

Smart Beta

Target the Real Drivers of Return

Institutional investors today contend with a range of challenges — whether that’s bridging the gap between what they have and what they need, reducing risk while improving returns or simply getting more value from their investments.

Smart beta can help investors address these challenges and build a better portfolio by efficiently targeting the real drivers of returns. And what’s more, it’s straightforward, systematic and cost-effective.

A prolific researcher in the smart beta field, State Street Global Advisors was among the first to offer institutional investors access to the strategy’s lower-cost, long-term benefits. And, as an indexing pioneer, the skills essential to trade and implement smart beta are core to our investing DNA.

In 1993 we introduced one of the earliest smart beta strategies. Today, decades of peer-reviewed research later, we continue to innovate with our new core factor strategies that combine multiple smart beta factors, helping to maximize outperformance potential.

Why Smart Beta Makes Sense for Institutional Investors

Smart beta can help investors target better risk-adjusted returns and capture excess performance in a more cost-effective way.

Extensive research has shown that factors drive returns. In fact, between 50% and 80% of a portfolio's excess return can be attributed to exposure to specific factors, such as low volatility or size.* Factors can offer the potential of delivering outperformance versus traditional cap-weighted indexes over the longer term.

Targeting these sources of return was previously only achievable through expensive active investment management. Exhaustive research and sophisticated portfolio construction techniques have allowed these sources to be isolated and accessible to more investors through lower-cost, rules-based smart beta strategies.

*Source: SSGA Research 2018

How to Use the Factors That Drive Returns

Implementation	Single Factor (Use one of the factors)		Multifactor
	Value	Lower-valuation stocks tend to outperform higher-valuation stocks.	Combines two or more of the factors to target improved performance characteristics.
	Size	Smaller-capitalization stocks tend to outperform larger-capitalization stocks.	
	Volatility	Lower-volatility stocks tend to outperform higher-volatility stocks.	
	Quality	Higher-quality stocks tend to outperform lower-quality stocks.	
	Momentum	Stocks with good recent performance tend to continue to perform in the near term.	
How to Use	Investors can implement single factors through individual strategies to tailor them to their beliefs.		
The Benefits	Easier to attribute performance more precisely. Enables efficient tailored implementation of investment beliefs.		Reduction in portfolio management costs and cyclicity issues. Netting of securities.

Helping You Get More from Your Core

Research-led and experience-driven, our team brings practical expertise to smart beta strategy design and execution — from what factor combination to choose given current goals, holdings and constraints, through to timing and implementation guidance.

Having a large number of active managers, as many institutional investors do, can lead to overdiversification and returns that are effectively derived predominantly from factor exposures. In such cases, smart beta can be used instead to gain exposure to the same factors — but at a reduced cost and with more straightforward implementation.

A Team That Delivers

15+

portfolio managers focused on smart beta delivery.

8

researchers

5

global locations

Research

State Street's dedicated research and portfolio management teams have a clear view and conviction about the fundamentals of smart beta.

Our industry-leading, peer-reviewed research guides how we manage our portfolios and continually feeds into our products and strategies.

This ongoing research program has delivered many real-world actionable insights such as how to implement and use single-factor smart beta and how multiple factors can be optimized and used to enhance each other in combination.

Innovation

As leaders in the field, we continue to be at the forefront of bringing innovative, new solutions to market, such as currency and self-indexing smart beta.

Our latest innovation is our core factors strategy. Here, we combine a number of factors, aiming to maximize expected return while optimizing for competing objectives such as lower turnover and risk.

We're continuing to develop new strategies such as those that help investors realize the long-term performance benefits that ESG investing can deliver.

These innovations and others can help our clients get more out of the market in a cost-effective way.

Expertise

With our long history of precision indexing and smart beta experience, we aim to help clients identify and invest in the right exposure.

We've seen the returns of factors and know how to implement them.

Experts across asset classes and smart beta managers for over 25 years, we've built strong opinions about smart beta.

Working with some of the world's most sophisticated investors implementing smart beta programs tuned to their specific challenges, we've learned what works and what doesn't. We understand the challenges and practicalities of implementing smart beta successfully.

Capturing All the Factors

As one of the world's largest providers of institutional smart beta we have the resources to invest in critical infrastructure and research to support sophisticated and rapidly evolving portfolio management processes, such as self-indexing.

Our broad range of smart beta capabilities extends across multiple asset classes including equity, fixed income and currency. Alongside our own innovative proprietary approaches, we offer a full range of off-the-shelf solutions through segregated, pooled funds and ETFs. All available in multiple domiciles.

A Long History of Delivery

25+

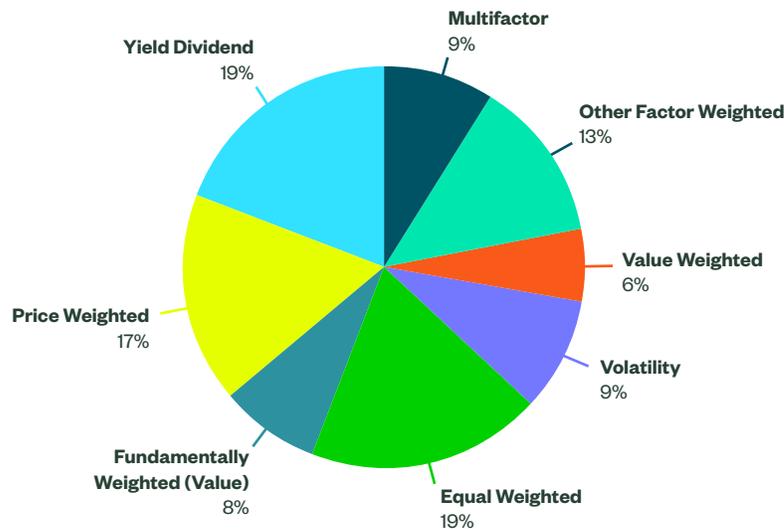
years delivering excellence in smart beta

\$130+

billion in equity smart beta AUM

Source: SSGA As of June 2018

Assets by Strategy



Our Latest Innovation

Factors tend to outperform over the long term but short-term performance can be cyclical, making the overall structure and implementation of a factor-based portfolio critical. Factor returns are only as good as an asset manager's ability to harvest them efficiently.

Our core factor approach combines multiple factors and optimizes them, providing broad diversification and maximizing the potential to outperform, all in one powerful, easy-to-implement package.

We target the key smart beta factors while minimizing unintended exposures and ensure that investors maintain certain minimum levels of exposure to all the factors over time.

About State Street Global Advisors

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

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

For four decades, these principles have helped us be the quiet power in a tumultuous investing world.

Helping millions of people secure their financial futures.

This takes each of our employees in 27 offices around the world, and a firm-wide conviction that we can always do it better. As a result, we are the world's third-largest asset manager with nearly \$2.7 trillion* under our care.

*This figure is presented as of 31 March 2018 and includes approximately \$56 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.

ssga.com

Important Risk Information

Investing involves risk including the risk of loss of principal.

A Smart Beta strategy does not seek to replicate the performance of a specified cap-weighted index and as such may underperform such an index. The factors to which a Smart Beta strategy seeks to deliver exposure may themselves undergo cyclical performance. As such, a Smart Beta strategy may underperform the market or other Smart Beta strategies exposed to similar or other targeted factors.

In fact, we believe that factor premia accrue over the long term (5-10 years), and investors must keep that long time horizon in mind when investing.

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

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