

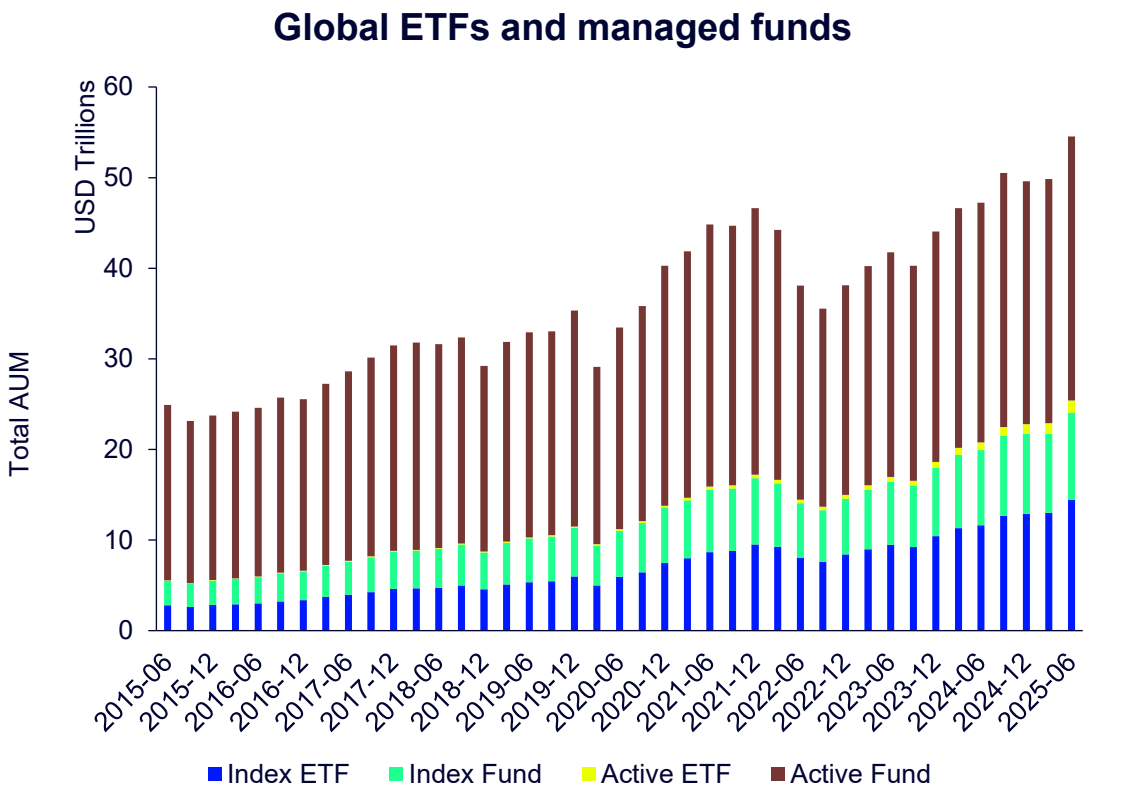
# Unlocking the value of fixed income opportunities

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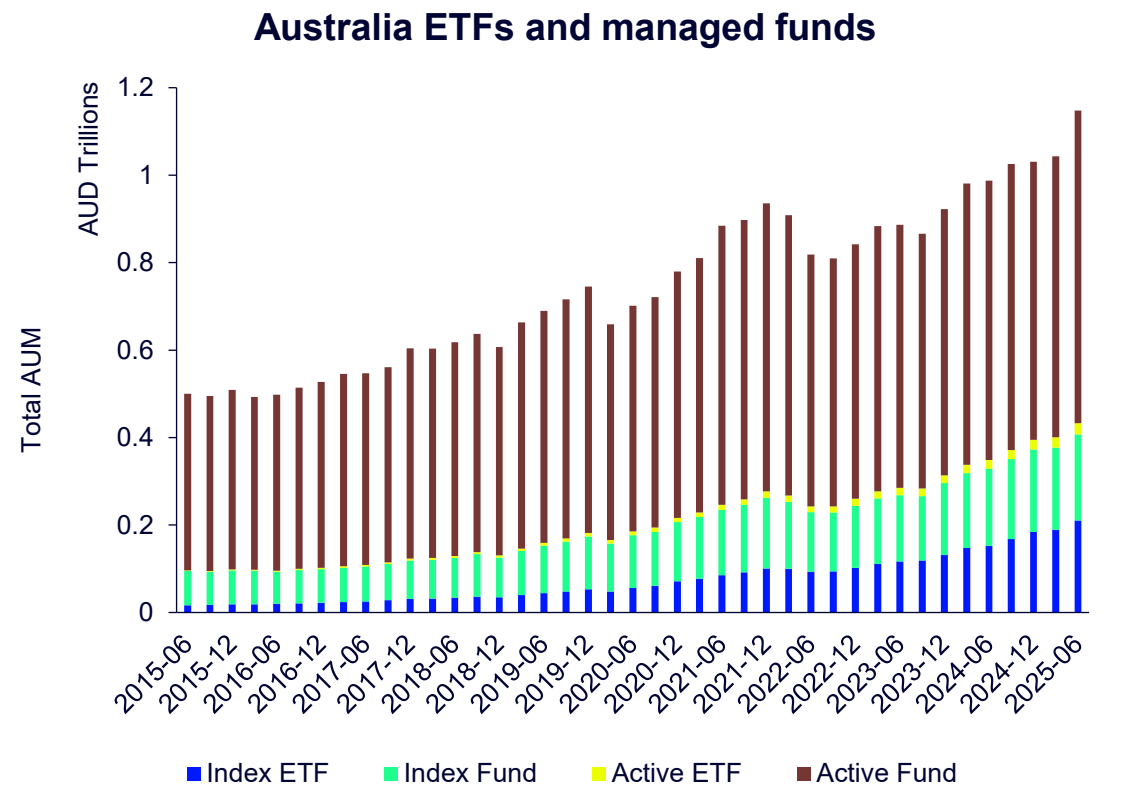
November 2025

