

# Allocations to a Unique Source of Alpha

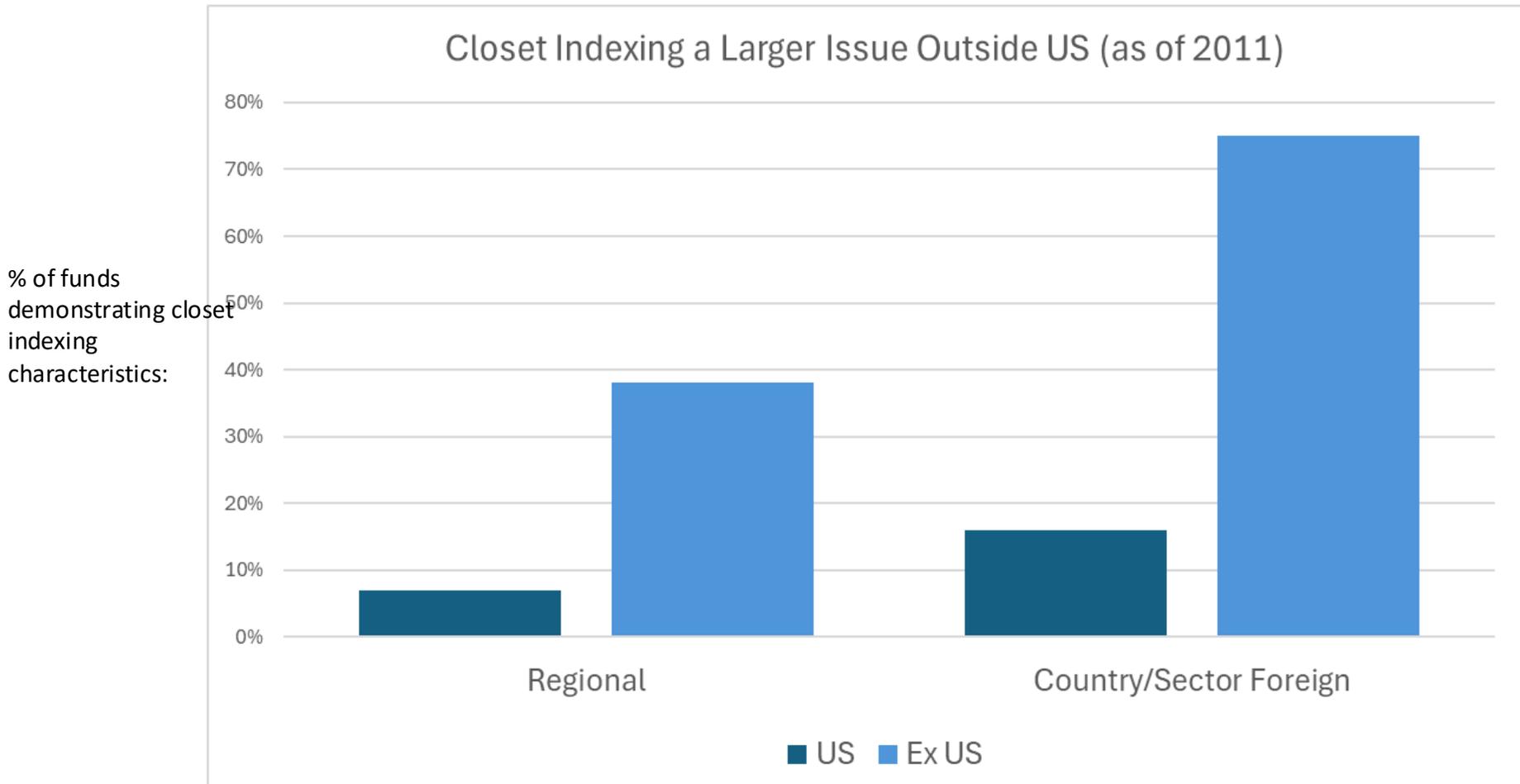
DEFINED BENEFIT PENSION FORUM | DECEMBER 2024

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December 6, 2024

# The Historical Battle Against Closet Indexing

“In many countries, investors are not given the option of paying lower fees for explicit passive management, but instead they pay higher fees and receive implicit passive management rather than receiving the benefits (and higher returns) from truly active management.” – 2011 Yale Study



