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Systematic Active Fixed Income Climate strategies

**Integrating sustainability considerations within
a systematic fixed income framework**

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Executive summary

In this paper, we compare two of the systematic active fixed income (SAFI) strategies we offer; a climate- and sustainability aware-themed investment grade (IG) corporate bond strategy (“SAFI Climate”), and a standard SAFI investment grade corporate bond strategy that does not incorporate any sustainability objectives (“SAFI”).

Our analysis reveals the following:

- The US and the EUR SAFI Climate portfolios have nearly identical key characteristics to their standard counterparts in terms of rating, duration, yield, and other criteria.
- Compared with the standard SAFI Strategy, as of June 30, 2026, SAFI Climate’s largest sector differences in the EUR universe are overweights in Banking (+3.00%) and Consumer Non-Cyclicals (+2.92%), and underweights in Communications (-3.00%), Energy (-2.95%) and Natural Gas (-1.95%). In the US universe, the largest differences are overweights in Capital Goods (+3.0%), Banking (+1.89%) and Brokerage (+1.43%), and underweights in Technology (-10.42%) and Energy (-5.95%).
- SAFI Climate allows investors access to the same diversification relative to fundamental actively-managed portfolios as the SAFI strategies, while allowing investors to incorporate specified sustainability criteria into their portfolios.

Our analysis suggests that climate criteria can be incorporated into the SAFI framework with limited impact on historical key portfolio characteristics and risk-adjusted returns.

Strategy profile: SAFI Climate

The SAFI Climate Strategy is designed to reduce exposure to issuers with higher carbon emissions and fossil-fuel-related activities relative to a market-weighted corporate bond index by reallocating capital towards companies better positioned to manage the risks associated with climate change. In addition, the strategy applies exclusionary screens based on adherence to certain international norms and product involvement criteria.

The SAFI Climate Strategy aims to achieve several key objectives relative to the benchmark across six categories of climate-related metrics (Figure 1). These sustainability objectives come in addition to the primary objective of seeking outperformance (alpha) over the benchmark. They are embedded into portfolio construction alongside the traditional SAFI security-level factor scores and multiple risk management considerations. Learn more about the SAFI investment process [here](#).

At its core, SAFI Climate targets key sustainability factors. For example, the SAFI Climate Strategy aims to minimize exposure to companies with high fossil-fuel related risks or those involved in severe environmental, social and governance (ESG) controversies. SAFI Climate also aims to overweight companies that have historically reported efforts to align with climate transition goals.

Importantly, the SAFI Climate framework is adaptable and can be tailored to reflect specific preferences of asset owners.

Figure 1: Select metrics and targets for the SAFI Climate Strategy

Category	Metric	Purpose	Target relative to the benchmark
Backward Looking	GHG Intensity CO ₂ e emissions per \$M revenues	Considers a company's emissions in relation to its output.	↓ ≥50%* reduction relative to the benchmark, with an annual 7.5% year-over-year reduction in effect in 2030
	Fossil Fuel Reserves Embedded CO ₂ e Emissions (MTCO ₂)	Connects a company's operations to the risks of stranded assets and associated potential write offs.	↓ ≥75%
	Brown Revenues % Revenues from fossil fuel-related activities	Measures exposure to activities associated with the extraction and direct use of fossil fuel sources, as well as supporting activities.	↓ ≥75%
Forward Looking	Carbon Risk Rating Score on climate preparedness	(A bottom-up measure). Assesses climate risks and opportunities including their carbon footprint, and the management of their industry-specific carbon risks.	Remove bonds scored 24 or lower (climate laggards) [†]
Product & Norms-Based	Sustainability Risks 1. UN Global Compact 2. Controversial weapons 3. Severe controversies 4. Thermal coal 5. Arctic oil and gas 6. Oil sands 7. Civilian firearms 8. Thermal coal 9. Tobacco 10. Sustainable Investment (SFDR)	Norms-based, controversy risk and controversial product involvement screening. Sustainable Investment (SFDR) monitoring.	↓ 100% for controversy & product involvement where data is available. A minimum of 25% for sustainable investments, according to SFDR criteria
Labelled Bonds	Green Labelled Bond Bonds that qualify as green according to the Climate Bonds Initiative Taxonomy and database	Increases the share of investments into projects with specific environmental objectives.	↑ ≥1.5x [‡]

Source: State Street Investment Management. As of June 30, 2026.

* The framework applies “zeros” for carbon intensity, brown revenue and fossil fuel reserves metrics associated for bonds identified as green bonds.

