

# Unlocking Portfolio Potential

A well-managed securities lending programme can be a valuable portfolio management tool, and can enable funds to receive an additional source of income that can add incremental risk-adjusted returns to a fund's overall investment return objective.

## Which EMEA SPDR® ETFs Participate in Securities Lending?

As of December 2019, 22 SPDR ETFs participate in a securities lending programme, which has been designed to open up the funds to the potential benefits of securities lending while mitigating associated risks. Participation in the securities lending programme is determined by considerations related to each individual ETF, the local rules and regulations, its underlying assets, its investment objectives, taxation, and other circumstances. Not all funds engage in securities lending and the decision to participate is taken by each fund's relevant board or management company in relation to each fund.

## Lending Status as of December 2019

### EMEA SPDR ETFs

SPDR MSCI Europe Communication Services UCITS ETF	SPDR MSCI Europe UCITS ETF
SPDR MSCI Europe Consumer Discretionary UCITS ETF	SPDR MSCI World Communication Services UCITS ETF
SPDR MSCI Europe Consumer Staples UCITS ETF	SPDR MSCI World Consumer Discretionary UCITS ETF
SPDR MSCI Europe Energy UCITS ETF	SPDR MSCI World Consumer Staples UCITS ETF
SPDR MSCI Europe Financials UCITS ETF	SPDR MSCI World Energy UCITS ETF
SPDR MSCI Europe Health Care UCITS ETF	SPDR MSCI World Financials UCITS ETF
SPDR MSCI Europe Industrials UCITS ETF	SPDR MSCI World Health Care UCITS ETF
SPDR MSCI Europe Materials UCITS ETF	SPDR MSCI World Materials UCITS ETF
SPDR MSCI Europe Small Cap UCITS ETF	SPDR MSCI World Technology UCITS ETF
SPDR MSCI Europe Technology UCITS ETF	SPDR MSCI World Industrials UCITS ETF
SPDR MSCI Europe Utilities UCITS ETF	SPDR MSCI World Utilities UCITS ETF

Source: State Street Global Advisors, as of 31 December 2019. Funds not listed in the above table do not currently participate in a securities lending programme, though they are entitled to do so. Should the Directors elect to change this policy in the future, due notification will be given to Shareholders and the respective Sub-Fund Supplement will be updated accordingly. SPDR ETFs are a suite of Ireland-domiciled UCITS exchange traded funds (ETFs), managed by State Street Global Advisors. These ETFs invest in physical securities to track the performance of a specified benchmark index.

## Securities Lending Revenue and Costs

All revenues arising from securities lending in respect of an ETF, net of direct and indirect operational costs, are returned to the fund.

- As of 1 July 2019, the funds enrolled in the securities lending programme will receive 75% of the gross securities lending revenue, while the lending agent will receive 25%.
- The remaining 75% of the revenues are paid net to the fund on a monthly basis.

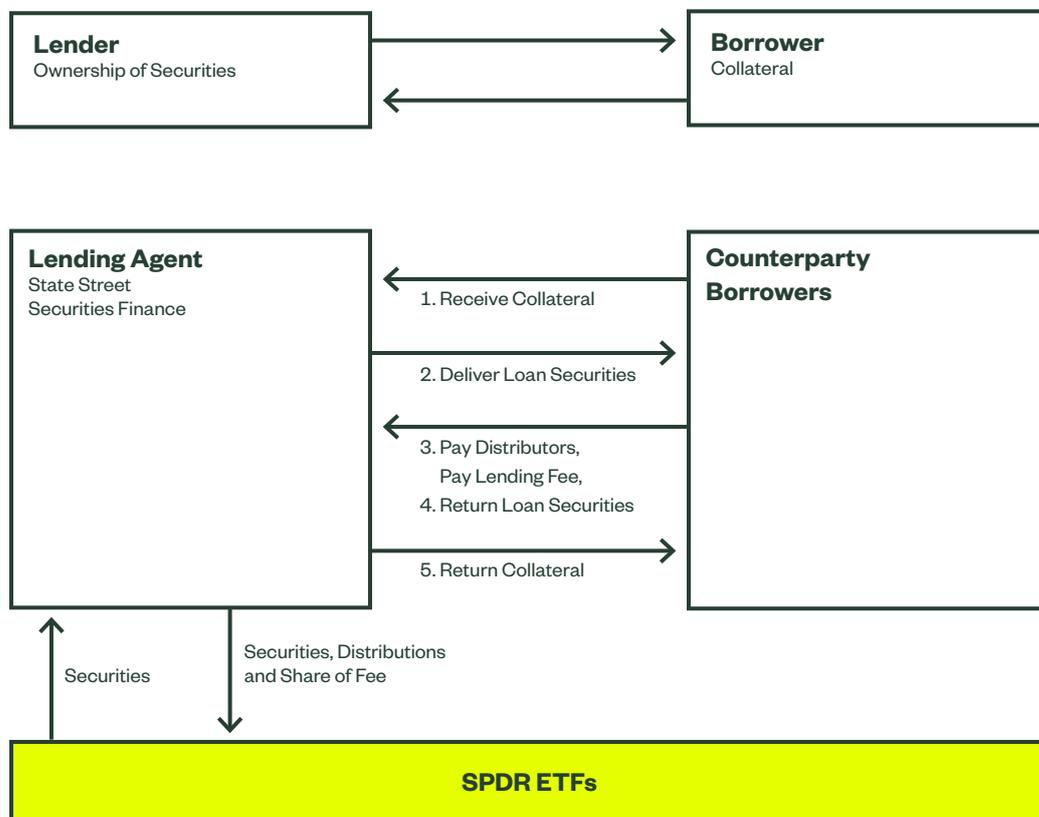
## What is Securities Lending?

