

State Street International Equities Index Trust

State Street International Equities Index (Hedged) Trust

Holdings in Tobacco and Controversial Weapons

Background

As demand for various ESG characteristics, and particularly tobacco exclusions, continues to grow, SSGA has been conducting a review of the State Street International Equities Index Trust and the State Street International Equities Index (Hedged) Trust (“the Funds”). This document outlines changes we will be making to the Funds from 1 July 2020.

Recent Industry Trends

Over recent years, we have witnessed a number of very large asset owners in Australia exclude companies associated with tobacco and controversial weapons. We believe that this trend reflects at least three factors;

1. the strong commitment of the Australian government in both areas
2. increasing media and investor interest in ethical issues, and
3. investor concerns over longer term legal and other liabilities companies engaged in these industries may face.

Having witnessed this trend in very large asset owners, and following feedback from some current unitholders, we believe it is appropriate to exclude tobacco and controversial weapons companies from the Funds. The Appendix contains a brief discussion of each issue.

Pending Changes to the Funds

At present, the goal of each Fund is to mirror the returns and characteristics of its designated index; i.e. the unhedged and hedged version of the MSCI World ex Australia Index. The current primary investment strategy is full replication of the Index¹. The change we will be making from 1 July 2020 is to exclude tobacco and controversial weapons securities (as defined by MSCI) from the list of eligible investments for each Fund. Each Fund’s benchmark will remain unchanged as the unhedged or hedged version of the MSCI World ex Australia Index. When we construct the portfolio we will use an optimiser to try and reduce risk against the benchmark. For example, we will slightly increase our holdings in Consumer Staples securities that are not tobacco related.

Expected Portfolio Impact

As at 30 April 2020, there were 6 Tobacco and 5 Controversial weapons securities, accounting for 0.88% and 0.69% respectively of the MSCI World ex Australia Index.

The tables below show index results over recent years for the “ex Tobacco and ex Controversial Weapons” index compared to the current Fund index.

Period to 30 April 2020	1 year	2 years	3 years	4 years
Return (% pa)				
MSCI World ex Australia	3.50	8.76	9.96	11.66
Excess Return (% pa)				
MSCI World ex Aust Ex Tob Ex CW	+0.38	+0.27	+0.28	+0.20
Tracking Error (% pa)				
MSCI World ex Aust Ex Tob Ex CW	0.17	0.25	0.24	0.24

¹ For practical reasons, small differences in constituent weights between the portfolio and the index have always occurred from time to time

Calendar Annual Returns	2017	2018	2019	2020 (April)
MSCI World ex Australia	13.38	1.52	27.97	-5.71
Excess Return				
MSCI World ex Aust Ex Tob Ex CW	-0.08	+0.37	+0.19	+0.17
Tracking Error				
MSCI World ex Aust Ex Tob Ex CW	0.19	0.29	0.24	

Past performance is not a reliable indicator of future performance. Performance returns for periods of less than one year are not annualized. The performance figures contained herein are provided on a net of fees basis and do reflect the deduction of advisory or other fees. The performance includes the reinvestment of dividends and other corporate earnings and is calculated in Australian Dollars. Index returns are unmanaged and do not reflect the deduction of any fees or expenses.

While these index results provide an initial guide, they do not provide a complete picture.

- We expect a small reduction in active risk from the optimisation process already described.
- Even without any exclusions, each Fund already has some tracking error against its benchmark due to practical considerations like withholding tax, transaction costs and small cash balances.

On balance, we expect the realised tracking error for each Fund against its index to increase by around 0.15% pa to approximately 0.25% pa². We expect out-performance or underperformance of the MSCI World ex Australia Index for the unhedged Fund to reach or exceed 0.50% in some 12 month periods.

The Responsible Entity has concluded this is not a material change to the strategy.

What do you need to do?

You do not need to take any action at this time. A new Product Disclosure Statement has been lodged on www.ssga.com.au. This document describes both the current process and the new exclusions that will apply from 1 July 2020. On or after 1 July 2020, the current process will be removed from this document.

² Over the 5 years to 30 April 2020, the tracking error of the unhedged Fund was 0.09% pa and the tracking error of the hedged Fund was 0.12% pa

APPENDIX – Discussion of Controversial Weapons and Tobacco

Tobacco

The first treaty ever negotiated under the auspices of the World Health Organization was the Framework Convention on Tobacco Control (WHO FCTC) in 2003. The treaty aims to protect present and future generations from the devastating health, social, environmental and economic consequences of tobacco consumption and exposure to tobacco smoke. Australia was among the first to sign the treaty in 2003. The tobacco industry remains contentious for many in the broader community.

Tobacco forms its own Industry under the Global Industry Classification Standard (“GICS”). The Tobacco Industry under GICS incorporates manufacturers of cigarettes and other tobacco products.

Controversial Weapons

In 1930, Australia acceded to the Geneva Protocol prohibiting the use in wartime of chemical and biological weapons. Australia has also signed both the Biological Weapons Convention and the Chemical Weapons Convention. These later conventions are wider ranging, covering the development, production and stockpiling of weapons.

Australia was one of the original signatories in 1997 of the Ottawa Convention prohibiting the use, stockpiling and production of anti-personnel mines.

MSCI identifies companies as being engaged in “Controversial Weapons” such as cluster bombs, landmines, depleted uranium, and chemical and biological weapons, if they

- are producers of the weapons;
- are producers of key components of weapons;
- own more than 20% (or 50% in the case of a financial company) of a weapons or components producer; or
- are owned 50% or more by a company involved in weapons or components production.

Important Disclosures:

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References to the State Street International Equities Index Trust and State Street International Equities Index (Hedged) Trust ("the Funds") in this communication are references to the managed investment schemes domiciled in Australia, promoted by SSGA Australia, in respect of which SSGA, ASL is the Responsible Entity.

Investing involves risk including the risk of loss of principal.

Risk associated with equity investing includes stock values which may fluctuate in response to the activities of individual companies and general market and economic conditions. Investing in foreign domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations. Characteristics are as of the date indicated, subject to change, and should not be relied upon as current thereafter.

Companies with large market capitalizations go in and out of favor based on market and economic conditions. Larger companies tend to be less volatile than companies with smaller market capitalizations. In exchange for this potentially lower risk, the value of the security may not rise as much as companies with smaller market capitalizations. Investments in mid-sized companies may involve greater risks than in those of larger, better known companies, but may be less volatile than investments in smaller companies. Investments in small-sized companies may involve greater risks than in those of larger, better known companies.

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Expiry Date: 31/05/2021

Tracking code: 3076083.1.1.ANZ.RTL