

Utilities and High Income Fund

Closed-End Fund

FUND FACTS

Ticker	ERH
NAV Ticker	XERHX
CUSIP	94987E109
Fund inception date	4-28-04
Shares outstanding	9,236,156.12
Average daily volume	40,597

OBJECTIVE

The fund seeks a high level of current income and moderate capital growth, with an emphasis on providing tax-advantaged dividend income.

INVESTMENT STRATEGY

The Fund allocates its assets between two separate investment strategies, or sleeves. Under normal market conditions, the fund allocates approximately 70% of its total assets to a sleeve that places a focus on common, preferred and convertible preferred stocks of utility companies and approximately 30% of its total assets to a sleeve of U.S. dollar denominated below investment grade (high yield) debt.

ASSET ALLOCATION (%)

Equity	62.82
Fixed income	35.62
Cash & equivalents	1.55

ADVISER

Allspring Funds Management, LLC

SUBADVISER

Allspring Global Investments, LLC

FUND MANAGERS

Name	Years of investment experience
Chris Lee, CFA	22
Kent Newcomb, CFA	38
Michael J. Schueller, CFA	24
Jack Spudich, CFA	37

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EXPENSES (%)

Gross expense ratio	2.45
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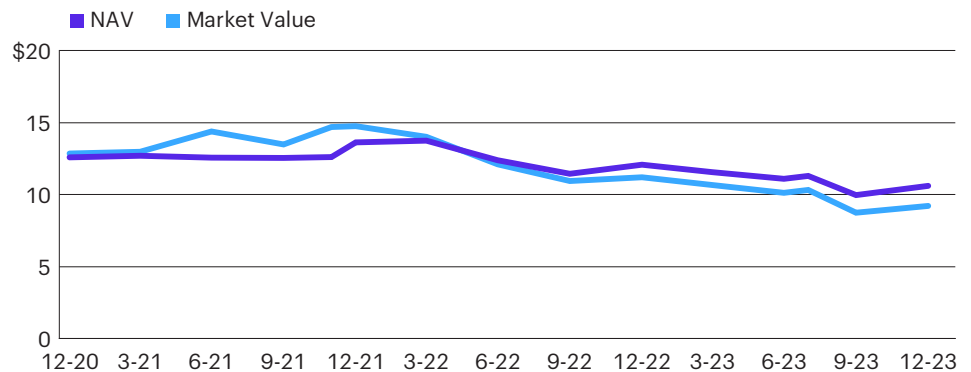
As of 8-31-2023. Expense ratios include 1.44% of interest expense. Excluding interest expense, gross ratio would be 1.01%.

Performance (%)

	3 month	Year to date	Annualized				
			1 year	3 year	5 year	10 year	Since incep.
Fund at Market	7.70	-10.42	-10.42	-3.59	3.58	4.94	5.89
Fund at NAV	8.78	-4.34	-4.34	1.76	5.19	5.61	6.91

Figures quoted represent past performance, which is no guarantee of future results, and do not reflect taxes that a shareholder may pay on fund distributions or the sales of fund shares. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted and assumes the reinvestment of dividends and capital gains. Performance figures of the Fund do not reflect brokerage commissions that a shareholder would pay on the purchase and sale of shares. If taxes and such brokerage commissions had been reflected, performance would have been lower. Current month-end performance is available by calling 1-800-222-8222.

NAV vs. market price chart



Net asset value (NAV) and market price data

Current share price (\$)	9.21
Current share NAV (\$)	10.60
Premium/discount at NAV (%)	-13.11

Fund capitalization

Net assets (\$ in millions)	97.9
Bank borrowings (\$ in millions)	30.0
Total assets (\$ in millions)	127.9
Leverage as a percentage of total assets (%)	23.5

Fund characteristics

Number of holdings	265
Portfolio turnover (%)	19.3

Yields (%)

	At market	At NAV
Distribution rate*	8.42	7.31
30-day SEC yield ¹	—	4.57

*Distribution rate is calculated by annualizing the last distribution and then dividing by the period ending NAV or market price. Special distributions, including special capital gains distributions, are not included in the calculation. Distributions may be sourced from any or all of the following: income, capital gains and return of capital.