# Investor Trends

# 1. ETFs as a vehicle: Exponential growth



Market Share %	Index ETF	Index Fund	Active ETF	Active Fund
June 2015	11	11	0	78
June 2025	27	18	2	53



Market Share %	Index ETF	Index Fund	Active ETF	Active Fund
June 2015	3	16	0	81
June 2025	18	17	2	62

Source: Morningstar Direct, Open-Ended Funds and ETFs, assets under management from 30 June 2015 to 30 June 2025.

# 1. ETF as a vehicle: Application

## Why investors choose ETFs for their portfolio:

- Liquidity: especially for bond funds (additional liquidity provided by buying and selling of ETFs in addition to the underlying holdings)
- Transparency (e.g. daily performance, holdings and characteristics)
- More control over execution (intraday vs. end of day)
- Price generally trades close to net asset value (NAV)
- Relative low-cost (ongoing cost median 0.45% vs. 0.95% managed funds; active ETF median 0.79%\*)

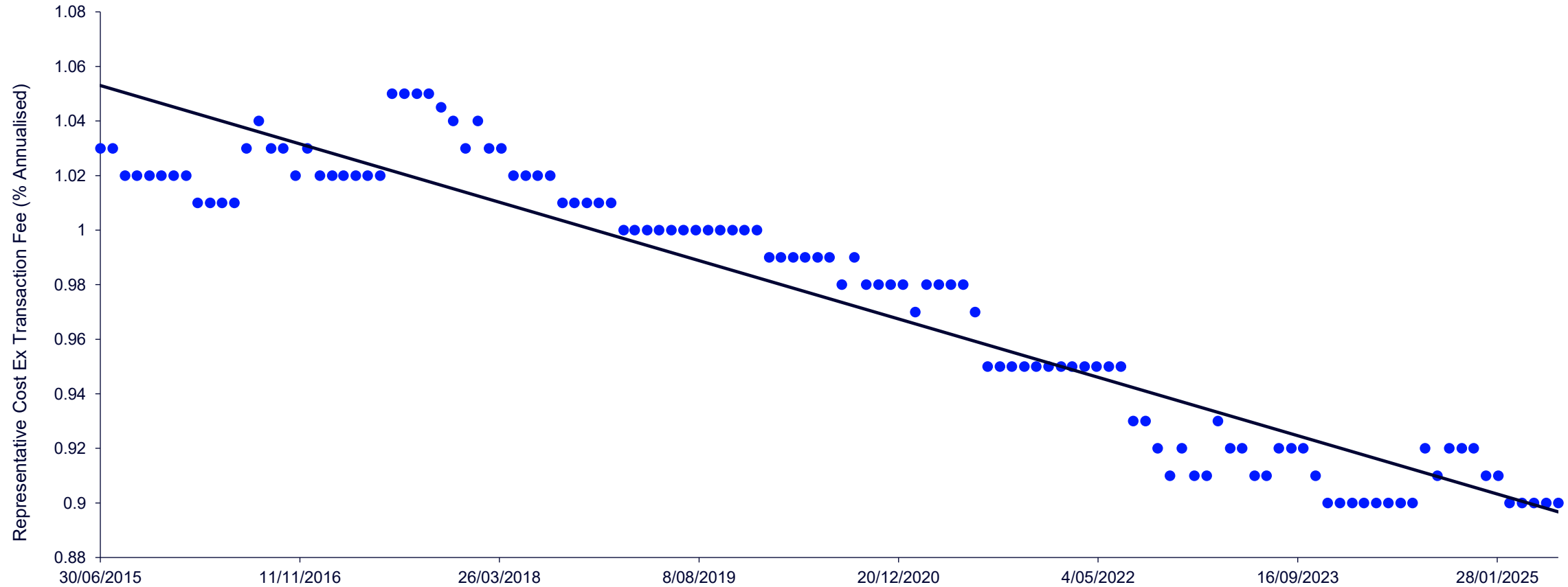
## Considerations:

- Portfolio management – e.g. index management is a specialised skillset!
- Implementation - total cost of ownership
  - Expense ratio
  - Buy/sell spread
  - Commission/brokerage fee
- Trading best practice

\* Source: Morningstar Direct, as of 30 June 2025.

