

# State Street ETF Model Portfolios

- Global equity markets recovered strongly in the second quarter of 2020 as concerns surrounding the COVID-19 pandemic weakened, and markets discounted the immediate economic fallout, pricing for a strong economic recovery
- Global equities were up 5.9% over the quarter and are up over the last 12 months delivering a positive 5.2% return<sup>1</sup>
- The State Street ETF Model Portfolios are designed with varying objectives to deliver strong risk-adjusted returns over the long term through multi-asset allocation

---

## The Market in Review

The global economy suffered from an unprecedented shock in March and April driven by government-imposed lockdowns to contain the spread of COVID-19. Policy makers responded with substantial, broad-based fiscal and monetary stimulus to support affected workers and businesses in record time. The May economic data results suggest this stimulus support and re-opening business plans are working, with the economic recovery underway.

Risk assets saw a rebound starting in April on the back of unprecedented fiscal and monetary support. Oil prices rallied back sharply from the lows recorded early in the second quarter of 2020, with demand improving and coordinated supply cuts by OPEC+ countries. Additionally, government bond yields of developed markets stabilised at low levels with the accommodative quantitative easing programmes of central banks. This activity also supported a stable backdrop for global equity markets.

The geo-political tensions between the United States (US) and China over Hong Kong and concerns around the further impacts of COVID-19 pose a risk for a smooth economic recovery. As countries ease lockdown measures, the disease may regain traction, forcing affected economies into a second lockdown.

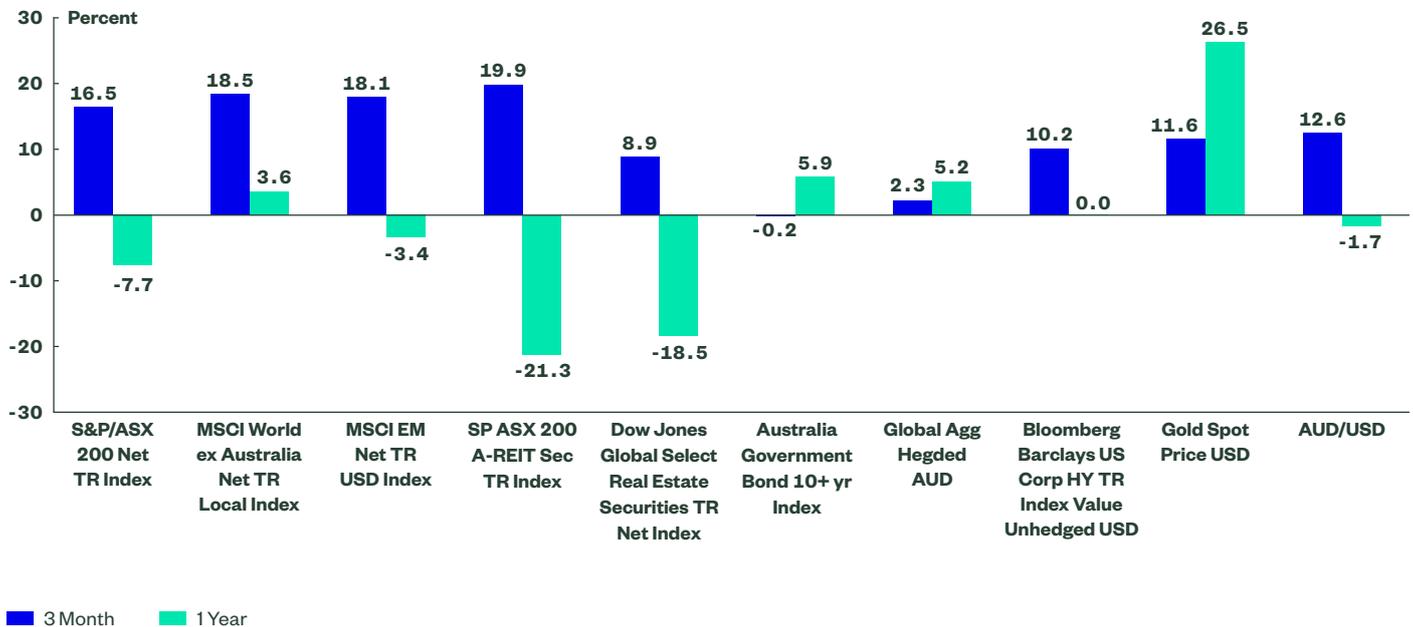
Overall, the impacts from COVID-19 will not be permanent with the expectation for improved economic growth in 2021. The re-opening push has begun globally, but the path forward is likely to be turbulent with the potential of a second wave and a phased approach that limits the capacity for businesses allowed to re-open. However, the data suggests activity is picking up with a rise in the number of mortgage applications, an increase in mobility and an uptick in railroad traffic. Further, the recent improvements in employment suggest businesses are re-hiring. This coupled with the unprecedented amount of stimulus and commitment from

central banks, to improve the functioning of markets and support economic growth, aids the recovery. With risky assets posting positive returns in the second quarter, further evidence of economic recovery is required to support continued growth for risky assets.

