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Integrating climate risks & opportunities into Systematic Active Fixed Income strategies

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Executive summary

In this paper, we compare two systematic active fixed income (SAFI) strategies: a climate- and sustainability-aware investment grade (IG) corporate bond strategy (“SAFI Climate”), and a standard SAFI IG 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.
- Integrating climate and sustainability screens into the SAFI framework has a negligible impact on risk-adjusted returns.
- The SAFI Climate Strategy is designed to have the same alpha potential as the SAFI Strategy, while, just like the standard SAFI Strategy, largely neutralizing systematic risk relative to the benchmark index.

This suggests that investors allocating to SAFI strategies can align portfolios with climate and sustainability objectives without compromising performance.

Introducing SAFI and the SAFI Climate Strategy

Systematic Active Fixed Income (SAFI) is a strategy that aims to outperform a fixed income benchmark index by systematically applying quantitative security selection signals. In the investment-grade credit markets, three signals are used in combination. They reflect relative value, momentum and sentiment factors and are updated every day for virtually all index constituents. Leveraging on our expertise in precise portfolio construction and efficient implementation, SAFI continuously looks to generate alpha by selecting issuers with high signal value while controlling systematic risk and thereby preserving the risk characteristics of the benchmark index.¹

The **SAFI Climate Strategy** is designed to reduce carbon emissions and fossil fuel exposure 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 delivering outperformance (alpha) over the benchmark. They are embedded into portfolio construction alongside the traditional SAFI security-level factor scores and multiple risk management considerations.

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 demonstrate credible alignment 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 carbon emissions in relation to its output.	↓ ≥50%* reduction relative to the benchmark, with an annual 7.5% year-over-year reduction versus the benchmark in effect in 2030, with the aim to be aligned by 2050.
	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 violators 2. Controversial weapons 3. Severe ESG controversies 4. Thermal coal 5. Arctic oil and gas 6. Oil sands 7. Civilian firearms 8. Tobacco 9. R-Factor laggards 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 December 31, 2024.

* 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. See [Carbon Risk Rating | ISS](#).

‡ 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 analysis

The integration of climate and sustainability screens into the SAFI framework has had a very small impact on performance. Our analysis shows that the performance differential between the SAFI Climate and SAFI standard strategies was typically within ± 10 basis points (annualized for the period from July 2019 to March 2025).² This minimal deviation underscores the robustness of the SAFI model in delivering alpha, while aligning with sustainability objectives incorporated into the SAFI Climate framework. If you would like further details on the model and comparison characteristics, please contact the [Fixed Income team](#) at State Street Investment Management.

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—demonstrates the practical viability of SAFI Climate as a core fixed income allocation. Investors can therefore pursue climate and sustainability alignment without compromising performance.

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.³

Differences in portfolio characteristics

Figure 2 shows key portfolio characteristics—yield, spread, and duration at the end of March 2025—illustrating how SAFI Climate aligns with or diverges from the benchmark and from a standard SAFI strategy. This comparison relates to a single point in time, but SAFI is not static. It is dynamic by definition and the deviations from the benchmark shown below should be seen as examples, as opposed to permanent features of the Strategies.

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	8,340	147	154	3847	154	158
Average Quality	A3	A3	A3	A3	A3	A3
Yield to Worst (%)	5.15	5.34	5.30	3.28	3.50	3.46
Option Adjusted Spread (bps)	94	115	111	98	120	116
Average Coupon	4.44	5.13	5.19	2.65	3.75	3.61
Duration	6.88	6.97	7.08	4.45	4.53	4.53

Source: State Street Investment Management. Data obtained from hypothetical portfolios constructed as of March 31, 2025.

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 SSGA product. Back-tested results are not indicative of the past or future of any SSGA product. The portion of results through March 31, 2025 represents a back-test of the SSGA 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.