## 2. Fee compression

Median manager fees in decline overall



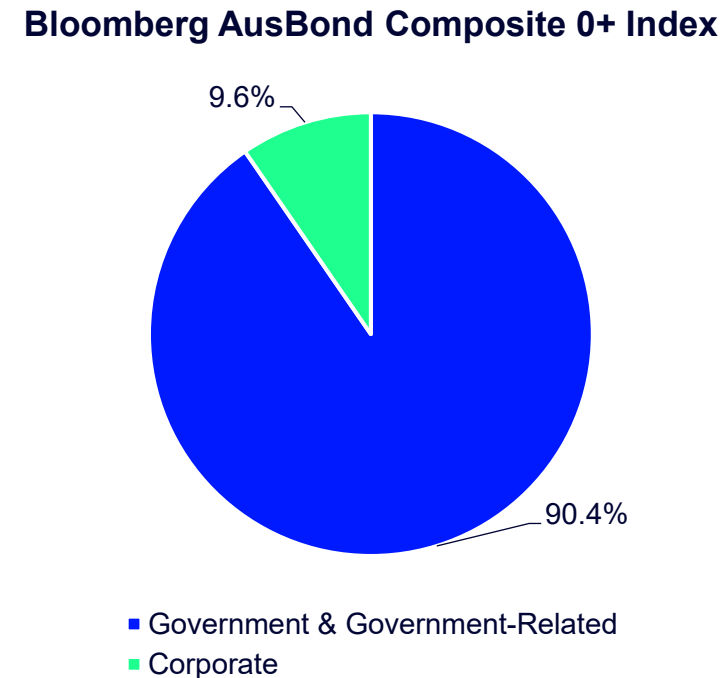
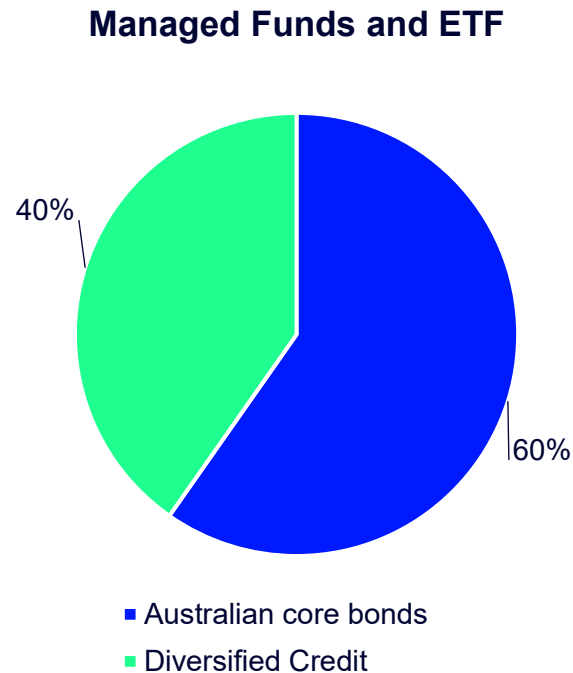
Source: Morningstar Direct, from 30 June 2015 to 30 June 2025. Includes open-ended and close-ended funds as well as ETFs. Representative cost ex transaction fee (annualised).

## 2. Fees: Application

- **Compare fund fees**
  - Investors should include in their due diligence a comparison of the total cost of ownership (not just management fees) to find cost-effective investment options
- **Monitor performance net of fees**
  - Assess whether fund performance justifies fees by evaluating returns after deducting costs
- **If disappointed with net performance, consider if a low-cost exposure could work for your portfolio**
  - Choosing index or enhanced passive funds offers broad market exposure with minimal fees and consistent performance

### 3. Popularity of credit as investors seek yield

- Index weighting by market capitalisation skews Australian core bonds toward government and government-related exposures
- Investors often allocate to standalone corporate exposures for additional yield
- A better balance between the credit and rates drivers also helps to diversify the bond portfolio

