

---

# Global Convertible Bonds

## Indicative Rating Approach

State Street Global Advisors uses an independent ratings provider so that each bond's probability of default can be assessed at issuer level. FinAPU provides an independent risk assessment platform of issuers based on real-time available fundamental information, evaluating issuers and instruments using data from Refinitiv, Fitch Solutions and proprietary risk and audit models.

---

### Introduction to Convertible Bonds

Convertible bonds are issued by corporations of all sizes and across a wide array of industries but tend to attract different kinds of companies than those found in vanilla equity and corporate bond indices. Compared with issuing stock, convertibles allow a company to raise money without having to dilute existing stockholders' value. Additionally, issuing convertible securities usually allows a company to pay a lower interest rate than it would on ordinary bonds. This is because the companies are giving future value to bond holders in the form of the option to convert if the share price rises. Investors in convertible bonds are willing to make this trade off too, with slightly lower yields from the bond but with potential for more upside than a normal corporate, if equity markets rise.

Issuers of convertibles range across the spectrum of credit quality: investment grade, non-investment grade and non-rated. For those companies that issue convertibles, but are below investment grade, many of them find that an equity option helps to attract capital without needing to pay prohibitively high interest rates with a standard bond issuance.

Another feature of issuance within the convertible bond market universe is that a large proportion of the market is unrated. Among the most pertinent reasons for this are lack of ratings programs and geography. Many companies that issue convertible bonds come from a background where they tend to raise capital more through equity than bonds (think of sectors with reasonable growth prospects, such as IT or entertainment).

---

### Challenges for Convertible Bonds

Setting up a bond rating program is expensive and time consuming and, for these sorts of companies, it may not be worth the time and expense. Moreover, certain geographies are culturally less inclined to rate their bonds than others. For example, a large proportion of Asian corporate issuers will choose not to rate their bonds even if they are regular participants in capital market debt issuance.

In order to overcome these challenges, State Street Global Advisors uses an independent ratings provider so that each bond's probability of default can be assessed at issuer level. FinAPU provides an independent risk assessment platform of issuers based on real-time available fundamental information, evaluating issuers and instruments using data from Refinitiv, Fitch Solutions and proprietary risk and audit models. In this paper we detail this approach.

## FinAPU Approach

The rating models in FinAPU determine the one-year probability of default and are based on quantitative and qualitative factors. The weighting of the quantitative and qualitative part varies depending on the respective rating model. The quantitative part of the rating models is based on fundamental key drivers. The rating-relevant key figures used are taken from the balance sheet and the P&L of the respective entities, which in turn are prepared by the two data providers Fitch Solutions and Refinitiv.

The rating models have a consistent structure. Colour scales help the user to differentiate between a 'good' and a 'bad' characteristic of a key figure. The rating models have global validity and can be used properly in nearly every region in the world.

Two models are used: one for corporate issuers and one for banks in order to take into account the reporting and risk assessment specificities of these different sectors.

### 1. FinAPU Corporate Rating

FinAPU corporate rating method is designed to evaluate the one-year probability of default (PD) for corporates by Shadow Bond logic. This is conducted by a statistical multifactorial model in the form of a hard fact rating, including analyses of statistical stability, behavior on subsamples, migration behavior and rating distribution. Additionally, single customer ratings were compared with expert's assessments. This approach can be extended with qualitative factors, third party support, ESG performance and a country ceiling. With this approach, corporates worldwide with financial data can be rated, independent if the corporate is listed (around 70.000) or rated by an agency (around 3.000).

