STATE STREET GLOBAL ADVISORS SPDR®

September 2024
FAQs

SPDR® SSGA US Equity Premium Income ETF (SPIN)

Overview

With the launch the SPDR® SSGA US Equity Premium Income ETF (SPIN), State Street Global Advisors has added a new active strategy to its existing suite of equity income offerings.

SPIN is an actively managed strategy that seeks to enhance income generation through a dynamic call writing program, while also maintaining the potential for long-term growth of capital by constructing an underlying portfolio of high quality large- and mid-cap US stocks that exhibit strong fundamentals and long-term growth prospects.

Why is State Street Global Advisors launching the fund?

At State Street Global Advisors, we are always looking to identify improvements aimed at enhancing the success of our investors and helping ensure that our SPDR ETF offerings are well-positioned for long-term growth.

Investors are seeking innovative solutions to diversify their income sources beyond the traditional fixed income or dividend income strategies and have come to rely on derivative income strategies, which have grown in assets by over 14x in the past five years.[1]

This product is another way we aim to offer investors attractive solutions to help them meet their goals.

What is the fund's investment objective?

The SPDR SSGA US Equity Premium Income ETF (the "Fund") seeks to provide current income while maintaining prospects for long-term growth of capital.

How is the fund designed to achieve its objective?

The fund seeks to achieve its objective by investing in a portfolio of high quality large- and mid-cap US stocks that exhibit strong fundamentals and long-term growth prospects, while dynamically selling call options on a US large-cap exposure, like the S&P 500® Index, to generate additional monthly income.

When does the fund pay its income distributions?

The fund is designed to pay income distributions monthly, which could be a combination of premium income generated from selling options as well as dividend income from the stock holdings in the underlying portfolio.

What is the expense ratio of the fund?

The gross expense ratio of SPIN is 0.25%, making it the lowest cost fund in its category across open-end and exchange-traded funds. The expense ratio is approximately 67% less than the median cost of US-domiciled derivative income funds.[2]

The gross expense ratio is the fund's total annual operating expenses ratio. It is gross of any fee waivers or expense reimbursements. It can be found in the fund's most recent prospectus.

What is a derivative income strategy?

A strategy in which an underlying equity portfolio is combined with a position where the investment advisor has "sold" or "written" call options to generate income in addition to any dividend income that is distributed to investors is referred to as derivative income strategy.

What are the benefits of derivative income strategies?

Derivative income strategies seek to harvest the option premium from selling calls to generate additional income when underlying portfolios gain gradually or to potentially mitigate losses in downward trending markets.

These strategies have grown in popularity over the past decade and have established themselves as a distinct investment strategy for investors looking to enhance potential income generation. However, in certain environments, where markets rise sharply, these strategies do not perform as well as unhedged portfolios.

By being able to generate enhanced income that can possibly act as a cushion during market drawdowns, while still maintaining underlying equity exposure, derivative income strategies can potentially generate income, mitigate risk, and seek equity-like total returns over full market cycles.

How can the fund be used in a portfolio?

SPIN is designed for income-oriented investors seeking the potential for lower volatility and higher income generation in the core of their portfolio.

By being able to generate enhanced income that can possibly act as a cushion during market drawdowns, while still maintaining underlying equity exposure, derivative income strategies can potentially generate income, mitigate risk, and seek equity-like total returns over full market cycles.

With this profile, they should be viewed as part of a strategic allocation, rather than a tactical investment.

How is this strategy managed?

There are three active dimensions in this strategy:

1. The underlying portfolio is comprised of high quality large- and mid-cap US stocks that exhibit strong fundamentals and long-term growth prospects built on an objective framework called Confidence Quotient (CQ).

2. The fund utilizes a proprietary macroeconomic signal called Market Regime Indicator (MRI) to determine the option strikes (moneyness) of the calls written, seeking to harvest higher option premiums during volatile market conditions to help provide more of a cushion against possible losses in the underlying portfolio, while harvesting lower option premiums during low-risk market conditions which may allow the fund to participate in greater potential market upside.

