Systematic high quality corporate fixed income: Factor discipline remains key

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- **Factor discipline bolstered returns in the latest quarter.** SAFI remained anchored to the data through geopolitical shocks, curve volatility, and shifting credit spreads, with the value factor helping both strategies generate positive excess returns
- **Alpha came with tight benchmark alignment.** Since inception, SAFI has delivered competitive excess returns and strong information ratios versus active credit managers without relying on outsized macro calls or elevated tracking error
- **Downside protection a key differentiator.** SAFI's disciplined, systematic process helped strategies avoid the deeper alpha drawdowns experienced by many traditional active managers, reinforcing its importance in uncertain markets

Alpha factors provided shelter in Q2

Geopolitical volatility continued to be a dominant theme for financial markets through the latest quarter, with the war in Iran weighing on sentiment and exacerbating concerns around inflation. Investment grade corporate spreads that had tightened to record levels with the ceasefire announcement in April (and subsequent Memorandum of Understanding in June) widened once again as the US and Iran traded strikes later in June.

While credit spreads have re-widened amid the latest escalation of the conflict and growing concerns around the scale of AI-related debt issuance, the front end of the yield curve remains anchored as the Fed has held rates unchanged. However, the long end of the curve has steepened significantly, reflecting concerns about inflation as the effective closure of the Strait of Hormuz contributes to price pressures. Intermediate- and long-end yields are 40-50 basis points (bps) higher over the three months to June 30.

A disciplined test of the SAFI process

The first half of 2026 has provided a valuable test for the effectiveness of our disciplined Systematic Active Fixed Income (SAFI) approach during periods of significant uncertainty. By relying on factor data rather than the distractions of daily headlines, we have been able to generate consistent alpha while maintaining low tracking error. The Systematic High Quality (HQ) Intermediate Corporate Bond Strategy outperformed its benchmark every month in 2026 through June, adding over 30 bps overall. The SAFI HQ Long Strategy outperformed in four out of the six months en route to adding 91 bps for the period.

Since the inception of our SAFI approach at the end of 2023, the SAFI HQ Intermediate and Long strategies have generated **+72 bps and +100 bps of annualized excess returns with information ratios (IR) of 2.8 and 2.0,** respectively, gross of fees.

Figure 1: Q2 extends strong SAFI performance since inception

	Intermediate (1–10Yr) Portfolio					Long (10+ Yr) Portfolio				
	QTR (%)	YTD (%)	1 Year (%)	2 Year (%)	Since SAFI Inception (%)*	QTR (%)	YTD (%)	1 Year (%)	2 Year (%)	Since SAFI Inception (%)*
Systematic US High Quality Corporate Bond (Gross)	0.90	0.90	4.35	6.30	5.08	2.27	1.67	5.46	5.45	2.67
Benchmark	0.78	0.59	3.81	5.65	4.35	1.99	0.76	4.43	4.53	1.67
Excess Return (Gross)	**0.12**	**0.32**	**0.54**	**0.66**	**0.72**	**0.28**	**0.91**	**1.03**	**0.92**	**1.00**
Systematic US High Quality Corporate Bond (Net)	0.85	0.81	4.16	6.11	4.89	2.23	1.58	5.27	5.26	2.49
Benchmark	0.78	0.59	3.81	5.65	4.35	1.99	0.76	4.43	4.53	1.67
Excess Return (Net)	**0.08**	**0.22**	**0.35**	**0.46**	**0.54**	**0.24**	**0.82**	**0.84**	**0.74**	**0.82**
Tracking Error Volatility	—	—	**0.13**	**0.18**	**0.26**	—	—	**0.59**	**0.50**	**0.50**
Information Ratio	—	—	**4.20**	**3.70**	**2.82**	—	—	**1.74**	**1.85**	**2.01**

Source: State Street Investment Management, as of June 30, 2026. The Systematic US High Quality Corporate Bond portfolios were converted to the SAFI investment process as December 31, 2023.

The performance data quoted represents past performance. Past performance does not guarantee future returns. Performance returns for periods of less than one year are not annualized. The performance figures contained herein are provided on a gross and net of fees basis. Gross of fees do not reflect and net of fees reflect the deduction of advisory or other fees which could reduce the return. The performance shown is of a composite consisting of all discretionary accounts using this investment strategy. The above information is considered supplemental to the GIPS presentation for this Composite, which can be found in the Appendix or was previously presented. A GIPS presentation is also available upon request.

