Newsletter
Fundamental Growth and Core Equity

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Investing in Sustainable Growth

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Investing in Emerging Markets: A Conversation with our Portfolio Management Team

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Emerging markets equities generated healthy investment returns in 2019, even as they lagged the strong gains of the developed markets. Following a strong year of outperformance for the State Street Emerging Markets Equity Select Strategy, our EM portfolio management team of George Bicher, Andrew Xiao and Laura Ostrander shared their views on the market environment in 2019, lessons learned over the five years since the strategy launched, and what they're thinking about heading into 2020.

Figure 1
Performance

	Quarter 4 2019	1 Year	3 Years	5 Years	Inception Jan 2015
Emerging Markets Equity Select Composite (Gross)	14.70	29.35	15.42	8.54	8.54
Emerging Markets Equity Select Composite (Net)	14.60	28.90	14.90	7.81	7.81
MSCI Emerging Markets Index	11.84	18.42	11.57	5.61	5.61

Source: State Street Global Advisors, MSCI. Past performance is not a reliable indicator of future performance. 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. Performance returns for periods of less than one year are not annualized. The performance figures contained herein are provided on a gross and net of fees basis. Gross of fees do not reflect and net of fees do reflect the deduction of advisory or other fees which could reduce the return. Some members of this composite may accrue administration fees. The performance includes the reinvestment of dividends and other corporate earnings and is calculated in US dollars.

Despite macro noise and fear about prospects as 2019 began, emerging markets delivered a respectable return for the year. Why did EM equities prove so resilient?

George (GB) We began the year after some material compression of valuation multiples in EM during 2018. Even though trade noise was a negative in 2019, I believe it was a greater challenge in the prior year when the issue was new and it became clear that it would last longer than initially expected. This allowed some multiple expansion in 2019, which offset negative revisions to corporate earnings — it should be noted that most of those revisions were in the technology sector, among the large semiconductor-related companies in particular.

Laura (LO) Trade impacted sentiment in the year. When trade tensions heated up, we saw the Chinese currency weaken, something that has a destabilizing effect on emerging markets. So, looking at the EM return in US dollar terms over the course of the year, we saw the market rise when trade sentiment improved, and decline when trade sentiment fell.

Andrew (AX) If we consider the broader EM index, we see its rebound came after a sharp decline late in 2018. And we should acknowledge that as well as the EM index did in 2019, it still underperformed the developed markets, particularly the US. It's worth noting that strong stock selection helped our portfolio outperform the benchmark EM index in 2019.

China has outperformed the broader EM index despite slowing growth and the ongoing trade war. Does that surprise you?

AX Not particularly. Investor sentiment at the end of 2018 was negative towards global equities in general, and China in particular, amid concerns related to the escalating US-China trade war. So Chinese equity outperformance versus the broader emerging market index of 5 percentage points in 2019 in part reflected a rebound from underperformance in 2018, and also a low expectations bar. But China has continually been among the brightest spots in EM over the longer term and, despite some moderation in the pace of economic expansion, it continues to exhibit one of the fastest growth rates among major economies. Also, China's large size and diversity means many of its companies are not particularly exposed to international trade, and that's where we have found good investment opportunities. On the trade dispute itself, we have been encouraged to see some progress in negotiations; further de-escalation of tensions would clearly be a positive for China and would help reduce some of the downside risk.

GB We like the growth in China, but broadly speaking we are not looking to own China across the board. We tend to focus on areas that are benefitting from growth in disposable income, such as the consumer discretionary sector. We also have some exposure in healthcare and financials, mostly on the insurance side, which is also related to higher consumption. But we are not in the basic industries, where capacity issues exist and state-owned enterprises are dominant.

Does the potential for a significant slowdown or hard landing in China worry you?

AX We continue to expect China GDP growth to moderate, but we don't envisage a hard landing scenario. China's economy is now much larger than it once was following sustained high growth, and so it's natural to expect some deceleration. The economy has also tilted increasingly toward consumption and services, a very positive structural shift that helps make economic growth more resilient.

