

# Active Maintenance: A Dynamic Approach to Buy and Maintain Credit

Pension schemes and insurers face mounting challenges in today's environment: generating sufficient income to fund member benefits, navigating de-risking journeys and integrating climate considerations into investment frameworks. Traditional buy and maintain (B&M) credit strategies have addressed some of these needs by providing predictable cash flows, but many lack the forward-looking approach necessary to navigate both financial and climate-related risks.

This paper examines Allspring's dynamic B&M credit strategies through four key advantages:

- 01 Proven active approach** combines fundamental views, relative value and risk management
- 02 Enhanced opportunity set** through our strength and structure
- 03 Flexibility with discipline** via optional yield enhancements
- 04 Climate-aware portfolios** integrate climate transition risks and opportunities

By combining the cash flow reliability benefits of traditional B&M investing with our distinctive capabilities, our active maintenance approach helps institutional investors secure member benefits whilst aligning with regulatory expectations and fiduciary climate responsibilities.

## Rethinking B&M strategies

### TRADITIONAL APPROACH AND ITS LIMITATIONS

B&M credit strategies emerged as an effective solution traditionally centred on selecting high-quality credits with the intention of holding them to maturity, providing predictable cash flows aligned with specific liability obligations. A low-turnover approach is applied with portfolio adjustments typically limited to responding to significant credit deterioration or rating changes. Whilst this approach offers certain benefits, investors ought to consider its limitations.

Looking across the competitive landscape, we see that minimising costs alongside low turnover is a central emphasis for many providers. We believe that focusing on transaction cost minimisation is important but shouldn't come at the expense of other key components, including the option for strategic intervention to enhance value when necessary.

Similarly, growth in B&M assets under management (AUM) among the largest managers creates practical challenges. As strategies accumulate significant assets, moving large positions can trigger adverse market impact, potentially impeding portfolio changes when fundamentals suggest timely action is warranted. Further, some opportunities cannot be effectively accessed because of the manager's size.

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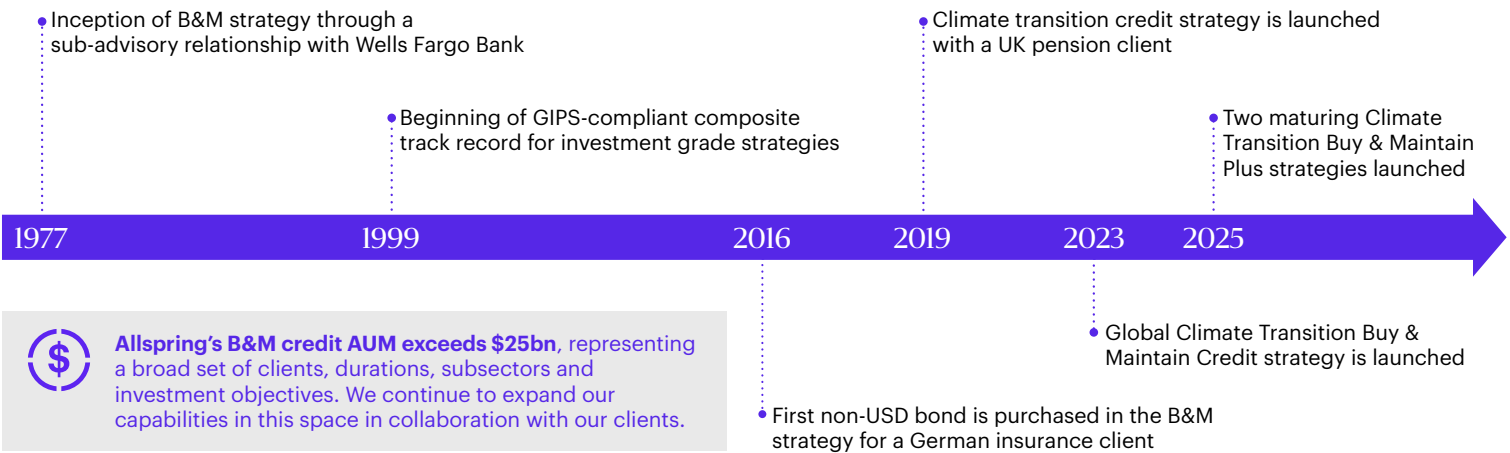


