

P&I | CONFERENCES

Active, Alpha & the Next Frontier

Strategies for Generating Alpha Across Asset Classes

BREAKFAST BRIEFING | CHICAGO: MARCH 27 | NEW YORK: MARCH 29

Equity Markets in a Late-Cycle Environment: Balancing Opportunity and Risk

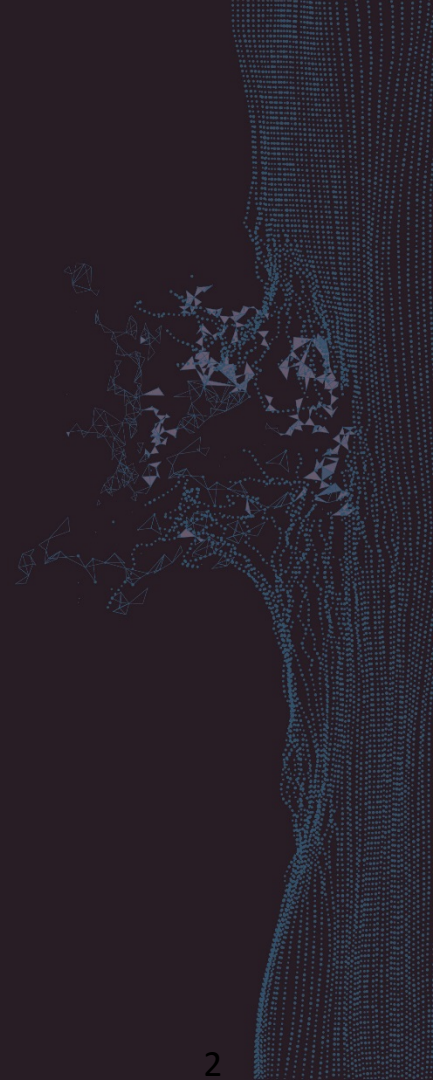
Speaker:

Olivia Engel, CFA

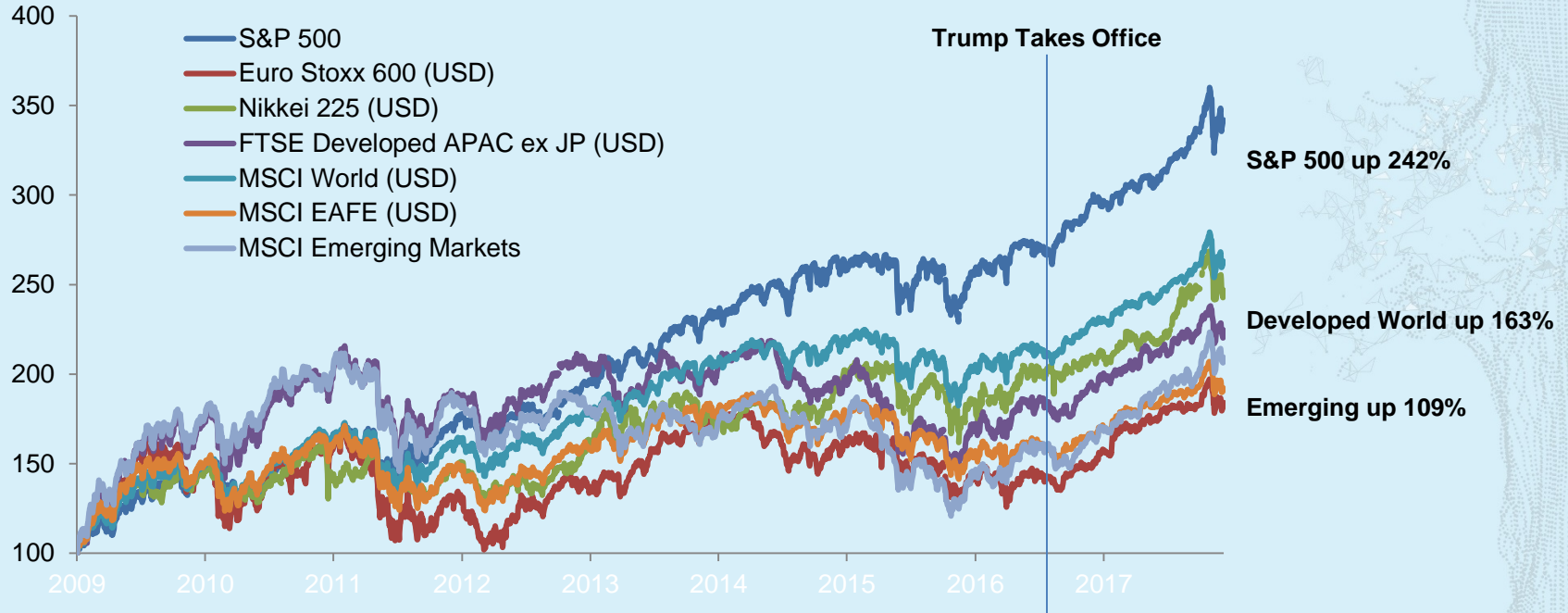
Senior Managing Director, CIO, Active Quantitative Equity
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Content

