

S&P Style Indices present advisors with the opportunity to select a portfolio of growth or value stocks in a chosen market capitalization range.

What's in Style?

The definition of growth and value style investing has evolved over time, accommodating more sophisticated risk analytics and a changing market dynamic.

As in the world of fashion, there are no absolutes in style investing. Without universally accepted definitions of growth or value, what constitutes each style has evolved with an increasing sophistication of style analysis and changing metrics of company performance.

Ideally, growth and value benchmarks reflect style factors as they evolve through time. Developments in financial theory and accounting standards, as well as data availability, impact the relevance of growth and value factors. Moreover, an increased availability of financial databases and a proliferation of portfolio risk software have resulted in style being analyzed across multiple risk factors. The end result is an increasingly sophisticated and continually evolving methodology for determining style benchmarks.

Starting Out Simple

First generation style benchmarks were built around single factors such as book-to-price ratios. Since growth and value were defined by a single variable, value consisted of stocks with high book-to-price values and growth consisted of those stocks with low book-to-price values. The Fama-French Three Factor Model addressed this theory by adding size and value risk to market risk as a basis for predicting expected return premiums and categorizing mutual funds.

Movement to Multi-Factor Models

Following the Fama-French Three Factor Model's expansion, next generation style benchmarks assessed growth and value along separate dimensions by identifying distinct growth and value factors. However, these factors also had their shortcomings. Over time, developments in financial research, changes in accounting standards, and shifts in investment sentiment contributed to variations in growth and value factor sensitivities, highlighting the need for a dynamic definition of growth and value.

Today, most growth/value benchmarks are constructed using a holdings-based style analysis that considers multiple factors for each category and changes over time. For example, momentum has appeared frequently in style analysis over the past ten years, while some factors that are commonly thought of as style determinants, such as dividend yield, have appeared less frequently.

S&P Indices believes that style indices should be constructed in such a way as to maximize the differentiation, and therefore, the utility of growth and value categories.

Practically speaking, however, there is no assurance that factors which have historically enabled such a result will continue to do so in the future. On the other hand, it is a sensible approach to select factors that are likely to hold the promise of growth and value differentiation as indicated by their past, as long as their application is not designed to optimize historical growth and value differentiation.

Factors in the S&P Style Benchmarks

Looking at the S&P Style Index Series, the selection of factors encompasses three considerations. First, preference is given to factors with more frequent citations in current financial literature in order to reflect the dynamism of current thinking and practice in the field of style investing. Second, priority is given to factors that are constructed from measures with high levels of coverage within the S&P Total Market Index (TMI), an index which facilitates style categorization across the entire spectrum of U.S. market capitalization. Third, factors with relatively high analytical ranks, as indicated by S&P Indices' time series and cross sectional analyses, are also given preference.

The S&P Style benchmarks currently consider the following factors:

| Growth Factors | Value Factors |
|--------------------------|-------------------|
| Sales Growth | Book to Price |
| Earnings Change to Price | Sales to Price |
| Momentum | Earnings to Price |

Raw values for each factor above are calculated for each company in the S&P U.S. Broad Market Index (BMI), which has approximately twice as many stocks as the S&P Composite 1500. These raw values are then standardized by dividing the difference between each stock's raw score and the mean of the entire set by the standard deviation of the entire set. As a result, a Growth Score for each company is computed as the average of the standardized values of the three growth factors. Similarly, a Value Score for each company is computed as the average of the standardized values of the three value factors.

