Commentary
Model Portfolios

Q4 2023

State Street ETF Model Portfolios

- Global financial markets rallied in the fourth quarter of 2023, with the potential for policy easing.
- Inflation appeared to be cooling, creating rate cut expectations.
- Overall, global equities rose sharply in the fourth quarter, bringing the year's tally to almost 22%.[3]

Economic Perspective

- Global economic activity edged higher towards the end of 2023. Service sector activity rose whereas manufacturing remained in decline. During 2023, global growth slowed across key economies. Growth in the United States (US) outpaced expectations but growth in other developed countries was disappointing.

- Inflation continued to decline across key developed economies. In the US, the annual inflation rate slowed over the period from 3.7% in September to 3.1% in November, while in the Eurozone inflation fell to 2.9% in November, compared to 10.1% the previous year.

- The Australian economy expanded by 0.2% in the third quarter, this marked the slowest growth since Q3 2022. With a slow down in consumption and a move to capital investment as the driver of growth. Australia's unemployment rate increased to 3.9% in November despite a jump in employment over the month, as the participation rate surged to a fresh record high. Business conditions declined, but still remain above the long-run average. In its final meeting for 2023, the Reserve Bank of Australia (RBA) kept its official cash target rate at 4.35%, as widely expected. The decision follows a 25 basis point increase at its previous meeting in November.

- Looking forward, 2024 could be another turbulent year as global growth slows while heightened geopolitical tensions and rising debt levels challenge the resiliency of economies. Additionally, central banks will need to balance inflation risks with recession risks as they attempt to administer a soft landing.

Asset Class Performance (in AUD)[1]

Equity

- **Equity markets** advanced in the fourth quarter of 2023. The quarter started poorly, with investor sentiment impacted by concerns such as higher-for-longer rates and geopolitical uncertainty. However, markets shifted in November, surging on fresh data indicating easing inflation pressures and positive statements from the US Federal Reserve. The momentum continued to build in December, when the US Fed hinted that interest rate cuts could be on the way for 2024.

- **International equities** advanced, up 5.4%,[4] with the **multi-factor** (minimum volatility, quality, and value) strategy returning 4.3%.[5] **Quality** outperformed, up 6.0%.[7] **Value was** up 3.9%, while **Minimum volatility** posted small gains, up 0.5%.[6]

- **Australian equities** rose 8.4%[9] with real estate surging 16.6%.[16] On the other hand, energy and utilities recorded a negative return, down -9.1% and -2.1%,[16] respectively.

- **Emerging markets** was slightly up 1.0%[10] but trailed developed markets.

Fixed Income

- **Bond yields**, which move inversely from bond prices, fell dramatically during the fourth quarter.

- **Global bonds** rose in Q4, up 5.4%.[11] Signs of economic moderation in the US, cooling global inflation, tightening corporate spreads and a weaker US dollar supported positive returns. **Global High Yield bonds** rose, up 5.95%.[13]