† Carbon risk rating is based on the ISS rating methodology.

‡ The aim is to increase the weight of green bonds in the strategy to 1.5x the benchmark weight. However, once the strategy exposure to green bonds is at 35% weight, any additional increase versus the benchmark weight would only be matched by the strategy, and not increased by a factor of 1.5x. The above targets are based on certain assumptions and analysis made by State Street Investment Management. There is no guarantee that the targets will be achieved. The portfolio is monitored against the targets on the rebalance dates and the portfolio may therefore deviate from the targets between the rebalance dates. State Street Investment Management reserves the rights to modify the targets.

Comparative analysis: The SAFI Climate Strategy versus the Standard SAFI Strategy

To assess the practical implications of integrating climate considerations into systematic active fixed income strategies, we compare the SAFI Climate Strategy with a standard SAFI strategy that does not incorporate any sustainability objectives (“SAFI”), either in the USD or in the EUR market. The comparison is based on realistically simulated model portfolios. For the first step, we contrast the historical performances of the two strategies over several years. Second, we compare their characteristics in terms of broad risk exposures, sustainability metrics and sector allocation at a given point in time.

Performance review

Our analysis shows that the performance differential between the SAFI Climate and SAFI standard strategies for the US and Global strategies was very small—typically within ± 5 basis points (annualized over the period from August 2019 to June 2026).¹ This minimal deviation underscores that the SAFI Climate framework has historically exhibited similar return characteristics to the standard SAFI approach.

The performance difference for the SAFI EUR IG Climate strategy was slightly higher at +28 bps, and appears less related to the additional sustainability screens themselves than to how the common climate framework interacts with the EUR investment universe and the standard SAFI security selection.

The EUR standard SAFI portfolio had higher exposure than the EUR benchmark to selected product involvement, controversy and carbon-related metrics, so applying the climate framework required more meaningful issuer and sector substitutions. This is visible in the reduction of product involvement and controversy exposure from 1.09% in the EUR standard portfolio to 0.00% in the EUR Climate portfolio, and in the reduction of WACI from 81.12 to 41.89. The resulting performance impact remains modest, and the EUR Climate strategy also shows lower tracking error and a higher information ratio than the standard EUR SAFI strategy.

The ability to maintain portfolio performance while achieving meaningful sustainability alignment—such as reductions in GHG intensity, fossil fuel reserves exposure, and ESG controversy risk—illustrates how climate-related criteria may be incorporated into a fixed income investment approach. Performance attributions for both the SAFI Standard IG and SAFI Climate strategies further validate the robustness of the process, with security selection, driven by scorecard signals, as the dominant contributor to returns—rather than market beta or systematic risks.²

If you would like further details on the EUR, Global or US model and comparison characteristics, please contact the [FICC team](#) at State Street Investment Management.

Figure 2: Key characteristics of varying SAFI strategies

	US			EUR		
	Benchmark	SAFI Strategy	SAFI Climate Strategy	Benchmark	SAFI Strategy	SAFI Climate Strategy
Number of issues	847	97	96	675	101	101
Average quality	A3	A3	A3	A3	A3	A3
Average maturity (yrs)	11.47	13.03	12.37	6.4	5.42	5.59
Yield to worst (%)	4.08	4.34	4.31	2.35	2.57	2.54
Option adjusted spread (bps)	108	136	133	121	146	143
Average coupon	4.08	4.71	4.7	2.04	2.28	2.31
Duration	7.57	7.59	7.62	4.82	4.79	4.86

Source: State Street Investment Management. The average over the period as of August 30, 2019 to June 30, 2026.

Differences in portfolio characteristics

Figure 2 presents the average key portfolio characteristics—including yield, spread and duration—over the period from August 30, 2019 to June 30, 2026, illustrating how SAFI Climate compares with the benchmark and a standard SAFI strategy. As these figures are period averages, they do not represent portfolio characteristics at any single point in time. SAFI is dynamic by design, and the deviations from the benchmark shown should therefore be viewed as illustrative rather than permanent features of the strategies.

