PM Spotlight: A Mathematician Managing Munis

Nick Venditti, CFA, Senior Portfolio Manager, Municipal Fixed Income

This issue of *PM Spotlight* profiles **Nick Venditti**, senior portfolio manager for the Municipal Fixed Income team. Nick is a staunch believer in the power of municipals (munis) to add value to a diversified portfolio.

Q: YOU HAVE A FAIRLY NONTRADITIONAL BACKGROUND. HOW DID YOU END UP MANAGING MUNICIPAL BONDS?

A: My background is in big, scary math—not munis, not even fixed income. I studied theoretical and applied economics, and then I taught statistics at the University of North Carolina in Greensboro. I enjoyed teaching but decided to pursue life outside of academia.

I started with a muni bond insurance company, building a sophisticated loss-reserves model that would predict reserves on every policy they underwrote. To do that effectively, I needed to learn a lot about muni bonds—why they go bad, what happens when they go bad, what recoveries look like, and what are the avenues of recourse. I quickly became a municipal bond credit expert, especially for the worst-performing municipal bonds like Puerto Rico, Detroit, and so many other places that have struggled.

When the Global Financial Crisis hit, my skillset became significantly more valuable overnight. It was a stressful time but also hugely advantageous to work through it in such a hands-on way. You never learn as much and as fast as when the world is burning down around you. From there, I jumped to the buy side and ultimately came to manage the municipal bond desk at Allspring.

Q: IS THAT BOND INSURANCE BACKGROUND A BENEFIT IN MANAGING MUNI INVESTMENT PORTFOLIOS?

A: I think it gives me an appreciation for risk management that many portfolio managers take for granted. I can tease out our risk management models to understand where their strengths lie and where weaknesses might eventually appear. No statistical model is perfect. I can look at a risk management model and focus on what is really meaningful from a portfolio construction perspective instead of the noise.

> "I can look at a risk management model and focus on what is really meaningful from a portfolio construction perspective instead of the noise.

That's important for munis because they are definitely a different beast. Think about the equity market. The benchmark of a typical U.S. large-capitalization fund is the S&P 500 Index. That's 500 securities, give or take. One of the things that's interesting about munis is that there are over 60,000 issuers and 1 million investible securities. That dwarfs the global equity market of around 10,000 corporate names. Models are important in managing this broad market, but so are experience and risk awareness, to think about what might be coming around the corner.

Q: THE MUNI MARKET IS SUCH A NUANCED ASSET CLASS. IS THAT DIFFICULT TO CONVEY TO INVESTORS OR ADVISORS?

A: Investors and advisors tend to focus on portfolio allocation relative to the benchmark, which is standard for equities. Someone might look at our municipal bond portfolio, see that we have 10% of health care compared with 8% for the benchmark and, by virtue of that, conclude that we're overweight health care. That may or may not be true because there are so many contributing factors. It's not just the portfolio's gross exposure to health care; it's also the risk that the exposure to health care represents in the portfolio.

I might have more health care than the benchmark, but if the duration contribution of that exposure is lower than that of the benchmark, for example, I may end up with less health care risk overall. You have to look past the headline numbers and drill down to what they represent, what the exposure does to the portfolio, how sensitive the portfolio is going to be to a potential blowout in spreads or a compression in spreads in health care. Measuring exposure at a deeper level is incredibly beneficial to managing risk holistically.

Q: THE HEALTH CARE EXAMPLE IS INTERESTING. A LOT OF INVESTORS THINK OF GENERAL OBLIGATION BONDS WHEN THEY THINK OF MUNIS.

A: Munis are very diverse. Education and health care are good examples. No matter where you are on the political spectrum, you probably believe we need more and better education and health care. Municipal bonds finance nearly all of the education and health care services in the country. The vast majority of hospitals are municipal financed. Munis fund all of the roads, tunnels, bridges, airports, water and sewer systems, and electric grids. So, to the extent that we need more and better infrastructure, municipal bonds are the avenue for making that happen.

