

State Street ETF Model Portfolios

- For the fourth quarter of 2020 global equity markets continued to rise and risk assets were influenced by the positive news on the rollout of the COVID-19 vaccine, continued accommodative fiscal/monetary policies across the globe and the US election results. Such events outweighed the impact of surging COVID-19 cases and lifted investors' optimism.
- Overall, broader global equity markets posted positive returns for the final quarter of 2020, up +6.22%.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

Most economies experienced a strong recovery early in the final quarter of 2020; however, economic momentum was slowed toward the end of the year with rising COVID-19 infection rates. This rise in cases resulted in tighter restrictions across many countries including the United Kingdom (UK), which imposed its third lockdown. Growth momentum is expected for 2021 as advancements are made for the COVID-19 vaccine, both the Moderna and Pfizer vaccine received United States (US) Food and Drug Administration approval. Further, the actions of global governments continue to support economic growth, with the US passing a sizeable stimulus package deal and the UK finalising a trade deal that avoids a hard Brexit. Also, in Japan, the government approved a record US\$1 trillion budget for the next fiscal year. In Australia further measures were announced in the 2020–21 Commonwealth Budget, bringing the total stimulus to approximately 15% of GDP.¹⁵

On the economic front, manufacturing continued to show sustained resilience globally, compared to the service sector which lagged with social distancing requirements. In Australia, housing and personal spending improved but the recovery in business investment is expected to be choppy.

With this backdrop it's no surprise equities rallied in the fourth quarter, with cyclical sectors such as consumer discretionary experiencing stronger gains when compared to defensive sectors posting modest growth. The factor landscape also changed following the positive vaccine news. Value, a more cyclical exposure that has been out of favour for the past decade has rallied for the quarter based on the hopes of an economic recovery. In line with global equities, Australian equities had a strong quarter, up 13.7%⁸ benefiting from the reopening of the Victorian economy.

Government bond yields were modestly higher over the quarter and spreads tightened in the corporate credit sectors. The AUD 10-year Treasury yields moved up by 14 bp to end at 1% for the year.¹⁴

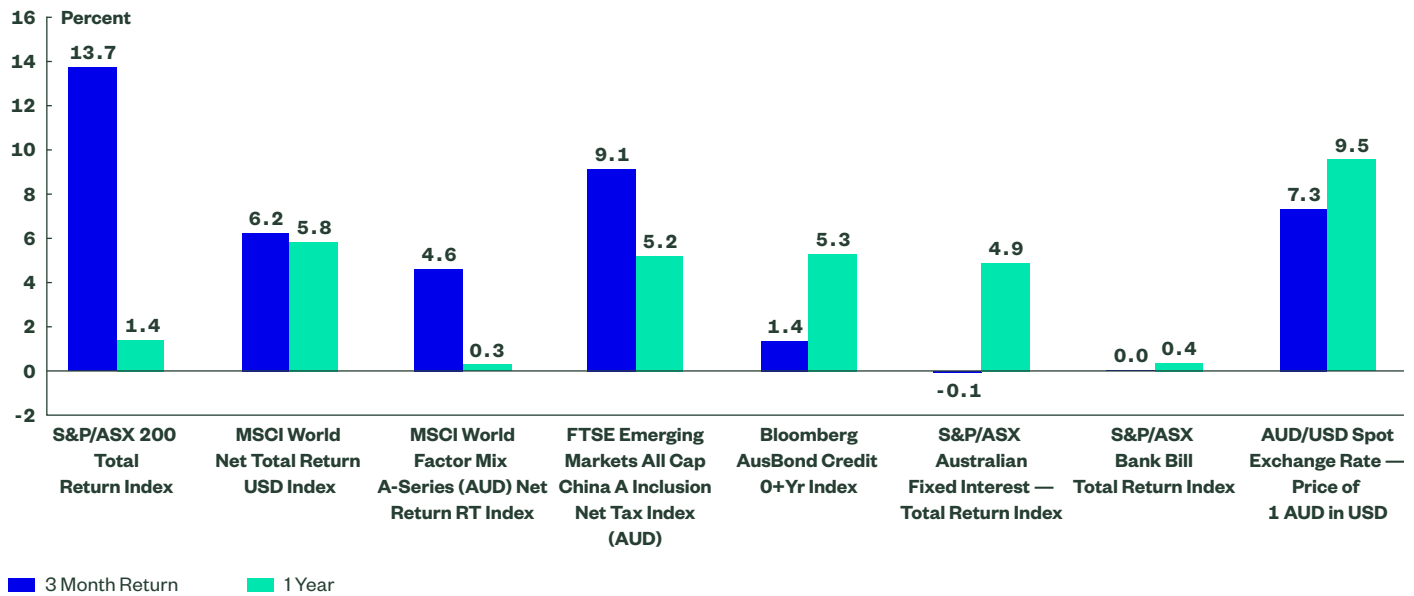
Investor confidence improved in the fourth quarter, particularly in December as the vaccine rollout commenced in the UK and other countries confirmed plans to rollout the vaccine early 2021. The resolution from the US election also reduced market uncertainty despite protests from President Trump over the validity of the vote count. However, caution is warranted for the beginning of 2021 as it will take time to vaccinate the majority of the population, with demand outstripping supply this could lead to further outbreaks and lockdowns. Further, the identification of a more infectious strain is also cause for some concern. Beyond containment of the virus the economic recovery hinges on the resumption of global trade. Developments in the US domestic and international policy from the newly elected President, Joe Biden, will be key. Australia is also reliant on the resumption of international trade, in particular with China. While we look forward to seeing 2020 in the rear view mirror, we are cautious of the lingering effects that may overhang into 2021.

