The McGraw-Hill Companies

STANDARD & POOR'S

September 2006

S&P Pure Style Strategy Index: Characteristics and Methodology

- Standard & Poor's Pure Style Strategy Index reflects the performance of an investment strategy that attempts to predict the relative performance of growth and value investments in the U.S. equity market for the forthcoming two months.
- It is a quantitative, rules based model, which uses stock market momentum and fundamental valuation metrics.
- The S&P 500 Pure Style Indices are used to represent the U.S equity market.
- This Strategy Index holds either the S&P 500 Pure Growth Index or S&P 500 Pure Value Index, according to the rules of the model.

CONTACT US:

Email:

Anita_Lee@standardandpoors.com

Phone:

Anita Lee
Ph: +1 212 438 8344

Table of Contents

Overview

The Standard & Poor's Pure Style Strategy Index provides a systematic way of periodically selecting between growth and value U.S. equity investments. The selection process is driven by a set of rules that take into account momentum and valuation metrics. The underlying growth and value investments are represented by the S&P 500 Pure Growth Index and the S&P 500 Pure Value Index, respectively. The objective of the Strategy Index is to alternate between growth and value investment styles in the U.S. equity market as they move in and out of favor relative to each other.

S&P Pure Style Strategy Index

The S&P Pure Style Strategy Index at any given time allocates to either the S&P 500 Pure Growth Index ("Pure Growth") or the S&P 500 Pure Value Index ("Pure Value"), both of which are part of S&P's standard style index suite.

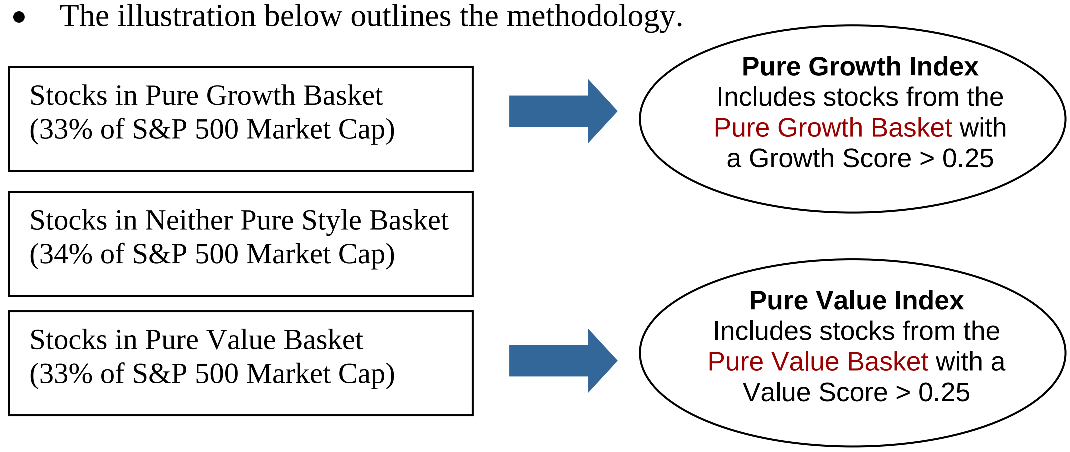
The index construction methodology for Pure Growth and for Pure Value consists of the following basic steps.

- Each stock in the S&P 500 is assigned a growth score using three growth variables and a value score using four value variables that are shown below.

Growth Factors	**Value Factors**
5-Year Earnings per Share Growth Rate	Book Value to Price Ratio
5-Year Sales per Share Growth Rate	Cash Flow to Price Ratio
5-Year Internal Growth Rate (Internal Growth Rate = ROE x Earnings Retention Rate)	Sales to Price Ratio
	Dividend Yield

- Stocks are ranked on the basis of their growth and value scores, and are then sorted by the ratio of their growth rank to their value rank.
- Stocks with the highest ratios are assigned to a pure growth basket until their cumulative market capitalization equals 33% of the market cap of the S&P 500.
- In similar fashion, stocks with the lowest ratios are assigned to a pure value basket until their cumulative market capitalization equals 33% of the market cap of the S&P 500.
- The stocks representing the remaining 34% of the S&P 500's market cap are not assigned to either pure style basket.
- The stocks in the growth and value baskets are then allocated to their respective Pure Growth Index or Pure Value Index with their style attractiveness used to determine their index weights.

- The illustration below outlines the methodology.



- For a more complete description, please see the S&P U.S. Style Indices Methodology at www.styleindices.standardandpoors.com.

Selection of Pure Style

For the S&P Pure Style Strategy Index, a determination is made to select either the S&P 500 Pure Growth or the S&P 500 Pure Value Index for the next two month period. On the fifth trading day of every odd month starting in January, the previous 125 day return and 3 month average earning yield differential are computed. The Pure Style Index with the highest return is initially selected, but the final selection is subject to an Earning Yield Differential test as detailed below:

Earnings Yield Differential*	If the Pure Value Index has the higher return over previous 125 days	If the Pure Growth Index has the higher return over previous 125 days
Between 0 and 6%	Pure Value	Pure Growth
Above 6%	Pure Value	Pure Value
Below 0%	Pure Growth	Pure Growth

*Earnings Yield Differential = Pure Value Earnings Yield – Pure Growth Earnings Yield
Yield is calculated as a three month average with a one month lag on each reference date.

Calculation Algorithm

The S&P Pure Style Strategy Index is calculated by means of the divisor method used for most S&P Indices. For the remainder of this document references to Index, unless otherwise noted, relate to the S&P Pure Style Strategy Index. The initial Index Divisor is set such that the base index value on January 19, 1996 is equal to 1,000.