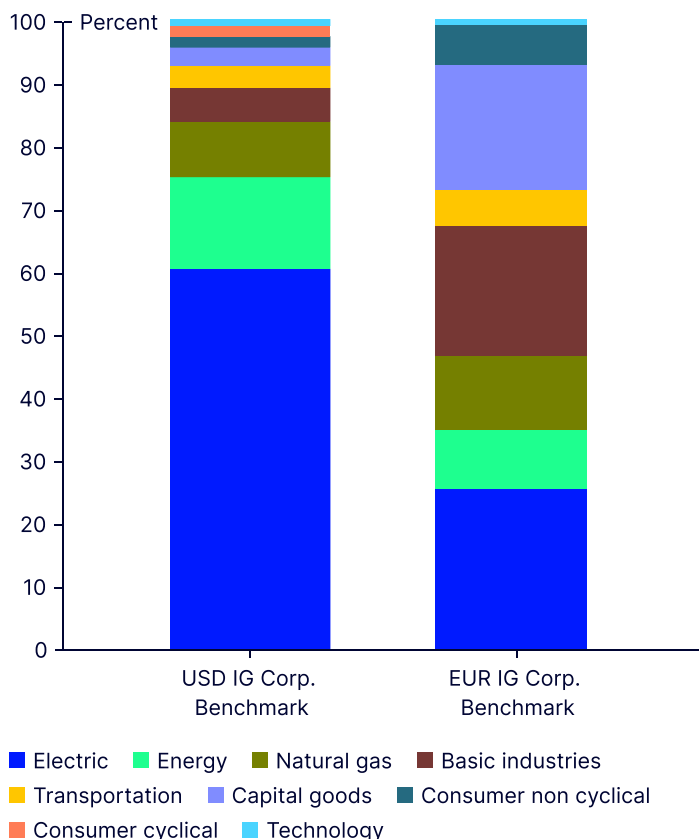
Our analysis demonstrates that the US and the EUR SAFI Climate portfolios closely mirror their standard counterparts across key characteristics. In the EUR universe, both the SAFI and SAFI Climate strategies exhibit the same average credit quality (A3) and duration (4.53), with only marginal differences in yield, spread, and number of issues. A similar pattern emerges in the US universe, with the SAFI Climate Strategy exhibiting a marginally lower spread and yield to worst versus the standard SAFI strategy, while having a slightly longer duration.

Sector- and company-level analyses

Studies show 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 Natural Gas utilities, as well as Energy companies, are large contributors to carbon intensity in both US and euro index universes. In fact, the US energy sector accounts for over 50% of US index carbon intensity, while representing only 8.5% 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 sector



Source: State Street Investment Management. As of March 31, 2025. Only 9 sectors by WACI contribution are included. Technology and Consumer Cyclical percentages are negligible for the EUR IG Corporate benchmark. Index characteristics are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

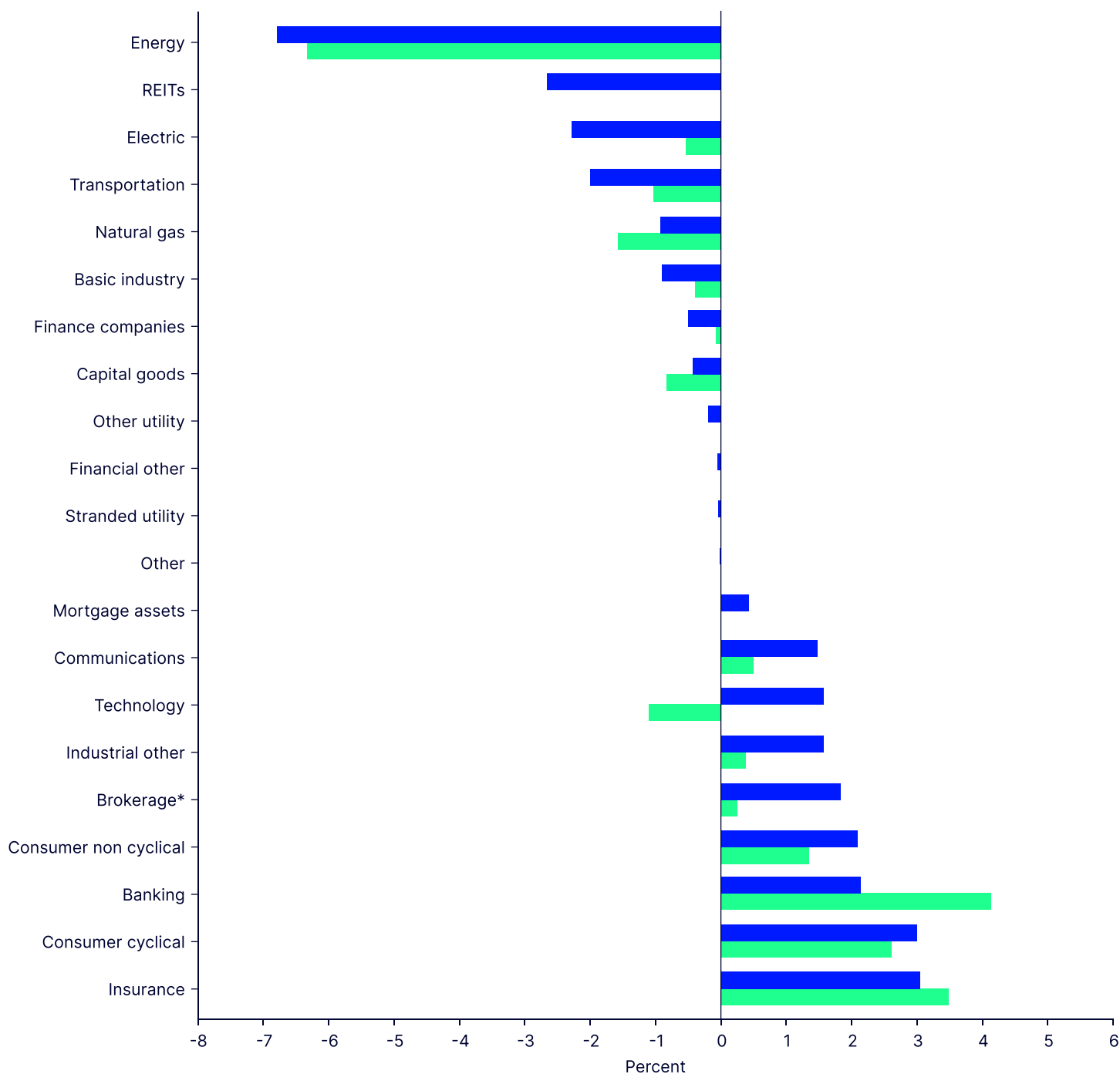
To illustrate the implications on sector allocation of integrating climate-related targets within the SAFI Strategy, we report shifts in sector weights in the EUR and USD universes. This highlights which sectors show the largest differences relative to both the standard SAFI Strategy as well as the representative benchmark at a given point in time (end March 2025) 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.⁴