Beyond China, where else in the Emerging Markets universe are you seeing opportunities?

GB Outside of China, a recent focus has been Brazil, where a recent election has created great opportunity for fiscal reform that could increase the country's ability to grow. The economy has struggled to shake free of recession for several years so there is a pent-up demand. Beyond Brazil, it is largely a function of stock selection in both higher growth and lower growth countries.

LO Another one is India. India has a large and growing middle class and, as in China, we expect to see this segment continue to consume more and more — this is covered in more detail in our recent article: "Emerging Markets Beyond China".[1] As emerging market middle classes grow, the propensity to consume more than just basic staples also grows — housing, healthcare, insurance, smartphones, luxury items, gaming etc. all become more important to consumers. These are the sectors that we like to invest in, where we see the capacity for consumption to pick up as the consumer becomes wealthier.

The EM Equity Select strategy outperformed in 2019. Where did you see alpha?

GB We saw alpha largely across the board, although it was concentrated in countries such as India, Brazil, China, and Korea. We saw strength in growth stories such as China and India, and recovery stories like that of Brazil. We benefited from good stock selection in Korea — despite economic growth being relatively modest, we were able to navigate the country's technology stock landscape quite well. There was strong alpha beyond those countries as well, including in Russia and Hungary.

The EM Equity Select strategy reached its five-year anniversary at the end of 2019. Can you share some of your observations from the period and what lessons have been learned?

GB One observation is that EM countries struggle to grow uniformly in a world where developed markets growth is sluggish and trade is pressured. EM countries can still generate high return opportunities, but the broad benchmark itself has challenges. The International Monetary Fund (IMF) expects average EM growth to be 4.6% in 2020, which stacks up well compared to developed markets. But within that growth forecast, only four countries will likely be above average — India, Indonesia, China, and the Philippines. Now, strong growth doesn't always mean strong stock returns, but it creates a favorable tailwind when you find an attractive bottom-up stock story that is operating in a strongly growing economy. However, even in EM countries where growth is more modest (such as Mexico, Brazil, South Africa and Russia) and the investment landscape more challenging, our research analyst team has been able to find stocks that have delivered alpha.

AX In terms of performance, the strategy delivered significant alpha and outperformed in four out of the five years. A significant portion of the alpha came from stock selection, reflecting our bottom-up process that is focused on finding good companies and investing for the long-term — at the core of that process is our Confidence Quotient framework for evaluating high-quality companies. While the broad EM index contains companies that we consider to be "low quality", which has contributed to the overall underperformance of EM relative to developed markets, this also creates alpha opportunity.

LO I think a key learning from the past five years is the importance of understanding both external and idiosyncratic risks associated with investing in emerging markets. External risks such as slowing growth in developed markets, slowing global trade, or tighter global liquidity, for example, may dampen flows to emerging markets and impact the entire asset class. Idiosyncratic risks or individual country specific risks impact the performance of a country or region relative to the benchmark. One particularly pertinent risk that impacts some countries more than others is the level and direction of the US dollar. Dollar liquidity is critical for global markets, and even more so for emerging markets.

Looking forward, what are your thoughts about EM equity fundamentals at these levels? What are you worried about?

GB We like EM at current levels for a number of reasons. First, we expect that a likely earnings growth rebound will see EM earnings growth achieve its natural premium to developed markets. Right now, consensus market expectations is for 14.9% earnings growth for EM; we think this may be a little lower by the time we get to the end of 2020, but it's still likely to be far above developed markets' growth. Second, global liquidity appears stable. If the US dollar stays neutral or weakens, that could create a tailwind for EM. Third is the likelihood that risk perceptions moderate. We think this is even more likely to happen with the signing of the phase one trade deal and the likelihood that we won't have further trade agitations until after November's US presidential election. But, in my view, the perception of risk around trade is being normalized. I don't believe it's going away for a long time, but markets have become more conditioned to it and better at bracketing outcomes — therefore, the downside scenario being priced in isn't is as bad as it was a year ago. Finally, valuations are at reasonable levels for EM, both in terms of their absolute price-to-earnings multiple and relative to the historic discount to developed markets.

