

# **Tactical Asset Allocation**

A Timely Approach to  
Portfolio Construction

---

# How Can Investing Tactically Help to Enhance Returns and Manage Risk?

---

Tactical asset allocation seeks to take advantage of mispricing opportunities at the asset class level and manage risk over the short term. Based on forward-looking signals rather than the reactive signals that govern a portfolio's strategic core allocation, tactical allocations can proactively de-risk portfolios when you expect a market downturn and increase risk when you anticipate market upside.

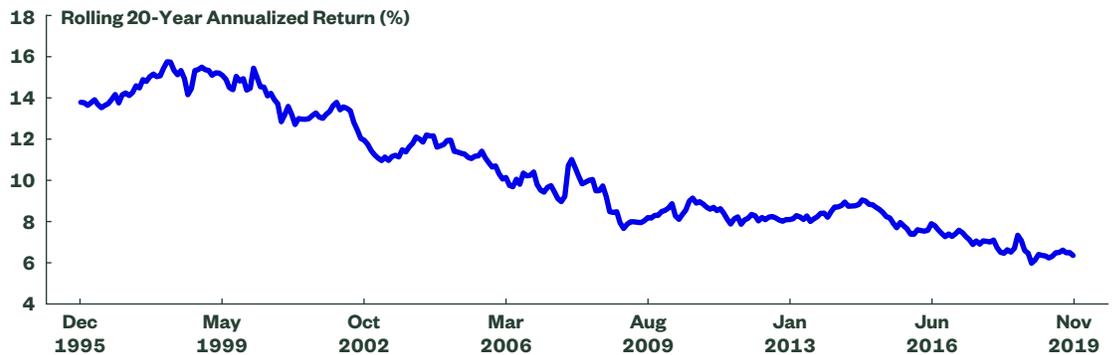
Adding a timely tactical play to a strategic allocation you've designed to meet long-term investment goals may enhance returns and manage risks.

## Enhance Returns

The long-term returns for a traditional 60% equity/40% fixed income strategic asset allocation have fallen to the lowest point in decades. By exploiting mispricing opportunities at the asset class level and expanding the investment universe beyond traditional exposures, tactical asset allocation pursues alpha.

The alpha produced by tactical asset allocation tends to have a low correlation to equity and fixed income. This tactical asset allocation alpha may complement those traditional approaches and provide diversification of the excess return.

### Declining Long-Term Returns of a 60% Equity/40% Fixed Income Strategic Portfolio



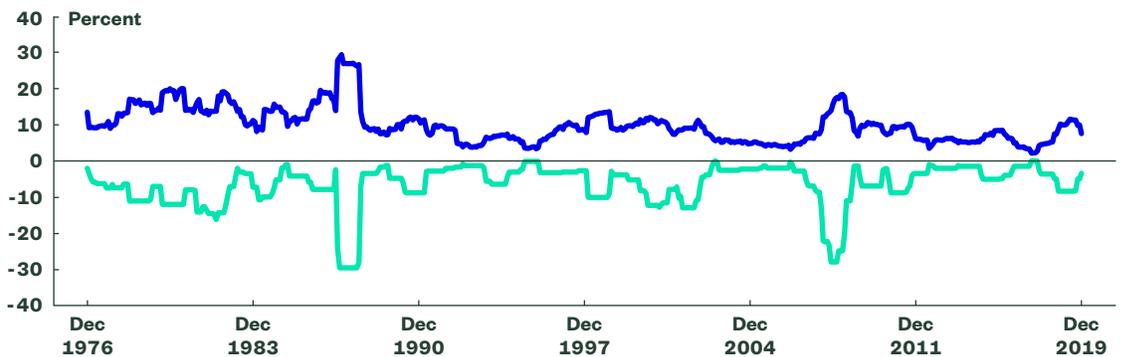
Source: FactSet, as of December 31, 2019. For the period from December 31, 1975 to December 31, 2019. The 60/40 Strategic Portfolio consists of 60% of the Wilshire 5000 Total Market Index and 40% of the Bloomberg Barclays U.S. Aggregate Bond Index, rebalanced annually, without taking into account transaction costs. The returns were achieved by mathematically combining the actual performance of the indexes listed above. **Past performance is not a guarantee of future results.** Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income.