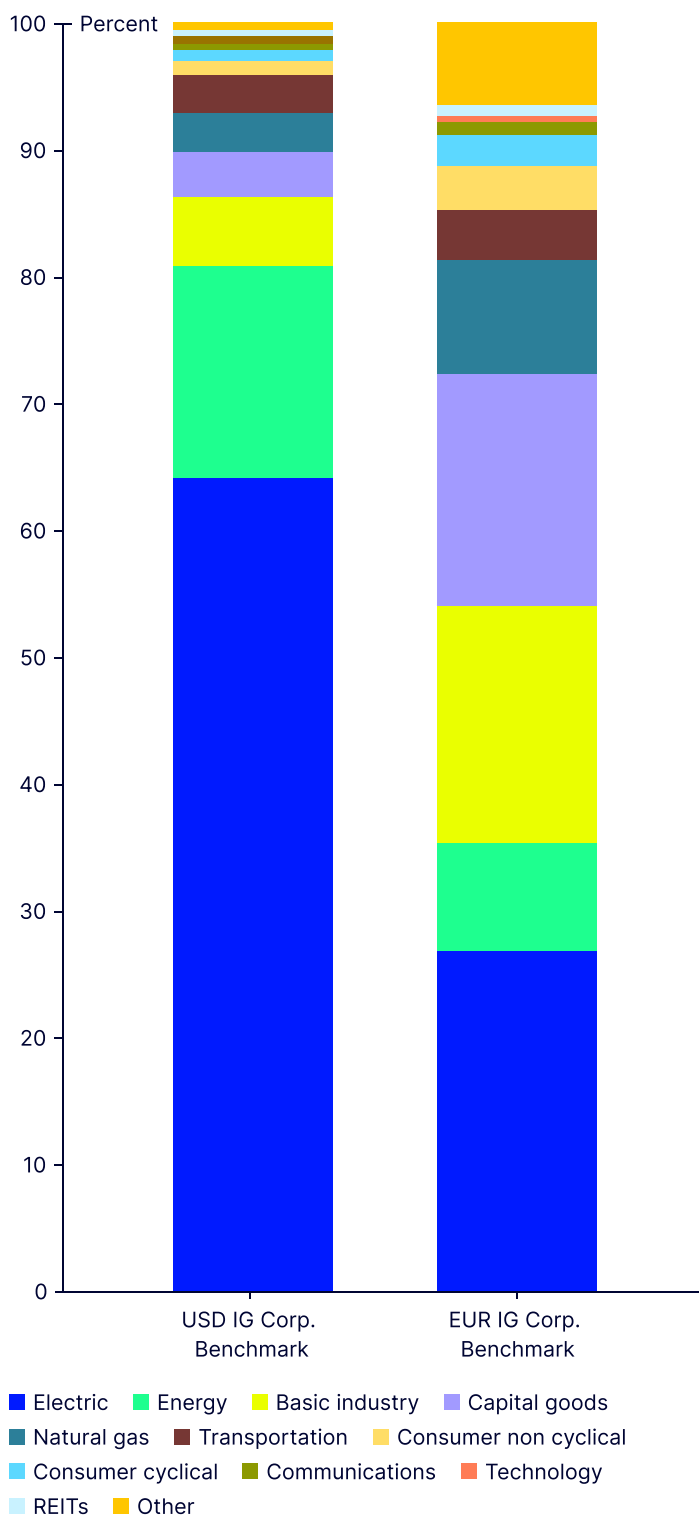
Across both the EUR and USD universes, SAFI and SAFI Climate are closely aligned, with the same average credit quality (A3) and only marginal differences in issuer count, maturity, yield, spread, coupon and duration. In both universes, SAFI Climate has slightly lower yield and spread and marginally longer duration than standard SAFI.

Sector- and company-level analyses

Studies show³ that climate-related risks and opportunities are not evenly distributed across companies and sectors. This disparity is evident in Figure 3, which presents the carbon intensity of a selection of industry sectors (according to Bloomberg index Class 3 sector-level classification), within USD and EUR IG corporate bond indices (further details of the Class 3 sector breakdown can be found in the Appendix).

Figure 3 shows that Electric and Energy, as well as Basic Industries and Capital Goods companies, are large contributors to carbon intensity in both US and euro index universes. In fact, the US Energy sector accounts for over 60% of US index carbon intensity, while representing only 6.5% of its market value. In the euro market, Basic Industry and Capital Goods have a greater share of the weighted average carbon intensity (WACI) than in the US. The large discrepancies in carbon intensity across industry sectors suggest that SAFI Climate is likely to underweight sectors with high WACI to meet the sustainability metrics presented in Figure 1.

Figure 3: Contribution to Weighted Average Carbon Intensity (WACI) by class 3



To illustrate the implications on sector allocation of integrating climate-related targets within the SAFI Strategy, we report shifts in sector weights in the EUR and USD universes. This highlights which sectors show the largest differences relative to both the standard SAFI Strategy as well as the representative benchmark at a given point in time (end June 2026) using sample portfolios that reflect the full SAFI methodology.