I think munis are also uniquely positioned for sustainable investing, ESG (environmental, social, and governance) investing, and impact investing. Funding projects in health care, education, clean water, and transportation makes them a natural fit. That includes the infrastructure needed to move toward a net-zero economy. Green infrastructure at the federal level will likely use munis as the avenue for significant funding. And maybe equally as important but not well known is the fact that, by allocating muni dollars in the right place, we can have significant impacts on positive outcomes in low socioeconomic communities.

Q: THAT'S AT THE ASSET-CLASS LEVEL. WHAT ABOUT THE VALUE MUNIS CAN ADD TO AN INVESTOR'S TOTAL PORTFOLIO?

A: The local economy of Milwaukee is different from that of Miami. That allows us to extract value in interesting ways and add diversification beyond just equities. Munis tend to not be impacted much by events like the failure of Silicon Valley Bank. Economic slowdowns certainly impact every asset class to some extent, but historically that has been less so for munis.

Muni revenue streams, such as utilities, have tended to be less impacted by broad economic risks. Not all risks, though. Take health care as an example, which is mostly municipal financed. COVID-19 was particularly detrimental in kind of a weird way. For two years, high-revenue business was mothballed while low-margin business exploded. That required hospital systems across the country to tighten their belt in a way they had never done before. It's not that munis are immune to risk—it's that they tend to be impacted differently.

Then there's also the tax status. The interest payments on muni bonds are generally exempt from federal income taxes. If we continue to increase the federal budget deficit almost annually, the burden on tax revenue continues to grow and the value of muni tax exemption becomes more attractive. That tax exemption simply doesn't exist in any other market. So, if you believe that part of successful investing is building low-correlation, tax-efficient portfolios, then munis are an attractive asset class.

> "If you believe that part of successful investing is building low-correlation, tax-efficient portfolios, then munis are an attractive asset class.

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.

Contact details

FOR U.S. INVESTORS ONLY

- To reach our U.S.-based investment professionals, contact your existing client relations director, or contact us at **AllspringInstitutional@allspringglobal.com**.
- To reach our U.S.-based intermediary sales professionals, contact your dedicated regional director, or call us at **1-866-701-2575**.
- To reach our U.S.-based retirement professionals, contact Nathaniel Miles, head of Global Client Strategy, at **nathaniel.s.miles@allspringglobal.com**.
- 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**.

FOR NON-U.S. INVESTORS ONLY

- To reach our non-U.S.-based investment professionals, contact us at **AllspringInternational@allspringglobal.com**.

CFA® and Chartered Financial Analyst® are trademarks owned by CFA Institute.

This material is provided for informational purposes only and is for professional, institutional, or qualified clients/investors. Not for retail use outside the U.S.

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

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value-weighted index with each stock's weight in the index proportionate to its market value. You cannot invest directly in an index.

Investment strategies that are not ESG-focused strategies may consider ESG related factors when evaluating a security for purchase but are not prohibited from purchasing or continuing to hold securities that do not meet specified ESG criteria.

THIS MATERIAL DOES NOT CONSTITUTE AN OFFER OR SOLICITATION AND IN ANY CASE IS NOT INTENDED TO BE USED IN ANY JURISDICTION OR TO ANY PERSON WHERE IT WOULD BE UNAUTHORIZED OR UNLAWFUL TO DO SO.

Allspring Global Investments™ (Allspring) is the trade name for the asset management companies of Allspring Global Investments Holdings, LLC, a holding company indirectly owned by certain private funds of GTCR LLC and Reverence Capital Partners, L.P. Unless otherwise stated, Allspring is the source of all data (which is current or as of the date stated); **past performance is not a guarantee or reliable indicator of future results; all investments contain risk;** content is provided for informational purposes only with no representation regarding its adequacy, accuracy, or completeness and should not be relied upon; views, opinions, assumptions, or estimates are not necessarily that of Allspring and are subject to change without notice; and this communication does not contain investment advice, an investment recommendation, or investment research, as defined under local regulation of the respective jurisdiction.

FOR PROFESSIONAL INVESTOR USE ONLY OUTSIDE THE U.S.

© 2023 Allspring Global Investments Holdings, LLC. All rights reserved.