Allspring

Climate Transition Global Investment Grade Credit Fund

OBJECTIVES AND PROCESS

- Seeks total return, maximising investment income whilst preserving capital
- Invests two-thirds of its assets in investment-grade credit debt securities—graded such at the time of purchase—issued by corporate issues domiciled anywhere in the world
- May invest up to one-third of its total assets in below-investment-grade 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

Asset-backed securities risk: asset-backed securities may be more sensitive to changes in interest rates and may exhibit added volatility, known as extension risk, and are subject to prepayment risk. **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. **Debt securities risk**: debt securities are subject to credit risk and interest rate risk and are affected by an issuer's ability to make interest payments or repay principal when due. **Global investment risk:** securities of certain jurisdictions may experience more rapid and extreme changes in value and 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. **High yield securities risk:** high yield securities are rated below investment grade, are predominantly speculative, have a much greater risk of default and 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. **Emerging markets risk:** Emerging markets may be more sensitive than more mature markets to a variety of economic factors and may be less liquid than markets in the developed world. **Leverage risk:** the use of certain types of financial derivative instruments may create leverage which may increase share price volatility. **US Government Obligations risk:** Securities issued by US Government agencies or government sponsored may not be backed by the full faith and credit of the US Government and may be negatively impacted by adverse market and credit events.

Calendar-year performance (%)

Past performance is not indicative of future results.

	2024	2023	2022	2021	2020
Class I Dist. (USD) (8 Nov 2019)*	4.00	9.51	-15.52	-0.93	8.48
Bloomberg Global Aggregate Corporate Index (USD Hedged)[1]	3.69	9.10	-14.11	-0.79	8.26

Performance (%)

	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since incep.
Class I Dist. (USD) (8 Nov 2019)*	-0.53	1.71	1.71	5.01	1.58	1.98	—	1.11
Bloomberg Global Aggregate Corporate Index (USD Hedged)[1]	-0.42	1.76	1.76	5.41	1.98	2.05	—	1.37

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 -0.53% in March on a net basis, versus the Bloomberg Global Aggregate Corporate Index which returned -0.42%, an underperformance of 11 basis points (bps). Over the first quarter, the fund returned 1.71% on a net basis, underperforming the index by 5 bps.

Spreads shifted wider over the quarter, as measured by the Bloomberg Global Aggregate Corporate Index. The index now has a spread relative to government bonds of +96bps. Excess return over the period was -0.41%, while the total return came in at 1.76%. Total return was supported by strong levels of running yield and a rally in US rates. The US 10-year government bond yield fell 36bps to 4.21% and the German 10-year government bond up 38bps to 2.74%.

Review

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair."

Charles Dickens, *"A Tale of two cities"*

Credit spreads in March moved wider as uncertainty from the US Administration reached a crescendo ahead of the "Liberation Day" tariff announcements scheduled for the day after April Fools' Day.

Despite the on-off nature of the tariffs earlier in the quarter, uncertainty began to creep into US equities (lower prices) and the treasury market (lower yields on fears of lower growth) towards the end of the quarter as it became clear that tariffs and retaliatory tariffs were likely to be more permanent. The uncertainty has begun to feed into economic data with US March Consumer Confidence coming in at 92.9 (estimated at 94).

The main development over the quarter for Europe was the decision by many countries to build up their military capabilities in response to ongoing uncertainty in the Russia/Ukraine peace negotiations and the message that the US administration will put "America First" as promised by Trump during the election campaign.

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GENERAL FUND INFORMATION

Portfolio managers: Scott Smith, CFA®; Henrietta Pacquement, CFA®; Alex Temple; Jonathan Terry, CFA®; and Mark Cole

Benchmark: Bloomberg Global Aggregate Corporate Index (USD Hedged)[1]

Fund inception: 8 Nov 2019

Management approach: Actively managed

Sustainable Finance Disclosure Regulation: Article 8[†]

To this end, Germany's conservative leader, Friedrich Merz, announced a boost to spending on defence, civil protection and intelligence, with spending over 1% of GDP exempt from debt restrictions. A EUR 500 billion infrastructure fund for additional investment over 10 years including EUR 100 billion to cover climate protection initiatives and additionally, German States will be allowed to borrow up to 0.35% of GDP above the debt limit. European leaders also unlocked plans for a combined EUR 800 billion in European military spending. Given the magnitude of the spending plans, European government bond yields moved higher with the German 10 year bond moved 30bps higher in one day alone, the largest one day move in German yields since the fall of the Berlin wall. This in turn led to a large outperformance of European equity markets versus the US and followed through into the European PMIs with the composites beating expectations in France, Germany and the EU Bloc as a whole.

On the central bank side, the Federal Reserve held the benchmark rate in the 4.25%-4.50% target range with the median forecast indicating 50bps of rate cuts in 2025. Policy makers indicated that uncertainty around the economic outlook had increased and reduced the 2025 growth projection whilst at the same time, marking up inflation.

The Bank of England voted 8:1 to maintain their key interest rate at 4.5% citing a "gradual and careful" approach to easing with Governor Baily indicating that rates are on a "gradually declining path".

Bucking the trend, the ECB cut the deposit facility rate by 25bps to 2.5% indicating that rates are becoming "meaningfully less restrictive" with President Lagarde adding that inflation is set to reach 2% very early in 2026.