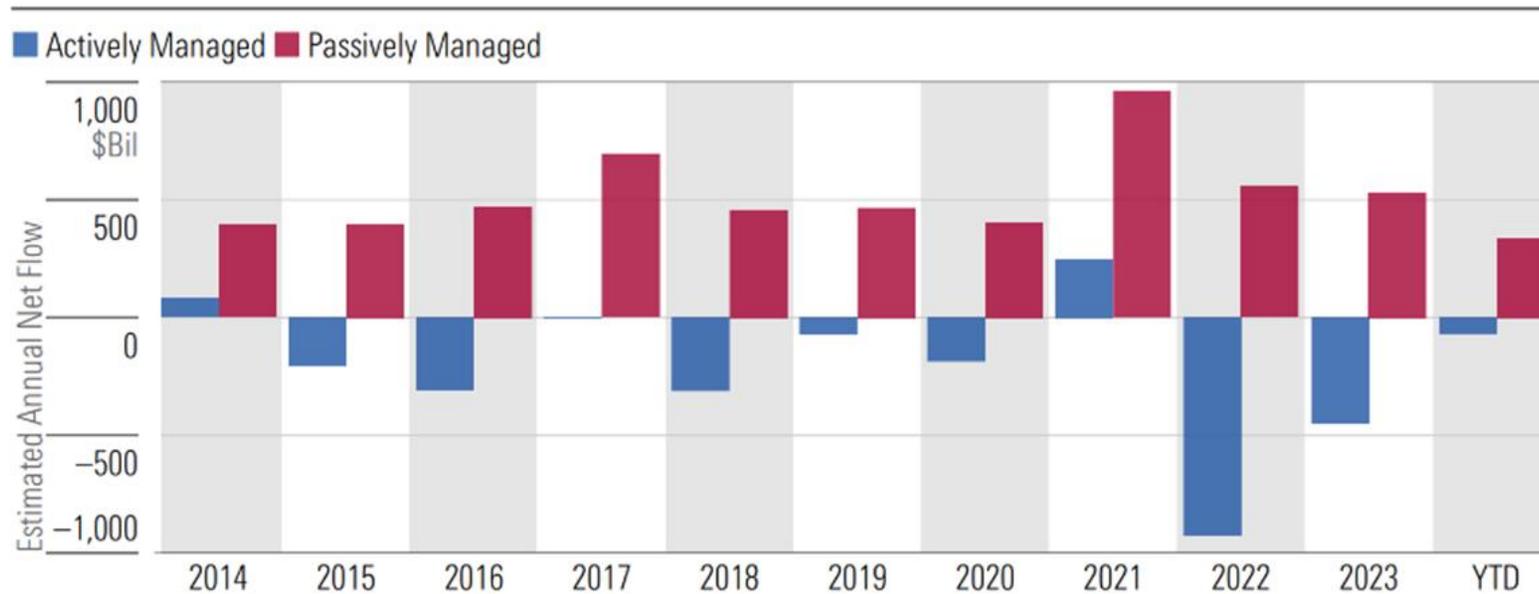
Source: The Mutual Fund Industry Worldwide: Explicit and Closet Indexing, Fees, and Performance, July 2011

[https://depot.som.yale.edu/icf/papers/fileuploads/2700/original/2011\\_CIF\\_WPS\\_The\\_Mutual\\_Fund\\_Industry\\_Worldwide\\_Explicit\\_and\\_Closet\\_Indexing\\_Fees\\_and\\_Performance\\_Cremers.pdf](https://depot.som.yale.edu/icf/papers/fileuploads/2700/original/2011_CIF_WPS_The_Mutual_Fund_Industry_Worldwide_Explicit_and_Closet_Indexing_Fees_and_Performance_Cremers.pdf)

# Sentiment Helped Fuel Active to Passive Rotation

In 2024, total assets in US passive mutual funds and ETFs surpassed those in active ones for the first time. Recent data reflects a bigger trend.

Passive funds have attracted more inflows than active funds for the past nine years, according to Morningstar [fund flow data](#).



Except for a brief period of inflows in 2021, actively managed funds have bled every year since 2014.

Elsewhere, passive long-term strategies aren't as well established. Outside of the United States, [passive strategies only make up 26%](#) of assets under management.

Source: Morningstar, The Ultimate Guide to Fund Flows as of May 31, 2024. <https://www.morningstar.com/views/research/fund-flows>.