In terms of worries, probably the biggest one would be under the umbrella of geopolitical risk.

AX As active investors running a concentrated strategy, we don't aim to own the market; we own a select set of companies. We are confident about what we own in EM, and we continue to see a wide range of opportunity across the market.

LO I would say that EM is trading at a fair value level, maybe a little bit cheap-to-fair as George has stated. Our EM Select strategy focuses on investing in quality companies with sustainable long-term growth, so one worry about relative performance would be a "junk rally". We are entering a new year and a trade deal should reduce tariffs and provide some quiet on the trade front. The US Federal Reserve is expected to keep rates low for some time, while European economic growth could begin to pick up. While all of this is positive news for emerging markets, performance of high quality growth companies could lag if market participants become overly exuberant and less discriminatory. A junk rally would likely set us back, but we remain confident in our holdings and our positioning for the long term.

What is your view on the macro outlook and how do you incorporate top-down thinking into your process?

LO Accurately predicting what will hit markets is always difficult, but when an economic or political event occurs, we immediately assess the impact on our holdings and overall portfolio. The team often discusses possible risk events, but when a shock hits the tape we shift focus to determining possible outcomes, the impact to our investment assumptions both at a country and stock level, and the required action — do we trim or sell, add or buy? How do things look for our stocks if we factor in a stronger or weaker currency? A change in the regulatory or tax environment? A change in government?

A recent example would be Argentina. After the surprise opposition victory in the primary election in August, the stock market was down sharply and the currency fell over 30%. With one of our stocks impacted, there was an immediate connection between portfolio managers and our Latin America analyst to determine the implications for the country and the stock, and whether to hold on through the risk. In a similar vein, social unrest hit Chile in October, sending the economy into crisis. Although the portfolio had no exposure to Chile, the decline in the currency and de-rating of the stock market prompted us to look at whether this event created an investment opportunity. Our analyst revised assumptions on targeted stocks.

In the end, we maintained our Argentine stock position as the majority of its revenue is generated outside Argentina. We decided to pass on Chile, as the government's immediate solution of increasing fiscal spending and the central bank's policy shift to spend foreign currency reserves to support the currency and maintain low interest rates increased the country's external vulnerability. The Chilean government proposal to change the constitution is positive, but it will take several years to complete, leaving political uncertainly high in the meantime. In addition, bottom-up stock opportunities in Chile are still limited, in our view.

GB Considering countries' prospects is important as part of a holistic approach to assessing the factors that can impact a stock. It's a macro process that we believe is a key differentiating factor for our investment team. But a good country doesn't necessarily create good stocks. The Philippines has a fast-growing economy, but its stock market struggled in 2019. In contrast, Brazil is not growing particularly quickly, but its market enjoyed a strong 2019 gain. Having experienced analysts who can wrap macro thinking into their bottom-up work is key to ensuring we have the right confidence level around our forecasts. So, we believe that top-down analysis is important, but only as part of a holistic view into our bottom-up stock selection process.

In Depth: India's Digital Transformation — Investment Opportunities and Risks

Sanjib Guha
Research Analyst

India's economic expansion has continued apace and this has extended to the digital economy, where growth has accelerated sharply since 2016. The potential for growth offers significant opportunity potential for investors as companies seek to take advantage of the evolving landscape.

India is digitizing at a very rapid pace, driven by reinforcing trends of cheaper mobile data, increased smartphone ownership, and faster connection speeds. This will have a significant impact on the long-term prospects of the Indian e-commerce market, which is set to grow from $48.5 billion in total revenue in 2018 to more than $200 billion by 2026, according to the US Department of Commerce and the Indian Brand Equity Foundation[2] — this will make it one of the largest e-commerce markets in the world. Large global players such as Amazon and Walmart recognize the potential and are investing aggressively in the Indian market. We are also seeing marquee investors like Alibaba, Softbank, and Berkshire committing significant capital to Indian e-commerce.