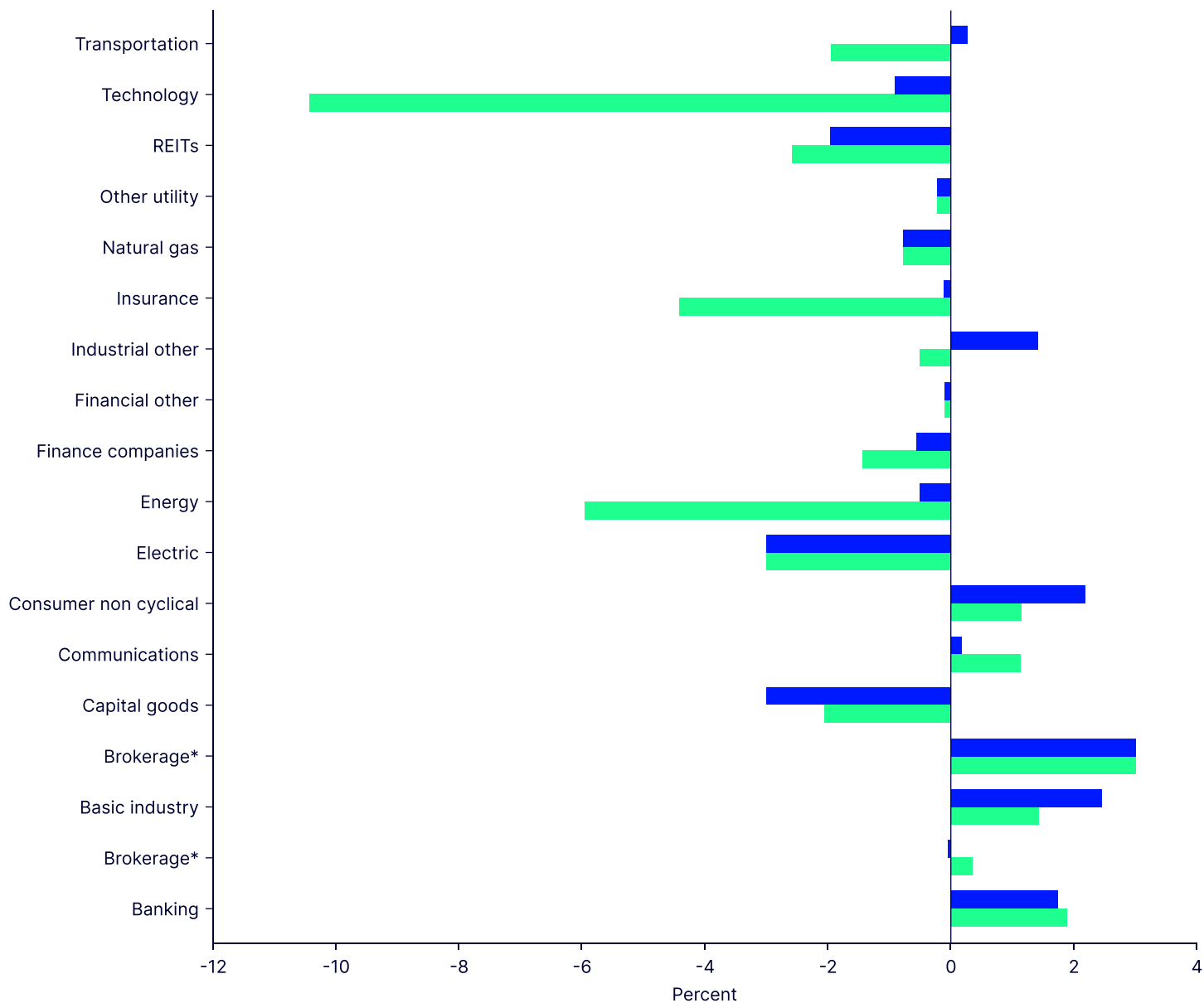
Figures 4a and 4b show how active sector weights vary between SAFI Climate and the standard SAFI strategies (all underlying data are in the Appendix). In most cases, deviations from index weights are relatively small. However, some significant deviations do exist.

The US SAFI Climate Strategy's largest sector deviations from the benchmark are overweights in Capital Goods (+2.99%), Banking (+1.89%) and Brokerage (+1.42%), and underweights in Technology (-10.4%) and Energy (-5.95%). Technology also represents a larger share of the USD benchmark than of the EUR benchmark, at 10.4% versus 3.7%, respectively. Within the EUR universe, the SAFI Climate Strategy's largest sector differences are overweights in Banking (+3.00%) and Consumer Non-Cyclicals (+2.92%), and underweights in Communications (-3.00%), Energy (-2.95%) and Natural Gas (-1.95%).

