
State Street Global Advisors’ Active Quantitative Equities team has created unique active equity solutions that put investors’ financial goals at the centre of portfolio construction. The Funds* aim to achieve strong risk-adjusted returns, facilitating a smoother ride for investors towards their financial goals.

Active Equity Series
* State Street Australian Equity Fund
* State Street Global Equity Fund
Individual investors often define their primary investment objective as the “highest risk adjusted-returns”. They think of “return” as capital growth over time and “risk” as capital loss or a large variability in capital value over time.

Many actively managed equity funds respond by trying to minimise risk defined instead as “tracking error” or deviation from the benchmark. They construct portfolios so the portfolios’ securities and sectors stay close to benchmark weights. As a result, the funds’ performance also stays close to the benchmark. This means that risk and return stay close to benchmark outcomes, which some see as a benefit. However, evaluating return and risk relative to a market hurdle or benchmark return leaves investors vulnerable to major market movements, particularly on the downside.

Investor Objectives

1. Grow My Assets
2. Guard My Assets
WHAT IS TRUE SUCCESS?

While some may say that a benchmark-relative approach is the best way to select and assess active equity managers, we believe investor objectives, not benchmarks, belong at the centre of portfolio construction.

At State Street Global Advisors, (SSGA) we define true success as not only producing “alpha”1, but also helping investors achieve their long-term goals. We believe there is a better, more efficient way to deliver risk-adjusted returns and to reduce the impact of market losses.

WHY THE TRADITIONAL “BENCHMARK-AWARE” APPROACH IS LIMITED

Market capitalisation-weighted indices, the most common benchmarks in equity investing, pose some risks. For example, there may be stock, sector and country concentration risk in market-cap-weighted indices. This is particularly true for the S&P/ASX 200 Index, which tracks Australia’s largest 200 listed companies ranked by market capitalisation.

Equity portfolios constructed around a benchmark rest on a belief that the index offers the greatest return for a given level of risk. Anchoring stock selection and portfolio construction to the index minimises the risk of deviating too far from the market performance. These active managers try to limit the risk from making wrong decisions about which stocks to buy when by evaluating a stock’s return and risk relative to the benchmark rather than considering its absolute return and risk potential. These portfolios must limit stock, sector and country weights within predetermined ranges relative to the benchmark.

SSGA research suggests that market capitalisation-weighted benchmarks may not offer investors the optimal balance of risk and return. As a result, it may be possible to manage an active equity portfolio to deliver returns with significantly less risk than that of a portfolio tied to a benchmark.

Also, a portfolio that’s not tied to a benchmark may avoid risks from “crowding” around a benchmark. The benchmark’s largest stocks and sectors can experience significant volatility due to the movements of large, benchmark-constrained institutional investors. This concentrated exposure also limits a manager’s ability to appropriately diversify, enhance returns and manage risk for market volatility and declines.

1 In the investment management industry, “alpha” means an excess return over a benchmark, adjusted for exposure to the benchmark.

Does your success hinge on only 10 stocks?

The top 10 stocks of the S&P/ASX 200 have an outsized impact. By market capitalisation, they make up 53% of this 200-stock index (Figure 1), making index returns vulnerable to their gyrations, even if other stocks in the index do well.

Moreover, the top six stocks are especially lopsided, representing 39% of the total market capitalisation and just under half of the Australian equity market’s risk.* A benchmark-constrained active manager must hold these four banks, a miner and a telecommunications company at significant weights even if the companies’ fundamentals appear poor. This may contribute to portfolios holding higher sector weights than justified by fundamentals. Banks make up 36% of the total risk of the Australian market, while resources companies, which are struggling with anaemic global growth, account for 20%.*

Figure 1: Top 10 Stocks of the S&P/ASX 200

<table>
<thead>
<tr>
<th>STOCK</th>
<th>% OF INDEX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commonwealth Bank</td>
<td>9.9</td>
</tr>
<tr>
<td>Westpac Bank</td>
<td>7.8</td>
</tr>
<tr>
<td>BHP Billiton</td>
<td>7.0</td>
</tr>
<tr>
<td>ANZ Bank</td>
<td>6.4</td>
</tr>
<tr>
<td>NAB</td>
<td>6.1</td>
</tr>
<tr>
<td>Telstra</td>
<td>5.2</td>
</tr>
<tr>
<td>Wesfarmers</td>
<td>3.4</td>
</tr>
<tr>
<td>CSL</td>
<td>3.0</td>
</tr>
<tr>
<td>Woolworths</td>
<td>2.5</td>
</tr>
<tr>
<td>Macquarie Group</td>
<td>1.8</td>
</tr>
<tr>
<td>Top 10 Stocks</td>
<td>53.0</td>
</tr>
<tr>
<td>Remaining 190 Stocks</td>
<td>47.0</td>
</tr>
</tbody>
</table>

Source: SSGA, S&P as of 31 December 2015
*as of 31 December 2015
THE OPPORTUNITY
UNHOOK YOUR RETURN POTENTIAL

State Street Global Advisors’ Active Quantitative Equities Team believes that you don’t have to take on extra risk for the sake of tracking a traditional benchmark. Nor should you sacrifice return opportunities to manage risk as defined by differing from a benchmark.

