Quarterly Commentary
ETF Model Portfolios

Q4 2022

For Financial Advisers/Wholesale Clients Only. Not for Distribution to Retail

State Street ETF Model Portfolios

- Global financial markets rallied during the fourth quarter, as risk sentiments improved on the back of easing inflation pressures and optimism for peak US Fed aggressiveness. While markets didn't finish on a high note in December, both equities and bonds recovered in Q4 with most assets moving higher.
- Overall, global equity markets registered positive gains over the fourth quarter, up 4.1%.[3]
- The State Street ETF Model Portfolios are designed with varying objectives to deliver diversified risk-adjusted returns over the long term through multi-asset allocation.

The Market in Review

The global economy is rapidly slowing as the current monetary tightening cycle unfolds at top speed, particularly in developed markets. Central bank efforts to tame inflation will inevitably cause some harm in terms of growth and employment, but for now this damage represents an acceptable tradeoff — economies will experience some short-term pain in exchange for long-term gain, and markets will experience some short-term volatility in exchange for long-term stability. Unsurprisingly, we continue to lower global growth forecasts, particularly for next year and risks remain to the downside.

Economies continued to weaken as preliminary December manufacturing PMIs in the US, UK, EU, Germany, and China were in contractionary zones. However, national accounts data showed some resilience in economies, notably in the US, where final Q3 GDP data showed that the economy grew by 3.2%, much higher than the 2.6% initial estimation. The Australian economy expanded by 0.6% quarter-over-quarter in the third quarter, slower than expected as imports jumped, reflecting strong consumption and households' resilience to the Reserve Bank's interest-rate increases. The October monthly CPI shows that price pressures may be moderating in Australia. Inflation eased to 6.9% y/y, considerably below the 7.6% consensus expectation. The moderation in CPI was echoed in retail sales, which fell -0.2% m/m in October bucking expectations of a modest rise.

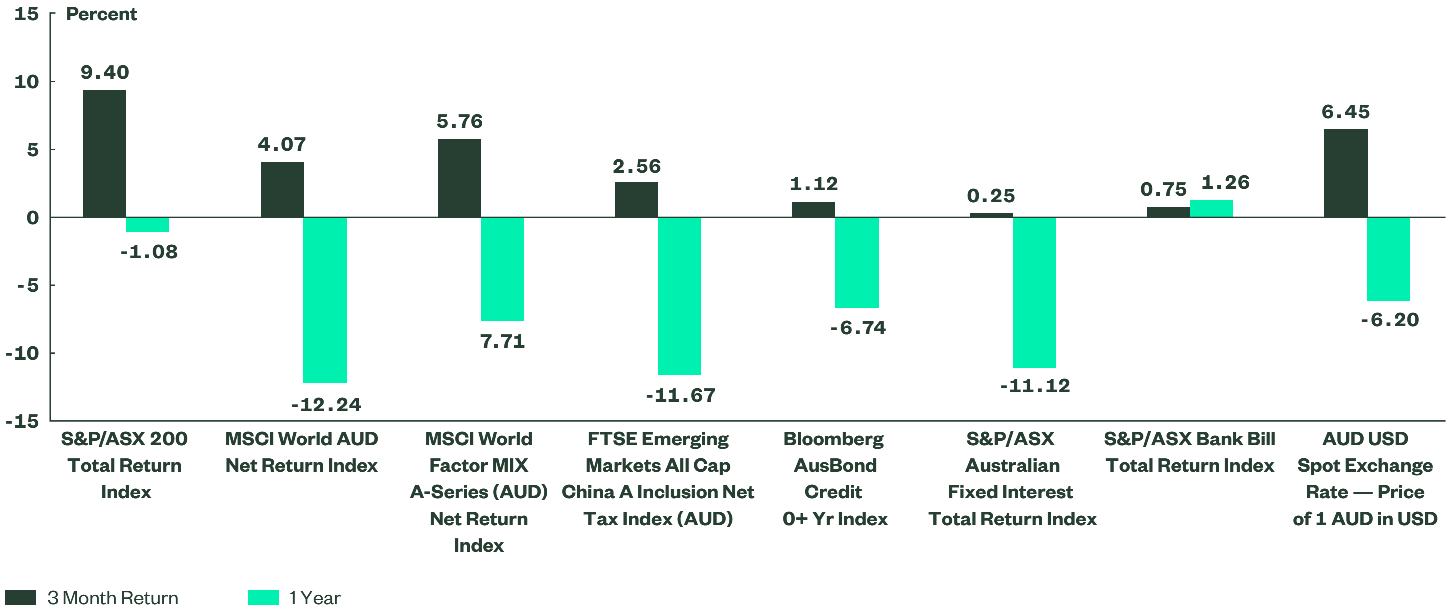
Equity markets finished a tumultuous year with gains in fourth quarter, largely due to the equity rallies seen during October and November. However, the sustainability of these gains was in doubt, as the high inflationary environment continued globally, with no end in sight for the Russia-Ukraine war. The Australian equity markets registered robust gains, surging 9.4% for the quarter. The strong fourth quarter performance, however, failed to keep the index out of the red annually. All sectors returned positive for the quarter. Utilities was the star performer among Australian sectors (28.0%) followed by materials (15.2%),[17] financials (11.0%),[17] and real estate (10.4%).[17] Elsewhere, international developed markets also rose over the quarter, but underperformed domestic equities. Optimism for peak Fed hawkishness and peak inflation drove equities higher. Emerging market (EM) equities underperformed developed market equities, up 2.6%.[10] China moving away from its 'zero-Covid' policy and weaker US dollar supported EM equities. The Australian dollar (AUD) rose 6.5%[2] against the US Dollar (USD) for the quarter.

