Ask More From Your Core

Getting Active With Core Fixed Income ETFs

+ Active core fixed income exchange-traded funds (ETFs) can provide broader market access, increased flexibility, and the potential for superior risk management and returns compared with passive strategies.[1]
+ Passive strategies may miss opportunities due to limited exposures and rigid index rules, while an active approach can broaden the opportunity set, exploit market inefficiencies, and adjust for credit risks.
+ Allspring's active core and core plus ETFs combine proven strategies, expert management, disciplined processes, and the advantages of an ETF to deliver strong outcomes for investors.

Historically, bonds have provided investors with a reliable source of income while acting as an effective ballast in their overall portfolio—a sought-after and critical component of a well-diversified investment strategy. However, the scope of the asset class and the best approach to investing in it are not always fully appreciated and understood.

At more than $140 trillion globally, the size of the fixed income market is immense.[2] It spans across a broad spectrum of sectors, maturity ranges, and credit ratings with varying degrees of transparency and liquidity—making it a very deep, diverse, and complex market and, in our opinion, one that naturally lends itself to active management.

Why active management for core fixed income?

Passive strategies are constructed to track an index. For core bond investors, this often means choosing an ETF that tracks the Bloomberg U.S. Aggregate Bond Index, which is by far the most widely used proxy for the U.S. bond market.

Incepted in 1976, the index was designed as a broad representation of the U.S. fixed income markets. However, it is limited in scope relative to the broader market and is highly concentrated in just three sectors: U.S. Treasuries, mortgage-backed securities, and investment-grade corporate bonds. The index represents only about 48% of the $55.3 trillion U.S. bond market and approximately 19% of the global market.[3] For passive core bond investors, these limitations significantly restrict access to a wide range of opportunities available in the U.S. and around the globe.

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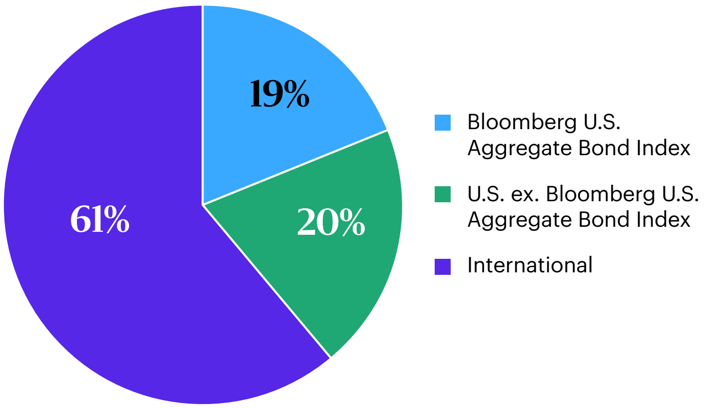
1. While actively managed ETFs are designed to outperform their benchmark index, there is the possibility that they will underperform the index.
2. Source: SIFMA as of December 31, 2023
3. Percent of total global outstanding debt; sources: SIFMA and Bloomberg Finance L.P. as of December 31, 2023

Global bond market

PERCENT OF GLOBAL FIXED INCOME OUTSTANDING



Bond indexes such as the Bloomberg U.S. Aggregate Bond Index are debt weighted, meaning total debt outstanding determines a constituent's standing and weight within the index. This means passive investors are lending the largest proportion of their investments to the most indebted issuers, which we believe is a nonsensical way to effectively build a bond portfolio. Also, ETFs that seek to mimic the index are beholden to rigid index rules and regularly scheduled rebalancing, which can result in the forced buying and selling of bonds at potentially inopportune times.

Conversely, active core bond ETFs are not mandated to operate within the confines of a narrowly defined, rules-based index. Skilled active managers can take advantage of an expanded opportunity set and effectively leverage flexibility to capitalize on market inefficiencies, navigate credit risk, avoid potential pitfalls, and adjust for interest rate changes—important factors when seeking to mitigate risk and maximize income and total return.

KEY CONSIDERATIONS—ACTIVE VS. PASSIVE CORE FIXED INCOME[4]

ACTIVE MANAGEMENT:	PASSIVE MANAGEMENT:[5]
Enhanced opportunity set: Can exploit pricing inefficiencies in the vast, fragmented bond market	**Limitations of exposures:** Highly concentrated in a few sectors, representing a narrow slice of the global debt market
Flexibility in security selection and weightings: May avoid poorly performing bonds and overweight securities with greater income and return potential	**Weighted by total debt outstanding:** Bonds are ranked and applied percent allocations based on outstanding debt
Liquidity management: Have the ability to adjust holdings dynamically to improve liquidity	**Forced buying and selling:** Index rules and rebalancing dictate buying and selling of securities in potentially less-than-ideal conditions
Credit analysis & risk management: Can assess credit quality, duration, and macroeconomic factors to make informed and tactical decisions	**Rigid & rules-based:** Mandated to follow index rules regardless of market conditions and outlook
Enhanced yield and total return potential: Can seek higher yields through the selection of mispriced or undervalued bonds	**Duration-to-yield ratio:** Not constructed to account for duration risk or compensation through higher yields, potentially leading to outsized interest rate risk

4. While actively managed ETFs are designed to outperform their benchmark index, there is the possibility that they will underperform the index. Allspring's active ETFs provide daily transparency of holdings; however, not all actively managed ETFs are as transparent as passive ETFs. Both active and passive ETFs are typically more cost-effective when compared with other investment vehicles; however, passive ETFs have lower fees than active ETFs on average.

