STATE STREET GLOBAL ADVISORS SPDR®

Analyzing OBND Under the Six P's of Active Manager Due Diligence

Overview

Traditional active manager due diligence centers on five "P" pillars: people, philosophy, process, price, and performance. Yet, this largely overlooks a crucial part of portfolio construction and strategy inclusion – *the place* where an active strategy fits in a portfolio.

The place in a portfolio, therefore, should be the sixth "P" of active management due diligence. And based upon the active strategy, and the existing portfolio, the answer for this P can vary significantly across mandates. More so when considering a flexible multi-asset credit strategy with a broad opportunity set.

Analyzing the SPDR® Loomis Sayles Opportunistic Bond ETF (OBND), a Nontraditional Bond fund, illustrates how a "Six P" due diligence process provides more clarity on a strategy and its potential usage to meet long-term investor goals.

People

The first pillar is the people behind a strategy. For OBND, that is Loomis Sayles.

Loomis Sayles was founded in 1926 and has a rich history of nearly 100 years in the financial services industry. Known for its active management solutions, Loomis Sayles manages $335.2 billion in AUM with 74% of assets dedicated to fixed income strategies.[1]

Loomis Sayles has deep research capabilities expanding the globe with 96% coverage of investment grade issues in the Bloomberg U.S. Corporate Index and 87% coverage of the Bloomberg Global Aggregate Corporate Index.[2]

OBND resides within the Alpha Strategies Group of Loomis Sayles and the individuals responsible for the day-to-day management of OBND are:

- Kevin Kearns is a Portfolio Manager and Head of the Alpha Strategies Group.
- Andrea DiCenso is a Co-Portfolio Manager for the credit asset, world credit asset and emerging market debt blended total return.
- Tom Stolberg, CFA, is a Co-Portfolio Manager for the multi-asset credit strategies.

Philosophy

Loomis Sayles believes potential alpha generation can be driven by combining top-down credit cycle views with deep fundamental research, while utilizing a Multi-Asset Credit (MAC) framework to gain exposure to a mix of credit-focused asset classes and sectors within a globally diverse investment universe.

These philosophical beliefs are based on the view that:

- A ***broad, global opportunity* set** may improve the potential to capture credit risk premias while being able to capitalize on global market shifts.
- A ***top-down credit cycle framework*** can help exploit regime shifts, as bond sector performance can vary significantly based on diverging economic and credit cycles across countries and regions.
- ***Deep fundamental research*** capabilities across credit sectors can help create a higher probability of harvesting credit risk premium consistently.
- A ***Multi-Asset Class framework*** allows for tactical asset allocation where potential returns can be generated at the asset class, country, sector, and security levels.

Overall, Loomis Sayles believes that those portfolio pillars combined with the flexibility to actively manage duration as well as prudent risk management focusing on capital preservation may allow for consistent long-term risk adjusted return potential.

Process

With those beliefs, Loomis Sayles seeks to generate alpha from three sources:

- ***Tactical beta***, leveraging a top-down credit cycle framework and a multi-asset class allocation approach to seek out attractive relative value sector opportunities
- ***Idiosyncratic security selection***, relying on the deep fundamental research capabilities to identify individual security mispricings
- ***Structural inefficiencies***, sourced from a broad, global opportunity set featuring differing economic regimes and diverging credit cycles

To most effectively capture these alpha opportunities, OBND is constructed under these parameters, and may invest:[3]

- In debt obligations of any credit quality, and up to 100% in below investment grade debt (i.e., high yield) and 60% in bank loans;
- 100% in investment grade debt including corporate bonds and government bonds;
- Up to 25% in securitized credits — including commercial mortgage-backed securities (CMBS) or non-agency mortgage-backed securities (MBS);
- And up to 10% in non-USD denominated debt obligations (where any such obligations will be hedged back to USD)

While there are no restrictions related to the maturity of debt obligations, OBND will seek to maintain a weighted average effective duration of 0 to 7 years under normal conditions. The fund may also use derivatives (e.g., swaps, options, futures, or forwards) to hedge the portfolio or for other investment purposes (e.g., exposure management).

Additionally, as part of their focus on risk management, Loomis Sayles employs a proprietary regime classification system to analyze the degree of market interconnectedness and understand the varying degrees of market stress.

The result is an expansive multi-asset credit strategy with the ability to allocate across global bond sectors, up-and-down the credit spectrum and throughout the curve while employing tactical beta and idiosyncratic security selection strategies to potentially exploit market inefficiencies and generate opportunistic alpha.