* Inception Date: December 31, 2023. Fund history predates this period; however, it was not managed using the SAFI approach. The benchmark for the SAFI intermediate strategy is the Bloomberg Intermediate Corporate ex Baa Index. The benchmark for the SAFI long strategy is the Bloomberg Long Corporate A+ Index.

Value factor strength offsets waning momentum in Q2

The value factor was the key contributor to performance in Q2, adding +17 bps and +41 bps in the intermediate and long strategies, respectively. This was an important outcome given the more muted performance of momentum, which added +1 bp to the intermediate strategy while detracting -6 bps from the long strategy.

This followed a strong first quarter for momentum, particularly in March when credit spreads widened sharply with the onset of war in Iran—that is consistent with how we expect the momentum factor to behave: to soften the downside in stressed market environments. **Together, the alpha factors continue to support a disciplined investment process and more consistent outcomes for our clients.**

Figure 2a: SAFI HQ Intermediate strategy contribution to cumulative alpha since inception

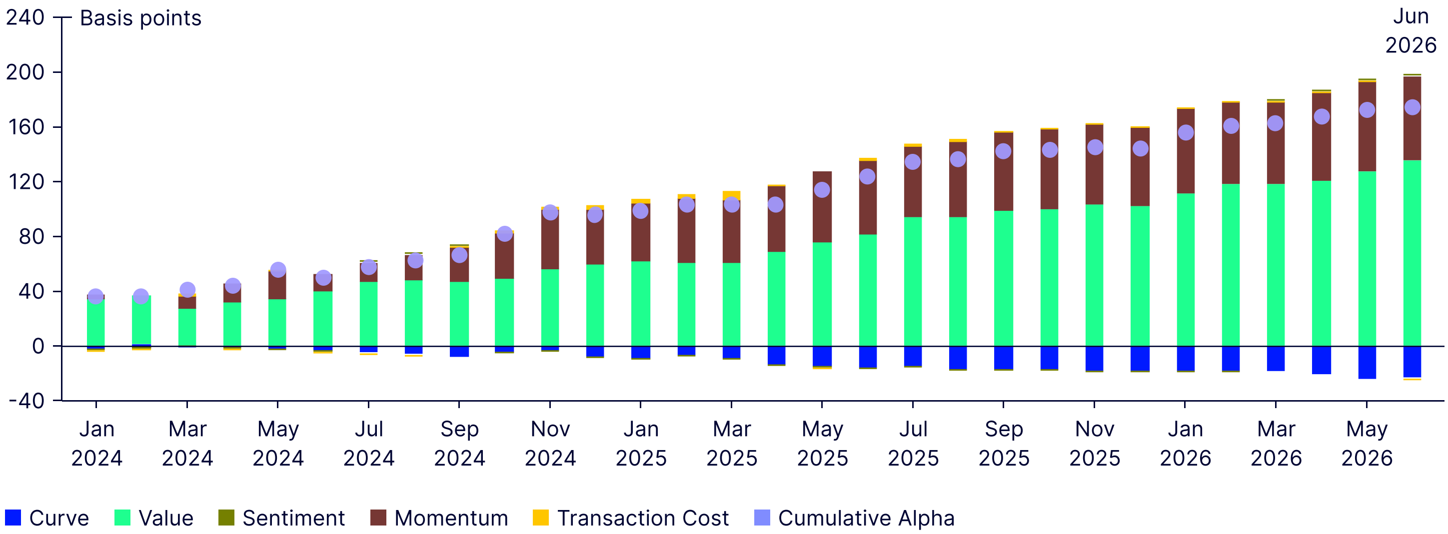
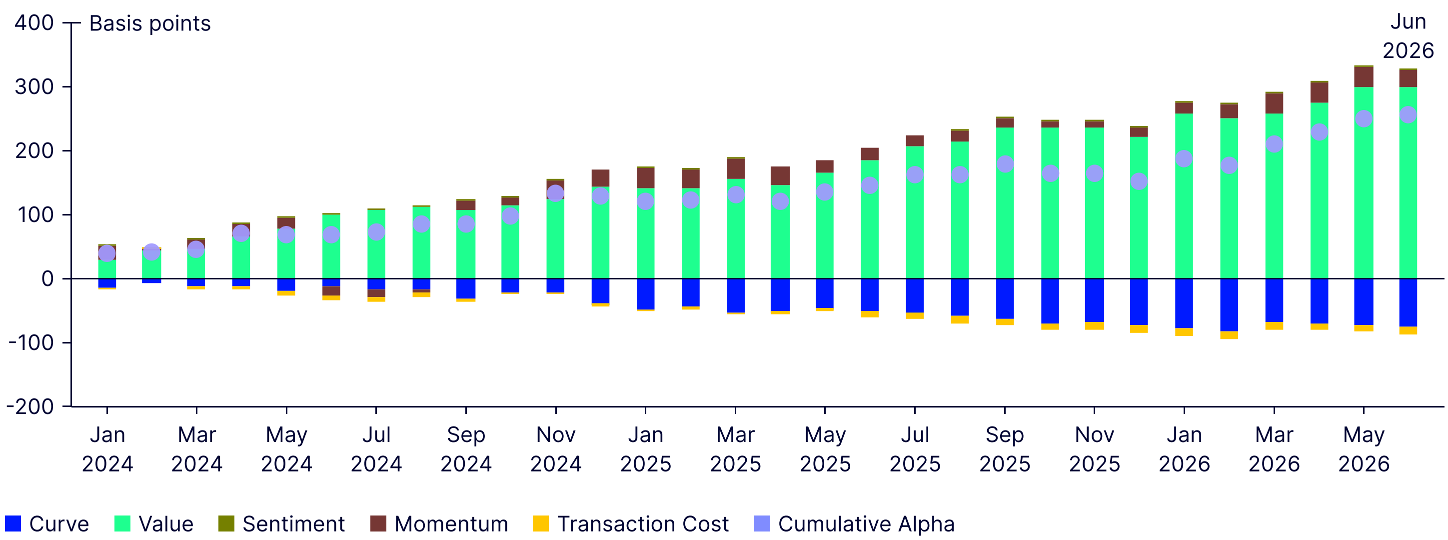


