SAFI Intermediate: A modern hedging tool for DB plans

Insights
July 2026

For institutional/ professional investors use only

Francois Pellerin
Head of US Corporate DB

Arkady Ho, CFA
Vice President, Client Portfolio Manager

The systematic active fixed income (SAFI) intermediate fixed income strategy can help sponsors improve funded-ratio risk management, diversify alpha sources, and better align hedging assets with maturing liabilities.

Precise hedging and greater control

Our Systematic US High Quality Intermediate strategy combines intermediate-duration liability relevance with a systematic, benchmark-aware process designed to complement traditional fundamental active credit managers. It can play several roles for DB hedging, as follows:

- **More precise hedging,** which will help ensure funding stability for plans that are maturing and better funded
- **Diversification to actively-managed portfolios,** because traditional active credit lineups can be exposed to correlated fundamental alpha
- **Expanded options for intermediate solutions,** which matters amid an LDI ecosystem that is more developed around long-duration mandates

SAFI Intermediate addresses investor goals to maintain funded status with increased customization flexibility, lower tracking risk, low cost, and strong performance potential.

From deficit repair to surplus protection

Corporate defined benefit plan sponsors are entering a new phase of pension risk management. Funded ratios are still meaningfully elevated at 109.5%,[1] as plans have benefited from stronger asset returns, higher discount rates relative to the post-financial crisis period, and disciplined de-risking programs. Meanwhile, many plans are frozen or closed. As benefit accruals decline, liability cash flows mature and plan duration often shortens. Sponsors therefore need a more balanced mix of long, intermediate, and cash-flow-aware hedging assets.

Against this backdrop, objectives have shifted from earning out of deficits and growing, to preserving surplus, reducing funded-ratio volatility, and maintaining end-state optionality. This has raised the importance of hedge quality. Sponsors need fixed income portfolios that are more precisely aligned with their liability duration, spread exposure, cash flows, liquidity needs, and governance objectives.

STATE STREET INVESTMENT MANAGEMENT

SAFI's role in improving hedge quality

Corporate bonds remain DB plans' primary liability-hedging asset because they provide exposure to the interest-rate and credit-spread risks embedded in pension liabilities. SAFI may improve hedge quality in several ways:

Diversification against actively-managed fixed income assets

As plans have de-risked, active credit managers have become central to hedge portfolios. Many active credit managers rely on similar fundamental research processes and may express comparable issuer, sector, quality, liquidity, and spread-risk preferences. Their excess returns can become correlated, especially during stress periods (Figure 1).

For a DB sponsor, correlated alpha is a funded-ratio risk: if multiple managers underperform at the same time, the hedge portfolio can experience alpha drawdowns precisely when funded-status protection is most valuable.

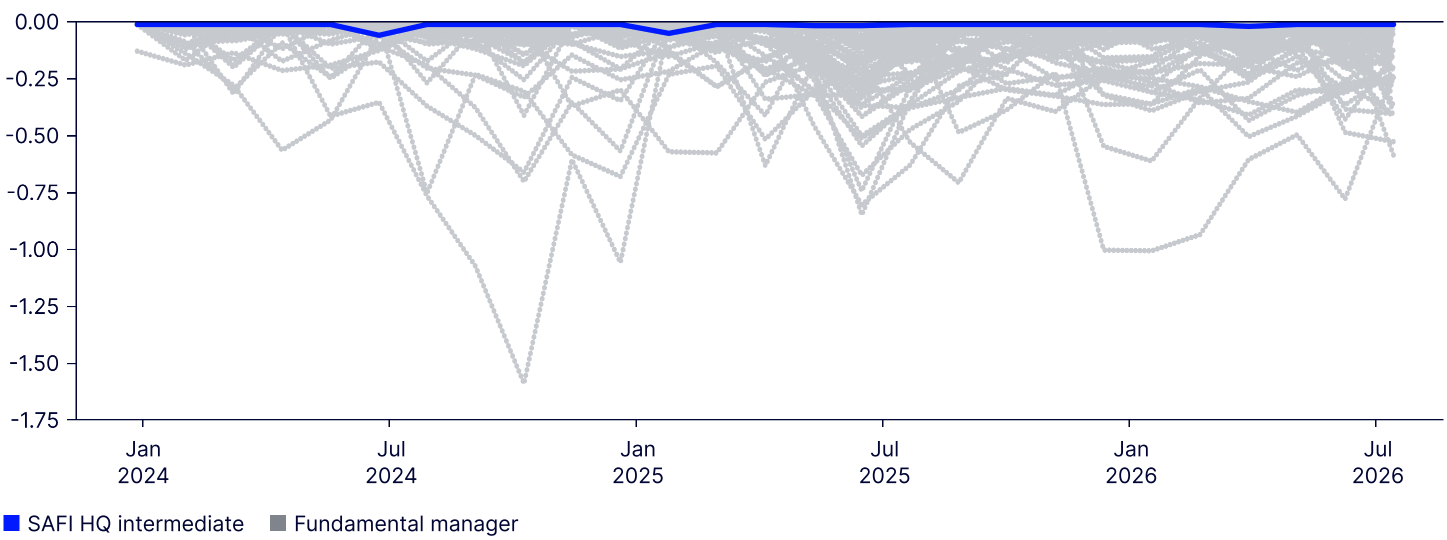
Plan closures mean shorter-duration liability streams