Source: State Street Investment Management. As of June 30, 2026. Only 12 sectors by WACI contribution are included. Index characteristics are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

Figure 4a: Class 3 Sector breakdown by market value weight (%)

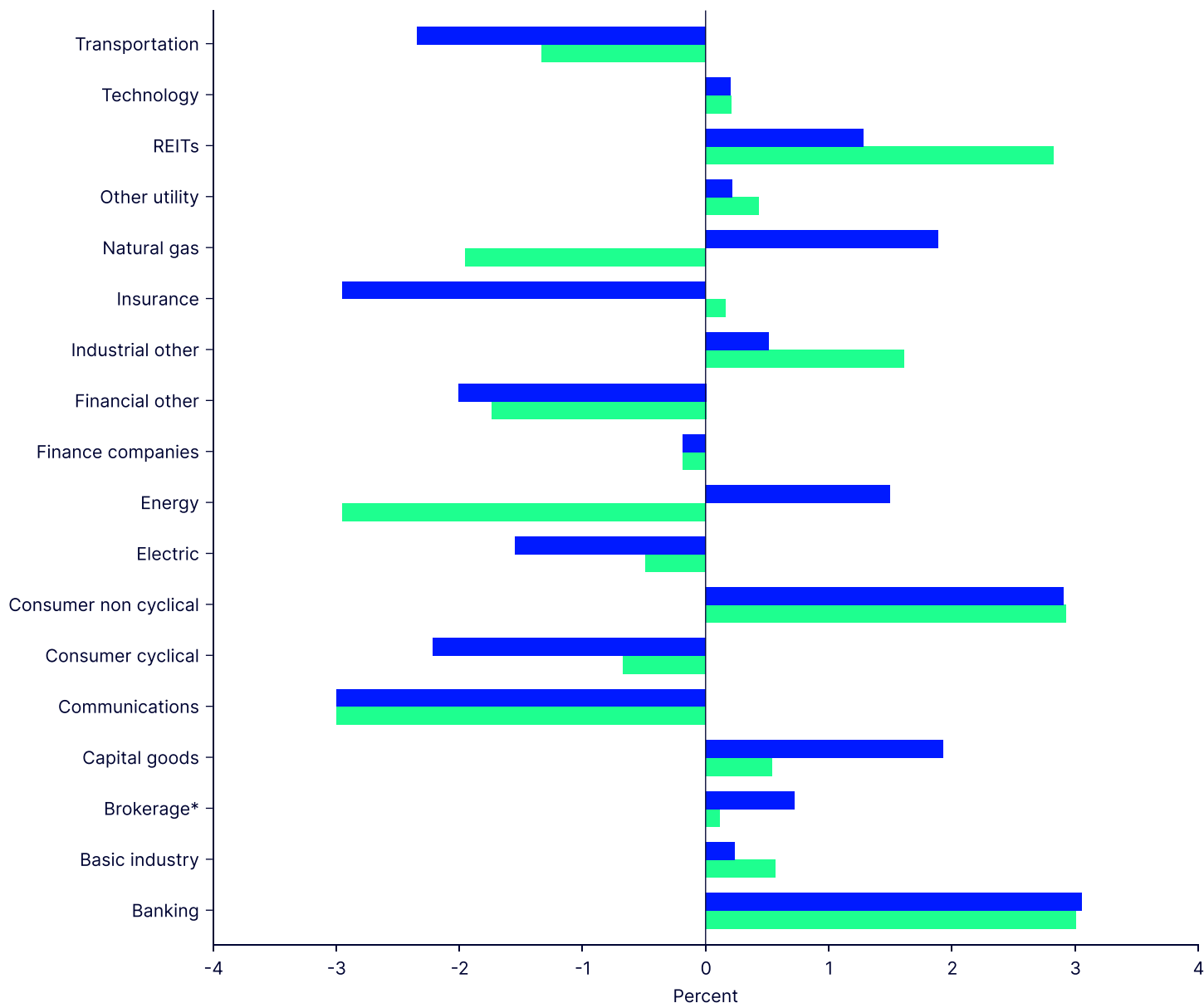
Active sector weights vs. the US IG Corporate Bond Index (backtested)



■ Difference: SAFI US Strategy versus the Benchmark ■ Difference: SAFI Climate US Strategy versus the Benchmark

Source: State Street Investment Management. As of June 30, 2026.