On any given day “d” the index value is computed as follows:

$$\text{Price Return Index Value}_d = \text{Index Market Value}_d \Big/ \text{Index Divisor}_d \quad (1)$$

$$IndexMarketValue_d = \sum_{i=1}^{N} Index\ Shares_{d,i} \times \frac{1}{IWF_{d,i}} \times Price_{d,i} \quad (2)$$

N = 1 for all days except during the Rebalancing Period when N = 2.

$Price_{d,i}$ = Price Return Index Level for day “d” ,for Pure Style Index “i”

At the conclusion of Rebalance $Period_d$ $IWF_{d,i}$ = $1/Price_{d,i}$

Index $Shares_{d,i}$ = 1,000,000 for all “d” and all “i”

The Price Return Index Value shown in Equation 1 refers to the price returns and does not incorporate dividends. The Total Return Index Value will add net dividends, in terms of Index Dividend Points, to the Price Return Index Value. Dividends will be added on the ex-date. The Total Return Index Value on any given date *d* shall be as follows:

$$\text{Total Return Multiplier}_d = \frac{[\text{Price Return Index Value}_d + \text{Index Dividend Points}_d]}{\text{Price Return Index Value}_{d-1}} \quad (3)$$

$$\text{Total Return Index Value}_d = (\text{Total Return Index Value}_{d-1}) \text{ x } (\text{Total Return Multiplier}_d) \quad (4)$$

$$\text{Index Dividend Points}_d = \sum_{i=1}^{N} Index\ Shares_{d,i} \times (Ex-dividends)_{d,i} \Big/ Index\ Divisor_d \quad (5)$$

Where $\text{Ex-Dividends}_{d,i}$ = Index Dividend Points for day “d” and Pure Style Index “i”

Rebalancing

Each odd month beginning in January, on the relevant Reference Date immediately preceding the relevant Rebalance Dates, a pure style index will be selected in accordance with the criteria described above to be included in the Index. (Note: If the pure style index selected on the reference date is the same as the one currently in the strategy then no rebalance will take place.)

During the relevant Rebalancing Period, the Price Return Index Value will be determined as the weighted average of the old pure style index and an equally weighted index of the newly selected pure style index, with a weighting for the newly selected pure style index that is linearly increasing from 0 to 100%.

Let’s indicate with “D” a generic Rebalance Date within the Rebalance Period (D=1,2,….,5) and with D=0, the date preceding the first Rebalance Date. Furthermore we indicate with “i" and “k”, as the constituent Pure Style indices comprising the Index immediately prior to and immediately after the relevant Rebalance Period, respectively. The final day of the rebalance peiod will be the third Friday of the month, unless it is not a trading day, in which case the preceding Thursday will be the final Rebalance Day.

On any Rebalance Date “D”, the Price Return Index Value shall be equal to:

$$IWF_{D,i} = \left[1 - \frac{D}{5}\right] \times 1 / Price_{D,i} \tag{6}$$

$$IWF_{D,k} = \left[\frac{D}{5}\right] \times 1 / Price_{D,k} \tag{7}$$

The index is then calculated as per (1) and (2) above

The Index Divisor for any D=1,…..,5 is updated according to:

$$\text{Index Divisor}_D = \frac{\text{Index Market Value}_D}{\text{Index Market Value}_D} \times \text{Index Divisor}_{D-1} \tag{8}$$

with Index Divisor_0 set to equal the Index Divisor prior to the rebalancing and, for avoidance of doubt, Index Divisor_5 shall be the Index Divisor which applies to the period following the rebalancing.

Periodicity and Dissemination

The S&P Pure Style Strategy Index Total Return Index Values and Price Return Index Values will be disseminated on a daily basis as long as the underlying S&P 500 Pure Growth/Pure Value indices are calculated and disseminated.

The Bloomberg tickers are:

S&P Pure Style Strategy Index (Price Return) – SPGVUDP
S&P Pure Style Strategy Index (Total Return) – SPGVUDT
S&P Pure Style Strategy Index (Price Return) (EUR) – SPGVUEP
S&P Pure Style Strategy Index (Total Return) (EUR) – SPGVUET

Disclaimers

These materials have been prepared solely for informational purposes based upon information generally available to the public from sources believed to be reliable. Standard & Poor's makes no representation with respect to the accuracy or completeness of these materials, whose content may change without notice. Standard & Poor's disclaims any and all liability relating to these materials, and makes no express or implied representations or warranties concerning the statements made in, or omissions from, these materials. No portion of this publication may be reproduced in any format or by any means including electronically or mechanically, by photocopying, recording or by any information storage or retrieval system, or by any other form or manner whatsoever, without the prior written consent of Standard & Poor's.

Standard & Poor's does not guarantee the accuracy and/or completeness of the S&P Pure Style Strategy Index, any data included therein, or any data from which it is based, and Standard & Poor's shall have no liability for any errors, omissions, or interruptions therein. Standard & Poor's makes no warranty, express or implied, as to results to be obtained from the use of the S&P Pure Style Strategy Index. Standard & Poor's makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to the S&P Pure Style Strategy Index or any data included therein. Without limiting any of the foregoing, in no event shall Standard & Poor's have any liability for any special, punitive, indirect, or consequential damages (including lost profits), even if notified of the possibility of such damages.

Standard & Poor's does not sponsor, endorse, sell, or promote any investment fund or other vehicle that is offered by third parties and that seeks to provide an investment return based on the returns of the S&P Pure Style Strategy Index. A decision to invest in any such investment fund or other vehicle should not be made in reliance on any of the statements set forth in this document. Prospective investors are advised to make an investment in any such fund or vehicle only after carefully considering the risks associated with investing in such funds, as detailed in an offering memorandum or similar document that is prepared by or on behalf of the issuer of the investment fund or vehicle.