

Indexed Fixed Income at State Street Global Advisors

A Snapshot

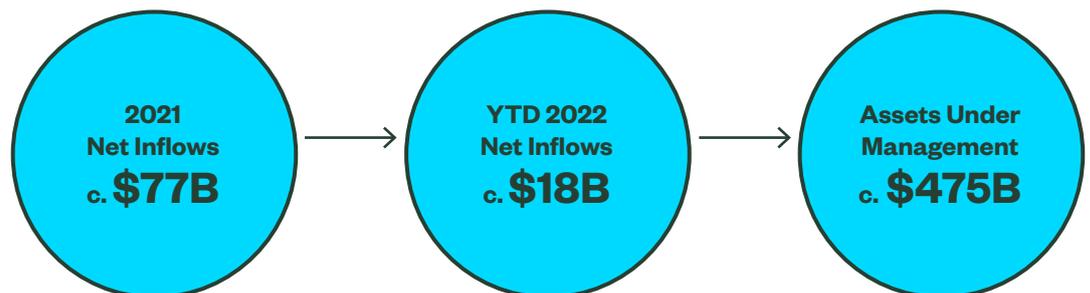
Indexed Fixed Income Snapshot

Our Indexed Fixed Income franchise has been a particular highlight for State Street Global Advisors. And that has remained the case in 2022, despite considerably less favourable market conditions than last year.

Strong Across All Sectors

2021 was a banner year for State Street Global Advisors and we generated +\$77 billion in indexed fixed income flows. Turbulent markets driven by accelerating inflation, increasingly hawkish central banks, and the war in Ukraine have disrupted this momentum in the current year. Notwithstanding this, we still achieved **solid positive inflows of +\$18 billion** into our indexed fixed income book in the first nine months of 2022, with increased allocations to Treasuries offsetting some of the withdrawals from multi-sector and high yield exposures driven by risk-off sentiment. As of the end of September 2022, we manage almost **\$475 billion in dedicated fixed income indexed assets**, distributed across a broad range of exposures.

Figure 1
Sustained Growth in Indexed Fixed Income Assets Under Management
September 2022



Source: State Street Global Advisors as of 30 September 2020.

Figure 2
**Indexed Fixed Income
at State Street
Global Advisors**
AUM by Segment

Multi Sector \$119B	Sovereign \$219B	IG Corporate \$69B	HY Corporate \$25B	Securitized \$9B	Emerging Markets \$33B	ESG \$47B
Global Aggregate	Global Governments	Global Credit	Global HY	Mortgage Backed	EM Local Currency	ESG Screened
US, Euro, Sterling, Aggregate	US Treasuries, STRIPS	US, Euro, Sterling, Credit	US, Euro HY	Asset Backed	EM Hard Currency	Climate
Asia Bond	Euro Governments	US High Quality Corporate	Short HY	Commercial Mortgage Backed	EM Corporate	R-Factor
Short, Intermediate, Long Duration	UK Gilts	US Long Duration Credit	Preferreds		EM Inflation	Values-Based/ Client Specific
LDI	Inflation Linked	Issuer Scored Corporate (ISCI)	Convertibles			
	China Bond	Municipals				

Source: State Street Global Advisors as of 30 September 2022.

Why State Street Global Advisors for Indexed Fixed Income?

We focus on delivering the benefits of indexing to:

- Achieve reliable, transparent and risk-controlled outcomes
- Provide liquidity and flexibility through diversified exposures
- Add value through efficient implementation
- Benefit from cost-effective market exposure

Continuously Striving for Excellence

Notwithstanding our historical success in fixed income indexing, we continuously strive to improve and expand our client offering to meet their needs. We publish relevant thought leadership on an ongoing basis, sharing insights on markets and investments and how we adapt and innovate to deliver best-in-class outcomes for clients.

Fixed Income Survey

Our newly-launched global fixed income survey — The Future State of Fixed Income — report revealed that investors have been adapting their portfolios in response to the changed inflation and interest rate landscape. Significantly, the survey results also showed that there are deeper trends shaping fixed income portfolios — most notable around ESG and Indexing. Read The Future State of Fixed Income Research Report [here](#).

Published Papers

- **Implementation Alpha: Adding Value in Indexed Fixed Income** In [this paper](#), we discuss the techniques we use to exploit market inefficiencies and deliver what we call ‘implementation alpha’.
- **Understanding Paris-Aligned Indexes: A Guide for Fixed Income Investors** In [this paper](#), the team outlines the definitions of CTB (Climate Transition Benchmarks) and PAB (Paris-Aligned Benchmarks) regulation and which options exist in the market for fixed income investors to allocate towards these.

- **Going Digital: Evolution and Innovation in Fixed Income Markets** The arrival of electronic trading systems has transformed fixed income markets over the past few decades. Learn [more](#) about how improving efficiency in fixed income markets will increasingly erode the alpha opportunity, which will unleash opportunities for indexing and systematic investing.
- **Fixed Income ESG: Combining Performance & Responsible Investing** This [article](#) outlines the approaches investors can take to integrate ESG into fixed income investments, what the challenges are, and how State Street Global Advisors can help.