## Manage Risk

Despite the diversification benefits of a strategic asset allocation, spikes in volatility can result in severe portfolio drawdowns during market stress. Tactical allocations address emerging or receding risks by decreasing or increasing exposure to risk assets in an effort to mitigate the impact of market volatility.

### Risk and Drawdown of a 60% Equity/40% Fixed Income Strategic Portfolio

- Rolling 12-Month Standard Deviation (Risk)
- Rolling 12-Month Drawdown



Source: FactSet, as of December 31, 2019. For the period from December 31, 1975 to December 31, 2019. The 60/40 Strategic Portfolio consists of 60% of the Wilshire 5000 Total Market Index and 40% of the Bloomberg Barclays U.S. Aggregate Bond Index, rebalanced annually, without taking into account transaction costs. The returns were achieved by mathematically combining the actual performance of the indexes listed above. **Past performance is not a guarantee of future results.** Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income.

## Meet the Investment Solutions Group (ISG)

The State Street Global Advisors Investment Solutions Group (ISG) combines quantitative models with qualitative judgment to construct portfolios that seek to maximize returns/provide total returns while meeting risk targets. Constructing precise tactical solutions to the full range of complex investment challenges, ISG is:

### Dedicated

### 50+ Investment Professionals

ISG builds and manages assets for central banks, pension funds, endowments, sovereign wealth funds and other large institutions.

### Experienced

### 15 Years of Experience

ISG strategists, analysts and portfolio managers average 15 years of experience and oversee more than \$215 billion assets worldwide.<sup>1</sup>

### Global

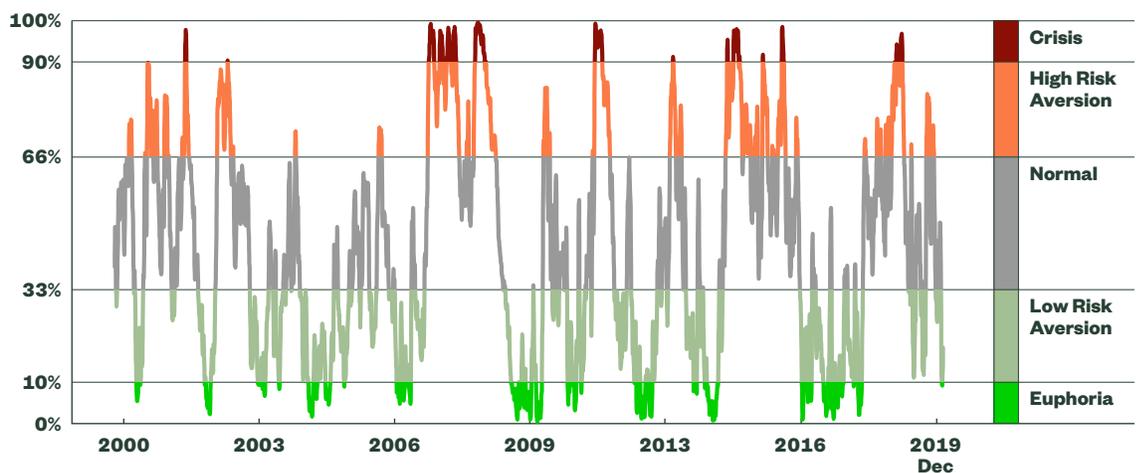
### 8 Investment Centers

Established in 1982, today ISG operates in 8 investment centers located in Boston, London, Dublin, Tokyo, Sydney, Stamford, Bangalore and Hong Kong.

## How Does ISG Forecast Market Regime Shifts?

ISG's investment process begins with their proprietary Market Regime Indicator (MRI). The MRI employs a quantitative framework and forward-looking market indicators, including equities and currency-implied volatility, as well as credit spreads, to identify the current market risk environment. Tracking risk appetite shifts in the market cycle helps frame tactical asset allocation and volatility targets.

