

Unlock the potential in your portfolio with securities lending

Insights
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Securities lending is an essential component of capital markets activity, facilitating settlement, injecting liquidity, and fostering confidence for risk taking. A well-managed securities lending program can benefit institutional investors by providing a pathway to earn additional income in a risk-controlled manner.

What is securities lending?

Securities lending is a process whereby a financial institution or fund temporarily lends out its securities to another party (a borrower) in exchange for a fee and collateral. The borrower can then use the borrowed securities for various purposes such as going short a particular risk, hedging, covering pending settlements, creating arbitrage opportunities, or for balance sheet and/or collateral management. The borrower is obligated to return the securities to the lender, usually within a predetermined timeframe.

How does securities lending work?

A securities lending transaction involves the temporary transfer of securities from one party (the lender) to another party (the borrower). This process is illustrated in Figure 1.

Borrowers and lenders participate in securities lending programs through their custodian by signing a loan agreement. Frequently, a securities lending agent is

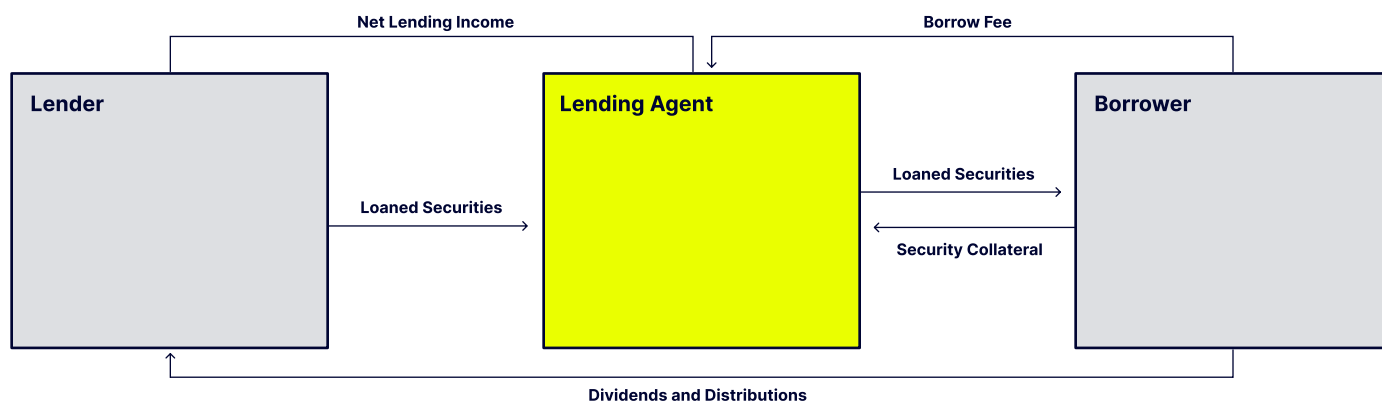
employed by the lender to manage the lending program and facilitate transactions. Agency or custodial lending is when the lender's custodian acts as agent lending their securities, whereas third-party agency lending occurs when the lender has their custodian engage another custodian to act as the agent lending their securities. Lending transactions typically occur under two different loan agreements: open loans, which get repriced nightly and roll forward, and term loans, which are priced for a set duration.

For most transactions, the borrower pays a fee to the lender for borrowing the securities in exchange for collateral, which can come in the form of cash or securities. If cash is transferred as collateral, the borrower may expect interest to be paid on the cash (a rebate). In this case, instead of a borrow fee, the lender will earn the interest differential between what is earned by investing the cash in money markets and the rebate due to the borrower.

The collateral amount is marked to market daily. If collateral levels are insufficient for a particular loan, the borrower is required to provide additional collateral. If the loan is over-collateralized, the lending agent may return some of the collateral to the borrower. Collateralization levels are frequently negotiated between 102–110%. This is often above the contractual minimum and is based on the liquidity, price volatility, and currency of individual instruments. The lending agent will typically retain a portion of the borrow fees (or interest differential) as a fee for their services.

Almost any security can be lent today, including global equities, corporate credit, government securities, and ETFs.

Figure 1: How securities lending works



The information contained above is for illustrative purposes only.

What are the benefits of securities lending?

Market participants can use securities lending revenue to offset other costs associated with running a portfolio and/or to boost portfolio yield.