An opportunity exists for investment managers to remove benchmark constraints, construct a portfolio of shares on their individual merits and deliver returns more efficiently. This type of strategy should be benchmark unaware, be agile to market movements and explicitly manage risk in order to deliver a more balanced outcome of return and risk.

Now is the time to ask: Is there a better way to invest?

WHY RISK MANAGEMENT MATTERS FOR EQUITY PORTFOLIOS

In traditional portfolio construction, equities have been assigned the “Grow My Assets” objective and defensive investments such as cash or fixed income have been given the “Guard My Assets” objective. But what if we could incorporate both of these objectives into our approach to managing the equities portfolio? In investment terms, this can be referred to as “maximising the Sharpe ratio,” or “maximising total return while minimising total volatility.”

An explicit focus on volatility management in equity portfolio construction may ease the effect of volatility and negative returns. Portfolios can suffer significant losses during crises that elevate volatility and deliver strongly negative returns that aren’t easy to make up. The percentage return required to recover from a loss is significantly bigger than the original percentage lost. For example, an investment portfolio that loses 10% of its value requires an 11.1% return to break even over a one-year period. A portfolio that loses 30% of its value requires a 42.9% return to recover.

Investors in or approaching retirement could find this approach to tackling both returns and risk particularly relevant. With shorter investment horizons, these investors’ risk tolerance also generally declines. A large market decline can affect their capital balances and lifestyle in retirement. Thus, managing volatility is important to older investors without regular incomes, especially when they must withdraw funds to support their lifestyles.

We believe a winning strategy “makes more by losing less”.

2 The ratio measures the relationship of reward to risk.
**The “Low Volatility” Phenomenon**

We have observed a long-term phenomenon of higher-volatility stocks underperforming lower-volatility stocks over many different time periods across regions and asset classes. This is not a new phenomenon or a short-term play. Potential explanations come from behavioural finance which tries to determine why people make irrational financial decisions.

They point to:
- the effect of asset managers incentivised to generate high returns by taking on more risk
- the glamour effect of investing in stocks that attract the headlines
- the herding effect due to tracking-error-constrained managers, which encourages market-like portfolios

However, assessing volatility is only one part of aiming to deliver the best risk-adjusted returns as part of a diversified portfolio. It’s also important to assess company-specific factors that contribute to potential returns, such as valuation, earnings, growth prospects and sentiment when constructing a diversified portfolio. Weighting up stocks’ return potential with the accompanying risks, in a benchmark unaware manner, can offer powerful benefits.

**AN ALTERNATIVE WAY TO INVEST**

The team has developed an alternative approach to managing equity portfolios. This approach seeks to capture value whilst simultaneously cushioning against market declines. A benchmark’s exposure to stocks, sectors or countries has no relevance to our portfolio construction process. This means the portfolio management team has the flexibility to buy stocks in any sector at any time, so long as they are supported by strong fundamentals. In other words, **every stock in the portfolio has a purpose**.

**HOW COULD I USE THE SSGA ACTIVE EQUITY STRATEGIES IN MY PORTFOLIO?**

**Complement your Equity Portfolio**

The Funds are designed for investors seeking a diversified exposure to Australian or Global Equities. They may serve as a core equity holding, potentially providing upside participation in rising markets, with an explicit focus on drawdown mitigation.

Given the benchmark unaware nature of the Funds, they may be complemented by index and benchmark-aware active funds, and direct share holdings. Their unconstrained investment approach materially differentiates their stock and sector positions from the index, and in turn, many actively managed investment strategies. In addition, the Funds' lower risk profile and attractive fee profile will free investors' fee and risk budgets for opportunistic allocations to higher risk or performance fee strategies such as hedge funds, concentrated equities or small/micro-cap equities.
OUR APPROACH

RESEARCH — EXPLORE THE MARKET’S FULL OPPORTUNITY SET.

Rigorous and ongoing research is the first step in our active investment process. Global research professionals and portfolio managers work collaboratively to generate new ideas that refine and develop our investment process for exploring all opportunities across the entire investment universe.