# Closed End Funds – A Unique Source of Alpha

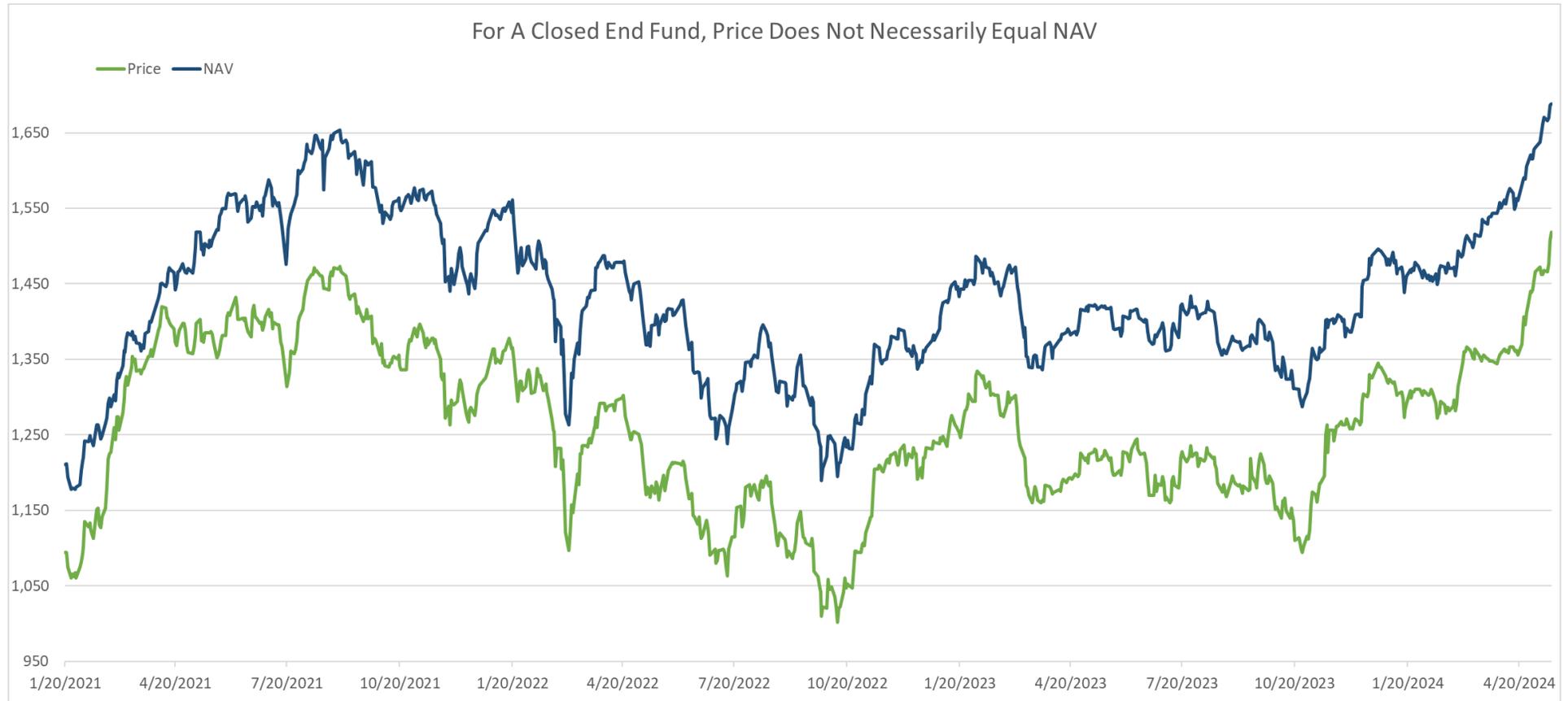
## **Traditional Sources of Alpha:**

- Active Sector Allocation
- Active Geographic Allocation
- Active Currency Allocation
- Active Factor Allocation
- Active Security Allocation