Drivers of E-commerce

Availability of Cheap Mobile Data This is the primary enabler of the structural shift to e-commerce, and has accelerated since 2016 when Reliance Jio, an Indian telecoms firm, entered the mobile service market and cut data prices by more than 90% to USD0.26 per gigabyte at current prices, the cheapest in the world according to comparison site Cable.co.uk.[3]

Growth of 4G Almost all smartphones sold in India are now 4G-enabled compared to less than 40% three years ago. India currently has the highest data consumption per smartphone in the world at 9.8GB/month, up from less than 0.5 GB/month three years ago.[4]

Internet Usage India's internet user base is growing at a double-digit rate and is expected to have reached 627 million users by the end of 2019 and to hit 829 million by 2021.[5]

Underpinning Future Growth

Scope for Online Shopping Expansion Despite the phenomenal growth in internet access and use, only about a quarter of the current users are shopping online, compared to more than 70% in the US and China.

This proportion is likely to increase drastically as these new Indian users gain digital maturity, predominantly due to the availability of cheap data. According to the Morgan Stanley Research Alphawise Survey, per capita spending of online shoppers typically doubles on average after six years of digital maturity. Given that the data boom in India started in 2016, we expect to see a profound acceleration in e-commerce activity in the coming years.

Digital Payments Transformation Other than cheap data, a strong digital payment ecosystem is a prerequisite for an online economy. India has made huge progress on this front over the last five years. Digital payments are now 17% of GDP, compared to 6% two years ago. The transformation began in 2014 with a government push for financial inclusion, under what is known as the Jan Dhan Scheme. The main objective of this scheme has been to ensure that all Indians have access to bank accounts.

This paired nicely with "Aadhar" — the universal identity program that was launched in 2010. As a result of Aadhar, more than 90% of the country's population is now registered in the biometric digital database, making banks' know-your-customer processes much smoother than before. This has established a foundation for digital payment options like mobile wallets, which has been growing at more than 50% per year.

Another success has been the launch of Unified Payments Interface (UPI), a real time payment system facilitating instant transfer of funds between bank accounts through mobile platforms. UPI has surpassed all expectations and already accounts for more than half of all retail digital transactions in India. This is remarkable for something which started only three years ago.

These building blocks, along with favorable demographics in India, have the potential to transform e-commerce from hobby to habit, taking it from 1.7% of GDP to more than 4% of GDP by 2026.

Key Risk: Changing Regulatory Landscape

The key risk to the thesis we've set out is the changing regulatory landscape in India. We saw an example of this in late-2018 when regulations were tightened to ensure that e-commerce companies with Foreign Direct Investment (FDI) operate truly as marketplaces where they have no control or ownership of the merchants operating on their platforms. This has necessitated that e-commerce players re-strategize and restructure to adhere to these regulations.

It is also important to policymakers that e-commerce does not cause deep cuts to the traditional offline retail market participants (typical mom and pop stores and small traders). It will be interesting to see new formats emerging that strive to bring traditional retailers under the digital umbrella and create a seamless online-offline model. Reliance Industries is one of the key players actively working towards that with their dominant positioning in both data (RIL Jio) and offline retail (Reliance Retail). If they succeed in making this format work, we could see strong online growth in lower margin segments such as fresh and grocery.

E-Commerce Growth: Final Thoughts

We view India's online journey as very exciting. Our investment approach looks for high-quality companies that can deliver sustainable growth at reasonable valuations. We also look for low penetration in a large addressable market. The rise of e-commerce in India is a secular theme that we think can drive sustainable growth for well-positioned companies. However, given that e-commerce has typically been characterized by "winner takes all" market dynamics, we are careful to back the right management with the appropriate vision and execution capability.

Stock Study: Martin Marietta — Underpinned by Strong Foundations

John Flynn, CFA
Portfolio Manager, Global Equity Select Strategy

As children we learned early on that paper covered rock, rock beat scissors and scissors cut paper. Each option could win or lose, all disputes could be settled and the world was in equilibrium. Taken as investments in an age of disruption however, which one would be most attractive? Paper has suffered from the relentless push of electronic communication, while scissors are not difficult to manufacture and have also been weighed down by paper's decline. Only rock has proven an attractive investment in this modern time as the foundation for our homes, roads and structures.