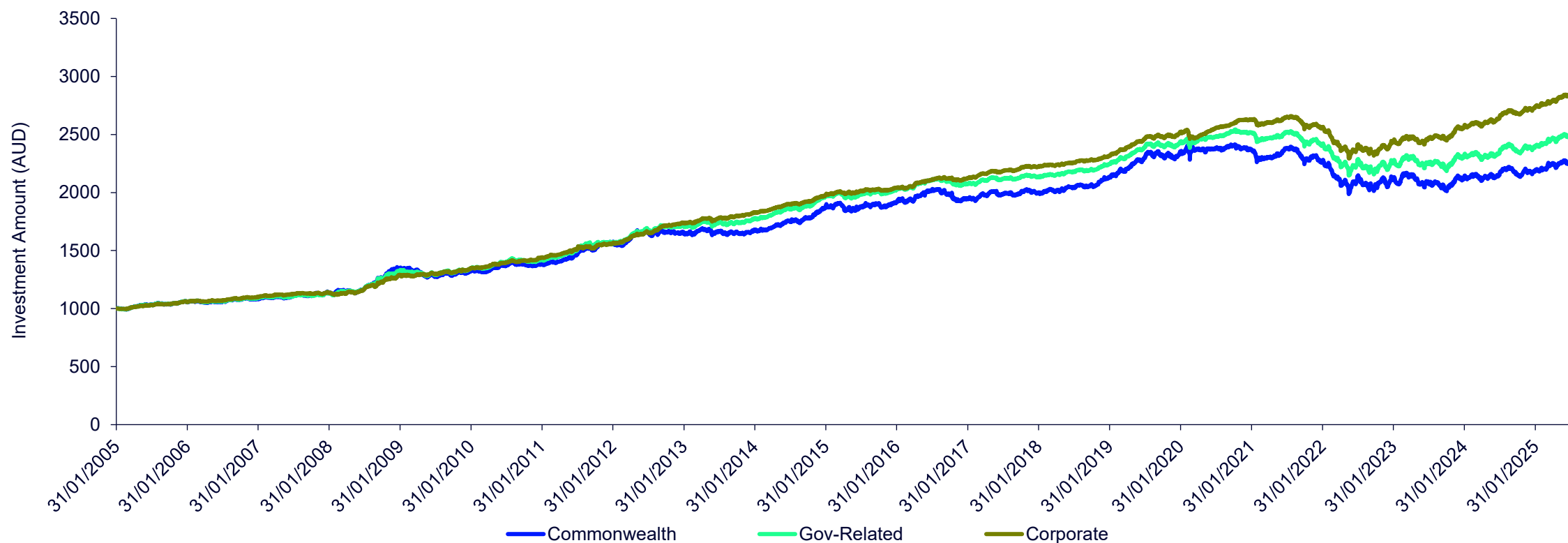


Source: Bloomberg Finance L.P., S&P Dow Jones Indices, Morningstar Direct, State Street Investment Management, as of 30 September 2025, except for Morningstar Direct funds information which is based on latest available. Information presented prior to the index's launch date is hypothetical bank-tested performance, not actual performance, and is based on the index methodology in effect on the launch date. Back-tested performance is achieved by means of the retroactive application of a methodology designed with the benefit of hindsight. State Street Global Advisors (SSGA) is now State Street Investment Management.

### 3. Why is credit so popular?

## Taking a look at Australian corporates

Australian corporates vs. other core segments: Investment of \$1,000

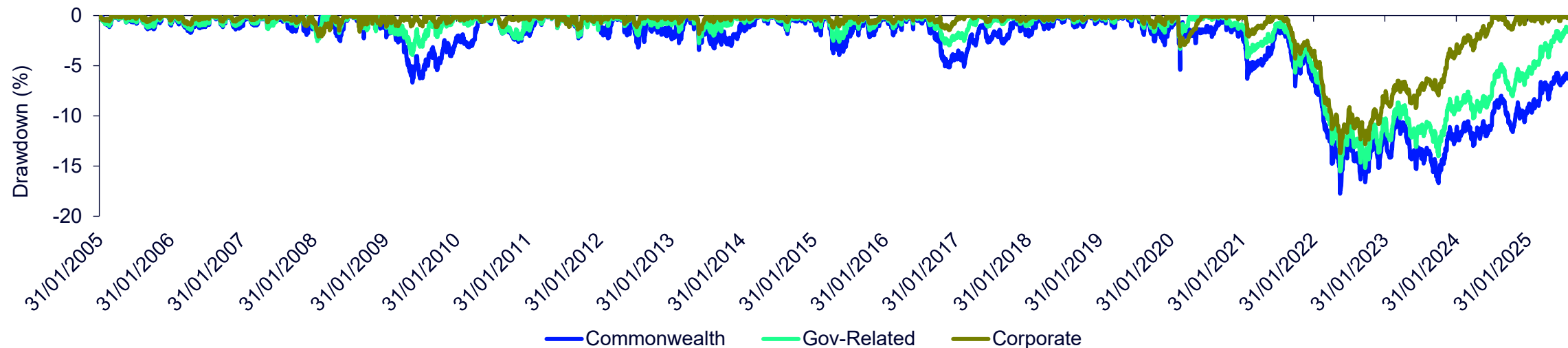


Source: Bloomberg Finance L.P., State Street Investment Management. State Street Global Advisors (SSGA) is now State Street Investment Management. Performance from 31 January 2005 to 30 September 2025. Treasury = Bloomberg Australian Treasury Index; Government-Related = Bloomberg Australian Government-Related Index; Corporate = Bloomberg Australian Corporate Index. Analysis in AUD. \*Government-related bonds include issuance by states and territories, agencies and supranationals. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable. Past performance is not a reliable indicator of future performance.