## **CEF Strategies Source of Alpha:**

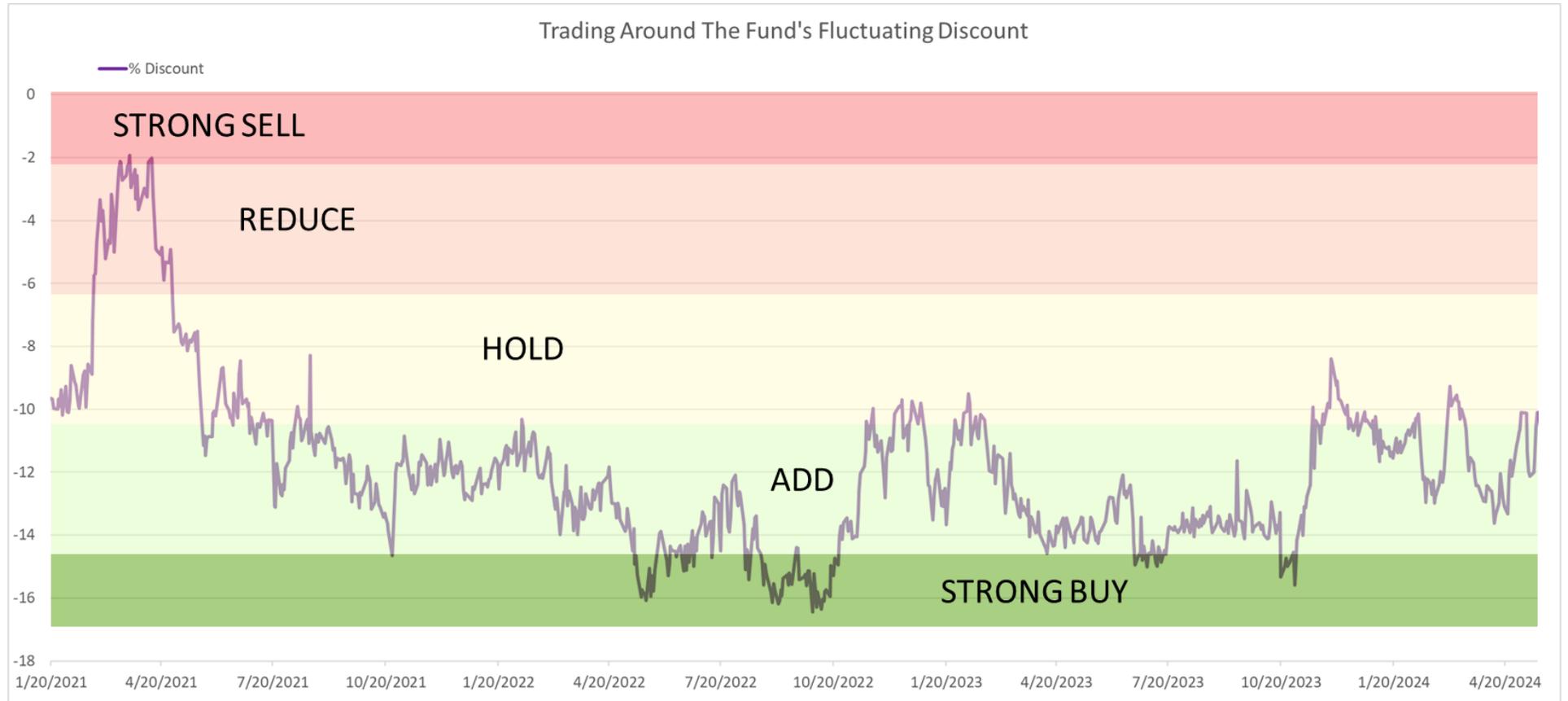
- Active Discount Rotation

# What is a Closed End Fund?



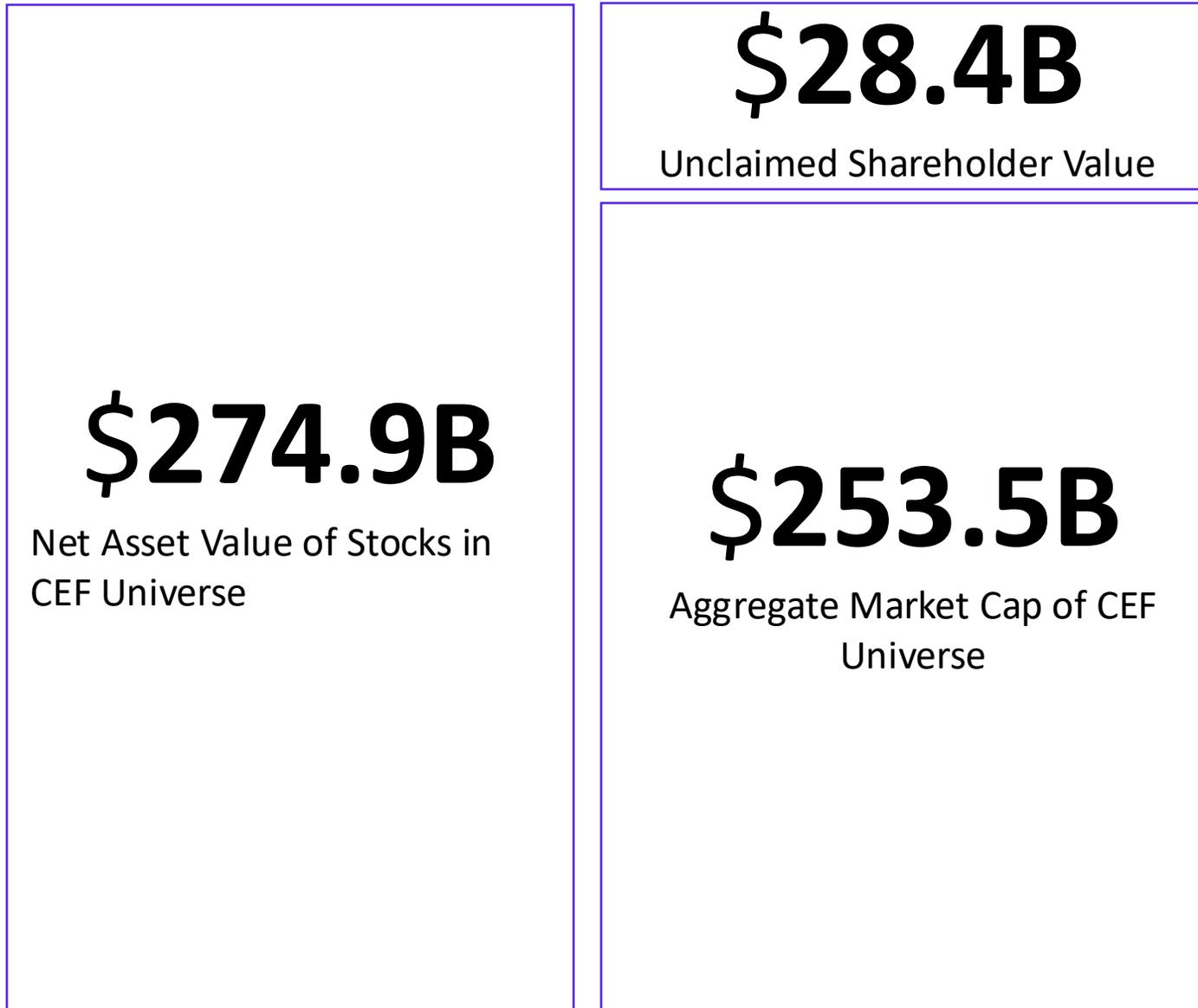
Source: Allspring. Allspring International Equity CEF strategy managed against the MSCI ACWI ex-U.S. Index. This information is based on a representative account within the respective Composite. The representative account has been selected by meeting the following criteria: 1) the account is in the respective Composite, 2) Allspring Global Investments represents that the holdings, characteristics, and risk profile are representative of the strategy/style of the respective Composite. Any changes to the representative account must be approved by Investment Analytics. For illustrative purposes only. **Past performance is not a reliable indicator of future results.**

# Discount Rotation Creates Alpha Tailwind



Source: Allspring. For illustrative purposes only.

