Constructing Environmentally Conscious Investment Portfolios

Investors have increasingly focused on adapting their investment portfolios to align with environmental concerns and risks associated with climate change. State Street Global Advisors offers four SPDR® ETFs that allow investors to incorporate environmentally-focused objectives while fulfilling a range of investment mandates.

Fossil Fuel Divestment and Low Carbon Investing

The fossil fuel divestment movement began when US university endowments came under pressure to address ecological and environmental concerns in their investment mandates. It has since become a much broader phenomenon embraced by a range of investors. Institutional investors in particular, such as pension funds, insurers and sovereign wealth funds, continue to be major influencers of change.

Concerned about the impact of natural resource consumption on the environment, more investors are focusing on low carbon investing and eliminating fossil fuels from their portfolios. Additionally, as global leaders seek to reduce emissions through regulatory mandates and subsidies to renewable power sources, exposure to companies with higher carbon footprints is increasingly considered a risk factor.

To the extent that future structural changes in the energy sector diminish the economic viability of traditional fuel sources, current reserves could become “stranded assets” and drive further divestment.

Four Environmentally-Focused SPDR ETFs

The four SPDR ETFs track transparent rules-based indices with varying environmentally-focused objectives for flexibility in application.

Divestment from Fossil Fuel Reserves

SPYX  EFAX  EEMX

For environmentally-focused and less benchmark-sensitive investors, SPDR ETFs offers three products that cover well-known regional exposures, but screen constituents of the parent index to include only companies which do not hold fossil fuel reserves, including third-party and in-house power generation.

<table>
<thead>
<tr>
<th>Exposure</th>
<th>Ticker</th>
<th>Parent Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Large Cap Equities</td>
<td>SPYX</td>
<td>S&amp;P 500</td>
</tr>
<tr>
<td>International Equities</td>
<td>EFAX</td>
<td>MSCI EAFE</td>
</tr>
<tr>
<td>Emerging Market Equities</td>
<td>EEMX</td>
<td>MSCI Emerging Markets</td>
</tr>
</tbody>
</table>

Fossil fuel reserves are defined as proven and probable sources of crude oil, natural gas and coal, the three most environmentally compromising and prevalent sources of fossil fuel consumption and its associated emissions of CO2 and other harmful environmental contaminants.

<table>
<thead>
<tr>
<th>Fossil Fuel Free Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Companies with Fossil Fuel Reserves</td>
</tr>
<tr>
<td>Parent Index</td>
</tr>
</tbody>
</table>

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The exclusion of companies holding fossil fuel reserves from the parent index results in an underweight of Energy and Utilities and overweights across other sectors. Exposure differences are expected as allocations to removed companies are redistributed based on the remaining constituents’ respective float-adjusted market capitalizations. For the international and emerging markets indices, the underweight in Energy will also result in differences in geographical exposure relative to the parent indices. That creates underweights to countries with large fossil fuel reserves whose economies may be less resilient in the face of shifting energy demand.

SPYX, EFAX and EEMX may offer liquid and transparent options for climate-aware investors seeking to reduce exposure to companies that own fossil fuel reserves and aim to mitigate environment-related risks, including those associated with stranded assets.

Low Carbon — Benchmark Aware

LOWC

More benchmark-aware investors should consider the SPDR MSCI ACWI Low Carbon Target ETF (LOWC), which seeks to track the MSCI ACWI Low Carbon Target Index. The index aims to achieve a target level of tracking relative to the well-known parent, the MSCI ACWI Index, while minimizing carbon exposure.

The MSCI ACWI Low Carbon Target Index is designed to address two dimensions of carbon exposure — carbon emissions and fossil fuel reserves, expressed as potential emissions. By overweighting companies with low carbon emissions relative to sales and those with low fossil fuel reserves relative to market capitalization, the index aims to reflect a lower-carbon exposure than that of the broad market. The index aims for a target tracking error constraint of 30 basis points relative to the parent index to limit the potential of short-term performance deviations for benchmark-aware investors.

