

# Fundamental Value

High Conviction  
You Can  
Count On

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Our investors seek the long-term risk and return characteristics that only true value investing can provide.

Like our investors, we believe that the market offers opportunities for disciplined investors to acquire stakes in strong businesses at attractive valuations. We also believe that pursuing these opportunities requires the humility, patience and concentration of an experienced specialist.

At State Street Global Advisors, we deliver the distinct exposures that investors expect from an unconstrained fundamental value manager. Across all phases of the market cycle, our process and portfolios reflect a consistency and conviction that is increasingly hard to find.

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## Value Investing Requires Clarity of Purpose

Over decades of practicing our craft, we have developed a clearly defined philosophy of value that underpins all aspects of our investment approach.

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## Defining Value on Our Terms

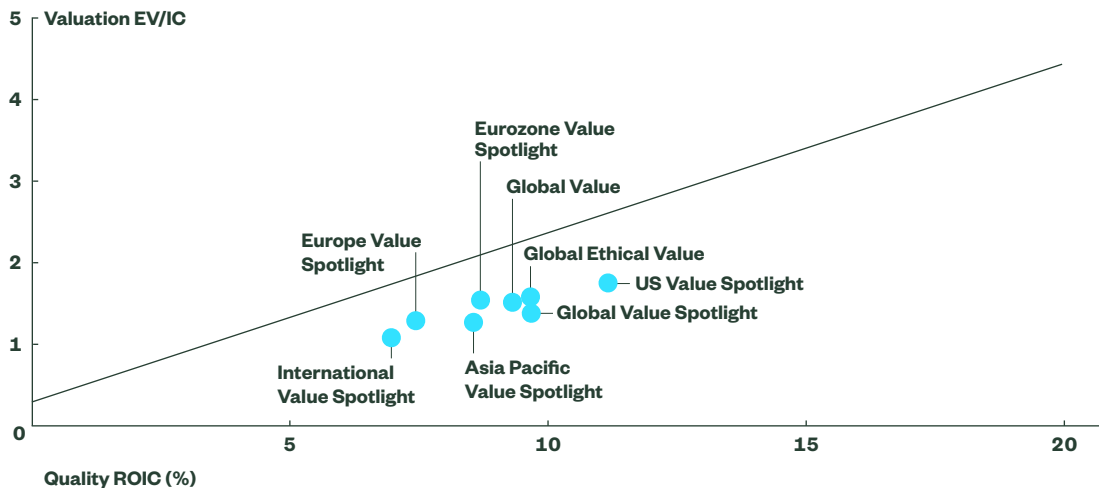
When putting our clients' capital to work, our goal is to maximize the earnings power of every dollar we deploy. We aggressively pursue value wherever we find it, rather than being influenced by benchmarks and indices whose rules run counter to our definition of value. We do not believe that there is safety in numbers — quite the opposite. Popular stocks rarely score well on the metrics we have identified as the true indicators of value.

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## Value The Trade-off Between Price and Quality

We seek opportunities where the market's valuation of a company is disconnected from our view of the quality of that business. In making this assessment, we focus on both sustainable earnings power and capital efficiency, or the manner in which management deploys shareholder capital. We capture both in one metric — return on invested capital (ROIC) — and then look for companies where the market rating of invested capital (EV/IC) is low relative to the productivity of that capital (ROIC).

Figure 1  
**Finding Undervalued Earnings Power**



Source: CSFB Holt — a trade-mark of Credit Suisse Group, State Street Global Advisors, as of March 31, 2019.

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## Analyzing Value on Common Ground

As bottom-up investors who allocate capital based on the attractiveness of individual stocks, our analysis of each opportunity must be comparable — across sectors and regions. Our proprietary screening tools, customized accounting framework, common modeling and valuation tools and centralized location all reinforce our pursuit of this goal.

## Value Investing Requires Uncommon Conviction

Our benchmark-agnostic, highly concentrated approach empowers us to invest in only our most compelling ideas.

## Delivering the Exposures Value Investors Seek

Many managers claim to buy only quality companies that are cheap. This is much easier said than done, even for many value managers. But you always know where to find our strategies on a style map.