The team does not screen out any companies before forming a view. Through our sophisticated systems and access to vast amounts of company data, we monitor daily every stock in the investment universe on its return and risk characteristics. We form comprehensive views on thousands of stocks and seize opportunities in all sectors and countries.

STOCK SELECTION

Effective active stock selection requires skill and technique, thorough research and sound risk management. By monitoring the market each day, we assess every stock based on its return and risk characteristics. This active stock selection serves as the first layer of risk management.

What we look for:

<table>
<thead>
<tr>
<th>Return</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>We focus only on the best investment ideas, with stocks that exhibit:</td>
<td>Estimating the risk of stocks in the universe happens on three levels:</td>
</tr>
<tr>
<td>• High quality</td>
<td>• Estimate the risk associated with a company’s exposure to common characteristics such as its industry or fundamental themes like size, liquidity, value and leverage.</td>
</tr>
<tr>
<td>• Reasonable value</td>
<td>• Assess the stock-specific risk not explained by these common characteristics. The risks unique to an individual company could include management corruption or environmental disasters (e.g., a mine collapse or oil spill).</td>
</tr>
<tr>
<td>• Sustainable earnings and dividends</td>
<td>• Incorporate how the common characteristics move together. If groups of companies are uncorrelated, combining them can reduce overall portfolio risk.</td>
</tr>
<tr>
<td>• Ability to generate internal growth</td>
<td></td>
</tr>
<tr>
<td>• Positive outlook</td>
<td></td>
</tr>
</tbody>
</table>

We also incorporate the impact of global investor behaviour and macroeconomic events into the global stock selection model.
PORTFOLIO CONSTRUCTION

When constructing the portfolio, we consider the return potential of a stock as well as expectations for its future volatility. We seek out stocks whose expected risk is appropriately compensated with expected return. Expected return being equal, we would favour a stock with a lower risk. But low historic volatility itself does not equal safety.

Fundamentals matter
If your historically low-risk investment exhibits, for example, poor quality of earnings, a deteriorating growth outlook or weak momentum, the past may not be a reliable guide to the future.

Valuations matter
If you overpay, it is unlikely you will reap a substantial return on your investment – no matter how safe the investment.

Risks matter
If your portfolio is diversified across sectors such as consumer discretionary, industrials, utilities, healthcare and telecommunications, as well as financials and resources, it is more likely to successfully weather the ups and downs of the market.

Currencies matter
The impact of currencies on a global equity portfolio can be significant, and in this approach, we take two key steps to manage these exposures.

Firstly, if your portfolio base currency is Australian dollars, your risk/return outcome will differ from that of a US-dollar-based investor with the same portfolio. In other words, low risk for an Australian investor may not be so low for US, UK, Europe or Japan-based investors. For this reason, we ask questions such as “Do movements in the exchange rate tend to offset or augment the underlying equity market movements?” and, “Is the exchange rate against your own base currency stable or volatile?” when examining stocks in foreign markets. Constructing a global equity portfolio with the base currency in mind can help deliver diversification and correlation benefits across countries and sectors.

Secondly, the resulting portfolio is still exposed to currency fluctuations, which may impact the portfolio’s overall return. To manage this, we employ a dynamic strategic hedge (DSH) overlay, which is aligned with our core objective of delivering strong risk adjusted returns. Unlike the typical long-term static hedge, where relative returns from performing the hedge are highly sensitive to the start date, the DSH program adjusts hedge ratios based on medium-term reversions to fair value while also considering the cost of hedging (carry). It first calculates fair values for each of the major developed market currencies, then establishes hedge ratios depending on the degree of deviation from fair value.

Given the unpredictable nature of currency movements in the short to medium term, we believe that reducing currency tail risk (losses) without eliminating the opportunity to add excess return versus a static hedge is the most optimal approach when managing our global equity portfolio and achieving our risk-return objectives.
WHY INVEST WITH SSGA ACTIVE EQUITIES?

The team has a proven track record in delivering strong and consistent performance while preserving capital in periods of market stress.

1. Maintain and Grow your Portfolio

The Funds focus on delivering strong total returns to investors whilst managing the total level of risk. Through a full market cycle it is expected that this approach will result in strong capital appreciation for investors, owing to active stock selection.

The charts below show the Funds have achieved significantly higher return than the broader market and performed strongly through a range of market environments.