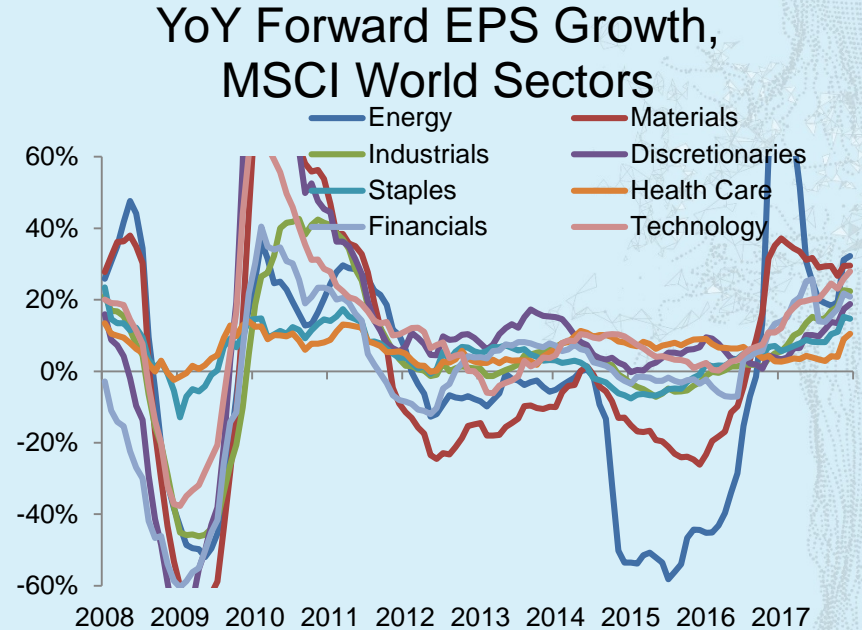
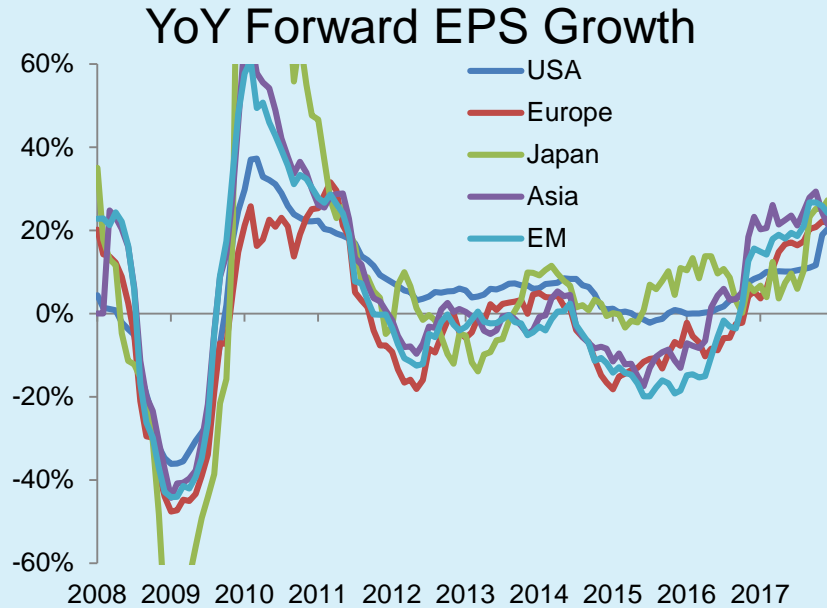
- What's happening in equities?
- What could go wrong?
- What can we do about it?