At the same time, liability duration is changing. As plans freeze, close, and mature, cash flows shift closer to the present and duration declines. This makes intermediate fixed income a more central element of the hedging portfolio.

Intermediate mandates can serve as a lower-duration hedge for mature liabilities, a liquidity sleeve for benefit payments, a middle ground between core bond assets and long-duration LDI, or a completion tool alongside long credit and Treasuries.

The opportunity gap is not due to a lack of securities; intermediate credit offers a broad issuer set. The gap is that the institutional LDI ecosystem has historically been more developed around long-duration mandates than differentiated intermediate active solutions. SAFI Intermediate can support hibernation, retention, partial risk transfer, or broader LDI customization.

Figure 1: SAFI high-quality Intermediate can offer protection against drawdowns precisely when its most needed: When fundamental managers may be struggling in concert



Source: State Street Investment Management, eVestment, Bloomberg Finance, L.P. As of March 31, 2026. The chart shows maximum alpha drawdowns by a large proportion of the universe of active US Corporate Fixed Income managers from eVestment for the period from December 31, 2026, to March 31, 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.

Hedge quality also requires balancing excess return, risk, and cost

If the strategy can deliver competitive excess return with low tracking error, lower fees, and lower alpha correlation, it can improve the trade-off between expected return, drawdown risk, and cost.

SAFI Case study: The power of diversification

In this illustrative analysis, adding SAFI Intermediate improved hedge quality by reducing tracking error from 66 basis points (bps) to 55bps, and lowering the 95th percentile drawdown from $17 million to $12 million. It also reduced the probability of falling below a 99% funded ratio over both one and three years, while maintaining the same expected funded ratio.

Illustrative pension plan

Funded status ($M)	
Assets	$1,000
Liability	$1,000
Surplus/deficit	$0
Funded ratio	100%
Asset allocation (%)	
Custom Corporate LDI	100%

LDI managers

Expected α	50 bps
Expected Tracking Error	100 bps
Correlation	
— Fundamental	0.25
— Systematic	– 0.05
Other assumptions	
Liability Hurdle Rate	50 bps

Impact of adding SAFI intermediate

Expected outcomes	W/O Systematic	W/ Systematic
Portfolio Tracking Error	66 bps	55 bps
95th Percentile Drawdown	$17M	$12M
Funded Ratio (FR) (1-yr)	100%	100%
Probability of FR < 99% (1-yr)	~7%	~3%
Probability of FR < 99% (3-yr)	~10%	~6%

Source: State Street Investment Management, as of July 31, 2026.

SAFI US High Quality Intermediate: A systematic complement

SAFI Intermediate should be evaluated as part of the total hedge portfolio rather than as an isolated manager search. Sponsors can model it as a partial replacement for fundamental active credit or as a new allocation funded from passive intermediate credit, with the comparison focused on funded-ratio volatility, expected excess return, alpha drawdown, manager-style concentration, liquidity, and net cost. Rather than adding another credit allocation driven by discretionary issuer research, SAFI Intermediate brings a systematic implementation approach to high-quality corporate bonds, one that uses the potential return benefits of factor signals such as value, momentum, and sentiment.

This creates a differentiated alpha source. SAFI Intermediate can evaluate a broad universe consistently, apply disciplined risk controls, and target active risk where compensation appears most attractive, making it complementary—not redundant—to traditional fundamental managers (Figure 2). Intermediate-duration exposure can better match maturing liabilities and reduce reliance on long credit where it is less appropriate.