### 3. What about the risks of Australian corporates?

Drawdown analysis



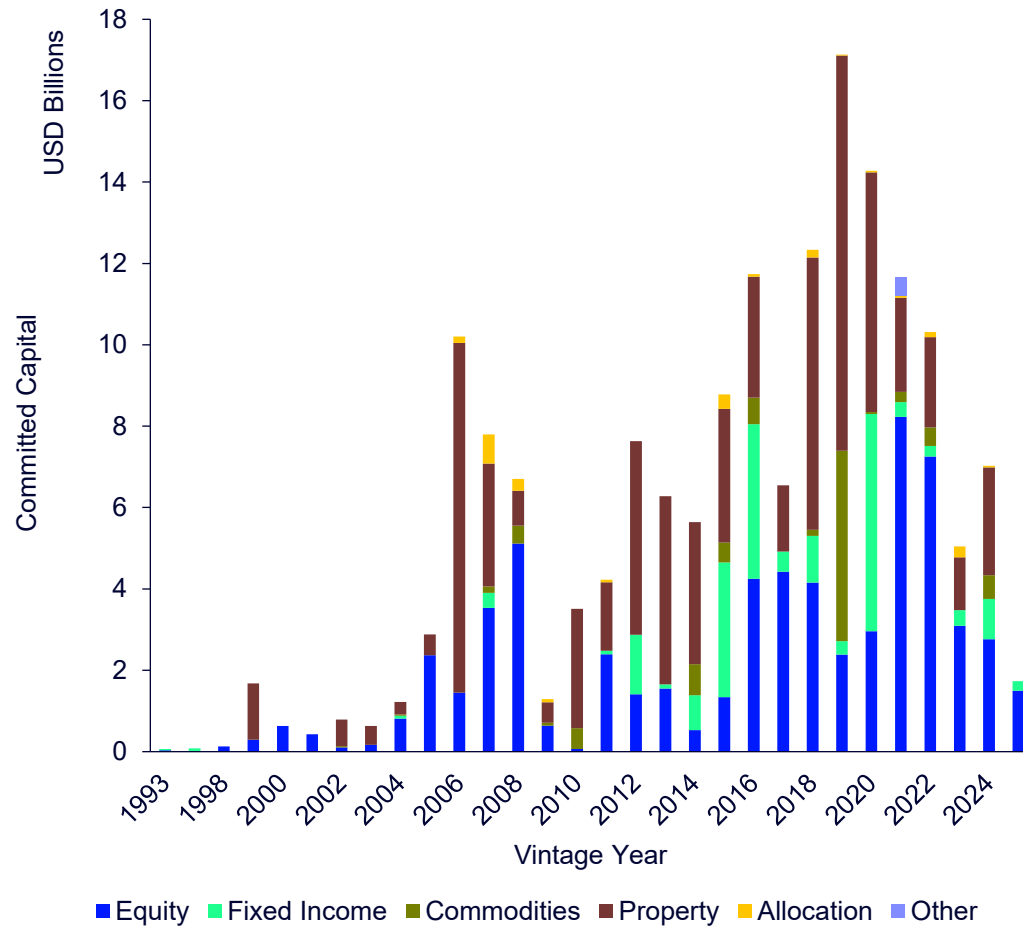
#### Correlation analysis

	Treasury Bonds	Government-Related Bonds	Corporate Bonds	S&P/ASX 200
Treasury Bonds	1.00	0.96	<b>0.91</b>	0.02
Government-Related Bonds	0.96	1.00	<b>0.95</b>	0.07
Corporate Bonds	0.91	0.95	<b>1.00</b>	0.13
S&P/ASX 200	0.02	0.07	<b>0.13</b>	1.00

