

A New Scorecard for the Active Versus Passive Debate

Standard & Poor's Indices Versus Active Funds Scorecard, Third Quarter, 2002

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- ❑ The S&P Indices Versus Active Funds Scorecard reports give performance comparisons corrected for survivorship bias, show equal- and asset-weighted peer averages, and provide measures of style consistency.
- ❑ Five-year, full-market cycle data favors indices. Three year, predominantly bear-market data challenge popular beliefs in the active versus passive debate, with the average large cap fund outperforming indices, but mid- and small cap indices beating funds.
- ❑ Is your fund gone? Excluding sector funds, 16.2% of domestic equity funds have liquidated or merged in the last five years, 6.5% in the past year.
- ❑ Five-year asset-weighted returns for large, mid- and small cap funds are worse than equal-weighted returns.
- ❑ The S&P 500 outperformed over 63% of all large cap funds over the five-year market cycle. Funds did relatively better over the bear market, with 54% beating the index over the past three years.
- ❑ The S&P MidCap 400 Index outperformed 93% of mid-cap funds over the five-year period and 83% over three years.
- ❑ The S&P SmallCap 600 Index has outperformed 67% of small cap funds over the five-year period and 71% over three years.

Introduction

The debate on the relative merits of active and index investing is an old one. Active managers strive to beat the market by changing cash levels, over/under-weighting sector exposures and seeking "undervalued" companies. Index investing is a strategy designed to match the market, not beat it. Index investors rely on lower costs, tax efficiency or the efficient markets theory to achieve market returns.

There are several intense sidebar debates around this broad theme. Some of the propositions actively debated are:

- Active managers do better than indices in bear markets.
- In certain asset classes such as small caps, active funds will perform better than passive funds.

The Standard & Poor's Indices Versus Active Funds (SPIVA) Scorecard keeps quarterly tabs on this debate. These reports show performances of active mutual funds as compared to Standard & Poor's indices in their style categories. Though many such reports are available, SPIVA reports are unique in a few respects:

These reports correct for survivorship bias.

- **Survivorship bias correction:** Many funds might be liquidated or merged during a period of study. However, for an investor making an investment decision at the beginning of the period, these funds are part of the opportunity set. Most commonly available comparison reports do not remove this survivorship bias; the SPIVA reports do.
- **Apples-to-apples comparison:** Often one might see fund returns compared to a popular benchmark such as the S&P 500, regardless of its size or style classification. An appropriate comparison would be to measure a fund's returns against the return of a benchmark for that particular style and size category. SPIVA reports do this.

Asset-weighted average returns are a better measure of investor experience.

- **Asset-weighted returns:** Average returns for a fund group are often calculated using only equal weighting, a scheme that results in the returns of a \$10 billion fund affecting the average in the same manner as the returns of a \$10 million fund. An accurate representation of how investors fared in a particular period can be ascertained by calculating weighted-average returns, where each fund's return is weighted by net assets. SPIVA reports show both equal- and asset-weighted averages.
- **Style consistency:** Standard & Poor's uses returns-based style analysis to classify funds. SPIVA reports show style consistency for each style group across different time horizons.

A Unique Time Horizon

The bruising bear market of the two and half years prior to October 2002 was preceded by an unprecedented bull run. Therefore, a five-year horizon of study offers us an interesting opportunity to look at how active funds matched up to indices during a full market cycle. During the past five years, the S&P SuperComposite 1500 outperformed 62% of all equity funds. Compared to the index's -1.2% annualized

Five-year asset-weighted returns for large, mid and small cap funds are worse than equal-weighted returns.

return over this market cycle, the asset weighted average return of all active domestic equity funds was -2.9%. The equal-weighted annualized return for all equity funds over this market cycle was -1.5%, a relatively close result considering the expenses and costs of active management. This suggests that smaller funds fared better than larger funds.

However, "domestic equity funds" is not a homogeneous group, and the subsequent analysis and data show how each fund category fared compared to its benchmark index. Much of this data challenges popular beliefs in the active versus passive debate.

Is Your Fund Gone?

16.2% of funds liquidated or merged in the past five years, 6.5% in the past 12 months.

The bear market has taken its toll on the fund population – in the 12 months preceding October 2002, 6.5% of funds have been liquidated or merged. In almost all these funds, investors would have substantially lagged the market as well as their peer averages. This number is only for domestic equity funds, and does not include sector funds whose numbers have also shrunk from the demise of many technology funds. Over the past five-year market cycle, 16.2% of funds have not survived.

Large Cap Funds: Maneuvering around the Style Categories

The S&P 500 outperformed over 63% of all large cap funds over the five-year market cycle. Funds did relatively better over the bear market, with 54% beating the index over the past three years.

In an efficient, large cap investment segment, many expect active funds to underperform style indices over market cycles. This holds true over the five-year market cycle ended September 2002, with the S&P 500 and large cap growth index outperforming 65% of active funds. The value index outperformed a smaller 51% of the funds. We see a reversal when we look at the three-year performance coinciding largely with the bear market, with 59% of growth funds and 58% of blend funds outperforming the indices. A larger 63% of value funds outperformed their index.