For example, the US SAFI Climate Strategy underweights the Energy sector versus the benchmark, and versus the SAFI Standard Strategy. However, the Energy sector holds a larger share in the USD benchmark compared to the EUR benchmark, at 8.5%, versus 3.4%, respectively. The US SAFI Climate Strategy overweights the Banking, Insurance and Consumer Cyclical sectors.

Figures 4a and 4b also reveal that within the EUR universe, the SAFI Climate Strategy introduces the largest overweight positions in Communications (+3.72%) and Technology (+2.03%), while underweighting Insurance (-1.35%), Consumer Non-Cyclical (-1.25%) and Natural Gas (-1.05%).

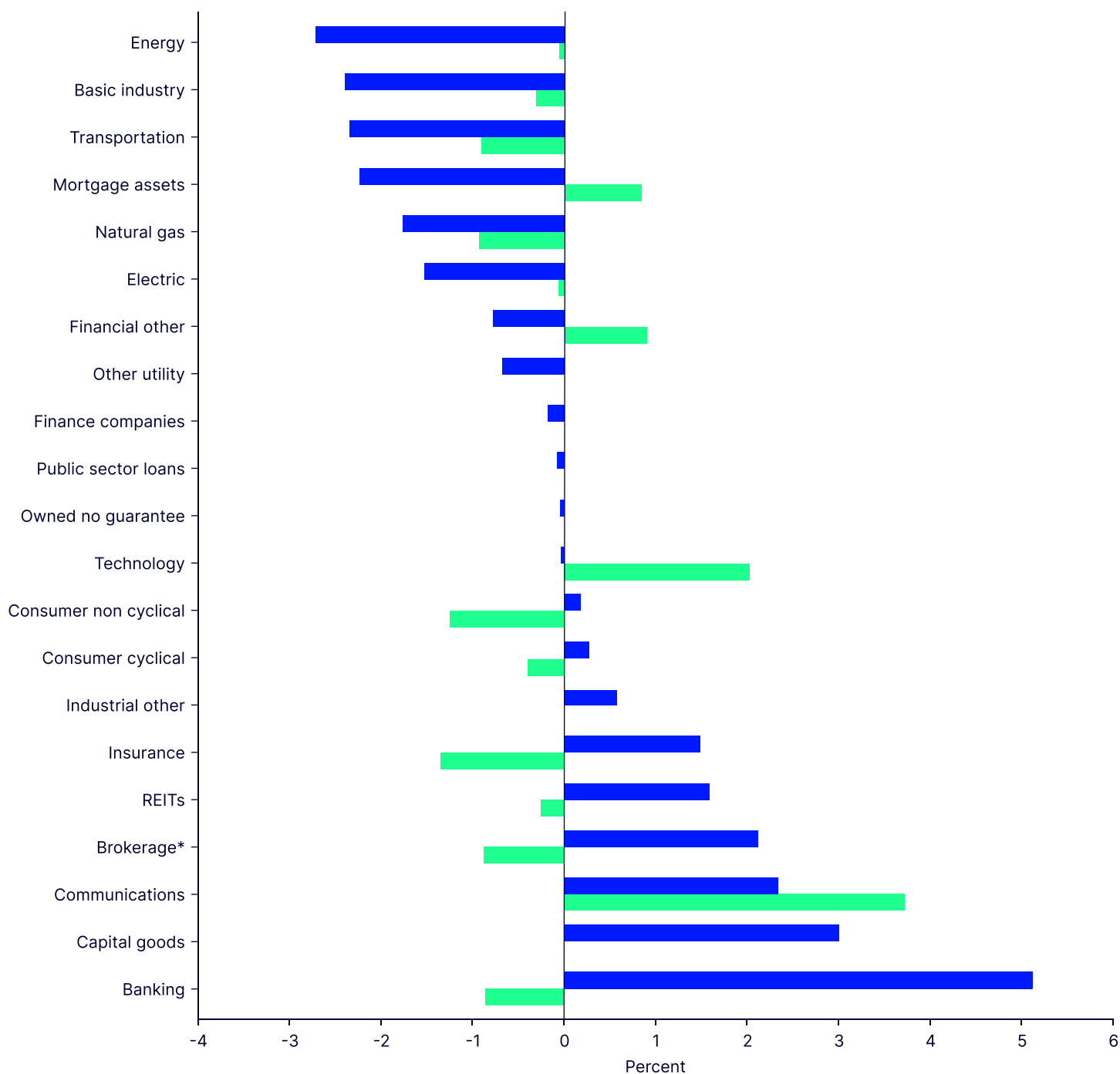
Figure 4a: Active sector weights vs. the US IG Corporate Bond Index (backtested)



