

# SAFI turns 2: Delivering consistent alpha, controlled risk

**Arkady Ho, CFA**  
Client Portfolio Manager

**“We are what we repeatedly do. Excellence, then, is not an act, but a habit.”**

– Aristotle

In the two years since launching our Systematic Active Fixed Income (SAFI) strategies,<sup>1</sup> we have seen presidential elections, volatility spikes and reversions, and wide swings in investment-grade credit spreads. Despite these challenges, SAFI has delivered results that have exceeded expectations.

The journey to this significant milestone reflects the strength of a disciplined, factor-diversified investment approach that consistently delivered strong results, resilient performance, and robust risk management. In the pursuit of returns, downside protection, and innovative ways to meet our clients’ investment objectives, SAFI has consistently demonstrated its value as part of our suite of fixed income products.

## What SAFI has delivered:

- 1 **Competitive and consistent alpha (1st or 2nd quartile) with low realized tracking error**, leading to **top - quintile information ratios**, gross of fees.
- 2 **A factor - diversified approach** that performed in a variety of market environments, providing **downside protection** during market drawdowns.
- 3 Disciplined risk management approach delivering **modest, repeatable returns through the cycle**—without concentrated risk.

## Strong and consistent performance with downside protection

Over the past two years, SAFI has generated competitive excess returns with appreciably low tracking error. As shown in Figure 1, the Systematic US High Quality Intermediate and Long Corporate Bond strategies (“HQ Intermediate” and “HQ Long”) outperformed their respective benchmarks by 75 and 79 basis points (bps), on an annualized gross-of-fees basis. This compares favorably to alpha targets of 50–75 bps.

**Figure 1: SAFI strategy performances as of 12/31/25**

	Intermediate (1–10Yr) Portfolio		Long (10+ Yr) Portfolio	
	1 Year (%)	Since SAFI Inception (%)*	1 Year (%)	Since SAFI Inception (%)*
Systematic US High Quality Corporate Bond (Gross)	8.25	5.91	7.72	2.5
Benchmark***	7.75	5.16	7.44	1.71
<b>Excess Return (Gross)</b>	<b>0.50</b>	<b>0.75</b>	<b>0.28</b>	<b>0.79</b>
Systematic US High Quality Corporate Bond (Net)	8.24	5.9	7.71	2.49
Benchmark	7.75	5.16	7.44	1.71
<b>Excess Return (Net)</b>	<b>0.48</b>	<b>0.73</b>	<b>0.27</b>	<b>0.78</b>
Tracking Error Volatility	<b>0.13</b>	<b>0.28</b>	<b>0.38</b>	<b>0.44</b>
Information Ratio	<b>3.89</b>	<b>2.66</b>	<b>0.75</b>	<b>1.81</b>

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

Our focus is on compounding modest, repeatable gains rather than pursuing outsized but uncertain outcomes. Our disciplined risk-controlled process allows us to minimize realized tracking error, while maximizing gross information ratios (IR) to 2.7 and 1.8, respectively.<sup>2</sup> Performance has also been consistent, with upside monthly excess returns outweighing the downside: the HQ Intermediate strategy outperformed its benchmark in 19 of the past 24 months by an average of +8 bps; in the other five months, negative alpha averaged -2 bps. The HQ Long strategy outperformed in 17 of the 24 months with average excess returns of +12 bps; in the seven ‘down’ months, alpha averaged -7 bps.

Relative to their active credit manager universes, HQ Intermediate generated consistent alpha with top-decile IR, while HQ Long delivered top quintile alpha and IR, all on a gross of fee basis. Another important outcome for investors in both strategies was that the maximum alpha drawdowns compared favorably with that of other managers in their respective eVestment universes (see Figure 2). Finally, the realized alpha profile is diversifying relative to fundamental active strategies, with an average correlation of 0.3 and 0.2 for the HQ Intermediate and HQ Long strategies, respectively.