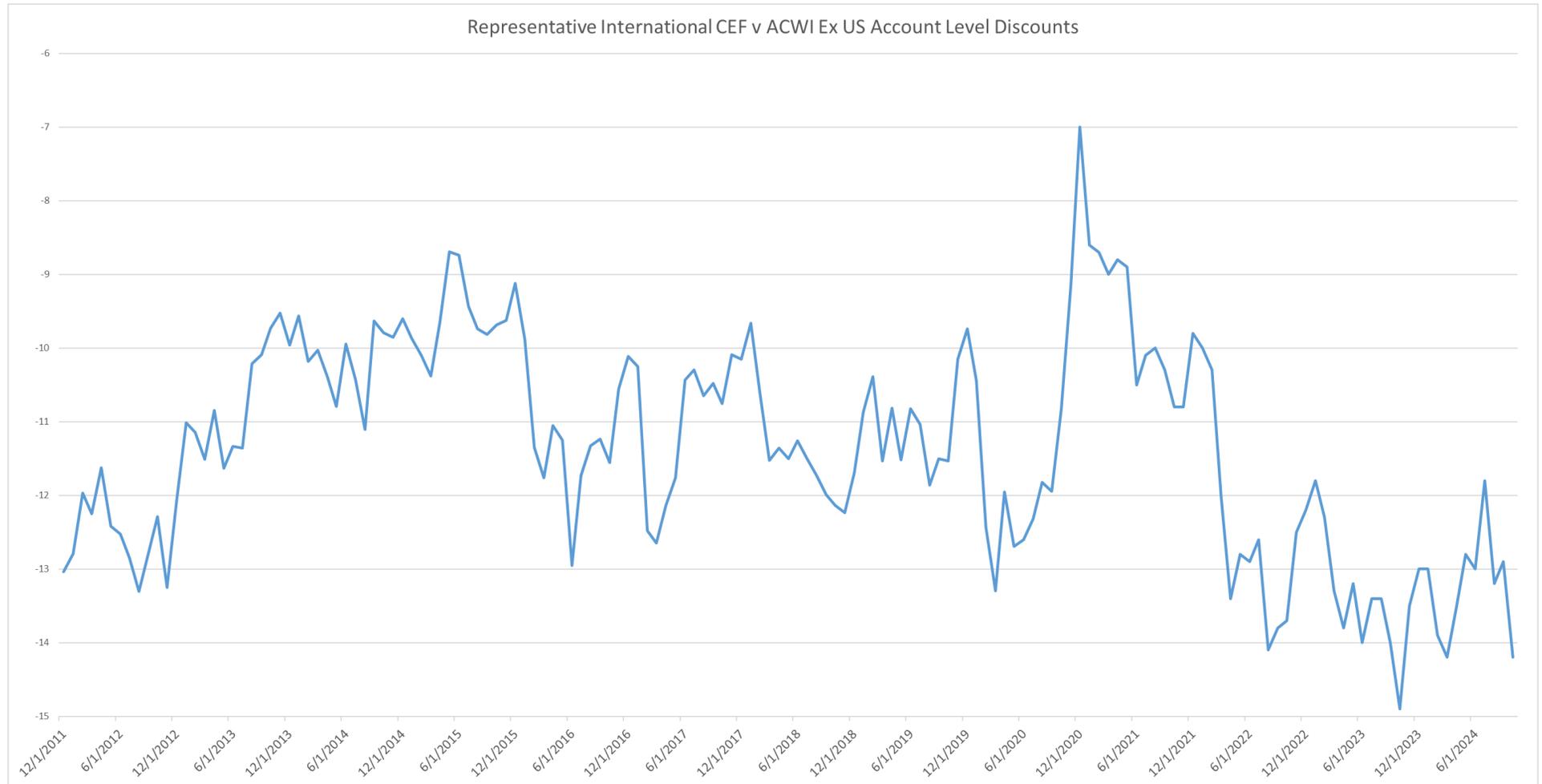
# The Opportunity in Closed End Funds



Source: Allspring Closed-End Fund Investment Team, data as of 10/31/2024.

