

Investment Management Services



Alert

Fund Manager State Street Global Advisors Ltd. / GE Asset Management Ltd.

Date December 2016

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State Street Global Advisors ('SSGA'), having recently completed the transaction to acquire GE Asset Management ('GEAM') in September 2016, announced that the following change for the GEAM US Equity Fund will take effect on January 27 2017:

As a blended strategy, the current portfolio structure of a 40/30/30 roll-up of three underlying strategies, Core, Value and Growth, will be replaced by a new portfolio structure of 70/30 of two different Core strategies, US Researched Enhanced and US Select.

Dave Carlson, CIO of the US Equities Team, Lead Portfolio Manager of the Fund and Portfolio Manager for the underlying Growth strategy, will continue to assume the Lead PM role. He is also the Portfolio Manager for the new underlying US Select strategy.

Paul Reinhardt and Steve Gelhaus, Portfolio Managers for the underlying Core and Value strategies, will be replaced by Tom Lincoln and Chris Sierakowski. Mr. Lincoln is the Director of Research for the Fundamental Equity Research Team and also Portfolio Manager for the US Research Enhanced strategy. Mr. Sierakowski, Portfolio Manager on the US Equities Team, will become a Co-Portfolio Manager for the US Select strategy in January 2017, working along with Mr. Carlson.

Products Affected

GEAM US Equity Fund (GRS)

Impact

People

The current investment team for this blended portfolio is composed of three Portfolio Managers, Dave Carlson, Paul Reinhardt and Steve Gelhaus, who have been managing the three sub strategies since 2012. As Lead Portfolio Manager of this multi-style strategy, Mr. Carlson assumes the asset allocation responsibility to ensure the portfolio retains a core investment style.

Portfolio Managers at the firm are supported by the Fundamental Equity Research Team, which is composed of Tom Lincoln, Director of Research, and 29 global industry analysts with an average industry experience of 16 years. The Team conducts fundamental bottom-up research to provide investment ideas to the Portfolio Managers, who then construct their respective portfolios following their own style-based investment criteria and portfolio guidelines.

Tom Lincoln has been the Director of Research and Portfolio Manager of the US Research Enhanced strategy since 2012. He has 26 years of tenure within GEAM and had previously held various

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investment roles ranging from Equity Research Analyst managing sector portfolios to Senior Portfolio Manager running a large cap growth strategy.

Chris Sierakowski joined the US Equity Team in January 2016 as a Portfolio Manager running a diversified core US equity strategy. Previously, Chris had worked in the Fundamental Research Team since 2000 as a US Equity Analyst with industry coverage responsibilities in Technology, Media and Telecommunication.

Investment Philosophy and Process

The Fund is managed with a Multi-Style investment strategy that aims to produce a broadly diversified core portfolio with characteristics similar to the S&P 500 Index. Performance is driven by fundamental research and bottom-up stock selection. Portfolio managers construct their own style-based portfolios independently, and Lead PM Dave Carlson provides oversight to sustain the optimal allocation within the overall portfolio.

Fundamental security research is centralized and conducted by the Fundamental Research Team that is led by Tom Lincoln. Analysts' best ideas and conviction levels are effectively communicated to portfolio managers through holdings in their Research Portfolios.

Current composition: Since 2012, the blended portfolio has been constructed with a 40/30/30 roll-up of three underlying portfolios that are managed with Core, Value and Growth approaches following various investment criteria:

- Core: solid management, consistent execution, strategic direction, and analysts' opinion;
- Growth: double digit earnings growth; market leadership, innovation and low GDP sensitivities;
- Value: low expectations and minimum downside, shareholder focused management and improving fundamentals.

New composition: In January 2017, the portfolio will be transitioned into a new structure of 70/30 roll-up of two core strategies: US Research Enhanced and US Select.

- US Research Enhanced: it is a fundamental, research driven core strategy with a sector neutral portfolio (+/- 250 bps). The portfolio is supported by 16 sector analysts and holdings represent their highest conviction ideas. Portfolio Manager Tom Lincoln has an oversight role to ensure the portfolio's characteristics in line with those of the S&P 500 Index.

The portfolio has a strong 25-year track record and is managed with consistent objective, philosophy, process and risk guideline. On the 5-year and 10-year annualized basis as of September 30th 2016, the portfolio has produced strong risk-adjusted returns with above-median returns, low tracking error and a low downside capture ratio.

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- US Select: it is a high quality, high conviction US equity strategy with a concentrated portfolio of 25-40 holdings. The portfolio manager selects securities from analysts' highly rated stocks to construct a core portfolio with larger sector constraints (+/-600bps). Dave Carlson has been the sole PM of this strategy since 2007 and has produced consistent returns over the last 10 years.

On the 5-year and 10-year annualized basis as of September 30th 2016, the portfolio has produced first-quartile returns, on both an absolute and risk-adjusted basis, and slightly-above median tracking error. Historically, the portfolio displays consistent core portfolio characteristics; currently, it has a slight core-growth tilt.

Based on 3-year, 5-year and 10-year pro-form returns and risk measures, the re-constituted portfolio has historically displayed improved risk-adjusted returns through higher absolute returns, lower beta and tracking error, higher up-market and lower down-market capture ratios as compared to the current structure of the Fund, although close monitoring going forward is required to ensure that the portfolio retains its expected core characteristics with the new sub-portfolio manager structure.

Closing Remarks

IMS has discussed the underlying fund changes with the investment team, including Portfolio Managers Dave Carlson and Tom Lincoln. The changes were initiated with the expected forthcoming retirement of previous sub-fund manager Paul Reinhardt in 2017, as well as by Mr. Carlson's desire to improve the Fund's risk-adjusted performance.

While this change of underlying funds may be positive for the Fund going forward due to the following considerations:

- 1) We are confident that the Fund will continue to be managed with the same investment philosophy that is primarily driven by the same fundamental research process.
- 2) The new portfolio structure seems to enable a more streamlined core US equity strategy that aims to add value through strong security selection, we believe that close monitoring is required to ensure that this sizable change will not have a significant impact on the portfolio's overall characteristics and the Fund continues to remain a core US equity mandate.

Furthermore, the US Equities Team and the Fundamental Research Team's future stability will need to be monitored amid GEAM's recent acquisition by SSGA.

While the construction and selection of the new sub-portfolios is sensible, given the magnitude of the changes, close monitoring is required. IMS has downgraded this Fund to under Increased Scrutiny as it ensures that the Fund's expected overall philosophy and risk/return profile is being maintained with the new portfolio structure. We will communicate should further concerns arise.

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