

The Case for US Corporate High Yield ESG

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Following an index change, SPDR now offers an ETF for ESG-aware investors seeking exposure to US high yield corporate bonds.

Overview

As of 29 October 2021, the SPDR Bloomberg Barclays 0-5 Year U.S. High Yield UCITS ETF (ticker: SJNK) has changed its investment objective and been renamed SPDR Bloomberg SASB U.S. High Yield Corporate ESG UCITS ETF. The investment objective is now to seek to track the performance of the fixed-rate, USD-denominated high yield corporate bond market, as represented by Bloomberg SASB U.S. Corporate High Yield ESG Ex-Controversies Select Index.

SJNK is an ESG-aware core building block. The index construction excludes for controversies and seeks to optimise its ESG score. This is done by weighting the remaining issuers with an aggregated ESG score known as R-Factor[®], designed by State Street Global Advisors. As the index seeks to meet core allocation needs, it targets a risk profile similar to that of a traditional US high yield beta exposure.

An Aggregated Score Based on SASB ESG Materiality Framework

The ESG scoring solution is based on the SASB materiality map. This map has been developed after rigorous research and comments from both companies and the public. It is supported by investors globally, representing \$75 trillion in assets under management.¹

Index Construction

Step 1: Remove Controversies Remove issuers from the parent index involved in, and/or that derive significant revenue from operations related to extreme event controversies, controversial weapons, United Nations Global Compact violations, civilian firearms, thermal coal extraction and power generation, oil sands extraction, Arctic oil and gas exploration, or tobacco companies. Of the remaining issuers, remove all firms that do not have an aggregate ESG materiality score to identify the investable universe (lacking available data).

Step 2: Control for ESG and Risk/Return Metrics Select securities and their corresponding weights to maximise the ESG score while maintaining similar risk-return characteristics of the parent index (see optimisation constraint table in the Appendix). Securities with R-Factor[®] (developed by State Street Global Advisors) greater than or equal to the parent index average R-Factor[®], and that also meet all controversial business screens, have a minimum market value weight equal to the parent index weight. Securities with R-Factor[®] scores of less than the parent index average R-Factor[®] are eligible.

Figure 1
Fund Information

Inception Date	19 September 2013
Index Change	29 October 2021
ISIN Code	IE00B99FL386
Tickers	Deutsche Borse — SYBK GY (EUR) LSE — SJNK LN (USD)/JNKS LN (GBP) Borsa Italiana — SJNK IM (EUR)
Total Expense Ratio	0.30%
Index Name	Bloomberg SASB US Corporate High Yield ESG Ex-Controversies Select Index
Index Ticker	I36569US
Number of Index Holdings	908
Index Rebalance Frequency	Monthly (including for exclusions and scores)

Source: State Street Global Advisors, as of 1 October 2021.

Figure 2
Characteristics vs.
Parent Index

Characteristics	Bloomberg SASB US Corporate High Yield ESG Ex-Controversies Select Index	Bloomberg Barclays US Corporate High Yield Index
Number of Issues	908	2,238
Number of Issuers	326	1,009
Yield to Worst	3.93	4.03
Coupon	5.76	5.75
Maturity (Years)	6.56	6.60
Option-Adjusted Duration	3.98	3.95
Option-Adjusted Spread	286	293
Option-Adjusted Convexity	-0.15	-0.07
Duration Times Spread	10.98	11.01
Index Rating	BA3/B1	BA3/B1
Liquidity Score	61	61
Face Amount (in USD Billion)	695	1,570

Source: State Street Global Advisors, Bloomberg Finance L.P., as of 1 October 2021. Characteristics are as of the date indicated and should not be relied upon as current thereafter.