Source: SSGA, as at 30 June 2016, net of fees. ‘AEQ Fund’ refers to the State Street Australian Equity Fund. ‘AEQ Benchmark’ refers to S&P/ASX 300 Accumulation Index, S&P/ASX 200 All Australian Accumulation Index prior to February 2013. ‘GEQ Fund’ refers to the State Street Global Equity Fund and ‘GEQ Benchmark’ refers to the MSCI World ex Australia NR Index. The inception dates for the AEQ Fund and GEQ Fund are 30 September 2009 and 31 January 2014, respectively.

*The 2014 returns for the State Street Global Equity Fund and MSCI World ex Australia NR Index is for an 11-month period: 31 January 2014 to 31 December 2014.
2. Smoother Return Path

Smoother returns are achieved for investors in two ways: 1) actively picking stocks with high quality attributes that fundamentally exhibit lower risk and 2) adopting a portfolio construction approach that seeks to deliver an optimal balance of return potential and risk reduction.

Due to a strong focus on total portfolio risk, the portfolios have delivered higher returns than the broader market and, more importantly, significantly lower risk.

Source: SSGA, as at 30 June 2016, net of fees. ‘AEQ Fund’ refers to the State Street Australian Equity Fund, ‘AEQ Benchmark’ refers to S&P/ASX 300 Accumulation Index, S&P/ASX 200 All Australian Accumulation Index prior to February 2013. ‘GEQ Fund’ refers to the State Street Global Equity Fund and ‘GEQ Benchmark’ refers to the MSCI World ex Australia NR Index. The inception dates for the AEQ Fund and GEQ Fund are 30 September 2009 and 31 January 2014, respectively.

*The 2014 returns for the State Street Global Equity Fund and MSCI World ex Australia NR Index is for an 11-month period: 31 January 2014 to 31 December 2014.
3. Investment Team and Resources

State Street Global Advisors is a global leader in asset management. Sophisticated investors worldwide rely on us for their investment needs. For more than three decades, we have contributed experience, depth of resources, strength and dedication toward a single goal: to achieve our clients’ goals.

We are a pioneer in the development of active quantitative global equity strategies and currently manage in excess of US$27 billion in a range of strategies across the risk spectrum. Our team is backed by a strong research foundation, and our core investment philosophy and process rests on practices developed over 30 years of experience. We continuously look to evolve our approach, as a result of ongoing change in both market structures and regulatory environments. Our global investment team shares insights and experience with one another so the nuances associated with different markets can be understood and exploited appropriately.

Source: SSGA, as of 31 March 2016
MEET THE TEAM

Ted Gekas
Chief Investment Officer – Active Quantitative Equities
Boston

Toby Warbuton, CFA, Ph.D
Senior Portfolio Manager of the State Street Australian Equity Fund
Sydney

Olivia Engel, CFA
Head of Active Quantitative Equities – Asia Pacific
Lead Portfolio Manager of the State Street Australian Equity Fund
Sydney

Ben Wong, CFA
Portfolio Manager of the State Street Australian Equity Fund
Sydney

Vladimir Zdorovtsov, Ph.D
Head of Active Quantitative Equity Research
Boston

Leap Sok, CFA
Portfolio Manager of the State Street Australian Equity Fund
Sydney

Chee Ooi, CFA
Lead Portfolio Manager of the State Street Global Equity Fund
Boston

Simon Sukhaseume
Head of Currency, Asia Pacific ex Japan
Lead Portfolio Manager (currency component) of the State Street Global Equity Fund
Sydney
SSGA is a global leader in asset management with over US$2.3 trillion in AUM.* Sophisticated investors worldwide rely on us for their investment needs. For more than three decades, SSGA has contributed experience, depth of resources, strength and dedication toward a singular goal: to achieve our clients’ goals.

Our global presence and focus on research allow us to invest effectively in markets around the world, while working to meet the objectives of our clients. Our scale and experience afford us extensive access to financial markets around the world. For clients, this translates to client-centred solutions that are focused on maximizing risk-adjusted returns and providing consistent investment results.

* As of 31 March 2016. AUM reflects approx. US$32.6 billion with respect to which State Street Global Markets, LLC (SSGM) serves as marketing agent; SSGM and State Street Global Advisors are affiliated.

About SSGA
Invest with a Global Leader

SSGA is a global leader in asset management with over US$2.3 trillion in AUM.* Sophisticated investors worldwide rely on us for their investment needs. For more than three decades, SSGA has contributed experience, depth of resources, strength and dedication toward a singular goal: to achieve our clients’ goals.

Our global presence and focus on research allow us to invest effectively in markets around the world, while working to meet the objectives of our clients. Our scale and experience afford us extensive access to financial markets around the world. For clients, this translates to client-centred solutions that are focused on maximizing risk-adjusted returns and providing consistent investment results.