By considering the sustainability of long-term supply/demand trends and examining underlying business models, investors can find opportunities in places that may not be readily apparent. Martin Marietta Materials is just such an investment opportunity.

The Company

Martin Marietta is a United States listed producer of heavy construction materials. The bulk of the business involves the production and sale of crushed stone or aggregates, obtained from a network of quarries spread predominantly across the southern half of the US. The company's markets are experiencing strong demand growth, driven by regional demographics and state level funding. The business has strong pricing power and a business model that is difficult to replicate. Lastly, management has made prudent decisions balancing growth and financial stability while not losing sight of environmental, social and governance (ESG) priorities. Combining these qualities with a reasonable equity valuation and potential additional upside underpins our view that the stock presents as an attractive investment proposition.

Advantageous Geographic Exposure

Since Martin Marietta was listed on the stock exchange in 1994, product volumes, price inflation and acquisitions have taken the business from $500m in revenue in 1994 to nearly $14bn in 2018, an annualized growth rate of 15%. Today, the business includes over 300 quarries, mines and yard sites across 31 states, and it is this geographic expansion that has positioned the company well for growth ahead.[6]

Founded in Raleigh, North Carolina in 1939, Martin Marietta has built upon its roots in the Southeastern US to establish a footprint stretching from the Mid-Atlantic to the Rocky Mountains. In doing so, the company has developed an expertise in identifying, acquiring and integrating smaller industry players. The company closely followed demographic patterns and realized that prospects were better where populations were expanding. States such as Texas, Colorado, North Carolina, Florida, and Georgia enjoy above-average population growth, strong fiscal positions and are some of the largest markets for Martin Marietta. Layering on specific opportunities, such as energy infrastructure development on the gulf coast, underpins expectations that the company should continue to experience above industry growth.

Attractive Business Model

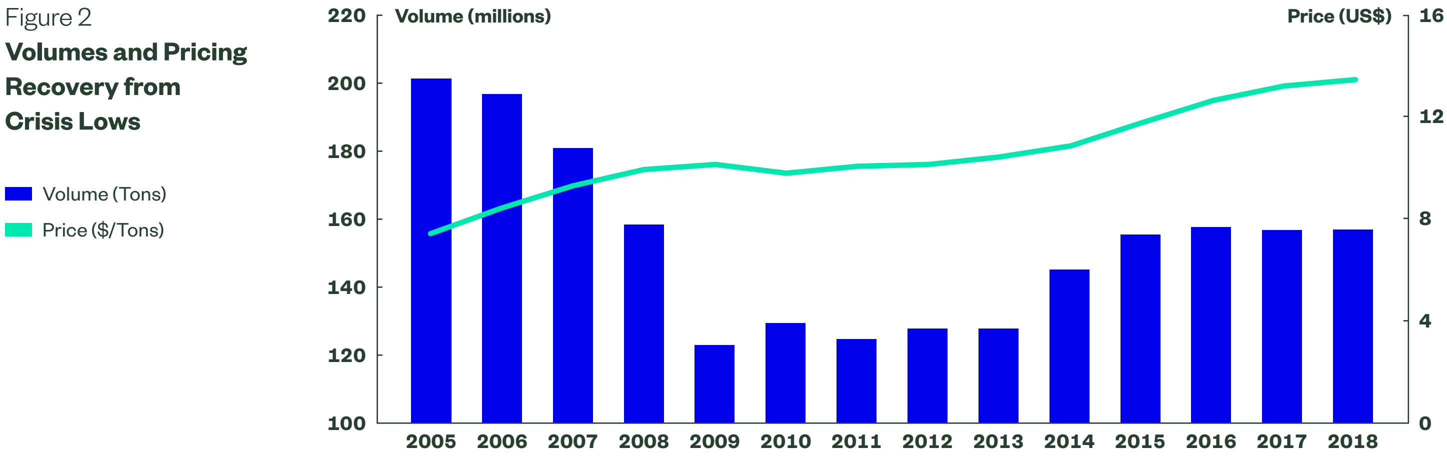
Growth in demand is important, but it takes a strong business model to capture the opportunity and fend off competition. In this respect, the industry has many attractive features. The high weight-to-cost ratio (prices can range from $10–20 per ton) means there are limits to how far from a quarry a shipment can be sold, particularly if rail or seaborne access is restricted. Transport by truck can cost 15–35 cents/ton per mile (assuming 20–25 tons per truck), by train it's 4–9 cents (100 tons per railcar) and by ship it's 0.5-1.5 cents/ton per mile (assuming 45,000 tons per ship).