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# The Opportunity in Closed End Funds



Source: Allspring. Allspring International Equity CEF strategy managed against the MSCI ACWI ex-U.S. Index. This information is based on a representative account within the respective Composite. The representative account has been selected by meeting the following criteria: 1) the account is in the respective Composite, 2) Allspring Global Investments represents that the holdings, characteristics, and risk profile are representative of the strategy/style of the respective Composite. Any changes to the representative account must be approved by Investment Analytics. For illustrative purposes only. **Past performance is not a reliable indicator of future results.**

# Closed End Funds – A Unique Result

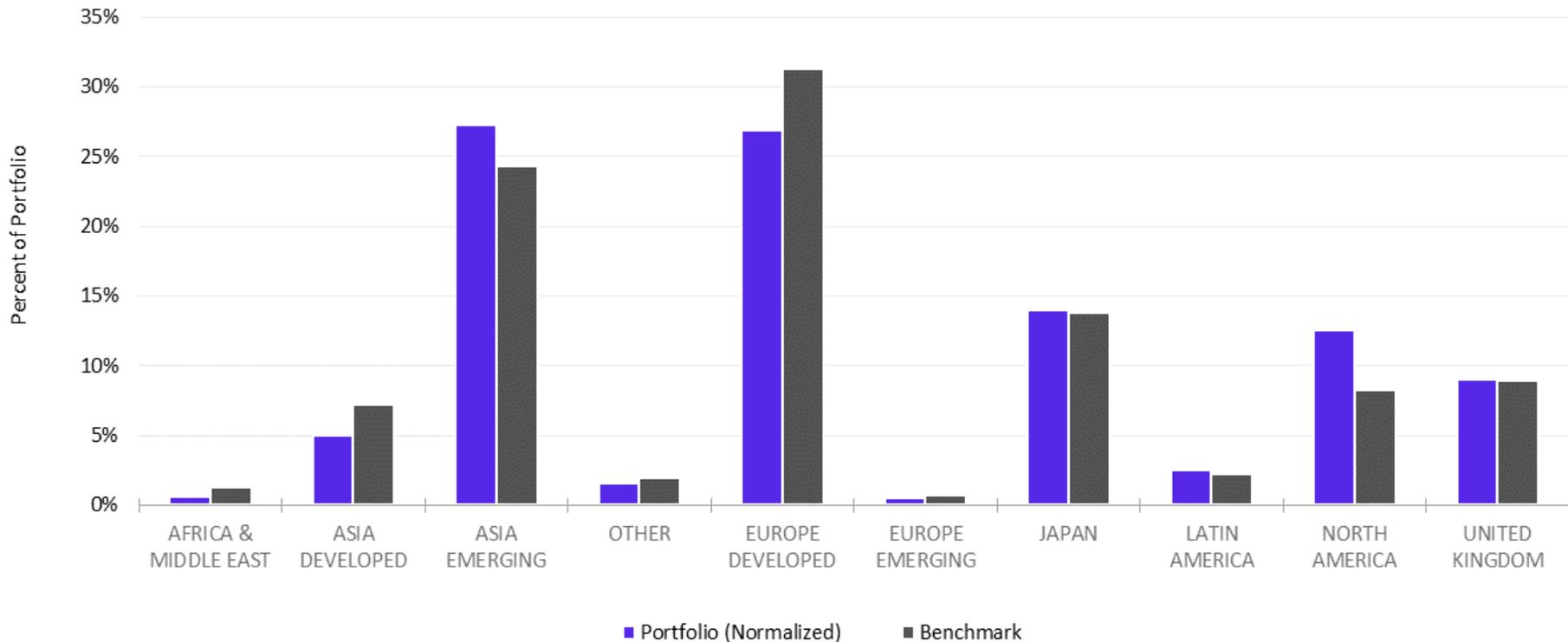
High Alpha Seeking - AND -

- Well Diversified Portfolio
- Low Tracking Error
- Beta +/- 1.0

# Closed End Funds – A Unique Source of Alpha

## Minimize Geographic and Currency Variables

Regional Exposure



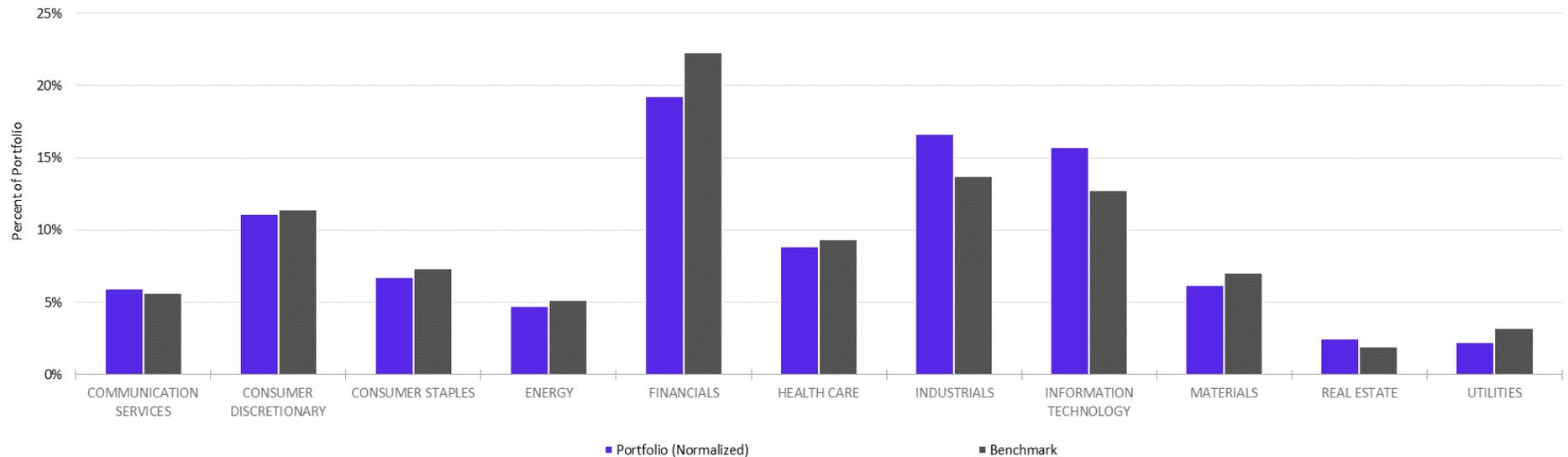
Allspring International Equity CEF strategy managed against the MSCI ACWI ex-U.S. Index.