While LOWC is underweight energy, the tracking error constraint in the index methodology maintains a relative likeness to exposures of the parent index, the MSCI ACWI. (See Figure 2)

Figure 2: Sector Weights of the MSCI ACWI Low Carbon Target Index

<table>
<thead>
<tr>
<th>Sector</th>
<th>MSCI ACWI Low Carbon Target Index</th>
<th>MSCI All Country World (ACWI)</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication Services</td>
<td>8.76</td>
<td>8.74</td>
<td>0.02</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>11.03</td>
<td>10.76</td>
<td>0.28</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>8.36</td>
<td>8.37</td>
<td>-0.00</td>
</tr>
<tr>
<td>Energy</td>
<td>4.33</td>
<td>6.27</td>
<td>-1.95</td>
</tr>
<tr>
<td>Financials</td>
<td>18.14</td>
<td>16.59</td>
<td>1.55</td>
</tr>
<tr>
<td>Health Care</td>
<td>11.56</td>
<td>11.65</td>
<td>-0.09</td>
</tr>
<tr>
<td>Industrials</td>
<td>11.89</td>
<td>10.45</td>
<td>1.45</td>
</tr>
<tr>
<td>Information Technology</td>
<td>15.78</td>
<td>15.71</td>
<td>0.07</td>
</tr>
<tr>
<td>Materials</td>
<td>3.73</td>
<td>4.86</td>
<td>-1.13</td>
</tr>
<tr>
<td>Real Estate</td>
<td>3.41</td>
<td>3.29</td>
<td>0.12</td>
</tr>
<tr>
<td>Utilities</td>
<td>2.97</td>
<td>3.29</td>
<td>-0.32</td>
</tr>
<tr>
<td>[Unassigned]</td>
<td>0.04</td>
<td>0.02</td>
<td>0.02</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
<td>—</td>
</tr>
</tbody>
</table>

Source: FactSet, as of 03/31/2019.

Modern Tools For Investors

State Street Global Advisors, which has managed Environmental, Social and Governmental (ESG) investment assets since 1986, is now one of the largest managers of these strategies in the world with $179.43 billion in ESG assets under management.¹ State Street’s leadership in the ESG realm extends to this suite of four environmentally-focused ETFs.

These four SPDR ETFs — SPYX, EFAX, EEMX and LOWC — offer environmentally-conscious options for investors ranging from benchmark-sensitive carbon targeting to complete divestment from fossil fuels. These are actionable tools for investors seeking investment solutions that align with ethical principles as the global economy continues to transition toward a low-carbon future.

To learn more about strategies for incorporating carbon-aware ETFs into your portfolio, contact your State Street Global Advisors relationship manager, visit SPDRS.com or send us an email at ESG@ssga.com today. We look forward to learning more about your needs and goals.

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Four Tools for Exposure

<table>
<thead>
<tr>
<th>Fund</th>
<th>Indices</th>
<th>AUM (SMI)*</th>
<th>Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPYX</td>
<td>S&amp;P 500 Fossil Fuel Reserves Free ETF</td>
<td>0.25** 0.20***</td>
<td>337 US Large/Mid Cap covering 80% of available US market capitalization</td>
</tr>
<tr>
<td>EFXA</td>
<td>MSCI EAFE ex Fossil Fuels Index</td>
<td>0.30** 0.20***</td>
<td>70 21 Developed Markets ex US &amp; Canada, Large/Mid Cap</td>
</tr>
<tr>
<td>EEMX</td>
<td>MSCI Emerging Markets Fossil Fuel Reserves Free ETF</td>
<td>0.30 0.30</td>
<td>44 23 Developing Markets, Large/Mid Cap</td>
</tr>
<tr>
<td>LOWC</td>
<td>MSCI ACWI Low Carbon Target ETF</td>
<td>0.30** 0.20***</td>
<td>63 Global, Large/Mid Cap, 80% of worldwide investable opportunity set</td>
</tr>
</tbody>
</table>

** The gross expense ratio is the fund’s total annual operating expense ratio. It is gross of any fee waivers or expense reimbursements. It can be found in the fund’s most recent prospectus.
*** Some of the funds listed may have current fee agreements in place that reduces fund expenses and if removed or modified will result in higher expense ratios and reduce fund performance. Complete details can be found in each fund’s prospectus.

