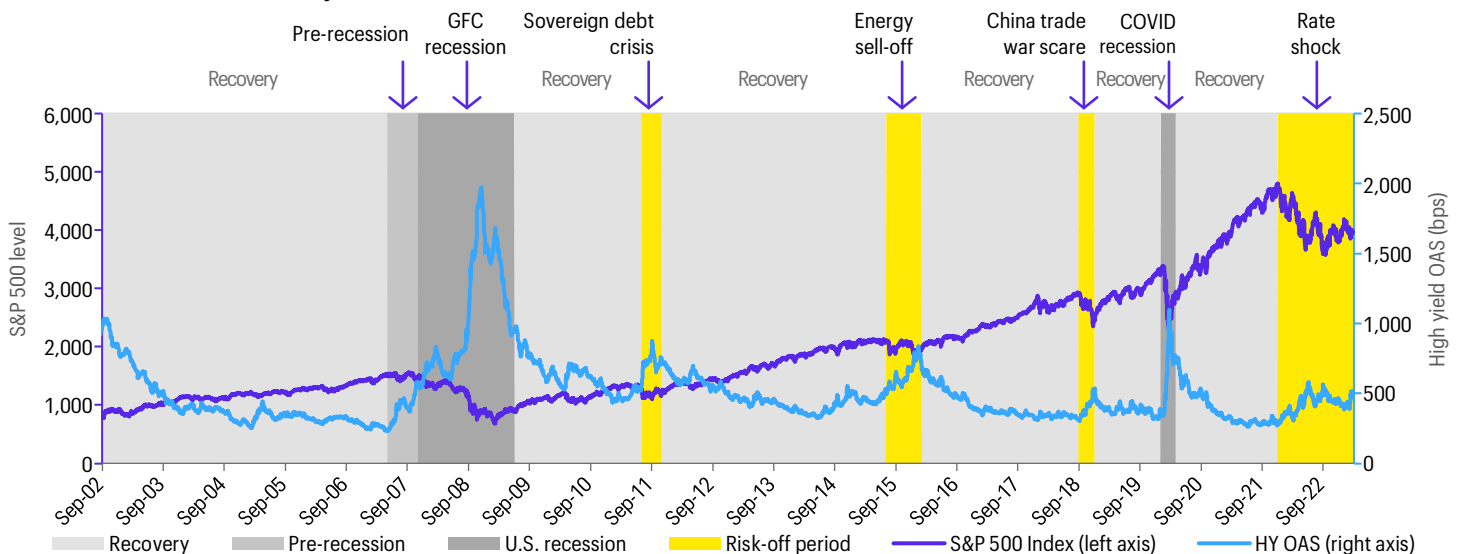
## The Allspring Short-Term High Income Fund

### Offering consistency through inconsistent markets

Over the past 20 years, investors have navigated a wide variety of risk environments. They have been confronted by the Great Financial Crisis, the COVID-19 recession, and several other significant market events that resulted in wider credit spreads and reduced equity prices (see Exhibit 1 below). In between these sharp risk-off periods, markets have enjoyed relatively extended recovery periods, offering patient investors the opportunity to compound growth and income and achieve attractive long-term total returns. Currently, markets are experiencing elevated rate and credit volatility, leading some investors to question whether a new risk-off period is approaching.

#### EXHIBIT 1

#### The risk environment is dynamic



Sources: Bloomberg L.P. and Morningstar Direct, as of 27-Mar-23; high yield OAS = Bloomberg U.S. High Yield Corporate Index (LF98OAS), S&P 500 Index.

### A source of consistency in an investment portfolio

The question of what sort of market environment is coming next is an important yet uncertain one. However, we believe investors should seek solutions that work throughout a full market cycle rather than try to time the market.



The Allspring Short-Term High Income (STHI) Fund targets securities on the front end of the yield curve and at the higher end of the non-investment-grade credit ratings universe. The strategy does not purchase any securities rated below a B credit rating, which has led to lower volatility relative to other high yield strategies while still allowing the portfolio to generate attractive levels of real yield with a duration typically less than two years. This positioning has also allowed the strategy to provide attractive total returns throughout the various market environments shown in Exhibit 1.