**Hardfact Rating: 8 Key Drivers and 5 Classes of scoring: green, light green, yellow, orange, red**

Figure 1  
**Corporate Bond Rating Approach: Ratios and Model Input**

Key Driver	Model Weight	Gradient
Total Equity	High	Higher = better
Net Income vs Revenues	High	Higher = better
Net Income (2yr)	Medium	Higher = better
Operating EBIT/Interest Expense	Medium	Higher = better
Total Liabilities/Total Assets	Medium	Higher = worse
Free Cash Flow/Total Liabilities	Low	Higher = better
Net Debt/EBITDA	Low	Higher = worse
Quick Ratio	Low	Higher = better

Figure 2  
**Example of Visualisation for Corporate Bond Ratings**

Financial Drivers	2017/12	2018/12	2019/12	2020/12
Total Equity (Mio €)	36,801.00	45,977.00	47,253.00	30,524.00
Net Income/Revenues (%)	20.95	4.61	9.39	-25.35
Net Income (Mio €) (2yr)	5,933.50	4,515.50	2,893.00	-3,202.00
Operating EBIT/Interest Expense	11.25	4.35	4.54	4.71
Total Liabilities/Total Assets (%)	50.99	63.72	62.55	73.92
Free Cash Flow/Total Liabilities (%)	15.07	6.59	7.02	2.86
Net Debt/ EBITDA	3.00	8.05	6.04	6.43
Quick Ratio	1.73	0.86	0.94	0.67

## 2. FinAPU Bank Rating

FinAPU bank rating method is designed to evaluate the one-year probability of default (PD) for banks by Proxy Defaults. This is conducted by a statistical multifactorial model in the form of a hard fact rating, including analyses of statistical stability, behavior on subsamples, migration behavior and rating distribution. Additionally, single customer ratings were compared with expert's assessments. This approach can be extended with qualitative factors, third party support, ESG performance and a country ceiling. With this approach, all banks with financial data worldwide (around 25.000) can be rated, independent if the bank is listed (around 4.500) or rated by an agency (around 3.000).

### Hardfact Rating: 12 Key Drivers and 5 Classes: green, light green, yellow, orange, red

Figure 3

Key Driver	Model Weight	Gradient
Total Assets	High	Higher = better
Net Income (2yr)	High	Higher = better
Impaired Loans/Gross Loans (2yr)	Medium	Higher = worse
Loan Loss Reserves/Gross Loans (2yr)	Medium	Higher = worse
Equity/Total Assets	Medium	U shaped
Tier 1 Ratio (2yr)	Medium	U shaped
Bank Deposits/Total Assets	Low	U shaped
Total Securities/Total Equity	Low	U shaped
Net Interest Margin	Low	Higher = worse
Net Gains (Losses) on Trading & erivatives	Low	Higher = better
Cost to Income Ratio	Low	U shaped
Net Loans/Customer & Short Term Funding	Low	Higher = better

Figure 4

### Example of Visualisation for Financials Bond Ratings

Financial Drivers	2017/12	2018/12	2019/12	2020/12
Total Assets (Mio €)	416,641.90	375,465.10	438,906.80	342,315.10
Net Income (Mio €) (2yr)	2,425.80	1,988.80	1,262.60	897.20
Impaired Loans/Gross Loans (%) (2yr)	1.99	2.09	2.25	2.17
Loan Loss Reserves/Gross Loans (%) (2yr)	0.84	0.80	0.80	1.00
Equity/Total Assets (%)	3.56	3.43	3.48	4.31
Tier 1 Ratio (%) (2yr)	14.75	15.40	17.25	16.51
Bank Deposits/Total Assets (%)	0.33	6.17	0.27	0.33
Total Securities/Total Equity	13.51	8.33	17.21	17.89
Net Interest Margin (%)	1.67	1.66	1.73	1.71
Net Gains (Losses) on Trading & Derivatives (Mio €)	243.30	37.70	295.50	-385.00
Cost to Income Ratio (%)	57.04	59.34	71.79	51.78
Net Loans/Customer & Short Term Funding (%)	138.24	143.59	153.74	148.71

## 3. SPDR Approach

For each issuer and bond a two-notch rating downgrade is applied to account for the convertible nature of the bond making the overall rating more conservative.

The issuer coverage obtained is very high compared with more traditional rating providers which cover between 20 and 35% of the overall index/portfolio. As a result this approach enables reporting across more than 95% of issuers and highlight that global convertible bonds cover a wide spectrum of default risk as can be seen in Figure 5.

