White Paper
Equities

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Active Core Equity — An Antidote to Growth/Value Cycles?

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STATE STREET GLOBAL ADVISORS

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Executive Summary

Equity investors have historically observed a steady ebb and flow of growth versus value cycles over many years. In the last decade, growth stocks have decidedly outperformed value, but since late in 2020 value has started to outperform.[1] This has created a dilemma for investors with growth-heavy portfolios. They are aware of the risk their concentrated growth positions present, and a pressing question is whether they scale into value for diversification? What if the recent outperformance of value fails to be sustained, as has regularly been the case during the last 10+ years?

We think that investors should consider making an allocation to a core equity strategy which aims to offer a return stream that is less dependent on style cycles and provides diversification relative to growth-focused portfolios. Our analysis suggests that core managers tend to hold stocks with high quality characteristics while being conscious of the valuation level — similar to a style of investing referred to as "Growth at a Reasonable Price" or GARP.[2] By avoiding the lowest quality and the richest-priced names, core managers tend to generate resilient alphas over both value and growth cycles. The balanced risk exposures in manager stock selection and factors for core managers also indicate that its “all-weather” performance potential and diversification to growth-focused portfolios is likely to be sustained.

Value strategies provide obvious diversification to growth strategies (after all, they are at opposite ends of the spectrum); however, over periods such as the last 10 years, exposure to value can act as a drag on the overall performance of a combined portfolio. We have found that adding core strategies to a growth portfolio can improve its information ratio over the long term, and a combined core/growth portfolio also has cheaper valuations and more balanced risk exposures than a purely growth-focused portfolio.

All-Weather Performance, Less Dependent On Style Cycles

- **Core managers have generated positive excess returns (alphas) in both value and growth cycles, producing all-weather performance.[3]**

- **Core strategies have delivered a similar information ratio to growth, both over the long term and in the recent decade (excluding 2020) when growth outperformed — 2020 was an exceptionally favorable year for growth managers.**

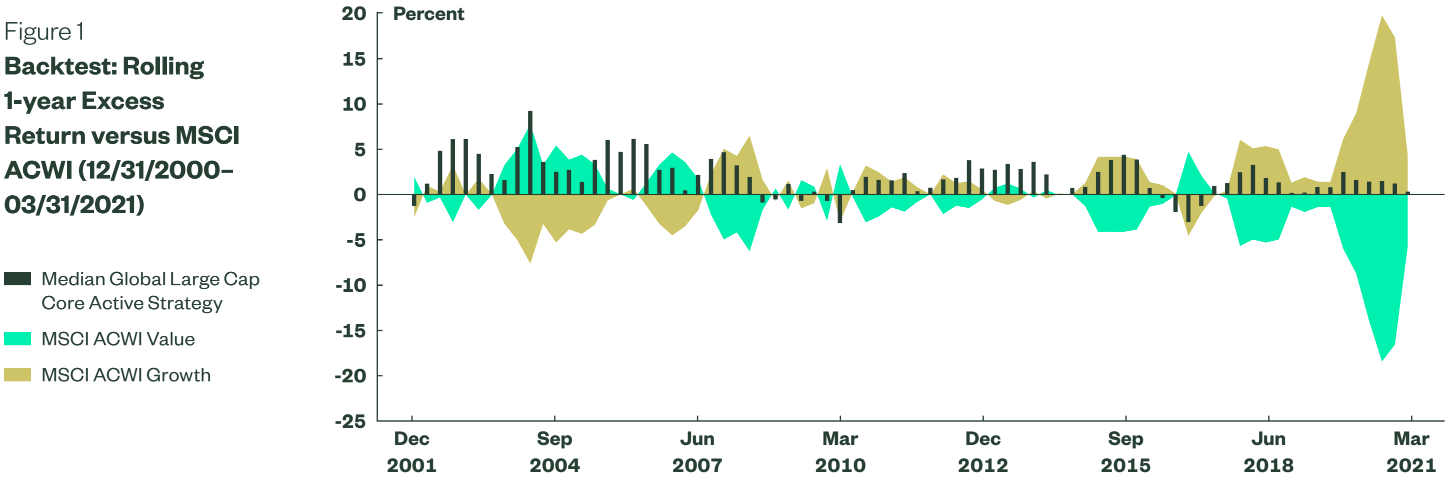
Growth and value represent two different investment styles. Growth investors focus mainly on earnings, seeking companies with the potential to grow their earnings faster than the market, while value investors are more interested in price, looking for stocks they believe to be trading at a discount to their fundamental, or intrinsic, value.

Looking over the past two decades, value stocks were generally favored in the period up to 2007. Since then, however, growth stocks have largely been preferred, particularly in 2020 when growth stock performance experienced a huge surge while value stocks sagged by comparison. Turning to the performance of core managers in the 20 years, Figure 1 details the historical alpha generated by the active large cap core manager universe (on a 12-month rolling basis) through both value and growth cycles, based on eVestment data.[3]

Examining this data, we find that excess returns have been positive most of the time, regardless of the style cycle (growth or value) in place at any given time, showing the all-weather nature of active large cap core managers. Core managers outperformed in both 2020, when growth enjoyed a huge rally, and in the opening quarter of 2021, when value outperformed. For investors who do not want to attempt timing portfolio rotations between growth and value, core is an option that offers positive alpha potential while being less dependent on style cycles.