Figure 4b: Class 3 Sector breakdown by market value weight (%)
Active sector weights vs. the EUR IG Corporate Bond Index (backtested)



■ Difference: SAFI EUR Strategy versus the Benchmark ■ Difference: SAFI Climate EUR Strategy versus the Benchmark

Source: State Street Investment Management. As of June 30, 2026.

For Figures 4a and 4b: **The data displayed for the Systematic Active Fixed Income US and EUR IG Corporate strategies (traditional and climate) is a hypothetical example for illustrative purposes only and is not indicative of the past or future performance of any State Street Investment Management product.** Back-tested results are not indicative of the past or future of any State Street Investment Management product. The portion of results through June 30, 2026 represents a back-test of the State Street Investment Management Model Portfolio Optimization, which means that those results were achieved by means of the retroactive application of the model which was developed with the benefit of hindsight. All data shown above does not represent the results of actual trading, and in fact, actual results could differ substantially, and there is the potential for loss as well as profit. Please reference Back-tested Methodology Disclosure for a description of the methodology used as well as an important discussion of the inherent limitations of back-tested results.

Figures 5 and 6 show that most of the largest single-name underweights in the SAFI Climate strategies are primarily linked to issuers flagged for involvement in controversial products and/or broader sustainability controversies.

Notably, some of these issuers may be overweighted in a SAFI strategy that does not incorporate sustainability considerations. This pattern is further supported by the sustainability report summaries provided below (see Figures 7 and 8).

Figure 5: Top ten largest underweights in the SAFI Climate USD Strategy compared to the SAFI USD Strategy

Issuer name	Class 3 sector	USD IG Corporate Benchmark (%)	SAFI USD Standard Strategy (%)	SAFI Climate USD Strategy (%)	Excluded due to sustainability criteria
Merck & Co Inc	Consumer non cyclical	0.52	1.52	0.09	Yes
BAT Capital Corp	Consumer non cyclical	0.32	1.32	0.00	Yes
Space Exploration Tech	Communications	0.33	1.27	0.00	Yes
Citibank NA	Banking	0.18	1.12	0.00	Yes
Honeywell International	Capital goods	0.08	1.08	0.00	Yes
Hess Corp	Energy	0.06	1.06	0.00	Yes
Suncor Energy Inc	Energy	0.06	1.06	0.00	Yes
Reynolds American Inc	Consumer non cyclical	0.05	1.05	0.00	Yes
General Dynamics Corp	Capital goods	0.08	1.04	0.00	Yes
Mass Institute of Tech	Industrial other	0.05	1.03	0.00	—

Source: State Street Investment Management. As of June 30, 2026.

Figure 6: Top ten largest underweights in the SAFI Climate EUR Strategy compared to the SAFI EUR Strategy

Issuer name	Class 3 sector	EUR IG Corporate Benchmark (%)	SAFI EUR Standard Strategy (%)	SAFI Climate EUR Strategy (%)	Excluded due to sustainability criteria
Banque Fed Cred Mutuel	Banking	1.42	2.42	0.69	Yes
Eurobank SA	Banking	0.18	1.19	0.07	Yes
JT Intl Fin Services BV	Consumer non cyclical	0.09	1.09	0.00	Yes
TDF Infrastructure SAS	Communications	0.07	1.07	0.00	—
Bayer AG	Consumer non cyclical	0.25	1.04	0.00	Yes
Eni SpA	Energy	0.50	1.04	0.00	Yes
BG Energy Capital Plc	Energy	0.03	1.03	0.00	Yes
Nortegas Energia SA	Natural gas	0.03	1.03	0.00	—
Rewe Int Finance	Consumer non cyclical	0.07	1.03	0.00	—
ASB Bank Limited	Banking	0.07	1.02	0.00	Yes

Source: State Street Investment Management. As of June 30, 2026.

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Figure 7: Sustainability report for the USD Strategy

	Benchmark	Standard portfolio	Climate portfolio
Controversy & business involvement metrics			
Arctic oil & gas (%)	0.00	0.00	0.00
Controversial weapons (%)	1.93	3.05	0.00
Extreme ESG controversies (%)	0.11	0.00	0.00
Tobacco (%)	1.13	2.37	0.00
Thermal coal extraction & power generation (%)	3.69	0.16	0.00
Violators of UN global compact principles (%)	1.21	0.00	0.00
Total (%)	8.07	5.58	0.00
Portfolio climate statistics			
Weighted average carbon intensity*	233.5	127.6	102.7
Coverage (%)	97.91	97.10	100.00
Brown revenue % (no adjustment, %)	11.23	9.18	3.73
Coverage (%)	96.22	94.02	97.19
Fossil fuel reserves	88.39	188.23	21.11
Coverage (%)	97.56	95.83	100.00
ISS carbon risk rating below 24 (%)	3.87	6.36	0.00
Coverage (%)	96.87	97.39	98.72
Green bonds (market value %)+	1.32	0.91	2.13

Source: State Street Investment Management. As of June 30, 2026.