Figure 5

**Fund Rating: SPDR Refinitiv  
Global Convertible Bond  
UCITS ETF**

Indicative Rating	Weight (%)
AAA	0.22
AA+	0.69
AA	0.84
AA-	0.45
A+	3.93
A	7.56
A-	8.16
BBB+	10.73
BBB+	8.05
BBB-	12.31
BB+	9.20
BB	5.57
BB-	8.71
B+	6.77
B	9.98
B-	0.63
CCC	1.79
C	4.29
NR	0.12

Source: State Street Global Advisors, FinAPU, as of 31 March 2021.

## Conclusion

Bond investors often require transparency and information on the underlying holdings of a fund. The implementation of FinAPU's rating approach to the SPDR Refinitiv Global Convertible Bond UCITS ETF allows investors to understand and assess the risk profile of the fund.

This additional information may also be used for internal and indicatively for reporting purposes. Indeed in an attempt to regulate insurance companies' use of capital, the European Union's Solvency II directive forces investors to focus on this matter in a stringent manner. In the meantime, the IORP directive is looking to subject pension funds to a similar approach, focusing on harmonised capital adequacy principles.

For more information [ssga.com/etfs](https://ssga.com/etfs) or [finapu.com](https://finapu.com).

## ssga.com/etfs

### Classification Information: General Access

### Marketing communication.

#### For professional clients use only.

**For Investors in Austria:** The offering of SPDR ETFs by the Company has been notified to the Financial Markets Authority (FMA) in accordance with section 139 of the Austrian Investment Funds Act. Prospective investors may obtain the current sales Prospectus, the articles of incorporation, the KIID as well as the latest annual and semi-annual report free of charge from State Street Global Advisors GmbH, Brienner Strasse 59, D-80333 Munich. T: +49 (0)89-55878-400. F: +49 (0)89-55878-440.

**Finland:** The offering of funds by the Companies has been notified to the Financial Supervision Authority in accordance with Section 127 of the Act on Common Funds (29.1.1999/48) and by virtue of confirmation from the Financial Supervision Authority the Companies may publicly distribute their Shares in Finland. Certain information and documents that the Companies must publish in Ireland pursuant to applicable Irish law are translated into Finnish and are available for Finnish investors by contacting State Street Custodial Services (Ireland) Limited, 78 Sir John Rogerson's Quay, Dublin 2, Ireland.

**France:** This document does not constitute an offer or request to purchase shares in the Company. Any subscription for shares shall be made in accordance with the terms and conditions specified in the complete Prospectus, the KIID, the addenda as well as the Company Supplements. These documents are available from the Company centralizing correspondent: State Street Banque S.A., Coeur Défense - Tour A - La Défense 4 33e étage 100, Esplanade du Général de Gaulle 92 932 Paris La Défense cedex France or on the French part of the site www.spdrs.com. The Company is an undertaking for collective investment in transferable securities (UCITS) governed by Irish law and accredited by the Central Bank of Ireland as a UCITS in accordance with European Regulations. European Directive no. 2014/91/EU dated 23 July 2014 on UCITS, as amended, established common rules pursuant to the cross-border marketing of UCITS with which they duly comply. This common base does not exclude differentiated implementation. This is why a European UCITS can be sold in France even though its activity does not comply with rules identical to those governing the approval of this type of product in France. The offering of these compartments has been notified to the Autorité des Marchés Financiers (AMF) in accordance with article L214-2-2 of the French Monetary and Financial Code.

**Germany:** The offering of SPDR ETFs by the Companies has been notified to the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) in

accordance with section 312 of the German Investment Act. Prospective investors may obtain the current sales Prospectuses, the articles of incorporation, the KIIDs as well as the latest annual and semi-annual report free of charge from State Street Global Advisors GmbH, Brienner Strasse 59, D-80333 Munich. T: +49 (0)89-55878-400.

**Ireland:** State Street Global Advisors Ireland Limited is regulated by the Central Bank of Ireland. Registered office address 78 Sir John Rogerson's Quay, Dublin 2. Registered number 145221. T: +353 (0)1 776 3000. F: +353 (0)1 776 3300. Web: ssga.com.