A securities lending transaction involves the temporary transfer of securities from one party (the lender) to another party (the borrower). Securities lending enables funds enrolled in the securities lending programme (the lender) to potentially generate an additional source of income.

In all cases, the securities borrower is a financial intermediary, such as a broker, dealer or market maker. In exchange for borrowing the securities from a fund, the borrower transfers collateral to the lending agent who holds that collateral in an account in the fund's name. The borrower pays a fee for this service and is contractually obliged to return the loaned securities, while the fund receives a fee for the use of its assets. The loan is usually arranged by the securities lending programme coordinator, known as a lending agent.

During the term of the loan, the borrower must provide collateral to the funds to mitigate against the risk of non-return of any loaned securities. The borrower receives all distributions and dividends arising during the period of the loan and pays these amounts to the lending agent at the same rate as if the securities were held in custody. The lending agent then pays all distributions on to the underlying lender. The borrower will generally have the right to exercise any voting rights arising during the period of the loan that relate to the loaned securities.

## How the Program Works



The information contained above is for illustrative purposes only.

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## Governance

The State Street Global Advisors' Securities Lending Committee (Committee) oversees and comprehensively reviews performance and effectiveness, and provides oversight of State Street Global Advisors' Global Securities Lending programmes.

The Committee evaluates the performance of State Street Global Advisors' securities lending agents. It also reviews and challenges State Street Global Advisors' Global Securities Lending programmes against industry standards and performance, current risk appetite levels, and current market conditions.

In addition, the securities lending programme for each participating fund is reviewed, approved and overseen by the respective fund boards.

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## About State Street Securities Finance

State Street Securities Finance (SSSF), which has been appointed as lending agent, is one of the world's most experienced lending agents, providing both custodial and third-party lending services covering more than 30 international markets. SSSF operates through entities within the State Street group of companies (and which are therefore affiliates of State Street Global Advisors). SSSF has been providing securities lending services since 1974, and now operates from trading desks based in London, Boston, Hong Kong, Toronto and Sydney. This international presence provides local expertise and 24-hour access to the securities lending markets. SSSF offers considerable depth of inventory and market presence, thus attracting high credit-quality borrowers and providing insights into the level of demand for securities.

SSSF employs a number of safeguards for clients engaged in securities lending, including:

- Controlling the quality of the approved borrowers
- Monitoring the daily activity of the borrowers
- Maintaining liquid collateral with appropriate margins
- Ensuring collateral diversification.

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## Collateral

In general the minimum acceptable collateral currently accepted are:

- Government securities issued by the following countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland (T-Bills only), United Kingdom and United States of America whose long-term debt ratings are at or above A- or equivalent by two or more internationally recognised rating agencies.
- Global listed equities securities that are traded on a regulated market that operates regularly and is officially recognised and open to the public. A list of eligible indices is available upon request.
- Cash collateral is not accepted in our European Securities Lending Programme.

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## Collateral Margin Requirements

The collateral amount is marked to market daily. If collateral levels are insufficient for a particular loan, the borrower is required to provide more collateral. If the loan is over-collateralised, the lending agent may return some of the collateral to the borrower.

- Government securities transferred as collateral shall have a minimum collateral market value of not less than 102% of the loaned securities.
- Equities transferred as collateral shall have a minimum collateral market value of not less than 105% of the loaned securities.

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## Securities Lending Report

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The Securities Lending Report is regularly updated and available on [ssga.com](http://ssga.com).

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## Indemnification

State Street Bank and Trust Company (SSBTC) provides a counterparty default indemnity. In accordance with this indemnity, if a counterparty fails to return securities lent by an ETF, subject to the terms of the securities lending agreement, SSBTC would either purchase replacement securities for the ETF, or shall credit to the ETF an amount of cash equal to the market value of the securities.

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## Lending Limits

The percentage out on loan will depend on the type of fund and securities held but will be subject to the below limits established by State Street Global Advisors as internal guidelines for the lending programme:

- Maximum of 95% on loan for a single security on a per-fund basis.
  - The aggregate outstanding value of loaned securities for any fund in the ETF range shall not exceed 70% of its total net asset value.
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## Potential Risks of Securities Lending

As with all investment activities, securities lending bears risks. Here are some of the key risks and safeguards that are in place:

Risks	Risk Mitigates and Considerations
<b>Counterparty or Borrower Risk</b> Borrowing counterparty default Recall/settlement risk Collateral insufficiency Failure to provide manufactured income or entitlements	Counterparty credit risk management Controlling the quality of approved borrowers Monitoring daily margin requirements Borrower default indemnification
<b>Collateral Risk</b> Credit Liquidity	Over collateralisation Marked to market daily
<b>Failed Trade Settlement</b>	Agent lender depth of supply Agent lender can execute buy in to force settlement As one of the largest lending agents, State Street Securities Finance has extensive relationships across the industry, which helps to avoid settlement failures
<b>Reputational Risk</b>	Comprehensive oversight and ongoing communication with the lending agent
<b>Collateral Diversification</b>	The collateral is sufficiently diversified in terms of country, markets and issuers

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

While not without risk, a well-managed securities lending programme can help to unlock an additional source of income in portfolios. As one of the world's largest financial institutions, State Street Global Advisors has the scale and global reach to deliver clients the potential benefits of securities lending while carefully managing risk and cost.

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## Contacts

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## About State Street Global Advisors

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\* AUM reflects approximately \$43.72 billion USD (as of 31 December 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.

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