Figure 8: Sustainability report for the EUR Strategy

	Benchmark	Standard portfolio	Climate portfolio
Controversy & business involvement metrics			
Arctic oil & gas (%)	0.00	0.00	0.00
Controversial weapons (%)	0.38	0.00	0.00
Extreme ESG controversies (%)	0.16	0.00	0.00
Tobacco (%)	0.67	1.09	0.00
Thermal coal extraction & power generation (%)	0.28	0.00	0.00
Violators of UN global compact principles (%)	0.02	0.00	0.00
Total (%)	1.50	1.09	0.00
Portfolio climate statistics			
Weighted average carbon intensity*	87.46	81.12	41.89
Coverage (%)	97	95	100
Brown revenue % (no adjustment, %)	5.84	6.65	1.25
Coverage (%)	96.85	93.67	96.73
Fossil fuel reserves	91.27	206.87	22.53
Coverage (%)	97.39	90.49	96.99
ISS carbon risk rating below 24 (%)	0.38	1.00	0.00
Coverage (%)	94.11	88.87	92.38
Green bonds (market value %)+	10.11	9.08	15.27

Source: State Street Investment Management. As of June 30, 2026.

For Figures 7 and 8: **The data displayed for the Systematic Active Fixed Income US and EUR IG Corporate strategies (traditional and climate) is a hypothetical example for illustrative purposes only and is not indicative of the past or future performance of any State Street Investment Management product.** All data shown above does not represent the results of actual trading, and in fact, actual results could differ substantially, and there is the potential for loss as well as profit.

* We have high coverage of WACI because most issuers in the Bloomberg US and Euro Corporate Bond Index report Scope 1 and 2 emissions, which are widely available and standardized; by contrast, coverage for Brown Revenues is low, because the activity-level revenue data is typically applicable to only fossil fuel-linked sectors, and therefore not uniformly captured across sectors.

† The green bond market values in the EUR IG Corporate strategy are greater than that of the USD IG Corporate strategy due to greater green bond issuance in Europe. Per a July 23, 2025 report from Sustainable Fitch, European green bond issuance was higher than in the US as of 1H2025.

The bottom line

The integration of climate and sustainability considerations into SAFI strategies, as put into practice via the SAFI Climate framework, represents one approach to incorporating climate and sustainability considerations into institutional portfolio construction.

By embedding both forward- and backward-looking climate metrics, sustainability risk screens, and green bond allocations into a disciplined, data-driven investment process, SAFI Climate supports investor-specific sustainability objectives while maintaining the core portfolio construction principles that underpin SAFI: alpha-seeking security selection, systematic risk control, and benchmark-aware implementation.

The analysis shows that incorporating these criteria can meaningfully reduce exposure to carbon-intensive issuers, fossil fuel-related risks, and certain sustainability controversies, while producing only modest differences in key portfolio characteristics relative to traditional SAFI. Sector-level shifts, including underweights in higher-emission or fossil fuel-linked sectors such as Energy and Natural Gas, alongside reallocations toward sectors such as Banking, Consumer Non-Cyclicals, Capital Goods and Brokerage, reflect the portfolio construction impact of integrating climate and sustainability criteria rather than a uniform sector tilt.

SAFI Climate offers a practical extension of the SAFI approach in US, European and Global portfolios. For more information, please contact your State Street Investment Management sales representative.

Appendix

Class 3 refers to Bloomberg Class 3 categorization.

Table 1: Class 3 breakdown — USD

Row labels	USD IG Corporate Benchmark (%)	SAFI US Strategy (%)	SAFI Climate USD Strategy (%)
Banking	22.0	23.7	23.9
Basic industry	2.4	2.3	2.7
Brokerage*	1.6	4.1	3.1
Capital goods	5.5	8.5	8.5
Communications	7.7	4.7	5.7
Consumer cyclical	7.2	7.4	8.3
Consumer non cyclical	14.9	17.1	16.0
Electric	9.3	6.3	6.3
Energy	7.0	6.5	1.1
Finance companies	1.4	0.9	0.0
Financial other	0.1	0.0	0.0
Industrial other	0.5	1.9	0.0
Insurance	4.4	4.3	7.4
Natural gas	0.8	0.0	0.0
Other utility	0.2	0.0	0.0
REITs	2.6	0.6	2.1
Technology	10.4	9.5	12.3
Transportation	2.0	2.2	2.7

Source: State Street Investment Management. As of June 30, 2026.

