
The Case for the Emerging Markets Equity Select Strategy

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- Stock-picking ability is not enough to ensure long-term success in active emerging markets; risk management is critical.
 - We focus on quality — the attributes of a company that are likely to lead to sustainable growth — including market position, competitive advantage, management talent and transparency.

Emerging Markets: Change and Growth

Emerging markets span countries and cultures that are, by definition, in transition — from subsistence living to discretionary spending; from agrarian to industrial to service economies; from rural to urban populations.

These changes can sometimes be disruptive. Governments may fall. People may be forced to migrate to continue to support themselves. Economic development and technological leaps can change longstanding ways of life. That very change, however, can also lead to enormous potential for growth — and we believe that growth opportunity is what emerging market (EM) investing is about.

At State Street Global Advisors, our Fundamental Growth and Core Emerging Markets Equity team seeks to identify where transitions are occurring and how to invest to benefit from those transitions. It isn't easy. Inevitably, there are winners and losers. In our efforts to uncover the winners, we do deep fundamental research — from both the bottom-up and the top-down. In addition to company specifics, we're always mindful of the macro environment — studying economies, currencies and geopolitics — because it can be very important for EM companies. In an era of rapid trading and quantitative algorithms, we take a different approach. We invest like owners, not like traders. We get to know our companies very well, and we hold them for the long term.

Ultimately, our goal is to deliver long-term outperformance for our clients.

No Longer Beer, Banks and Cement

Historically, emerging market investment opportunities could be loosely grouped into three broad buckets — beer, banks and cement. This characterization is tongue-in-cheek, of course, but it was rooted in the observation that as developing economies begin to demonstrate sustainable growth, some of the first beneficiaries are companies that are closely tied to rising incomes (beer), credit growth (banks) and infrastructure (cement).

Emerging markets still reflect the opportunities of economic development amid rising wealth, improved living conditions and increased consumption, but emerging market investing now encompasses much more. An EM investment team still needs to understand the traditional emerging market investment opportunities, and it must also analyze a new breed of world-class global competitors arising from EMs. The analytical methods of the past are no longer enough to uncover emerging investment opportunities.

Understanding the full range of today's EM companies is critical to how we seek to generate alpha in our actively managed strategy. As the EM middle class expands and big EM players move onto the global stage, we are driven by our determination to capture the underlying trend improvements in technology, communication services, banking and consumer products, through stock-specific research.

The Search for Sustainable Growth

Across our Fundamental Growth and Core (FGC) platform, our in-depth proprietary research centers on identifying best-in-class companies positioned to benefit from long-term, **sustainable growth** trends. The market tends to focus on short-term returns. We believe that by looking beyond the horizon of the average investor and identifying companies around the globe that can deliver sustainable, compounding growth at a reasonable price, we will outperform the market.

To identify companies of this caliber, we focus on **quality**. For us, quality refers to those attributes of a company that are likely to lead to sustainable growth, including market position, competitive advantage, management talent and transparency. These attributes are qualitative and forward-looking; they can't easily be identified through backward-looking quantitative analysis.

We capture our analysts' qualitative insights about each stock in a systematic framework that we call Confidence Quotient, or CQ. CQ scores signal each analyst's increasing or decreasing conviction in their assessment of a company's sustainable earnings growth. CQs can't be easily replicated. They add a layer of discipline and rigor to our research that contributes to repeatability of results and, in our opinion, gives us an edge in the marketplace.

Evaluating Quality — Confidence Quotient. CQ is our proprietary indicator of a company's quality and consists of our analysts' assessment on a 1 to 10 scale of the following characteristics:

- 1 Market Position** Sustainable Competitive Advantage
- 2 Management** Conviction in Leadership
- 3 Financial Condition** Strength of the Financial Model
- 4 Transparency** Visibility of Business
- 5 Fundamental Momentum** Business Is Trending Positively

The assessment for each of these five areas is supported by a detailed scorecard of sub-measures, which are also ranked on the 1–10 scale. Included in the sub-measures are Environmental, Social and Governance (ESG) criteria, which are an important part of the CQ analysis.

Of course, as investors seeking growth at a reasonable price, we are sensitive to valuation. We believe that long-term compounding growth is worth paying a premium for, but we don't want to overpay. This valuation discipline helps provide downside protection if our thesis or conditions change.