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

Source: State Street Investment Management. As of March 31, 2025.

Figure 4b: Active sector weights vs. the EUR IG Corporate Bond Index (backtested)



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

Source: State Street Investment Management. As of March 31, 2025.

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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
Wells Fargo & Company	Banking	1.66	2.52	0.00	Yes
Southern Co Gas Capital	Natural gas	0.55	1.57	0.00	Yes
Philip Morris Intl Inc	Consumer non cyclical	0.44	1.44	0.00	Yes
Honeywell International	Capital goods	0.26	1.24	0.00	Yes
Mastercard Inc	Technology	0.22	1.22	0.00	—

Source: State Street Investment Management. As of March 31, 2025.

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
BAT Intl Finance Plc	Consumer non-cyclical	0.26	2.04	0.00	Yes
Heidelbergcement Fin Lux	Capital goods	0.21	2.02	0.01	—
Compass Group Plc	Consumer cyclical	0.08	2.05	0.58	—
Wells Fargo & Company	Banking	0.42	1.41	0.00	Yes
Philip Morris Intl Inc	Consumer non-cyclical	0.14	1.14	0.00	Yes

Source: State Street Investment Management. As of March 31, 2025.

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Figure 7: Sustainability, controversy and Norms-based report for the USD Strategy

	Benchmark	Standard portfolio	Climate portfolio
Product involvement and controversy profile			
Arctic oil & gas	0.0%	0.0%	0.0%
Controversial weapons	2.2%	1.2%	0.0%
Severe ESG controversies	2.0%	3.4%	0.0%
Tobacco	1.1%	2.5%	0.0%
Thermal coal	3.4%	1.7%	0.0%
Violators of UN Global Compact principles	1.8%	0.0%	0.0%
Total	9.9%	8.8%	0.0%
Climate metrics			
Weighted average carbon intensity (WACI)*	230.1	182.06	96.61
Coverage	98.5%	98.3%	99.0%
Brown revenue % (no adjustment)	10.3%	10.6%	2.1%
Coverage	18.4%	19.2%	8.9%
Fossil fuel reserves	96.1	61.4	0.2
Coverage	4.4%	4.4%	0.7%
ISS carbon risk rating below 24 (%)	2.8%	2.0%	0.0%
Coverage	91.3%	93.4%	92.5%
Green bonds (market value %)+	1.6%	1.1%	2.4%

Source: State Street Investment Management. As of March 31, 2025.

