OPTIMISING ASSET ALLOCATION WITH EXCHANGE TRADED FUNDS (ETFS)
Well-informed investors are discovering what institutional investors have long understood: asset allocation, not security selection, is the key to driving long term investment results. State Street Global Advisors (SSgA) tactical ETF model portfolios are a cost-effective way for your clients to gain instant exposure to a diversified portfolio tailored to their investment needs — backed by expertise and proprietary research from Australia’s first and largest provider of ETFs.

At a Glance

- The right asset allocation is critical in helping investors meet their investment objectives.
- Using ETFs in an asset allocation model can provide unique advantages compared with other options.
- SSgA tactical ETF model portfolios offer direct access to cost-effective asset allocation strategies, similar to those used by institutional investors.
- The Investment Solutions Group (ISG) draws on the experience of more than 60 investment professionals worldwide, as well as cutting-edge proprietary analysis tools, such as the SSgA Market Regime Indicator (MRI).
Getting the Right Investment Mix

When it comes to creating a successful portfolio, academic studies have confirmed that getting the right mix of assets can have a far greater influence than the individual securities in that mix.

While chasing last year’s high performers or newly fashionable asset classes can prove successful over a short period, 90% of the return variability of a portfolio over time can be attributed to choosing the right mix of investment classes and deciding when this mix should be changed. That means asset allocation may be the most important decision an investor can make.

While advanced asset allocation strategies can’t ensure a profit or guarantee against loss, they can help to reduce investment risk significantly. For investors with a longer-term investment horizon, disciplined asset allocation can provide a high level of diversification, while taking advantage of inefficiencies in the market.

It’s also important to actively manage asset allocations in response to changing market conditions. Over time, asset classes can become mispriced. Equipped with the right research techniques, it’s possible to identify investment classes which may be currently undervalued or overvalued. Like any value-minded shopper, it’s prudent to reflect those findings in an investment portfolio, by overweighting the bargains and underweighting the expensive classes.
Benefits of Including ETFs in Asset Allocation Models

In the past, an advanced asset allocation strategy was out of reach for many individual investors, due to size of the assets involved and the costs of creating meaningful diversification.

But ETFs have revolutionised the investing landscape, offering investors a sophisticated tool to efficiently gain exposure to broad market segments, encompassing a wide range of asset classes, equity market capitalisations, styles and sectors. This enables investors to have access to diversified investment portfolios consistent with their financial needs, risk tolerance and investment horizon.

WHY USE ETFS FOR ASSET ALLOCATION?

The potential benefits of using ETFs for asset allocation include:

DIVERSIFICATION – ETFs offer one of the easiest ways to help diversify a portfolio. By using an index ETF, your clients can achieve broad exposure to a market segment, helping to reduce risk and smooth investment returns.

TRANSPARENCY – Unlike actively managed funds, index ETFs enable investors to identify precisely which securities their fund holds on any given day; there is no need to wait for the end of the month or quarter to review a fund’s holdings. Investors have all the information they need to make informed investment decisions and co-ordinate their core ETF portfolio with their other assets.

TAX EFFICIENCY – With an ETF, you and your clients decide when to buy and sell your holdings, rather than relying on an investment manager. That gives you more control over timing of capital gains and losses. And the structure of ETFs potentially reduces capital gains tax that would flow to the investor in a traditional managed funds.

What are SPDR ETFs?

SPDR ETFs are a family of exchange traded funds brought to you by SSgA — pioneer of the ETF industry both globally and in Australia.

In January 2013, SSgA marked the 20th anniversary of the world’s first and largest ETF, the SPDR S&P 500® ETF, which has more than US$133 billion in assets under management. Today, SPDR ETFs managing over US$336 billion in assets under management globally and is the largest local provider of ETFs in Australia.
Meeting your Objectives with SSgA’s Tactical ETF Model Portfolios

SSgA’s tactical ETF model portfolios provide a cost-effective option for investors to take advantage of tactical asset allocation (TAA) and ETFs — with investments that facilitate broad diversification across the full range of asset classes.

The tactical ETF model portfolios work by combining a number of SPDR® ETFs and other leading exchange traded products (ETPs) to create a portfolio with a specific risk and/or outcome profile depending on your investment goals.

OUR INVESTMENT STRATEGY
The Investment Solutions Group (ISG) within SSgA provides the portfolio strategy for the tactical ETF model portfolios, covering both:

- Development of a sound strategic asset allocation.
- Active management in the form of tactical overweighting and underweighting, depending on each portfolio’s investment objectives.

The ISG consists of more than 60 investment professionals located in seven offices around the world, with wide-ranging multi-asset-class experience. It specialises in tactical asset allocation and manages in excess of US$185.5 billion in assets, utilising an expansive product set which includes SPDR ETFs.

