

CROSSMARKGLOBAL.COM

Most of the investing world is familiar with the concept of style investing: the process of allocating a portfolio towards growth, value, or core holdings. Active managers accomplish this by purchasing growth or value stocks out of the appropriate universe. When dealing with indices and passive style investing, this involves buying or replicating an index with constituents classified as growth or value. In the case of the S&P 500, every stock in the index is either covered by the growth index, value index or both indices. When a company displays both growth and value characteristics, the S&P splits the company’s market capitalization between the two indices. Furthermore, these indices are weighted based upon a company’s market capitalization.

### How are Pure Style Indices Different?

Pure style indices (such as the S&P 500 or S&P 1000 Pure Value or Pure Growth indices) display significant differences when compared to a traditional growth or value product. In a pure style index, only stocks which are exclusively growth or value are included. If a stock displays both growth and value characteristics, it will not be included in either index. Therefore, there are no overlapping stocks with pure styles. Another unique feature of the pure styles is the weighting scheme: the S&P pure style indices weight is based upon style factors, not market capitalization. This makes pure styles less market capitalization-biased than traditional factor indices, but more biased towards style characteristics and factors.

#### Snapshot of Select Differences of Pure Style Indices

	<u>Style Indices</u>	<u>Pure Style Indices</u>
<b>Universe</b>	Exhaustive: All stocks in the parent index are covered by at least one style.	Selective: Only stocks with pure characteristics are included in the index.
<b>Overlapping Stocks</b>	Yes. Stocks with both growth and value characteristics are split between the two styles.	No. Stocks with both growth and value characteristics are excluded from both indices.
<b>Weighting</b>	Market cap weighted	Style weighted. A stock with more growth characteristics has a greater weight.
<b>Breadth</b>	Broader	Narrower

Source: Standard and Poor’s. This chart may be found here: <http://us.spindices.com/documents/methodologies/methodology-sp-us-style.pdf>

#### Sample of Growth and Value Factors

<u>Growth Factors</u>	<u>Value Factors</u>
Three-Year Change in Earnings per Share over Price Per Share	Book Value to Price Ratio
Three-Year Sales per Share Growth Rate	Earnings to Price Ratio
Momentum (12-Month Percentage Price Change)	Sales to Price Ratio

Source: Standard and Poor’s. This list is not an exhaustive list of factors in determining growth and value components. Rather, it is a sample of some of the factors considered and used for illustrative purposes only.

# Pure Style Indices

## A Unique Play on Style Factors

### How to Implement Pure Styles

The alternative weighting scheme results in measurably different performance over time that better approximates that of an active manager, because active managers are typically underweight the largest cap positions in an index (i.e. Apple, Microsoft and Amazon). This impacts asset allocation decisions premised on the growth/value concept. Consultants can utilize these indices in client portfolios by blending pure growth, pure value and the standard cap weighted index. For example, imagine a 60/20/20 allocation where the 60% is the S&P 500 and the 20% allocations are the S&P 500 Pure Growth and Pure Value. This would eliminate crossover, thereby reducing any holdings costs when compared to three separate portfolios. It also allows consultants to tilt the allocation towards growth or value within the same portfolio rather than transferring assets between different managers. Furthermore, the management fees on this type of portfolio are often less expensive than active managers, while still delivering factor exposure. These indices are available in the large, mid, small and SMID allocation buckets, and serve as an example of alternative weighting schemes that offer consultants a different approach than traditional active management across many domestic allocations. Crossmark can also implement SRI/ESG screens for these indices if the client so desires.

### About Crossmark's 30 Year History

Crossmark Global Investments is an innovative investment management firm. We provide a full suite of investment management solutions to institutional investors, financial advisors and the clients they serve. We have a multi-decade legacy of specializing in values based investment strategies for clients. Founded in 1987, the firm is headquartered in Houston, Texas.

**Crossmark Global Investments, Inc. (Crossmark)** is an investment adviser registered with the Securities and Exchange Commission that provides discretionary investment management services to mutual funds, institutions, and individual clients. Information and recommendations contained in market commentaries and writings are of a general nature and are not intended to be construed as investment, tax or legal advice. Investment advice can be provided only after the delivery of Crossmark's firm Brochure and Brochure Supplement (Form ADV Parts 2A and 2B) and once a properly executed investment advisory agreement has been entered into by the client. All Investments are subject to risks, including the possible loss of principal.

These materials reflect the opinion of Crossmark on the date of production and are subject to change at any time without notice. Where data is presented that was prepared by third parties, the source of the data will be cited, and we have determined these sources to be generally reliable. However, Crossmark does not warrant the accuracy of the information presented.

Information and recommendations contained in market commentaries and writings are of a general nature and are not intended to be construed as investment, tax or legal advice. These materials reflect the opinion of Crossmark on the date of production and are subject to change at any time without notice. Where data is presented that was prepared by third parties, the source of the data will be cited, and we have determined these sources to be generally reliable. However, Crossmark does not warrant the accuracy of the information presented.

This content may not be reproduced, copied or made available to others without the express written consent of Crossmark.