S&P Style Index Series

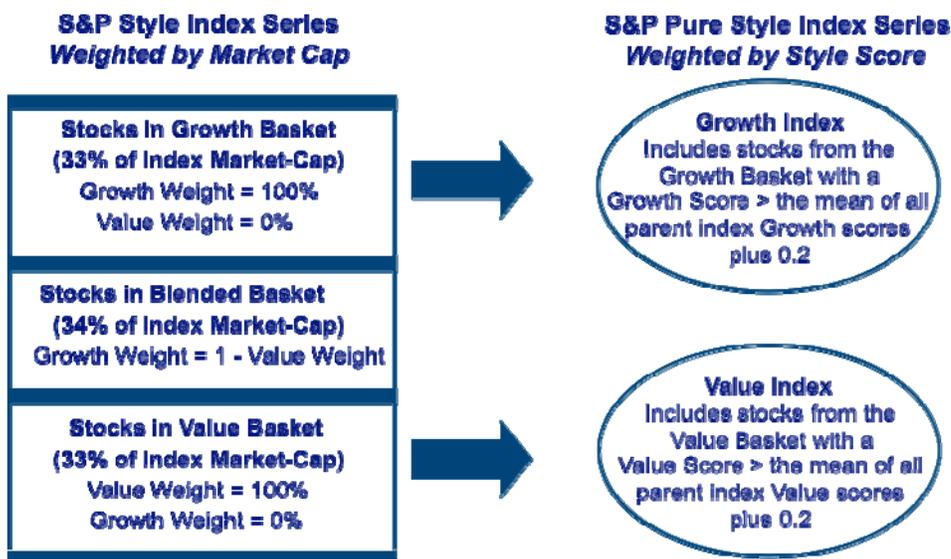
The S&P Style Index Series divides the complete market capitalization of the S&P U.S. Equity Indices equally into growth and value indices. The series covers all stocks in the parent index universe, and maintains the conventional, cost-efficient market cap-weighting scheme. Stocks that do not fall into either the Growth or Value Style Basket have their market caps distributed between growth and value indices.

S&P Pure Style Index Series

The S&P Pure Style Index Series goes a step further by restricting constituents to those stocks in the Style series that exhibit only strong Growth or Value characteristics. The S&P Pure Style Index Series more selectively discriminates between Growth and Value, and has constituent attributes that are more sharply reflective of the respective investment style.

The S&P Pure Style Index Series identifies approximately one-third of the parent index's market capitalization as Pure Growth and one-third as Pure Value. Constituents include all stocks that have a Growth or Value factor of 100% and a Growth or Value score greater than 0.20 above the mean Growth or Value score. There are no overlapping stocks, and stocks are weighted in proportion to their relative style score, not their market capitalization.

In the S&P Pure Style Index Series, Pure Growth and Pure Value include stocks with a Growth or Value factor 0.20 above the mean.



Pure style indices provide quantitative and performance analysts with a pure style return series while also providing the basis for style-concentrated investment vehicles and style spread-based structured products. These indices' returns do not suffer from size bias induced by market capitalization weighting, but rather reflect the structure of active managers' portfolios, which hold stocks in proportion to their relative attractiveness.

The table below highlights the characteristics that define both the S&P Style and Pure Style Index Series:

| Characteristic | S&P Style Index Series | S&P Pure Style Index Series |
|---------------------------|---|--|
| Universe coverage | All parent index stocks included | Only pure style stocks included |
| Overlapping stocks | Stocks without strong growth or value characteristics divide their market capitalization between Growth and Value indices in proportion to their distance from the pure regions | None |
| Weighting scheme | Market capitalization weighted | Style attractiveness weighted |
| Breadth | Broader | Narrower |
| Usage | Cost efficient exposure to the broad style market (For example, relative value exposure) | Pure style exposure (For example, deep value exposure) or "style spread" strategies, quantitative analysis |

Both Style and Pure Style indices must accurately characterize the styles they represent, the definitions of which change over time. Therefore, periodic reviews of underlying style factor definitions are essential to ensure that the indices do in fact stay in style. S&P Indices is committed to periodic review of style methodology in order to ensure that our indices continue to measure what is relevant to the market.

Additional Resources

S&P Indices Practice Essentials: www.seemore-indices.com/sp500

S&P Indices Market Attributes®: www.marketattributes.standardandpoors.com

S&P Indices Thought Leadership Center: www.seemore-indices.com

S&P U.S. Equity Indices: www.equityindices.standardandpoors.com

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