Given ETFs' broad user base and diversified nature, many participants in the lending markets utilize the ETF structure for a "long and lend" strategy. This gives market participants the opportunity to pursue enhanced portfolio yields and potentially earn incremental income while still retaining economic interest in the assets. This is especially true for institutional investors who may be long-term holders of equity and fixed income ETFs.

Long and lend is a huge benefit to institutional investors with long-term holding periods. But those with the tactical

flexibility to create to lend when borrow rates increase in periods of market stress can also benefit from a securities lending program. A critical mitigant to a particular ETF product trading at unreasonable premiums/discounts is the fact that new ETF shares can be created to satisfy borrower demand. This mechanism represents a significant tactical trading opportunity to increase income for institutions who can take advantage of it.

State Street Investment Management has 16 ETFs that each have more than \$500M of lendable assets available on a daily basis. These ETFs, shown in Figure 2, span a wide range of exposures from broad market equities to leveraged loans.

Figure 2: State Street® SPDR® ETFs with more than \$500M of lendable assets available

Ticker	Fund name	2025 NAIC designation	S&P rating	VWAF (bps)	Utilization rate (%)
Broad equities					
SPDW	SPDR® Portfolio Developed World ex-US ETF			12.35	29.62
SPY	SPDR® S&P 500® ETF Trust			15.91	23.64
SPYM	State Street® SPDR® Portfolio S&P 500® ETF			9.16	1.46
Sectors and industries					
XBI	State Street® SPDR® S&P® Biotech ETF			90.64	81.53
XLC	The Communication Services Select Sector SPDR® Fund			25.33	8.59
XLE	The Energy Select Sector SPDR® Fund			15.14	56.07
XLF	The Financial Select Sector SPDR® Fund			14.68	9.01
XLI	The Industrial Select Sector SPDR® Fund			10.74	39.96
XLK	The Technology Select Sector SPDR® Fund			11.98	12.17
XLP	The Consumer Staples Select Sector SPDR® Fund			13.07	22.69
XLU	The Utilities Select Sector SPDR® Fund			14.51	27.54
XLV	The Health Care Select Sector SPDR® Fund			11.38	41.30
XLY	The Consumer Discretionary Select Sector SPDR® Fund			13.44	19.62
Fixed income					
JNK	State Street® SPDR® Bloomberg High Yield Bond ETF	Preliminary NAIC 4.B	'B+f/S4'	29.93	23.01
SPTL	State Street® SPDR® Portfolio Long Term Treasury ETF			10.56	2.11
SRLN	State Street® Blackstone Senior Loan ETF	Preliminary NAIC 4.B		11.39	82.99

Source: S&P Global® as of October 1, 2025. The source data is provided by group participants of S&P Global Market Intelligence Securities Finance. The data was from a source believed to be reliable, however, neither State Street Bank and Trust Company nor S&P Global guarantee the accuracy, adequacy or completeness of the information.

What is the potential yield?

When evaluating the potential yield generated from securities lending, we typically look at the volume-weighted average fee (VWAF) and the utilization rate percentage:

- The VWAF represents the average fee (in bps) charged by a lender to a borrower expressed in annualized terms.
- The utilization rate percentage is the shares on loan as a percentage of shares made available for loan.

To demonstrate the potential return on shares made available, multiply the VWAF by the utilization rate to determine an estimated historical return from lending assets. Using the data in the table above, it could be possible to earn from a low of 0.13 bps to a high of 73.90 bps of incremental yield on these ETFs.

What are the risks?

As with all investment activities, there are several risks related to participating in a securities lending program. Figure 3 details some of the key risks and their mitigants.

Figure 3: Key risks and mitigants

	Risk	Mitigant
Reinvestment risk	<ul style="list-style-type: none"> Generally, the largest risk to the agent is accepting cash collateral Risk of loss in cash collateral reinvestment (credit, interest rate, liquidity, etc.) 	<ul style="list-style-type: none"> Avoidance of cash collateral Conservative management of cash collateral reinvestment
Borrower default risk	<ul style="list-style-type: none"> Risk of borrower defaulting (e.g., bankruptcy) & unable to return securities to the lender 	<ul style="list-style-type: none"> High quality borrower selection Over-collateralization/daily mark-to-market Accepted collateral types, diversification, liquidity testing Borrower default indemnification
Operational risk	<ul style="list-style-type: none"> Risk of failed settlements due to securities on loan Miscommunication of corporate action elections Tax and regulatory guideline breaches, etc. 	<ul style="list-style-type: none"> Limits with buffers relative to regulatory guidelines Position limits with buffers Capabilities/breadth of lending agent Strong communication and operational controls

Source: State Street Investment Management as of September 30, 2025.