Figure 1

Backtest: Rolling 1-year Excess Return versus MSCI ACWI (12/31/2000–03/31/2021)



Source: State Street Global Advisors, eVestment, FactSet, as of March 31, 2021. Excess returns are calculated against the MSCI ACWI index. Global Large Cap Core Active eVestment Universe: Active LC Core managers with the MSCI ACWI index as the benchmark and at least US$100 million AUM and 3 years of track record, excluding specialized strategies (low volatility, climate solutions). ACWI Growth = MSCI ACWI Growth net total return index (USD). ACWI Value = MSCI ACWI Value net total return index (USD). Part performance is not a guarantee of future outcomes. **The data displayed for historical data is a hypothetical example of Back-Tested Performance for illustrative purposes only and is not indicative of the past or future performance of any State Street Global Advisors product.** Back-Tested Performance does not represent the results of actual trading but is achieved by means of the retroactive application of a model designed with the benefit of hindsight. Actual performance results could differ substantially, and there is the potential for loss as well as profit. The Back-Tested Performance may not take into account material economic and market factors that would impact the adviser's actual decision-making. The performance reflects management fees, transaction costs, and other fees and expenses a client would have to pay, which reduce returns. Please reference Back-tested Methodology Disclosure in the Appendix for a description of the model methodology as well as an important discussion of the inherent limitations of back-tested results. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

Untangling Performance Metrics

Digging a bit deeper into performance, we compared alpha, tracking error (TE) and information ratio (IR) data for median active large cap core managers with active growth and value managers (Figure 2). Given the exceptional performance of active growth managers in 2020 (delivering a median alpha of 17%) and its overwhelming impact on the data, we have excluded this extraordinary COVID-influenced year from this particular analysis.

What we found is that during both a long 19-year period and the most recent growth cycle prior to 2020, the active core manager universe has generated a similar information ratio as growth managers. Although alphas produced by core managers were lower than those of growth managers, core managers' all-weather performance led to lower tracking error and similar risk-adjusted returns. Value managers had the lowest information ratios, as a prolonged growth cycle penalized value alphas over the past 10+ years.

Figure 2

Backtest: Excluding 2020, Core Generated Similar Information Ratio as Growth

Source: State Street Global Advisors, eVestment, FactSet, as of December 31, 2019. Excess returns are calculated against the MSCI ACWI index. Global Large Cap Core Active eVestment Universe: Active LC Core managers with the MSCI ACWI index as the benchmark and at least US$100 million AUM and 3 years of track record, excluding specialized strategies (low volatility, climate solutions). Global Large Cap Growth Active eVestment Universe: Active LC Growth managers with the MSCI ACWI index or the MSCI ACWI Growth index as the benchmark and at least US$100 million AUM and 3 years of track record. Global Large Cap Value Active eVestment Universe: active LC Value managers with the MSCI ACWI index or the MSCI ACWI Value index as the benchmark and at least US$100 million AUM and 3 years of track record, excluding specialized strategies (low volatility, infrastructure). Past performance is not a guarantee of future outcomes. **The data displayed for historical data is a hypothetical example of Back-Tested Performance for illustrative purposes only and is not indicative of the past or future performance of any State Street Global Advisors product.** Back-Tested Performance does not represent the results of actual trading but is achieved by means of the retroactive application of a model designed with the benefit of hindsight. Actual performance results could differ substantially, and there is the potential for loss as well as profit. The Back-Tested Performance may not take into account material economic and market factors that would impact the adviser's actual decision-making. The performance reflects management fees, transaction costs, and other fees and expenses a client would have to pay, which reduce returns. Please reference Back-tested Methodology Disclosure in the Appendix for a description of the model methodology as well as an important discussion of the inherent limitations of back-tested results. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

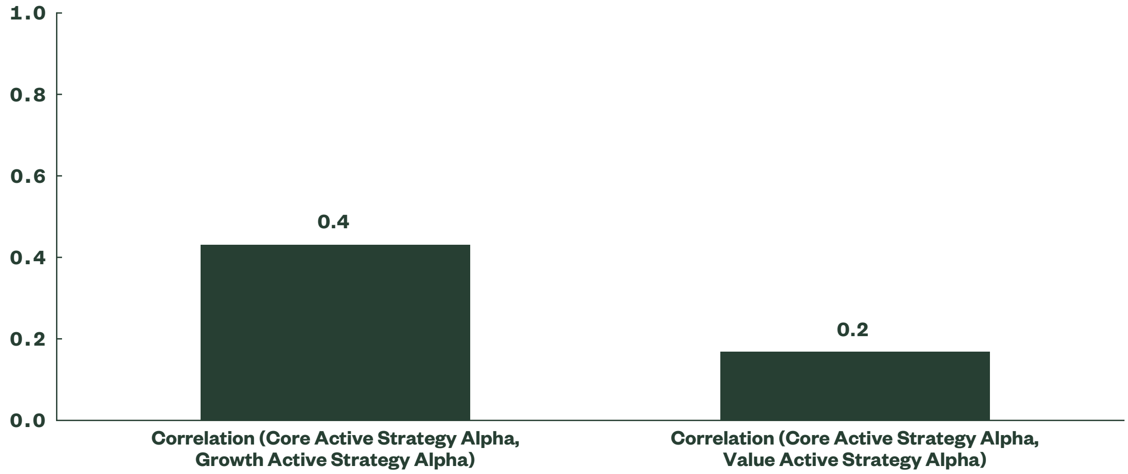
Core Alphas: Low Correlation To Growth and Value

- **Alphas generated by core strategies are lowly correlated with growth and value strategies over the long term, providing diversification benefits.**

- **Core strategy alphas tend to be more correlated with growth strategies during a growth cycle, as both are likely to generate positive alphas. However, diversification benefits remain as core and growth strategy alphas are not perfectly correlated to each other.**

As alphas generated by core strategies are less dependent on style cycles, it should come as no surprise that core alphas are lowly correlated with growth and value alphas over a long-period spanning both value and growth cycles (see Figure 3). Therefore, adding core strategy to a growth or value heavy portfolio could bring diversification benefits.

