

# fundstalk-quarterly

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## SSgA: our index-tracking investment partner

SSgA. STATE STREET GLOBAL ADVISORS LIMITED

Scottish Widows' Guided Pension Fund Range includes both active and passive options, and State Street Global Advisors (SSgA) is our passive partner of choice. Here we remind you about the passive versus active debate, the benefits to investors of SSgA's scale and expertise, and their approach to index tracking.

### Passive versus active investing

While passive funds try to match the performance of a market index (index tracking), active funds involve the manager trying to outperform the market using stock selection or asset allocation.

The question is often posed as to whether passive management is better than active management or vice versa. Really, it comes down to whether you believe markets are efficient. Those in favour of passive investing believe markets are largely efficient and that fund managers can't consistently outperform the market using information that the market already knows – and that they are as likely to underperform as they are to outperform. In fact, advocates of passive investing may go further and say that because of the added costs of active fund management, active managers are more likely to underperform.

Meanwhile an active manager would argue that markets are inefficient and that it's possible to add value over time by taking advantage of market trends and opportunities that a passive manager cannot. Active fund proponents would also tell you that while the lower relative risk of a passive fund is attractive, the lower potential to outperform is not.

An individual's view of markets will drive which argument they lean towards, although a fully diversified portfolio may contain a mix of both active and passive investment styles.

### About SSgA

State Street Global Advisors (SSgA) is one of the world's largest asset managers and one of the most respected index-tracking managers in the industry. The company started managing indexation funds in 1978, and SSgA's heritage in index management is arguably what it is best known for. Its expertise has helped SSgA become one of the world's largest institutional investment managers, with more than £1.1 trillion in assets under management\*. SSgA's size provides economies of scale in trading, offering its clients significant cost savings.

We launched our first fund link with SSgA in 2005 – the SW SSgA 50:50 Global Equity Index Fund. A year later we linked to two further SSgA funds, and in 2008 we added nine more SSgA funds (including a money market fund). We now offer a selection of SSgA index-tracking funds that cover a range of global and regional equity markets, as well as gilts and corporate bonds.

\*Source: SSgA, as at 31 December 2009.

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## Available SSgA funds

### Global equity

SW SSgA 50:50 Global Equity Index  
SW SSgA International Equity Index

### Regional equity

SW SSgA UK Equity Index  
SW SSgA North America Equity Index  
SW SSgA Europe ex UK Equity Index  
SW SSgA Japan Equity Index  
SW SSgA Asia Pacific ex Japan Equity Index

### Fixed income

SW SSgA UK Conventional Gilts Over 15 Years Index  
SW SSgA Index Linked Gilts All Stocks Index  
SW SSgA Index Linked Gilts Over 5 Years Index  
SW SSgA Sterling Corporate Bond All Stocks Index

### Money market

SW SSgA Sterling Liquidity

## SSgA's approach to indexing

SSgA's preferred approach to building its indexed funds is replication. This involves buying all the shares in an index in proportion to their market capitalisation. The exception to this is the SW SSgA Sterling Corporate Bond All Stocks Fund, which uses 'stratified sampling'. This involves taking a sample of individual corporate bonds across the entire market. SSgA uses this approach for corporate bonds instead of replication because the huge number of bonds in the index makes full replication uneconomical. In addition, some bonds have poor liquidity or are unavailable to trade on the open market.

## What is tracking error?

In simple terms, tracking error is the deviation in performance of a fund from its benchmark. In more technical terms, tracking error is measured as the annualised standard deviation of the difference between the monthly fund returns and the benchmark returns.

SSgA was the first company to aim to offer its clients consistent index performance with very low tracking error and now has over 30 years' experience in this field\*\*.

Each fund has a tracking error target within which it aims to trade. For example the SW SSgA Europe ex UK Equity Index Fund aims to deliver returns that are less than 0.5% a year above or below the benchmark.

\*\*Source: SSgA, January 2010.

## More information

The SW SSgA funds are available through all Scottish Widows pension products. For more information, have a look at the *Pension Funds Investor's Guide* (ref 16540), which is available to download or order from the Literature Library section of Scottish Widows' adviser extranet, [www.scottishwidows.co.uk/extranet](http://www.scottishwidows.co.uk/extranet)



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