Exhibit 2 illustrates the resiliency of the STHI Fund relative to other sectors of fixed income and the S&P 500 Index over the past 20 years. Many investors pair the STHI Fund with longer-duration exposures such as those represented in the Bloomberg U.S. Aggregate Bond Index (the Agg). As an example, Exhibit 2 illustrates the return profile of a combined 60% weighting in the Agg and 40% weighting in the STHI Fund (60/40 portfolio) for the past 20 years. Historically, this combination has provided less volatility and a smoother ride than either of the individual components alone.

EXHIBIT 2

Stack-ranked total returns by time period (%)

	Recovery	Pre-recession	GFC recession	Recovery	Sovereign debt crisis	Recovery	Energy sell-off	Recovery	China trade war scare	Recovery	COVID recession	Recovery	Rate shock
+ POSITIVE TOTAL RETURN (%)	S&P 500 16.56			U.S. HY 20.81		S&P 500 17.79		S&P 500 19.63		S&P 500 28.70		S&P 500 36.51	
	U.S. HY 13.98			S&P 500 20.12		U.S. HY 8.18		U.S. HY 10.86		U.S. HY 13.18		U.S. HY 13.55	
	STHI 5.88	U.S. Agg 5.32	U.S. Agg 4.70	STHI 7.84		STHI 4.04	U.S. Agg 2.05	STHI 3.49		U.S. Agg 9.94		STHI 7.98	
	60/40 Agg/STHI Blend 4.68	U.S. 1-3 Gov/Credit 4.71	U.S. 1-3 Gov/Credit 4.60	60/40 Agg/STHI Blend 7.47	U.S. Agg 2.22	60/40 Agg/STHI Blend 3.13	U.S. 1-3 Gov/Credit 0.48	60/40 Agg/STHI Blend 1.96	U.S. Agg 1.64	60/40 Agg/STHI Blend 8.55	U.S. Agg 2.30	60/40 Agg/STHI Blend 3.44	
	U.S. Agg 3.87	60/40 Agg/STHI Blend 3.32	60/40 Agg/STHI Blend 3.52	U.S. Agg 7.20	60/40 Agg/STHI Blend 1.23	U.S. Agg 2.64	60/40 Agg/STHI Blend 1.23	U.S. Agg 0.94	U.S. 1-3 Gov/Credit 1.18	STHI 6.44	U.S. 1-3 Gov/Credit 1.77	U.S. Agg 0.49	S&P 500 5.72
	U.S. 1-3 Gov/Credit 2.80	STHI 0.34	STHI 1.60	U.S. 1-3 Gov/Credit 2.86	U.S. 1-3 Gov/Credit 0.13	U.S. 1-3 Gov/Credit 0.97	STHI 0.00	U.S. 1-3 Gov/Credit 0.75	60/40 Agg/STHI Blend 0.53	U.S. 1-3 Gov/Credit 4.24	60/40 Agg/STHI Blend 0.40	U.S. 1-3 Gov/Credit 0.30	STHI 1.80
- NEGATIVE TOTAL RETURN (%)		S&P 500 -2.33	U.S. HY -2.16		STHI -0.31		S&P 500 -6.90		STHI -1.12		STHI -3.47		U.S. 1-3 Gov/Credit -1.21
		U.S. HY -3.03	S&P 500 -24.16		S&P 500 -2.69		U.S. HY -7.25		U.S. HY -4.53		U.S. HY -8.78		U.S. HY -1.42
					U.S. HY -3.70				S&P 500 -13.52		S&P 500 -9.26		60/40 Agg/STHI Blend -2.57
													U.S. Agg -5.45

Sources: Bloomberg L.P. and Morningstar Direct, as of 27-Mar-23; U.S. Agg = Bloomberg U.S. Aggregate Index (LBUSTRUU), U.S. HY = Bloomberg U.S. High Yield Corporate Index (LF98TRUU), U.S. 1-3 Gov/Credit = Bloomberg 1-3 Year Gov/Credit Index (LGC3TRUU), STHI = Allspring Short-Term High Income Fund, and 60/40 Agg/STHI Blend = 60% Bloomberg U.S. Aggregate Index and 40% Allspring Short-Term High Income Fund rebalanced monthly; Class A of the Allspring Short-Term High Income Fund used from the beginning until the Energy Sell-Off period; Institutional Class inception date of 30-Nov-12 allows share class to be used beginning in Energy Sell-Off period; periods longer than one year are annualized



## Key points

### 01

The STHI Fund saw positive total returns in more than 75% of these periods.