## How Did the Market Regime Indicator React During Recent Market Downturns?



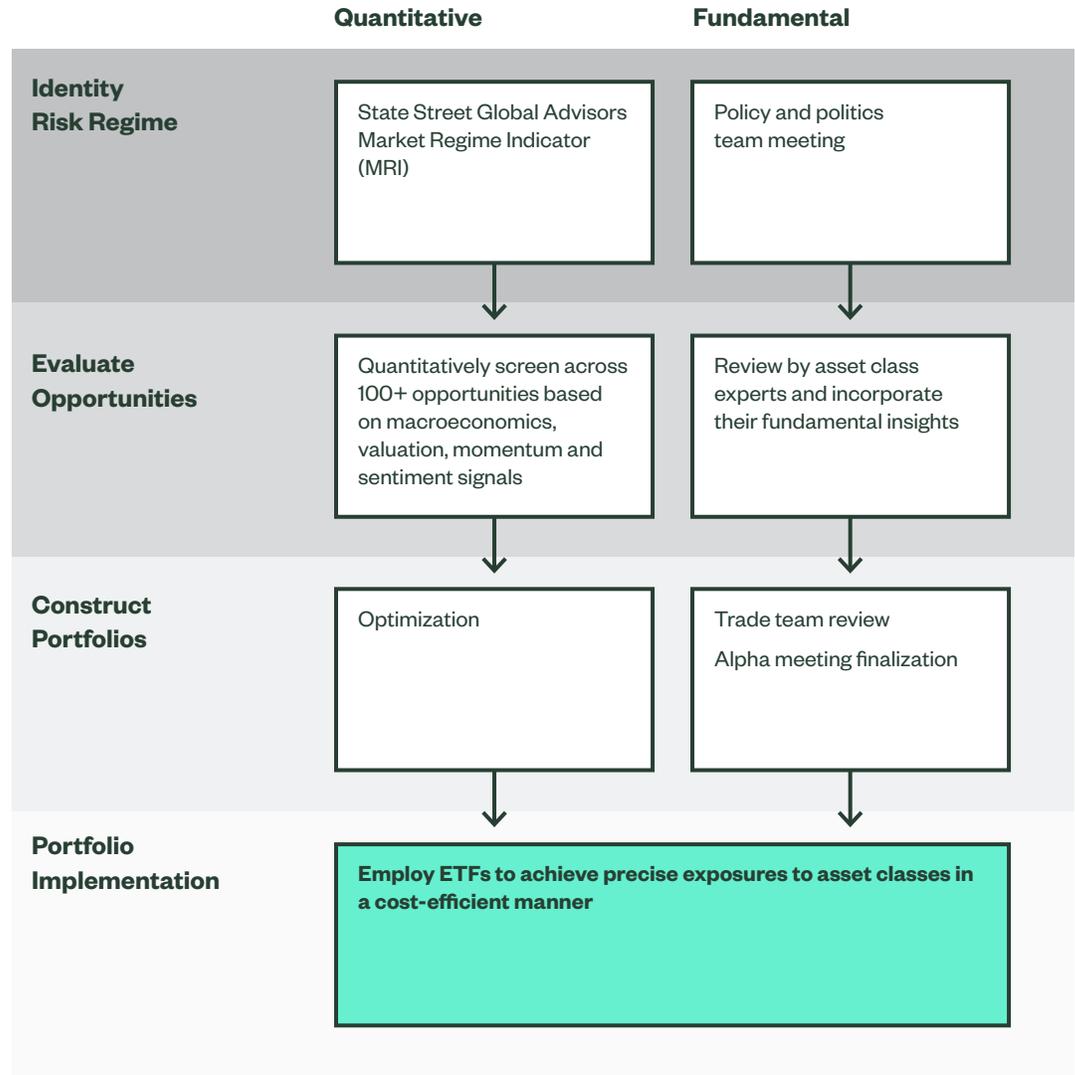
Source: State Street Global Advisors Investment Solutions Group. As of December 31, 2019.