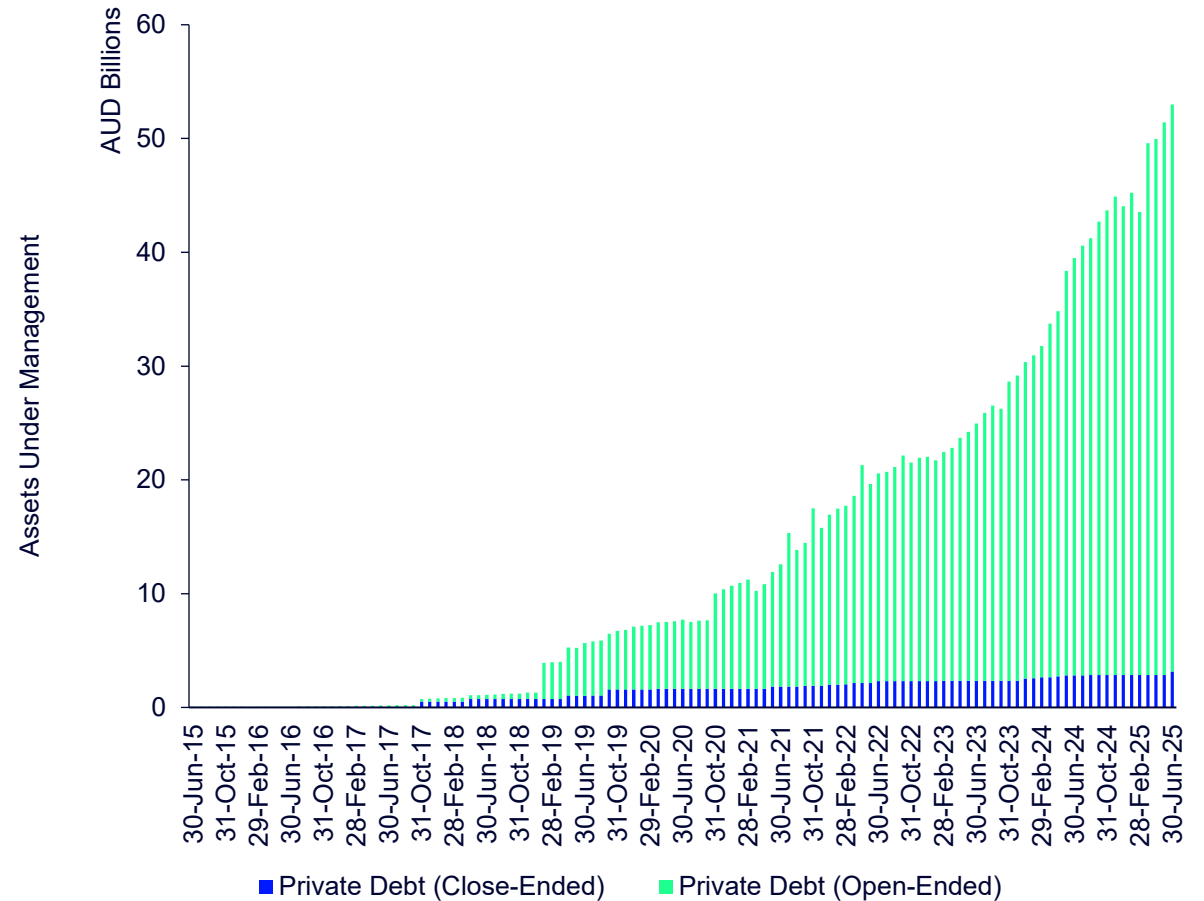
Source: Bloomberg Finance L.P., State Street Investment Management. State Street Global Advisors (SSGA) is now State Street Investment Management. Performance from 31 January 2005 to 30 September 2025. 15-year correlations based on weekly data, as of 30 September 2025. Treasury = Bloomberg Australian Treasury Index; Government-Related = Bloomberg Australian Government-Related Index; Corporate = Bloomberg Australian Corporate Index. Analysis in AUD. Government-related bonds include issuance by states and territories, agencies and supranationals. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable. Past performance is not a reliable indicator of future performance.

## 4. Private assets: Popularity and availability for a broad audience

Traditional private capital in Australia



Broad private debt access in Australia



Source: Morningstar Direct. LHS: Australian-domiciled Private Capital database, committed capital by vintage year, as of 31 August 2025 or the latest available. RHS: close-ended and open-ended funds domiciled in Australia, Morningstar Group Category Private Debt, from 30 June 2015 to 30 June 2025.

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## 4. Private assets: Application

**When including private credit into a portfolio, consider a core-satellite approach, with fixed income ETFs forming the core. Why?**

- **Diversification**
  - Fixed income ETFs are generally diversified portfolios across sectors and geographies, which helps mitigate concentration risk in private credit investments
- **Improved liquidity**
  - ETFs generally provide a high level of liquidity, allowing investors to buy and sell ETF shares throughout the trading day, and can act as a liquidity sleeve when combined with less liquid assets such as private credit
- **Risk mitigation**
  - Core (investment grade) bond ETFs provide a mix of interest rate and high-quality credit exposure, with the overall defensive profile helping to at least partially offset the risk associated with higher yielding (and higher risk) private credit holdings
- **Cost efficiency and flexibility**
  - Fixed income ETFs offer lower management fees and allow investors to make tactical adjustments to their portfolio cost effectively

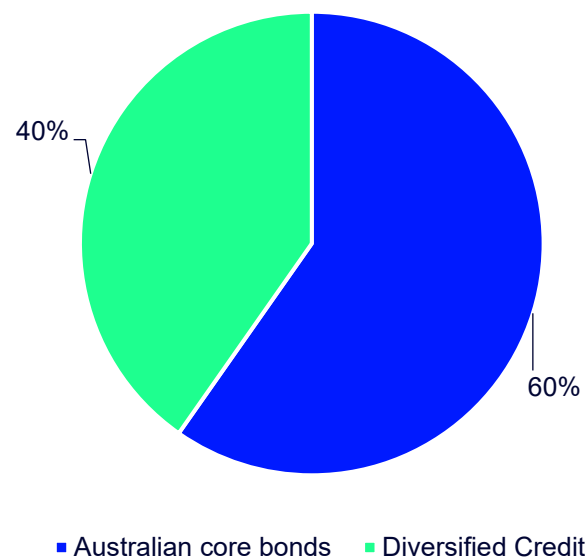
# Portfolio Construction Deep Dive

Building a More Balanced Australian Bond Core

## Trend #3. Australian Corporates: Application Balancing credit and rates drivers

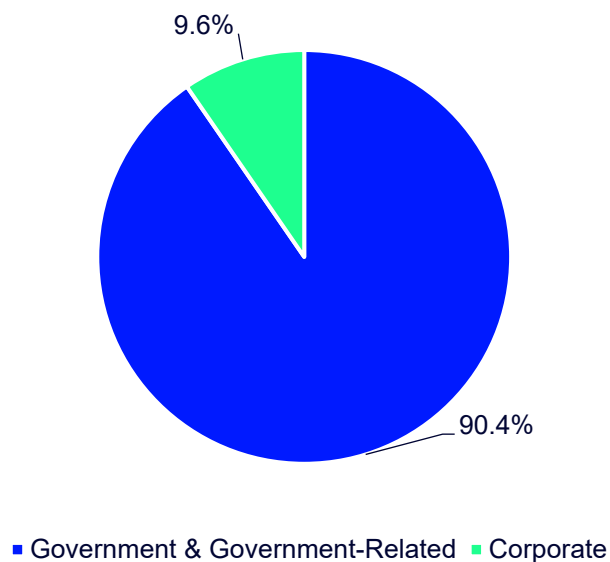
### Advised and individual asset allocation

