

State Street Global High Yield Bond ESG Screened Index Strategy

Strategy Profile

2021

Fixed Income

The State Street Global High Yield Bond ESG Screened Index Strategy offers investors cost-effective, reliable access to the global high yield market.

Indexed high yield is of increasing interest to investors because of the following factors:

- **Delivers Diversification & Transparent Outcomes**
Structural developments in high yield markets have now made indexing in this complex exposure viable for sophisticated and experienced index managers.
- **Cost-Efficient Alternative to Active** Indexing offers a cost-efficient, reliable and transparent alternative to gain exposure to high yield. It can complement the higher tracking, defensive styles, and the often lower liquidity, of active approaches.
- **Alpha Deterioration** Alpha generation has been on a downward trend in high yield with few managers outperforming consistently. Net of high active fees, alpha generation has become even more elusive.
- **ESG Incorporation** Indexed solutions allow managers to efficiently incorporate ESG considerations in a systemic, transparent manner.

Strategy Objective

The State Street Global High Yield Bond ESG Screened Index Strategy is a fixed income index strategy that seeks to track the performance of the flagship ICE BofA Global High Yield Constrained Index. The strategy screens out securities based on an assessment of their adherence to ESG criteria based on three internationally recognised categories.

Investment Philosophy

We believe that fixed income market complexities provide opportunities for skilled managers to control risk, minimise drag and also to add incremental value, to deliver the performance of the benchmark consistently and cost-effectively.

The investment approach employs stratified sampling which seeks to match the key risk dimensions of the portfolio to the benchmark, but also provides small degrees of flexibility to ensure that the right balance can be struck between minimising transaction costs and delivering tight performance tracking.

ESG Built In

Eliminates exposure to controversial weapons and worst offenders while also mitigating ESG risks. This exclusionary approach is a transparent and effective way of ESG investing in Global High Yield.

The State Street Global High Yield Bond ESG Screened Index Strategy offers an important ESG dimension by excluding certain securities that are captured by the criteria below. These exclusions are not applied to the reference index.

Exclusion Criteria

- Breach of UN Global Compact Principles
- Controversial Weapons
- Swedish Ethical Council

State Street Global Advisors for Indexed Global High Yield

Experience

We have been managing indexed high yield since 2004, through multiple market cycles, crises and conditions.

Additionally, our large and longstanding ETF experience in high yield affords us deeper market and liquidity insights which are vital in managing this complex exposure. Today, we manage over \$28bn* in high yield across multiple vehicles and strategies. We are one of the world's largest managers in this market segment.

Investment Process & Team

Indexing is our heritage and both our investment process and investment team are designed and built to provide consistent, transparent and cost-effective outcomes for our clients.

Our investment process is focused on the three key elements of indexing; controlling risk, minimising costs and adding incremental value.

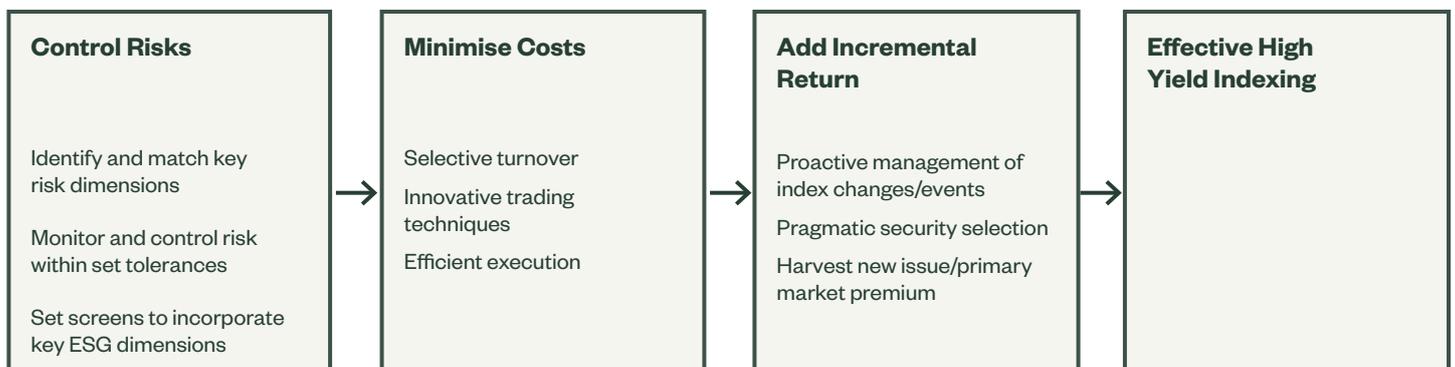
Our portfolio managers, traders and strategists are sector specialists, based in their local markets, close to the liquidity and news flows of high yield markets. This affords us the deepest insights required to manage complex exposures such as Global High Yield and helps us deliver the consistent and reliable outcomes for our investors.

Performance

Our investment process has ensured that, since 2004, we have delivered consistent results through multiple market cycles, credit crises and liquidity conditions.

Our excellent trade execution is vital to this success. This is a competitive advantage underpinned by the valuable insights we gain on a daily basis from high yield market dynamics and liquidity through the management of our large high yield ETFs.

Controlled, Yet Flexible Investment Process



*Source: State Street Global Advisors, 31 March 2021.

Adding Value in High Yield Indexing

We add further value to investors by focussing on two key areas:

Exploiting Market Inefficiencies

In an investment universe as large and diverse as high yield, market inefficiencies will exist that a skilled index manager can exploit to their advantage, even with our tight risk constraints. We list below some of the key techniques employed:

1. **New issue premia:** we take advantage of the new issue market to reduce implementation costs and benefit from new issue premia.
2. **Security selection:** our stratified sampling process incorporates relative-value security level analysis. This process seeks to continuously match the portfolio exposures to the index as efficiently as possible.
3. **Proactive management of index events:** managing index changes proactively such as upgrades/downgrades or corporate actions enables us to achieve the best outcome for our clients portfolios.

Reducing Costs

1. **Minimising turnover:** we are thoughtful about when and if to trade and we achieve significantly lower turnover than the reference indices.
2. **Minimising transaction costs:** our dedicated high yield traders leverage their large counterparty panel relationships as well as buy-side to buy-side trading platforms to reduce portfolio transaction costs. Through our large ETF business we gain valuable intraday insights in regard to bond market liquidity as we manage those intraday flows. This gives us a deeper understanding of bond level liquidity.

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 31 offices around the world, and a firm-wide conviction that we can always do it better. As a result, we are the world's third-largest asset manager with US \$3.59 trillion* under our care.

* This figure is presented as of March 31, 2021 and includes approximately \$60.33 billion 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.

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<https://ssga.com/global/en/our-insights/state-street-global-advisors-worldwide-entities.html>

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The returns on a portfolio of securities that excludes companies that do not meet the portfolio's specified ESG criteria may trail the returns on a portfolio of securities that includes such companies. A portfolio's ESG focus may result in the portfolio investing in securities or industry sectors that underperform the market as a whole.

Equity securities may fluctuate in value and can decline significantly 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 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.

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.

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