The model shown was created by State Street Global Advisors Investment Solutions Group. All data shown above does not represent the results of actual trading, and in fact, actual results could differ substantially, and there is the potential for loss as well as profit. The Market Regime Indicator (MRI) is a quantitative framework that attempts to identify the current market risk environment based on forward-looking market indicators. We believe the factors used — equity implied volatility, currency pairs implied volatility and bond spreads — are good indicators of the current risk environment as they are responsive to real-time market impacts and in theory should include all current and forward views of those markets. These factors are combined to create a single measure and used to identify one of five risk regimes: Euphoria, Low Risk, Normal, High Risk, and Crisis.

## ISG Combines Quantitative and Qualitative Analysis

Once ISG's multifactor models identify market inefficiencies, the team adds value with their rigorous fundamental analysis, including monetary policy, political developments and global events. The team then constructs tactical portfolios with exchange traded funds (ETFs).

### ISG's Tactical Investment Process



Source: State Street Global Advisors, Investment Solutions Group.

**ETFs Offer  
Cost-Efficient,  
Precise Access to All  
Markets Segments**

It's easy to allocate across and within asset classes.

<p><b>Equity (Country/Region)</b></p> <hr/> <p>Sector/Industry</p> <hr/> <p>Market Cap</p> <hr/> <p>Styles, Factors</p>	<p><b>Fixed Income (Country/Region)</b></p> <hr/> <p>Credit (Investment Grade, High Yield)</p> <hr/> <p>Duration</p> <hr/> <p>Government Bond</p>
<p><b>Hybrids</b></p> <hr/> <p>Preferred Stock</p> <hr/> <p>Convertible Securities</p>	<p><b>Real Asset</b></p> <hr/> <p>Infrastructure</p> <hr/> <p>Commodities</p> <hr/> <p>Real Estate Securities</p> <hr/> <p>Inflation-Linked Bonds</p>

**ETFs' Exponential  
Growth Means  
Greater Liquidity**

2,353

US-listed ETFs

\$4.4T

assets in US markets

1.3B

average daily volume of shares

\$79B

average daily value of transactions

Source: NYSE Arca ETF Report, Q4 2019. As of December 31, 2019.

## SPDR ETFs

		Net Expense Ratio
<b>GAL</b>	SPDR SSGA Global Allocation ETF	<b>0.35%</b>
<b>INKM</b>	SPDR SSGA Income Allocation ETF	<b>0.50%</b>
<b>RLY</b>	SPDR SSGA Multi-Asset Real Return ETF	<b>0.50%</b>
<b>XLSR</b>	SPDR SSGA US Sector Rotation ETF	<b>0.70%</b>
<b>FISR</b>	SPDR SSGA Fixed Income Sector Rotation ETF	<b>0.50%</b>

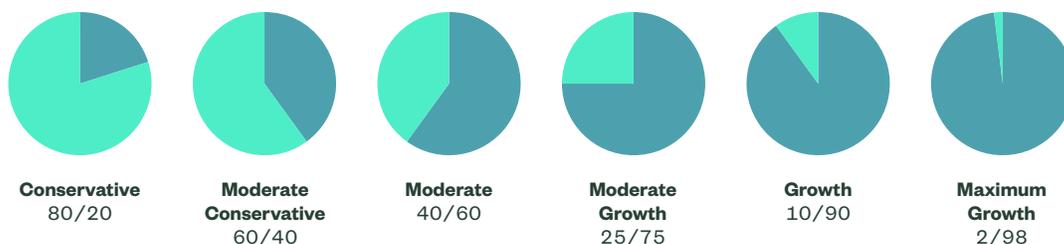
Source: State Street Global Advisors, as of December 31, 2019.

## Model Portfolios

- **State Street Active Asset Allocation ETF Portfolios**
- **State Street Tax-Sensitive Active Asset Allocation ETF Portfolios**

### Each Available in Six Risk-Based Models

■ Fixed Income (%)  
■ Equity (%)



Source: Prior to August 30, 2019, the State Street Active Asset Allocation ETF Portfolios were known as the State Street Tactical Allocation ETF Portfolios.