The allocations as of the most recent month end illustrate the broad, global multi-sector credit investment profile (Figure 1, 2, and 3).

Figure 1: Sector Allocations

Portfolio Summary	OBND	Bloomberg U.S. Aggregate
Bank Loans	24.44	-
High Yield	26.35	-
Investment Grade	36.39	100.00
Securitized	9.56	-

Source: Loomis Sayles, as of 3/31/2024. **Past performance is not a reliable indicator of future performance**.

Figure 2: Regional Allocations

Regional Allocation	OBND	Bloomberg U.S. Aggregate
Asia	1.29	1.18
Europe	10.07	2.50
Middle East	-	0.05
North America (ex-US)	2.44	1.46
Oceania	0.73	0.22
South/Central America	7.65	0.38
Supranational	-	1.41
United States	77.83	92.81

Source: Loomis Sayles, as of 3/31/2024. **Past performance is not a reliable indicator of future performance**.

Figure 3: Quality Allocations

Quality Summary	OBND	Bloomberg U.S. Aggregate
Investment Grade	*45.39*	*100.00*
AAA	5.06	3.68
AA	8.33	71.76
A	9.87	11.98
BAA	22.13	12.58
High Yield	*48.79*	-
BA	22.92	-
B	21.95	-
CAA & Lower	3.93	-
NR	*5.82*	-

Source: Loomis Sayles, as of 3/31/2024. NR consists of non-rated issues plus securities such as common stock, ADR's, ETF's, CDX's and forwards. **Past performance is not a reliable indicator of future performance**.

Price

The price refers to the total expense ratio charged on the fund.

OBND's broad global, multi-asset credit strategy seeks to generate alpha in a cost efficient manner. Its 0.55% expense ratio is 43% below its Non-Traditional Bond category peer median (0.97%) and plots in the lowest decile of the category.[4] OBND's expense ratio is also below the median fee for U.S.-listed active ETFs (0.70%).[5]

Performance

Since debuting on September 28, 2021, OBND has generated a cumulative 693 basis points (bps) of excess return versus the Bloomberg US Aggregate Bond Index (Figure 4).[6] The alpha generation has been consistent as well. OBND has generated positive excess returns in 86% of rolling six-month return periods, using daily frequency, with an average excess return of 149 basis points.[7]

2023 was a high performing year for OBND as well. The fund generated 400 bps of excess return and had positive excess returns in 95% of rolling six-month return periods.[8]

The fund's performance in 2023 was also strong relative to peers. OBND's 9.6% absolute return ranked in the top quintile in its peer group.[9] On a risk-adjusted Sharpe Ratio basis, performance was in the second quartile in 2023.[10] The fund's Information Ratio, a measure of active return relative to active risk, was in the 3rd percentile in 2023.[11]

The Information Ratio has been consistent as well, as OBND has generated more optimal active return to active risk than peers for 16 consecutive six-month periods using monthly frequency.[12]

OBND's trailing 12-month yield of 6.26% ranks in the top quartile of its peer group at quarter end. Given that starting yields have historically been strongly correlated with subsequent returns, OBND is in a favorable position for income generation and excess returns.[13]

Figure 4: OBND Since Inception Cumulative Excess Returns versus the Agg

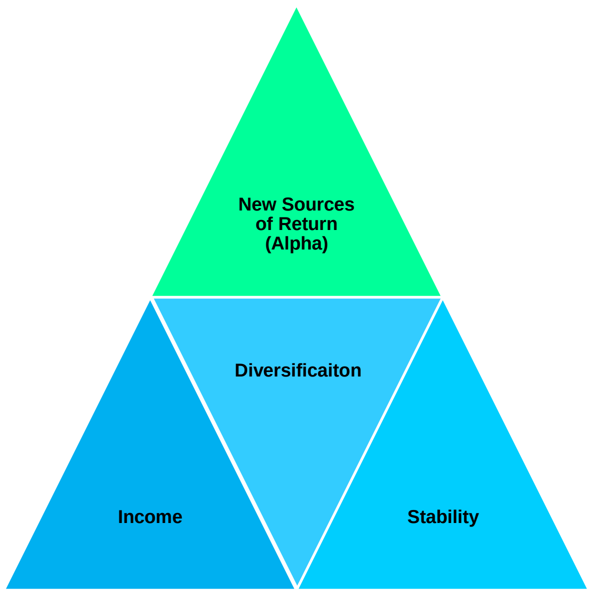
Source: Bloomberg Finance L.P., Period: 9/27/2021 – 3/31/2024. The Agg = Bloomberg US Aggregate Bond Index. **Past performance is not a reliable indicator of future performance.**

Consistent excess return trends versus core bonds as well as top quintile performance during a year of elevated rate risks illustrates the potential benefits of an active and flexible multi-asset credit strategy with a broad opportunity set.