Figure 1 **Pillars of Bottom-up Stock Selection**

Quality	Reasonable Valuation	Sustainable Growth
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Source: State Street Global Advisors.

Quality, Sustainable Growth, and Reasonable Valuation — these are our pillars of bottom-up stock selection. We do deep company analysis and seek to hold companies for the long term, allowing the power of compounding growth to work.

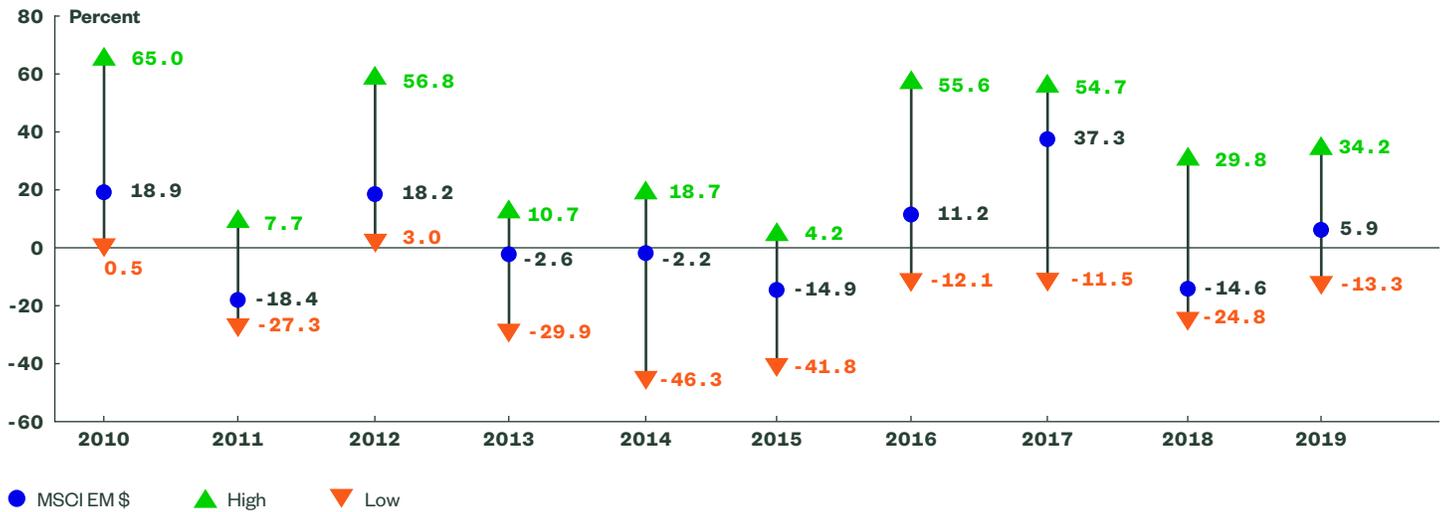
Why Macro Matters in EM

While picking great stocks is at the heart of all successful high-conviction strategies, stock-picking ability on its own is not enough to ensure long-term success in active emerging markets. Risk management is critical. We believe that investors should manage risk in a comprehensive manner, rather than relying solely on bottom-up analysis to drive diversification.

Macro and political factors across the EM universe are constantly in flux, impacting interest rates, economic growth, currency stability, asset values and capital flows. A stock selection approach incorporating macro views enables more complete risk assessment and enhances the conviction of an active fundamental EM strategy.

In Figure 2, the large variation in market performance across the EM universe illustrates the importance of a macro view. Economic and social development, as well as policy and institutional credibility, can often lead to a wide dispersion of economic growth and market returns.

Figure 2 **Range of EM Country Index Returns**
Calendar Years 2010–September 2019, in US Dollars



Source: MSCI, State Street Global Advisors. Past performance is not a guarantee of future results.