## Asset Class Performance<sup>2</sup>

- **US equities** had a positive quarter, up 21.6%<sup>3</sup>
- **Asia-Pacific** equities were also positive, up 11.7%<sup>4</sup> with Japan closely behind, up 11.5%<sup>5</sup>
- **European equities** delivered positive returns and were up 13.1%<sup>6</sup> for the quarter
- **Australian equities** were positive for the quarter, up 16.5% outperforming Europe and Asia-Pacific<sup>7</sup>
- **Emerging markets** were positive for the quarter, up 16.7%<sup>8</sup>
- **Global bonds** experienced positive returns over the quarter<sup>9</sup>
- **Australian bonds** experienced marginally positive returns over the quarter<sup>10</sup>
- Investors experienced positive returns in global **corporate bonds** with spreads tightening significantly over the quarter<sup>11</sup>
- **Cash** in the Australian money market returned a stable 0.1% for the quarter<sup>12</sup>

Figure 1  
Major Asset Class Performance (%)



Source: As of 30 June 2020, Bloomberg Finance L.P, MSCI. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. The index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. Past performance is not a reliable indicator of future performance.

---

## Positioning and Hypothetical Model Portfolio Performance\*

---

### State Street Risk-Based ETF Model Portfolios

For the second quarter of 2020 growth assets performed strongly with central banks intervening to support the economy and market. Australian equities returned over 16% for the quarter resulting in this asset class being the main contributor to the risk-based portfolios overall performance.<sup>13</sup> International equities also provided positive returns although to a lesser extent. The value and minimum volatility exposures slightly underperformed the market cap index with continued underperformance for value stocks and minimum volatility stocks missing out on the market rally. However, the smart beta exposure still contributed positively to the portfolio's performance and with heightened uncertainty and relatively high levels of market volatility, these factors moderated the overall risk of the portfolios for the quarter. For emerging market equities this sector also provided positive returns for the quarter, specifically in June with emerging markets rallying as their economies reopened ahead of schedule. Australian Credit also positively contributed to the portfolios performance with positive returns of around 1.5% for this sector.<sup>13</sup>

**State Street Moderate ETF Model Portfolio.** The moderate model portfolio seeks to provide optimal capital efficiency over a long-term horizon. The portfolio is designed to generate a moderate amount of capital growth along with some income exposures to both defensive and growth assets.

**Overall performance of the hypothetical model portfolio for the quarter was positive, up 5.4%.**

**State Street Balanced ETF Model Portfolio.** The balanced model portfolio seeks to provide optimal capital efficiency over a long-term horizon. The portfolio is designed to provide capital growth while taking a modest amount of risk with exposures across both defensive and growth assets although more heavily weighted to the latter.

**Overall performance of the hypothetical model portfolio for the quarter was positive, up 6.2%.**

**State Street Growth ETF Model Portfolio.** The growth model portfolio seeks to provide optimal capital efficiency over a long-term horizon. The portfolio is designed to predominantly focus on capital growth with exposures weighted to growth assets although it does have exposures to defensive assets.

**Overall performance of the hypothetical model portfolio for the quarter was positive, up 7.1%.**

---

### State Street Target Income ETF Model Portfolio

The income model portfolio is designed with an income objective that is determined on an annual basis. For the 2019/2020 financial year the portfolio aims to target, before expenses, an income objective of 4% per annum. The portfolios total return for the quarter was approximately 6%. This performance is attributed to a strong recovery across growth assets, particularly Australian equities with the Australian high dividend yield strategy returning over 16% for the quarter.<sup>13</sup> The international equity performance was marginally negative for the quarter, suffering from currency effects and the underperformance of yield stocks relative to the broader market.

---

Overall, the income proportion of total return for the quarter was positive at 1.33%. However, equity yield was significantly impacted through the quarter as many companies cut dividends in light of the COVID-19 crises and this flowed through to the underlying ETF distributions. Not only did all four banks reduce or defer dividends, but BHP and Wesfarmers also had lower dividends in the first half of 2020, impacting the portfolios ability to generate yield.