**Israel:** No action has been taken or will be taken in Israel that would permit a public offering of the Securities or distribution of this sales brochure to the public in Israel. This sales brochure has not been approved by the Israel Securities Authority (the 'ISA').

Accordingly, the Securities shall only be sold in Israel to an investor of the type listed in the First Schedule to the Israeli Securities Law, 1978, which has confirmed in writing that it falls within one of the categories listed therein (accompanied by external confirmation where this is required under ISA guidelines), that it is aware of the implications of being considered such an investor and consents thereto, and further that the Securities are being purchased for its own account and not for the purpose of re-sale or distribution.

This sales brochure may not be reproduced or used for any other purpose, nor be furnished to any other person other than those to whom copies have been sent.

Nothing in this sales brochure should be considered investment advice or investment marketing as defined in the Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 1995 ("the Investment Advice Law"). Investors are encouraged to seek competent investment advice from a locally licensed investment advisor prior to making any investment. State Street is not licensed under the Investment Advice Law, nor does it carry the insurance as required of a licensee thereunder. This sales brochure does not constitute an offer to sell or solicitation of an offer to buy any securities other than the Securities offered hereby, nor does it constitute an offer to sell to or solicitation of an offer to buy from any person or persons in any state or other jurisdiction in which such offer or solicitation would be unlawful, or in which the person making such offer or solicitation is not qualified to do so, or to a person or persons to whom it is unlawful to make such offer or solicitation.

**Italy:** State Street Global Advisors Ireland Limited Milan Branch (Sede Secondaria di Milano) ("State Street Global Advisors Milan Branch") is a branch of State Street Global Advisors Ireland Limited, registered in Ireland with company number 145221, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. State Street Global Advisors Milan Branch is registered in Italy with

company number 10495250960 - R.E.A. 2535585 and VAT number 10495250960, and its office is located at Via Ferrante Aporti, 10 - 20125 Milano, Italy. T: (+39) 02 32066 100. F: (+39) 02 32066 155.

**Netherlands:** This communication is directed at qualified investors within the meaning of Section 2:72 of the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht) as amended. The products and services to which this communication relates are only available to such persons and persons of any other description should not rely on this communication. Distribution of this document does not trigger a licence requirement for the Companies or SSGA in the Netherlands and consequently no prudential and conduct of business supervision will be exercised over the Companies or SSGA by the Dutch Central Bank (De Nederlandsche Bank N.V.) and the Dutch Authority for the Financial Markets (Stichting Autoriteit Financiële Markten). The Companies have completed their notification to the Authority Financial Markets in the Netherlands in order to market their shares for sale to the public in the Netherlands and the Companies are, accordingly, investment institutions (beleggingsinstellingen) according to Section 2:72 Dutch Financial Markets Supervision Act of Investment Institutions.

**Norway:** The offering of SPDR ETFs by the Companies has been notified to the Financial Supervisory Authority of Norway (Finanstilsynet) in accordance with applicable Norwegian Securities Funds legislation. By virtue of a confirmation letter from the Financial Supervisory Authority dated 28 March 2013 (16 October 2013 for umbrella II) the Companies may market and sell their shares in Norway.

**Spain:** State Street Global Advisors SPDR ETFs Europe I and II plc have been authorised for public distribution in Spain and are registered with the Spanish Securities Market Commission (Comisión Nacional del Mercado de Valores) under no.1244 and no.1242. Before investing, investors may obtain a copy of the Prospectus and Key Investor Information Documents, the Marketing Memoranda, the fund rules or instruments of incorporation as well as the annual and semi-annual reports of State Street Global Advisors SPDR ETFs Europe I and II plc from Cecabank, S.A. Alcalá 27, 28014 Madrid (Spain) who is the Spanish Representative, Paying Agent and distributor in Spain or at spdrs.com. The authorised Spanish distributor of State Street Global Advisors SPDR ETFs is available on the website of the Securities Market Commission (Comisión Nacional del Mercado de Valores).

