PM Spotlight: Focusing on Risk to Find Reward

Bryant VanCronkhite, CFA, CPA
Senior Portfolio Manager

From his early days as a CPA, **Bryant VanCronkhite** has always sought to identify risk and avoid surprises. His team at Allspring builds on that foundation in their approach to managing equity portfolios—applying a disciplined process that seeks excess returns over the long term.

Q: YOU HAVE A SOMEWHAT NONTRADITIONAL BACKGROUND FOR A PORTFOLIO MANAGER. HOW HAS YOUR CAREER EVOLVED?

A: My original ambitions were to become a chief financial officer and help run a business. I always loved the idea of making decisions that influence business outcomes, and I really enjoyed studying accounting in college. So, after completing my undergraduate and master's degrees in accounting, I passed the CPA exam and joined the accounting industry. That experience made me realize the work wasn't as enriching as I thought it would be.

I also picked stocks when I was in college. Investing in stocks intrigued me and motivated me to learn more, and that naturally opened a path to portfolio management. I joined Strong Capital Management, an Allspring predecessor, in the accounting department and quickly navigated my way to an investment team. That was in 2004, and I've been with the organization and on the same team ever since. Our team has built a process that reflects my early passion of understanding how companies make decisions and create value. It all came full circle, but in a way I didn't fully anticipate.

Q: DOES THAT ACCOUNTING EXPERIENCE INFLUENCE HOW YOU VIEW RISK AND OPPORTUNITIES?

A: My education and work in the accounting field adds value to how I analyze company data. However, and more importantly, it's about my appreciation for risk. I watch managers with more traditional backgrounds focusing on upside potential through stock selection and portfolio construction, but without the same level of respect for risk.

Our team is focused on ensuring that our clients are properly compensated for risk. That emphasis on risk permeates everything we do—from hiring team members to selecting stocks to building smart portfolios. Investment portfolios are exposed to a variety of types of risk. It's our job to take the right level of risk and the right kind of risk. In every aspect of our portfolio management, we aim for risk that's intentional, quantified, and compensated.

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Portfolios are dynamic, and unintentional outcome patterns can build quickly if not carefully monitored and mitigated through portfolio management. We don't control the economy or the direction of markets, but we should be able to control the outcome pattern within a certain environment, and that's what we focus on. Our risk mindset helps us do that.

Q: WHAT MAKES YOUR INVESTMENT PROCESS DISTINCTIVE?

A: One of the big differentiators is how we use a company's balance sheet to quantify the potential future value creation if the company were to optimize the capital structure over our multiyear holding period. The market, on the other hand, is narrowly focused on the company's income statement, which is a backward-looking financial statement. Looking forward through the balance sheet as opposed to backward through the income statement provides a differentiated perspective.

Starting with the company's asset base, we characterize its competitive advantage and paint a picture of how management could use their available balance sheet capacity to improve or grow the cash-flow-generating power of the business. For example, will they make acquisitions, or will they vertically integrate to improve margins? Will they invest in organic growth opportunities through research and development or capital expenditure? Or will they simply return capital through stock buybacks or dividends? Each option has a risk and reward profile. Ultimately, if we conclude the company's plan is credible and the market is undervaluing that optionality, it's an opportunity for us to create alpha through stock selection.

Q: HOW HAS THIS APPROACH WORKED HISTORICALLY IN THE RELATIVELY EFFICIENT MARKET OF LARGE-CAP STOCKS?

A: It's logical to believe that as a large company continues to grow, the next level of growth becomes more difficult. As you move up in market capitalization, there are fewer companies that can drive unique alpha. We accept that as the reality. As a result, we own fewer companies in our large-cap portfolio than we do in our mid-cap portfolio, and we own fewer in our mid-cap portfolio than in our small-cap portfolio. Overall, we look to hold enough names to diversify systemic risk, but not so many as to dilute our best ideas. We believe there will always be an opportunity to exploit the market inefficiency of mispriced balance sheets along the market-cap spectrum.

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Q: WHAT'S YOUR APPROACH TO MANAGING A TEAM?

A: We believe that hiring people and building the team is the riskiest thing we do, which says a lot for an investment team that holds risk allocation as the guiding principle for portfolio decision-making. The team's collaborative, inclusive, and risk-based culture is the foundation for arriving at good decisions and consistent execution of the investment process. To accomplish this, we work in a team-based approach to sector coverage. With multiple people covering the same sector, we create natural sounding boards and diverse perspectives. Importantly, everyone on the team is on two or three sector teams, allowing each sector team to have a more complete perspective of the entire supply chain all the way to the end customer for a given business. Aside from allowing us to make more informed decisions, it also creates research depth and expertise critical to our long-term stability.

Another critical element is our team's culture around purpose. Our team members know they have a material impact on the portfolios and, as a result, our clients' lives. These are intelligent and high-achieving investment professionals—their work is an important part of their lives. My observation is when you give meaning to your work, it's motivating and rewarding. The result is a sense of pride and purpose that unifies the team around a common goal. It fosters a healthy team environment and it also benefits clients by maintaining a consistent and stable team over the long term.

For further information

We want to help clients build for successful outcomes, defend portfolios against uncertainty, and create long-term financial well-being. To learn more, investment professionals can contact us.

Contact details

FOR U.S. INVESTORS ONLY

- To reach our intermediary sales professionals, contact your dedicated regional director, or call us at **1-866-701-2575**.
- To reach our institutional investment professionals, contact your existing client relations director, or contact us at **AllspringInstitutional@allspringglobal.com**.
- To reach our retirement professionals, contact your dedicated defined contribution investment only specialist, or call us at **+1-800-368-1370**.

FOR INTERNATIONAL INVESTORS ONLY

- To reach our Allspring International team, contact us at **AllspringInternational@allspringglobal.com**.

FOR SUSTAINABLE INVESTING

- To discuss sustainable investing solutions, contact **Henrietta Pacquement**, head of Sustainability, and **Jamie Newton**, deputy head of Sustainability, at **henrietta.pacquement@allspring.com** and **jamie.newton@allspringglobal.com**.