**Figure 2: US Corporate and Long Credit Fixed Income Universes (12/31/2023–12/31/2025)**

US Corporate Fixed Income	Excess Return	% Rank	Tracking Error	% Rank	Information Ratio	% Rank	Max Alpha Drawdown	% Rank
State Street Systematic High Quality Interm. Corp	0.75	45	0.29	18	2.60	9	-0.05	5
25th Percentile	0.95	—	0.33	—	2.20	—	-0.17	—
Median	0.63	—	0.46	—	1.53	—	-0.28	—
75th Percentile	0.38	—	0.67	—	0.73	—	-0.55	—
<b>US Long Duration—Credit Fixed Income</b>								
State Street Systematic High Quality Long Corp	0.78	11	0.45	48	1.75	16	-0.27	42
25th Percentile	0.66	—	0.32	—	1.49	—	-0.21	—
Median	0.38	—	0.46	—	0.80	—	-0.34	—
75th Percentile	0.11	—	0.62	—	0.29	—	-0.51	—

Sources: eVestment, State Street Investment Management. As of December 31, 2025. Performance analysis uses monthly data gross of management fees from December 31, 2023 to December 31, 2025. 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.

### Performance attribution: **Balanced, diversified factor contributions and implementation skill**

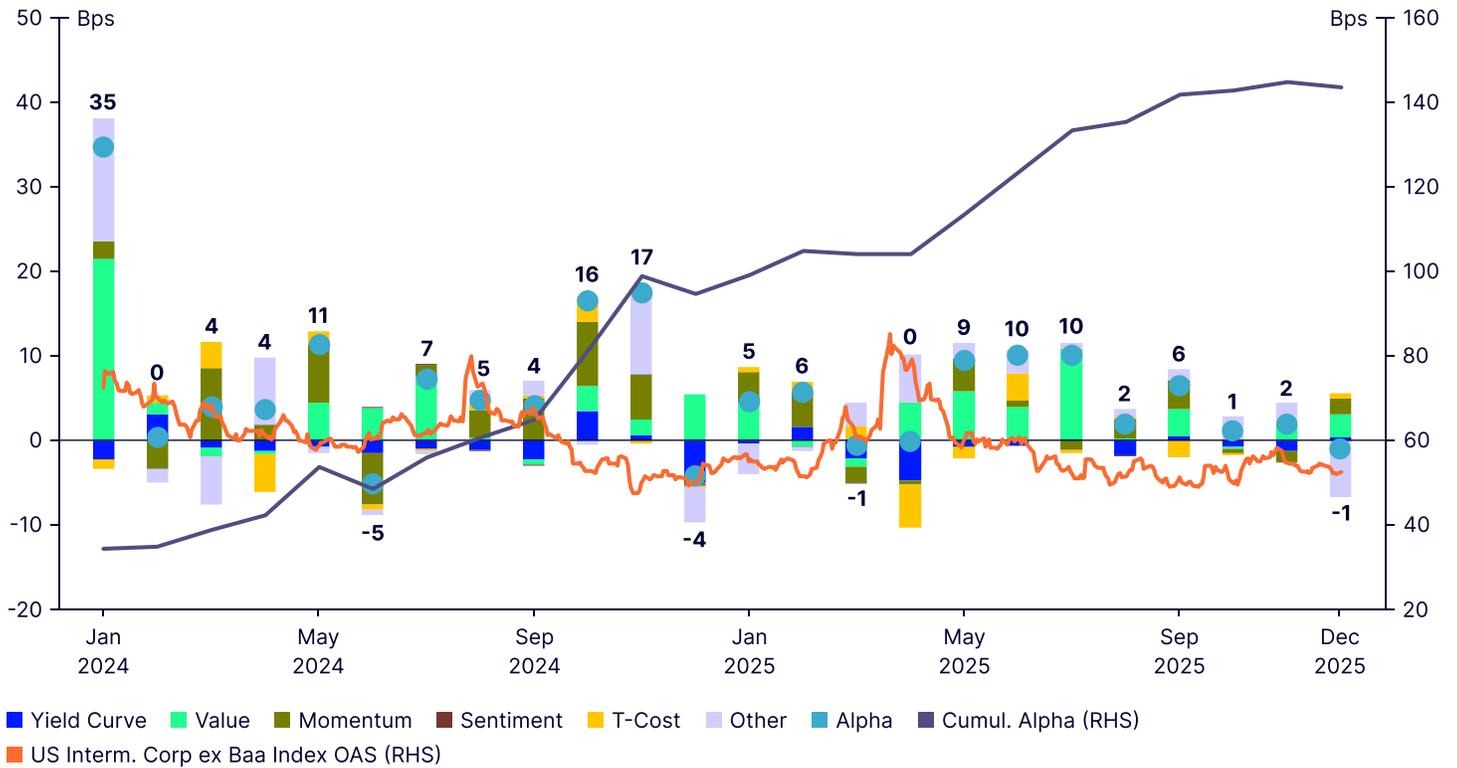
The strong and consistent performance of our strategies has been driven by contributions from a variety of sources. Chief among them were the following:

- 1 Our **factor-diversified approach** that performs across different market environments.
- 2 Our skill and expertise in generating Implementation alpha, as evidenced by our **low realized transaction costs**.
- 3 Our **nimble yet systematic approach** that enables greater responsiveness to market changes.

As reflected in Figure 3, **value** and **momentum** factors were key contributors across the two-year period, while **sentiment** played a comparatively minor role. Overall, 2024 was a stronger year for both value and momentum, while value was the primary driver in 2025. Momentum’s contribution was more impactful in the HQ Intermediate strategy due to greater liquidity and primary market participation.

**Figure 3a: Performance attribution for SAFI HQ Intermediate strategy (2024–2025)**

SAFI HQ Intermediate—Contribution to Alpha

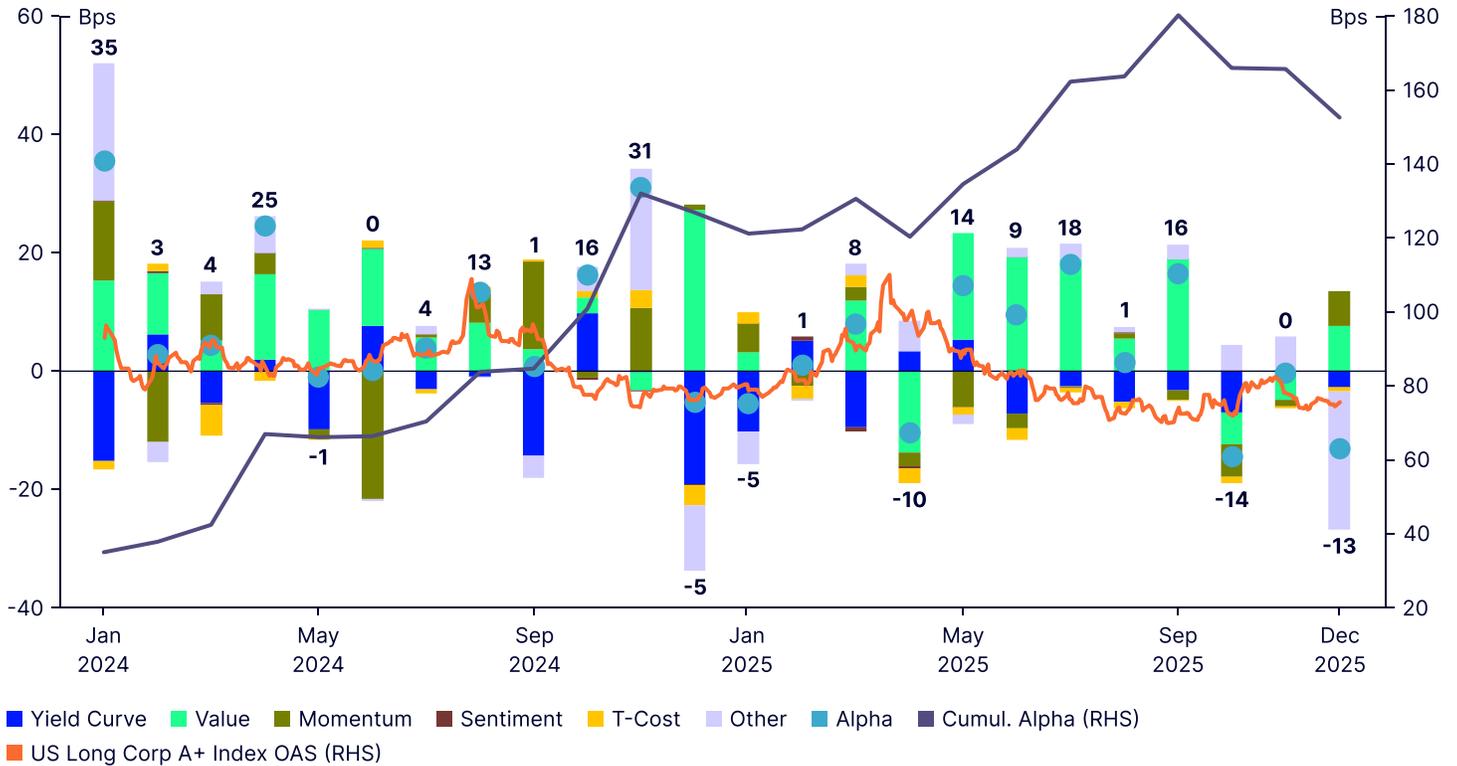


Source: State Street Investment Management. As of December 31, 2025.

\* Since-inception performance reflects conversion to our Systematic Active Fixed Income (SAFI) investment process effective December 31, 2023. “Other” comprises pricing difference, implied volatility, and management fee. The performance data quoted represents past performance. Past performance does not guarantee future returns. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

