Q3 2021

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State Street ETF Model Portfolios

- Global equity markets posted modest gains in the third quarter of 2021. Developed equities remained firm over the quarter while emerging market equities were negative due to the sell-off in the Chinese equity market.
- Overall, global equity markets posted positive returns for the third quarter, up +2.8%.[3]
- The State Street ETF Model Portfolios are designed with varying objectives to deliver strong risk-adjusted returns over the long term through multi-asset allocation.

The Market in Review

The reopening of global economies supported recovery in the third quarter of 2021. For the third quarter, economic data remained strong; however, much of the developed markets appeared to be at or just past their peak rate of economic growth. The United States (US) congress narrowly avoided reaching the prescribed debt ceiling, which could of resulted in a pause on government spending in September. In Europe, as economies re-open, a debate is underway to determine if it is appropriate to bring back spending restrictions suspended during the COVID-19 crisis. Despite higher vaccine rates and policy support key risks pose to the current recovery momentum including increased supply chain disruptions, rising political and regulatory risks in the US and China and also the natural gas shortages causing sharp increases in oil prices.

Third quarter economic data from the US suggests softening of economic activity. Falling short of expectations, GDP rose by 6.5% (annualised pace) in the second quarter, and headline inflation eased in August.[18] In Europe economic data continues to come in better than expected. With strong manufacturing and services data being achieved for the region. In Australia, consumer confidence has been resilient. However, the labour market has shown signs of scarring with a large decline in the participation rate and number of hours worked. By August the unemployment rate fell to 4.5%.[18] In July retail sales declined in line with expectations, driven by a tightening in lockdown restrictions across several states and cities, most notably Greater Sydney. The headline inflation spiked to 3.8%[18] year-on-year in the June quarter, an expected outcome but still the strongest annual increase in more than a decade.

Equities moved higher at the start of the third quarter and the positive momentum for markets continued in to August, as increasing vaccine rates, continued policy support, solid economic activity and better corporate earnings boosted investor sentiment. However, the market tone changed in September when concerns around economic growth and inflation grew. A sell-off in Chinese stocks also impacted global markets. Developed market equities posted gains, returning 3.9%[4] for the quarter, while emerging market equities fell -2.8%,[10] largely driven by the significant sell off in China. In line with global equities, Australian equities advanced +1.7%[9] for the quarter. Australian equity performance was supported mainly by financials, energy and industrial sectors, while the easing of COVID-19 lockdowns in most of Victoria also supported Australian equity market performance. Overall, equities held firm during the third quarter despite lingering concerns over delta variant infection rates, rising inflation and regulatory crackdowns from the Chinese government.

