

# An Active Fundamental Approach to the US Market

**Chris Sierakowski, CFA**

Portfolio Manager US Equities

Our Fundamental Growth and Core Equity believes that the US equity market still offers a unique opportunity set of high-quality, long-term “compounder” companies that can be a core component of any strategic asset allocation. In this article, we share our philosophy and methodology — and how our strategy drives results.

---

State Street Global Advisors’ Fundamental Growth and Core Equity (FGC) team has been managing active fundamental equities since our first mutual fund was established in 1935. Our overarching value proposition is based on outperforming the market through concentrated portfolios of high-quality names with better-than-average earnings growth and lower-than-average-volatility. Our investment philosophy is built around the combination of quality, durable growth and a reasonable valuation.

Despite the ongoing concerns about slowing global growth, persistent inflation and higher rates, we are constructive on “compounder” companies. These are globally competitive franchises, operating in a supportive political environment, that benefit from technological innovation, dynamic management teams, and disciplined capital structures. While there are always short-term fundamental risks, the long-term prospects for the highest-quality companies in the US market demand a sizable allocation, regardless of your tactical asset allocation call.

---

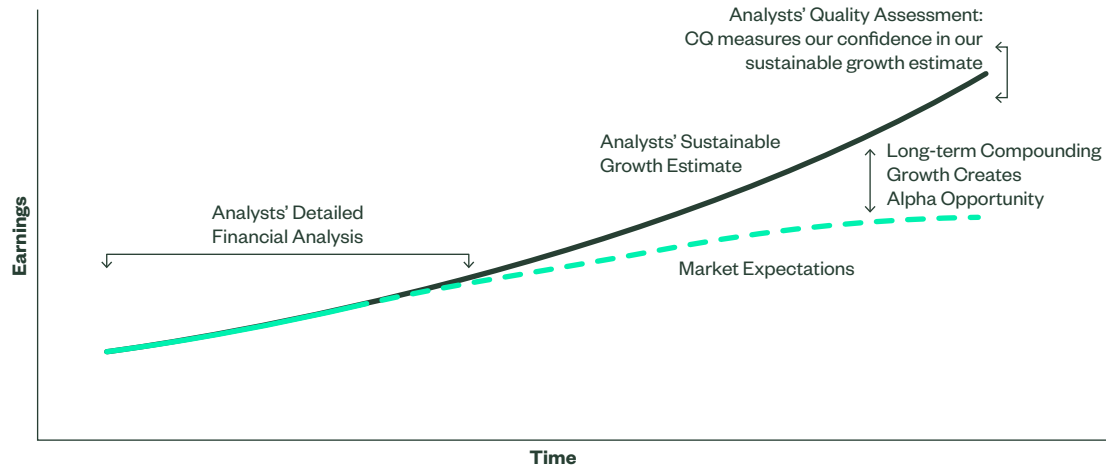
## Differentiated Philosophy

Our focus on quality is supported by a proprietary framework that we call Confident Quotient, or CQ for short. Unlike traditional measures of quality that emphasize a simple combination of historical returns, earnings volatility and debt, *we define quality on a forward-looking basis and focus on qualitative measures* like the competitive moat, our confidence in the management team, the appropriateness of the capital allocation strategy, the transparency of the business model and the fundamental momentum of the business drivers. We leverage our long-tenured research team to quantify these “soft” metrics using our detailed Confident Quotient (CQ) framework.

Figure 1  
**Confident Quotient Framework**

### Fundamental Research Approach

The market is short-term in nature. Our research looks to identify best-in-class companies positioned to sustain growth long term.



The information contained above is for illustrative purposes only. Source: State Street Global Advisors

We then marry this view on quality with detailed financial analysis, where our analysts produce a series of proprietary data around intermediate term earnings estimates and a long-term growth assessment. We also have an integrated sustainable investment approach built into the CQ framework that ensures we consider the implications of sustainability and the associated business risks when it comes to the durability of this growth outlook.

Lastly, we maintain what we call a reasonable valuation discipline. Valuation is more of an art than a science. Philosophically we think about discounted cash flows as the basis for establishing an intrinsic value for a stock, but in reality forecasting the long-term growth and returns is easier said than done. Our financial modeling gives us a feel for the intermediate-term earnings trajectory but our long-term through-cycle growth estimates, combined with our CQ-defined quality metrics, informs our level of conviction in the durability of growth and the associated price we are willing to pay.