Source: Allspring. This information is based on a representative account within the respective Composite. The representative account has been selected by meeting the following criteria: 1) the account is in the respective Composite, 2) Allspring Global Investments represents that the holdings, characteristics, and risk profile are representative of the strategy/style of the respective Composite. Any changes to the representative account must be approved by Investment Analytics.

# Closed End Funds – A Unique Source of Alpha

## Minimize Sector Variables

Sector Exposure (GICS Sectors)



Allspring International Equity CEF strategy managed against the MSCI ACWI ex-U.S. Index.

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# Closed-End Fund market profile

## Highly inefficient market with consistent arbitrage opportunities

- Limited Wall Street research coverage
- Few competitors
- Retail nature of CEF investors – driven by fear and greed
- Capacity constrained strategy
- Trading the discount basis

# Investment process

Proprietary quantitative model enhanced by experience and sound judgment

## Proprietary CEF scoring

- Estimated Real-time NAV
- Discount history measured by Z-scores
- NAV performance history of CEFs versus peers

## Qualitative research

- On-site due diligence visits with fund companies and portfolio managers
- Corporate actions which aim to reduce or eliminate discounts

# Investment process

## Opportunities for profit

### Mechanism for discount narrowing

- **Change of manager or mandate:** Boards/shareholders replace Manager with poor track record
- **Discount control management (DCM):** Manager targets specific discount, supports it through buying shares in open market
- **Extraordinary dividends and interval funds:** Manager pays dividend to shareholders at extraordinary times or buys shares at regular intervals to support share price
- **Open-ending:** Manager converts CEF to open-end mutual fund, allowing shareholders to redeem share at full NAV
- **Liquidation:** Board votes to liquidate all assets and gives proceeds to shareholders

# International Equity Closed-end Fund strategy

## Competitive advantages

### Unique source of alpha generation

- Inefficient market, discounts can be driven by fear and greed

### Repeatable investment process

- Discounts are volatile

### “Deep discount” investing

- Pay 85¢ for \$1.00 of assets

### Reactive rather than predictive investing

- Investment strategy is not based on forecasting or pro-forma estimates

### Structural advantages

- Stable pool of assets under management – CEF manager invests through the market cycle

### Sell discipline

- Clearly defined sell signal driven by discounts – sell near or above parity to Net Asset Value (NAV)

# Strategy profile: International Equity (International Equity MSCI ACWI ex-U.S. CEF Composite)

## Investment objective

Seeks to generate long-term outperformance and uncorrelated alpha versus the MSCI All Country World Index ex-US.

## Investment process summary

- We seek to exploit a consistent arbitrage opportunity in an inefficient CEF market.
- Employ a consistent and disciplined process that identifies and captures capital growth through investments in undervalued assets trading at discounts.
- Incorporate fundamental analysis of future investment potential, management quality and both absolute and relative attractiveness of each fund's current market price relative to net asset value.

## Benchmark

MSCI All Country World Index ex-US (Net)

## Inception date

October 1, 2009

## Strategy risks

### Market risk

Security markets are volatile and may decline significantly in response to adverse issuer, regulatory, political, or economic developments with different sectors of the market and different security types reacting differently to such developments.

### Equity securities risk

Equity securities fluctuate in value and price in response to factors specific to the issuer of the security, such as management performance, financial condition, and market demand for the issuer's products or services, as well as factors unrelated to the fundamental condition of the issuer, including general market, economic, and political conditions.

### Small cap securities risk

If a strategy invests in the securities of smaller-capitalization companies, these securities tend to be more volatile and less liquid than those of larger companies.

### Foreign securities risk

If a strategy invests in the securities of non-U.S. issuers, these investments may be subject to lower liquidity, greater price volatility, and risks related to adverse political, regulatory, market, or economic developments and may be affected by changes in foreign currency exchange rates.