Figure 3
Top 10 Issuers

Bloomberg SASB US Corporate High Yield ESG Ex-Controversies Select Index			Bloomberg Barclays US Corporate High Yield Index		
1	Ford Motor	5.09%	1	Ford Motor	3.13%
2	Occidental Petroleum Corporation	2.52%	2	Occidental Petroleum Corporation	1.81%
3	Intensa Sanpaolo SpA	2.30%	3	Charter Communications	1.55%
4	Nielsen Finance	2.19%	4	Kraft Heinz Foods	1.42%
5	Alcoa Corp	2.14%	5	Sprint Corp	1.22%
6	Ball Corp	2.13%	6	Bausch Health Cos Inc	1.18%
7	Caesars Entertainment Inc	2.02%	7	Centene Corp	1.00%
8	Transocean Inc	2.01%	8	Tenet Healthcare Corp	0.96%
9	YUM! Brands Inc	1.79%	9	CSC Holdings LLC	0.94%
10	Bombardier Inc	1.66%	10	HCA Inc	0.87%

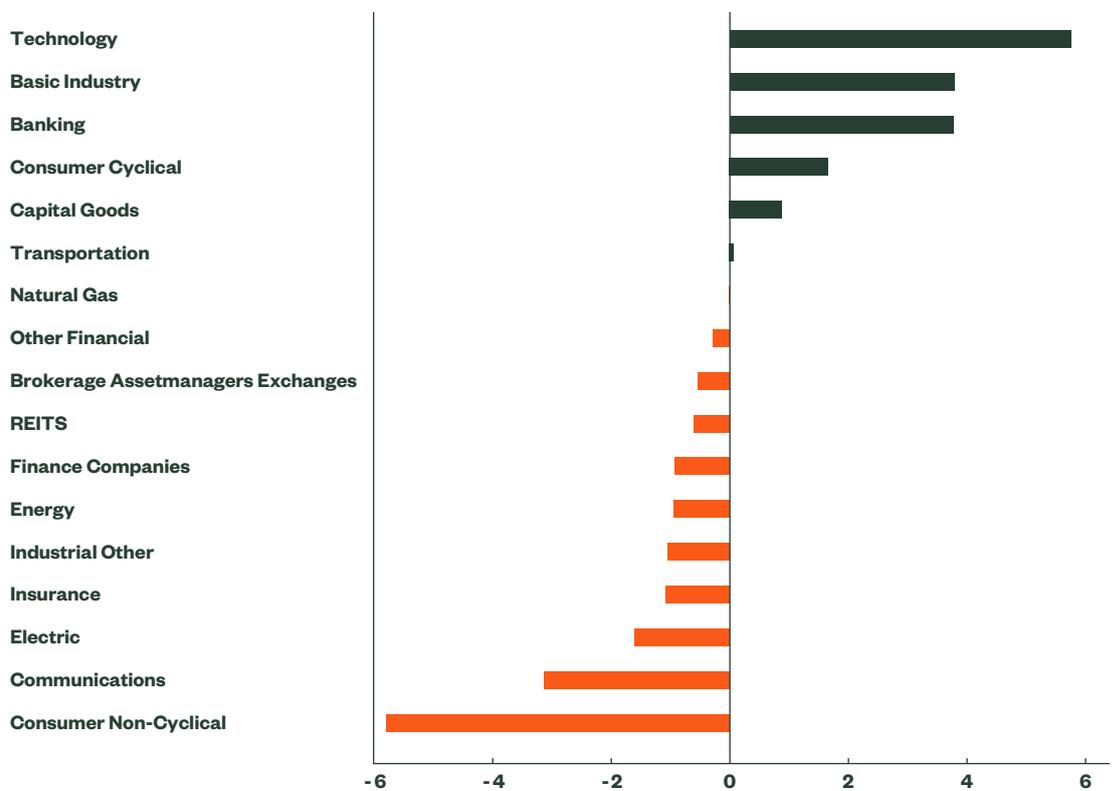
Source: State Street Global Advisors, Bloomberg Finance L.P., as of 1 October 2021. Weights are as of the date indicated and should not be relied upon as current thereafter.

Figure 4
Top 10 Exclusions
From The Bloomberg
Barclays US Corporate
High Yield Index

Company	Weight (%)	Reason
JBS SA	0.45	ESG control flag
Olin Corp	0.16	Civilian Firearms
PG&E Corp	0.12	ESG flag & UN Global Compact
Vector Group Ltd	0.09	Tobacco
Fluor Corp	0.07	Controversial Weapons
Rayonier Advanced Materials In	0.06	Tobacco
BWX Technologies Inc	0.05	Controversial Weapons
Vista Outdoor Inc	0.03	Civilian Firearms
Schweitzer-Mauduit International	0.02	Tobacco
Leonardo SpA	0.01	Controversial Weapons
Total	1.07	

Source: State Street Global Advisors, Bloomberg Finance L.P., as of 1 October 2021. Weights are as of the date indicated and should not be relied upon as current thereafter.