Global bonds ended the fourth quarter on a positive note, posting return of 0.6%,[11] as inflation peaked across key economies and markets estimated that the interest rates will soften and reduce further. Bond yields, which rise when their prices fall, rose during the bookend months of fourth quarter amid hawkish messaging by central banks, speculation about the future direction of monetary policy and recession fears. The Reserve Bank of Australia (RBA) continued to raise interest rates. The RBA feels that inflation is still too high and indicated more increases may be on the card to tame inflation. As a result, the AUD 10-year Treasury yield increased from 3.90% to 4.06%.[15] Elsewhere, the 10-year U.S. Treasury yield increased from 3.83% to 3.88%.[16] On the other hand, yield on the UK 10-year gilts decreased after government's successive reversal of most of 'mini budget' proposals.

Asset Class Performance (in AUD)[1]

- The **Australian dollar** strengthened against the US Dollar, up 6.5%.[2]
- **International equities** advanced, up 4.1%,[4] with the **multi-factor** (minimum volatility, quality and value) strategy posting positive returns, up 5.8%.[5]
- **Value** outperformed significantly, up 7.2%.[8] **Quality and Minimum volatility** were up 3.9%[6] and 3.7%,[7] respectively.
- **Australian equities** rose 9.4%.[9]
- **Emerging markets** was up 2.6%.[10]
- **Global bonds** registered marginal gains, up 0.6%.[11]
- **Australian bonds** posted small gains, up 0.3%.[12]
- **Global corporate bonds** rose 6.0%.[13]
- **Cash** returns in the Australian money market were marginally up 0.7%.[14]

Figure 1
Major Asset Class Performance (%)



Source: As of 31 December 2022, 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 fourth quarter of 2022, the Australian equity and the multi-factor international equity allocations were the major contributors to the risk-based portfolios' total return. The Australian equity exposure posted a strong gain as every sector of the domestic stock market managed to post positive gains during the quarter. The portfolios' multi-factor international exposure, SPDR MSCI World Quality Mix Fund (QMIX) advanced for the quarter. This was driven mainly by the value factor (7.2%).[6] The emerging market equities also had a positive contribution as China moving away from its 'zero-Covid' policy and weaker US dollar drove emerging market stocks higher.

On the fixed income side of the ledger, both Australian corporate and government bonds exposures contributed positively to the risk-based portfolios' total return. Australian corporate bonds outperformed government bonds as spreads tightened on the back of improved risk sentiments.

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 up 4.55%.

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 up 5.32%.

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 up 6.13%.

State Street Target Income ETF Model Portfolio

The State Street Target Income ETF Model Portfolio is designed with an income objective that is determined on an annual basis. For the 2022/2023 financial year the portfolio aims to target, before expenses, an income objective of 4% per annum.

The portfolio's allocation to Australian high dividend stock was the major contributor to the portfolio's total return, largely driven by materials sector, which benefitted from an improving Chinese demand outlook and a weaker U.S. dollar. International high dividend stock also had a significant contribution to the portfolio's total return. On the fixed income side of the ledger, all three components, government, credit and high yield advanced for the quarter and had a positive contribution to the total return. High yield bonds exposure was the major contributor, as spreads tightened on anticipation that with peaking inflation, rate hikes will moderate in the near future. Australian corporate bonds also generated positive returns and outperformed government bonds as spreads tightened on the back of improved risk sentiments.

The income portion of the portfolio's total return for the quarter was positive 0.78%, supporting the portfolio's primary objective to generate income.

Overall performance of the hypothetical model portfolio for the quarter was up 5.02%.

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 31 December 2022. 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 Net 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 Global Aggregate Total Return Hedged AUD Index.

12 Source: S&P/ASX Australian Fixed Interest — Total Return 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 Source: Bloomberg, US Generic Govt 10 Yr.

17 Source: Bloomberg, S&P/ASX 200 Total Return Index/ GICS Sector Performance.

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Information Classification: General Access

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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.

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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.

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