Emerging Markets Equity Select Strategy

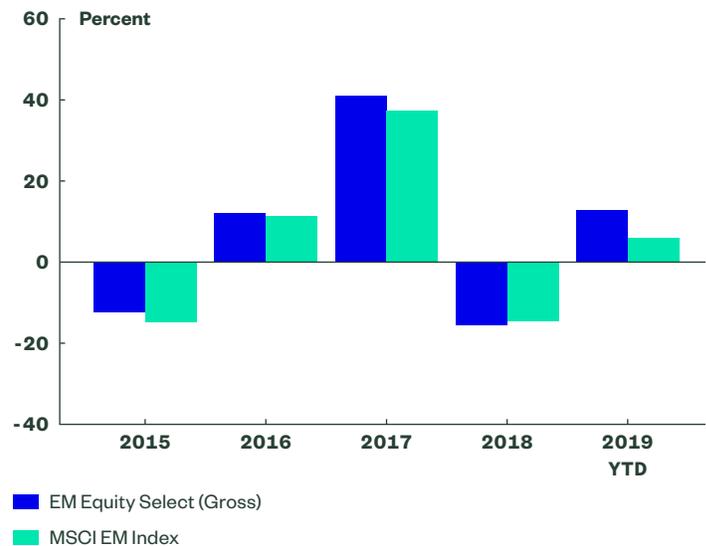
The Emerging Markets Equity Select strategy managed by State Street's Fundamental Growth and Core Equity team is the embodiment of this investment philosophy and approach. The strategy seeks to outperform the MSCI EM Index over the long term by taking a high-conviction active fundamental approach. A diverse team of dedicated EM portfolio managers and analysts are supported by the broader capabilities of the FGO team. Together they work to uncover the best investment ideas from across the emerging markets universe.

Emerging markets investing is an area where State Street Global Advisors' complementary skill-sets across fundamental and quantitative active equities, indexing and fixed income are particularly powerful.

State Street's Fundamental Growth and Core Equity team of over 30 investment professionals are responsible for a range of strategies valued at more than \$16 billion.⁴ Our global investment philosophy and process are founded on a philosophy refined over decades, leveraging investment and research resources located around the world.

Figure 3 Performance of Emerging Markets Equity Select Strategy

Period	EM Equity Select Net Return ¹ (%)	MSCI EM Index ² (%)	Return Difference (%)
Year To Date	12.48	5.89	6.59
1 Year	2.95	-2.03	4.98
3 Years	7.85	5.97	1.88
Inception To Date ³	5.18	3.45	1.73



Source: State Street Global Advisors as of September 30, 2019.

1 Returns greater than one year are annualized. Returns represent past performance and are not a guarantee of future results. Current performance may differ from the performance shown. Returns shown are asset-weighted using composite member market values, where the composite member's return calculations are time-weighted, reflect the reinvestment of dividends and other income. These performance figures (i) are provided net of actual trading, audit, custody, administrative and legal fees and expenses; (ii) beginning on 09/30/2014, adjusted quarterly to reflect the highest investment management fee on the actual fee schedule, inclusive of incentive fee, if any, of any account within the Composite ("Management Fee") at the relevant time; prior to 09/30/2014, adjusted for an assumed investment management fee, which is equal to or higher than the Management Fee (except in each case certain small accounts-subject to a minimum investment management fee — may have incurred an actual investment management fee higher than that fee assumed in calculating the performance shown above); and (iii) reflect all items of income, gain and loss (other than unrealized gain or loss on units of the securities lending pools held by any portfolio in the Composite). The performance shown is of a composite consisting of all discretionary accounts using this investment strategy. The above information is considered supplemental to the GIPS presentation for this Composite, which can be found in the Appendix or was previously presented. A GIPS presentation is also available upon request.

2 Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income and the reinvestment of dividends (net of withholding tax rates) and other income and are calculated in US dollars. It is not possible to invest directly in an index. The calculation method for value added returns may show rounding differences.

3 Inception date January 2015.

4 As of June 30 2019.

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Glossary

Alpha The excess return of a fund relative to the return of a benchmark index.

ESG Environmental, Social and Governance.

GARP Growth at a Reasonable Price.

MSCI Emerging Markets Index A stock market index of 1,128 emerging market stocks as defined by MSCI.

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* AUM reflects approximately \$36 billion (as of June 30, 2019), with respect to which State Street Global Advisors Funds Distributors, LLC (SSGA FD) serves as marketing agent; SSGA FD and State Street Global Advisors are affiliated

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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.

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