5. Based on strategies designed to track the Bloomberg U.S. Aggregate Bond Index.

Evidence is in the outcomes

Passive strategies are designed to replicate the performance of their tracking index, often resulting in underperformance after accounting for fees. Since 2008, the Morningstar Passive Intermediate Core Bond category average has consistently underperformed the Bloomberg U.S. Aggregate Bond Index in every rolling five-year period. In stark contrast, the Morningstar Intermediate Core-Plus Bond category average has delivered positive excess returns 89% of the time.[6]

Why active fixed income now?

In today's volatile and rapidly changing market environment, being passive may not be the best approach. Investors may want to consider leveraging the skill and experience of an active manager who may offer a superior solution for managing risk and effectively navigating this evolving economic and market landscape.

With bond investing, we believe it's as much about avoiding losers as it is about picking winners. A skilled and experienced active manager can be proficient at doing both.

Actionable investment ideas

Are you seeking more from your core bond exposure? Allspring has a rich history of active investing in fixed income. Our core and core plus ETFs leverage longstanding, flagship active strategies that are anchored with highly disciplined investment processes and driven by robust, fundamental research. They combine our institutional insight with the tax benefits, liquidity, transparency, and cost-effectiveness of an ETF—potentially providing an ideal solution for today's market environment and beyond.

AFIX

Allspring Broad Market Core Bond ETF

MANAGER: **Galliard Capital Management**

EXPENSE RATIO: **0.19%**

KEY ADVANTAGES:

- **Time-tested, consistent investment approach:** Galliard Capital Management has managed fixed income portfolios for institutional investors for more than 29 years.
- **Team-based approach:** All portfolios are managed by the firm's full portfolio team, allowing for best thinking to be implemented across the firm's portfolios.
- **Diverse sources of yield:** The focus on utilization of a wide variety of securities across the fixed income sectors helps add incremental yield to the portfolio.

APLU

Allspring Core Plus ETF

MANAGER: **Allspring Plus Fixed Income Team**

EXPENSE RATIO: **0.30%**

KEY ADVANTAGES:

- **Six-month investment horizon:** The team uses a six-month investment horizon to anticipate market inflection points.
- **Multiple levers:** They strategically allocate up to 35% in plus sectors and a minimum of 65% in aggregate sectors.
- **Unbiased approach:** Diversified and unbiased sources of alpha are sought in an effort to generate compelling returns over a market cycle.

Visit allspringglobal.com/ETFs for more information on the **Allspring Broad Market Core Bond ETF (AFIX)**, the **Allspring Core Plus ETF (APLU)**, and Allspring's full lineup of ETF offerings.

6. Source: Morningstar Direct as of March 31, 2025

Allspring ETFs are not available for distribution outside of the United States.

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

Alpha measures the excess return of an investment vehicle, such as a mutual fund, relative to the return of its benchmark, given its level of risk.

The Bloomberg U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment-grade, U.S.-dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed-rate and hybrid adjustable-rate mortgage pass-throughs), asset-backed securities, and commercial mortgage-backed securities. You cannot invest directly in an index.

Carefully consider a fund's investment objectives, risks, charges, and expenses before investing. For a current prospectus and, if available, a summary prospectus, containing this and other information, visit allspringglobal.com. Read it carefully before investing.

It is possible that an active trading market for ETF shares will not develop, which may hurt your ability to buy or sell shares, particularly in times of market stress. Shares may trade at a premium or discount to their net asset value (NAV) in the secondary market. These variations may be greater when markets are volatile or subject to unusual conditions. There can be no assurance that active trading markets for the shares will develop or be maintained by market makers or authorized participants. Shares of the ETFs are not redeemable with the ETF other than in creation unit aggregations. Instead, investors must buy or sell the ETF shares in the secondary market at market price (not NAV) through a broker-dealer. In doing so, the investor may incur brokerage commissions and may pay more than NAV when buying and may receive less than NAV when selling. Investing involves risk, including the possible loss of principal. Bond values fluctuate in response to the financial condition of individual issuers, general market and economic conditions, and changes in interest rates. Changes in market conditions and government policies may lead to periods of heightened volatility in the bond market and reduced liquidity for certain bonds held by the fund. In general, when interest rates rise, bond values fall and investors may lose principal value. Interest rate changes and their impact on the fund and its share price can be sudden and unpredictable. High yield securities and junk bonds have a greater risk of default and tend to be more volatile than higher-rated securities with similar maturities. Mortgage- and asset-backed securities may decline in value and become less liquid when defaults on the underlying mortgages or assets occur and may become volatile in periods of rising interest rates. Foreign investments are especially volatile and can rise or fall dramatically due to differences in the political and economic conditions of the host country. These risks are generally intensified in emerging markets. Consult the fund's prospectus for additional information on these and other risks.

This material is for general informational and educational purposes only and is NOT intended to provide investment advice or a recommendation of any kind—including a recommendation for any specific investment, strategy, or plan.

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