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Guarding Against Tail Risk — Strategies for Institutional Investors

28 November 2012

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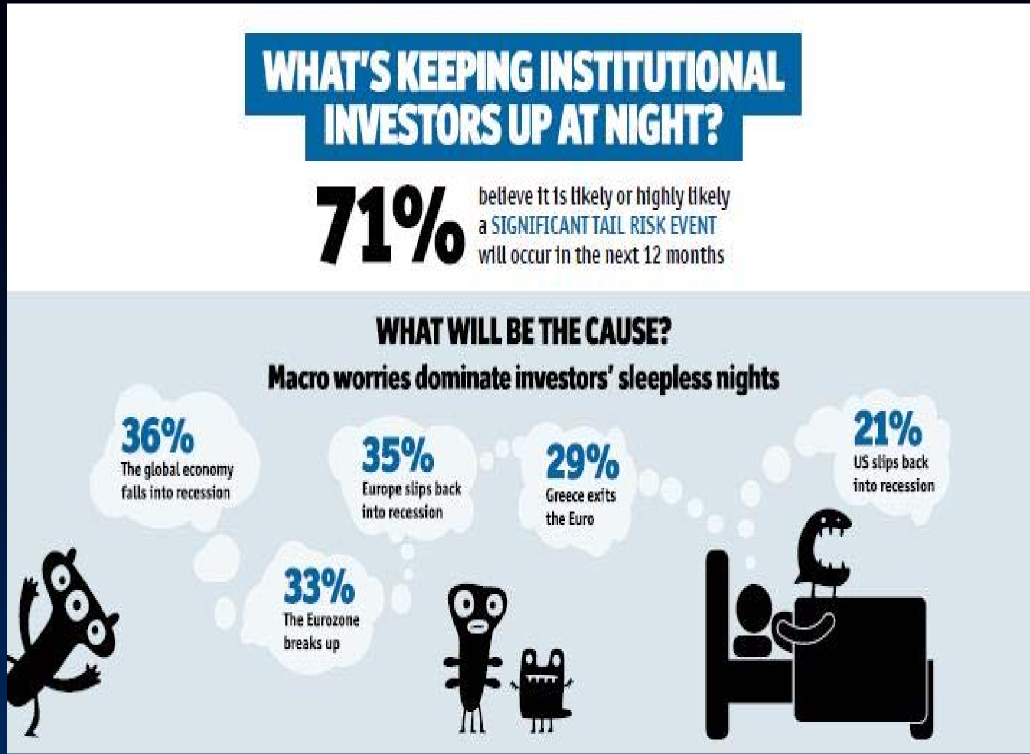
SSgA

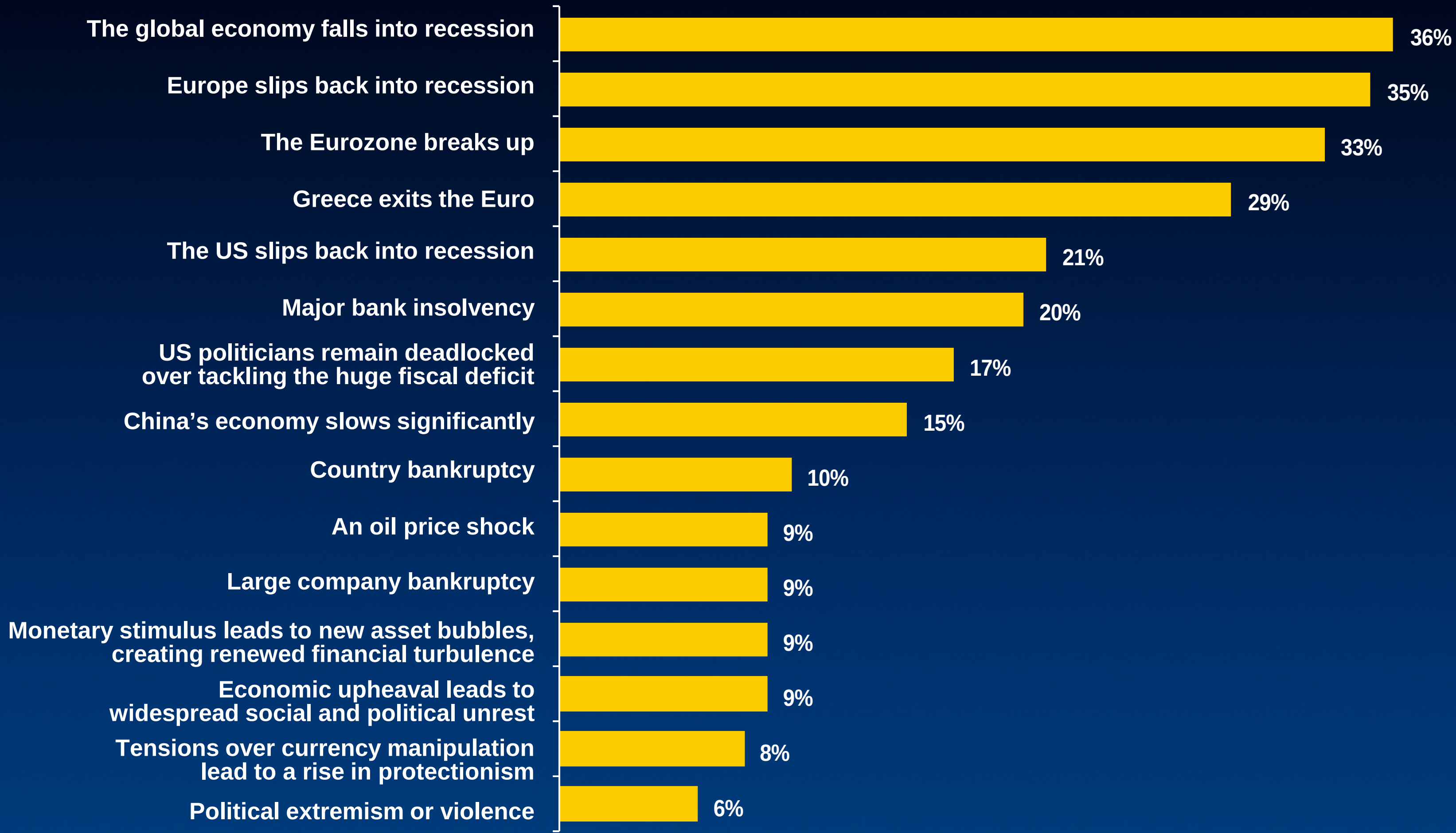
What's Keeping Investors up at Night?