* Includes asset managers and exchanges.

Table 2: Class 3 breakdown — EUR

Row labels	EUR IG Corporate Benchmark (%)	SAFI EUR Strategy (%)	SAFI EUR Climate Strategy (%)
Banking	31.3	34.4	34.3
Basic industry	2.9	3.2	3.5
Brokerage*	0.9	1.6	1.0
Capital goods	5.2	7.1	5.7
Communications	6.8	3.8	3.8
Consumer cyclical	9.8	7.6	9.2
Consumer non cyclical	13.5	16.4	16.4
Electric	5.7	4.1	5.2
Energy	3.0	4.5	0.1
Finance companies	0.2	0.0	0.0
Financial other	2.7	0.7	1.0
Industrial other	0.5	1.0	2.1
Insurance	4.5	1.6	4.7
Natural gas	2.2	4.1	0.2
Other utility	0.9	1.1	1.3
REITs	2.8	4.0	5.6
Technology	3.7	3.9	4.0
Transportation	3.4	1.1	2.1

Source: State Street Investment Management. As of June 30, 2026.

* Includes asset managers and exchanges.

Endnotes

- 1 Source: State Street Investment Management, as of June 2026. Our climate strategies rely on MSCI data, with 'fossil fuel reserve' metrics available only from July 2019. This data constraint drives the later start date for those strategies, ensuring consistency with MSCI's coverage.
- 2 Please reference Back-tested Methodology Disclosure in the Disclosure section for a description of the model methodology as well as an important discussion of the inherent limitations of back-tested results.
- 3 Integrating Forward-Looking Climate Metrics in Corporate Fixed-Income Index Portfolios, located at: [Forward-looking Climate Metrics in Fixed Income Indexes](#). Exhibit 6 shows varying climate-related metrics across sectors.
- 4 These deviations correspond to a single point in time and could change over time. They are consistent with the pattern of carbon intensity by sector shown in Figure 3.

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* This figure is presented as of June 30, 2026 and includes ETF AUM of \$2,203.98 billion USD of which approximately \$156.81 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Investment Management are affiliated. Please note all AUM is unaudited.

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This document provides summary information regarding the Strategy. This document should be read in conjunction with the Strategy's Disclosure Document, which is available from State Street Investment Management. The Strategy Disclosure Document contains important information about the Strategy, including a description of a number of risks.

Backtest methodology

Backtested Sources: State Street Investment Management, Barclays QPS Research, eVestment. Analysis compares after-transaction-cost back-tested performance series against comparable active US investment grade credit managers. Analysis uses monthly total returns vs. benchmark from July 2019 to March 2025. The information contained above is for illustrative purposes only. Performance is calculated based on monthly total returns for the back-tested model portfolio reflecting transaction cost impact. The transaction costs are based on industry-standard liquidity measures, such as Barclays Liquidity Cost Score (LCS) and/or Bloomberg BVAL, as data sources. Total returns for the Bloomberg US Investment Grade Corporate Index do not take into account transaction costs. Back-tested performance is the result of applying an State Street Investment Management model to market data that predates the model, in order to yield results that predate the model's inception (i.e. all data is back tested) OR the results of an State Street Investment Management model, some of which predates model inception, and some of which was generated after model inception. Analysis is done on back-tested performance based on State Street Investment Management's Model Portfolio Optimization process taking factor inputs from QPS Indices. The back-tested performance presented herein reflects the output of the State Street Investment Management Model Portfolio Optimization process portion of the Systematic US Investment Grade Corporate strategy (the "Strategy") only and does not reflect or incorporate any potential deviations from the model portfolio at the time of implementation. The data displayed is a hypothetical example of back-tested performance is for illustrative purposes only and is not indicative of the past or future performance of any State Street Investment Management product. Back-Tested Performance does not represent the results of actual trading but is achieved by means of the retroactive application of a model designed with the benefit of hindsight. Actual performance results could differ substantially, and there is the potential for loss as well as profit. The Back-Tested Performance may not take into account material economic and market factors that would impact the adviser's actual decision-making. The gross performance reflects transaction costs but does not reflect management fees and other fees and expenses a client would have to pay, which reduce returns.

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