**Figure 3b: Performance attribution for SAFI HQ Long strategy (2024–2025)**

SAFI HQ Long—Contribution to Alpha



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

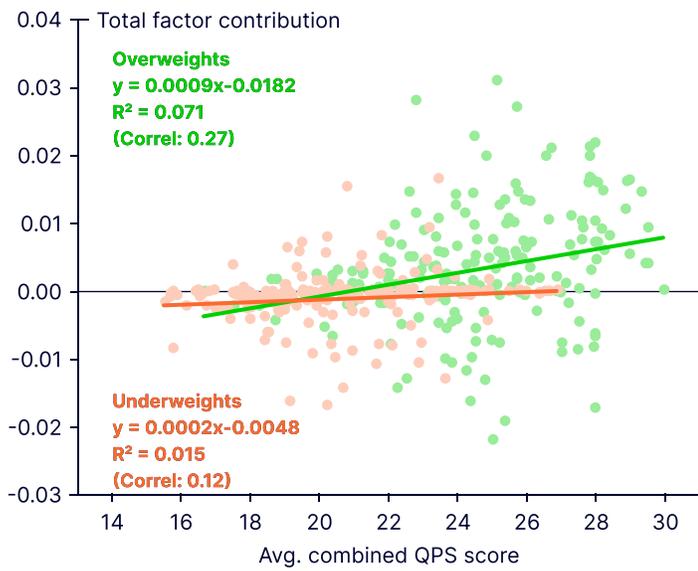
\* Since-inception performance reflects conversion to our Systematic Active Fixed Income (SAFI) investment process effective December 31, 2023. “Other” comprises pricing difference, implied volatility, and management fee. The performance data quoted represents past performance. Past performance does not guarantee future returns. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

### Under the hood: A closer look at our process

Our goal is to systematically enhance our SAFI portfolios’ exposure to value, momentum, and sentiment by optimizing their overall factor scores. Our proactive process (which is covered in greater detail [here](#)) facilitates ongoing improvement in portfolio factor exposures. We sell bonds whose scores have deteriorated and buy high-scoring bonds—with

portfolio tilts often led by the momentum factor. As a result, we tend to overweight high-scoring bonds and underweight low-scoring ones. As illustrated in Figure 4, our overweight positions in the HQ Intermediate strategy have generated significantly more factor contributions to alpha than our underweights.