Figure 2b: SAFI HQ Long strategy contribution to cumulative alpha since inception



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

* Since-inception performance reflects conversion to our Systematic Active Fixed Income (SAFI) investment process effective December 31, 2023. The performance data quoted represents past performance. Past performance does not guarantee future returns.

Competitive outcomes versus active managers

Our live SAFI strategy track records have been consistently competitive with those of leading active credit managers. Since inception, the alpha in our long strategy ranks in the top decile and the intermediate strategy ranks near the top third, gross of fees. Importantly, we've been able to generate this outperformance by targeting the capture of incremental alpha through maximizing factor exposure rather than through one-off macro calls or outsized deviations from the benchmark that would raise material downside risk potential. As a result, information ratios for both strategies are in or near the top 5% of active credit manager universes (Figure 3).

Figure 3: Performance metrics vs. the active credit manager universes (Jan 2024–June 2026)

US Corporate Fixed Income	Excess Return	% Rank	Tracking Error	% Rank	Information Ratio	% Rank	Max Alpha Drawdown	% Rank
State Street Systematic High Quality Interm. Corp	0.72	37	0.26	16	2.77	5	-0.05	2
25th Percentile	0.84	—	0.31	—	1.98	—	-0.17	—
Median	0.57	—	0.44	—	1.36	—	-0.31	—
75th Percentile	0.34	—	0.62	—	0.69	—	-0.56	—
US Long Duration—Credit Fixed Income								
State Street Systematic High Quality Long Corp	1.00	9	0.51	53	1.96	6	-0.27	39
25th Percentile	0.64	—	0.31	—	1.48	—	-0.21	—
Median	0.41	—	0.47	—	0.77	—	-0.37	—
75th Percentile	0.10	—	0.65	—	0.22	—	-0.59	—