Dividend information

Declaration date	Payment amount(\$)
12-29-2023	0.06507
11-15-2023	0.06584
10-27-2023	0.06655
9-29-2023	0.06765
8-16-2023	0.06891
7-28-2023	0.06951

Dividends shown are from the last six months and are paid monthly. Historical dividend sources since the Fund's inception have included net investment income, realized gains, and return of capital. Each fund will send shareholders a Form 1099-DIV for the calendar year that will tell shareholders how to report these distributions for federal income tax purposes. A fund's current distribution rate and historical dividends are not indicative of future performance.²



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Credit rating allocation (%)

BBB/Baa	1.75
BB/Ba	44.10
B/B	40.81
CCC/Caa and below	10.83
Not rated	2.50

Calculated as a percentage of market value of bonds. Credit rating allocation is subject to change and may have changed since the date specified. Percent totals may not add to 100% due to rounding. The ratings indicated are from Standard & Poor's, Fitch Ratings Ltd., and/or Moody's Investors Service. If a security was rated by all three rating agencies, the middle rating was used. If rated by two of three rating agencies, the lower rating was used, and if rated by one of the agencies, that rating was used.

Sector allocation (%)

Top equity allocations	
Utilities	62.82
Cash & equivalents	1.55
Top fixed income allocations	
Consumer discretionary	5.88
Energy	3.89
Industrials	3.54
Financials	2.85
Communication services	2.43
Utilities	1.91
Consumer staples	0.95
Information technology	0.80
Real estate	0.66

Calculated as a percentage of market value of investments. Sector allocation is subject to change and may have changed since the date specified. These amounts may differ from the final sector categorization determined by the portfolio management team. Percent totals may not add to 100% due to rounding.

Maturity distribution (%)

0 to 1 year	12.57
1 - 3 years	37.96
3 - 5 years	38.15
5 - 10 years	9.65
10 - 20 years	1.12
Other	0.56

Calculated as a percentage of market value of bonds. Maturity distribution is subject to change and may have changed since the date specified. Percent totals may not add to 100% due to rounding.

Top geographic allocations (%)

United States	94.42
Canada	0.84
Bermuda	0.83
Netherlands	0.75
Cayman Islands	0.57
Ireland	0.50
France	0.36
United Kingdom	0.28
Malta	0.14
Germany	0.03

Geographic allocation is subject to change and may have changed since the date specified. Percent totals may not add to 100% due to rounding.

Top holdings (%)

NextEra Energy, Inc.	8.57
Sempra	4.30
Duke Energy Corporation	4.03
Southern Company	4.01
American Electric Power Company, Inc.	3.78
DTE Energy Company	3.14
Exelon Corporation	2.93
CenterPoint Energy, Inc.	2.70
CMS Energy Corporation	2.69
Constellation Energy Corporation	2.66

Portfolio holdings are subject to change and may have changed since the date specified. The holdings listed should not be considered recommendations to purchase or sell a particular security.

1. The 30-Day SEC yield is calculated with a standardized formula mandated by the SEC. The formula is based on maximum offering price per share and includes the effect of any fee waivers. Without waivers, yields would be reduced. A fund's actual distribution rate will differ from the SEC yield and any income distributions from the fund may be higher or lower than the SEC yield. The 30-day unsubsidized SEC yield does not reflect waivers in effect.

2. If a distribution is from a source other than net investment income, the Fund provides a notice to shareholders with an estimate of its distribution source at that time. The final determination of the source of all dividend distributions in the current year will be made after year-end. The actual amounts and sources of the amounts for tax reporting purposes will depend upon a fund's investment experience during the remainder of the fiscal year and may be subject to change based on tax regulations. Each fund will send shareholders a Form 1099-DIV for the calendar year that will tell shareholders how to report these distributions for federal income tax purposes.