A lengthy Bull Market Since March 2009 Low

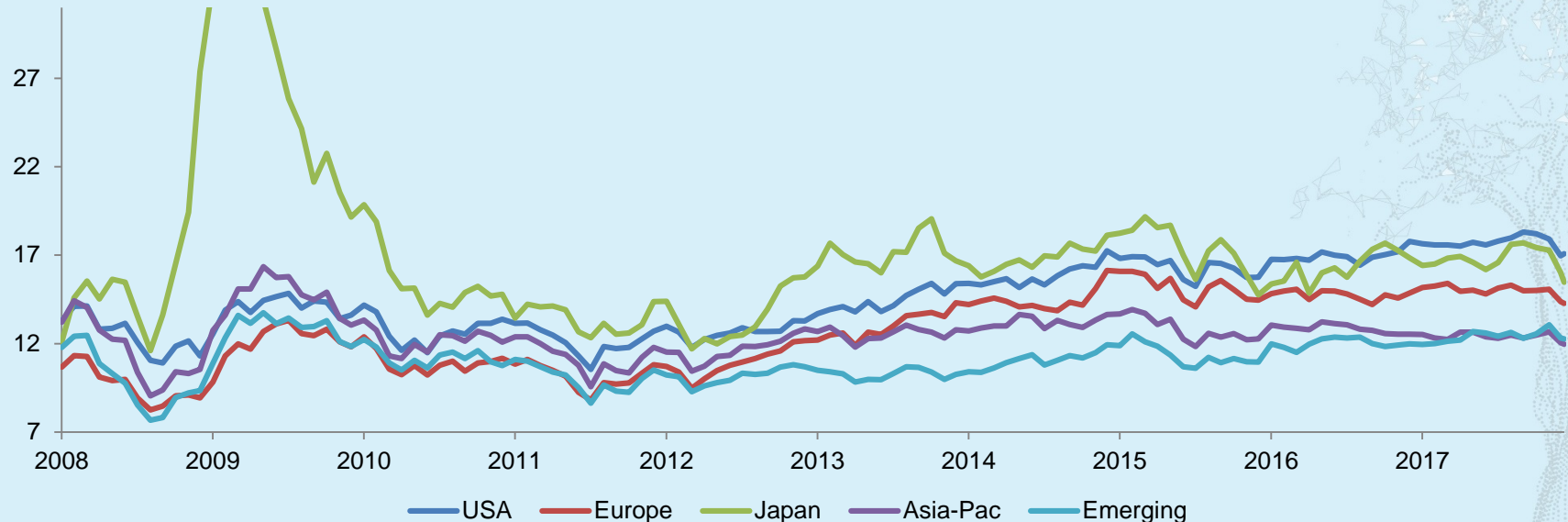


Earnings growth is the best and broadest we've seen in over 6 years, with Europe, APAC and EM looking particularly strong



