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)* | 0.15 | 0.05 | 2.30 | 6.22 | 3.31 | 0.91 | – | 1.18 |
| Bloomberg Global Aggregate Corporate Index (USD Hedged)[1] | 0.21 | 0.15 | 2.35 | 6.55 | 3.58 | 1.00 | – | 1.43 |

**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 0.15% in May on a net basis, versus the Bloomberg Global Aggregate Corporate Index which returned 0.21%, an underperformance of 6 basis points (bps).

## Review

Despite the ongoing tariff uncertainty, risk continued to recover in May as better economic data and lower US-China tariffs led investors to price out the likelihood of a global downturn.

The US Corporate Index tightened by 18bps to 88bps, retracing any post liberation weakness. Excess returns were meaningful at 127bps while total returns were -1bp which was dampened by the move in rates. The rebound in credit spreads was driven by a number of supporting fundamental and technical factors. Classic risk on and decompression themes were back in play. In contrast to the past few months, BBB- bonds fared the best whilst Aa+ bonds fared the worst. After widespread de-risking ahead of Liberation Day, the market moved to replace underperforming risk at the wides of the year. With investors maintaining a conservative risk profile pre–Liberation Day, the stage was set for technical outperformance. Sectors that outperformed included Cable/Satellite, Energy, Leisure, Aviation, and Autos -- all sectors that were previously hardest hit by tariffs. On the other hand, the worst performing sectors included, life Insurance, Healthcare Services, Utilities, and Diversified Media. May supply this year was comfortably higher than the average issuance over the past 4 years. This month, we saw $155bln print in the primary market. The deals overall performed well and tightened an average of 5bps.

In Europe, corporate spreads finished May 15bps tighter at 96bps (28bps inside the wides since the early April 'Liberation Day' announcement), generating 0.69% in excess and 0.52% in total return; the German 10-year government bond yield increased by 6bps to 2.50%. Euro corporate spreads modestly underperformed Dollar denominated corporates. Sterling corporates only tightened by 11bps through May. In a reversal of the moves from April, the easing stance on tariffs and improved economic outlook helped sectors such as Automotive and Real Estate outperform. The Healthcare sector also managed to unwind some of the widening in April but with sector specific tariffs still in the headlines, the sector underperformed the broader market. With risk rallying, it came as no surprise that the traditionally defensive sectors, such as Utilities and Telecoms, underperformed (having outperformed in April). Primary markets were extremely active over the month,

**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.**

# Climate Transition Global Investment Grade Credit Fund

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[†]

with euro investment grade supply reaching €68bln. A noticeable theme was the issuance of so-called reverse-yankee deals (US domiciled issuers issuing in EUR), such as Visa, Pfizer and Booking.com, which brought large benchmark size, multi-tranche deals that also included 20-30year maturity bonds that added duration to the index.

Overall, the fixed income market in May 2025 was characterized by a risk on tone fueled by positive tariff momentum and increase demand by yield driven investors.

## Attribution

**Credit**

- On a relative basis credit contributed -0.11%. The allocation effect at a sector level was -0.09%, with security selection contributing -0.02%.

**Rates**

- The strategies interest rate exposure added 0.06% to performance over the period (shift 0.01% and twist 0.05%)

**Sector attribution**

- Security selection within consumer facing names, both cyclical and non-cyclical led performance over the month, each adding 0.02% (allocation effect: 0.00%; selection effect: 0.02%).
- The funds overweight to technology was also supportive for performance adding 0.02% (allocation effect: 0.00%; selection effect: 0.02%).
- The funds defensive treasury position was the most significant detractor over the period, down 0.07% (allocation effect: -0.07%; selection effect: 0.00%). We remain poised to put this capital to work should we see the market cheapen to a more compelling level.

**Security Attribution**

- Banco Santander was the top contributor to relative performance over the month. The name was further supported by an earning beat late in the period
- Warner Bros. was the weakest performer over the period, trading poorly on the back of a weakening outlook for the US consumer

## 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. While there is capacity for near-term compression we expect the market may be discounting the implications of possible tariffs. As such, we anticipate a recalibration as earnings and economic data feel the impact of trade headwinds.

**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 second half of the year.

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

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**Government yield outlook**

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**

We expect the rates cycle of the US and Europe to remain dislocated, as the ECB nears the conclusion of its cutting cycle. As for the Fed, a potential inflationary impulse raises questions around the path. We expect the Fed to remain on hold in the first half of 2025 and cut rates 2 times in the second half, depending on the trajectory of growth and employment.

**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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