Figure 2: SAFI high-quality intermediate can offer diversifying alpha, while fundamental managers tend to exhibit higher excess return correlations with each other

	SAFI HQ Interm. Corp.	JPM US Corp.	Wellington US IG Credit	Morgan Stanley US IG Corp	PIMCO IG Corp.	Columbia US IG Corp.	Eastspring US Corp.	Capital Group US Corp.
SAFI HQ Interm. Corp.	1.00							
JPM US Corp.	0.35	1.00						
Wellington US IG Corp.	0.11	0.73	1.00					
Morgan Stanley US IG Corp.	0.13	0.50	0.48	1.00				
PIMCO IG Corp.	0.21	0.56	0.32	0.22	1.00			
Columbia US IG Corp.	-0.12	0.26	0.32	0.22	0.14	1.00		
Eastspring US Corp.	-0.15	0.21	0.26	0.68	0.03	0.34	1.00	
Capital Group US Corp.	-0.21	0.15	0.20	0.01	0.31	0.50	0.21	1.00
Mean	**0.04**	**0.39**	**0.35**	**0.32**	**0.26**	**0.24**	**0.23**	**0.16**

Sources: State Street Investment Management, eVestment, Bloomberg Finance, L.P. As of March 31, 2026. Analysis is conducted on a sample of large fundamental active US credit managers, as of March 31, 2026 using monthly excess returns vs. manager preferred benchmarks from January 2024 to March 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.

SAFI performance results

As of June 30, 2026, the strategy generated positive net excess return versus the Bloomberg Intermediate Corporate ex-Baa Index: 35 basis points over one year and 54 basis points annualized since inception of the SAFI process. These results were achieved with low realized tracking error of 0.13% over one year and 0.26% since inception.

Intermediate (1–10yr) portfolio

	QTR (%)	YTD (%)	1 Year (%)	Since SAFI Inception (%) *
Systematic US High Quality Corporate Bond (Gross)	0.90	0.90	4.35	5.08
Benchmark	0.78	0.59	3.81	4.35
Excess Return (Gross)	**0.12**	**0.32**	**0.54**	**0.72**
Systematic US High Quality Corporate Bond (Net)	0.85	0.81	4.16	4.89
Benchmark	0.78	0.59	3.81	4.35
Excess Return (Net)	**0.08**	**0.22**	**0.35**	**0.54**
Tracking Error Volatility			**0.13**	**0.26**
Information Ratio			**4.20**	**2.82**

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 results. 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. 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 includes the reinvestment of dividends and other corporate earnings and is calculated in US dollars.

Endnote

1 Milliman, Corporate Pension Funding Index, as of July 9, 2026.

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 $6 trillion in assets managed*, clients in 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 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.

statestreet.com/investment-management

Marketing communication

For institutional / professional investors use only.

State Street Global Advisors Worldwide Entities

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.

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.

The views expressed in this material are the views of the State Street Investment Management FICC team through the period ended July 19, 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.

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 8 June 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.

BLOOMBERG is a trademark and service mark of Bloomberg Finance L.P. Bloomberg Finance L.P. and its affiliates (collectively, "Bloomberg") are not affiliated with Barclays Bank PLC. Bloomberg's association with Barclays Bank PLC is to act as the administrator and calculation agent of the Barclays Aggregate Index (the "Index"), which is the property of Barclays Bank PLC. Bloomberg does not guarantee the timeliness, accurateness, or completeness of the Index or any data or information relating thereto and shall have no liability in connection with the Index or any data or information relating thereto."

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.

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.

The performance data quoted represents past performance. Past performance does not guarantee future results.

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.

The value of the debt securities may increase or decrease as a result of the following: market fluctuations, increases in interest rates, inability of issuers to repay principal and interest or illiquidity in the debt securities markets; the risk of low rates of return due to reinvestment of securities during periods of falling interest rates or repayment by issuers with higher coupon or interest rates; and/or the risk of low income due to falling interest rates. To the extent that interest rates rise, certain underlying obligations may be paid off substantially slower than originally anticipated and the value of those securities may fall sharply. This may result in a reduction in income from debt securities income.

All the index performance results referred to are provided exclusively for comparison purposes only. It should not be assumed that they represent the performance of any particular investment.

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.

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

ID4590950-9032434.1.2.GBL.INST 0726 Exp. Date: 07/31/2027