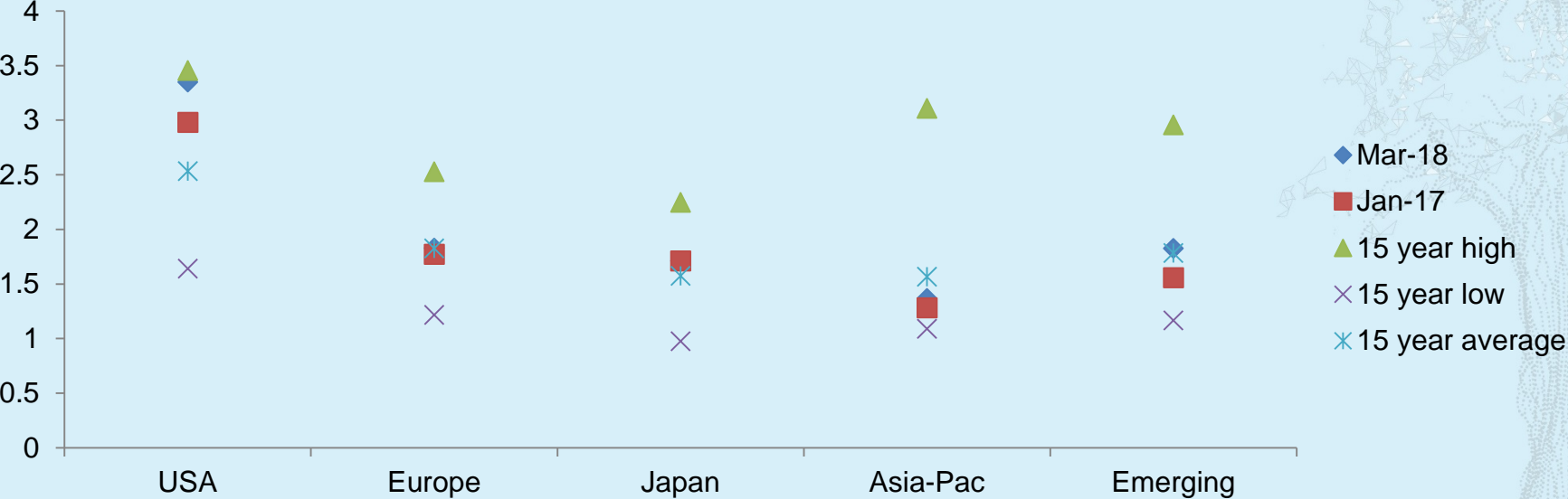
Headline valuations, low correlations and wide dispersion are constructive for true active management

Forward PE Ratio



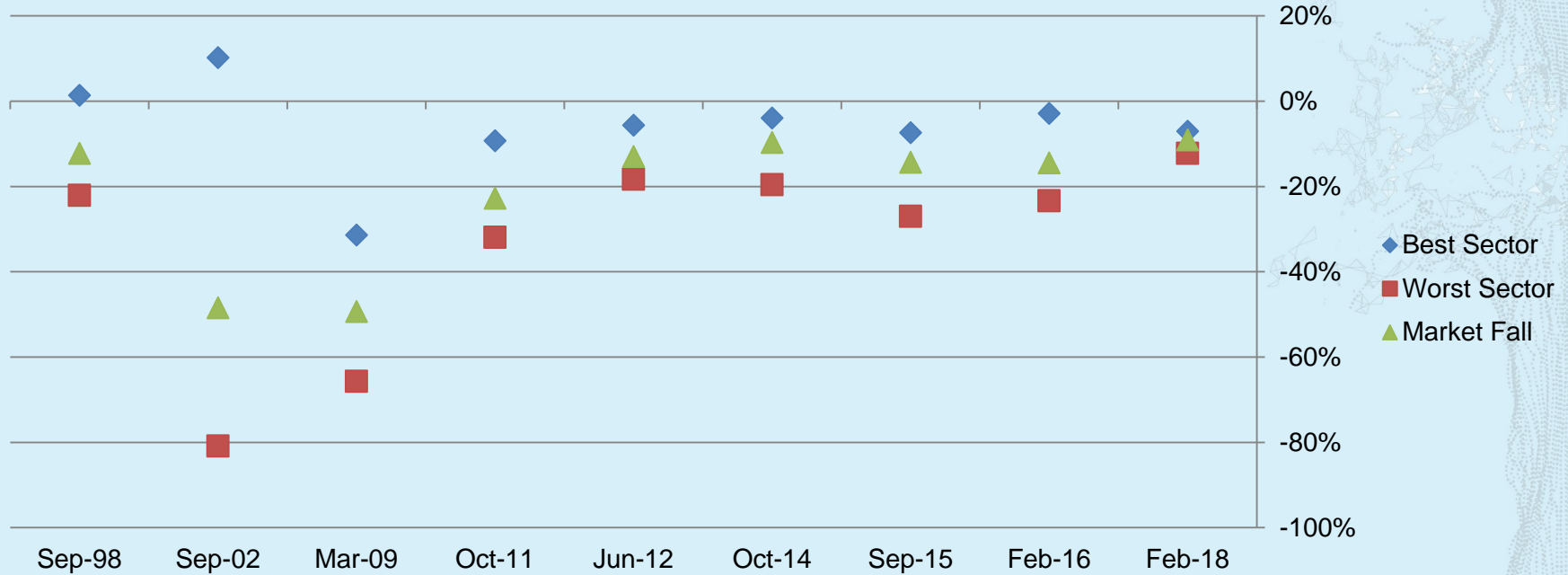
Equity Valuations signal more potential outside U.S.