High yield hedged to AUD returned over 9% for the quarter and provided stable yield as did the Australian credit exposure in the portfolio which had a total return in the range of 1.5%.<sup>13</sup> For the cash yield this was impacted by the record low interest rates, cash yielded approximately 85bps for the previous 12 months — demonstrating the yield scarcity of the environment we are currently in.<sup>13</sup>

---

**Model Portfolio Performance presented is hypothetical and has been provided for illustrative purposes only, it does not reflect the results of the actual trading of any account or group of accounts and actual results could differ substantially.**

The hypothetical State Street ETF Model Portfolio Total Returns are the sum of Growth Return and Distribution Return, and reflect the investment strategy decisions made by State Street's investment professionals for each performance period presented. Returns greater than one year are annualised. The hypothetical model portfolio performance was achieved by mathematically combining the actual performance data of the underlying ETFs multiplied by the hypothetical model portfolio weights allocated to each ETF on a monthly basis. The performance assumes that all dividend distributions paid by the underlying ETFs were reinvested and is calculated gross of trading fees but does not reflect spreads or broker commissions for the hypothetical sale and purchase of the underlying ETFs or any other fees which would be charged by the product provider.

State Street has chosen to use the actual historic performance of the underlying ETFs rather than the underlying ETFs index performance to ensure that the model portfolios reflect as closely as possible of any actual investments that follow the model portfolio strategy, by reflecting differences such as tracking error of the underlying ETFs relative to the underlying ETFs indices.

Limitation of hypothetical results: Hypothetical results have inherent limitations because they do not reflect actual trading by State Street during the period described and may not reflect the impact that material economic and market factors might have had on State Street's decision-making if it was actually managing clients' money pursuant to the strategies. There is no guarantee that any of the investment strategies will be successful and investors should be aware that they can lose money investing assets in accordance with the strategies.

---

## Endnotes

- |   |   |    |   |
|---|---|----|---|
| 1 | According to MSCI World ex Australia Net Total returns in AUD. Index returns reflect capital gains and losses, income, and the reinvestment of dividends. Past performance is not a reliable indicator of future performance.   | 6  | Source: MSCI Europe Net Total Return Local Index.                                     |
| 2 | All returns as at 30 June 2020. Index returns reflect capital gains and losses, income, and the reinvestment of dividends. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. The index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. Past performance is not a reliable indicator of future performance. | 7  | Source: S&P/ASX 200 Net Total return Index.   |
| 3 | Source: MSCI USA Net Total return Local Index.  | 8  | Source: MSCI EM Net Total return Local Index.   |
| 4 | Source: MSCI Pacific Net Total return Local Index.  | 9  | Source: Bloomberg Barclays Global Aggregate Total Return Hedged AUD Index.            |
| 5 | According to MSCI Japan Net Total return Local Index.   | 10 | Source: S&P/ASX Australian Fixed Interest — Total Return Index.                       |
|   |   | 11 | Source: Bloomberg Barclays Global High Yield Total Return Index Value Unhedged index. |
|   |   | 12 | Source: Bloomberg AusBond Bank Bill Index.  |
|   |   | 13 | Source Bloomberg Finance L.P. as at 31 May 2020.                                      |

## ssga.com/etfs

**Issued by State Street Global Advisors, Australia, Limited** (ABN 42 003 914 225) ("SSGA Australia") the holder of an Australian Financial Services Licence (AFSL Number 238276). Registered office: Level 14, 420 George Street, Sydney, NSW 2000, Australia. T: +612 9240-7600. F: +612 9240-7611. Web: ssga.com.

The recipient warrants by receipt of this material that they are a wholesale client, as defined under the Australian Corporations Act 2001 (Cth). State Street Global Advisors, Australia Limited (AFSL Number 238 276, ABN 42 003 914 225). ("SSGA, AL") is the investment manager for the State Street ETF Model Portfolios and State Street Global Advisors, Australia Services Limited (AFSL number 274900 ABN 16 108 671 441) is the Responsible Entity and issuer of units in the State Street SPDR ETFs which are Australian registered managed investment schemes quoted on the AQUA market of the ASX or listed on the ASX. State Street ETF Model Portfolios may include State Street SPDR ETFs and other third party ETFs. This material is general information only and does not take into account your or your client's individual objectives, financial situation or needs and you should consider whether it is appropriate for you or your client. You should ensure that your clients consider the product disclosure document of the underlying ETFs, available at ssga.com or the third party ETFs website, before deciding whether to acquire or continue to hold units in an ETF.

**General Risks:** ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETF's net asset value. ETFs typically invest by sampling an index, holding a range of securities that, in the aggregate, approximates the full index in terms of key risk factors and other characteristics. This may cause the fund to experience tracking errors relative to performance of the index. Investing involves risk including the risk of loss of principal. Diversification does not ensure a profit or guarantee against loss. Asset Allocation is a method of diversification which positions assets among major investment categories. Asset Allocation may be used in an effort to manage risk and enhance returns. It does not, however, guarantee a profit or protect against loss.