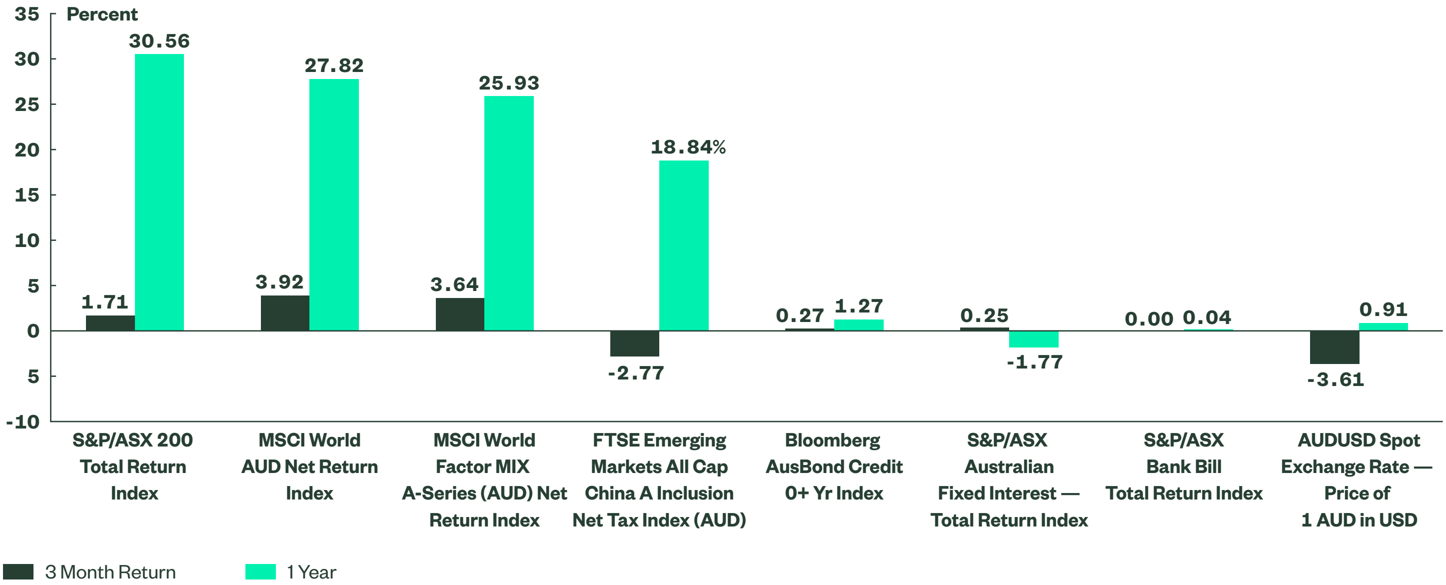
Government bond yields drifted higher in the third quarter. Several factors caused this including a hawkish shift from central banks; reduced concerns related to the delta variant; and high inflation data that caused government bonds to sell off after their rally earlier on in the quarter. The US 10-year Treasury yield rose 18bps[16] in September to a quarterly high of 1.49%,[16] while the United Kingdom (UK) 10-year[20] yield increased from 0.72% to 1.02%[17] in the third quarter. The AUD 10-year Treasury yield showed little change for the quarter, as the initial decline reversed in September, ending the quarter at 1.49%.[15]

In the third quarter the global economy moved toward peak growth, peak inflation, and peak policy accommodation and this expansion is expected to continue into 2022. This expectation is underpinned by the expected economic growth as fundamentals remain firm in our view. Specifically, service sector activity continues to exhibit strength and the unemployment rate continues to decline. Although, central banks have begun discussions for tapering, monetary policy will remain accommodative with rate hikes and balance sheet reductions on hold for now.

Asset Class Performance (in AUD)[1]

- **The Australian dollar** weakened against the US Dollar for the third quarter, down -3.6%.[2]
- **International equities** were positive for the quarter, up 3.9%[4] with the **multi-factor** (minimum volatility, quality and value) strategy marginally underperforming, up 3.6%.[5]
- **The quality factor** rose over the quarter, up 4.0%.[7] **Value and minimum volatility** also registered positive gains, up 3.8%[6] and 3.7%,[8] respectively.
- **Australian equities** registered modest positive gains over the quarter, in line with global equities, up 1.7%.[9]
- **Emerging markets** were negative for the quarter, down -2.8%.[10]
- **Global bonds** saw modest positive returns over the third quarter.[11]
- **Australian bonds** posted marginal gains over the quarter.[12]
- Global **corporate bonds** were also positive for the quarter.[13]
- **Cash** returns in the Australian money market were flat for the quarter.[14]

Figure 1
Major Asset Class Performance (%)



Source: As of 30 September 2021, Bloomberg Finance L.P., MSCI. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. The index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. Past performance is not a reliable indicator of future performance.