Report available for download on www.ssgainsight.com



Expectations of Tail Risk Events

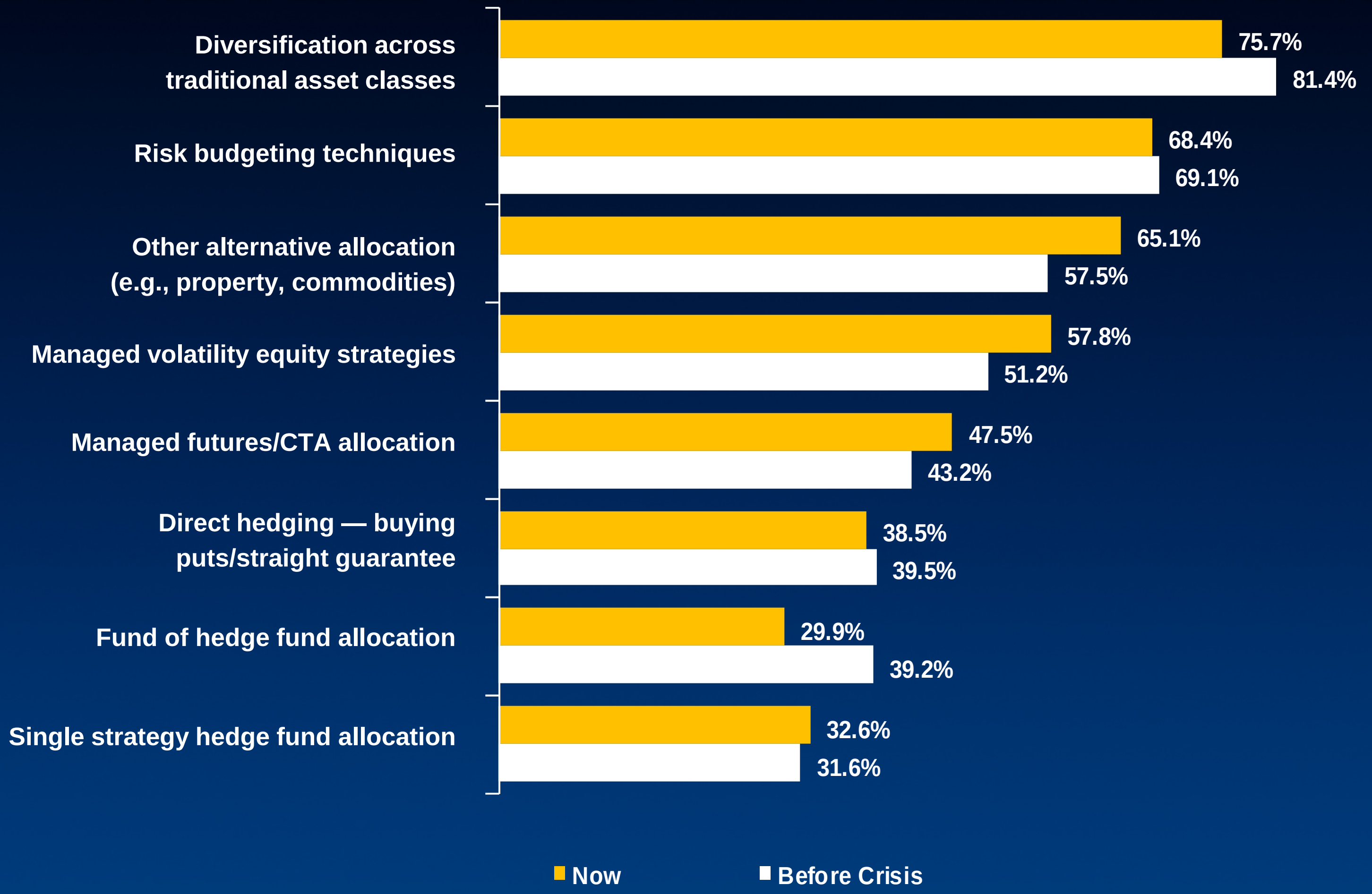
What Do You Feel Will Be the Most Likely Cause of a Tail Event Occurring in the Markets in the Next 12 Months?