By targeting assets located close to expected demand and generally away from competitor quarries, aggregate companies can set pricing under an umbrella of transportation cost.

Natural stone has unique properties that make substitution difficult, while trying to do without it risks lessening structural integrity. Additionally, the low cost of stone relative to the typical overall project cost makes customers relatively price insensitive. Lastly, many higher growth regions are geologically lacking in stone resources, and even where they can be identified, the hurdles to opening a new quarry are exceedingly high (i.e. regulation, NIMBY, urbanization). In such areas, a proprietary rail network can also provide an advantage.

Within a consolidating industry, all of these factors contribute to a high degree of pricing power. In fact, despite the sharp fall in volumes that resulted from the 2008 financial crisis, overall pricing levels hardly moved from 2009 to 2011 and, more recently, prices have reestablished a steady upward trend (Figure 2).

Figure 2
Volumes and Pricing Recovery from Crisis Lows



Source: Company data, State Street Global Advisors.

Management Expands Footprint Through M&A

The construction materials industry in the US has undergone considerable consolidation over the last 50 years and Martin Marietta has been a key participant. Whether acquiring individual quarries or engaging in more substantial corporate deals, the company's management team has proven skilled at identifying strategic assets, executing on integration and extracting synergies. Two of the larger deals under the current management team illustrate this point. In mid-2014, Martin Marietta acquired Texas Industries for $2.6bn, amounting to roughly 50% of its own market capitalization at the time. In doing so, the company was able to broaden their product offering while doubling down on a geography that they believed presented strong growth prospects. Texas is now the largest state exposure for the company and they have an especially strong position in the key metro regions of the Texas Triangle.

In 2018, Martin Marietta completed the acquisition of Bluegrass Materials for $1.6bn. At the time, Bluegrass, which itself had grown through acquisition under family and private equity ownership, was the largest closely-held pure play aggregates business in the US. Bluegrass Materials was arguably a unique opportunity to expand in a pure aggregates business and improve upon the firm's already strong position across the Southeast US.

In addition to strategic rationale, Martin Marietta management also ensured that these larger deals were not damaging to the company's balance sheet. Texas Industries was a merger of shares and Bluegrass was structured with cash and debt that has been rapidly repaid. Today, with net debt-to-EBITDA comfortably below 3.0 times, management can think about future opportunities to expand the asset base and further improve their market position.

Sustainable Growth

While issues such as environmental impact, employee safety and ethical behavior have been priorities at Martin Marietta for some time, the company began formally incorporating these efforts into a Sustainability Report in 2015. Their approach to sustainability cuts across four categories; Safe Operations, Environmental Stewardship, Employee Well Being and Community Well Being, and the company has demonstrated success in maintaining high standards. As businesses are added to the portfolio, new employees are integrated into Martin Marietta's culture of safety and ethics and a senior executive is immediately placed within the ranks.

The construction materials industry has had difficulty addressing the issue of emissions. It is important to make the distinction between aggregates production and the much more energy intensive cement and concrete production. As an aggregates producer, Martin Marietta carries a much smaller carbon footprint than many companies in this industry. In fact, water usage is a more relevant environmental issue for the company as water is important to minimize dust and small particles in the air. The company has engaged in significant efforts to reuse and reservoir water, particularly in high-stress locations such as Texas and Colorado. We think the company is focusing on the right areas in order to ensure the long-term sustainability of the business.

