GETTING TECHNICAL WITH FIXED INCOME

Introducing the SPDR® Dorsey Wright®
Fixed Income Allocation ETF (DWFI)
NEW FOLD TO A
TIME-TESTED IDEA

Utilizing Dorsey Wright’s Technical Index Methodology for Fixed Income Exposure Through a New SPDR ETF

The SPDR Dorsey Wright Fixed Income Allocation ETF (DWFI) provides investors a new opportunity to take advantage of Dorsey, Wright & Associates’ (DWA) signal-driven, momentum-focused technical index methodology. DWA has sponsored indices that apply its technical rules-based methodology to asset allocation. What is new is applying DWA’s index methodology, which incorporates relative strength rankings based on point & figure charting, to fixed income exposure implemented in a single fund-of-funds SPDR ETF.

Introducing DWFI and the Dorsey Wright Fixed Income Allocation Index

The SPDR Dorsey Wright Fixed Income Allocation ETF (DWFI) is a passively managed ETF that seeks to track the Dorsey Wright Fixed Income Allocation Index (“Index”). The Index is designed to provide targeted exposure to the four SPDR fixed income ETFs that offer the greatest potential to outperform the other SPDR fixed income ETFs in the Index’s selection universe, based on the Index’s relative strength point & figure rankings. As a result of the Index’s focus on seeking exposure to momentum in the fixed income market — as defined by the index selection universe — DWFI can be used as a complement to a core fixed income exposure, and comes with a gross expense ratio of 0.60 percent.

Dorsey Wright Fixed Income Allocation Index Methodology

- The Index methodology ranks each SPDR fixed income ETF in the selection universe by relative strength, and selects the four top-ranked ETFs for an initial equal weighted inclusion in the Index at each Index rebalance
- Selection universe of the Index is comprised of roughly 21 SPDR fixed income ETFs, although this may change from time to time
- The relative strength of each SPDR fixed income ETF in the selection universe is based on Dorsey Wright’s Index methodology “point & figure” charting system, which is a rules-based system designed to focus on price movements of an ETF while filtering out insignificant price movements by ignoring small price fluctuations, trading volume, and time
- The SPDR fixed income ETFs in the selection universe are evaluated once a week to determine which ETFs rank among the top in relative strength according to the Index methodology, and ETFs in the Index are replaced only if they fall out of favor relative to other ETFs in the selection universe on a relative-strength basis
Why and How DWFI Can Act as a Complement to a Core Fixed Income Exposure

The SPDR ETFs and SSGA Funds Research Team anticipates limited returns from bonds given low initial yields with limited anticipation for a rise in rates. As of March 31, 2016, the SSGA Investment Solutions Group 3-5 year return forecast for investment grade bonds was an annualized 1.9 percent, a reflection that markets exist in a low- and slow-growth environment. This theme is supported by the recent McKinsey Global Institute study that projects bond returns to be 2.0 percent annualized over the next 20 years. That would be a reduction from the past 30 years, which had annualized returns of 5 percent, according to the McKinsey study.

At its core, we believe that a fixed income portfolio should seek to provide income, diversification and stability against riskier assets. But with such paltry return expectations for fixed income, investors may need to also look for strategies that have the potential to capture exposure to some of the strongest trends in the fixed income market and that can act as a complement to a core position. As changes to the Index composition show, holdings in DWFI will change over time, showcasing the Index methodology's potential to capture exposure to some of the strongest trends in the fixed income markets, as represented by the Index selection universe found on the next page.

The two pie charts to the right show that about five weeks after the Index was launched, the SPDR® Barclays Long Term Treasury ETF (TLO) replaced the SPDR Barclays Intermediate Term Treasury ETF (ITE) as an Index holding pursuant to the methodology. This change in Index constituents, based on Dorsey Wright’s relative-strength technical methodology, illustrates that the rules-based Index has the potential to capture exposure to certain trends in the fixed income markets. In this case, the allocation change amounted to adding duration at a time when the yield on 10-year Treasuries had fallen 22 percent during the first quarter of 2016.
Getting Technical With Fixed Income

Current Selection Universe of SPDR ETFs That Can Be Deployed in the Index as of April 30, 2016*  

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1 The forecasted returns are based on SSGA’s Investment Solutions Group’s March 31, 2016 forecasted returns and long-term standard deviations. The forecasted performance is not necessarily indicative of future performance, which could differ substantially.
3 Ibid.
5 Selection Universe as of April 30, 2016. The Selection Universe may change from time to time.
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Glossary

Barclays EM Local Currency Government Diversified Index A benchmark designed to measure the performance of fixed-rate local currency sovereign debt of emerging market countries. The index includes government bonds issued by countries outside the US in local currencies that have a remaining maturity of one year or more. They must be rated B3/B-/B- or higher, be fixed-rate and have certain minimum amounts outstanding, depending on the currency denomination of the bonds.

Barclays Global Treasury ex-U.S. Capped Index A benchmark designed to track the fixed-rate local currency sovereign debt issued by investment-grade countries outside the US. Bonds must have a remaining maturity of one year or more.