(Asset Class) Review

In the first quarter, the US Corporate Index widened 13 bps to 93 OAS as volatility hit the markets with uncertainty around tariff details and the effects on growth and inflation. The market saw a flight to quality amidst the lack of conviction on how this may affect the Federal Reserve fight to bring down inflation. Spreads have continued to trade in a narrow range, albeit they were reset wider to account for economic uncertainty and macro volatility. Aa+ corporate bonds performed the best across the rating spectrum whilst the lowest rated bonds performed the worst. This flight to quality can also be seen with the price action in Treasuries. The treasury curve has dramatically shifted downward in yield. Yields have tightened in anywhere from 20-45bps with the front end leading the rally. With the decline in yields, the strong technical that has dominated the asset class for the past year subsided this quarter further contributing to the modest widening. While yields were less attractive for investors, they were very attractive to companies looking to issue debt and price lower coupons. As a result, the market saw increased primary supply and decreased demand by investors, and ballooning dealer balance sheets. While the inflows largely remained positive for the quarter, we have begun to see the pace of inflows slow down. Sector dispersion this quarter was more pronounced than usual. Sectors with the highest exposure to tariffs, such as Energy, Transportation, and Basics, underperformed while defensive sectors, such as Banking and Consumer Noncyclical, outperformed. Insurance and Utilities underperformed as liabilities from the Palisades fire remain an overhang until more details around fault are resolved.

Given the rosier outlook for European corporates, European IG credit spread outperformed US credit spreads over the quarter with Services and Autos outperforming. Despite strong performance at the start of the year real estate spreads lagged as higher yields fed into equity valuations and then into credit spreads. Hybrids and High Yield also underperformed in spread terms on fears of an all-out global trade war. EUR Investment grade corporate primary markets saw €95.6bln of supply throughout Q1 2025 a drop of 13% versus Q1 2024. Financial supply as up 10% versus the same period, coming in at EUR 115.5 bln. GBP denominated corporate senior supply was down 30% vs Q1 2024 whilst Financials supply was also up 48% versus Q1 2024 at £11bln.

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

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Attribution

In the first quarter, credit contributed 0.19% to outperformance whilst the strategies interest rate exposure contributed -0.05% (shift -0.11% and twist 0.06%). The allocation effect at a sector level was 0.07%, with security selection contributing 0.12%.

Security selection within the banking sector was one of the most significant drivers of relative performance over the quarter, adding 0.05% (allocation effect: 0.00%; selection effect: 0.05%). A defensive overweight to US Treasurys was also among the top contributors. This position has been used to manage duration and reduce spread risk which worked well in a quarter where spreads were weak. The exposure added 0.04% (allocation effect: 0.04%; selection effect: 0.00%).

Our REITs exposure detracted most significantly over the quarter. The highly rates sensitive sector was weighed on by the combination of softening economic conditions and a potential tariff related inflationary impulse which has made the central banks job all the more challenging. Our REITs exposure detracted 0.02% (allocation effect: 0.00%; selection effect: -0.02%). Our insurance exposure also weighed on performance, down 0.02% (allocation effect: 0.00%; selection effect: -0.02%).

Individual performance was led by the financial names, with Santander, Barclays, Computershare, Investec and Danske Bank all adding 0.01%. Renault also performed well after reporting growing revenues and volumes. Renault will likely continue to benefit from the ramp up of new product launches.

Conversely, Warner Bros. was the weakest individual performer over the period. Despite releasing a strong result, Warner Bros. traded poorly, largely as a function of broader market weakness and negative consumer trends.

Outlook

Looking ahead, we continue to expect growth to slow as the mechanism of tariffs begin to run through the economy. We expect there to be an increase in inflation depending on tariff levels. While we expect the supply and demand technical to remain in place but for spreads to widen out as the market digests the impacts of tariffs on growth forecasts.

Spread outlook

Credit spreads are off the tights of the year. We expect spreads to continue to widen to account for the effects of tariffs. Particularly we see sectors, such as Autos and Consumer Products, with larger tariff exposures to have overhang. We continue to expect a decompression environment as the market recalibrates.

Macroeconomic outlook

We expect the tariff 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.

Government yield outlook

European market yields have shifted higher while the US has moved lower. We expect a bias to further curve steepening, with shorter dated instruments outperforming. Near term rate moves will be highly sensitive to growth and inflation data as the implications of tariffs flow through.

Monetary policy outlook

The market was too aggressive in its expectations of the timing and pace of rate cuts early in 2024. The labour market has begun to soften, an indication that policy tightening has begun to impact the broader economy. However, while inflation has decelerated globally, it still remains above most developed central bank targets.

We expect the actions of the new US administration may see a more drawn-out recalibration of rates from the FOMC. It will be other developed central banks that lead the way in this rates cycle.

Curve shape outlook

As risk free curves start to disinvert, investors will likely move from short-dated t-bills and government bonds back into the credit markets. We believe this should lead to a steepening in the credit curve and hence we favour the intermediate part of the credit curve.

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1. The Bloomberg Global Aggregate Corporate Index (USD Hedged) is a flagship measure of global investment grade, fixed-rate corporate debt. This multi-currency benchmark includes bonds from developed and emerging markets issuers within the industrial, utility and financial sectors. You cannot invest directly in an index. The Fund uses the Bloomberg Global Aggregate Corporate Index (USD Hedged) for performance and carbon intensity comparison. The investments of the sub-fund may deviate significantly from the components of and their respective weightings in the benchmark. The benchmark index is not consistent with the environmental or social characteristics promoted by the sub-fund.

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