

PM Perspectives: Special Global Equity

Finding value in the balance sheet

Welcome to *PM Perspectives*, the first in our series of profiles highlighting views from portfolio managers and senior leadership at Allspring. Today, we sit down with **Bryant VanCronkhite**, CFA, managing director, senior portfolio manager, and co-team leader of the Special Global Equity team, to get his take on current market dynamics and on his team's strategic approach to managing value equities. The Special Global Equity team is composed of 23 professionals who oversee \$23.1B in assets under management as of September 2023.



BRYANT VANCRONKHITE, CFA

Managing Director, Senior Portfolio Manager, and Co-Team Leader of the Special Global Equity Team

Key takeaways

- 01** Balance sheet analysis provides a more complete picture of future profitability and intrinsic value.
- 02** Companies that deploy their balance sheets effectively can exploit opportunities across the cycle.
- 03** Our risk-focused investment strategies inspire greater confidence to pursue desired outcomes.

Q: BRYANT, GIVE US A 10,000-FOOT VIEW OF THE DYNAMICS THAT ARE DRIVING EQUITY MARKET VOLATILITY TODAY. WHAT ARE INVESTORS THINKING ABOUT?

A: There are many factors driving markets today, including geopolitical risks, but one of the most important drivers is the Federal Reserve's tightening cycle. Investors are having a tug of war over its likely path, magnitude, and duration. This will ultimately affect the jobs market, demand for goods and services, and inflation levels. Investors put considerable effort into trying to predict and position for outcomes, and with that comes the considerable volatility in equity and bond markets that we are experiencing today. As active managers, we welcome the volatility. It allows us to focus on company-specific exposures that might be temporarily mispriced by markets due to the macro noise.

Q: BEYOND TODAY'S HEADLINES, HOW DO YOU MANAGE THROUGH THIS CYCLE? HOW DO COMPANIES YOU SELECT FOR YOUR PORTFOLIOS MANAGE IT?

A: Let me take that second question first. Companies see a lot of the same macro risks that we see. A key differentiator among them is how well they've prepared their businesses for the risks that are really beyond their control. If the wind is blowing against them, will they be in a strong enough financial position to safeguard their core business lines and, perhaps, end up with an advantage over their competition? Well-run companies are not going to bet the farm on getting macro calls right. Rather, they are going to manage to a probability distribution of outcomes on their exposure to the things beyond their control and then manage the specific risks they can control — where they have unique insight into their businesses.



Throughout the cycle, we look for those companies that have demonstrated the ability to control their own destiny and we measure that potential through our analysis of their balance sheets. We firmly believe the balance sheet is both a source of protection when the winds are in your face and a source of growth when the wind is at your back.

Q: LET'S DIG DEEPER ON THAT. ARE YOU SAYING THAT THE BALANCE SHEET IS A LEADING INDICATOR FOR A BUSINESS?

A: Yes, that is a great way to put it. We all know the financial media focuses on quarterly reporting and that this moves markets throughout earnings season. A lot of asset managers will expend considerable time and effort building a bull case for a company by focusing on historical earnings trends derived from income statement analysis. We appreciate this perspective, but we take a slightly different approach.

We want to understand what allowed a company to create a certain level of revenue, a specific margin profile, or a given level of returns in the first place. We think a more complete view of a company's future can be derived this way because it is really how the balance sheet is used today that drives future earnings. For example, we often find that positive earnings results were driven by smart decisions about capital expenditures that expanded manufacturing capacity and revenue potential, acquisitions that delivered cost synergies and higher margins, or research and development programs that drove gains in market share. The converse is also true in that poor earnings results are often foretold by poor balance sheet health or poor decisions with respect to how it is used. In most cases, these decisions were made in years prior but are only now showing up on the income statement.

We also appreciate the protective nature of a strong balance sheet. Having adequate financial flexibility in challenging times not only reduces the need to play defense but also allows calm, rational minds to continue to play offense for the long-term benefit of the company and its shareholders. The appreciation for what a company truly controls and the potential for future value creation can be missed by overemphasizing or misinterpreting historical earnings trends. We think our unique perspective comes from combining our balance sheet analysis with an ongoing dialogue with company management to understand their vision for using their financial strength and their capital structure to the greatest advantage for shareholders down the road.