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Strategy

Utilities underperformed the broad U.S. equities market in the fourth quarter. The S&P 500 Utilities Index³ rose 8.56% on a total return basis, while the S&P 500 Index⁴ increased 11.69%. After a tough first three quarters, utilities finally showed signs of life as the Federal Reserve telegraphed a softer stance on interest rates. For the full year, utilities declined 7.08% while the S&P 500 Index⁴ rose 26.29%; 2023 was utilities' worst relative performance in the past 50 years, after significantly outperforming the overall market in 2022. Utilities often underperform on a relative basis when dividend yields compare less favorably with higher rates on alternative investments and when investors favor riskier stocks. Additionally, investors expressed concerns over utilities' need to raise large amounts of money to invest in their systems, especially with higher interest rates. Dividend growth expectations for utilities remain on track for healthy mid-single-digit percentage growth in 2024 and beyond. On a price/earnings basis at year-end, the S&P 500 Utilities Index³ traded at about a 19% discount to the S&P 500 Index⁴ versus a 15-year average premium of about 9%. Industry valuation is attractive compared with the historical average.

High yield and leveraged loans generated very strong performance during the quarter as both interest rate and equity volatility declined and pushed bond and loan prices higher. However, credit quality showed ongoing signs of erosion as higher borrowing costs drove interest coverage lower and leverage higher across the high yield landscape. Official statistics showed solid economic growth during the quarter, as a tight labor market and robust personal earnings allowed consumers to absorb higher prices and spend through the cycle. Corporate debt issuance remained healthy in the fourth quarter despite some year-end pressures. A surge of inflows into mutual funds and exchange-traded funds aligned with lower yields to incentivize borrowers to tap the market for fresh funding.

The Utilities and High Income Fund's return based on market value was 7.70% for the three-month period that ended December 31, 2023, underperforming the 8.13% return of the Utilities and High Income Blended Index.⁵ During the same period, the fund's return based on its net asset value (NAV) was -8.78%. The Utilities and High Income Blended Index⁵ returned -1.14%, 6.76%, and 7.78% for the 1-, 5-, and 10-year periods, respectively.

Contributors to performance

Performance within the equity sleeve benefited from an overweight position in a high-quality utility holding, DTE Energy Company, which appreciated over 12%, as well as from not owning a couple of index constituents operating in below-average regulatory environments. The team remains focused on what it believes are higher-quality companies with prospects for long-term above-average dividend growth.

Within high yield, overweights to media, retail, and financial services as well as an underweight to technology contributed to performance. Positive selection within the media and capital goods sectors was led by names such as Scripps Escrow, Gray Escrow, and Level 3 Financing.

Detractors from performance

Equities underperformed the benchmark, driven by good performance from a handful of benchmark utilities that we consider lower quality and did not own. Two holdings that we did own also recently received surprisingly harsh regulatory decisions in one state. Performance was hindered by a lack of exposure to Independent Power and Renewable Electricity Producers. For example, not owning Index constituent AES Corp. detracted from performance. We believe that independent power producers have a more volatile business model than the regulated utility model.

The fund's high yield sleeve had a short duration position relative to the benchmark throughout the quarter. This underweight detracted from performance as yields declined across the curve during the period. The sleeve's overweight to leveraged loans was a detractor during the period, as they underperformed longer-duration bonds given the decline in yields. An overweight to cash and the energy sector during the period detracted from performance. On an individual-name basis, Enviva Partners was the primary driver of underperformance during the quarter based on poor results and the issuance of a "going concern" warning.

Management outlook

Pertaining to equities, there have been concerns over utilities' ability to finance robust capital expenditure plans in a higher interest rate environment. Investors have also increased their focus on utility balance sheets. However, the companies have not encountered difficulties in financing growth, and we still see a clear path for moderate yet consistent growth in utility earnings and dividends. This, combined with attractive dividend yields, could provide solid total return potential and below-average volatility over time. As we have noted in prior reports, regulated utilities have abundant opportunities to invest in their core businesses at returns we view as attractive. The environment remains favorable for capital spending to modernize the electrical grid and replace coal generation with natural gas and renewables. The transition to cleaner generation facilities should also improve the sector's environmental characteristics. Challenges to the utilities sector include ongoing inflation and higher interest rates.