Figure 8: Sustainability, controversy and Norms-based report for the EUR Strategy

	Benchmark	Standard portfolio	Climate portfolio
Product involvement and controversy profile			
Arctic oil & gas	0.0%	0.0%	0.0%
Controversial weapons	0.6%	2.2%	0.0%
Severe ESG controversies	1.1%	1.4%	0.0%
Tobacco	1.0%	4.2%	0.0%
Thermal coal	0.4%	1.3%	0.0%
Violators of UN Global Compact principles	0.3%	0.0%	0.0%
Total	3.3%	9.2%	0.0%
Climate metrics			
Weighted average carbon intensity (WACI)*	90.1	153.2	43.7
Coverage	98.3%	98.0%	100.0%
Brown revenue % (no adjustment)	5.5%	3.1%	1.4%
Coverage	11.1%	6.8%	5.0%
Fossil fuel reserves	94.6	14.2	11.8
Coverage	5.0%	2.0%	1.2%
ISS carbon risk rating below 24 (%)	0.6%	0.6%	0.0%
Coverage	89.3%	84.6%	87.7%
Green bonds (market value %)+	13.4%	20.0%	22.9%

Source: State Street Investment Management. As of March 31, 2025.

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* 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, marks a compelling evolution in 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 enables investors to align with global climate goals without sacrificing performance.

Sector-level shifts, such as underweights in high-emission sectors like Energy and Natural Gas and overweights in Technology and Communications, reflect a deliberate reallocation toward climate-resilient issuers. These adjustments are guided by a robust and flexible framework that accommodates investor-specific sustainability preferences.

The SAFI Climate Strategy has an alpha potential that is comparable with the standard SAFI Strategy while incorporating multiple sustainability-related considerations. Crucially, the SAFI Climate Strategy, just like the standard SAFI Strategy, is designed to deliver such alpha while largely neutralizing systematic risk relative to the benchmark index, and therefore preserving the broad risk properties of the index.

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	22.40	20.40	24.54
Consumer non cyclical	15.07	15.81	17.16
Technology	9.46	12.14	11.03
Electric	8.53	6.49	5.95
Communications	7.73	8.71	9.21
Consumer cyclical	7.03	7.42	10.03
Energy	7.00	7.35	0.21
Capital goods	5.39	5.79	4.96
Insurance	4.79	4.35	7.83
Reits	2.66	0.00	0.00
Basic industry	2.54	2.04	1.64
Transportation	2.00	1.03	0.00
Brokerage*	1.54	3.13	3.38
Finance companies	1.42	1.00	0.92
Natural gas	0.93	1.57	0.00
Mortgage assets	0.68	1.16	1.16
Industrial other	0.47	1.66	2.04
Other utility	0.20	0.00	0.00
Financial other	0.06	0.00	0.00
Stranded utility	0.03	0.00	0.00
Other	0.01	0.00	0.00
Grand total	100	100	100

Source: State Street Investment Management. As of March 31, 2025.

* Includes asset managers and exchanges.

Table 2: Class 3 breakdown — EUR

Row labels	EUR IG Corporate Benchmark (%)	SAFI EUR Strategy (%)	SAFI EUR Climate Strategy (%)
Communications	6.57	5.18	8.90
Technology	3.11	1.04	3.07
Financial other	2.91	1.03	2.04
Mortgage assets	4.74	1.29	2.23
Capital goods	5.68	8.68	8.69
Owned no guarantee	0.05	0.00	0.00
Other utility	0.76	0.00	0.00
Public sector loans	0.09	0.00	0.00
Finance companies	0.20	0.00	0.00
Industrial other	0.44	1.02	1.02
Energy	3.37	0.38	0.31
Electric	5.04	3.39	3.31
Reits	2.83	4.68	4.42
Basic industry	3.00	0.65	0.30
Consumer cyclical	9.15	9.87	9.42
Brokerage*	0.97	3.97	3.09
Banking	27.47	33.53	32.58
Transportation	3.66	2.04	1.02
Natural gas	2.32	1.38	0.33
Consumer non cyclical	13.74	15.17	13.92
Insurance	3.89	6.72	5.37
Grand total	100	100	100

Source: State Street Investment Management. As of March 31, 2025.

* Includes asset managers and exchanges.

Endnotes

- 1 For further details on factors and how SAFI investing works, see [Systematic Active Fixed Income: A Straightforward Guide to the SAFI Investment Process](#).
- 2 Source: State Street Investment Management, as of March 31, 2025. 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.
- 3 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.
- 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, 2025 and includes ETF AUM of \$1,689.83 billion USD of which approximately \$116.05 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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R-Factor scoring is designed by State Street to reflect certain sustainability factors and does not represent investment performance. Results generated out of the scoring model are based on sustainability dimensions of a scored entity.

Past performance is not a reliable indicator of future performance.

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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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