New Strategies:
Sustainable Investing
in Fixed Income

As the results of our recent survey made very clear, ESG continues to rise in the priorities of investors. With over 25 years ESG experience in fixed income, we have a longstanding record of partnering with clients to achieve their ESG investment objectives. And with investors increasingly embracing indexing to gain efficient access to fixed income exposures, we have continued to be proactive in developing strategies and products to facilitate our clients' goals

- **State Street Sustainable Climate Europe/US Corporate Bond Strategies** As climate change tops the agenda of many investors, we applied our sustainable climate framework for equity strategies to fixed income. Our climate-aware investment process enables investors to improve their portfolio's carbon profile and reduce climate risk, while maintaining index like returns. The strategy adopts a systematic mitigation and adaptation approach that targets Paris-aligned reductions in carbon emissions and fossil fuel exposure and reallocates capital towards companies benefiting from low-carbon technologies/green bonds.
- **State Street Global High Yield Bond ESG Screened Index Strategy** A cost-effective and reliable way to access the global high yield market by tracking the ICE BoFA Global High Yield Constrained Index. We incorporate ESG screening — updated in December 2021 — based on UN Global Compact, Controversial Weapons, Extreme ESG Controversies, Tobacco, Arctic Drilling, Oil Sands, Thermal Coal, Swedish Ethical Council. While high yield markets were negatively impacted by this year's bond market sell-off, our strategists have argued that this potentially presents an attractive entry point for new allocations — see [here](#).
- **State Street Sustainable Climate US High Yield Strategy** Our US High Yield strategy leverages the Sustainable Climate framework we developed for Investment Grade Credit. This takes a normalisation approach to help preserve key risk exposures of the original benchmark while improving the climate profile of the portfolio. We have presented this strategy to numerous institutional investors and we plan to roll it out more broadly over the coming months.

**In Focus: Emerging
Market Debt**

\$33 Billion

We are one of the world's largest managers of indexed emerging market debt (EMD), with about \$33 billion of dedicated EMD assets at the end of September 2022.

Although turbulence amid inflation, rising interest rates and Russia's invasion of Ukraine drove a sell-off of EMD and we witnessed some investor de-risking in our pooled vehicles in 2022, the trend towards EMD indexing continues to be strong. Our EMD book continues to grow, particularly in the highly sophisticated institutional channel (where our expertise and insights are highly valued), given the increasing need for customisation, notably in relation to ESG.

- Risk management and cost minimisation are key in this asset class, and we have continuously improved our process to achieve this, from tax lot planning and control of *all* FX trading to the sampling techniques to add value thereafter.
- We are focused on continual process improvements in how we assess and implement the optimal portfolio through time, and where we take advantage of technical inefficiencies and our insights around index events to add value for our clients. This is all controlled within the very tight risk and benchmark constraints of index approaches, and overseen by the independent investment risk management team.

Developments Within Our Investment Process and Business

- Jennifer Taylor joined as new Head of EMD Portfolio Management;
- ESG integration is gaining traction, with the Russia experience highlighting that ignoring such risks in EMD is simply not an option anymore. We continue to provide analysis on the impact of country exclusions or capping to help investors with their design and implementation options;
- Our EMD Local Currency Index Plus strategy now has a live track record of three years and we intend to offer elements of this to other investors;
- The Fixed Income team is near finalization of implementing Charles River Development, a fully integrated front-to-back model;
- Quantitative Fixed Income: We believe in the power of quantitative insights and techniques in strategy design and portfolio construction. To this end, State Street Global Advisors announced in October a collaboration with Barclays' research business. SSGA will use data from Barclays' systematic strategy indices to build and manage active products in systematic fixed income.

Looking Forward

Looking forward to the remaining months of 2022 and into 2023, we plan to publish more thought leadership that we expect to stimulate discussion around all things indexed fixed income. These include:

- ESG in Emerging Market Debt
- Deeper dive into the results of our Future State of Fixed Income survey
- Global High Yield Updates
- Emerging Market Debt commentary

For more information on our indexed fixed income offerings and insights, please visit our website: [Modern Fixed Income \(ssga.com\)](https://www.ssga.com).

Please let us know if you'd like to get in touch with our Fixed Income Indexing experts and we'll facilitate a call or meeting.

About State Street Global Advisors

Our clients are the world's governments, institutions and financial advisors. To help them achieve their financial goals we live our guiding principles each and every day:

- Start with rigor
- Build from breadth
- Invest as stewards
- Invent the future

For four decades, these principles have helped us be the quiet power in a tumultuous investing world. Helping millions of people secure their financial futures. This takes each of our employees in 29 offices around the world, and a firm-wide conviction that we can always do it better. As a result, we are the world's fourth-largest asset manager* with US \$3.26 trillion† under our care.

* Pensions & Investments Research Center, as of December 31, 2021.

† This figure is presented as of September 30, 2022 and includes approximately \$55.12 billion USD of 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 Global Advisors are affiliated. Please note all AUM is unaudited.

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Past performance is not a reliable indicator of future performance. Investing involves risk including the risk of loss of principal.

Index returns reflect capital gains and losses, income, and the reinvestment of dividends.

Diversification does not ensure a profit or guarantee against loss. It is not possible to invest directly in an index. Index performance does not reflect charges and expenses associated with the fund or brokerage commissions associated with buying and selling a fund. Index performance is not meant to represent that of any particular fund.

Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates rise bond values and yields 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.

International Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns.

Investing in high yield fixed income securities, otherwise known as junk bonds, is considered speculative and involves greater risk of loss of principal and interest than investing in investment grade fixed income securities. These Lower-quality debt securities involve greater risk of default or price changes due

to potential changes in the credit quality of the issuer.

Increase in real interest rates can cause the price of inflation-protected debt securities to decrease. Interest payments on inflation-protected debt securities can be unpredictable.

Investing in foreign domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations.

Investments in emerging or developing markets may be more volatile and less liquid than investing in developed markets and may involve exposure to economic structures that are generally less diverse and mature and to political systems which have less stability than those of more developed countries.

Currency Risk is a form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.

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The views expressed in this material are the views of the EMEA Fixed Income Specialists of SSGA's Global Fixed Income Group through the period ended 16 September 2022 and are subject to change based on market and other conditions.

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ID1202975-5077025.1.GBLINST 1022
Exp. Date: 31/10/2023