Global Equity Market Price to Book Ratios (P/B)



What happens in a correction?

Dispersion of sector returns during market drawdowns



Options for Tail Risk Hedging

Strategy	Benefits	Costs
Sell Equities	Simple/Direct	Foregone upside
Purchase Put Options	Direct	Puts are expensive
Buy Long US Treasuries	Inexpensive	Opportunity cost – has low yield
Targeted Volatility Triggers	Can be run as an overlay on an entire equity program	Variable equity exposure may be difficult to grasp for asset owners High active risk
Managed Futures	Momentum-based trading at the macro level can offer strong downside protection	High fees are often paid to the best managers
Flexible Asset Allocation	Asset allocation mix is dynamically adjusted to match expectations about market conditions	Active fees, though much less than standard liquid alternatives

This information does not constitute investment advice and it should not be relied on as such

An Active Equity Approach

Portfolio Construction

Link equity portfolio construction with investor objectives

Remove benchmark constraints in portfolio construction

Return Objective

Hold only the most favored stocks*

Focus on the best investment ideas*

- High quality
- Reasonable value
- Sustainable earnings
- Ability to generate internal growth
- Positive outlook

Total Risk Objective

Be explicit in managing total portfolio risk

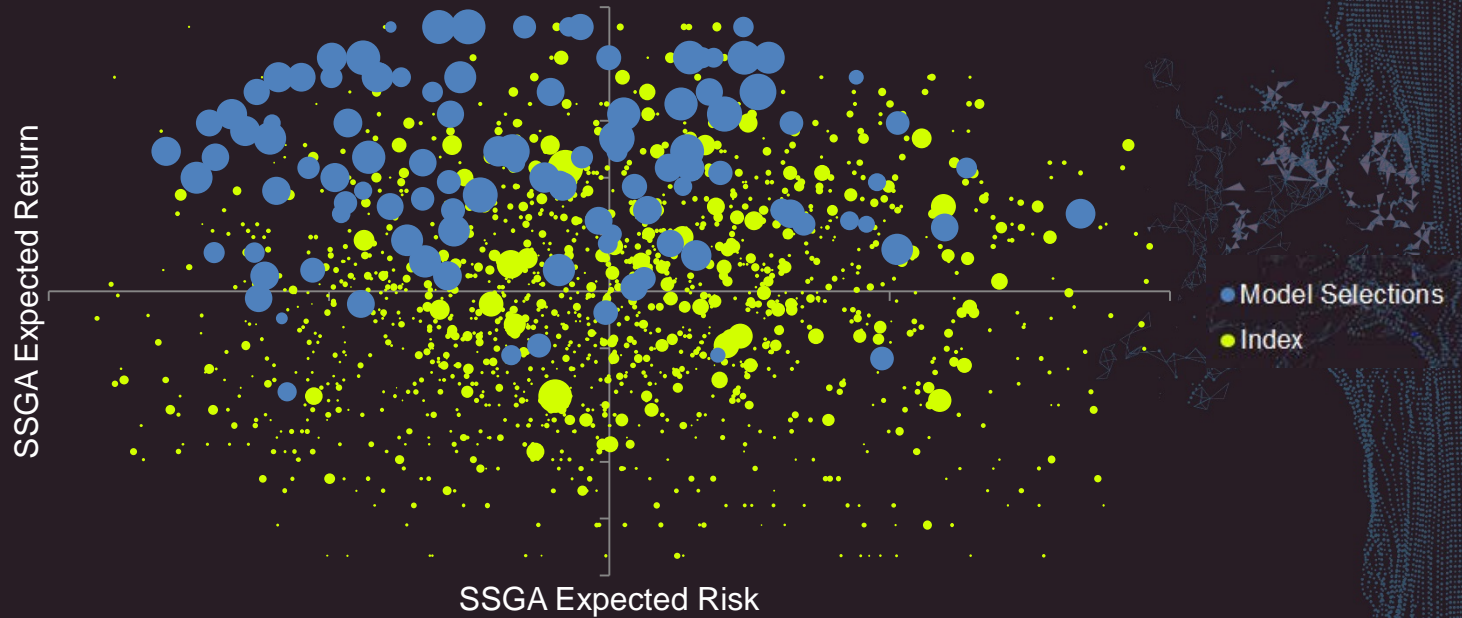
Risk is total volatility and capital lost, not tracking error