Governance is one of the most important risk mitigants for any securities lending program. Borrowers and lenders in any program need to be reviewed and approved. Both quantitative and fundamental approaches should be leveraged as part of the evaluation. Participants are typically subject to a continuous monitoring regime to identify any developments that may impact the creditworthiness of a borrower. At all times, it must be ensured that the collateral posted is sufficient to cover the securities borrowed.

State Street Bank and Trust Company (custodial) agency and third-party lending

State Street Bank and Trust Company (SSBT), the appointed lending agent for all US- and EMEA-domiciled SPDR® ETFs, is one of the world's largest and most experienced lending agents, providing both custodial and third-party lending services covering more than 30 international markets for equities and fixed income. State Street Investment Management manages the cash collateral in pooled or segregated funds or self-managed. SSBT operates through entities within the State Street group of companies (which are affiliates of State Street Investment Management). SSBT has been providing securities lending services since 1974 and now operates from trading desks based in London, Boston, Hong Kong, Toronto, and Sydney.

This international presence provides local expertise and 24-hour access to the securities lending markets. SSBT offers considerable depth of inventory and market presence, thus enabling SSBT to provide insights into the level of demand for securities. Additionally, SSBT employs a number of safeguards for clients engaged in securities lending, including:

- Indemnifying clients against borrower default;
- Monitoring the daily activity of the borrowers;
- Maintaining liquid collateral with appropriate margin; and
- Ensuring collateral diversification.

This means that SSBT can provide highly customized solutions while attracting high credit quality borrowers.

Partner with State Street Investment Management today

For additional information about securities lending, please contact a member of State Street Investment Management's Client Coverage Group:

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statestreet.com/investment-management

Important Risk Information

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

Investing involves risk including the risk of loss of principal.

Because of their narrow focus, sector funds tend to be more volatile than funds that diversify across many sectors and companies.

Equity securities may fluctuate in value in response to the activities of individual companies and general market and economic conditions.

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.

Non-diversified funds that focus on a relatively small number of securities tend to be more volatile than diversified funds and the market as a whole. Passively managed funds hold a range of securities that, in the aggregate, approximates the full Index in terms of key risk factors and other characteristics. This may cause the fund to experience tracking errors relative to performance of the index.

While the shares of ETFs are tradable on secondary markets, they may not readily trade in all market conditions and may trade at significant discounts in periods of market stress.

ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETFs net asset value. Brokerage commissions and ETF expenses will reduce returns.

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The Funds may participate in an agency securities lending program sponsored by State Street Bank and Trust Company for the purpose of lending securities and investing the collateral posted by the borrowers of those loaned securities in a collateral reinvestment fund ("Collateral Pool"). Securities lending programs and the subsequent reinvestment of the posted collateral are subject to a number of risks, including the risk that the value of the investments held in the Collateral Pool may decline in value and may at any point be worth less than the original cost of that investment. Engaging in securities lending could have a leveraging effect, which may intensify the market risk, credit risk and other risks associated with investing in this Strategy or Fund.

NAIC designations are assigned to securities held by state-regulated insurance companies by the Securities Valuation Office (SVO) of the National Association of Insurance Commissioners (NAIC). Designations are opinions of credit quality, and range from the highest quality of 1 to the lowest of 6. A higher quality designation results in less capital requirements to support the insurers' investments. Unlike the ratings of nationally recognized statistical rating organizations, NAIC designations are not produced to aid the investment decision making process and therefore are not suitable for use by anyone other than NAIC members.

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Credit quality ratings of the underlying securities of the fund are derived from ratings provided by Moody's, S&P, and Fitch. If a security has a rating from each of the three agencies, the median rating is used. If a security has two ratings, the lower rating is used. If a security only has one rating, that rating is used. If a security is not rated by Moody's, S&P, and Fitch, it will show as "Not Rated", though the security may be rated by a different nationally recognized statistical rating organization (NRSRO).

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