Positioning and Hypothetical Model Portfolio Performance

State Street Risk-Based ETF Model Portfolios

For the third quarter of 2021, the multi-factor international equity allocation and the Australian equity allocation were the major contributors to the risk-based portfolios' total return. Further, the weakened Australian dollar helped the portfolios to post positive returns during this period. The portfolios' multi-factor international exposure, SPDR MSCI World Quality Mix Fund (QMIX), posted modest positive returns (+3.6%),[4] for the quarter. This was driven mainly by the quality factor (+4.0%).[6] The Australian equity allocation also positively impacted the risk-based portfolios' performance, as sectors like financials, industrials and energy, that make up about half of the benchmark (S&P/ASX 200 Index), along with technology stocks, rallied during the quarter. Further, easing of COVID-19 lockdowns in most of Victoria, and increasing energy prices also supported domestic equities. On the contrary, the allocation to emerging market equities had a negative impact to the risk-based portfolio's performance. As emerging market equities suffered for the quarter with the decline in Chinese equity markets. On the fixed income side of the ledger, both government and credit bonds posted marginal gains during the quarter and contributed positively to the risk-based portfolios total return. Australian government yields experienced minimal change for the quarter as an initial decline reversed in September on the back of a hawkish shift from central banks and continuing inflationary pressure.

State Street Moderate ETF Model Portfolio The moderate model portfolio seeks to provide optimal capital efficiency over a long-term horizon. The portfolio is designed to generate a moderate amount of capital growth along with some income with exposures to both defensive and growth assets.

Overall performance of the hypothetical model portfolio for the quarter was positive and was up 1.66%.

State Street Balanced ETF Model Portfolio The balanced model portfolio seeks to provide optimal capital efficiency over a long-term horizon. The portfolio is designed to provide capital growth while taking a modest amount of risk with exposures across both defensive and growth assets although more heavily weighted to the latter.

Overall performance of the hypothetical model portfolio for the quarter was positive and was up 1.91%.

State Street Growth ETF Model Portfolio The growth model portfolio seeks to provide optimal capital efficiency over a long-term horizon. The portfolio is designed to predominantly focus on capital growth with exposures weighted to growth assets although it does have exposures to defensive assets.

Overall performance of the hypothetical model portfolio for the quarter was positive and was up 2.16%.

State Street Target Income ETF Model Portfolio

The Target Income Model Portfolio is designed with an income objective that is determined on an annual basis. For the 2020/2021 financial year the portfolio aims to target, before expenses, an income objective of 3% per annum.

The portfolio's allocation to Australian high dividend stocks was the major detractor to the portfolio's total return as the material sector fell significantly over the quarter. Metal prices declined as concern increased regarding the sustainability of economic growth. The international high dividend stock allocation in the portfolio delivered positive returns, thanks to the Australian dollar, which fell against major currencies during the quarter. Therefore, the portfolio's allocation to international high dividend stocks positively impacted the portfolio's total return. On the fixed income side of the ledger, the global high yield exposure was the major contributor to the portfolio's total return as this asset class posted positive returns supported by strong corporate earnings, and the higher coupons embedded within the asset class. Australian government and credit bonds also had a marginal contribution to the total return as sovereign bond yields experienced little changed in the quarter.

The income proportion of the portfolios total return for the quarter was 0.81, supporting the portfolios primary objective to generate income.

Overall performance of the hypothetical model portfolio for the quarter was marginally negative, down -0.47%.

Model Portfolio Performance presented is hypothetical and has been provided for illustrative purposes only, it does not reflect the results of the actual trading of any account or group of accounts and actual results could differ substantially.

The hypothetical State Street ETF Model Portfolio Total Returns are the sum of Growth Return and Distribution Return and reflect the investment strategy decisions made by State Street's investment professionals for each performance period presented. Returns greater than one year are annualised. The hypothetical model portfolio performance was achieved by mathematically combining the actual performance data of the underlying ETFs multiplied by the hypothetical model portfolio weights allocated to each ETF on a monthly basis. The performance assumes that all dividend distributions paid by the underlying ETFs were reinvested and is calculated gross of trading fees but does not reflect spreads or broker commissions for the hypothetical sale and purchase of the underlying ETFs or any other fees which would be charged by the product provider.

State Street has chosen to use the actual historic performance of the underlying ETFs rather than the underlying ETFs index performance to ensure that the model portfolios reflect as closely as possible of any actual investments that follow the model portfolio strategy, by reflecting differences such as tracking error of the underlying ETFs relative to the underlying ETFs indices.