Stock exposures on return and risk



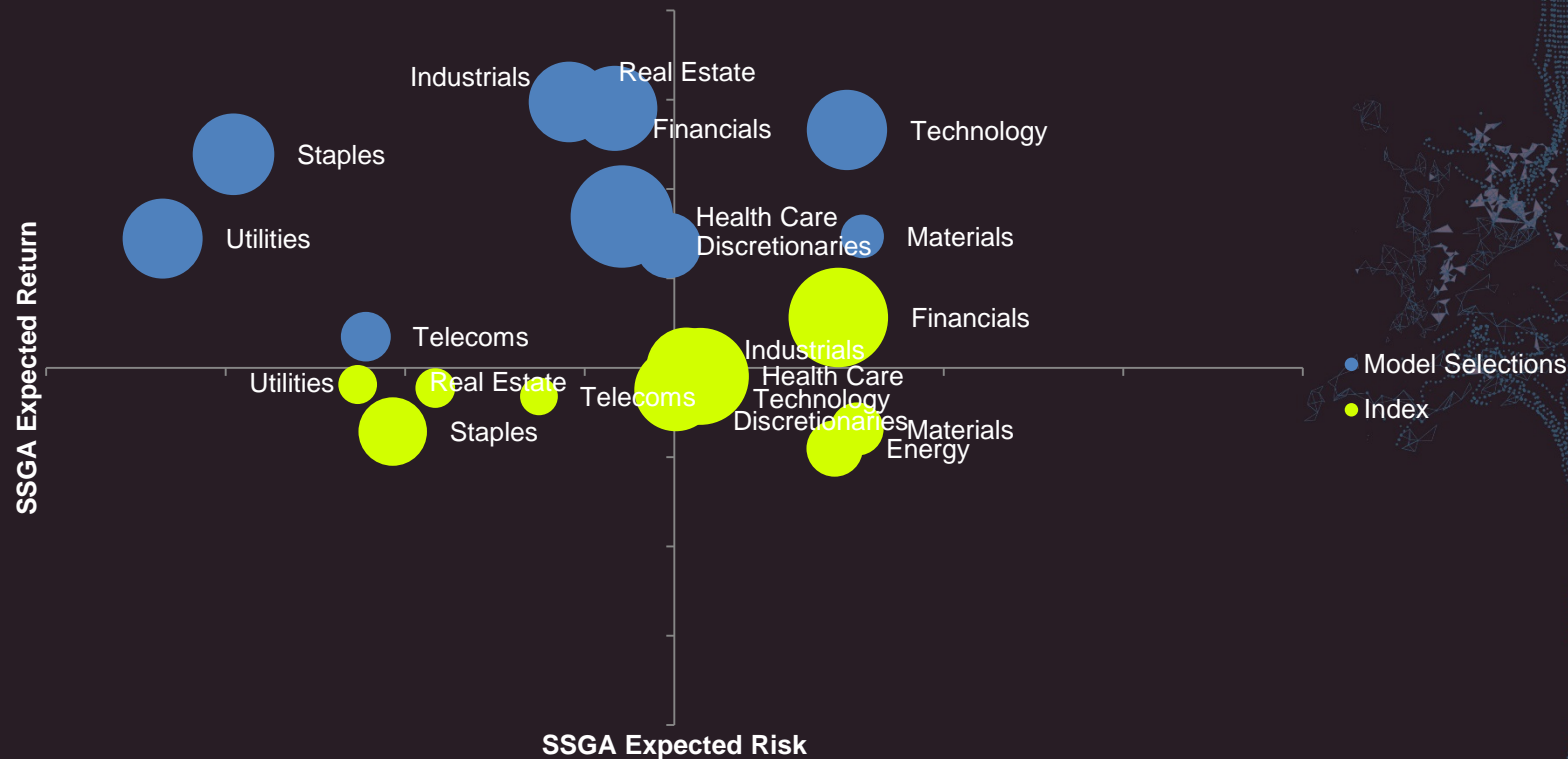
As of December 31, 2017. Sources: FactSet, GICS®, MSCI, Inc., Thomson Reuters Worldscope. Benchmark is MSCI World Index. The results shown were achieved by means of a mathematical formula, and are not indicative of actual performance which could differ substantially. Expected Risk is Axioma Total Risk. Expected returns and characteristics are based upon estimates and reflect subjective judgments and assumptions. There can be no assurance that developments will transpire as forecasted and that the estimates are accurate.