Figure 3
Backtest: Core Strategy Alphas Lowly Correlated With Growth and Value Strategies (12/31/2000–03/31/2021)



Source: State Street Global Advisors, eVestment, FactSet, as of March 31, 2021. Excess returns are calculated against the MSCI ACWI index. Global Large Cap (LC) Core Active eVestment Universe: Active LC Core managers with the MSCI ACWI index as the benchmark and at least US$100 million AUM and 3 years of track record, excluding specialized strategies (low volatility, climate solutions). Global Large Cap Growth Active eVestment Universe: Active LC Growth managers with the MSCI ACWI index or the MSCI ACWI Growth index as the benchmark and at least US$100 million AUM and 3 years of track record. Global Large Cap Value Active eVestment Universe: active LC Value managers with the MSCI ACWI index or the MSCI ACWI value index as the benchmark and at least US$100 million AUM and 3 years of track record, excluding specialized strategies (low volatility, infrastructure). Past performance is not a guarantee of future outcomes. **The data displayed for historical data is a hypothetical example of Back-Tested Performance for illustrative purposes only and is not indicative of the past or future performance of any State Street Global Advisors product.** Back-Tested Performance does not represent the results of actual trading but is achieved by means of the retroactive application of a model designed with the benefit of hindsight. Actual performance results could differ substantially, and there is the potential for loss as well as profit. The Back-Tested Performance may not take into account material economic and market factors that would impact the adviser's actual decision-making. The performance reflects management fees, transaction costs, and other fees and expenses a client would have to pay, which reduce returns. Please reference Back-tested Methodology Disclosure in the Appendix for a description of the model methodology as well as an important discussion of the inherent limitations of back-tested results. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

The historical rolling correlation between active core and growth strategy alphas was relatively low during the value cycle prior to 2007 (Figure 4). The correlation has clearly increased as both core and growth strategies generated positive alphas in most of the years since then during what has been mainly a growth cycle. In more recent times, a shift in market preferences in favor of value stocks has coincided with a fall in the correlation between core and growth strategy alphas. While correlations are higher during growth cycles, they tend to fall during value cycles.

We believe a key reason for this correlation dynamic is that manager stock selection is a big driver of core strategy alpha, something we will expand upon in a later section. Core managers have more flexibility to adjust their portfolio holdings depending on the bottom-up fundamentals in the prevailing growth or value cycle.

Figure 4

Backtest: Rolling 1-year Correlation of Active Core and Growth Strategy Alphas (12/31/2000–03/31/2021)

MSCI ACWI Growth Excess Return vs. ACWI (RHS)

MSCI ACWI Value Excess Return vs. ACWI (RHS)

1Y Rolling Correlation: Core Active Strategy Alpha vs. Growth Active Strategy Alpha (LHS)

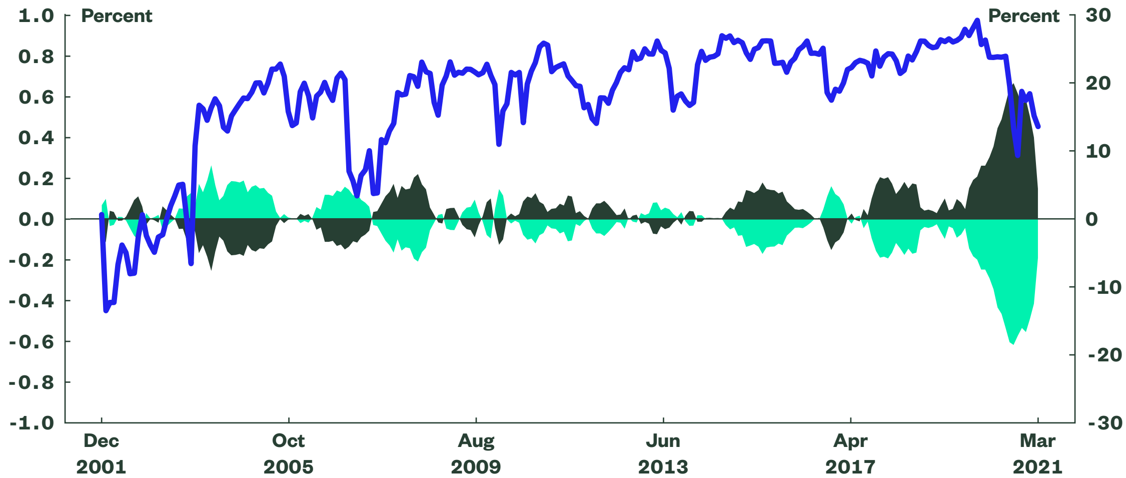


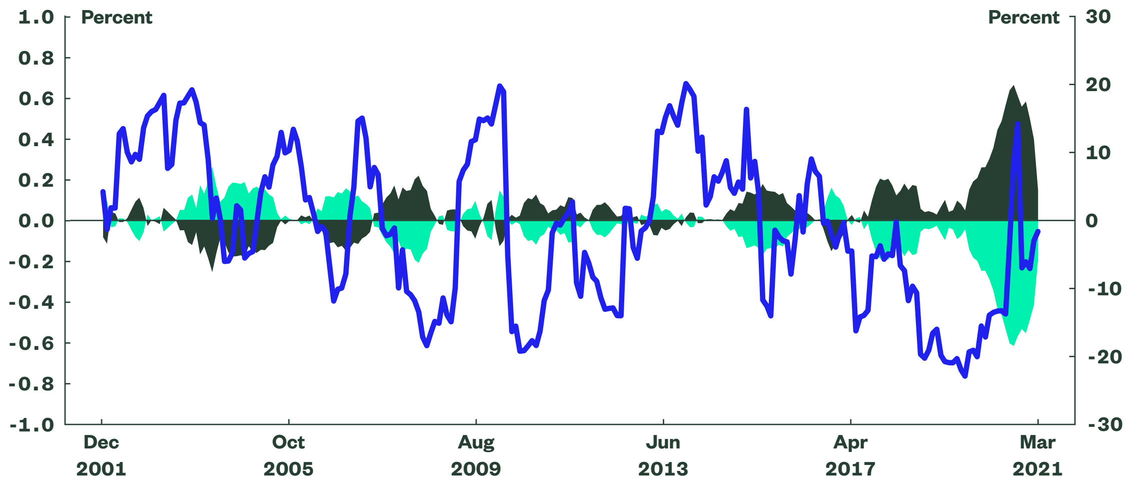
Figure 5

Backtest: Rolling 1-year Correlation of Active Core and Value Strategy Alphas (12/31/2000–03/31/2021)

