

March 3, 2022

EU Sustainable Finance Disclosure Regulation: Sustainability Risk Policy Statement

Introduction

This Sustainability Risk Policy covers our approach to incorporating sustainability risks in investment decision-making, per the requirements of the EU Sustainable Finance Disclosure Regulation (“SFDR”). Allspring Global Investments™ is the trade name for the asset management firms of Allspring Global Investments Holdings, LLC, a holding company indirectly owned by certain private funds of GTCR LLC and Reverence Capital Partners, L.P. It includes but is not limited to; Allspring Global Investments (UK) Limited (“Allspring UK”); Allspring Global Investments, LLC (“Allspring Investments”) and Allspring Global Investments Luxembourg S.A. (“Allspring Luxembourg”).

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This Sustainability Risk Policy statement describes the approach to sustainability risks adopted by the portfolio manager responsible for making the investment decisions.

The SFDR defines the terms “sustainability factors” as meaning “environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters”, and “sustainability risks” as meaning “an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment”.

Our approach to integrating sustainability factors and sustainability risks in our investment processes and decision-making is consistent with these terms and definitions.



We use the terms “sustainability factors” and “ESG issues” interchangeably in this policy statement as well as in our comprehensive document, Allspring’s approach to ESG and sustainable investing, available at allspringglobal.com.

We also use the terms “sustainability risks” and “ESG risks” interchangeably.

“Paris Agreement” has the same meaning as in Recital 2 of the SFDR.

Overview on sustainability risks

Integrating an analysis of ESG issues into our investment processes we believe enhances our ability to manage risk more comprehensively and generate sustainable, long-term returns for our clients. Systemic trends like climate change and the transition to a low carbon economy, widening income inequality, changing demographics, regulatory shifts and rapid technological change can influence risks and returns. Considering sustainability factors in our investment analysis helps evaluate these changes and their saliency to risks and returns, especially on a forward-looking basis, as financial markets react accordingly.

The integration of ESG issues is therefore crucial for risk management. It captures important issues that may result in investments or potential investments being mispriced and ultimately leads to better outcomes for our clients.

Our investment approach

Our investment offering is broad, with capabilities spanning equity, fixed income, alternatives and multi-asset solutions; and deep, with fundamental and systematic strategies. A majority of our diverse investment teams integrate ESG risks into their investment processes, in ways that are consistent with their asset classes and investment portfolio strategies, where appropriate, and in line with our commitments to clients.

The relevance and investment impact of different sustainability factors may vary depending on aspects such as the asset class, sector, geography, and local laws and regulations. Our investment teams leverage third-party data sources as well as internal tools and resources in integrating considerations of sustainability factors and related risks into their investment analysis. We outline examples of specific approaches below.

- **Fixed income:** The Allspring Global Credit Research Platform (GCRP) is the core of the fixed income platform. Teams using credit research draw upon this resource to provide insight and analysis for a wide range of global issuers. The GCRP’s proprietary research incorporates a comprehensive analysis of quantitative and qualitative factors including catalysts, drivers of change and ESG risk exposure and management through our in-house risk assessment framework, ESGiQ, and other processes.
- **Municipal fixed income:** The team incorporates analysis of ESG issues into their internal rating assessments and consideration of the relative value of securities. Allspring’s analytical research process for this asset class evaluates ESG issues from the perspective of sector-specific material



environmental and social factors, and governance factors across all sectors. To understand the long-term fundamental trajectory of an issuer, portfolio managers draw on analyst research to aid in decision making within each client portfolio.

- **Systematic fixed income:** The team has developed a systematic framework to integrate sustainability factors in our portfolio construction process, which helps us to understand and control for ESG risks, and to improve the long-term sustainability of our sovereign portfolios. The team utilises GCRP's extensive research for assessing the ESG risks associated with corporate issuers.
- **Fundamental equity:** Our specialised fundamental equity investment teams incorporate ESG risks into their portfolios by following their own approach to fundamental analysis. The fundamental equity investment teams integrate material ESG information into different aspects of their investment analysis, depending on their approach to fundamental analysis, including: industry analysis, assessing management quality, analysis of company strategy, or fair value analysis including adjustments to forecasted company financials such as sales or operating costs, or valuation model variables such as discount rates or terminal values. Additionally, direct contact with company management teams on a range of issues, including ESG issues, is an important component of their extensive independent fundamental research.
- **Systematic equity:** The systematic equity teams capitalise on ESG information, including carbon data, to derive complementary insights for their alpha models, risk models and for portfolio construction. The teams adopt a systematic approach to incorporating this information alongside other factors in their process ranging from purely systematic to more "quantamental" styles where appropriate. We meet a range of objectives customised to clients' preferences on the spectrum of ESG, carbon intensity, climate-alignment, tracking error, factor exposure and alpha. These efforts draw upon an array of internal resources and external data sets.
- **Multi-asset solutions:** The team takes into account broad ESG, or carbon and climate change issues from both top-down asset allocation and bottom-up security selection perspectives. Where (bottom-up) security selection is delegated to specialist teams, Allspring utilises the manager research team to select the most appropriate managers. From a top-down perspective, it has become generally accepted that climate change affects both economic variables, like growth and inflation, as well as asset returns and risks. As a result, the team designs an integrated framework to improve the long-term sustainability of our investment strategies while continuing to achieve the desired investment outcomes of our clients.

Three centralised functions provide additional resources for our investment teams across Allspring to assess and engage on sustainability risks:

- 01 **Independent risk management:** To support our investment teams, our Investment Analytics team incorporates ESG research and analysis into our independent risk management functions, thereby providing proprietary tools and services that help investment managers better understand the



sustainability risk profiles of investments.