3. An additional dimension to the active nature of the strategy is the implementation of option strikes across four weekly tranches to help the options strategy remain nimble in response to market movements.

Why is the call option's strike price — or level of moneyness — an important consideration for covered call strategies?

The option strike price or level of moneyness is an important factor in determining:

1. The level of option premium that can be harvested, thus impacting the income generation potential of the strategy.
2. The upper limit of gains that can be achieved in the portfolio, as the option position could be in losses that have to be subsidized by gains in the underlying portfolio.

Balancing those two considerations to generate additional yield without sacrificing the potential for gains in the underlying portfolio is best achieved by relying on the skill of an experienced manager like State Street Global Advisors.

How does the Market Regime Indicator ("MRI") signal work?

The Market Regime Indicator (MRI) is a quantitative framework that attempts to identify the current market risk environment based on forward-looking market indicators.

We believe the factors used — implied volatility, risky asset demand, and sentiment spreads — are good indicators of the current risk environment as they are responsive to real-time market impacts and in theory should include all current and forward views of those markets.

These factors are combined to create a single measure and used to identify one of five risk regimes: Euphoria, Low Risk, Normal, High Risk, and Crisis.

Why use multiple tranches of options contracts?

Spreading option strikes and expiries across multiple tranches is a risk management tool to help enhance the options overlay strategy by ensuring it can remain nimble to market movements.

We believe this construct can potentially provide investors a more optimal solution in generating premium income and total return.

What are some key considerations or risks associated with covered call strategies?

Market Risk: Changes in market movements could affect the underlying portfolio and options overlay components differently, resulting in situations where both components could be in losses.

Volatility Risk: Changes in the implied volatility of markets can have a significant impact on the prices of options from initiation to expiration.

Liquidity Risk: Volatile markets can potentially impact the liquidity of option markets and can impact the premium that can be harvested in such situations.

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Glossary

Basis Point (bps)
A unit of measure for interest rates, investment performance, pricing of investment services and other percentages in finance. One basis point is equal to one-hundredth of 1 percent, or 0.01%.

S&P 500 Index
A popular benchmark for U.S. large-cap equities that includes 500 companies from leading industries and captures approximately 80% coverage of available market capitalization .

Important Risk Information
Investing involves risk including the risk of loss of principal.

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your tax and financial advisor.

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While the shares of ETFs are tradable on secondary markets, they may not readily trade in all market conditions and may trade at significant discounts in periods of **market stress**.

Actively managed funds do not seek to replicate the performance of a specified index. An actively managed fund may underperform its benchmark. An investment in the fund is not appropriate for all investors and is not intended to be a complete investment program. Investing in the fund involves risks, including the risk that investors may receive little or no return on the investment or that investors may lose part or even all of the investment.

Equity securities may fluctuate in value and can decline significantly 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 stocks tend to be more volatile than diversified funds and the market as a whole.

Options investing entails a high degree of risk and may not be appropriate for all investors. The Fund's use of call options involves speculation and can lead to losses because of adverse movements in the price or value of the underlying stock, index, or other asset, which may be magnified by certain features of the options.

This communication is not intended to promote or recommend the use of options or options trading strategies and should not be relied upon as such.

The Fund's investments are subject to changes in general economic conditions, general market fluctuations and the risks inherent in investment in securities markets. Investment markets can be volatile and prices of investments can change substantially due to various factors including, but not limited to, economic growth or recession, changes in interest rates, changes in the actual or perceived creditworthiness of issuers, and general market liquidity. The Fund is subject to the risk that geopolitical events will disrupt securities markets and adversely affect global economies and markets. Local, regional or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, or other events could have a significant impact on the Fund and its investments.

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Expiration Date: 09/30/2025
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Footnotes

1. Morningstar as of 06/30/2024. Based on growth of fund size in US-domiciled funds in the Morningstar category of US Fund Derivative Income.

2. Morningstar as of 09/05/2024. Based on median expense ratio of 101 US-domiciled, open-ended and exchange-traded funds in the category of US Fund Derivative Income.