Growth at a Reasonable Price

We believe valuation should be considered in terms of the forward price multiple (e.g. to earnings or cash earnings) and how that multiple compares to the company's long-term growth prospects. In this respect, Martin Marietta looks reasonably valued by the market today. The company has many ways it can deliver continued long-term growth through the continued build-out of US infrastructure, as well as the exertion of pricing power as owners of a scarce resource. Additionally, we expect the company will continue to translate free cash flow into accretive merger and acquisition opportunities. While the shares performed well in 2019, the prior year was more difficult. The current forward price to cash earnings multiple does not appear stretched relative to our cash earnings growth expectations over the coming three-to-five years.

Where could we be wrong?

Martin Marietta operates almost entirely in the US and as such is reliant upon domestic economic activity to drive volumes. Demand for heavy construction materials comes from three main areas: public infrastructure, private non-residential construction and residential construction. The strength of each end-market can vary over time depending on federal funding, state and local budgets, business cycles, and housing markets. We believe that the outlook for all three areas is fairly strong in the US, but we continue to monitor market conditions for any signs of overheating or funding constraints.

Conclusion

Evaluating investment opportunities involves more than just identifying growth. It means studying the underlying business and investigating answers to key questions. Is this fundamentally a good business? Is it in capable hands? What is driving growth and is that growth sustainable? Only then can we determine whether the market has applied a reasonable price. We use a framework we call Confidence Quotient (CQ) to assess these qualitative variables, and Martin Marietta has a compelling CQ, scoring well in the categories of management and market position.

Martin Marietta Materials offers an attractive investment proposition. The company is positioned in attractive, expanding markets with a runway for future growth. Industry structure ensures that the company will be able to take advantage of opportunities and an experienced management team should continue to run the business in a sustainable manner. Rock, Paper, Scissors...Rock wins every time.

Contributor

Thomas Kronzer
Portfolio Strategist, Fundamental Growth and Core Equity

Endnotes

1 Emerging Markets Beyond China, November 2019.

2 Source: IBEF as of December 2018, Export.gov.

3 Source: The Economic Times, March 2019. "India has the cheapest mobile data in world: Study."

4 Source: livemint.com. India's data usage per smartphone highest in world at 9.8GB/month: Report.

5 Source: The Economic Times. Internet users in India to reach 627 million in 2019: Report.

6 Source: Martin Marietta.

GIPS® Report: Emerging Markets Equity Select Composite

(As of December 31, 2018)

Gross Returns

Period	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Inception Jan 2015
Emerging Markets Equity Select Composite	-8.39	-15.58	-15.58	9.98	N/A	N/A	3.89
MSCI Emerging Markets Index	-7.47	-14.58	-14.58	9.25	N/A	N/A	2.63

Year	Emerging Markets Equity Select Composite	MSCI Emerging Markets Index
2018	-15.58	-14.58
2017	40.81	37.28
2016	11.90	11.19
2015	-12.44	-14.92

Period	Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Inception Jan 2015
2018	*	N/A	14.82	14.60	514,181,568	0.02	2,457,404
2017	*	N/A	15.15	15.35	855,494,266	0.03	2,714,705
2016	*	N/A	**	**	680,044,899	0.03	2,291,833
2015	*	N/A	**	**	608,753,103	0.03	2,188,091

gGEAM-GLEM.
* 5 portfolios or less.
** Less than 3 years.
Quarterly and YTD returns are not annualized.

Footnotes

Firm Definition For the purpose of complying with the Global Investment Performance Standards (GIPS®), the firm ("SSGA-Global") is defined as all portfolios managed across the global offices of State Street Global Advisors (SSGA) and SSGA Funds Management, Inc., with the exception of Charitable Asset Management which is held out to the marketplace as a distinct business entity. Prior to January 2011, SSGA-Global excluded its wrap fee business and assets accounted for on a book value basis (global cash and stable value assets). Prior to July 2017, SSGA-Global excluded Fiduciary Advisory Solutions. In January 2011, SSGA acquired the Bank of Ireland Asset Management Limited (now known as SSGA Ireland Limited), a GIPS Compliant firm. On January 01, 2012 SSGA Ireland Limited assets were merged into SSGA-Global. In July 2016, SSGA acquired the asset management and advisory services business conducted by GE Asset Management ("GEAM"), a GIPS Compliant firm. On July 01, 2017 GEAM assets were merged into SSGA-Global.