### 02

In more than half of the periods, the STHI Fund's total return was in the top half of this opportunity set.

### 03

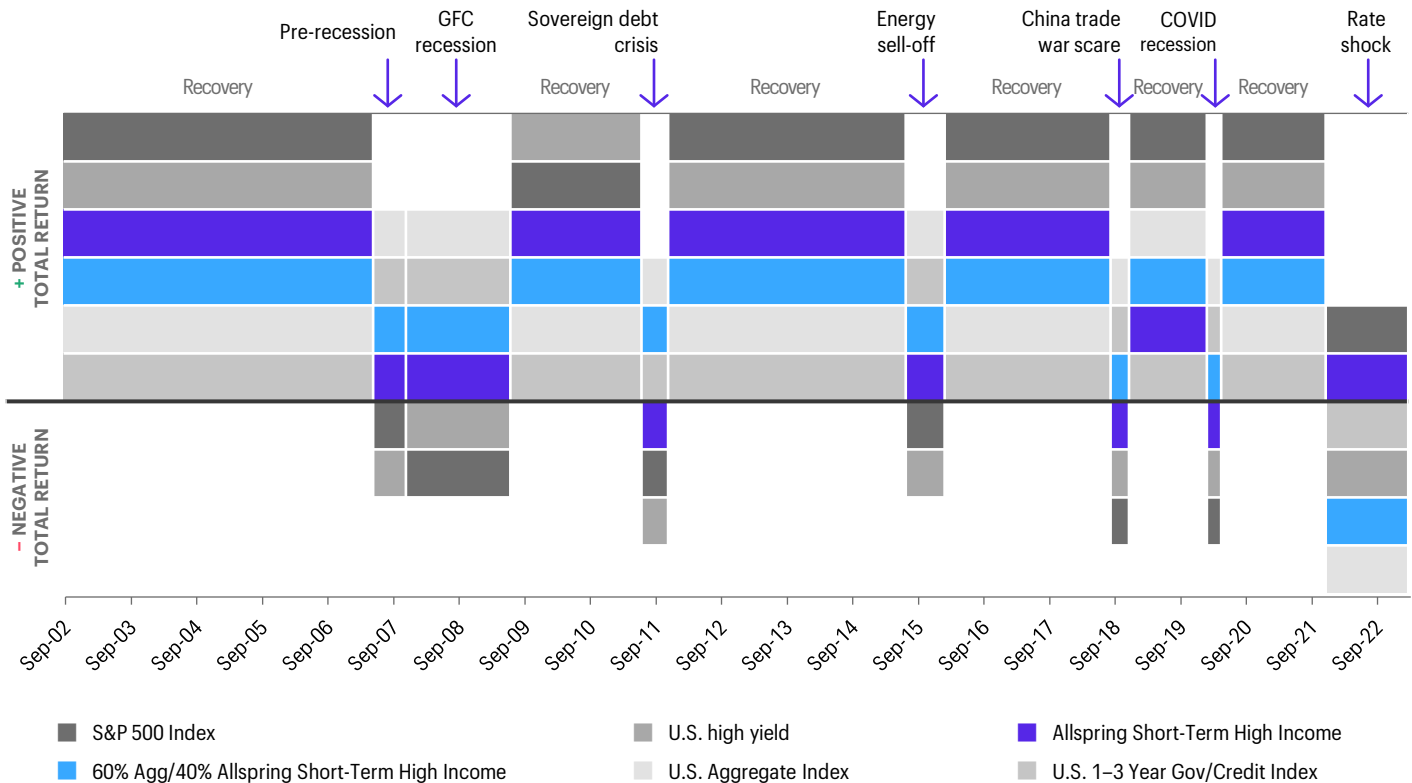
For the three periods when the STHI Fund's total return was negative, other options were far more negative.