MSCI ACWI Growth Excess Return vs. ACWI (RHS)

MSCI ACWI Value Excess Return vs. ACWI (RHS)

1Y Rolling Correlation: Core Active Strategy Alpha vs. Value Active Strategy Alpha (LHS)



Source: State Street Global Advisors, eVestment, FactSet, as of March 31, 2021. Excess returns are calculated against the MSCI ACWI index. Global Large Cap (LC) Core Active eVestment Universe: Active LC Core managers with the MSCI ACWI index as the benchmark and at least US$100 million AUM and 3 years of track record, excluding specialized strategies (low volatility, climate solutions). Global Large Cap Growth Active eVestment Universe: Active LC Growth managers with the MSCI ACWI index or the MSCI ACWI Growth index as the benchmark and at least US$100 million AUM and 3 years of track record. Global Large Cap Value Active eVestment Universe: active LC Value managers with the MSCI ACWI index or the MSCI ACWI Value index as the benchmark and at least US$100 million AUM and 3 years of track record, excluding specialized strategies (low volatility, infrastructure). Past performance is not a guarantee of future outcomes. **The data displayed for historical data is a hypothetical example of Back-Tested Performance for illustrative purposes only and is not indicative of the past or future performance of any State Street Global Advisors product.** Back-Tested Performance does not represent the results of actual trading but is achieved by means of the retroactive application of a model designed with the benefit of hindsight. Actual performance results could differ substantially, and there is the potential for loss as well as profit. The Back-Tested Performance may not take into account material economic and market factors that would impact the adviser's actual decision-making. The performance reflects management fees, transaction costs, and other fees and expenses a client would have to pay, which reduce returns. Please reference Back-tested Methodology Disclosure in the Appendix for a description of the model methodology as well as an important discussion of the inherent limitations of back-tested results. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

The correlations between active core and value strategy alphas have been more volatile compared to the relationship with growth strategies — these are generally higher during value cycles and tend to fall during growth cycles (Figure 5). Regardless, diversification benefits have remained as core and growth/value strategy alphas are not perfectly correlated to each other.

Core Valuations: More Reasonable Than Growth

- **Both core and growth strategies hold stocks with higher growth potential. Valuations for both are high relative to the MSCI ACWI index, but are much more reasonable for core compared to growth.**

- **Portfolios run by core managers display characteristics that are similar to a "Growth at a Reasonable Price" style, which appears to help in the delivery of more resilient alphas during both style cycles.**

Thus far, we have established that core managers have generated all-weather performance and provide diversification to growth (or value) focused portfolios. In this section, we look to understand the reason for this and to ascertain if these benefits will be sustainable in the future.

We first compare the portfolio characteristics of some of the largest active core, growth and value managers by assets under management with the MSCI ACWI index (see Figure 6). On average, the stock holdings of core managers are neither pure growth nor deep value but tend to fall somewhere in between. They typically hold stocks with higher earnings growth potential relative to the ACWI index and relative to value managers, but not as high as growth managers. At the same time, valuations are much more reasonable for core compared to growth, albeit higher than the ACWI index and value managers.

These core manager portfolio characteristics are similar to a style referred to as "Growth at a Reasonable Price" or GARP. By focusing on high quality companies while being conscious of the valuation level, core managers are more likely to avoid the lowest quality and the richest-priced names which in turn helps them generate more consistent alphas through both value and growth cycles.

Figure 6
Portfolio Characteristics: Active Core, Growth and Value

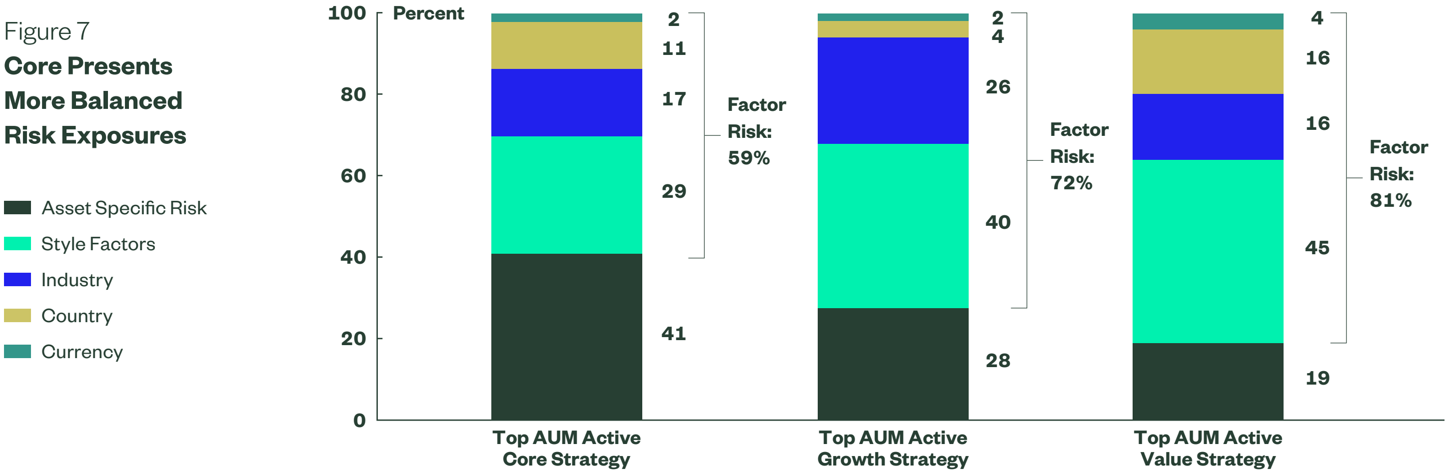
Source: State Street Global Advisors, eVestment, FactSet, as of December 31, 2020. We took the latest available holdings of the top AUM strategies in the eVestment universe and calculated the average characteristics of these strategies. Global Large Cap (LC) Core Active eVestment Universe: Active LC Core managers with the MSCI ACWI index as the benchmark and at least US$100 million AUM and 3 years of track record, excluding specialized strategies (low volatility, climate solutions). Global Large Cap Growth Active eVestment Universe: active LC Growth managers with the MSCI ACWI index or the MSCI ACWI Growth index as the benchmark and at least US$100 million AUM and 3 years of track record. Global Large Cap Value Active eVestment Universe: active LC Value managers with the MSCI ACWI index or the MSCI ACWI Value index as the benchmark and at least US$100 million AUM and 3 years of track record, excluding specialized strategies (low volatility, infrastructure). Past performance is not a reliable indicator of future performance.