Limitation of hypothetical results: Hypothetical results have inherent limitations because they do not reflect actual trading by State Street during the period described and may not reflect the impact that material economic and market factors might have had on State Street's decision-making if it was actually managing clients' money pursuant to the strategies. There is no guarantee that any of the investment strategies will be successful and investors should be aware that they can lose money investing assets in accordance with the strategies.

Endnotes

1 All returns as at 30 September 2021. Index returns reflect capital gains and losses, income, and the reinvestment of dividends. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. The index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. Past performance is not a reliable indicator of future performance.

2 Source: Bloomberg, AUD USD FX rate.

3 Source: MSCI All Country World Net Total Return AUD Index.

4 Source: MSCI World Total Return AUD Index.

5 Source: MSCI World Factor Mix A-Series (AUD) Pacific Net Total Return Index in AUD.

6 According to MSCI World Value Weighted Net Total Return Index in AUD.

7 Source: MSCI World Quality Net Total Return Index in AUD.

8 Source: MSCI World Minimum Volatility (AUD) Net Total Return Index.

9 Source: S&P/ASX 200 Total Return Index.

10 Source: FTSE Emerging Markets All Cap China A Inclusion Net Tax Index (AUD).

11 Source: Bloomberg Barclays Global Aggregate Total Return Hedged AUD Index.

12 Source: Bloomberg AusBonds Credit 0+ YR Index.

13 Source: Bloomberg Global High Yield Total Return Index Hedged AUD.

14 Source: Bloomberg AusBond Bank Bill Index.

15 Source: Bloomberg Australia Govt Bond 10 Year Yield

16 US Generic Govt 10 Year.

17 Source: Bloomberg UK Gilts 10 Year.

18 Source: Bloomberg.

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Glossary

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General Risks: ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETF's net asset value. ETFs typically invest by sampling an index, holding a range of securities that, in the aggregate, approximates the full index in terms of key risk factors and other characteristics. This may cause the fund to experience tracking errors relative to performance of the index.

Investing involves risk including the risk of loss of principal. Diversification does not ensure a profit or guarantee against loss. 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.

An investment in the model portfolio carries a number of standard investment risks; these risks are outlined in each Provider's PDS which should be read in full and understood by the potential investors.

Implementation Risk: State Street does not manage the accounts of retail investors pursuant to the model portfolio strategies and the strategies are only available to retail investors through various Providers that offer account management and other services to retail investors. The actual results of accounts managed by a Provider that receives access to the strategies may differ substantially from the hypothetical results of the State Street ETF Model Portfolios for a variety of reasons, including but not limited to:

- the fees assessed by the Provider and other third parties;
- the Provider's decision to exercise its discretion to implement a given strategy in a way that differs from the information provided by State Street;
- the timing of the Provider's implementation of strategy updates; and
- investor imposed investment restrictions; and the timing and nature of investor initiated cash flow activity in the account.

The views expressed in this material are the views of the SSGA Investment Solutions Group (ISG) through the period ended 30 September 2021 and are subject to change based on market and other conditions. This document may contain certain statements deemed to be forward-looking statements. These statements are based on certain assumptions and analyses made by SSGA in light of its experience and perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate in the circumstances, many of which are detailed herein. Such statements are subject to a number of assumptions, risks, uncertainties, many of which are beyond SSGA's control. Please note that any such statements are not guarantees of any future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

Characteristics are as of the date indicated, subject to change, and should not be relied upon thereafter.

Projected characteristics are based upon estimates and reflect subjective judgments and assumptions. There can be no assurance that developments will transpire as forecasted and that the estimates are accurate.

Investing involves risk including the risk of loss of principal. Diversification does not ensure a profit or guarantee against loss.

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

Investments in asset backed and mortgage backed securities are subject to prepayment risk which can limit the potential for gain during a declining interest rate environment and increases the potential for loss in a rising interest rate environment.