Source: Economist Intelligence Unit 2012

What is Driving Changes in Risk Strategy?

What Strategy/Strategies Did/Do You Have in Place Before the Global Financial Crisis/Now to Protect Against Tail Risk Events?



Source: Economist Intelligence Unit, as of July 2012

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What is Driving Changes in Risk Strategy?

What strategies do you feel provide the most effective hedge against tail risk? (% respondents)

61%	**55%**	**53%**	**50%**	**43%**	**39%**	**38%**	**37%**
Diversification across traditional asset classes	Risk budgeting techniques	Managed volatility equity strategies	Direct hedging-buying puts/straight guarantee	Other alternative allocation (eg property commodities)	Managed futures/CTA allocation	Single strategy hedge fund allocation	Fund of hedge fund allocation

What strategies do you feel provide the best value hedge against tail risk? (% respondents)

53%	**50%**	**47%**	**40%**	**39%**	**37%**	**29%**	**28%**
Other alternative allocation (eg property commodities)	Diversification across traditional asset classes	Risk budgeting techniques	Managed futures/CTA allocation	Managed volatility equity strategies	Direct hedging-buying puts/straight guarantee	Fund of hedge fund allocation	Single strategy hedge fund allocation

Source: Economist Intelligence Unit, as of July 2012

Barriers to Tail Risk Strategies

Which Barriers Do You See Or Did You Have to Overcome in Allocating to Your Tail Risk Protection Strategy?

Source: Economist Intelligence Unit 2012

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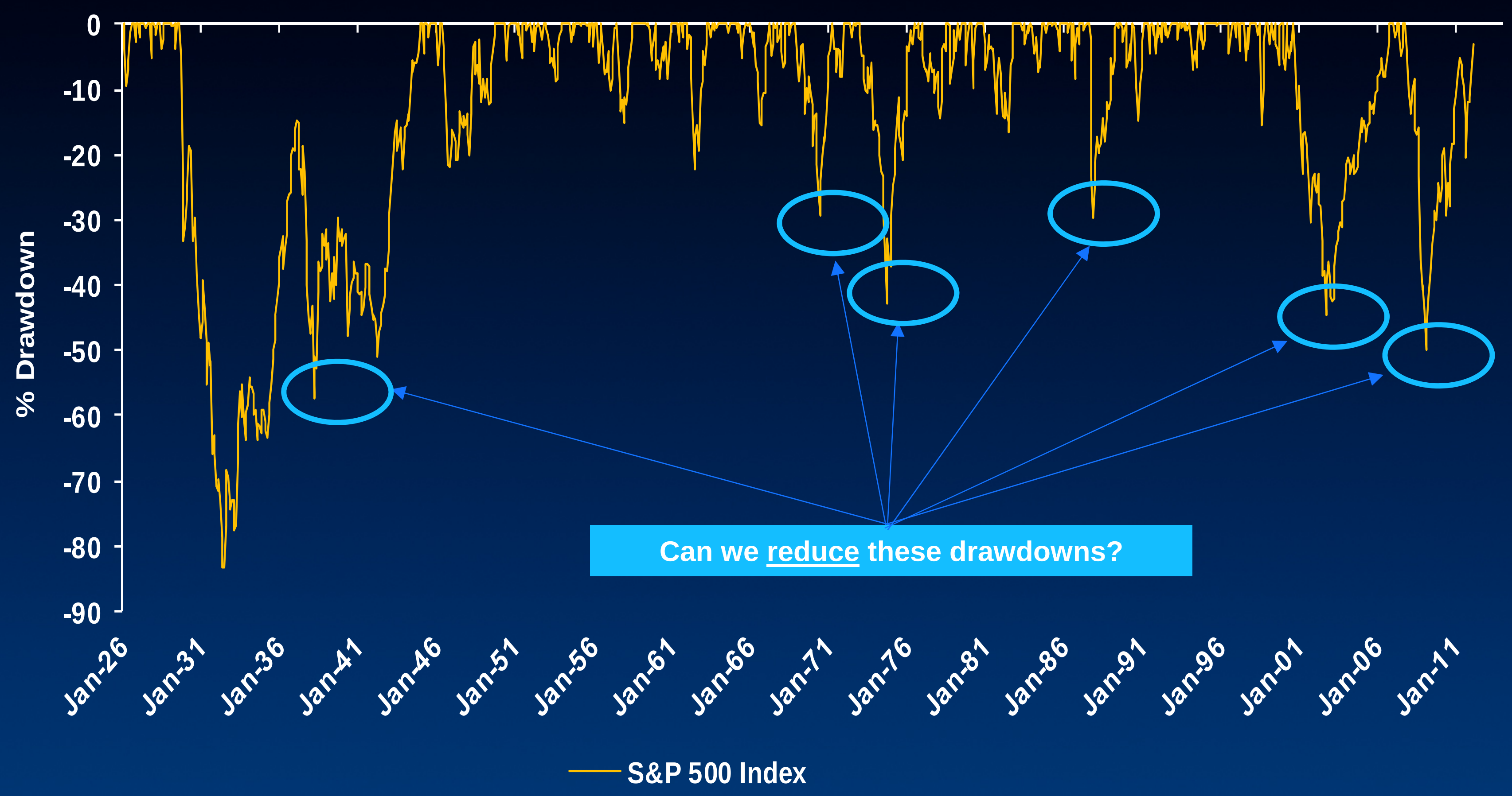
Historical Drawdown — S&P 500® Index

S&P 500 Total Return Drawdown 1926–March 2012



Source: Zephyr StyleADVISOR, as of 31 March 2012
Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. Investors cannot invest directly in an index.
Standard & Poor's S&P 500 Index is a registered trademark of Standard & Poor's Financial Services LLC.
Past performance is not a guarantee of future results.