Balanced Risk Exposures in Stock Selection and Factors

- **Core strategies have balanced risk contributions from manager stock selection and factors, while growth and value strategies are dominated by factor risks.**
- **Growth and value strategy performance is more impacted by style cycles, with alphas largely driven by style and sector biases.**
- **The balanced risk exposures of core strategies mean that the all-weather performance and diversification to growth-focused portfolios is more likely to be sustained over time.**

To better understand the alpha sources of active core, growth and value managers, we further decompose the risk exposures of these manager portfolios (see Figure 7). What we found is that, on average, core managers have balanced risk contributions from asset-specific risk (manager stock selection) and factor risk, while those of growth and value managers are dominated by factor risks — mainly style factor exposures and sector/country deviations.

Figure 7
Core Presents More Balanced Risk Exposures



Source: State Street Global Advisors, eVestment, FactSet, as of December 31, 2020. We took the latest available holdings of the top AUM strategies in the eVestment universe and calculated the average characteristics of these strategies. Global Large Cap(LC) Core Active eVestment Universe: Active LC Core managers with the MSCI ACWI index as the benchmark and at least US$100 million AUM and 3 years of track record, excluding specialized strategies (low volatility, climate solutions). Global Large Cap Growth Active eVestment Universe: active LC Growth managers with the MSCI ACWI index or the MSCI ACWI Growth index as the benchmark and at least US$100 million AUM and 3 years of track record. Global Large Cap Value Active eVestment Universe: active LC Value managers with the MSCI ACWI index or the MSCI ACWI Value index as the benchmark and at least US$100 million AUM and 3 years of track record, excluding specialized strategies (low volatility, infrastructure). Past performance is not a reliable indicator of future performance.

This has implications for managers' alpha patterns. As alphas generated by manager stock selection are less dependent on style cycles, core managers are likely to produce all-weather performance in both value and growth cycles. Because portfolios of growth and value managers are dominated by factor exposures, their alphas are going to be more impacted by style cycles.

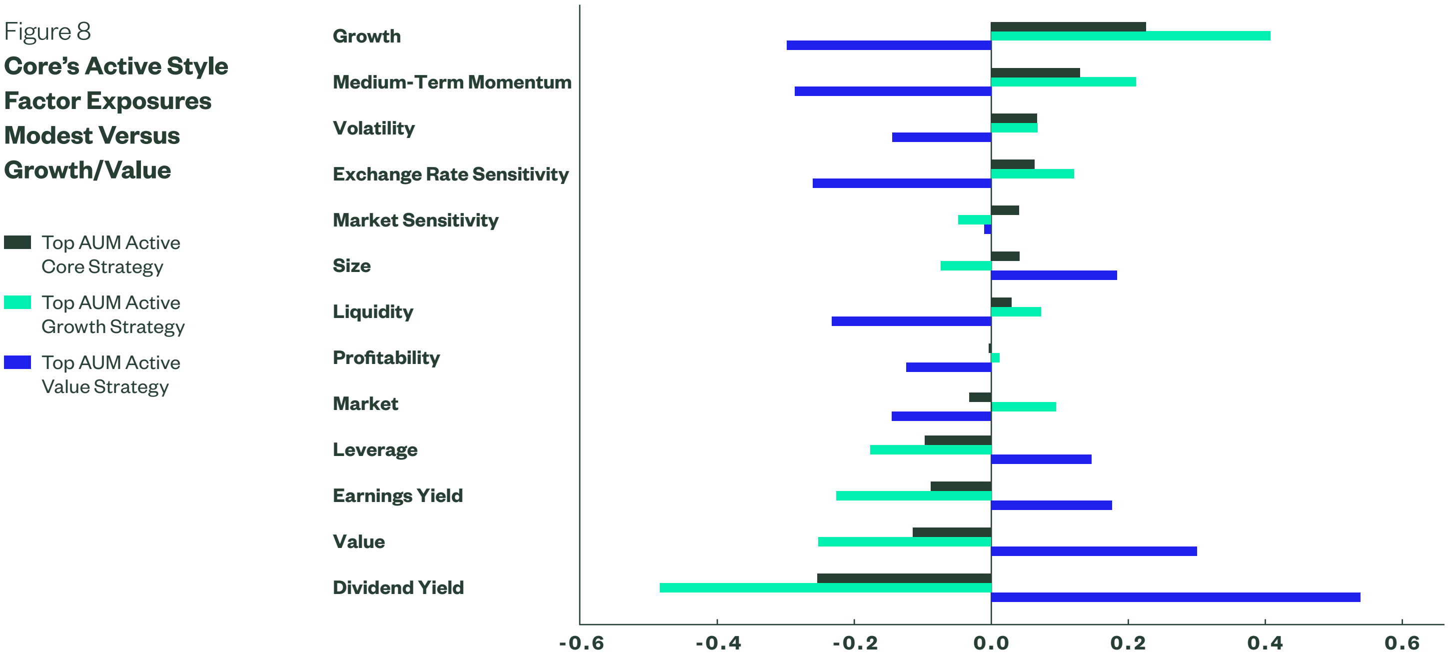
Active Style Exposures

In Figure 8, we take a closer look at these managers' active style factor exposures. As expected, growth managers tilt heavily towards higher growth and more expensive stocks, which is reflected by their large positive "Growth" and negative "Dividend Yield" and "Value" style factor exposures. These types of stocks meaningfully outperformed the broad market in the recent growth cycle, as technological transformation across industries, below-trend economic growth, and a Federal Reserve committed to keeping rates near zero all provided tailwinds. However, they have recently underperformed given their high valuations and as we've seen a cyclical upturn in the global economy along with higher rates.

