

State Street China Fixed Income Government/Policy Bank Bond Index Strategy

Strategy Profile
Fixed Income

2021

The State Street China Government/Policy Bank Bond Strategy aims to offer investors a flexible, cost-effective and transparent way to access China's onshore government/policy bank bond market.

The onshore China bond market has become increasingly important to global investors for the following key reasons:

- **Relatively Attractive Yields With Low Volatility**
China's government and policy bank bonds offer a relatively attractive yield pickup over developed market bonds. They have also exhibited comparatively lower volatility during major market-moving events such as the COVID crisis.
- **Diversification Benefits*** Returns of China government bonds have been less correlated with other sovereign bonds and other asset classes, providing potential diversification benefits as part of a global bond or multi-asset portfolio.
- **Market Liberalisation** Chinese bond markets are increasingly accessible following changes to open the onshore market to foreign investors, while market dynamics have also improved.
- **Index Inclusion** The inclusion of Chinese government bonds in global benchmark indices underpins continuing foreign investor flows. Actual flows following previous index inclusions have run above levels explained by benchmark weights alone, indicating additional demand for bonds which prove their investability by being included in benchmarks.

* Diversification does not ensure a profit or guarantee against loss.

Strategy Objective

The State Street Government/Policy Bank Bond Index Strategy seeks to track the performance of onshore China Treasury/Policy Bank indices. The strategy seeks to reduce implementation costs and add value through selective turnover, security selection and participation in the primary markets.

Investment Philosophy

We believe much of the medium-term return potential from the market can be efficiently harnessed via an indexed exposure to interest rate beta and currency movements. We also believe that it is better to take a liquid, cost effective index exposure, facilitating tactical asset allocation into an asset class with many desirable characteristics.

State Street Global Advisors' investment approach for this strategy employs stratified sampling. This seeks to match the key risk dimensions of the portfolio to the benchmark, but it also provides small degrees of flexibility to ensure the right balance can be struck between minimising transaction costs and delivering tight performance tracking.

State Street Global Advisors for Indexed China Fixed Income

Experience

As the first and only international investor permitted to invest in the China onshore market between 2005 and 2010, State Street Global Advisors' is long and unparalleled. We have built strong relationships with regulatory authorities, official institutions, and local banks and asset managers, giving us deep insights into the market. Chinese bonds are increasingly being incorporated into fixed income benchmarks and we now manage about \$5 billion in China onshore bonds.*

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.

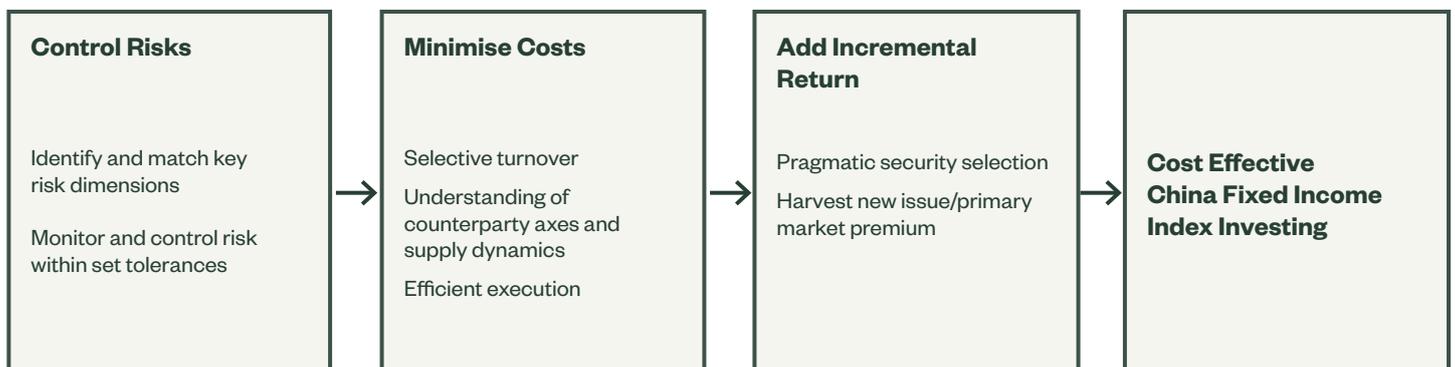
We have a longstanding portfolio management team with two dedicated managers and an on-the-ground operations team that is fully abreast of all investment, regulatory and legal requirements in investing in this market.

Performance

Our investment process has ensured that, since 2005, we have delivered consistent results through multiple market cycles, exchange rate regimes and liquidity conditions.

Our excellent trade execution is vital to this success. We have a deep understanding of the capacity for various local banks to absorb supply and their specific liquidity/tenor preferences as they lend/borrow in the repo market, as well as the complex monetary policy tools and the FX management framework that the Peoples Bank of China uses.

Controlled, Yet Flexible Investment Process



*Source: State Street Global Advisors, 30 June 2021.

Adding Value in Indexed China Fixed Income

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

Exploiting Market Inefficiencies

In an investment universe such as China Governments/Policy banks, idiosyncratic risks do not exist. As such, market inefficiencies relate primarily to liquidity. 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.

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 traders use 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 in Pan Asia bonds (of which China accounts for 25%, as of 30 July 2021), we gain valuable intraday insights on bond market liquidity as we manage flows, giving us a deeper understanding of liquidity at the ISIN level.

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 30 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 \$3.90 trillion[†] under our care.

* Pensions & Investments Research Center, as of December 31, 2020.

[†] This figure is presented as of June 30, 2021 and includes approximately \$63.59 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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Marketing communication

Information Classification: General Access

Important Risk Information

State Street Global Advisors Global Entities
<https://ssga.com/global/en/our-insights/state-street-global-advisors-worldwide-entities.html>

Investing involves risk including the risk of loss of principal.

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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.

Diversification does not ensure a profit or guarantee against loss.

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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.

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

Passive managed fund hold a range of securities that, in the aggregate, approximates the full Index in terms of key risk factors and other characteristics. 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.

The views expressed in this material are the views of EMEA Fixed Income Specialists of SSGA's Global Fixed Income Group through the period ended June 2021 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

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