

# PM Spotlight: The Upside of Volatility

## Maulik Bhansali, CFA, Portfolio Manager, Core Fixed Income



As a former actuary, **Maulik Bhansali** appreciates the interdependence of risk and reward and the importance of using volatility to source opportunities. That's not just sound theory; it's backed up by a solid track record.

### **Q:** HOW HAS YOUR INVESTMENT CAREER UNFOLDED?

**A:** I've always had a love for math. When I was thinking about career possibilities, one of my teachers pointed me to the actuarial field as a way to combine math and statistics. My first job out of college was with Watson Wyatt, helping clients determine liabilities, expenses, and contribution rates for their defined benefit plans. I moved to the investment team to focus on asset-liability modeling and became much more interested in the asset side. That work made me want to focus more on finance and asset management, so I went to graduate school and studied quantitative finance. I joined Wells Capital Management, an Allspring predecessor, as an equity analyst and worked for a couple of teams before finding what I think is a perfect fit with the Core Fixed Income team. I've been with this team since 2006.

My early actuarial experience still shapes how I think about achieving client outcomes. It also taught me how to present complex information in a way that's more like telling a story than delivering facts. The actuarial information I presented was dry, sometimes confusing, and esoteric, but it was important. Being able to talk about technical concepts in an accessible and engaging way is a really useful skill and it's essential for the client experience.

### **Q:** HOW DO YOU CO-MANAGE THE CORE FIXED INCOME TEAM?

**A:** Co-management has almost always been the team's approach for the past 30 years because it's worked really well. Jarad Vasquez and I jointly manage the entire team. We have different but complementary skill sets, and that adds value to how the team operates. Jarad has years of experience in trading, which is a big part of what we do. My background is more on the analytical side and thinking about risk in a quantitative way. Jarad started out on the mortgage-backed security side of the portfolio, and I had been more involved on the credit side. We also have different styles in how we work and communicate. We bring different things to the table, and we have a ton of respect for each other, so it's a partnership that really works.

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Allspring's culture fosters this kind of collaborative management. It elevates the team over a particular keyman and brings diversity to our decision-making processes. I think that's why co-management is commonplace across the firm.

**Q:** WHAT MAKES ALLSPRING'S CORE FIXED INCOME APPROACH UNIQUE?

**A:** We focus on security selection to source alpha. For example, we don't position the portfolio for a view on where interest rates are going or on which sectors are rich or cheap. But we also recognize the need to go beyond security selection, so we pair that with a highly active rotation of the portfolio into our best ideas, with robust risk controls to filter out risks that we don't want to be taking. We like to think of it as looking for lots of small mispricings frequently across the universe of high-quality liquid bonds. That seems to be unique among our peer group. Investors always want superior returns, but when it comes to high-quality fixed income, which is typically used as the anchor of a broader portfolio, they are also usually seeking consistency and predictability, which we've delivered over the years.

**Q:** COULD YOU GIVE AN EXAMPLE OF WHAT BEST IDEAS LOOK LIKE AND HOW THEY'RE EXECUTED?

**A:** A timely example that comes to mind is how we've actively moved our positions in the banking sector throughout 2023, as we saw a huge amount of volatility related to interest rates, the problems with U.S. regional banks, and then issues internationally such as with Credit Suisse. With that volatility, the relative value relationships within the sector moved around an incredible amount. For example, certain European banks that were previously valued at levels similar to those of big U.S. banks were trading, at times, a full percent behind those U.S. banks. That is a massive shift in relative value. And this is the type of security selection opportunity we like to exploit—taking overweight positions and then trading back once the relationship moves.

**Q:** INVESTORS ARE OFTEN SKEPTICAL OF RELYING ON A SECURITY SELECTION APPROACH FOR FIXED INCOME STRATEGIES. IS THAT SKEPTICISM VALID?

**A:** We don't think so. Fixed income markets are inefficient. You still have to pick up the phone to do many trades. New bonds are issued almost every trading day. It's a complex market with a diverse set of participants, from money managers to financial institutions to central banks. They can have regulatory requirements and other objectives that aren't about maximizing value. That creates security selection opportunities. And there are thousands of issues in the Bloomberg U.S. Aggregate Bond Index, which gives us lots of possibilities.

**“ It can be hard to remain disciplined when volatility is lower, but our clients expect us to do that so we're prepared to take advantage when volatility and opportunities increase.**

**Q:** IS IT MORE DIFFICULT TO MAINTAIN A DISCIPLINED APPROACH TO SECURITY SELECTION IN ANY PARTICULAR MARKETS—FOR EXAMPLE, WHEN RATES AND VOLATILITY ARE RISING OR FALLING OR STAYING STEADY?

**A:** We're looking to outperform every quarter. However, there are times when alpha opportunities are more limited, often during periods of lower volatility and richer valuations. That's when there tends to be fewer or smaller mispricings and our excess return tends to be a bit lower. This is also key to our process, and I think beneficial to clients. We don't reach for yield or try to achieve a specific alpha target. It can be hard to remain disciplined when volatility is lower, but our clients expect us to do that so we're prepared to take advantage when volatility and opportunities increase.

We've seen that happen throughout history, including just prior to the Global Financial Crisis, right before the pandemic, and just ahead of the most recent interest rate hiking cycle. Each time, we saw muted volatility and consequently lower but still mostly positive excess returns. As volatility increased, we typically increased our risk-taking to take advantage of mispricings and deliver outsized returns. That's why the current environment is so exciting. There are opportunities we haven't seen in years, so it's a great time for security selection.





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