Barclays Global Aggregate ex-USD >$1B: Corporate Bond Index A benchmark designed to be a broad-based measure of the global investment-grade, fixed-rate, fixed-income corporate markets outside the US. The index is part of the Barclays Global ex-USD Aggregate Bond Index.

Barclays High Yield Very Liquid Index The Barclays High Yield Very Liquid Index is designed to measure the performance of publicly issued U.S. dollar denominated high yield corporate bonds with above-average liquidity.

Barclays Intermediate U.S. Corporate Index A benchmark designed to measure the performance of U.S. corporate bonds that have a maturity of greater than or equal to one year and less than 10 years.

Barclays Intermediate U.S. Treasury Index A benchmark designed to measure the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to one year and less than 10 years.

Barclays Long U.S. Corporate Index A benchmark designed to measure the performance of U.S. corporate bonds that have a maturity of greater than equal to 10 years.

Barclays Long U.S. Treasury Index A benchmark that includes dollar-denominated publicly issued U.S. Treasury securities that have remaining maturity of 10 or more years. They must be rated investment-grade, have $250 million or more of outstanding face value and be fixed rate and non-convertible.

Barclays Municipal Managed Money Index A benchmark designed to track the U.S. long-term tax-exempt bond market, including state and local general obligation bonds, revenue bonds, pre-refunded bonds, and insured bonds. The index is comprised of bonds issued by states, cities, counties, districts and their respective agencies.

Barclays Managed Money Municipal Short Term Index A bond benchmark that tracks publicly traded municipal bonds that cover the US dollar-denominated short-term tax exempt bond market. These include state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.

Barclays 1-3 Month U.S. Treasury Bill Index A fixed-income benchmark including publicly issued dollar-denominated zero-coupon US Treasury Bills that have a remaining maturity of less than three months and more than one month. They must be rated investment grade, have $250 million or more of outstanding face value and be fixed-rate and non-convertible.

Barclays 1-3 Year Global Treasury ex-U.S. Capped Index A fixed-income benchmark designed to measure the performance of fixed-rate local currency sovereign debt of investment grade countries outside the US that have remaining maturities of one to three years.

Barclays U.S. Aggregate Bond Index A benchmark that provides a measure the performance of the U.S. dollar denominated investment grade bond market. The index includes investment-grade government and corporate bonds, mortgage “pass through securities,” commercial mortgage-backed securities and asset-backed securities that are publicly for sale in the US.

Barclays U.S. Convertible Bond >$500MM Index A benchmark designed to represent the market of U.S. convertible securities, such as convertible bonds, with outstanding issue sizes greater than $500 million.

Barclays U.S. Dollar Floating Rate <5 Years Index A benchmark consisting of debt instruments that pay a variable coupon rate, most of which are based on 3-month LIBOR, and have a fixed spread. The index may include US-registered, dollar-denominated bonds of non-US corporations, governments and supranational entities.

Barclays U.S. Government Inflation-linked Bond Index A benchmark that includes publicly issued, U.S. Treasury inflation-protected securities that have at least one year remaining to maturity on index rebalancing date and that have an issue size equal to or in excess of $500 million. Bonds must be capital-indexed, linked to an eligible inflation index, be denominated in U.S. dollars and pay coupon and principal in U.S. dollars. The notional coupon of a bond must be fixed or zero.

Barclays U.S. MBS Index A benchmark designed to measure the performance of the US agency mortgage pass-through segment of the U.S. investment grade bond market. The term “U.S. agency mortgage pass-through security” refers to a category of pass-through securities backed by pools of mortgages and issued by U.S. government-sponsored agencies.

Barclays U.S. 1-3 Year Corporate Bond Index A benchmark designed to measure the performance of the short-term U.S. corporate bond market. It includes publicly issued U.S. dollar-denominated and investment-grade corporate issues that have a remaining maturity of greater than or equal to one year and less than three years.

Citi International Inflation-Linked Securities Select Index A benchmark designed to measure the total return performance of inflation-linked bonds outside the US that have fixed-rate coupon payments and are linked to an inflation index.

Duration A commonly used measure, expressed in years, that measures the sensitivity of the price of a bond or a fixed-income portfolio to changes in interest rates or interest-rate expectations. The greater the duration, the greater the sensitivity to interest rates changes, and vice versa.

Equal Weighting A type of securities-weighting methodology that gives the same percentage weight to each stock, bond or fund in a broader portfolio or index fund.

Momentum The tendency of a security’s price to maintain a certain direction.

Wells Fargo Hybrid and Preferred Securities Aggregate Index A modified market-capitalization-weighted benchmark designed to measure the performance of non-convertible preferred stock and securities that are equivalent to preferred stock. Constituents include depositary preferred securities, perpetual subordinated debt and some securities issued by banks and other financial institutions that are eligible for capital treatment.
Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates raise, 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.

Diversification does not ensure a profit or guarantee against loss.

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.

Momentum Risk: The Fund employs a “momentum” style of investing that emphasizes investing in securities that have had higher recent price performance compared to other securities. This style of investing is subject to the risk that these securities may be more volatile than a broad cross-section of securities or that the returns on securities that have previously exhibited price momentum are less than returns on other styles of investing or the overall stock market. Momentum can turn quickly and cause significant variation from other types of investments. Passively managed funds hold 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. 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.

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