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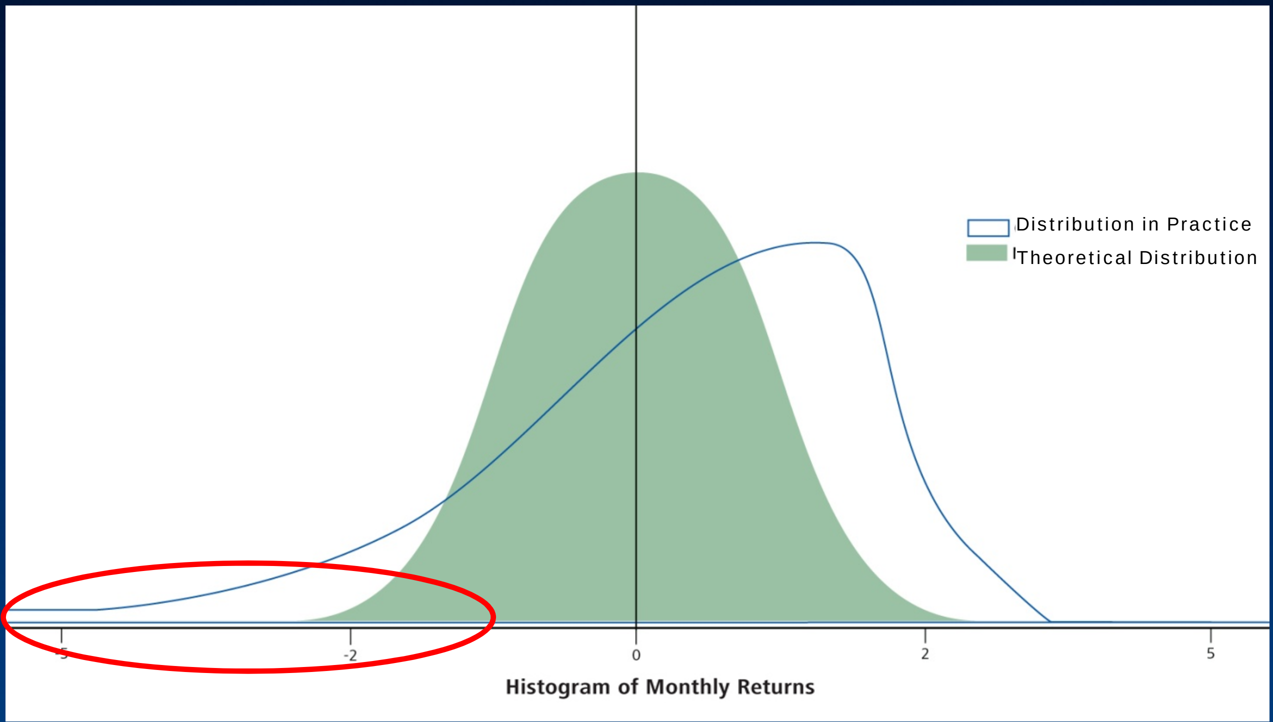
Black Swans

- The probability of significant negative losses is much higher in practice than theory suggests
- These significant negative returns are called “black swans”
- The left side of the histogram shows a “fat tail”



Source: SSgA, as of 31 October 2012. For illustrative purposes only.

Guarding Portfolios against Tail Risk

General goals of tail risk management strategies

- Avoiding “fat tail events”
- Providing downside reduction/protection
- Participate in the upside if possible