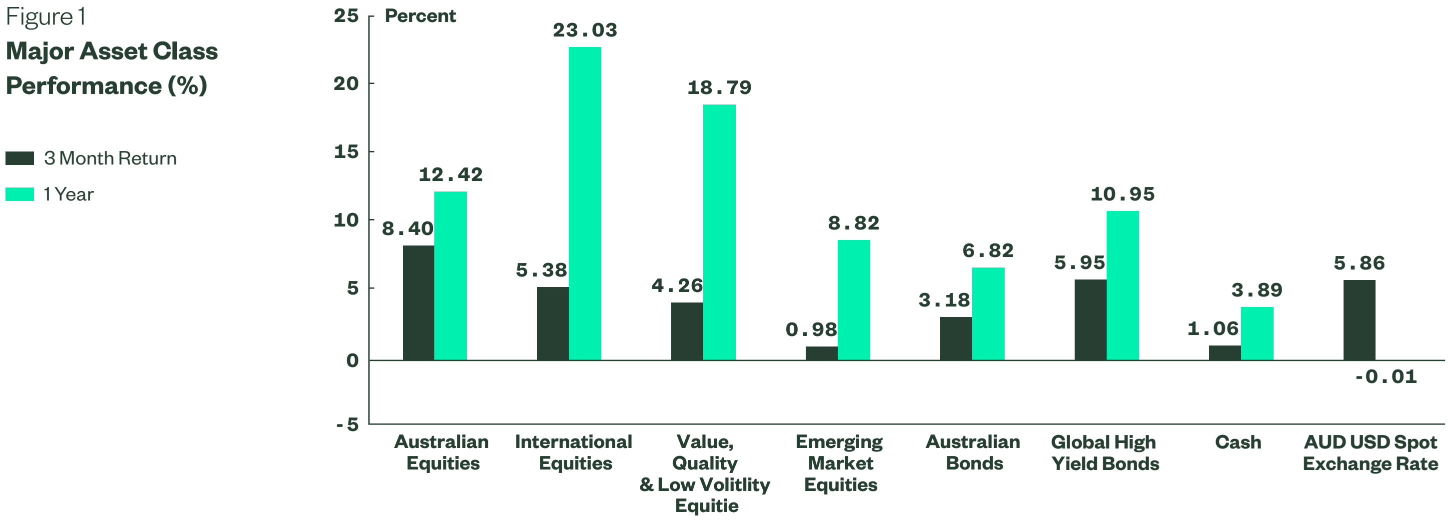
- **Australian credit bonds** advanced, up 3.2%.[12] The Australian 10-year government bond yield fell from 4.49% at the end of Q3 to 3.96% at the end of Q4.[15]

- **Cash** returns in the Australian money market were up 1.1%.[14]

Currency

- The **Australian dollar** appreciated against US Dollar, up 5.9%.[2]

Figure 1
Major Asset Class Performance (%)



Source: As of 29 December 2023, 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.

Strategy Performance

State Street Risk-Based ETF Model Portfolios

For the fourth quarter of 2023, the Australian equity and multi-factor international equity allocations were the major contributors to the risk-based portfolios' total return. The portfolios' multi-factor international exposure, SPDR MSCI World Quality Mix Fund (QMIX) advanced for the quarter. This was driven mainly by the quality factor (6.0%).[7] The emerging market equity exposure registered small gains and underperformed developed markets significantly amid weak Chinese performance due to poor recovery from COVID restrictions and ongoing worries over the real estate sector.

On the fixed income side of the ledger, both Australian government and corporate bond exposures contributed positively to the risk-based portfolios' total return. Domestic bonds registered robust gains as treasury yields fell and recession concerns eased.

State Street Moderate ETF Model Portfolio overall performance of the hypothetical model portfolio for the quarter was up 4.34%.

State Street Balanced ETF Model Portfolio overall performance of the hypothetical model portfolio for the quarter was up 4.53%.

State Street Growth ETF Model Portfolio overall performance of the hypothetical model portfolio for the quarter was up 4.87%.

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 2023/2024 financial year the portfolio aims to target, before expenses, an income objective of 4.5% per annum.

The portfolio's allocation to Australian and International high dividend stock strategies contributed positively to the portfolio's total return as the majority of income-oriented sectors posted strong gains. Materials, financials, and industrials were the major contributors, while energy shares detracted amid lower crude prices. On the fixed income side of the ledger, government bonds, credit (both investment grade and high yield) rallied as treasury yields fell and recession concerns eased, and all three bond exposures contributed positively to the overall performance. Higher yielding bonds outperformed both investment grade and government bonds as risk appetite increased and spreads narrowed.

The income portion of the portfolio's total return for the quarter was positive 1.02%, supporting the portfolio's primary objective to generate income.

Overall performance of the hypothetical model portfolio for the quarter was up 4.65%.

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 annualized. 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 29 December 2023. 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: Markit iBoxx Global Developed Markets Liquid High Yield Capped (AUD).

14 Source: Bloomberg AusBond Bank Bill Index.

15 Source: Bloomberg, Australia Govt Bond 10 Year Yield.

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

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ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETF's net asset value. ETFs typically invest by sampling an index, holding a range of securities that, in the aggregate, approximates the full index in terms of key risk factors and other characteristics. This may cause the fund to experience tracking errors relative to performance of the index.

Investing involves risk including the risk of loss of principal. Diversification does not ensure a profit or guarantee against loss. 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.

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.

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