ETF Investment Solutions: 
Active Equity ETF Investing with a Systematic Investment Approach

CONTENTS
I. INVESTMENT BACKGROUND
   – What is the MFS Systematic Investment Approach?
   – Why are Systematic Equity ETFs Attractive Today?
II. THE SYSTEMATIC INVESTMENT PROCESS
   – How Does the MFS Systematic Investment Process Work?
III. INVESTING IN SYSTEMATIC EQUITY ETFs
   – Portfolio Construction with Systematic Equity ETFs
IV. ETF INVESTING
   – The SPDR MFS Systematic Growth Equity ETF [SYG]
   – The SPDR MFS Systematic Core Equity ETF [SYE]
   – The SPDR MFS Systematic Value Equity ETF [SYV]

I. INVESTMENT BACKGROUND
WHAT IS THE MFS SYSTEMATIC INVESTMENT APPROACH?
The MFS team that manages these funds strives to outperform the funds’ benchmark over a full market cycle by using a systematic combination of two independent, but complementary stock selection processes: fundamental research and quantitative research. Historically, fundamental and quantitative stock selection strategies have each tended to excel in different market environments, so the systematic combination of both types of research offers the potential to outperform indexes in a variety of markets. As illustrated in Figure 1, quantitative stock selection strategies tend to work best in stable, trending markets. On the other hand, fundamental strategies tend to be most fruitful around market inflection points. These two complementary sources of excess return combined with a locally-based global fundamental research team may lead to the ability to add value in a variety of market environments and improve portfolio efficiency over the long-run by exploiting the persistence of fundamental factors over time.

FIGURE 1: DIFFERENT APPROACHES BENEFIT FROM DIFFERENT ENVIRONMENTS
Fundamental median manager return (%) minus quantitative median manager return (%).

<table>
<thead>
<tr>
<th>Year</th>
<th>Quantitative Outperforms</th>
<th>Fundamental Outperforms</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>2.9</td>
<td>4.6</td>
</tr>
<tr>
<td>1998</td>
<td>0.4</td>
<td>1.5</td>
</tr>
<tr>
<td>2002</td>
<td>0.3</td>
<td>4.3</td>
</tr>
<tr>
<td>2006</td>
<td>1.4</td>
<td>0.7</td>
</tr>
<tr>
<td>2010</td>
<td>0.8</td>
<td>2.0</td>
</tr>
<tr>
<td>2013</td>
<td>3.7</td>
<td>4.8</td>
</tr>
</tbody>
</table>

Source: MFS, as of 9/30/2013.

Past performance is no guarantee of future results.

KEY POTENTIAL BENEFITS
The systematic investment approach applied to the SPDR MFS Systematic Equity ETFs seeks to offer the following benefits:

– Two complementary sources of excess return may lead to the ability to add value in a variety of market environments and improve portfolio efficiency.

– Increased potential for these funds to take advantage of inefficiencies in the market due to the combination of both quantitative and fundamental research.

– Funds may serve as core or satellite holdings for investors across a range of risk tolerances.
WHY ARE SYSTEMATIC EQUITY ETFS ATTRACTIVE TODAY?
US leading economic indicators in the latter half of 2013 appeared to point toward continuing—and perhaps accelerating—growth in the coming year, which would likely bode well for earnings growth. At the same time, correlations among stocks have decreased significantly, making the environment for active stock selection more conducive than in past years. As Figure 2 highlights, the 1-month correlation of stocks within the S&P 500 to one another now stands around historical averages. These conditions have historically opened up opportunities for active management to capitalize on volatility, exploit market inefficiencies and thereby outperform equity market indexes.

II. THE SYSTEMATIC INVESTMENT PROCESS
HOW DOES THE MFS SYSTEMATIC INVESTMENT PROCESS WORK?
The process begins with the fundamental and quantitative research groups each independently creating buy, hold or sell rankings. With equity analyst teams on the ground in offices on five continents, MFS is widely recognized for the quality of its fundamental research. As of December 31, 2013, MFS employed 84 fundamental research analysts and 8 quantitative analysts.

Divided into 8 global sector teams organized by regions and sectors, the MFS fundamental research group looks at multiple factors that affect the business prospects of individual companies and the industries in which they function—such as business model, management ability, competitive environment, and financial projections. Each stock is analyzed on a company, industry and valuation basis and then ranked as a buy, hold or sell. Portfolio construction begins with a fundamental screen selecting only those securities rated “buy” or “hold” by MFS’ fundamental research team. In the next step, a quantitative screen is applied; this process utilizes a proprietary multi factor model to assign a score to each security. During the final step, the quantitative scores are converted into expected return figures and these expected returns are used to optimize the portfolio to benchmark risk parameters. The final portfolio will hold between 40–55 securities. Leading the efforts for the three systematic equity ETFs are three of MFS’ most seasoned portfolio managers, each with 17 or more years of industry experience.