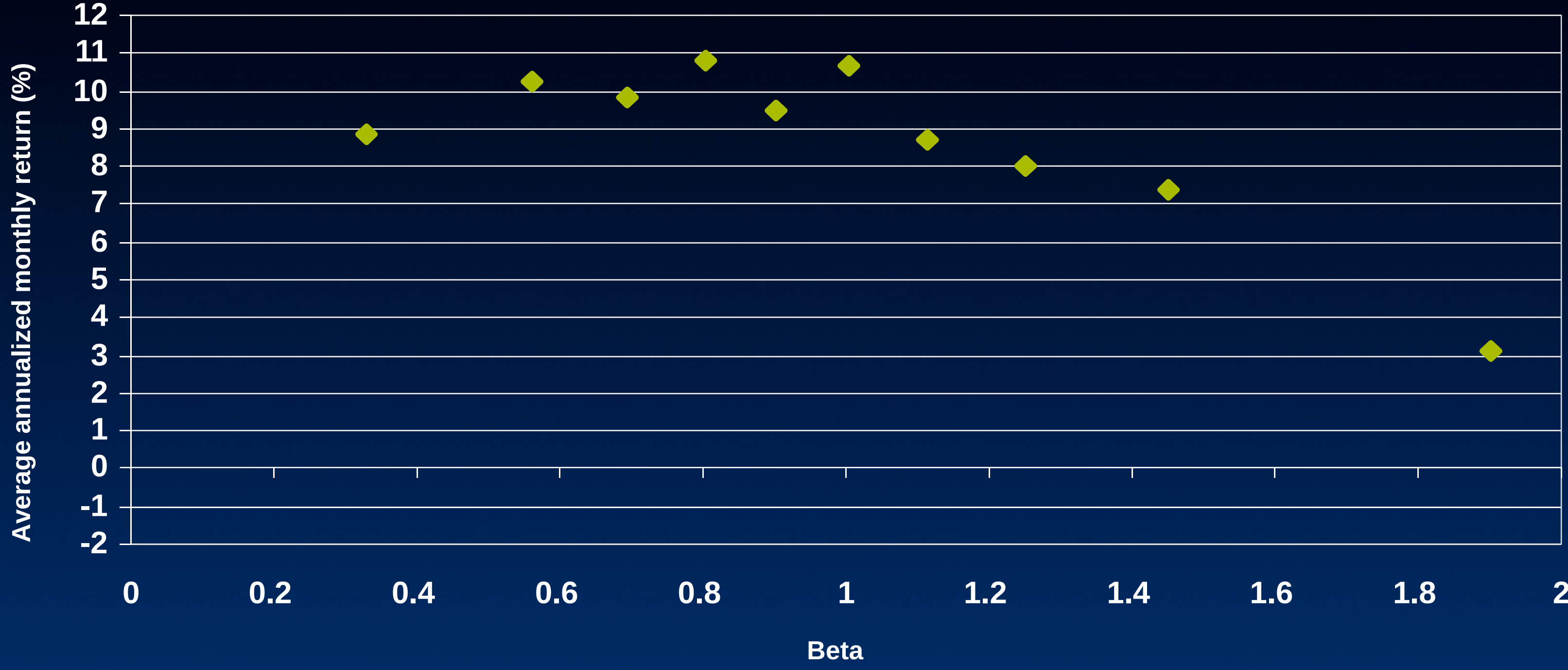
Potential solutions for managing tail risk

- Managed Volatility Equity Strategies
- Absolute Return Strategies using TAA

Source: SSARIS, SSgA, as of 30 September 2012

High Beta Doesn't Necessarily Mean High Returns

Average Annualized Monthly Return versus Beta for Equal Weighted Portfolios Formed on Expected Beta (MSCI World Index Universe) January 1990 — December 2009



- **Returns are expected to be linearly increasing with beta but appear flat or declining**
- **Low beta stocks have historically performed much better than expected**
- **High beta stocks have historically performed much worse than expected**

Source: SSgA
As of December 2009
Past performance is not a guarantee of future results.
The MSCI World Index is a trademark of MSCI Inc.
Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss
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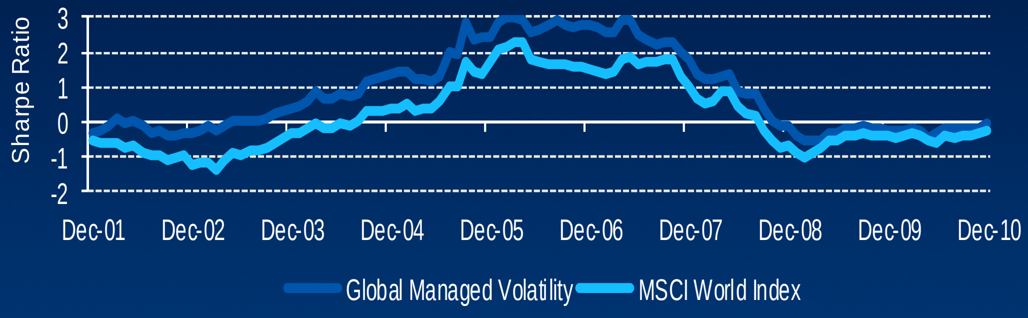
Managed Volatility: Potential Performance Benefits

Historical Drawdown
January 1999 – December 2010

- Seeks downside protection
  - Substantial reduction in drawdowns
  - Max drawdown (simulation period):
    - Managed Volatility: -35%
    - MSCI World Index: -54%

Sharpe Ratio: Rolling 36-Months
January 1999 – December 2010



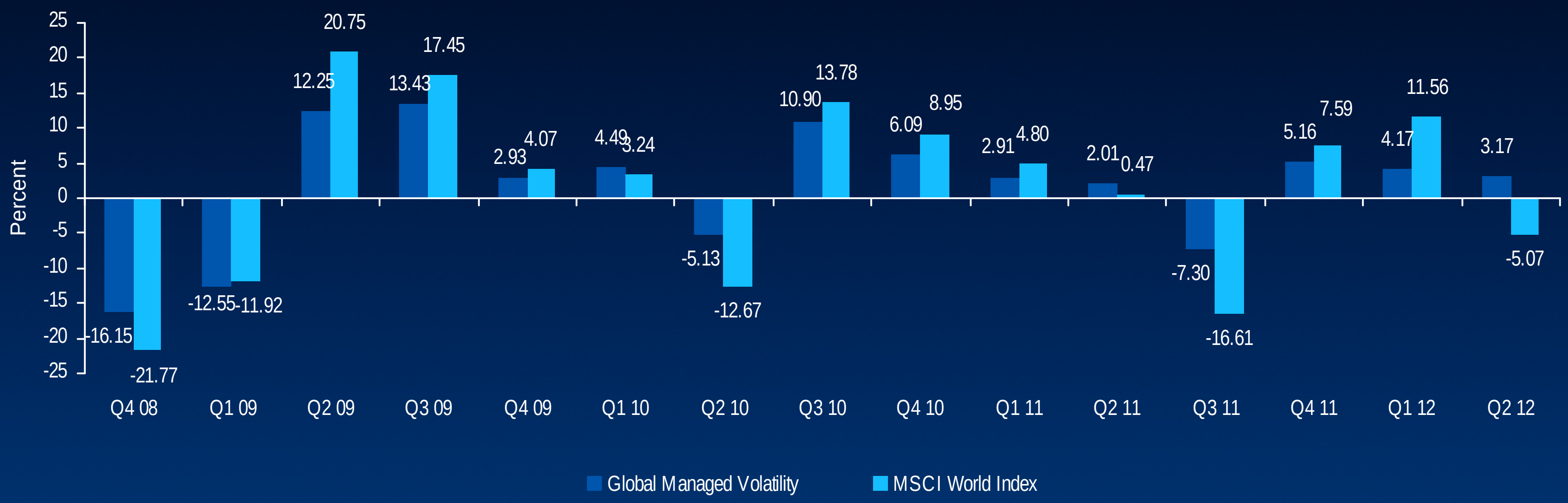
- Seeks stronger Sharpe ratio
  - Better risk-adjusted performance