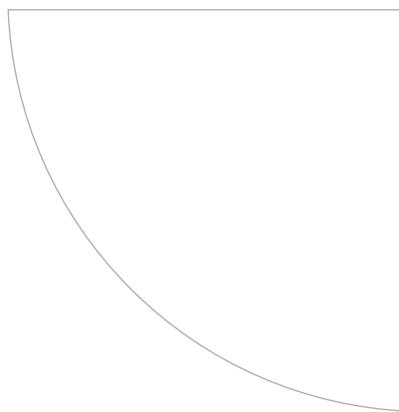
Q: IT SOUNDS LIKE YOUR STYLE OF BALANCE SHEET ANALYSIS OFFERS INSIGHTS ABOUT FUTURE EARNINGS PROSPECTS AND COMPANY RISK. LET'S SHIFT GEARS TO PORTFOLIO-LEVEL RISKS. HOW DO YOU MANAGE THEM?

A: You asked about macro risks earlier, so let me start with that. Interest rates, inflation, geopolitical tensions — you name it — are risks that affect all investment strategies. The general nature of these risks suggests that it is efficient to have a central clearinghouse, if you will, to capture and quantify these factors into company and portfolio-level exposures. The Investment Analytics team assists us and other Allspring teams in measuring these risks.

One of the dashboards we look at regularly is the Risk Decomposition Report, which attributes our portfolio tracking error to decisions we make regarding stock selection, sector allocation, style, and country exposures. We believe we have a differentiated investment process that allows us to create alpha primarily through stock selection and our bottom-up decisions. However, it is very easy to allow unintended risk, such as an unwanted style factor exposure, to enter the portfolio and create undesirable tracking error. The visibility to this level of risk analytics allows us to target not just the size of the risk we are willing to accept but also the types of risk and whether we feel we are being fairly compensated for taking them.

Q: RISK MANAGEMENT IS CLEARLY AN OVERARCHING THEME THAT RUNS THROUGH ALL ASPECTS OF THE STRATEGIES YOU MANAGE FOR INVESTORS. IF YOU SUMMED UP YOUR VALUE PROPOSITION TO INVESTORS, WHICH KEY BENEFIT WOULD YOU HIGHLIGHT?

A: In a word, confidence — the confidence that our investment process and portfolio construction will help investors pursue their desired outcomes over the course of a market cycle. We recognize that our job as an investment manager is to be part of a holistic solution by faithfully doing our part within an overall asset allocation. In other words, we aim to deliver consistently against our benchmark throughout the market cycle to help drive the success of the entire solution. We pride ourselves on the consistent execution of our process so that investors can rely upon the outcomes we generate.





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

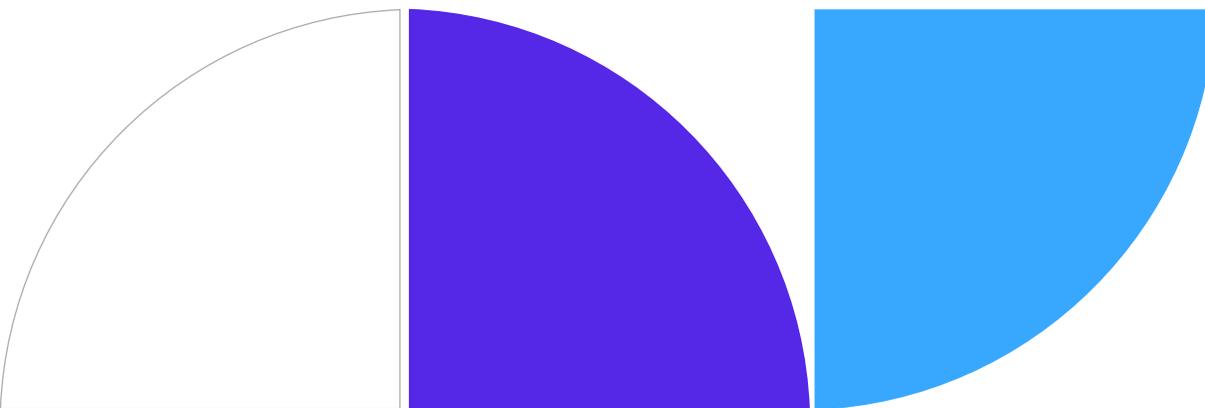
- For retail clients, contact your financial advisor.
- To reach our intermediary sales professionals, contact your dedicated regional director, or call us at **+1-866-701-2575**.
- To reach our institutional investment professionals, contact your existing client relations director, or email us at **AllspringInsitutional@allspringglobal.com**.
- To reach our retirement professionals, contact your dedicated defined contribution investment only specialist, or call us at **+1-800-368-1370**.

FOR INTERNATIONAL (EX U.S.) INVESTORS ONLY

- To reach our Allspring International Team, contact us at **AllspringInternational@allspringglobal.com**.

FOR SUSTAINABLE INVESTING

- 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**.



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.

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 UNAUTHORISED 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 WHEN USED OUTSIDE OF THE U.S.

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

ALL-10122023-iviokmdx

3