ALLSPRING’S EVOLUTION

Allspring has extensive experience managing B&M strategies dating back to 1977 (Figure 1). We have strategically expanded our capabilities to meet diverse client needs as they have evolved over time. Most recently, in August 2023, we launched our Climate Transition Global Buy & Maintain strategy. This was followed by the introduction of two maturing Climate Transition Buy & Maintain Plus strategies in 2025. We are committed to providing innovative solutions across the fixed income spectrum, leveraging the breadth and depth of our fixed income research platform.

Our B&M philosophy recognises that cash flow matching and transaction cost management remain critical. However, today’s credit markets reward investors who can identify resilient credits through various market cycles and those positioned to benefit from structural changes in the global economy. Through rigorous fundamental research, Allspring’s dynamic approach delivers the stability of B&M investing whilst capturing opportunities that more static approaches miss.

FIGURE 1: B&M CAPABILITIES EVOLVED WITH CLIENT NEEDS



Allspring’s active maintenance for B&M

01. PROVEN ACTIVE APPROACH

The cornerstone of Allspring’s differentiated approach combines strategic intervention with high-conviction credit selection through proactive evaluation of holdings in light of evolving market conditions and new opportunities. This doesn’t mean abandoning the core benefits of B&M investing—rather, we apply active analysis to determine when strategic adjustments are expected to enhance long-term outcomes.

Transition studies conducted by rating agencies consistently show that over typical holding periods of 5–10 years (common

in B&M portfolios), a substantial percentage of investment-grade bonds experience downgrades. Historical data indicates that BBB-rated securities (the largest component of the investment-grade universe) face a meaningful probability of falling to high yield status, particularly during economic downturns. Given that many pension schemes construct portfolios heavily weighted towards these rating categories, a passive approach leaves investors exposed to material credit deterioration risk.



Our experienced portfolio management team continually monitors their portfolios through application of Allspring’s B&M checklist in close collaboration with our global team of credit analysts covering over 2,250 credits. This partnership enables better decision-making through several key elements:

- 01 Comprehensive fundamental research:** our credit selection incorporates company analysis, management strategy assessment, industry analysis and third-party opinion evaluation, culminating in a clear fundamental opinion.
- 02 Sophisticated relative value assessment:** analysts look beyond fundamentals when determining recommendations and incorporating valuation factors, structural considerations and technical elements to ensure proper risk compensation.
- 03 Integrated sustainability framework:** our proprietary ESGiQ (ESG Information Quotient) system and Climate Transition Framework provide a forward-looking assessment of sustainability risks and opportunities that may impact credit quality.
- 04 Collaborative implementation:** portfolio managers partner closely with credit analysts to implement high-conviction ideas, with continuous monitoring and coordinated tracking of security/sector valuation changes.

Allspring’s active maintenance approach has been instrumental in reducing risk and generating alpha. For example, Figure 2 highlights an investment in a multinational health care and retail pharmacy. The brand had proven successful in the UK, but it struggled to replicate that success in the US. Expectations that revenue growth would enhance leverage metrics did not materialise, raising concerns about the fundamental outlook. Consequently, portfolio managers, in close collaboration with the research team, proactively decided to exit the position in favour of more attractive risk-adjusted returns elsewhere and before spreads moved wider.

FIGURE 2: CONCERNS ROSE OVER MULTI-NATIONAL HEALTH CARE AND RETAIL PHARMACY CREDIT

B&M CHECKLIST ITEM	AT INVESTMENT DATE	AT EXIT DATE
Fundamental opinion	• Strong earnings outlook	• Challenges in US health care expansion • Elevated leverage
Relative value	• Trading cheap relative to peers	• Better risk-adjusted opportunities elsewhere
Sustainability	• ESGiQ: 4	
Climate characteristics	• Climate transition score: 2+	
Liquidity	• Deal size of £300m	

Source: Allspring. ESGiQ rating system is 1–5, with 5 being the best. Climate Transition score rating system is 1–4, with 4 being the best.