Source: SSgA
Simulation period: January 1999 – December 2010.
The simulated performance shown is not indicative of actual future performance, which could differ substantially.
Please see the Appendix for additional Simulation Disclosure.
The above information is considered supplemental to the GIPS® presentation for this Composite, which can be found in the Appendix or was previously presented. A GIPS® presentation is also available upon request.
Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income.

Global Managed Volatility: Live Performance

Gross annualized composite returns for the period ending June 30, 2012 (USD)

	YTD	2011	2010	2009	Oct-Dec 2008	1 Year	3 Years	Since Inception†	Standard Deviation*	Volatility Reduction	Sharpe Ratio
Global Managed Volatility Composite	7.48%	2.34%	16.63%	14.60%	-16.15%	4.78%	14.42%	5.74%	15.11%	-32%	0.37
MSCI World Index	5.91	-5.54	11.76	29.99	-21.77	-4.98	10.97	3.48	22.23		0.15
Difference**	1.57	7.88	4.87	-15.39	5.63	9.76	3.44	2.26	-7.11		0.22



† Inception: 10/1/2008; Partial year performance not annualized.
* Annualized standard deviation of monthly returns since inception.
** The value added returns may show rounding differences.
The performance shown is of a composite created 01/01/09 consisting of all discretionary accounts using this investment strategy. There is no minimum account size required for inclusion in the composite. New funds or accounts are added to the composite upon the first full month of operation and closed funds or accounts are removed from the composite upon the last full month of operation. The above information is considered supplemental. A complete description of this composite as well as a complete presentation that complies with the requirements of the GIPS standards is provided in the Appendix or was previously presented. A GIPS presentation is also available upon request.
Past performance is no guarantee of future results. Performance returns for periods of less than one year are not annualized. The performance figures contained herein are provided on a gross of fees basis and do not reflect the deduction of advisory or other fees which could reduce the return. The performance includes the reinvestment of dividends and other corporate earnings and is calculated in US dollars.
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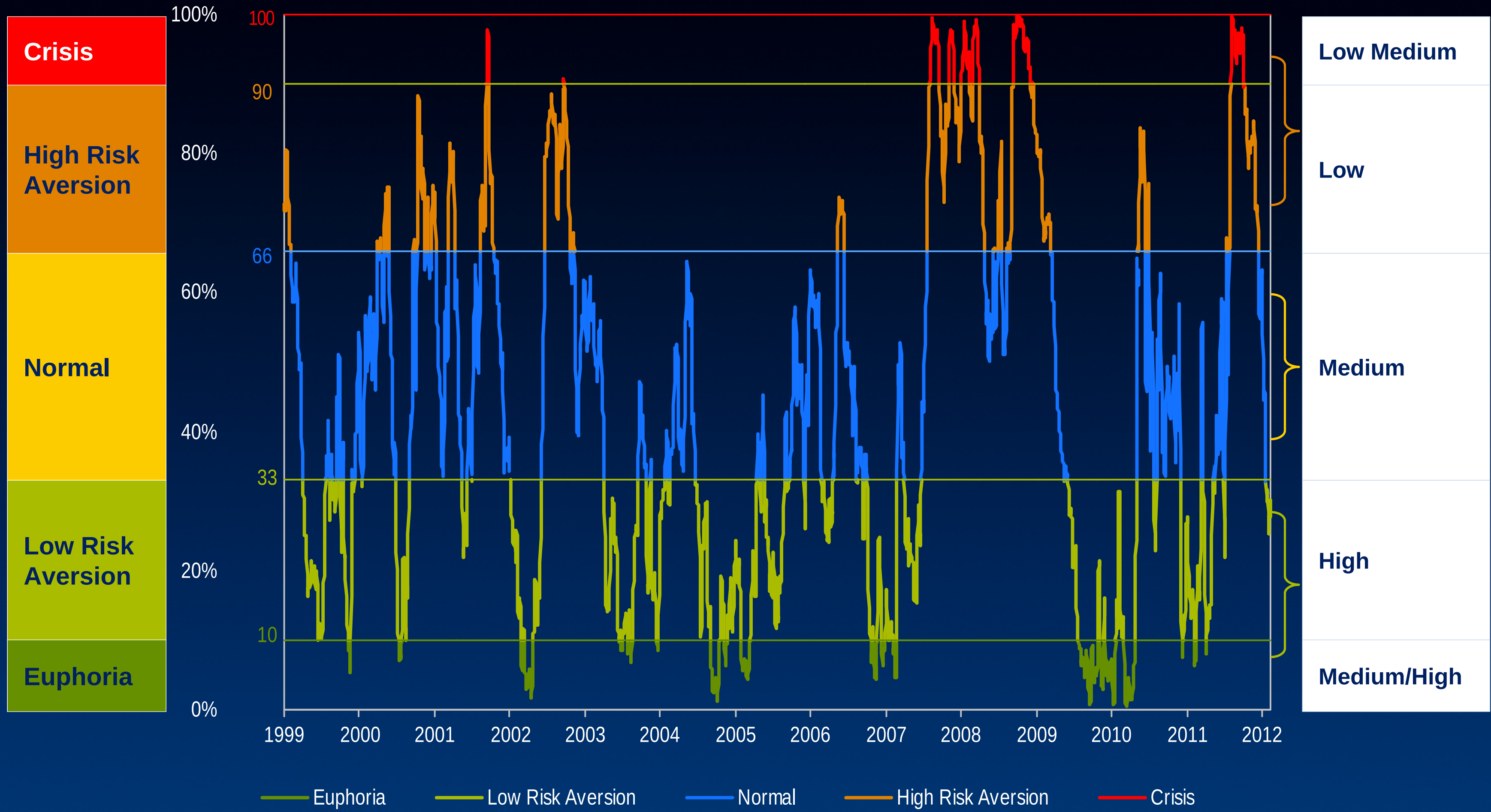
MRI Tracks Major Market Events