02 Climate Change Working Group (“CCWG”): This cross functional group’s primary goal is to assess climate change impact on security value and portfolio risk, seeking to marry top-down, system-level climate risk analysis with bottom-up sector expertise with the aim of improving investment performance and helping clients achieve climate goals.

03 Stewardship: We believe stewardship goes hand-in-hand with our commitment to integrate analysis of ESG risks into our investment process. It encompasses both engaging with investee companies and voting proxies in a manner that we believe maximises the long-term value of our investments, including a focus on important sustainability factors. We have built a stewardship platform to reflect our values, and we express these from this platform.

These functions that provide Allspring with the tools and resources to support the investment teams in incorporating ESG risks are described in more detail in the three similarly named sub-sections that follow.

In addition to these functions that support the assessment of, and engagement on, sustainability risks, our dedicated Sustainable Investing team serves as a centralised strategy centre for Allspring’s sustainable investing approach, working in concert with investment teams and across the firm to put us in the best position to ensure successful client outcomes.

Independent risk management

Allspring’s Investment Analytics team provides a consistent framework for ESG risk monitoring and reporting. The Investment Analytics team supplements each investment team’s fundamental research with a number of ex-ante and ex-post tools and reports based on a proprietary flagging system that highlights the most significant ESG risks at both the investment and portfolio levels.

The ESG resources provided by Investment Analytics are intended to act as a catalyst for additional research and/or portfolio company engagement. As such, the responsibility for ESG risk management is a partnership between the Investment Analytics team and each of our investment teams.

In addition to the risk functions fulfilled by Investment Analytics, we have developed our own ESG scoring framework for corporates that we call “ESGiQ”. ESGiQ applies insights from our research analysts, leveraging the Sustainability Accounting Standards Board (SASB) materiality framework and building upon it to focus our analysis on sustainability issues most likely to affect a portfolio company’s financial or operating performance.

The ESGiQ methodology enhances data from third-party providers with our analysts’ in-depth sector knowledge and expertise. There are two main components of our assessment:

- A proprietary quantitative score distilled from multiple independent ESG datasets. Produced by Allspring’s Scientific Learning team, the numeric score leverages high quality ESG information from leading data providers to create a unique quantitative view, while enabling broader coverage than



that of a single provider.

- An in-house qualitative score generated from our analysts' assessment of ESG risk exposure, risk management and trend/outlook. Allspring Global Credit Research constructed this fundamental framework, and the assessment by our investment analysts complements vended data to ensure timeliness and capture trends.

Examples of environmental factors taken into account in our ESGiQ methodology include greenhouse gas emissions and energy, water management, hazardous materials and waste, and ecological impact, among others. Social factors considered include data security and privacy, community relations, labour practices and worker rights, and worker and operational safety, among others.

Our global fixed income platform leverages ESGiQ across their global investment grade and high yield coverage. Certain equity teams make use of ESGiQ in a manner appropriate for their investment portfolio strategies. We are currently building upon our experience and expanding our risk frameworks for sovereigns and other asset classes.

Climate change working group

We have created a cross-functional Climate Change Working Group (CCWG) that collaborates with our investment teams to integrate climate risks into research and investment decisions. The primary goal of the CCWG is to assess the impact of climate change on investment value and portfolio risks, marrying top-down, systemic climate risk analysis with bottom-up sector expertise with the aim of improving investment performance and helping clients achieve their climate goals.

Through the CCWG, we assess physical, transition, and liability risks at the issuer, industry, and portfolio levels. Our differentiated approach allows us to:

- Comprehensively evaluate climate risks in a singular process with top-down and bottom-up research across asset classes—an important consideration as responses to climate risks can diverge from a credit-versus-equity perspective.
- Integrate findings into investment decisions through a unified model that includes senior leaders from our investment and sustainable investing teams, working together with our portfolio managers and sector analysts.
- Evaluate negative and positive impacts with an understanding that, while climate change's worst effects may be significantly negative, a broad range of companies stand to benefit as society mobilises to contain climate risks.
- Share industry-level insights with clients through regular publications authored in partnership with our research and investment teams.

The CCWG has developed a Transition Framework (the Framework) that explicitly addresses corporate strategy, governance, and decarbonisation targets in the intermediate and long term. This allows us to consider issuers' alignment with the Paris Agreement and any industry commitments. At the same time, the Framework enables analysts to take account of transition-readiness of an issuer's asset position, operating capabilities, stakeholder relations strategies, and financial position. The Framework groups



risks into business and financial categories, facilitating integration into traditional credit and equity valuation.

Stewardship

Stewardship is an integral component of our investment process. In our engagement efforts, we focus on the risk and materiality of the sustainability factors brought forward by our own research, and by utilising the SASB materiality framework.

Importantly, the engagement approach involves both our fundamental analysts across equities and fixed income alongside our Stewardship Team to leverage the deep fundamental research and perspectives of our investment teams.

Read more about how we consider ESG issues and related risks within our proxy voting and engagement activities in our Adverse Sustainability Impacts statement and our [Proxy Voting Policy and Procedures](#) and [Engagement Policy](#) at allspringglobal.com.

Monitoring and oversight of sustainability risks

ESG risk oversight is an important role of senior investment leadership and we have built that into our longstanding risk review meetings: On a monthly basis, significant product-specific benchmark-relative ESG risk exposures as well as the firm's most significant exposures to securities with poor overall ESG scores are reviewed with the Office of the Chief Investment Officer (CIO). Further, on a quarterly basis, a dedicated ESG risk briefing meeting is held with the Office of the CIO. The function of the Office of the CIO is to oversee risk mitigation actions and to provide credible challenges to portfolio management teams to ensure portfolio positions are well understood and consistent with the investment team's stated process.

For more information on our approach to sustainable investing, please see [Allspring's approach to ESG and sustainable investing](#).