Composite Description The Composite includes all discretionary accounts using the global emerging markets equity investment style and investing in emerging market companies.

Composite Name Change As of July 31, 2018, the composite name changed from Global Emerging Markets Equity Composite to Emerging Markets Equity Select Composite.

Compliance Statement SSGA-Global claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with GIPS. SSGA-Global claims compliance with the GIPS standards from January 01, 2000. The period prior to January 01, 2000 (where shown) is not in compliance, as not all actual fee-paying portfolios are in a composite. SSGA-Global has been independently verified for the periods January 01, 2000 through December 31, 2017. GE Asset Management (GEAM) was not independently verified for the calendar year 2016 while transitioning into the firm. The verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

List Available A complete list of the firm's composites and their descriptions is available upon request.

Currency Performance is presented in USD.

Creation Date The composite was created on March 01, 2015.

Benchmark Description The benchmark for the composite is the MSCI Emerging Markets Index. Index returns are unmanaged and do not reflect the deduction of any fees or expenses but include all items of income, gain, and loss.

Use of Subadvisors None.

Fees Returns are expressed gross of management fees. The results do not reflect the deduction of investment management fees. Some members of this composite may accrue administration fees. The client's return will be reduced by the management fee. For example, if an annualized gross return of 10% was achieved over a 5-year period and a management fee of 1% per year was charged and deducted annually, then the resulting total return would be reduced from 61% to 54%.

Fee Schedule Management fees are 0.900% of the first $50,000,000; 0.850% of the next $50,000,000; and 0.800% thereafter. The minimum annual management fee for separately managed accounts is $250,000. Management fees may be adjusted based upon specific client requirements.

Derivatives Use SSGA may use futures and other derivatives from time to time in the management of the Strategy generally as a temporary substitute for cash investments or for hedging purposes and not with the purpose of creating investment leverage.

Calculation Methodology Additional information is available upon request regarding the firm's policies and procedures for calculating and reporting performance results as well as valuation procedures.

Annualized Returns All returns for periods greater than one year have been annualized.

Withholding Taxes Differences None.

Exchange Rates Differences Between Composite & Benchmark None.

Minimum Asset Level for Inclusion 0.

Dispersion Asset-Weighted standard deviation is calculated using the annual returns of the accounts that were included in the composite for all periods of the year and is not presented for periods with 5 or fewer accounts in the composite for the full year.

Significant Events On March 30, 2016, SSGA agreed to acquire GE Asset Management (GEAM). The transaction was finalized on July 01, 2016. In July 2016, Ralph Layman became Vice Chairman of SSGA. In August 2018, Michael Solecki, CIO for Fundamental International Equities became CIO for Fundamental Growth and Core Equity. Jay Hooley retired as CEO of State Street Corporation at the end of 2018, succeeded by Ron O' Hanley who was also appointed President and COO. Cyrus Taraporevala became President and CEO of State Street Global Advisors.

Past and Future Performance Historic performance is not necessarily indicative of actual future investment performance, which could differ substantially.

Portability GE Asset Management (GEAM) integrated into SSGA-Global as of June 30, 2017 in accordance with the Guidance Statement on Performance Record Portability.

Significant Cash Flows Effective January 01, 2017, the Composite no longer has a Significant Cash Flow Policy. Prior to that date, the Composite implemented a Significant Cash Flow defined as cash flow activity that exceeds 50% of an account's total assets (prior to January 01, 2008, a Significant Cash Flow was defined at 20% of an account's total assets).

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* AUM reflects approximately $43.96 billion USD (as of September 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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