



**01:**  
**Olivia Engel**  
head of Active  
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in Asia-Pacific,  
SSGA

## Proof in performance: investing in the 'other 43%'

The State Street Australian Equity Fund is a truly active strategy that aims to meet investors' objectives by delivering both growth and risk protection, says Olivia Engel<sup>01</sup>, head of Active Quantitative Equity in Asia-Pacific at State Street Global Advisors Australia.

Traditionally, fund managers have allocated to equities to achieve their growth objectives and to fixed income to ensure protection against market drawdowns. However, the strategy that Engel manages aims to build that defensive quality into one equity portfolio.

She explains that the strategy follows three criteria to meet its objectives: "We only hold companies that we like. When we like a company, it is because we like it in all of its characteristics: value, quality, sentiment associated with the company and growth prospects."

The second step is to ignore the benchmark in constructing the portfolio. "We make sure the index does not draft our portfolio position," says Engel.

Finally, the manager is "very explicit when managing the total risk of the portfolio. We are managing the total volatility of the portfolio returns. This means that when the market has a big correction and is very volatile; our portfolio will be less volatile," she adds.

Following this approach, the fund has outperformed the benchmark every single year since its inception while experiencing only one third of the volatility of the market.

### A truly diversified fund

Another characteristic of Engel's approach is that it avoids the concentration inherent in the Australian market.

This high conviction, benchmark unaware portfolio seeks diversification beyond the two thirds of the index concentrated around financials and resources. "We still have a meaningful allocation to financials and resources, but they are not dwarfing all of the other positions. Ours is a lot more widespread, less concentrated portfolio that gets exposure to many other themes such as improving developed market economies offshore, technological advantages or aging demographics," she says. "We can get all of these themes at a meaningful weight, something that a market portfolio doesn't have."

The manager has built a process that enables it to get the full breath of the ASX300 universe, instead of "screening the market to a manageable sized universe, and then do detailed research on the stocks we screen," Engel says.

"We create an expected return for every single

company in the ASX300 and we can do that in every company and preserve the breath that the 300 universe offers us."

The strategy also taps into dividends and franking credits, and Engel believes only a team with local knowledge can understand the nuances of the domestic market. "It is very important to have an Australia-based team that understands how the Australian equity market works and how dividends play such an important part of the component of returns for Australian stocks. We also benefit from being part of a global team located in multiple locations who work closely together, using our collective experience over many markets to evolve our investment process."

However, the strategy also takes into account other factors when considering a stock's expected return. Some important metrics are the state of the company's balance sheet, how solvent they are and how likely they are to be able to sustain those dividends. "All of those things are also important. Dividend yield is one of many metrics we use in coming up with an expected return in a stock."

### Managing risk

While many equity investors believe that their growth assets will perform well over time, they need to be mindful of unexpected events. "When markets become volatile and have big drawdowns, by nature they surprise us," Engel says. "But we have built into our portfolio a mechanism which allows it to be cushioned from market drawdowns when they occur."

When big events happen, investors' natural reaction might be "to do something with the portfolio. The problem is that market prices move so quickly that often you are not able to do something to help when you react."

This is why SSGA's strategy follows a disciplined process that is prepared to act when these events occur and that doesn't require investors to act. "We want to be naturally expecting these things to occur. We build it into our process day in and day out so that, when these things happen, our portfolio is prepared for it."

In today's volatile markets, more than ever, investors can benefit from the resilience of this truly active strategy — delivering for the fund's investors in the upside as well as the downside. **FS**

Research suggests that true-to-label active managers are more an exception than the rule, which makes it refreshing when I come across active Australian equities managers who, for a host of reasons, defy the stats.

This month I spoke to State Street Global Australia's Olivia Engel. She explained how investors in SSGA's actively-managed Australian Equities portfolio are, quite simply, getting more bang for their 'active' buck.

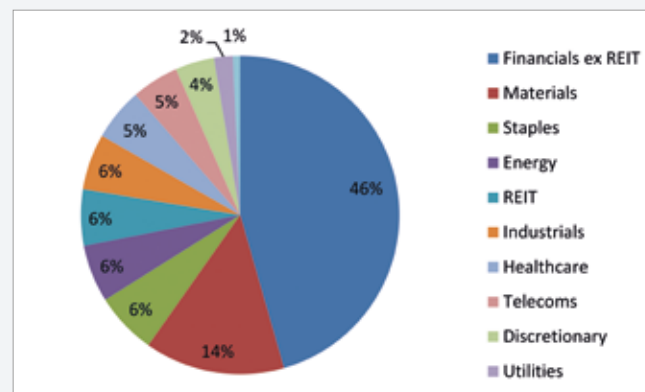
On overall returns, they benefited from consistent above-average performance since 2009. On the matter of risk exposure, investors were better off, too, thanks to SSGA's comprehensive risk management approach.

I invite you to read this article and SSGA's latest white paper to find out more.

*Michelle Baltazar*

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Director of Media & Publishing

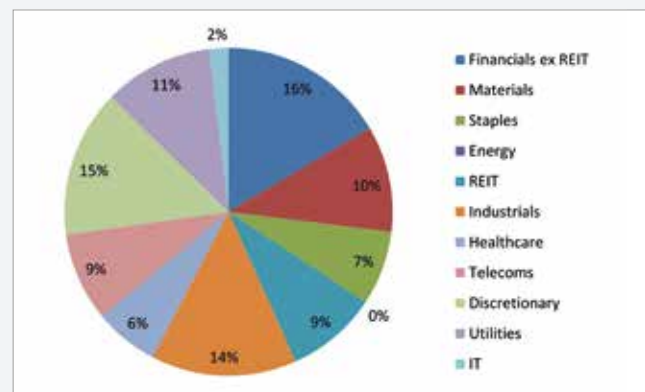
**Figure 1. Sources of risk, S&P/ASX300 Index as of 30 September 2015\***



Source: SSGA

\* As measured by Axioma MH Fundamental model as at 30 September 2015, using the S&P/ASX300 Index

**Figure 2. Sources of risk, State Street Australian Equity Fund Portfolio as of 30 September 2015\***



Source: SSGA

\* As measured by Axioma MH Fundamental model as at 30 September 2015, using the State Street Australian Equity Fund



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