Managed Funds and ETF



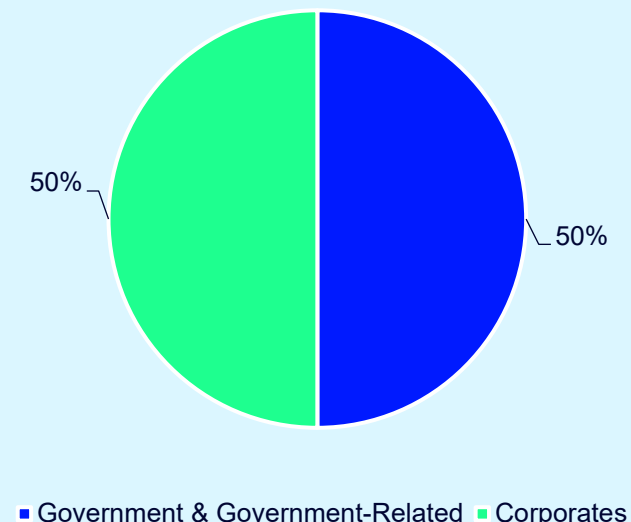
### Australian composite: Rates driven market capitalisation

Bloomberg AusBond Composite  
0+ Index



### Our Australian composite solution

S&P/ASX iBoxx Australian Fixed  
Interest Diversified 0+ Index



Source: LHS: Bloomberg Finance L.P., S&P Dow Jones Indices, Morningstar Direct, State Street Investment Management, as of 30 September 2025, except for Morningstar Direct funds information which is based on latest available. RHS: State Street Investment Management, as of 30 June 2025. State Street Global Advisors (SSGA) is now State Street Investment Management.

# Index investors: Balancing credit and rates with 50:50 solution

## Simple low-cost solution

Portfolio 1	Weight	Fee
50:50 Australian Corporates + Australian Government/Government-Related	100%	0.10%
Portfolio 2	Weight	Fee (Average Fee = 0.12%)
Australian Composite Bond ETF 1	56%	0.10%
Australian Corporate Bond ETF 1	44%	0.15%
Portfolio 3	Weight	Fee (Average Fee = 0.15%)
Australian Composite Bond ETF 2	55%	0.10%
Australian Corporate Bond ETF 2	45%	0.20%

Source: Vanguard, BlackRock, Bloomberg Finance L.P., State Street Investment Management, as of 30 September 2025. Securitised issues included in the calculation of corporate exposures.

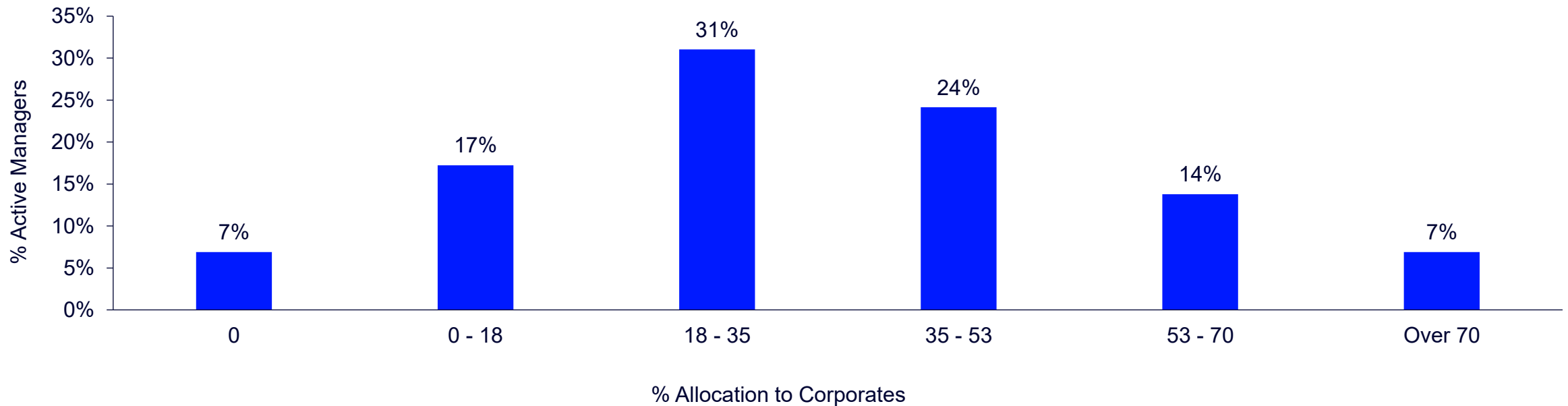
# Active investors: Balancing credit and rates with 50:50 solution

## Carry is a factor that active managers tend to rely on

Morningstar category “Bonds - Australia” active managers

- Morningstar category benchmark: Bloomberg AusBond Composite 0+ Yr Index
- Most (**90%**) have an **overweight to corporates**

Allocations to corporate bonds in active portfolios



Source: Morningstar Direct, actively managed ETFs and Open Ended Funds in the Australian Bond Category (i.e. invest in “traditional Australian fixed interest securities”), as of 30 June 2025.