An investment in the model portfolio carries a number of standard investment risks; these risks are outlined in each Provider's PDS which should be read in full and understood by the potential investors.

**Implementation Risk:** State Street does not manage the accounts of retail investors pursuant to the model portfolio strategies and the strategies are only available to retail investors through various Providers that offer account management and other services to retail investors. The actual results of accounts managed by a Provider that receives access to the strategies may differ substantially from the hypothetical results of the State Street ETF Model Portfolios for a variety of reasons, including but not limited to:

- the fees assessed by the Provider and other third parties;
- the Provider's decision to exercise its discretion to implement a given strategy in a way that differs from the information provided by State Street;
- the timing of the Provider's implementation of strategy updates; and
- investor imposed investment restrictions; and the timing and nature of investor initiated cash flow activity in the account.

The views expressed in this material are the views of the SSGA Investment Solutions Group (ISG) through the period ended 31 March 2020 and are subject to change based on market and other conditions. This document may contain certain statements deemed to be forward-looking statements. All statements, other than historical facts, contained within this document that address activities, events or developments that SSGA expects, believes or anticipates will or may occur in the future are forward-looking statements. These statements are based on certain assumptions and analyses made by SSGA in light of its experience and perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate in the circumstances, many of which are detailed herein. Such statements are subject to a number of assumptions, risks, uncertainties, many of which are beyond SSGA's control. Please note that any such statements are not guarantees of any future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

Characteristics are as of the date indicated, subject to change, and should not be relied upon thereafter. Projected characteristics are based upon estimates and reflect subjective judgments and assumptions. There can be no assurance that developments will transpire as forecasted and that the estimates are accurate. Investing involves risk including the risk of loss of principal. Diversification does not ensure a profit or guarantee against loss. Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates rise, bond prices usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss. International Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns. Investments in asset backed and mortgage backed securities are subject to prepayment risk which can limit the potential for gain during a declining interest rate environment and increases the potential for loss in a rising interest rate environment. Investing in commodities entail significant risk and is not appropriate for all investors. Commodities investing entail significant risk as commodity prices can be extremely volatile due to wide range of factors. A few such factors include overall market movements, real or perceived inflationary trends, commodity index volatility, international, economic and political changes, change in interest and currency exchange rates. Standard & Poor's and S&P are registered trademarks of Standard & Poor's Financial Services LLC ("S&P") and Dow Jones is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones") and have been licensed for use by S&P Dow Jones Indices LLC and sublicensed by SSGA. The S&P/ASX indices are a product of S&P Dow Jones Indices LLC, and has been licensed by SSGA. The SSGA strategies contained within are not sponsored, endorsed, sold or promoted by S&P Dow Jones Indices LLC, Dow Jones, S&P, their respective affiliates, and none of S&P Dow Jones Indices LLC, Dow Jones, S&P, nor their respective affiliates make any representation regarding the advisability of investing in such product(s).

MSCI indices are the exclusive property of MSCI Inc. ("MSCI"). MSCI and the MSCI index names are service mark(s) of MSCI or its affiliates and have been licensed for use for certain purposes by State Street Global Advisors ("SSGA"). The financial securities referred to herein are not sponsored, endorsed, or promoted by MSCI, and MSCI bears no liability with respect to any such financial securities. No purchaser, seller or holder of this product, or any other person or entity, should use or refer to any MSCI trade name, trademark or service mark to sponsor, endorse, market or promote this product without first contacting MSCI to determine whether MSCI's permission is required. Under no circumstances may any person or entity claim any affiliation with MSCI without the prior written permission of MSCI. BLOOMBERG and BLOOMBERG INDEXES are trademarks or service marks of Bloomberg Finance L.P. Bloomberg Finance L.P. and its affiliates ("collectively, "Bloomberg") or Bloomberg's licensors own all proprietary right in the BLOOMBERG INDEXES. This material is of a general nature only and does not constitute personal advice. It does not constitute investment advice and it should not be relied on as such. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. We encourage you to consult your tax or financial advisor. There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information. Past performance is not a reliable indicator of future performance. The information contained in this document is for information purposes only. SSGA Australia and SSGA, ASL, its employees, directors and officers accept no liability for this information or any consequences from its use. No person or entity should act on the basis of any information contained in this document without taking appropriate professional advice. The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without SSGA Australia's express written consent.

© 2020 State Street Corporation.  
All Rights Reserved.  
251552-3157444.11.ANZ.INST 0720  
Exp. Date: 31/10/2020