Asset Class Performance (in AUD)¹

- **The Australian Dollar** rallied over the quarter against most developed markets, in particular against USD (+7.3%).²
- **International equities** were positive for the quarter, up 6.2%³ with the multi-factor (min vol, quality and value) strategy marginally underperforming but still up 4.6%.⁴
- **The value factor** continues to perform strongly over the quarter, up 10.9%,⁵ **quality** was also positive for the quarter, up 2.6%⁶ and **minimum volatility** was the laggard of three factors, almost flat for the quarter, at 0.1%.⁷
- **Australian equities** participated in the broad based equity rebound, up 13.7%.⁸
- **Emerging markets** were also positive for the quarter, up 9.1%.⁹
- **Global bonds** experienced small positive returns over the quarter.¹⁰
- **Australian bonds** experienced marginally negative returns over the quarter.¹¹
- Investors experienced positive returns in global **corporate bonds** with spreads tightening significantly over the quarter.¹²
- **Cash** in the Australian money market returned 0.02% for the quarter¹³.

Figure 1

Major Asset Class Performance (%)



Source: As of 31 December 2020, 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 final quarter of 2020, the relative strength of the Australian Dollar impacted international equity returns. As a result, Australian equities (+13.7%)⁸ was the best performing asset class followed by emerging markets (+9.1%).⁹ The allocation to Australian and emerging market equities therefore positively impacted the risk-based portfolios performance. The risk-based portfolios multi factor international exposure, SPDR MSCI World Quality Mix Fund (QMIX), posted positive returns (+4.6%),⁴ however marginally underperformed the MSCI World Index. The relative underperformance was a result of the minimum volatility factor (which ended the quarter almost flat, +0.1%)⁷ and the quality factor which fared a bit better (+2.6%).⁶ The Value factor continued to recover ground and was up 10.9%⁵ for the quarter.

On the fixed income side of the ledger, credit markets also performed well over the quarter with the Australian credit exposure (+1.3%)¹¹ positively contributing to the risk-based portfolios overall performance. Australian government bonds were marginally positive over the quarter but did little to detract from overall performance across the risk-based portfolios.

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 5.18%.

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 6.28%.

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 7.46%.

State Street Target
Income ETF
Model Portfolio

The 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.

Australian and international high dividend stocks delivered strong positive returns, as the recovery in earnings surpassed expectations at the end of 2020. The portfolios Australian Equity exposure, SPDR MSCI Australia Select High Dividend Yield Fund (SYI), outperformed the S&P/ASX 200 Index as the income focused strategy benefited from a higher allocation to financials and materials. Therefore, the portfolio's allocation to Australian and international high dividend stocks positively impacted the portfolios total return for the final quarter of 2020. Additionally, the allocation to high yield hedged to AUD and Australian credit positively contributed to the portfolios total return.

Overall performance of the hypothetical model portfolio for the fourth quarter was positive, up 8.59%. The portfolios primary objective is to generate income, and the portfolio delivered 1.07% in income for the quarter.

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 2020. 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 World Index Total Return Index.
- 4 Source: MSCI World Factor Mix A-Series (AUD) Pacific Net Total Return Index in AUD.
- 5 According to MSCI World ex Australia Value Weighted Net Total Return Index in AUD.
- 6 Source: MSCI World ex Australia Quality Net Total Return Index in AUD.
- 7 Source: MSCI World Minimum Volatility (AUD) Net Total Return Index.
- 8 Source: S&P/ASX 200 Net Total Return Index.
- 9 Source: FTSE Emerging Markets All Cap China A Inclusion Net Tax Index (AUD).
- 10 Source: Bloomberg Barclays Global Aggregate Total Return Hedged AUD Index.
- 11 Source: Bloomberg AusBonds Credit 0+ YR Index.
- 12 Source: Barclays Global High Yield Total Return Index Value Unhedged Index in AUD.
- 13 Source: Bloomberg AusBond Bank Bill Index.
- 14 Source: Bloomberg Australia Govt Bond 10 Year Yield.
- 15 State Street Global Advisor, Australian Government — The Treasury.

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- 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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ID381152-3409448.1.1.ANZ.INST 0121
Exp. Date: 30/04/2021