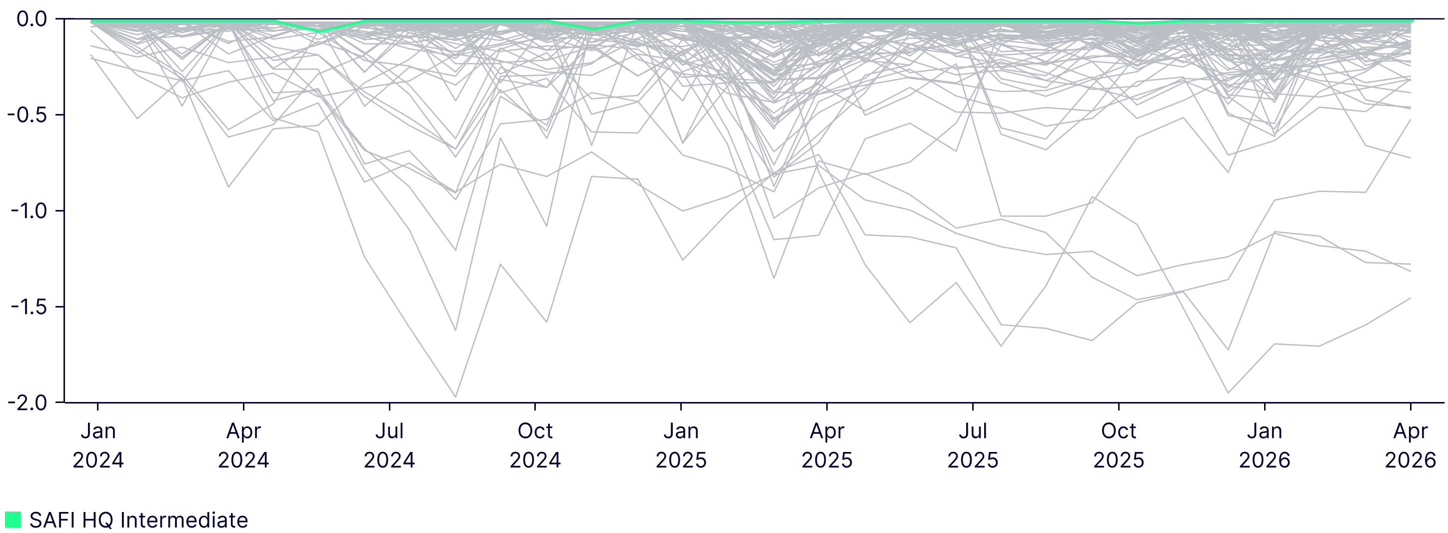
Source: eVestment, State Street Investment Management as of June 30, 2026. Performance analysis uses monthly data gross of management fees from December 31, 2023, to June 30, 2026. The gross performance reflects transaction costs but does not reflect management fees and other fees and expenses a client would have to pay, which reduce returns. The performance data quoted represents past performance. Past performance does not guarantee future returns.

Downside protection matters

Outperformance is important, but the journey matters too. During challenging periods for markets, the importance of downside protection cannot be underplayed—and this is a key hallmark of our SAFI strategies. The maximum alpha drawdown of our SAFI HQ Intermediate strategy of -5 bps is 90% lower than the -49 bps average for the US Corporate Fixed Income universe in eVestment from January 2024–June 2026.

Momentum and sentiment factors can help investors to shift portfolio exposure away from deteriorating issuers before they become larger problems. To observe this in action, Figure 4 illustrates the alpha drawdowns for every manager in the US Corporate Fixed Income universe. While many active managers tend to draw down simultaneously (early 2025 and March 2026), our nimble, disciplined SAFI process has dispassionately followed the data and avoided nearly all of the drawdowns of the past 2.5 years.

Figure 4: Alpha drawdown by active manager in the US Corporate universe (Jan 2024–June 2026)



Sources: State Street Investment Management, eVestment, Bloomberg Finance, L.P. As of June 30, 2026. The chart shows maximum alpha drawdowns by every manager in the US Corporate Fixed Income universe from eVestment for the period from December 31, 2023, to June 30, 2026. Our Systematic US High Quality Corporate Bond strategies were converted to the SAFI investment process on December 31, 2023. Manager returns are gross of fee. The performance data quoted represents past performance. Past performance does not guarantee future results.

Follow the factor data for strong performance with low tracking error

Recent months have reinforced the strength of SAFI's disciplined, factor-driven process. Amid geopolitical shocks, curve volatility, and shifting spreads, the strategies stayed anchored to the data—not headlines—and continued to deliver positive excess returns with tight benchmark alignment.

Since inception, our SAFI strategies have generated competitive excess returns and strong information ratios versus active credit managers, while avoiding the deeper alpha drawdowns that many traditional approaches experienced. That combination of consistent alpha, low tracking error, and downside protection, is the core value proposition of our SAFI approach in uncertain markets.

For additional insights and to learn more about SAFI at State Street Investment Management, please visit our website.

Endnote

1 Source: eVestment. Universe size is 89 managers.

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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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