## Time in the market is more important than timing the market

Exhibit 3 displays the stack-ranked total returns from Exhibit 2 and applies the element of time. The few periods when the STHI Fund experienced negative total returns were short-lived and difficult to time while the longer time periods allowed the strategy to compound income, leading to relatively higher total returns. In addition, we believe the 60/40 portfolio (represented in light blue) illustrates the power of pairing a strategy like the STHI Fund with other duration-sensitive fixed income exposures to reduce overall portfolio volatility while adding income—a consistent approach that we believe is a better solution for most investors than trying to time particular market environments.

EXHIBIT 3

### Time-weighted stack rank



Sources: Bloomberg L.P. and Morningstar Direct, as of 31-Mar-23; U.S. Agg = Bloomberg U.S. Aggregate Index (LBUSTRUU), U.S. high yield = Bloomberg U.S. High Yield Corporate Index (LF98TRUU), U.S. 1-3 Gov/Credit = Bloomberg 1-3 Year Gov/Credit Index (LGC3TRUU), STHI = Allspring Short-Term High Income Fund, and 60% Agg/40% Allspring Short-Term High Income = 60% Bloomberg U.S. Aggregate Index and 40% Allspring Short-Term High Income Fund rebalanced monthly; Class A of the Allspring Short-Term High Income Fund used from the beginning until the Energy Sell-Off period; Institutional Class inception date of 30-Nov-12 allows share class to be used beginning in Energy Sell-Off period; periods longer than one year are annualized.



## Resiliency and consistency are valuable attributes

Investors regularly confront the unknown and markets are ever-changing. Choosing investments that offer resiliency and consistency through a wide variety of market environments can make a big difference in the outcomes investors ultimately achieve. Exhibit 4 shows the annualized total returns for the various sectors of fixed income and equities used in the previous illustrations for the full 20-year time period. The STHI Fund provides investors an opportunity to compound real income while keeping volatility at lower levels. This has allowed the strategy to thrive in a variety of market conditions and has allowed investors to benefit throughout the market cycle.

### EXHIBIT 4

#### Full-period annualized total returns (%)

(30-Sep-02 – 31-Mar-23)

S&P 500 Index	10.37
U.S. High Yield	7.62
Allspring Short-Term High Income (STHI)	4.16
60/40 Agg/STHI Blend	3.63
U.S. Aggregate	3.25
U.S. 1–3 Gov/Credit	2.08

Source: Morningstar Direct, as of 31-Mar-23; U.S. Aggregate = Bloomberg U.S. Aggregate Index (LBUSTRUU), U.S. High Yield = Bloomberg U.S. High Yield Corporate Index (LF98TRUU), U.S. 1–3 Gov/Credit = Bloomberg 1–3 Year Gov/Credit Index (LGC3TRUU), STHI = Allspring Short-Term High Income Fund, and 60/40 Agg/STHI Blend = 60% Bloomberg U.S. Aggregate Index and 40% Allspring Short-Term High Income Fund rebalanced monthly; Class A of the Allspring Short-Term High Income Fund used until inception of the Institutional Class on 30-Nov-12.

## Allspring Short-term High Income Fund

TOTAL RETURN % 31-MAR-23	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR
Allspring Short-Term High Income Fund (STYIX) <sup>1</sup>	2.04	1.51	5.35	3.47	3.08
ICE BofA 1–3 Year BB U.S. Cash Pay Index <sup>2</sup>	2.29	2.09	5.45	3.61	3.68
Morningstar Category (high yield bond)	3.15	-3.56	5.56	2.51	3.22
Morningstar Category rank% (high yield bond)	93	3	57	15	59

Source: Morningstar Direct; return data and category data as of 31-Mar-23. \*Returns for periods of less than one year are not annualized.

*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 and principal value 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 fund's website, allspringglobal.com.*

*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.*



## For more 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](https://allspringglobal.com)

## Contact details

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2. The ICE BofA 1–3 Year BB U.S. Cash Pay High Yield Index is a subset of the ICE BofA U.S. Cash Pay High Yield Index, including all securities with a remaining term to final maturity less than three years and rated BB1 through BB3, inclusive. You cannot invest directly in an index.

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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 Short-Term High Income Fund Institutional Class are 10 of 684 high yield bond funds for the 1-year period, 346 of 617 funds for the 3-year period, 68 of 575 funds for the 5-year period, and 239 of 411 funds for the 10-year period as of March 31, 2023. 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%. Morningstar rankings do not include the effect of sales charges. **Past performance is no guarantee of future results.**

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