Market Regime

Regime Aware Active Risk Budget [1]



[1] Against cash, hence Active risk equals total risk
[2] Approximate dates based on Gonzalez-Hermosillo, B., (2008) "Investors' Risk Appetite and Global Financial Market Conditions," IMF Working Paper.
[3] Dates based on SSgA ISG Research
Source: SSgA Investment Solutions Group (ISG) Research

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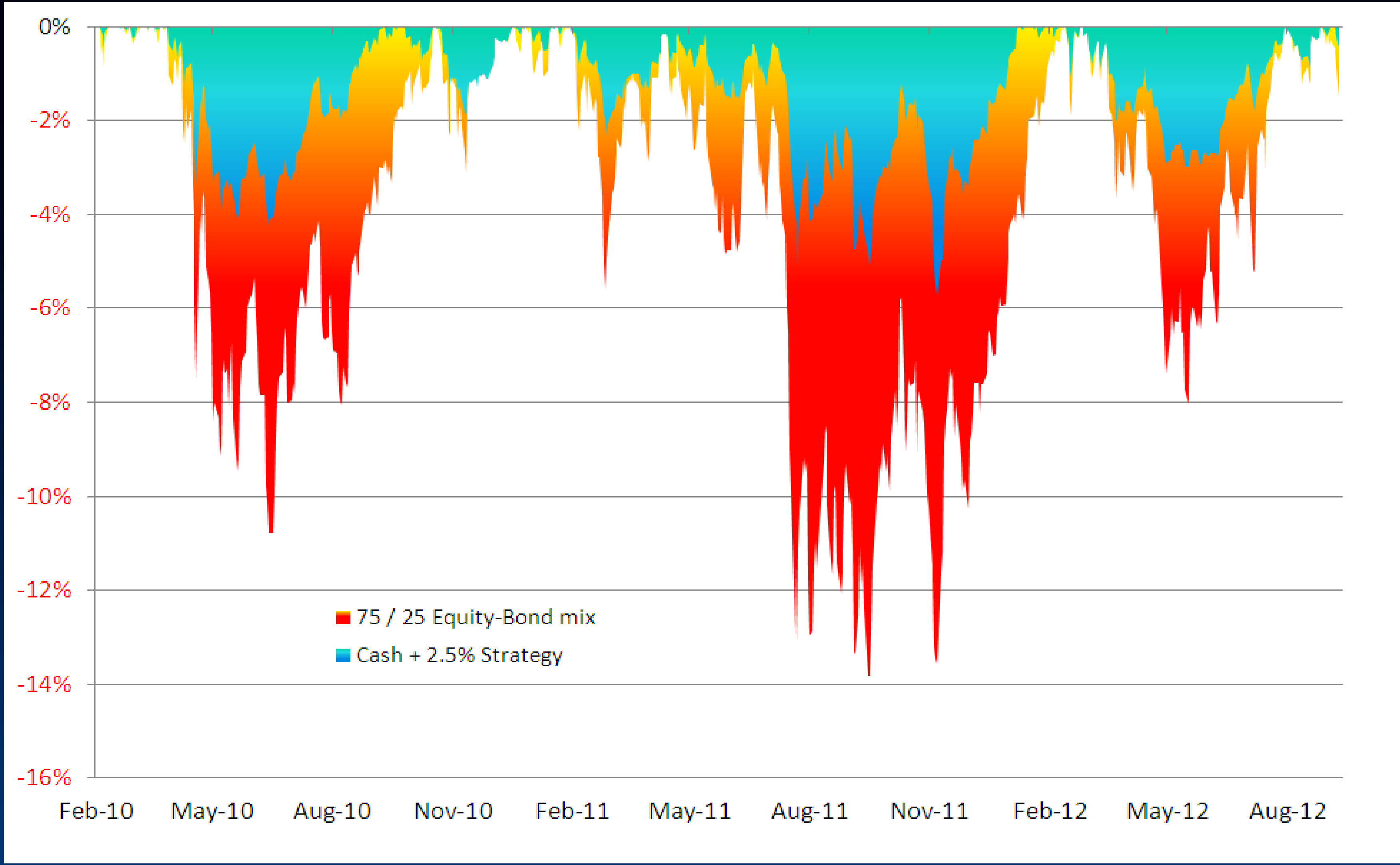
Drawdown Protection is Crucial