The tactical ETF model portfolios are designed to have a baseline, or strategic asset allocation, that is diversified and suitable as a core investment. The range of asset classes in these strategies may include:

- Australian and international shares
- Australian and international bonds
- Cash
- Other real return or alternative asset classes

These model portfolios are available for those seeking ASX listed investments only, or for those with the ability to invest through multiple stock exchanges.

On top of our strategic allocations, thematic tactical overweights and underweights are developed based on our analysis of global markets. The process for identifying relative value opportunities is quantitative and also incorporates a fundamental review.

The tactical positions are intended to add value around the strategic allocations and are constructed depending on the goals of the portfolio. For example, a conservative TAA model portfolio might be allowed to vary no more than 10% from its strategic asset allocation. In contrast, an absolute return TAA model portfolio will have only limited constraints.

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**RETURN ETF MODEL PORTFOLIO**

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>EQUITY</td>
<td>15%</td>
</tr>
<tr>
<td>FIXED INCOME</td>
<td>30%</td>
</tr>
<tr>
<td>REAL ASSETS</td>
<td>30%</td>
</tr>
</tbody>
</table>

**GROWTH ETF MODEL PORTFOLIO, ASX LISTED ETFS**

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>EQUITY</td>
<td>25%</td>
</tr>
<tr>
<td>FIXED INCOME</td>
<td>15%</td>
</tr>
<tr>
<td>REAL ASSETS</td>
<td>10%</td>
</tr>
</tbody>
</table>

**DEFENSIVE**

- Cash
- Australian Corporate Bond

**GROWTH**

- Australian — Core
- Australian — High Dividend
- International Equities
- Emerging Markets
- Listed Property
- Gold

Source: SSgA
A Disciplined and Quantitative Approach to Building our ETF Portfolio Models

Our process is based on a disciplined, quantitative analysis that can identify assets that deviate from their historical value — information that investors can then reflect in their portfolios. We then add another layer of analysis by applying a qualitative, or fundamental, review on top of the quantitative process.

SSgA utilises an in-depth and disciplined process to create each portfolio model:

1. **MARKET REGIME IDENTIFICATION (MRI)** – Our MRI is a proprietary macro indicator that analyses a range of market information to help identify the current risk and volatility of the market. Based on this information, we’ll then adjust a portfolio’s risk budget. For example, in periods of high risk-aversion, the model portfolio may take on less risk than under normal circumstances.

2. **EVALUATION** – To identify market inefficiencies, we use our proprietary indicator to objectively process data for more than 100 global asset classes, generating forecasts and providing initial allocation targets for stocks, bonds, commodities and cash.

3. **CONSTRUCTION** – Once the initial targets for each asset class have been determined, we apply a rigorous screening process, using a quantitative optimisation and fundamental review to select suitable investments and weightings.

    The broad investment themes are turned into specific portfolio positions, creating an optimal model portfolio for each risk profile. To do this, the portfolio management team adjusts the tactical active risk budget according to the MRI, then incorporates the quantitative scores and fundamental views of the investment team.

    In addition, the global investment team meets at least monthly to review the quantitative model outputs and consider variables outside the models that may be influencing markets.

4. **ACTIVE MONITORING AND MANAGEMENT** – We continue to monitor each model portfolio’s composition and performance, identifying undervalued or overvalued assets and making any necessary adjustments to the model portfolio.
Why Choose a SSgA Tactical ETF Portfolio Model

1. Tactical ETF portfolio models offer a high level of diversification across all asset sectors, with a range of low cost options tailored to different risk profiles and outcomes.

2. SSgA is one of the largest institutional investment managers in the world, with a proven track record in delivering custom allocation solutions to institutions and investors.

3. Investors benefit from the expertise of the Investment Solutions Group, with in-depth experience in the ETF market in Australia and around the globe.

4. Expert analysis and proprietary forecasting tools, such as the Market Regime Indicator, offer detailed insights into global markets, helping guide our investment decisions and adjust our models as conditions change.

5. SSgA was the first company to introduce ETFs into the Australian market, thus have a unique understanding of local conditions and investor needs.

Like managed funds, though, there may be times when the underlying index trigger the sale of securities held by the ETF.

As of 30 June, 2013.

As of 30 June, 2013. This AUM includes the assets of the SPDR Gold Trust (approx. $41 billion as of 30 June, 2013), for which State Street Global Markets, LLC, an affiliate of State Street Global Advisors serves as the marketing agent.

ASX, as at 30 June 2013.

As of 30 June 2013, updated bi-annually.

ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETFs’ net asset value. Brokerage commissions and ETF expenses will reduce returns.

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.

The information sheet is not intended to amount to advice or a recommendation to invest in SPDR. It does not take into account your investment objectives, financial situation or particular needs. You should seek professional advice addressing your particular investment needs, objectives and financial circumstances before making an investment decision.

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