Sources: Allspring and Bloomberg Finance L.P., as of 30-Sep-24. Spread is the difference between the bond yield and the swap rate.

This multi-faceted approach to risk management has enabled us to build more resilient portfolios with improved downside protection versus approaches primarily driven by rating agency actions or fixed rules.



02. ENHANCED OPPORTUNITY SET

One of Allspring’s most significant advantages in B&M credit investing stems from our size—large enough to maintain comprehensive research capabilities and nimble enough to access opportunities across the full spectrum of the market.

Large credit managers face a structural constraint where their substantial AUM forces them to concentrate holdings in the largest, most liquid issuers to deploy their capital. This narrow focus and the resulting concentration create several problems:

- **Limited opportunity set:** the largest managers can only take meaningful positions in the biggest most liquid issuers, eliminating a substantial portion of the investable universe from consideration.
- **Compressed yield disadvantage:** concentration in the largest issuers typically results in lower yields, as these names are usually the most efficiently priced due to broader participation.
- **Reduced diversification:** the largest managers all face very similar investment constraints, meaning they often hold substantially similar portfolios, reducing true diversification for investors allocating across managers.

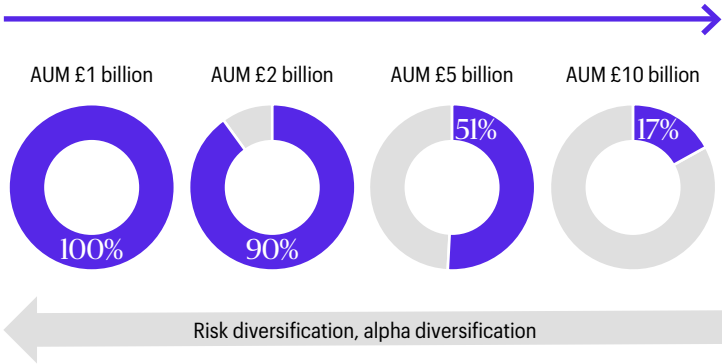
03. FLEXIBILITY WITH DISCIPLINE

Investors can opt for Allspring’s plus approach to B&M strategies with strategic high yield exposure providing enhanced returns in a risk-controlled manner. Allspring’s plus approach features:

- **Strategic high yield allocation:** our strategies can allocate up to 20% to sub-investment-grade credit at purchase (with flexibility up to 25% to accommodate potential downgrades), focusing on the highest-quality high yield names.
- **Superior risk management:** we’ve demonstrated a consistently lower default rate than the broader high yield market across multiple market cycles, leveraging our long track record in managing high yield strategies.
- **Enhanced yield without proportionate risk:** the plus component adds compelling risk-adjusted yield to the portfolio.

Investors have unique circumstances, risk preferences and return requirements. Allspring’s B&M strategies span the spectrum of exposure to meet our clients’ needs—from firmly prioritising stability to seeking enhanced income generation via a plus approach.

FIGURE 3: THE INVESTABLE OPPORTUNITY SET GOES DOWN AS MANAGER ASSETS GO UP



Sources: Allspring and FactSet, as of 31-Mar-25. Investable universe is the Bloomberg Sterling Corporate Index.

Our optimally sized platform enables access to a substantially broader opportunity set, including mid-tier issuers and select smaller names that frequently offer more attractive valuations (Figure 3). This expanded universe allows for greater issuer diversification with access to yield premiums available in less trafficked parts of the market, resulting in a more effective implementation of our highest-conviction research ideas.