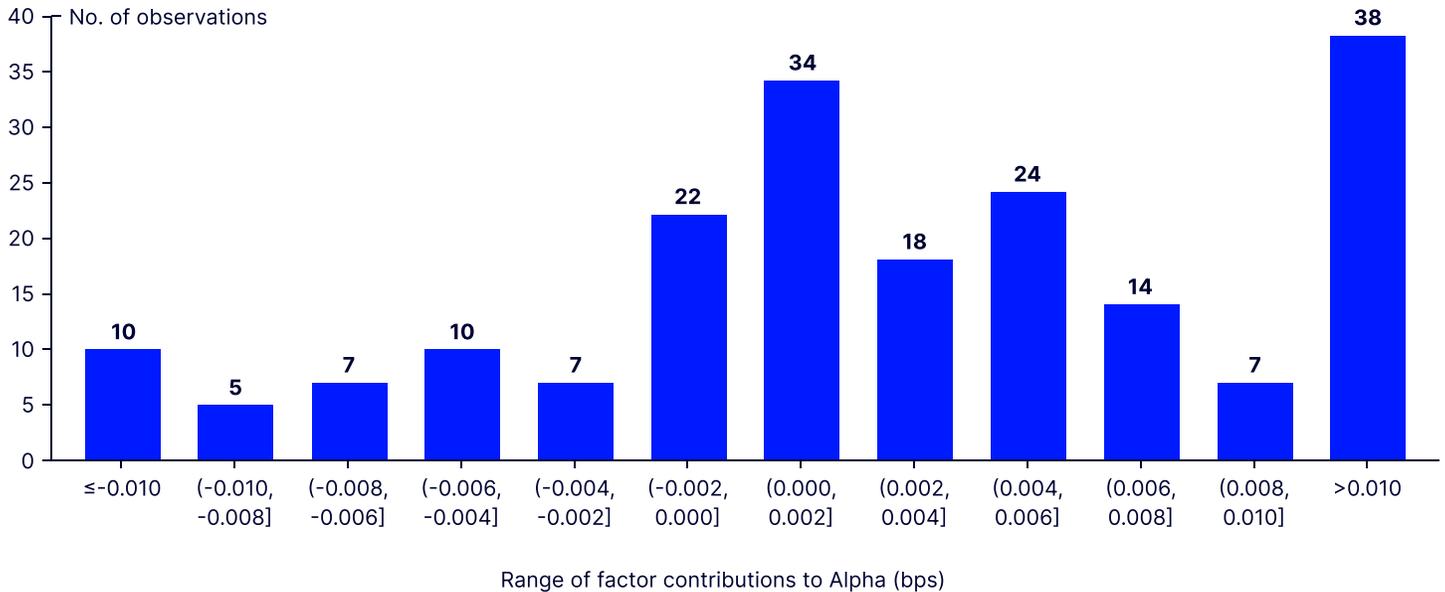
**Figure 4: SAFI HQ Intermediate factor scores and contributions, by overweights and underweights (2025)**



In practice, we seek to “pick up nickels and dimes while only losing pennies.” If we can accomplish this efficiently, then we maximize the probability of outperformance in the long run. The distribution of factor contribution outcomes at the ticker level for 2025 (Figure 5) shows that we’ve been able to both limit the left side (weaker outcomes) of the distribution for overweights and heavily skew that distribution to the upside. Conversely, for underweighted tickers, we mostly lost small fractions of basis points. On a net-net basis, our overweights generated +65 bps of factor contribution to alpha while our underweights detracted -20 bps.