Place

Bonds can play three central roles in portfolios; diversification to risk assets (i.e., equities), stability, and income. Those are the core outcomes and can ideally be met with low-cost beta exposures or core-oriented active strategies. Yet, opportunistic alpha generating strategies can be placed on top of those strategic building blocks to seek out new, and additive, sources of return (Figure 5) – creating a pyramid of bond objectives.

Figure 5: Bond Objective Pyramid



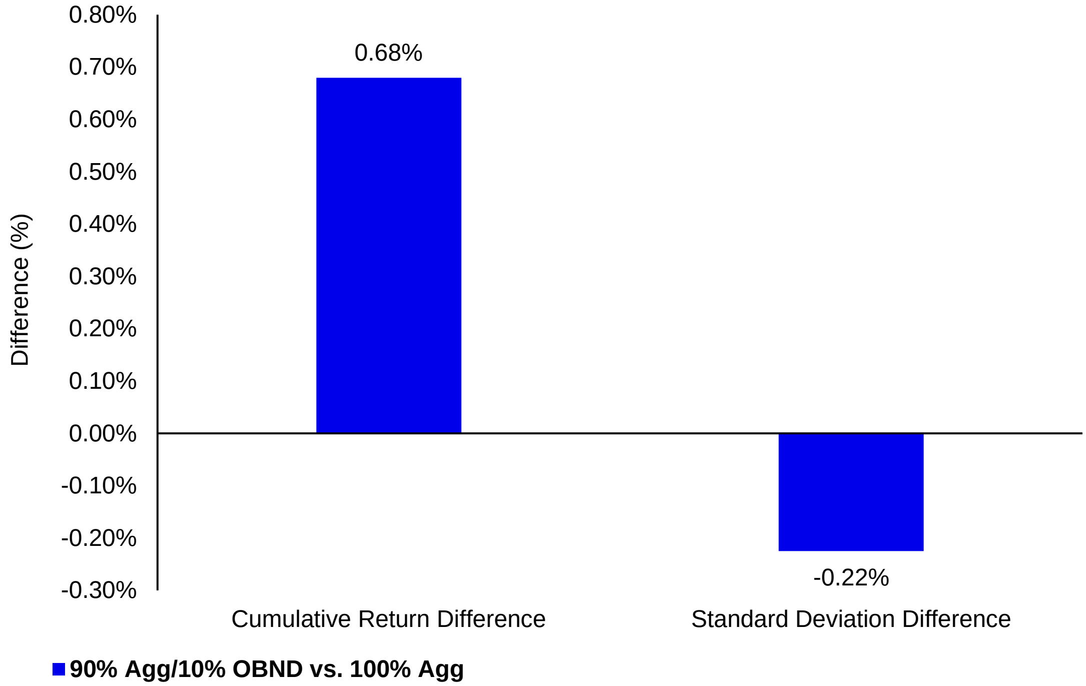
Source: State Street Global Advisors. For Illustrative Purposes Only

A Nontraditional Bond fund can potentially meet that next level in the pyramid of bond objectives: seeking new sources of return. This is on the basis that by expanding a portfolio's opportunity set beyond traditional core Aggregate exposures and utilizing security selection alongside the added ability to tactically manage duration, yield curve, and sector positioning may help manage risks while capitalizing on market shifts.

OBND meets that definition and can play the role of an alpha and income enhancer within a fixed income portfolio by seeking out new, or additive, sources of return. For example, since its inception in September 2021, a 10% allocation to OBND alongside a core Aggregate exposure (i.e. the Agg) would have produced higher cumulative returns (+0.68%) with slightly lesser risk relative to the Agg (Figure 6).[14]

Overall, the place for OBND in portfolios is as a satellite allocation to seek out new sources of return, and potentially act as an added layer of alpha generation on top of a diversified core bond portfolio.