**For Investors in Switzerland:** The collective investment schemes referred to herein are collective investment schemes under Irish law. Prospective investors may obtain the current sales prospectus, the articles of incorporation, the KIID as well as the latest annual and semi-annual reports free of charge from the Swiss Representative and Paying Agent, State Street Bank International GmbH, Munich, Zurich Branch, Beethovenstr. 19, 8027 Zurich, as well

as from the main distributor in Switzerland, State Street Global Advisors AG, Beethovenstrasse 19, 8027 Zurich. Before investing please read the prospectus and the KIID, copies of which can be obtained from the Swiss representative, or at spdrs.com.

**United Kingdom:** The Funds have been registered for distribution in the UK pursuant to the UK's temporary permissions regime under regulation 62 of the Collective Investment Schemes (Amendment etc.) (EU Exit) Regulations 2019. The Funds are directed at 'professional clients' in the UK (as defined in rules made under the Financial Services and Markets Act 2000) who are deemed both knowledgeable and experienced in matters relating to investments. The products and services to which this communication relates are only available to such persons and persons of any other description should not rely on this communication. Many of the protections provided by the UK regulatory system do not apply to the operation of the Funds, and compensation will not be available under the UK Financial Services Compensation Scheme.

### Important Information

This document has been issued by State Street Global Advisors Ireland ("SSGA"), regulated by the Central Bank of Ireland. Registered office address 78 Sir John Rogerson's Quay, Dublin 2. Registered number 145221. T: +353 (0)1 776 3000. Fax: +353 (0)1 776 3300. Web: ssga.com. SPDR ETFs is the exchange traded funds ("ETF") platform of State Street Global Advisors and is comprised of funds that have been authorised by Central Bank of Ireland as open-ended UCITS investment companies.

State Street Global Advisors SPDR ETFs Europe I & II plc issue SPDR ETFs, and is an open-ended investment company with variable capital having segregated liability between its sub-funds. The Company is organised as an undertaking for Collective Investments in Transferable Securities (UCITS) under the laws of Ireland and authorised as a UCITS by the Central Bank of Ireland.

**The information provided does not constitute investment advice.** It should not be considered a solicitation to buy or an offer to sell any investment. It does not take into account any investor's or potential investor's particular investment objectives, strategies, tax status, risk appetite or investment horizon. If you require investment advice you should consult your tax and financial or other professional advisor. All information is from SSGA unless otherwise noted and 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, are subject to investment risk and will fluctuate in market value. The investment return and principal value of an investment will fluctuate in value, so that when shares are sold or redeemed, they may be worth more or less than when they were purchased. Although shares may be bought or sold on an exchange through any brokerage account, shares are not individually redeemable from the fund. Investors may acquire shares and tender them for redemption through the fund in large aggregations known as "creation units." Please see the fund's prospectus for more details.

The trademarks and service marks referenced herein are the property of their respective owners. Third party data providers make no warranties or representations of any kind relating to the accuracy, completeness or timeliness of the data and have no liability for damages of any kind relating to the use of such data.

The views expressed in this material are the views of SPDR EMEA Strategy & Research through the period ending 5 March 2021 and are subject to change based on market and other conditions. This document contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any

future performance and actual results or developments may differ materially from those projected.

**Past performance is not a guarantee of future results.**

All forms of investments carry risks, including the risk of losing all of the invested amount. Such activities may not be suitable for everyone.

Investing in foreign domiciled securities may involve risk of capital loss from unfavourable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations. 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.

Investing in high yield fixed income securities, otherwise known as "junk bonds", is considered

speculative and involves greater risk of loss of principal and interest than investing in investment grade fixed income securities.

These Lower-quality debt securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer.

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.

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.

**The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the Markets in Financial Instruments Directive (2014/65/EU) or applicable Swiss Regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research. You should obtain and read the SPDR prospectus and relevant Key Investor Information Document (KIID) prior to investing, which may be obtained from [spdrs.com](http://spdrs.com). These include further details relating to the SPDR funds, including information relating to costs, risks and where the funds are authorised for sale.**

© 2021 State Street Corporation.  
All Rights Reserved.  
ID432105-3580404.11.EMEA.INST 0521  
Exp. Date: 31/05/2022