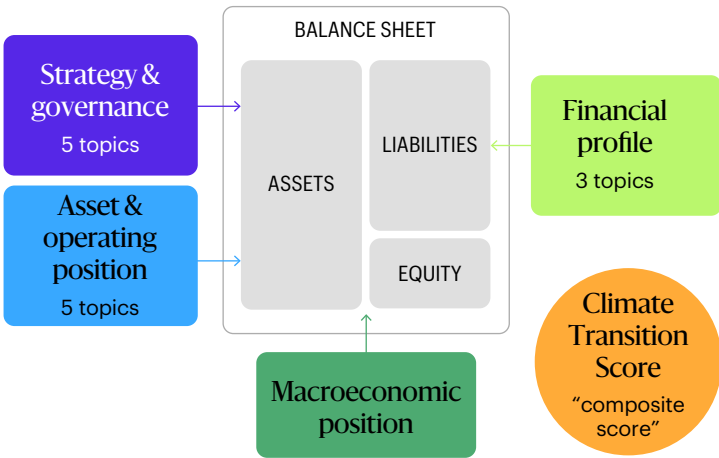
04. CLIMATE-AWARE PORTFOLIOS

Allspring’s award-winning<sup>1</sup> Climate Transition Framework enhances our credit selection and risk management processes by identifying transition risks and opportunities that traditional analysis might not consider.

Our Climate Transition Framework takes a forward-looking, inclusive approach:

- **Four-pillar assessment:** we evaluate each company by 14 topics across 4 dimensions: strategy and governance, asset and operating position, financial profile and macroeconomic position. Analysts use this information to create a comprehensive Climate Transition Score (between 1 and 4) for each company (Figure 4).
- **Forward looking:** rather than focusing solely on current carbon footprints, we assess companies’ transition strategies and capabilities to identify financially strong leaders in a decarbonising economy.
- **Engagement over exclusion:** we do not automatically exclude industries with high historical carbon emissions. Instead, we take a more inclusive approach, focusing on companies’ forward transition performance and seeking engagement opportunities.
- **Integrated investment process:** climate analysis is fully integrated alongside traditional credit analysis, ensuring consistent application across all investment decisions.

FIGURE 4: OUR CLIMATE TRANSITION FRAMEWORK INCLUDES A FOUR-PILLAR ASSESSMENT



This climate-aware approach delivers dual benefits for B&M investors. First, it enhances risk management by identifying companies likely to face credit deterioration due to climate transition challenges. Second, it identifies companies positioned to lead the climate transition—potential outperformers that exclusion-based approaches would miss. Our inclusive and comprehensive management style, which incorporates our fundamental credit team, is a key differentiator.

Activating B&M to sustain outcomes

Allspring’s dynamic approach to B&M credit investing delivers four crucial advantages for institutional investors:

- 01 **Proven active approach:** our active maintenance philosophy, coupled with comprehensive fundamental research and climate transition analysis, provides more robust downside protection than more passive approaches.
- 02 **Enhanced opportunity set:** whilst large managers face structural constraints that significantly limit their investable universe, Allspring’s size and structure enable access to a substantially broader opportunity set, driving yield enhancement and diversification benefits.
- 03 **Flexibility with discipline:** the optional plus enhancement allows for bespoke yield enhancement whilst maintaining the core benefits of B&M investing, tailored to each client’s specific risk tolerance and return objectives.
- 04 **Climate-aware portfolios:** full integration of climate transition analysis builds resilience against climate risks whilst identifying opportunities from the global shift towards decarbonisation.

Investors navigating increasingly complex credit markets shaped by evolving regulations, climate imperatives and shifting economic conditions can move beyond the limitations of traditional approaches. Allspring’s active maintenance philosophy delivers enhanced outcomes without sacrificing the core benefits of B&M investing, positioning portfolios to thrive in tomorrow’s environment whilst delivering the stability and income investors need today.

When selecting B&M credit managers, consultants and trustees should carefully consider not just historical performance but also future suitability. That means considering characteristics such as manager size, research capabilities and approach to portfolio adjustments. We believe Allspring’s philosophy and implementation—combining comprehensive research, optimal size and strategic intervention—offers a compelling enhancement to traditional B&M investing that can help pension schemes meet their dual objectives of securing member benefits whilst managing climate transition risks.

1. Professional Pensions 2024 DB Innovation Award



## For further information

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