CORRELATION

Correlation measures the relationship between two variables over a defined period of time. Equities correlation describes the average pair-wise correlation of the S&P 500 Index constituents over rolling time periods. This measure is derived by arranging the correlations of all stocks on a correlation matrix that shows all possible combinations, or pair-wise correlations, of the 500 stocks and taking the average of those pairs. This measure allows for a large data set of correlations to be interpreted as a single figure, making it possible to test what the level of correlation is across the S&P 500.

III. INVESTING IN SYSTEMATIC EQUITY ETFs
PORTFOLIO CONSTRUCTION WITH SYSTEMATIC EQUITY ETFs
SPDR MFS Systematic Equity ETFs may serve as core or complementary holdings for investors across a range of risk tolerances. The two complementary sources of alpha make these funds well suited to serve as a core holding for investors and may benefit from the best of fundamental and quantitative research. For investors with a moderate risk tolerance who are disposed toward passive management, for example, a modest allocation to one or more systematic equity ETFs may serve as a complement to core passive holdings—offering the potential to outperform large-cap equity benchmarks with only a modest commitment on the investor’s part. On the other hand, clients with a greater risk tolerance, and more comfort with active management, may want to consider a core position in one or more systematic equity ETFs, as a means to potentially exploit market volatility and inefficiencies during the US economic recovery.
IV. ETF INVESTING

SPDR MFS SYSTEMATIC GROWTH EQUITY ETF [SYG], SPDR MFS SYSTEMATIC CORE EQUITY ETF [SYE] AND SPDR MFS SYSTEMATIC VALUE EQUITY ETF [SYV]

The SPDR MFS Systematic Equity ETFs are a trio of actively managed, large cap US equity ETFs offered by SPDR ETFs and sub-advised by MFS Investment Management. They seek to offer investors the low cost, liquidity and transparency of a SPDR ETF combined with active stock selection by a widely recognized leader in investment research and portfolio management.

Each fund will invest in approximately 40–55 stocks selected from their respective investment universes.

The SPDR MFS Systematic Growth Equity ETF [SYG] is benchmarked to the Russell 1000 Growth Index. The SPDR MFS Systematic Core Equity ETF [SYE] is benchmarked to the S&P 500 Index. The SPDR MFS Systematic Value Equity ETF [SYV] is benchmarked to the Russell 1000 Value Index.

MFS Systematic Equity ETFs seek capital appreciation by applying a consistent, disciplined bottom-up stock selection and portfolio construction process with the goal of generating consistent, long-term risk-adjusted performance.
ALL DATA IS AS OF THE DATES STATED ABOVE AND WILL CHANGE OVER TIME.

FOR PUBLIC USE.

IMPORTANT RISK INFORMATION

ETFs trade like stocks, fluctuate in market value and may trade at prices above or below the ETFs' net asset value. Brokerage commissions and ETF expenses will reduce returns.

The Fund is actively managed and may underperform its benchmarks. An investment in the fund is not appropriate for all investors and is not intended to be a complete investment program. Investing in the fund involves risks, including the risk that investors may receive little or no return on the investment or that investors may lose part or even all of the investment.

Actively managed ETFs do not seek to replicate the performance of a specified index.

Risk associated with equity investing include stock values which may fluctuate in response to the activities of individual companies and general market and economic conditions.

Returns on investments in stocks of large U.S companies could trail the returns on investments in stocks of smaller and mid-sized companies.

(SYE) and (SYV) may emphasize a value style of investing that emphasizes undervalued companies with characteristics for improved valuations, which may never improve and may actually have lower returns than other styles of investing or the overall stock market.

(SYE) and (SYG) may emphasize a growth style of investing. The market values of growth stocks may be more volatile than other types of investments. The prices of growth stocks tend to reflect future expectations, and when those expectations change or are not met, share prices generally fall. The returns on growth securities may or may not move in tandem with the returns on other styles of investing or the overall stock market.

There can be no assurance that a liquid market will be maintained for ETF shares.

Because of their narrow focus, financial sector funds tend to be more volatile. Preferred Securities are subordinated to bonds and other debt instruments, and will be subject to greater credit risk. The municipal market can be affected by adverse tax, legislative or political changes and the financial condition of the issuers of municipal securities. The fund may contain interest rate risk (as interest rates rise bond prices usually fall); the risk of issuer default; inflation risk; and issuer call risk. The Fund may invest in US dollar-denominated securities of foreign issuers traded in the United States.

Frequent trading of ETFs could significantly increase commissions and other costs such that they may offset any savings from low fees or costs.

Diversification does not ensure a profit or guarantee against loss.

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