* As of 31 March 2016. AUM reflects approx. US$32.6 billion with respect to which State Street Global Markets, LLC (SSGM) serves as marketing agent; SSGM and State Street Global Advisors are affiliated.

Ssga.com
For professional investors only. Not for use with retail investors.

State Street Global Advisors, Australia, Limited (ABN 42 003 914 225) (“SSGA Australia”) the holder of an Australian Financial Services Licence (AFSL Number 238276), State Street Global Advisors, Australia Services Limited (ABN 16 108 671 441) (“SSGA, ASL”) holds an Australian Financial Services Licence (AFSL Number 274900) pursuant to Section 911B of the Corporations Act 2001. Registered office: Level 17, 420 George Street, Sydney, NSW 2000, Australia. Telephone: +61 9240-7600. Web: www.ssga.com

References to the State Street Global Equity Fund and State Street Australian Equity Fund (“the Funds”) in this document 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. Investments in issuers in different countries are often denominated in different currencies. Changes in the values of those currencies relative to the Funds’ base currency may have a positive or negative effect on the values of the Portfolio’s investments denominated in those currencies. The Fund may, but will not necessarily, invest in currency exchange contracts or other currency-related transactions (including derivatives transactions) to reduce exposure to different currencies. These contracts may reduce, take or eliminate some or all of the benefit that the Funds may experience from favourable currency fluctuations.

The information in this document does not constitute an offer to any person to apply for interests in the Funds and must not be taken to be an offer. Past performance is not a reliable indicator of future performance. Interest in the Fund is generally only available to persons in Australia who are eligible to hold interests in the Funds only. This document should be read in conjunction with the latest Product Disclosure Statement, available on ssga.com, which contains more information regarding the charges, expenses and risks involved when investing in the Funds.

An investment in the Funds does not represent a deposit with or liability of any company in the State Street group of companies. No company in the State Street group of companies, including SSGA, ASL, State Street Bank and Trust Company (ABN 70 062 819 630) (AFSL Number 239679) and SSGA Australia guarantees the performance of any Fund or the repayment of capital or any particular rate of return. The Funds are subject to investment risk including possible delays in repayment and loss of income and principal invested. Investors should obtain independent financial and other professional advice before making investment decisions.

“Standard & Poor’s®”, “S&P®” are trademarks of Standard & Poor’s Financial Services LLC and have been licensed for use by State Street Corporation. MSCI Indices, the property of MSCI, Inc. (“MSCI”), and ASX, a registered trademark of ASX Operations Pty Limited, have been licensed for use by SSGA. The Funds are not sponsored, endorsed, sold or promoted by any of these entities and none of these entities bear any liability with respect to the Funds or make any representation, warranty or condition regarding the advisability of buying, selling or holding units in the Funds. This material is of a general nature only and does not constitute personal advice. It does not constitute investment advice and it should not be relied on as such. It does not take into account any investor’s particular investment objectives, strategies, tax status or investment horizon. We encourage you to consult your tax or financial advisor. There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information.

The information contained in this document is for information purposes only. SSGA Australia and SSGA, ASL, its employees, directors and officers accept no liability for this information or any consequences from its use. No person or entity should act on the basis of any information contained in this document without taking appropriate professional advice. Nothing contained in this document constitutes an offer of, or an invitation to purchase or subscribe for interests in SSGA Australia Funds. Risks associated with equity investing include stock values which may fluctuate in response to the activities of individual companies and general market and economic conditions. Currency hedging involves taking offsetting positions intended to substantially offset currency losses on the hedged instrument. If the hedging position behaves differently than expected, the volatility of the strategy as a whole may increase and even exceed the volatility of the asset being hedged. There can be no assurance that the Funds’ hedging strategies will be effective.

Investing in foreign domiciled securities may involve risk of capital loss from unfavourable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations.

Investments in emerging or developing markets may be more volatile and less liquid than investing in developed markets and may involve exposure to economic structures that are generally less diverse and mature and to political systems which have less stability than those of more developed countries.

All the information contained in this presentation is as of date indicated unless otherwise noted.

This information should not be used or construed as an offer to sell, a solicitation of an offer to buy, or a recommendation for any security. All information is from SSGA unless otherwise noted and has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.

Equity securities are volatile and can decline significantly in response to broad market and economic conditions.

Investments in small-sized companies may involve greater risks than in those of larger, better known companies.

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without SSGA’s express written consent.

© 2016 State Street Global Advisors. All Rights Reserved. AUSMKT-2837 Exp. Date 2 August 2017