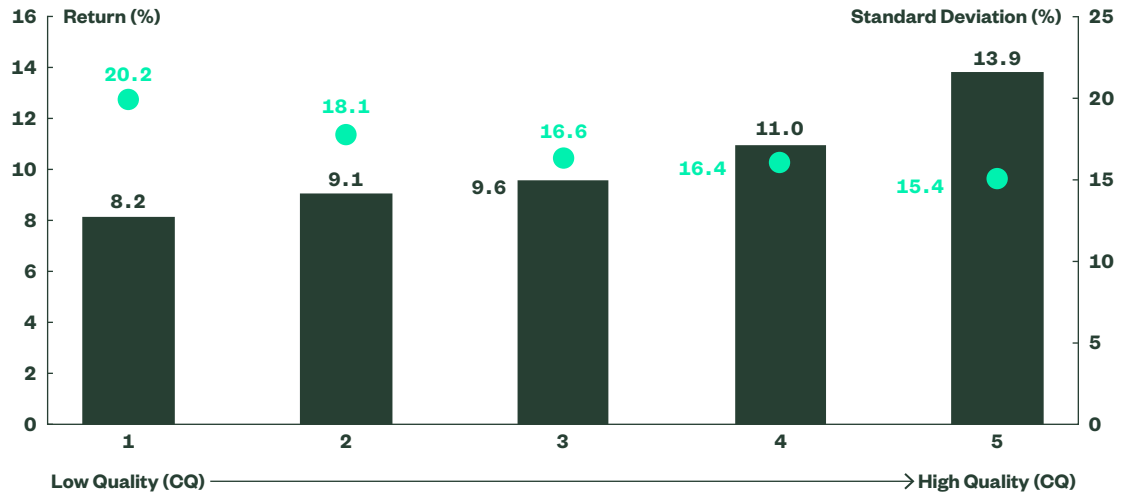
---

## Results Driven

Some called this approach GARP (growth-at-a-reasonable price) but we like to call it QARP (quality-at-a-reasonable price). While our core mandates have historically plotted slightly more “growthy” than the market overall, this has less to do with an affinity for growth investing and is more an artifact of the correlation between growth and quality. The fact is that our CQ-defined quality universe filters out lower-quality names that typically plot in the value end of the spectrum while our valuation discipline helps us avoid overpaying for growth at the other end of the spectrum. *The result is a high-quality portfolio that provides long-term alpha generation and lower volatility.*

Figure 2  
**Return and Standard Deviation by CQ Quintile  
 Fifteen Years Through  
 December 31, 2023**

■ Return (LHS)  
 ● Standard Deviation (RHS)



Confidence Quotient (CQ) is the State Street Global Advisors Fundamental Growth & Core Team's proprietary measure of quality based on qualitative measures like management, market position, and transparency. For illustrative purposes only. Past performance is not a reliable indicator of future performance. Source: State Street Global Advisors, as of December 31, 2023.

Clients looking for core exposure with the benefit of alpha generation should consider our US Equity mandates. We offer high quality, low turnover, “sleep well at night” type of portfolios. Our concentrated funds don't rely on style shifts or factor tilts to drive performance. They rely on fundamental analysis of durable companies with reliable management teams that reinvest for future growth. We maintain a disciplined valuation framework that gravitates towards long-term cash flow compounders but avoids valuation extremes. And we're supported by an experienced global research team with a proven track record.

### Three Flavors of US Active Fundamental Core

We offer three active US core strategies built on the same philosophy and research platform. All three flavors of active fundamental equity are benchmarked against the S&P 500 but have different levels of concentration to meet client needs. Our flagship concentrated strategy is the US Equity Select strategy, a core mandate benchmarked against the S&P 500 with 30–40 names and a tracking error in the 3–5% range. We have a similar strategy available as a US Mutual Fund called Elfun Trusts. This fund is one of the oldest mutual funds in the US and dates back to 1935. It was recently highlighted by both Barron's<sup>1</sup> and Investor Business Daily<sup>2</sup> as one of the best performing US mutual funds in 2023 and 2024. Lastly, we manage a less-concentrated core strategy called US Multi-Style Equity. This strategy has approximately 100 positions, with a tracking error in the 2–5 range for clients that want to emphasize lower volatility over potential alpha.