Value managers, by comparison, have mostly offsetting style factor deviations from growth managers, owning much cheaper stocks with lower growth potential. These value stocks suffered during the latest growth cycle, but have been increasingly favored by investors rotating towards value in the year to date.

Figure 8

Core's Active Style Factor Exposures Modest Versus Growth/Value



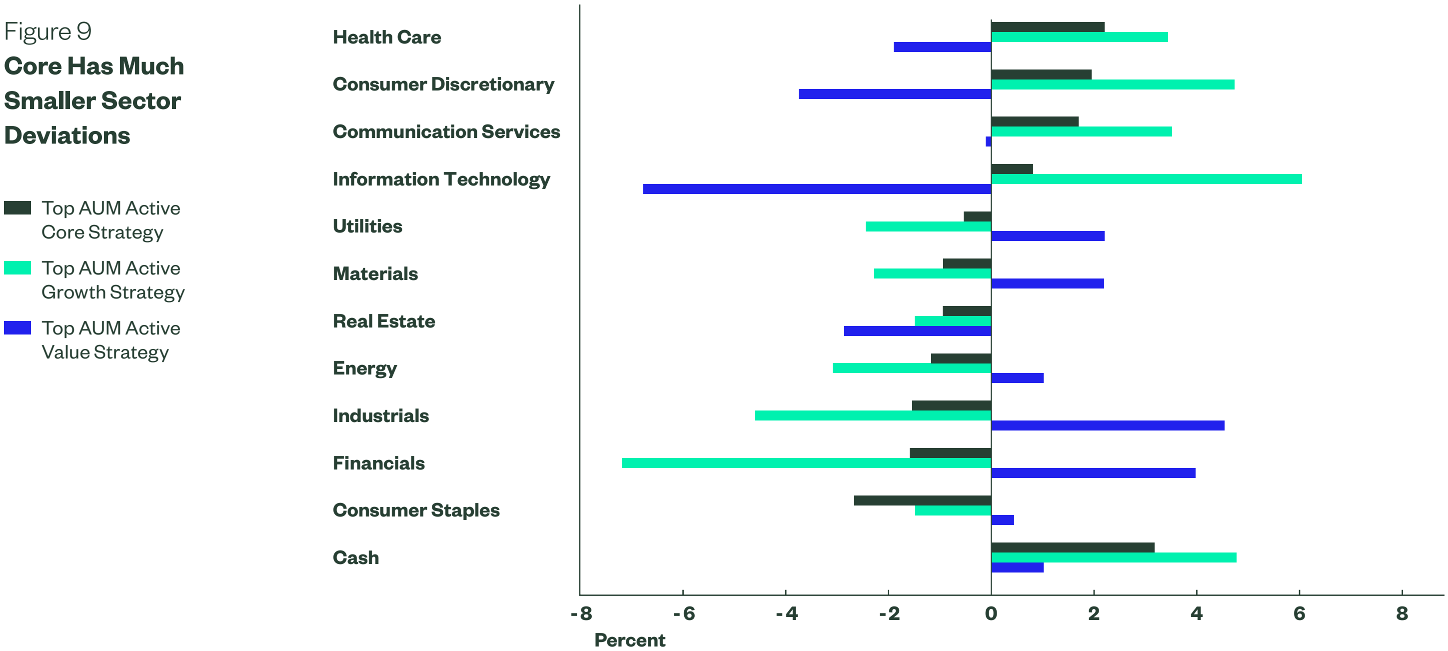
Source: State Street Global Advisors, eVestment, FactSet, as of December 31, 2020. We took the latest available holdings of the top AUM strategies in the eVestment universe and calculated the average characteristics of these strategies. Global Large Cap Core Active eVestment Universe: Active LC Core managers with the MSCI ACWI index as the benchmark and at least US$100 million AUM and 3 years of track record, excluding specialized strategies (low volatility, climate solutions). Global Large Cap Growth Active eVestment Universe: active LC Growth managers with the MSCI ACWI index or the MSCI ACWI Growth index as the benchmark and at least US$100 million AUM and 3 years of track record. Global Large Cap Value Active eVestment Universe: active LC Value managers with the MSCI ACWI index or the MSCI ACWI Value index as the benchmark and at least US$100 million AUM and 3 years of track record, excluding specialized strategies (low volatility, infrastructure). Past performance is not a reliable indicator of future performance.

Core managers' active style factor exposures are modest compared to growth and value managers. They have mild tilts towards higher growth stocks that are on the slightly more expensive side. As discussed previously, these biases could be referred to as a style known as "Growth at a Reasonable Price", which is likely why core managers have been able to produce more resilient alphas across both style cycles.

More Modest Sector Deviations

On the sector front, core managers tend to have smaller sector deviations than growth or value managers (see Figure 9). Core managers' sector deviations are all within +/- 3%, while growth managers are notably overweight information technology stocks. Value managers that would be underweight IT have large overweight exposures to financials/industrials, sectors where growth managers are significantly underweight. Investors hesitant to potentially overpay for stellar growth IT names and unwilling to fish in the deep value financials/industrials pool may find the more diversified sector weights of core managers to represent an attractive proposition.

