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
- May invest up to 15% in contingent convertible bonds
- 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.

Calendar-year performance (%)

Past performance is not indicative of future results.

	2024
Class I Dist. (USD) (6 Jun 2023)*	8.17
ICE BofA Developed Markets High Yield Constrained Index Hedged	8.67

Performance (%)

	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since incep.
Class I Dist. (USD) (6 Jun 2023)*	0.44	0.21	1.24	8.50	–	–	–	9.19
ICE BofA Developed Markets High Yield Constrained Index Hedged	0.10	-0.15	1.09	8.88	–	–	–	9.66

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

Performance

The fund returned 0.44% in April on a net basis, versus the ICE BofA Developed Markets High Yield Constrained Index which returned 0.10%, an outperformance of 34 basis points (bps).

Credit spreads as measured by the ICE BofA Developed Markets High Yield Constrained Index ended April 40bps wider at +390bps.

Review

The past month has been marked by significant volatility in global high yield markets, with spreads widening sharply following the 'Liberation day' announcements. Market movements were heavily influenced by fluctuating headlines, including rumors and confirmations of tariff pauses, which led to considerable swings in risk assets. The US Treasury market's reaction to these announcements appeared to prompt a reversal of initial statements by the administration. Despite the initial shift higher in yields, the 90-day pause on reciprocal tariffs prompted a quick retracement, as the market priced in the growth implications of policy changes, ultimately leading to lower yields across the curve.

Following the 90-day pause announcement, high yield spreads recovered more than half of their earlier widening, with US spreads ending the month at 394 basis points (up 39 bps) and European spreads at 370 basis points (up 34 bps). As anticipated during periods of spread widening, higher-rated segments within the sub-investment grade universe outperformed. The market continues to show a preference for more defensive names as investors await the impact of policy changes on corporate earnings. European spreads modestly outperformed their US counterparts, likely due to the more domestic nature of the European high yield market, which insulates it from direct tariff impacts. Additionally, the broader high yield market is continuing to benefit from a volatility-induced decline in new issuance volumes, providing technical support.

Non-discretionary sectors, including utilities, food, and healthcare, were among the strongest performers over the month as investors sought to reduce risk. Real estate also traded relatively well, supported by a repricing of the yield curve. Conversely, consumer-facing sectors were particularly weak, weighed down by softening US growth expectations. The energy sector also struggled, with oil prices trading poorly due to OPEC production increases and a weak demand outlook.

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†

Attribution

Credit

- On a relative basis credit contributed 0.38%. The allocation effect at a sector level was 0.14%, with security selection contributing 0.24%.

Rates

- The strategies interest rate exposure added 0.03% to performance over the period (shift 0.02% and twist 0.01%).

Sector attribution

- The funds underweight to energy exploration and production was most positive for relative performance over the month as the sector was impacted by a weakening oil price. Our underweight position added 0.11% (allocation effect: 0.09%; selection effect: 0.02%).
- The funds REITs overweight was also positive for performance as the sector was supported by falling sovereign yields, adding 0.03% (allocation effect: 0.01%; selection effect: 0.02%).
- Recreation and travel was the largest detractor, largely as a function of a weakening consumer profile, down 0.05% (allocation effect: 0.00%; selection effect: -0.04%).

Security Attribution

- New Fortress Energy was among the top performers over the month, adding 0.02%
- Cloud Software Group also traded well, adding a further 0.02%.
- Kohl's Corporation was the largest detractor over the period. Post-month-end they have fired their recently appointed CEO due to conflict of interest. Despite this, their results came relatively in line and looked to be supportive for credit.

Outlook

Macro

We expect the trade war impact to weigh on demand, bringing lower GDP growth in the latter half of this year. We also expect tariffs to have an inflationary impact and economic data realizing tariff effects to begin materializing in the middle quarters of the year. We anticipate central banks will exercise patience before cutting later in the year once trade war implications become more clear.

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 2024.

Technicals

We have seen retail buyers of high yield credit continue to step in and capture higher yields. We expect this demand to continue as we gain more clarity around tariff implications and 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.

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

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Valuation

Valuations have quickly become more appealing. The strong starting point for high yield names from an earnings and balance sheet perspective provides us with comfort that they will be able to withstand tariff-related headwinds. As such, we believe this is an opportunity to capture compelling yields offering attractive risk-return payoffs. We see potential for near-term technical headwinds to persist, however expect fundamental strength and high outright yields to act as a back stop to any further material valuation downside.

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