Figure 6: Risk and Return Differences



Source: Morningstar, as of 3/31/2024. Based on monthly total returns and a monthly rebalance back to 90% in the Bloomberg US Aggregate Bond Index and 10% in the SPDR Loomis Sayles Opportunistic Bond ETF from 09/2021 to 3/2024. Fund returns reflect the deduction of expenses. Index returns do not reflect the reduction of any expenses. **Past performance is not a reliable indicator of future performance.**

Standard Performance

Ticker	Name	1 Mo (%)	YTD (%)	Annualized 1 Year (%)	Annualized 3 Year (%)	Annualized 5 Year (%)	Annualized 10 Year (%)	Annualized Since Inception (%)	Inception Date	30-Day SEC Yield (Standardized) (%)	Gross Exp Ratio (%)
OBND (NAV)	SPDR® Loomis Sayles Opportunistic Bond ETF	1.12	0.44	6.72	-	-	-	-0.89	9/27/2021	6.34	0.55
OBND (MKT)	SPDR® Loomis Sayles Opportunistic Bond ETF	1.11	0.49	6.87	-	-	-	-0.83	-	-	0.55

Source: ssga.com, as of 3/31/2024. **Performance returns for periods of less than one year are not annualized. Past performance is not a reliable indicator of future performance. Investment return and principal value will fluctuate, so you may have a gain or loss when shares are sold. Current performance may be higher or lower than that quoted. All results are historical and assume the reinvestment of dividends and capital gains. Visit ssga.com for most recent month-end performance.** The market price used to calculate the Market Value return is the midpoint between the highest bid and the lowest offer on the exchange on which the shares of the Fund are listed for trading, as of the time that the Fund's NAV is calculated. If you trade your shares at another time, your return may differ. The gross expense ratio is the fund's total annual operating expenses ratio. It is gross of any fee waivers or expense reimbursements. It can be found in the fund's most recent prospectus. 30-Day SEC Yield (Standardized) is an annualized yield that is calculated by dividing the investment income earned by the fund less expenses over the most recent 30-day period by the current maximum offering price.

Footnotes

1 Loomis Sayles as of 12/31/2023
2 Loomis Sayles as of 12/31/2023
3 Please refer to the Fund’s Prospectus and Statement of Additional Information for a more complete description of the Fund’s investment universe.
4 Morningstar as of 3/31/2024 based on Open Ended Mutual Funds Oldest Share Class and ETFs domiciled in the US. 104 strategies are included in this analysis.
5 Morningstar as of 3/31/2024 for all U.S.-listed active ETFs
6 Bloomberg Finance L.P. as of 3/31/2024
7 Bloomberg Finance L.P. as of 3/31/2024 per SPDR Americas Research calculations
8 Bloomberg Finance L.P. as of 12/31/2023 per SPDR Americas Research calculations
9 Morningstar as of 12/31/2023 based on Open Ended Mutual Funds Oldest Share Class and ETFs domiciled in the US. 105 strategies are included in this analysis.
10 Morningstar as of 12/31/2023 based on Open Ended Mutual Funds Oldest Share Class and ETFs domiciled in the US. 105 strategies are included in this analysis.
11 Morningstar as of 12/31/2023 based on Open Ended Mutual Funds Oldest Share Class and ETFs domiciled in the US. 105 strategies are included in this analysis and returns were compared to a fund’s prospectus benchmark.
12 Morningstar as of 3/31/2024 based on Open Ended Mutual Funds Oldest Share Class and ETFs domiciled in the US. 104 strategies are included in this analysis.
13 Morningstar as of 3/31/2024 based on Open Ended Mutual Funds Oldest Share Class and ETFs domiciled in the US. 104 strategies are included in this analysis.
14 Bloomberg Finance L.P. as of 3/31/2024 per SPDR Americas Research calculations

Definitions

Bloomberg US Aggreate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency)

Alpha excess returns earned on an investment above the benchmark return.

Sharpe Ratio compares the return of an investment with its risk. The Sharpe ratio's numerator is the difference over time between realized, or expected, returns and a benchmark such as the risk-free rate of return or the performance of a particular investment category. Its denominator is the standard deviation of returns over the same period of time, a measure of volatility and risk.

Information Ratio is a measurement of portfolio returns beyond the returns of a benchmark, usually an index, compared to the volatility of those returns. The benchmark used is typically an index that represents the market or a particular sector or industry.

Nontradtional Bond Category per Morningstar contains funds that pursue strategies divergent in one or more ways from conventional practice in the broader bond-fund universe

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Important Risk Information

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Past performance is no guarantee of future results.

Unless otherwise noted, all data and statistical information were obtained from Bloomberg LP and SSGA as of March 31, 2024. Data in tables have been rounded to whole numbers, except for percentages, which have been rounded to the nearest tenth of a percent.

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