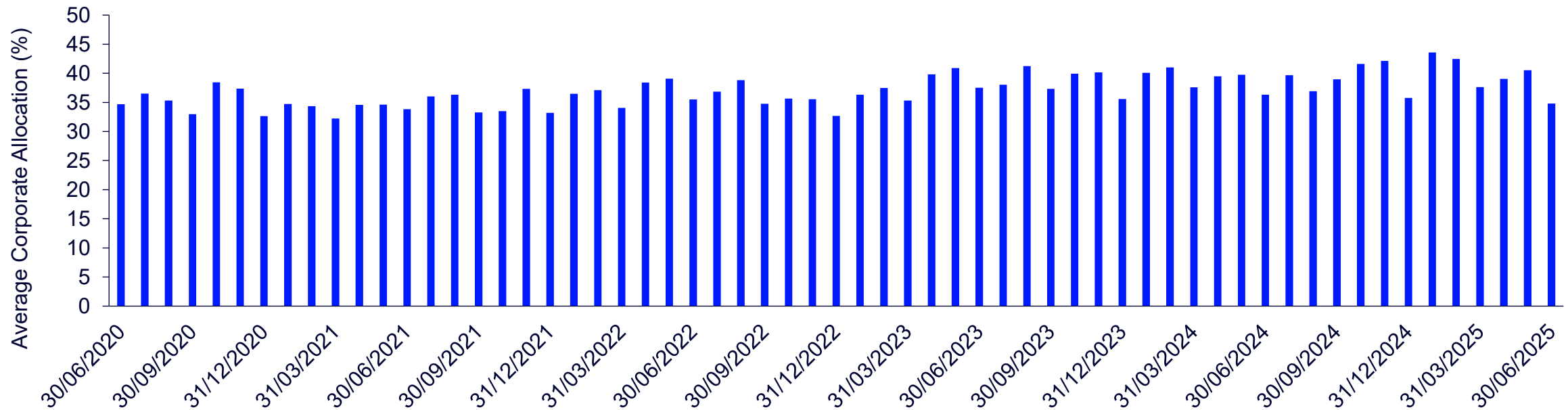
# Active investors: Balancing credit and rates with 50:50 solution

## Carry is a factor that is persistent in active portfolios

Morningstar category “Bonds - Australia” active managers

- Actively managed portfolios display a **persistent overweight** to corporates on average

5-Year historical average allocations to corporate bonds in active portfolios



Source: Morningstar Direct, actively managed ETFs and Open Ended Funds in the Australian Bond Category, period from 30 June 2020 to 30 June 2025.



# Balancing credit and rates with 50:50 solution

## How does performance stack up?

For index investors: Measuring against broad market value-driven index

	S&P/ASX iBoxx Australian Fixed Interest Diversified 0+ Index	Bloomberg AusBond Composite 0+ Index
1 Year	4.68%	4.09%
3 Year	5.10%	4.25%
5 Year	0.50%	-0.23%
10 Year	2.70%	2.12%

For active investors: Percentile rank against Morningstar category “Bonds - Australia” active managers

	S&P/ASX iBoxx Australian Fixed Interest Diversified 0+ Index (less 0.10% p.a.)	Percentile rank compared with active managers (performance beat x% of managers)
1 Year	4.58%	0
3 Year	5.00%	91
5 Year	0.40%	78
10 Year	2.60%	89

Sources: Morningstar Direct, Bloomberg Finance L.P., S&P Dow Jones Indices, State Street Investment Management, as of 30 September 2025. State Street Global Advisors (SSGA) is now State Street Investment Management. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable. Information presented prior to the S&P/ASX iBoxx Australian Fixed Interest Diversified 0+ Index's launch date (6 May 2025) is hypothetical bank-tested performance, not actual performance, and is based on the index methodology in effect on the launch date. Back-tested performance is achieved by means of the retroactive application of a methodology designed with the benefit of hindsight. Past performance is not a reliable indicator of future performance. Active manager performance based on Morningstar category “Bonds – Australia”, includes only those managers with 10-year history.

# Important Disclosures

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Generally, among asset classes, stocks are more volatile than bonds or short-term instruments. Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns. U.S. Treasury Bills maintain a stable value if held to maturity, but returns are generally only slightly above the inflation rate.

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.

All the index performance results referred to are provided exclusively for comparison purposes only. It should not be assumed that they represent the performance of any particular investment. 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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Tracking Number: 8501211.1.1.ANZ.RTL

Expiration Date: 31 December 2025

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