Stock exposures on return and risk



As of December 31, 2017. Sources: FactSet, GICS®, MSCI, Inc., Thomson Reuters Worldscope. Benchmark is MSCI World Index. The Supplemental Information above is that of a single representative account within the Composite, which is subject to change. The representative account was chosen because it has no material restrictions and fairly represents the investment style of the Strategy. Value, Quality and Sentiment scores are produced using SSGA's proprietary alpha model. The results shown represent current results generated by our Global Defensive Equity model. The results do not reflect actual trading and do not reflect the impact that material economic and market factors may have had on SSGA's decision-making. The results shown were achieved by means of a mathematical formula, and are not indicative of actual performance which could differ substantially. Expected Risk is Axioma Total Risk. Expected returns and characteristics are based upon estimates and reflect subjective judgments and assumptions. There can be no assurance that developments will transpire as forecasted and that the estimates are accurate.

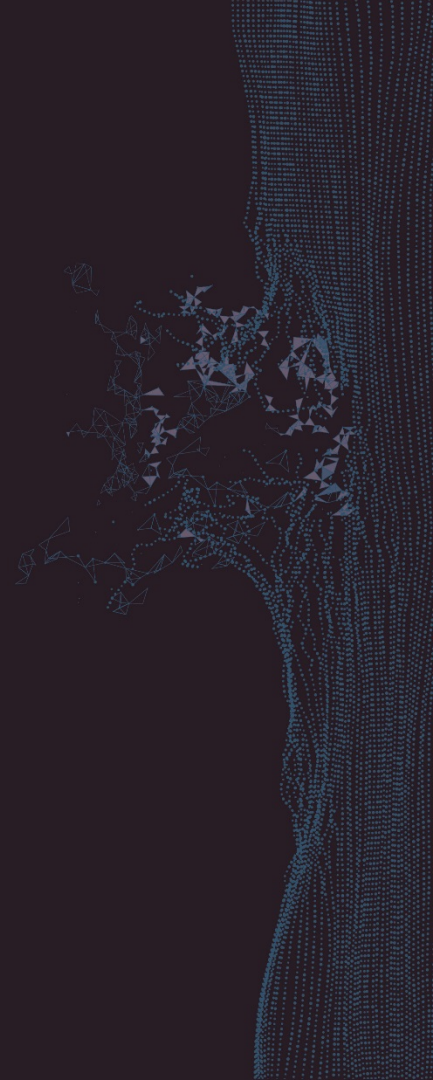
Sector exposures on return and risk



As of date: December 31, 2017. Source: SSGA, Factset. Benchmark is MSCI World Index. Area of scatter points reflect sector active weights. Expected Return is produced using SSGA's proprietary alpha model. The results shown represent current results generated by our Global Defensive Equity model. The results do not reflect actual trading and do not reflect the impact that material economic and market factors may have had on SSGA's decision-making. The results shown were achieved by means of a mathematical formula, and are not indicative of actual performance which could differ substantially. Expected returns and characteristics are based upon estimates and reflect subjective judgments and assumptions. There can be no assurance that developments will transpire as forecasted and that the estimates are accurate.

Potential Benefits of this Approach

- Strong equity-linked returns
- Reduced volatility
- Strong upside capture, muted downside capture
- High active share
- Diversified exposures
- Low correlation with other strategies



Conclusion

- Equity markets could run a lot further, but there are risks
- Major market drawdowns are harmful for retirement objectives
- There are many ways to hedge against tail risk
- Active equity strategies focused on total volatility rather than tracking error can be an effective tool

Important Information

The information contained above is for illustrative purposes only. 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.

Diversification does not ensure a profit or guarantee against loss.

Investing involves risk including the risk of loss of principal.

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.

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.

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

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

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