Glossary

Carbon Risk An investment risk linked to scientific evidence suggesting that unchecked climate change has the potential to negatively impact the lives, livelihoods and savings of many people, including investors — now and well into the future. This relatively new investment risk has created a new dimension of fiduciary responsibility, particularly among institutional investors.

Divestment The process of selling an asset for financial, social or political reasons. Current efforts of selling investments in energy companies that produce, refine or burn fossil fuels is an example of divestment — the aim in this case being lessening environmental and investment risks associated with rising temperatures around the planet.

ESG or Environmental, Social and Governmental Investing A set of criteria that socially and ethically conscious investors can use to screen investments. Environmental criteria look at how a company performs as a steward of the natural environment; social criteria examine how a company manages relationships relevant to its operations; and governance criteria deal with a company’s leadership, executive pay, audits and internal controls as well as shareholder rights.

International Energy Agency, or IEA A global energy forum comprised of 29 industrial countries that are net oil importers and which is designed to help its members respond to major supply disruptions. The IEA, organized under the Organization of Economic Cooperation and Development (OECD), was established in 1974 following the 1973–1974 Arab oil embargo.

MSCI ACWI Low Carbon Target Index A global equities benchmark derived from the MSCI ACWI Index designed to address two dimensions of carbon exposure — carbon emissions and fossil fuel reserves. By overweighting companies with low carbon emissions relative to sales and per dollar of market capitalization, the Index aims to reflect a lower carbon exposure than that of the broad market. The parent index, MSCI ACWI, is designed to represent the entirety of global equities markets in both developed and emerging markets.

MSCI EAFE ex Fossil Fuels Index An equities benchmark designed to measure the performance of companies in the MSCI EAFE Index (the “Parent Index”) that do not own proved and probable coal, oil or natural gas reserves used for energy purposes. The Parent Index, which serves as the initial universe for eligible securities in the Index, captures large and mid–capitalization representation across developed market Europe, Australasia, and Far East countries, excluding the United States and Canada.

MSCI Emerging Markets ex Fossil Fuels Index An equities benchmark designed to measure the performance of companies in the MSCI Emerging Markets Index (the “Parent Index”) that do not own proved and probable coal, oil or natural gas reserves used for energy purposes. The Parent Index, which serves as the initial universe for eligible securities in the Index, captures large and mid–capitalization representation across 23 emerging market countries.

Overweight The weighting of a given security, industry or market sector that exceeds the weighting assigned that security, industry or sector in a relevant benchmark or benchmark portfolio.

S&P 500® Fossil Fuel Reserves Free Index An equities benchmark designed to measure performance of companies in the S&P® 500 Index that are “fossil fuel free,” which are defined as companies that do not own fossil fuel reserves. In the context of the Index, fossil fuel reserves are defined as economically and technically recoverable sources of crude oil, natural gas and thermal coal, but do not include metallurgical or coking coal, which are used in connection with steel production.

Stranded Assets A term connected to climate–change–related investing that describes the possibility that energy companies’ undeveloped oil, gas and coal deposits may end up remaining undeveloped forever. The significance of stranded assets is that valuations of energy companies — including their current stock prices — reflect the value of these undeveloped assets. If such energy reserves are never developed they have no value, meaning the stock prices of companies with “stranded” assets may be significantly overvalued.

Underweight The weighting of a given security, industry or market sector that is less than the weighting assigned that security, industry or sector in a relevant benchmark or benchmark portfolio.
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Currency exchange rates between the US dollar and foreign currencies may have significant volatility and may cause the value of the fund’s investments to decline.

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.

Equity securities may fluctuate in value in response to the activities of individual companies and general market and economic conditions.

Non–diversified funds that focus on a relatively small number of issuers tend to be more volatile than diversified funds and the market as a whole.

Derivative investments may involve risks such as potential illiquidity of the markets and additional risk of loss of principal.

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