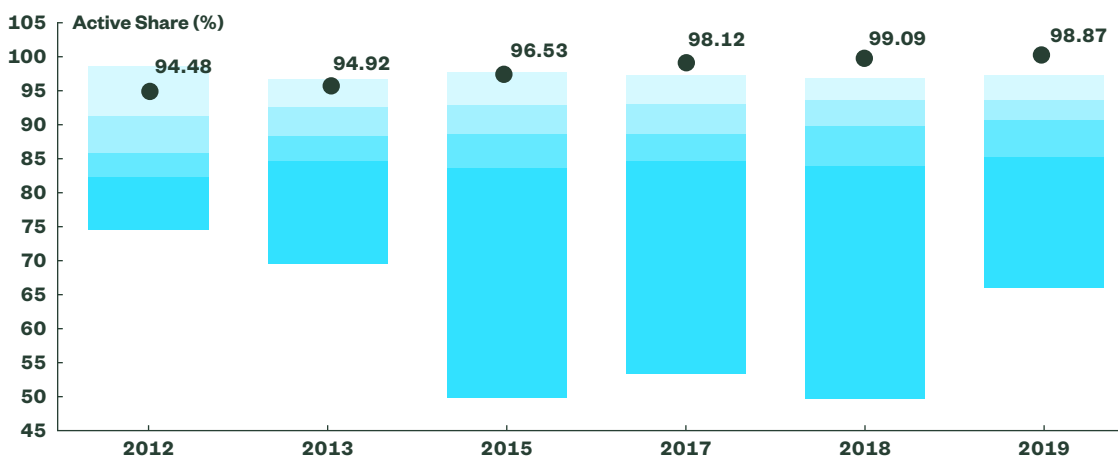
We believe in and adhere to our process, so our portfolios are exactly what you would expect from a high-conviction, fundamental value manager. This is especially important for investors using a core-satellite structure, in which highly concentrated, fundamental value is a diversifying complement to other portfolio positions.

Our discipline and consistency are rooted, not in blind adherence to a quaint philosophy, but in lessons learned over decades. We know that in seeking to protect and grow our clients' capital, we will "miss out" on some opportunities. This is a trade-off we are willing to accept because staying true to our mandate is the right thing to do for our clients.

## Concentrating on Our Best Ideas

Holding concentrated portfolios empowers us to invest in only the most compelling opportunities and avoid the perils of over-diversification. We cast a wide net, starting from a universe of nearly 5,000 stocks. We then conduct rigorous research and ultimately focus our portfolios on 30–40 of our very best ideas. This concentrated approach means that all our strategies have high active share and the alpha-generating potential our investors seek.

Figure 2  
**Active Share Proves Our Conviction**



Source: Evestment, October 2019. The rankings information is provided by eVestment Analytics. Observations based upon voluntarily self-reported data to eVestment.

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## Value Investing Requires an Enduring Culture

We have built a team and culture that are steadfastly focused on the craft of fundamental value investing.

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### Consistency That Stems from Stability

Our highly competitive track record is a direct result of the stability of our team (nine years average tenure; 19 years average industry experience) and the consistency with which we apply our investment process.

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### All Our Thinking Under One Roof

Our entire team is located in our open-plan office in Dublin, Ireland. Having everyone together cultivates a distinct culture and promotes ongoing conversations — and subjects our ideas to scrutiny from a range of perspectives.

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### Structured to Encourage Collaboration

Our portfolio managers and analysts are peers in every sense of the word. This structure creates more opportunities, leads to exceptional stability and fosters collaboration across every phase of the investment process.

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### Aligned with Investors' Objectives

Our performance-based compensation involves an extended look-back period that strengthens our focus on long-term returns. Co-investing alongside our clients reinforces this alignment of interests.

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### Backing of a Global Leader

We have been committed to fundamental value investing for more than five decades. Since joining State Street from Bank of Ireland in 2011, we have continued to pursue this mandate in unflinching style. We operate like a boutique firm in terms of our focus and specialization, and we leverage State Street's powerful trading, distribution and support services. The financial stability that comes with being a part of the world's third-largest asset manager allows us to remain true to highly concentrated fundamental value investing through all market cycles.

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To learn more about our fundamental value capabilities, visit [ssga.com/fundamental-value](https://ssga.com/fundamental-value).

## About State Street Global Advisors

For four decades, State Street Global Advisors has served the world's governments, institutions and financial advisors. With a rigorous, risk-aware approach built on research, analysis and market-tested experience, we build from a breadth of active and index strategies to create cost-effective solutions. As stewards, we help portfolio companies see that what is fair for people and sustainable for the planet can deliver long-term performance. And, as pioneers in index, ETF, and ESG investing, we are always inventing new ways to invest. As a result, we have become the world's third-largest asset manager with US \$2.95 trillion\* under our care.

\* 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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