Figure 5
Sector Profile vs.
Parent Index
 (Market Weight in %)



Source: State Street Global Advisors, Bloomberg Finance L.P., as of 1 October 2021.

Why this ETF?

We see three main reasons why investors could consider the SPDR Bloomberg SASB U.S. High Yield Corporate ESG UCITS ETF.

Exclude Controversies This SPDR ETF excludes issuers that derive significant revenue from certain practices, industries and product lines.

Maximise ESG Score The embedded ESG approach builds on the SASB materiality map to maximise the ESG score via positive screening.

Core Building Block The ETF is designed to be used as a core building block for benchmark-aware ESG investors.

Why SPDR for ESG?

SPDR ETFs are a part of State Street Global Advisors, the asset management arm of State Street. This structure affords SPDR a heritage of sustainability and significant resource to respond to client needs. As a well-established provider of financial services to global institutional investors, State Street is dedicated to long-term value creation.

Across our leading investment servicing, management, research and analytics capabilities, State Street is committed to helping investors understand the Environmental, Social and Governance (ESG) issues that affect the value of their portfolios. We further show our commitment to sustainability as a signatory to the UN's Sustainable Development Goals, through global environmental goals and incorporation of ESG into the board charter at the corporate level.

As we witness the structural shift in our economies from tangible to intangible value drivers, we recognise that ESG considerations are becoming more important factors for companies and the way they are valued as well as for investors. At State Street Global Advisors, we are committed to combining our financial data and analytics capabilities with our investment practitioner perspective to create a new generation of ESG solutions. We provide leading research, analytics and advisory for investors' ESG needs across asset classes and investment styles.

We believe our asset stewardship activities and ESG scoring model are differentiating activities in the financial world.

State Street Global Advisors: ESG Experience

- AUM: \$485 billion in ESG assets (as of 30 September 2021).
- Asset stewardship: Our dedicated team engages with companies representing 72% of State Street Global Advisors equity AUM.
- Implementing ESG since 1985: Launched first ESG mandate in 1985; was an early leader in low-carbon investing; recognised leader in asset stewardship and corporate governance.

Endnote

- 1 Source: sasb.org, as of 31 December 2019. These assets represent 263 investors from 25 countries.

Appendix

ESG score Optimisation Constraints

R-Factor® Score	Securities with R-Factor® scores greater than or equal to the parent index average R-Factor®, and that also meet all controversial business screens, have a minimum market value weight equal to their parent index weight.
Option Adjusted Duration	Must be within 0.15 years of each Class 2 sector of the parent index.
Duration Times Spread	Must be within 0.2 years of each Class 2 sector of the parent index. DTS is calculated by multiplying spread duration by Libor option-adjusted spread. DTS measures sensitivity to relative spread change as opposed to absolute spread change like modified duration
Yield to Worst	Must be no less than 10bps from the parent index.
Class 2 Sector Weights	Bloomberg Barclays Class 2 sector weights must be within 200bps of the parent index.
Index Rating Weights	Bloomberg Barclays Index Rating weights (Ba, B, Caa, Ca, C) must be within 300bps of the parent index.
Security & Issuer Weights	Individual security weights must be less than 15 times their weight in the parent index or 100bps, whichever is less Issuer (ticker) weights must be less than 200bps plus their weight in the parent index. Only long positions are allowed.
Cash Position	All cash that enters the index midmonth is completely reinvested into next month's index at the next rebalancing date. On each rebalancing date, cash has a 0% weight.
Transaction Costs	Transaction costs cannot be greater than 2%. Transaction costs are a function of all the buy trades implemented each month. The cost is defined as the number of years since issuance (years from dated date). For example, a 1% buy transaction in a security issued 1 year ago adds has a transaction cost of 1%, while a 1% buy transaction in a security issued 6 months ago adds a transaction cost of 0.5%.

Source: Bloomberg Finance L.P. Note: Each of these constraints, with the exception of the security and ticker level upper and lower bounds, are soft constraints. This means that the optimiser will consider solutions outside of these bounds, provided that the trade-off is sufficient. For more detail index rules can be found at [v0\(bwbx.io\)](http://v0(bwbx.io)).

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