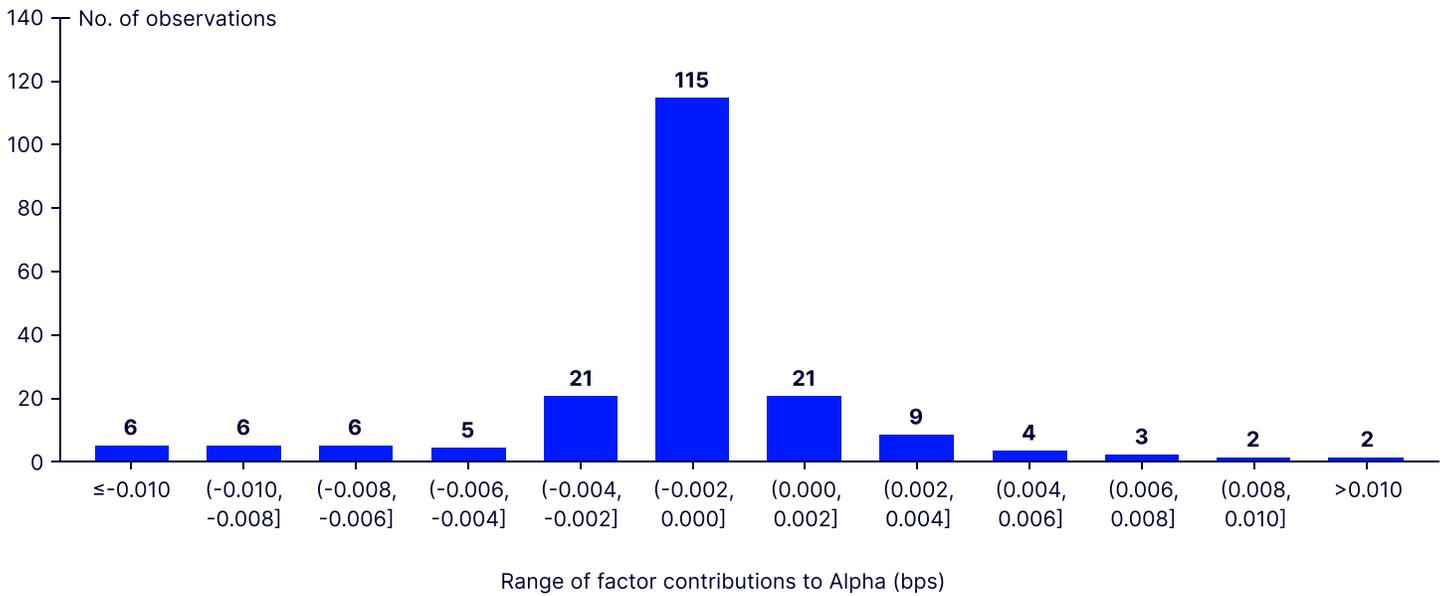
Source: State Street Investment Management. As of December 31, 2025. Analysis is aggregated on monthly data from January—December 2025. The performance data quoted represents past performance. Past performance does not guarantee future returns.

**Figure 5a: Histogram of factor contributions for overweight tickers in 2025 (average)**



Source: State Street Investment Management, as of December 31, 2025. Analysis for SAFI HQ Intermediate strategy is aggregated on monthly data from January to December 2025. The performance data quoted represents past performance. Past performance does not guarantee future returns.

**Figure 5b: Histogram of factor contributions for underweight tickers in 2025 (average)**



Source: State Street Investment Management, as of December 31, 2025. Analysis for SAFI HQ Intermediate strategy is aggregated on monthly data from January to December 2025. The performance data quoted represents past performance. Past performance does not guarantee future returns.

## What's next for SAFI?

SAFI has exceeded our expectations in the first two years of live track records, delivering better outcomes for our clients in the form of: (1) **competitive and consistent alpha with low realized tracking**, (2) **diversification** with respect to the factors and as a **complement to fundamental active**, and (3) a **transparent, carefully risk-controlled** investment approach.

We look forward to launching new vehicles and exposures, and exploring innovative ways that SAFI can better help our clients achieve their goals. SAFI has a bright future, and we hope that you will join us on this journey. Please don't hesitate to reach out if you are interested in learning more about SAFI.

For additional insights and to learn more about SAFI at State Street Investment Management, please visit our [website](#)

## Endnotes

- 1 Live track records since December 31, 2023. Performance cited is based on data to December 31, 2025.
- 2 Source: State Street Investment Management as of December 31, 2025.

# About State Street Investment Management

At State Street Investment Management, we have been helping create better outcomes for institutions, financial intermediaries, and investors for nearly half a century. Starting with our early innovations in indexing and ETFs, our rigorous approach continues to be driven by market-tested expertise and a relentless commitment to those we serve. With over \$5 trillion in assets managed\*, clients in over 60 countries, and a global network of strategic partners, we use our scale to deliver a comprehensive and cost-effective suite of investment solutions that help investors get wherever they want to go.

\* This figure is presented as of December 31, 2025 and includes ETF AUM of \$1,950.80 billion USD of which approximately \$173.02 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.

## statestreet.com/investment-management

### Marketing communication. For institutional/professional investors use only

State Street Global Advisors (SSGA) is now State Street Investment Management. Please [click here](#) for more information.