Strategy worst case loss = -5.7%

75 / 25 worst case loss = -13.8%

Source: SSgA, FTSE, Barclays Capital

All returns are gross as at 19th February 2010 to 28th Septemberr2012. Data is at the date indicated, is subject to change and should not be relied upon as current thereafter. *FTSE World Index - measured in local currency terms. Past performance is not a guarantee of future results.

Please see simulated disclosure note in the Disclosure section. The 75/ 25 Equity Bond mix refers to a simulated investment comprising 75% allocation to the FTSE World Index (local currency terms) and 25% allocation to the Barclays Capital Euro-Aggregate Treasury Index.

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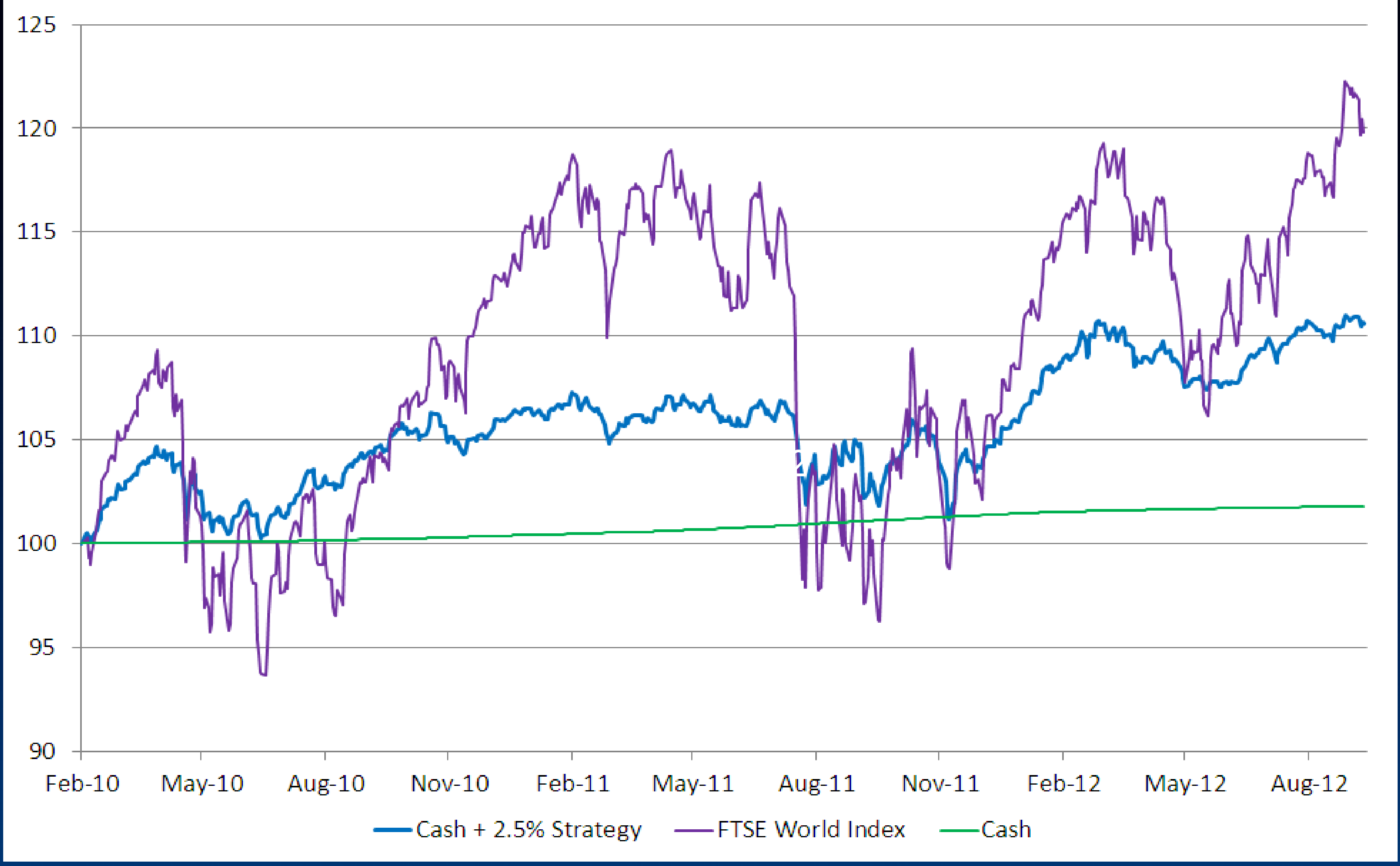
MRI Results in Lower Volatility



Source: SSgA/ Bloomberg
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