## Endnotes

- 1 As of December 31, 2019. Assets under Advisory/Consulting of \$24.85B includes mandates for which the firm provides advisory or consulting services supporting an investment management process that does not include the responsibility to arrange or effect the purchase or sale of securities and/or funds. In 2015, ISG revised the AUM and AUAC calculation methodology and account categorization process.

## About State Street Global Advisors

For four decades, State Street Global Advisors has served the world's governments, institutions and financial advisors. With a rigorous, risk-aware approach built on research, analysis and market-tested experience, we build from a breadth of active and index strategies to create cost-effective solutions. As stewards, we help portfolio companies see that what is fair for people and sustainable for the planet can deliver long-term performance. And, as pioneers in index, ETF, and ESG investing, we are always inventing new ways to invest. As a result, we have become the world's third-largest asset manager, with US \$3.12 trillion\* under our care.

\* AUM reflects approximately \$43.72 billion USD (as of December 31, 2019), with respect to which State Street Global Advisors Funds Distributors, LLC (SSGA FD) serves as marketing agent; SSGA FD and State Street Global Advisors are affiliated.

## ssga.com/etfs

### State Street Global Advisors

One Iron Street, Boston MA 02210  
T: +1 866 787 2257

### Important Risk Information

**State Street Global Advisors and its affiliates have not taken into consideration the circumstances of any particular investor in producing this material and are not making an investment recommendation or acting in fiduciary capacity in connection with the provision of the information contained herein.**

Investing involves risk including the risk of loss of principal.

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without SSGA's express written consent.

All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or

warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.

**ETFs** trade like stocks, fluctuate in market value and may trade at prices above or below the ETFs' net asset value. Brokerage commissions and ETF expenses will reduce returns. Frequent trading of ETFs could significantly increase commissions and other costs such that they may offset any savings from low fees or costs.

Actively managed ETFs do not seek to replicate the performance of a specified index. These investments may have difficulty in liquidating an investment position without taking a significant discount from current market value, which can be a significant problem with certain lightly traded securities. The Fund is actively managed and may underperform its benchmarks. An investment in the fund is not appropriate for all investors and is not intended to be a complete investment program. Investing in the fund involves risks, including the risk that investors may receive little or no return on the investment or that investors may lose part or even all of the investment.

Asset allocation is a method of diversification which positions assets among major investment categories. Asset Allocation may be used in an effort to manage risk and enhance returns. It does not, however, guarantee a profit or protect against loss. Passive management and the creation/redemption process can help minimize capital gains distributions.

Standard & Poor's®, S&P® and SPDR® are registered trademarks of Standard & Poor's Financial Services LLC (S&P); Dow Jones is a registered trademark of Dow Jones Trademark Holdings LLC (Dow Jones); and these trademarks have been licensed for use by S&P Dow Jones Indices LLC (SPDJI) and sublicensed for certain purposes by State Street Corporation. State Street Corporation's financial products are not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, their respective affiliates and third party licensors and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability in relation thereto, including for any errors, omissions, or interruptions of any index.

**Distributor:** State Street Global Advisors Funds Distributors, LLC, member FINRA, SIPC, an indirect wholly owned subsidiary of State

Street Corporation. References to State Street may include State Street Corporation and its affiliates. Certain State Street affiliates provide services and receive fees from the SPDR ETFs.

**Before investing, consider the funds' investment objectives, risks, charges and expenses. To obtain a prospectus or summary prospectus which contains this and other information, call 866.787.2257 or visit [ssga.com/etfs](https://ssga.com/etfs). Read it carefully.**

© 2020 State Street Corporation.  
All Rights Reserved.  
ID160431-2957233.1.AM.RTL 0220  
Exp. Date: 02/28/2021  
SPD002154

**Not FDIC Insured  
No Bank Guarantee  
May Lose Value**