Figure 9
Core Has Much Smaller Sector Deviations



Source: State Street Global Advisors, eVestment, FactSet, as of December 31, 2020. We took the latest available holdings of the top AUM strategies in the eVestment universe and calculated the average sector deviations of these strategies relative to MSCI ACWI. Global Large Cap (LC) Core Active eVestment Universe: Active LC Core managers with the MSCI ACWI index as the benchmark and at least US$100 million AUM and 3 years of track record. Global Large Cap Growth Active eVestment Universe: active LC Growth managers with the MSCI ACWI index or the MSCI ACWI Growth index as the benchmark and at least US$100 million AUM and 3 years of track record. Global Large Cap Value Active eVestment Universe: active LC Value managers with the MSCI ACWI index or the MSCI ACWI Value index as the benchmark and at least US$100 million AUM and 3 years of track record. This information should not be considered a recommendation to invest in a particular sector shown. It is not known whether the sectors shown will be profitable in the future.

What this analysis shows is that a large part of the growth and value strategy alphas are driven by their style and sector tilts, which means their alphas are more impacted by style cycles. As core strategies have more moderate style/sector deviations and a higher proportion of their risk is based on manager selection, they are likely to have relatively more potential to generate alpha regardless of the style cycle.

Adding Core to a Growth Portfolio Can Improve Efficiency

- **Adding core strategies to a growth portfolio can improve the portfolio's information ratio over the long term, and results in cheaper valuations and more balanced risk exposures than a growth-focused portfolio.**

- **Value strategies provide more obvious diversification to growth strategies. However, over periods like the last 10 years, value can be a drag on the overall performance of a combined portfolio. Adding a core strategy is an option with the potential to deliver positive alpha and improve the portfolio efficiency, regardless of the style cycle.**

Having established that active core managers tend to generate all-weather performance and can provide diversification to growth-focused portfolios, we then looked at the benefits investors can get from adding core strategies. In Figure 10, we show the potential impact on a median active large cap growth portfolio.

What we found is that the combined core/growth portfolio generated a higher information ratio than the growth portfolio over the past 20 years, even with the inclusion of 2020 in this analysis, a year when growth managers performed exceptionally well. Although adding core managers reduced the portfolio alpha, the long-term efficiency improved slightly as core managers' more consistent alpha patterns and diversification benefits to growth helped to significantly lower the portfolio's tracking error.

Value strategies provide obvious diversification to growth strategies (after all, they are at opposite ends of the spectrum). However, over periods like the last 10 years, value can act as a drag on the overall performance of a combined portfolio. For investors reluctant to attempt timing the rotation between value and growth, adding core is an option with the potential to deliver positive alpha and improve the portfolio efficiency regardless of the style cycle.

Figure 10
Backtest: Core/ Growth Portfolio Has Higher Information Ratio (Apr 2001–Mar 2021)

Source: State Street Global Advisors, eVestment, FactSet, as of March 31, 2021. Excess returns are calculated against the MSCI ACWI index. Global Large Cap Core Active eVestment Universe: Active LC Core managers with the MSCI ACWI index as the benchmark and at least US$100 million AUM and 3 years of track record, excluding specialized strategies (low volatility, climate solutions). Global Large Cap Growth Active eVestment Universe: active LC Growth managers with the MSCI ACWI index or the MSCI ACWI Growth index as the benchmark and at least US$100 million AUM and 3 years of track record. Global Large Cap Value Active eVestment Universe: active LC Value managers with the MSCI ACWI index or the MSCI ACWI Value index as the benchmark and at least US$100 million AUM and 3 years of track record, excluding specialized strategies (low volatility, infrastructure).Past performance is not a guarantee of future outcomes. **The data displayed for historical data is a hypothetical example of Back-Tested Performance for illustrative purposes only and is not indicative of the past or future performance of any State Street Global Advisors product.** Back-Tested Performance does not represent the results of actual trading but is achieved by means of the retroactive application of a model designed with the benefit of hindsight. Actual performance results could differ substantially, and there is the potential for loss as well as profit. The Back-Tested Performance may not take into account material economic and market factors that would impact the adviser's actual decision-making. The performance reflects management fees, transaction costs, and other fees and expenses a client would have to pay, which reduce returns. Please reference Back-tested Methodology Disclosure in the Appendix for a description of the model methodology as well as an important discussion of the inherent limitations of back-tested results. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

More Balanced Risk Exposure

Aside from portfolio efficiency, the addition of core strategies also mitigates the high valuations of the growth portfolio and leads to a more balanced risk exposure. Because core managers tend to focus on high quality companies while being conscious of the valuation level, the combined core/growth portfolio has cheaper valuations than the growth portfolio. At the same time, the portfolio is only lagging slightly on expected earnings growth (see Figure 11). Furthermore, the combined portfolio has a higher risk exposure in manager stock selection, which helps generate more resilient alphas in different style cycles (see Figure 12).