High yield and leveraged loans continue to offer generous yields that should outpace current rates of inflation and offset future economic volatility. However, credit fundamentals are deteriorating at a slow pace as tighter monetary policy, higher costs of funding, and solid but decelerating economic growth create a challenging operating environment for some corporations. This will likely result in higher default rates going forward. Current spreads provide adequate protection against sluggish growth and a modest uptick in default rates, but they do not provide adequate protection against a true recessionary "hard landing" scenario.

3. The S&P 500 Utilities Index is a market-value-weighted index that measures the performance of all stocks within the utilities sector of the S&P 500 Index. You cannot invest directly in an index. The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value-weighted index with each stock's weight in the index proportionate to its market value. You cannot invest directly in an index.

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5. The Utilities and High Income Blended Index is weighted 70% S&P 500 Utilities Index and 30% BofA U.S. High Yield Constrained Index. Prior to October 15, 2019, the index was composed of ICE BofA U.S. High Yield Index (30%) and S&P Utilities Index (70%). Prior to July 1, 2010, the index was composed of ICE BofA BB-B U.S. High Yield, Cash Pay Index (30%) and S&P Utilities Index (70%). The ICE BofA U.S. High Yield Index is a market-capitalization-weighted index of domestic and Yankee high-yield bonds. The index tracks the performance of high-yield securities traded in the U.S. bond market. You cannot invest directly in an index. Copyright 2019. ICE Data Indices, LLC. All rights reserved. The ICE BofA U.S. High Yield Constrained Index is a market-value-weighted index of all domestic and Yankee high-yield bonds, including deferred interest bonds and payment-in-kind securities. Issues included in the index have maturities of one year or more and have a credit rating lower than BBB-/Baa3 but are not in default. The BofA Merrill Lynch U.S. High Yield Constrained Index limits any individual issuer to a maximum of 2% benchmark exposure. You cannot invest directly in an index. Copyright 2023. ICE Data Indices, LLC. All rights reserved. The S&P 500 Utilities Index is a market-value-weighted index that measures the performance of all stocks within the utilities sector of the S&P 500 Index. You cannot invest directly in an index.



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Returns reflect expense limits previously in effect, without which returns would have been lower.

This closed-end fund is no longer available as an initial public offering and is only offered through broker-dealers on the secondary market. A closed-end fund is not required to buy its shares back from investors upon request. Shares of the fund may trade at either a premium or discount relative to the fund's net asset value, and there can be no assurance that any discount will decrease. The values of, and/or the income generated by, securities held by the fund may decline due to general market conditions or other factors, including those directly involving the issuers of such securities. Equity securities fluctuate in value in response to factors specific to the issuer of the security. Debt securities are subject to credit risk and interest rate risk, and high yield securities and unrated securities of similar credit quality have a much greater risk of default and their values tend to be more volatile than higher-rated securities with similar maturities. The fund is also subject to risks associated with any concentration of its investments in the utility sector. Funds that concentrate their investments in a single industry or sector may face increased risk of price fluctuation due to adverse developments within that industry or sector. The fund is leveraged through a revolving credit facility and also may incur leverage by issuing preferred shares in the future. The use of leverage results in certain risks, including, among others, the likelihood of greater volatility of net asset value and the market price of common shares. Foreign investments may contain more risk due to the inherent risks associated with changing political climates, foreign market instability, and foreign currency fluctuations. Derivatives involve additional risks, including interest rate risk, credit risk, the risk of improper valuation, and the risk of noncorrelation to the relevant instruments they are designed to hedge or closely track.

The ratings indicated are from Standard & Poor's, Moody's Investors Service, and/or Fitch Ratings Ltd. Credit-quality ratings: Credit-quality ratings apply to underlying holdings of the fund and not the fund itself. Standard & Poor's rates the creditworthiness of bonds from AAA (highest) to D (lowest). Ratings from A to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the rating categories. Moody's rates the creditworthiness of bonds from Aaa (highest) to C (lowest). Ratings Aa to B may be modified by the addition of a number 1 (highest) to 3 (lowest) to show relative standing within the ratings categories. Fitch rates the creditworthiness of bonds from AAA (highest) to D (lowest).

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