*Investors should know that this strategy deployed may be subject to additional investment risks. For important information about the investment manager, please refer to Form ADV Part 2.*

# GIPS<sup>®</sup> composite report

## International Equity MSCI ACWI ex-U.S. CEF Composite

PERIOD	GROSS ANNUAL RETURN (%)	NET ANNUAL RETURN (%)	PRIMARY INDEX RETURN (%)	COMPOSITE 3 YR STD DEV (%)	PRIMARY INDEX 3 YR STD DEV (%)	INTERNAL DISPERSION (%)	NUMBER OF ACCOUNTS	COMPOSITE ASSETS (\$-MM)	TOTAL FIRM ASSETS (\$-MM)
2023	13.52	12.56	15.62	17.19	16.07	0.25	9	1,939.8	432,838
2022	-22.19	-22.86	-16.00	21.42	19.26	0.32	8	1,919.9	374,321
2021	8.98	8.07	7.82	18.54	16.79	0.15	8	2,254.6	483,747
2020	21.32	20.30	10.65	19.67	17.93	0.54	8	2,179.0	508,914
2019	25.68	24.64	21.51	12.19	11.34	0.25	8	1,590.7	419,579
2018	-13.64	-14.38	-14.20	12.54	11.38	0.05	10	1,748.6	371,582
2017	36.32	35.20	27.19	12.13	11.87	0.26	10	1,977.6	385,111
2016	2.56	1.69	4.50	11.97	12.51	0.22	10	1,328.9	330,718
2015	-1.65	-2.48	-5.66	11.08	12.13	0.40	11	1,524.2	349,342
2014	-0.42	-1.26	-3.87	12.29	12.81	N/A	10	1,118.3	351,065

Primary Index: MSCI All Country World ex-US (Net)

Source: Allspring Global Investments.

Allspring Global Investments (Allspring) claims compliance with the Global Investment Performance Standards (GIPS<sup>®</sup>) and has prepared and presented this report in compliance with the GIPS standards. Allspring has been independently verified for the periods January 1, 1997 - December 31, 2023. The verification reports are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

For the purpose of complying with GIPS, the GIPS firm is defined as Allspring. Since the GIPS firm's creation in 1996, the firm has acquired a number of investment teams and/or assets through mergers or acquisitions which include assets and/or investment teams from Wells Capital Management, EverKey Global Partners, Wells Fargo Asset Management (International) Limited, Analytic Investors, LLC, Golden Capital Management, LLC, Wells Fargo Asset Management Luxembourg S.A. and Wells Fargo Funds Management, LLC (WFFM).

The International Equity MSCI ACWI ex-U.S. CEF Composite (Composite) includes all discretionary accounts managed in this style. The strategy is a quantitative, model driven approach that is designed to capture the intrinsic value present within the highly inefficient closed-end fund marketplace. The investment team employs a fund of funds methodology to construct and manage a diversified portfolio of between 50-100 international equity closed-end funds representing more than 1,000 underlying companies, in both developed and emerging markets. The portfolio can invest up to 150% of the benchmark weight in emerging markets and no single fund can represent more than 10% of the total portfolio. Investment results are measured versus the MSCI All Country World ex-US (Net) Index. The Composite creation date is October 1, 2014. The Composite inception date is October 1, 2009.

Composite returns are net of transaction costs and non-reclaimable withholding taxes, if any, are expressed in U.S. dollars, and reflect the reinvestment of dividends and other earnings. Gross Composite returns do not reflect the deduction of investment advisory fees. Net Composite returns are calculated using a model investment advisory fee which is the maximum annual advisory fee based upon the fee schedule in effect during each respective performance period. Any changes to the fee schedule are reflected in the calculation of the net Composite returns beginning with the period in which the fee schedule is revised. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The Composite may contain accounts with performance-based fees. Allspring's fee schedules are available upon request and may also be found in Part 2 of Form ADV. The published fee schedule for this strategy is 85 basis points on all assets. The strategy is available via one or more pooled funds, which may have alternate fee schedules. The limited distribution pooled fund is Closed-End International Equity Fund, which has a highest management fee of 0.70% and a highest expense ratio of 0.72%. Additional information regarding Allspring's policies for valuing investments, calculating performance and preparing GIPS Composite Reports is available upon request. A list of composite descriptions, a list of limited distribution pooled fund descriptions, and a list of broad distribution pooled funds are available upon request.

Internal dispersion is the equal weighted standard deviation of the annual gross returns of all accounts included in the Composite for the entire year. For years where there are 5 or fewer accounts in the Composite for the entire year, dispersion is not presented as it is not a meaningful statistical calculation. The 3-year annualized standard deviation measures the variability of the gross Composite returns and the index returns over the preceding 36-month time period.

Index returns are provided to represent the investment environment existing during the time periods shown and are not covered by the report of independent verifiers. The MSCI All Country World ex-US (Net) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets, excluding the United States. For comparison purposes, the index is fully invested, which includes the reinvestment of income. The returns for the index do not include any transaction costs, management fees or other costs.

Actual performance results may differ from Composite returns, depending on the size of the account, investment guidelines and/or restrictions, inception date and other factors. Performance for some accounts in this Composite may be calculated by third parties that use different security pricing and performance methodologies. **Past performance is not indicative of future results.** As with any investment vehicle, there is always the potential for gains as well as the possibility of losses. GIPS<sup>®</sup> is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.



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