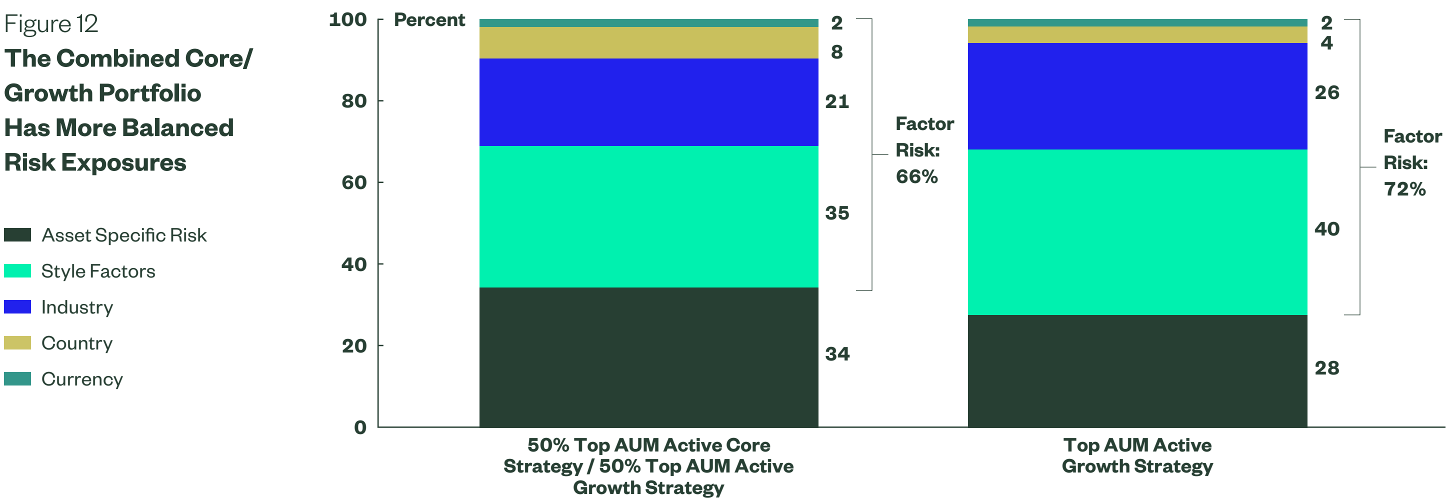
Figure 11

Combined Core/ Growth Portfolio is Cheaper Than the Growth Portfolio

Source: State Street Global Advisors, eVestment, FactSet, as of December 31, 2020. We took the latest available holdings of the top AUM strategies in the eVestment universe and calculated the average characteristics of these strategies. Global Large Cap (LC) Core Active eVestment Universe: Active LC Core managers with the MSCI ACWI index as the benchmark and at least US$100 million AUM and 3 years of track record, excluding specialized strategies (low volatility, climate solutions). Global Large Cap Growth Active eVestment Universe: Active LC Growth managers with the MSCI ACWI index or the MSCI ACWI Growth index as the benchmark and at least US$100 million AUM and 3 years of track record. Global Large Cap Value Active eVestment Universe: active LC Value managers with the MSCI ACWI index or the MSCI ACWI Value index as the benchmark and at least US$100 million AUM and 3 years of track record, excluding specialized strategies (low volatility, infrastructure).

Figure 12

The Combined Core/ Growth Portfolio Has More Balanced Risk Exposures



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Conclusion

Unlike growth or value managers who tend to see ebbs and flows in their performance as the style cycle changes, core managers have generated positive excess returns (alphas) in both value and growth cycles, producing all-weather performance. This means that adding a core strategy to a growth or value heavy portfolio can bring long-term diversification benefits.

Our analysis suggests that core managers tend to hold high quality stocks while being conscious of the valuation level, similar to a style referred to as "Growth at a Reasonable Price", or GARP. By avoiding the lowest quality and the richest priced names, core managers tend to generate resilient alphas over both value and growth cycles. The balanced risk exposures in manager stock selection and factors for core managers also indicate that its all-weather performance and diversification to growth-focused portfolios are likely to be sustained.

We found that adding core strategies to a growth portfolio can improve the portfolio's information ratio over the long term, and a combined core/growth portfolio also has cheaper valuations and more balanced risk exposures than a growth-focused portfolio. Therefore, Investors looking to reduce their exposure to high growth strategies, but hesitant to add value, should consider adding a core strategy.

Endnotes

1 Source: MSCI as of March 31, 2021.

2 Please refer to State Street Global Advisors' "GARP Strategy Combines Both Growth and Value Aspects to Generate Alpha" for more details of GARP.

3 We use eVestment data as our institutional clients primarily use unregistered vehicles (e.g. separate accounts and commingled trusts), instead of Morningstar data which focuses on registered vehicles (e.g. mutual funds).

Back-tested Performance Methodology

The back-tested performance shown on figures 1, 2, 3, 4, 5, 10 was created by the Strategy and Research Team. Returns, risks and correlations are backtested from 31 December 2000 to 31 March 2021 based on the following universe: Global Large Cap Core Active eVestment Universe: Active LC Core managers with the MSCI ACWI index as the benchmark and at least US$100 million AUM and 3 years of track record, excluding specialized strategies (low volatility, climate solutions).

Global Large Cap Growth Active eVestment Universe: active LC Growth managers with the MSCI ACWI index or the MSCI ACWI Growth index as the benchmark and at least US$100 million AUM and 3 years of track record.

Global Large Cap Value Active eVestment Universe: active LC Value managers with the MSCI ACWI index or the MSCI ACWI Value index as the benchmark and at least US$100 million AUM and 3 years of track record, excluding specialized strategies (low volatility, infrastructure).

ACWI Growth = MSCI ACWI Growth net total return index (USD)

ACWI Value = MSCI ACWI Value net total return index (USD)

The results shown do not represent the results of actual trading using client assets but were achieved by means of the retroactive application of an investment process that was designed with the benefit of hindsight. Thus, the performance results noted above should not be considered indicative of the skill of the advisor or its investment professionals. The back-tested performance was compiled after the end of the period depicted and does not represent the actual investment decisions of the advisor. These results do not reflect the effect of material economic and market factors on decision-making. In addition, back-tested performance results do not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risks associated with actual investing.

The back-tested performance shown is not necessarily indicative of future performance, which could differ substantially.

The results shown do not represent the results of actual trading using client assets but were achieved by means of the retroactive application of an investment process that was designed with the benefit of hindsight, otherwise known as back-testing. Thus, the performance results noted above should not be considered indicative of the skill of the advisor or its investment professionals. The back-tested performance was compiled after the end of the period depicted and does not represent the actual investment decisions of the advisor. These results do not reflect the effect of material economic and market factors on decision making. In addition, back-tested performance results do not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risks associated with actual investing.

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* This figure is presented as of March 31, 2021 and includes approximately $60.33 billion of 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.

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