Figure 3  
**Three Flavors  
of US Active  
Fundamental Core**

Strategy Name	US Multi-Style	Elfun Trusts	US Equity Select
Mutual Fund Name	State Street Institutional US Equity Fund	Elfun Trusts	—
Benchmark	S&P 500	S&P 500	S&P 500
Inception Date	January 1989	May 1935	June 1995
Number of Holdings	95 (75–155)	40–50	30–40
Ex-Ante Tracking Error Range	2–5%	3–5%	3–5%
AUM (\$ million)	\$263	\$3,881	\$1,600
Vehicle Availability	SMA, US Mutual Fund	US Mutual Fund	SMA, CTF, DB CIT, SICAV
Strategy Ranks in eVestment Peer Group	1-year	11	4
	3-year	24	11
	5-year	9	6
	10-year	24	10
			5
			31
			4
			9

Source: State Street Global Advisors, eVestment, as of March 31, 2024.

## The Bottom Line

As active fundamental managers with a long and successful track record, we have a unique perspective on how exposure to the US market can be best achieved. The widening performance differential between the best and worst US companies helps to justify this bias, revealing an investment landscape that is ideal for adding alpha through stock selection. As managers of concentrated, high-conviction portfolios, we help investors navigate the extremes in the market by avoiding overpriced growth stocks while also steering clear of lower-quality value traps. Our philosophy is based on “quality at a reasonable price,” which helps us construct concentrated, yet balanced, portfolios that provide better-than-average growth combined with the stability of lower-than-average volatility. Decisions are informed by our proprietary, forward-looking, framework for assessing quality.

## Endnotes

- 1 Barrons Best Fund Families of 2023. SSGA ranked #1 for Active US Equity Fund Family, February 2024.
- 2 Investors Business Daily Best Mutual Funds 2024, March 2024.

---

## About State Street Global Advisors

Our clients are the world's governments, institutions and financial advisors. To help them achieve their financial goals we live our guiding principles each and every day:

- Start with rigor
- Build from breadth
- Invest as stewards
- Invent the future

For four decades, these principles have helped us be the quiet power in a tumultuous investing world and help millions of people secure their financial futures. This takes each of our employees in 28 offices around the world, and a firm-wide conviction that we can always do it better. As a result, we are the world's fourth-largest asset manager\* with US \$4.34 trillion<sup>†</sup> under our care.

---

\* Pensions & Investments Research Center, as of December 31, 2022.

<sup>†</sup> This figure is presented as of March 31, 2024 and includes ETF AUM of \$1,360.89 billion USD of which approximately \$65.87 billion USD is in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

---

## ssga.com

### State Street Global Advisors Worldwide Entities

---

#### Important Risk Information

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered 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.

Diversification does not ensure a profit or guarantee against loss.

The views expressed are the views of Systematic Equity – Active through June 15, 2024, and are subject to change based on market and other conditions.

**For use in EMEA: The information contained in this communication is not a research recommendation or 'investment research'**

**and is classified as a 'Marketing Communication' in accordance with the Markets in Financial Instruments Directive (2014/65/EU) or applicable Swiss regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.**

This communication is directed at professional clients (this includes eligible counterparties as defined by the appropriate EU regulator) who are deemed both knowledgeable and experienced in matters relating to investments. The products and services to which this communication relates are only available to such persons, and persons of any other description (including retail clients) should not rely on this communication.

All information is from State Street Global Advisors 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.

This document contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected. Investing involves risk including the risk of loss of principal.

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

The market values of growth stocks may be more volatile than other types of investments. The prices of growth stocks tend to reflect future expectations, and when those expectations change or are not met, share prices generally fall. The returns on "growth" securities may or may not move in tandem with the returns on other styles of investing or the overall stock market.

Actively managed funds do not seek to replicate the performance of a specified index.

The Strategy is actively managed and may underperform its benchmarks. An investment in the Strategy is not appropriate for all investors and is not intended to be a complete investment program. Investing in the Strategy 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.

**This document provides summary information regarding the Strategy. This document should be read in conjunction with the Strategy's Disclosure Document, which is available from SSGA. The Strategy Disclosure Document contains important information about the Strategy, including a description of a number of risks.**

© 2024 State Street Corporation.  
All Rights Reserved.  
ID2237679-3793556.2.2.GBL.INST 0724  
Exp. Date: 07/31/2025