### State Street Investment Management Worldwide Entities

All information is from SSGA unless otherwise noted and has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.

Investing involves risk including the risk of loss of principal.

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's express written consent.

The views expressed are the views of Arkady Ho through February 12, 2026, and are subject to change based on market and other conditions. This document contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance, and actual results or developments may differ materially from those projected.

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 raise, 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.

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your tax and financial advisor.

Barclays is not affiliated with State Street Global Advisors Funds Distributors, LLC.

**For investors in EMEA: The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the applicable regional regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.**

This communication is directed at professional clients (this includes eligible counterparties as defined by the appropriate EU regulator) who are deemed both knowledgeable and experienced in matters relating to investments. The products and services to which this communication relates are only available to such persons and persons of any other description (including retail clients) should not rely on this communication.

#### Barclays Index License Disclaimer

Barclays Bank PLC has licensed certain systematic strategy indices to State Street Global Advisors that incorporate quantitative signals developed by Barclays' Quantitative Portfolio Strategy (QPS) Research team.

Neither Barclays Bank PLC ("BB PLC") nor any of its affiliates (collectively "Barclays") is the issuer or producer of the products referenced herein and Barclays has no responsibilities, obligations or duties to investors in such products. The Barclays Indices referenced herein (collectively, the "Indices"), together with any Barclays indices that are components of such Indices, are trademarks owned by Barclays and, together with any component indices and index data, are licensed for use by State Street Global Advisors as the producer of the products referenced herein (the "Product Provider"). The Indices are used by the Product Provider in connection with the management of the products referenced herein, but the Indices are not used by the Product Provider as the benchmark for such products, including as defined under Regulation (EU) 2016/1011 of the European Parliament and of the Council of June 8, 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds.

Barclays' only relationship with the Product Provider in respect of the Indices is the licensing of the Indices, which are administered, compiled and published by BB PLC in its role as the index sponsor (the "Index Sponsor") without regard to the Product Provider or the products referenced herein or investors in such products. Additionally, State Street Global Advisors as Product Provider may for itself execute transaction(s) with Barclays in or relating to the Indices in connection with such products. Investors acquire such products from the Product Provider and investors neither acquire any interest in the Indices nor enter into any relationship of any kind whatsoever with Barclays upon making an investment in such products. The products referenced herein are not sponsored, endorsed, sold or promoted by Barclays and Barclays makes no representation regarding the advisability of such products or use of the Indices or any data included therein.

Barclays shall not be liable in any way to the Product Provider, investors or to other third parties in respect of the use or accuracy of the Indices or any data included therein.

Barclays has engaged Bloomberg Index Services Limited as the official index calculation and maintenance agent of the Indices, which are owned and administered by Barclays. Bloomberg Index Services Limited does not guarantee the timeliness, accurateness, or completeness of the calculations of the Indices or any data or information relating to the Indices. Bloomberg Index Services Limited makes no warranty, express or implied, as to the Indices or any data or values relating thereto or results to be obtained therefrom, and expressly disclaims all warranties of merchantability and fitness for a particular purpose with respect thereto. To the maximum extent allowed by law, Bloomberg Index Services Limited, its affiliates, and all of their respective partners, employees, subcontractors, agents, suppliers and vendors (collectively, the 'protected parties') shall have no liability or responsibility, contingent or otherwise, for any injury or damages, whether caused by the negligence of a protected party or otherwise, arising in connection with the calculation of the Indices or any data or values included therein or in connection therewith and shall not be liable for any lost profits, losses, punitive, incidental or consequential damages.

Past performance is not a reliable indicator of future performance.

The trademarks and service marks referenced herein are the property of their respective owners. Third party data providers make no warranties or representations of any kind relating to the accuracy, completeness or timeliness of the data and have no liability for damages of any kind relating to the use of such data.

**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 SSGA. The Strategy Disclosure Document contains important information about the Strategy, including a description of a number of risks.**

**State Street Investment Management**, One Congress Street, Boston, MA 02114.

© 2026 State Street Corporation. All Rights Reserved.  
ID3867950-8773853.1.2.GBL.INST 0226 Exp. Date: 05/31/2026

**Not FDIC insured. No bank guarantee. May lose value.**