In the large cap segment, many funds managers construct concentrated or focused portfolios. This enables them to benefit from their best investment ideas relative to the diversified large cap indices. The three-year October 1999-September 2002 period included the final six months of the technology boom, which provided a large cap growth return of 24.7% and an S&P 500 return of 17.5%. Overall, during that six-month period, active managers benefited from technology positions above the index sector weightings. With the unwinding of the bubble and the start of the bear market, active managers could reduce their technology weightings faster than the market, and by implication, the sector-weighted index, which went from 30% in technology in December 1999 to 13% by September 2002.¹ During the bear market, many managers (including those running focused funds) raised allocations to short-term securities. Cash, which hurts performance during strong up markets, provided a defensive cushion during the downturn.

The large cap value style has done the best versus indices, with 80%, 63% and 49% beating the S&P/Barra 500 Value index over the last one, three and five years, respectively. This is the fund style that includes managers focused on cash flow,

¹ See "A Tale of An Index In Bull And Bear Markets: S&P 500 From 1997 To 2002," Standard & Poor's (www.spglobal.com)

dividend growth, and equity income. Many funds focusing on income have held dividend-paying stocks, REITS and some fixed income securities. These are sectors that have done well over the past few years. These funds also did better during the bear market as they avoided dipping into overvalued technology stocks. In addition to the stated income objectives, value managers are more likely to hold cash, waiting for the appropriate stock purchase price. In a bear market, small weightings in cash can improve performance relative to the style index, which is a pure value stock play. Some large cap value managers will state in their prospectuses that a small portion of their portfolios will include mid-cap stocks. This mandate benefited managers, as mid-cap value was the best performing style over the past three and five years.

Mid-Caps: The Best of Times, The Worst of Times

The S&P MidCap 400 index outperformed 93% of funds over the five-year period and 83% over three years.

The S&P MidCap 400 indices provided the best performance among style indices over the past five years. The S&P MidCap 400 Index returned an annualized +5.4%, with the growth index returning 5.2% and the value index 5.5%. Of course, year-to-date, these indices are also down, as a bear market hurts all equity styles. In contrast, active funds in this category have consistently underperformed the S&P MidCap 400 style indices. In fact, over one-, three- and five-year periods, the S&P indices outperformed 73% to 97% of the funds.

Why have the mid-cap indices done so well versus the average mid-cap fund? There are three parts to this style story.

- First, funds that follow rapid growth companies emphasize positive earnings momentum and technical strategies. Many of these funds were attracted to the aggressive growth stocks that were introduced in the late 1990's. In fact, often IPOs were introduced and took on mid-capitalization levels within a few weeks, irrespective of their fundamentals and/or business model weaknesses.
- The second part of the story involves the guidelines for adding stocks to the S&P indices. In addition to sector representation, market value and liquidity, a company has to have four consecutive quarters of positive earnings to be eligible for entry. The earnings criterion ensures that additions have long-term stability and minimizes turnover in the index. This helped the index avoid many of the IPOs that moved to mid-cap market levels, but subsequently declined.
- The third aspect involves fund mandates or manager willingness to expand holdings into other capitalization levels. Some fund managers can continue to hold mid-cap stocks as they grow into larger capitalization levels. Sell strategies depend upon weakening fundamentals or lower growth prospects. Some active managers have mandates to select buy candidates from the small cap segment, anticipating exceptional growth prospects. In fact, a new category was created (SMID-cap investing) to include both mid- and small caps in the style. Over the past five years, staying within the mid-cap range would have been more beneficial.

Year-to-date in 2002, these indices have continued to move ahead of the average mid-cap funds.

Small Cap Funds: Common Beliefs and Realities

The S&P SmallCap 600 Index has outperformed 67% of funds over the five-year period and 71% over three years.

Proponents of active funds hold that small cap funds perform better than indices because of the inefficiency of small cap markets. In the small cap segments, most active managers develop intensive research capabilities to offset the lower level of analytical coverage (relative to large or mid-cap securities) and the lack of substantial liquidity in this market. Yet, over one-, three- and five-year periods, the indices outperformed the three fund categories from a low of 55% (small cap value) to a high of 93% (small cap growth). These numbers speak more to the benchmark indices rather than the efforts of active managers.² The S&P SmallCap 600 index was not introduced until 1994; the S&P/BARRA SmallCap growth and value indices were introduced in 1996. Prior to that, the Russell 2000 indices were the commonly accepted small cap benchmarks. Consequently, many funds in this category are benchmarked against the Russell indices.

Funds lose when they benchmark to an inefficient benchmark.

The selected benchmark is extremely important for fund managers, as their performances will be judged relative to that index. Active managers will review sector weightings and stock candidates from their benchmark universe. Often funds will have sector ranges (i.e., no more than +/- 5% of the index sector weights); some funds will match sector weights (sector-neutral strategies) and use stock selection within sectors to drive their performance. The construction of the Russell indices has a major impact on the fund management process. The Russell indices are reconstituted once a year. Stocks are ranked from the largest to smallest. The top 1000 become the Russell 1000 Index and the next 2000 stocks become the Russell 2000. The single variable (market cap) rebalancing process has no room for other important variables such as sector representation and profitability. As we mentioned in the mid-cap section, Standard & Poor's criteria for index candidates include market capitalization, sector representation, liquidity and positive earnings; ongoing additions or deletions, done as part of the maintenance process, help the index reflect the small cap market throughout the year, not just once a year. In addition, start-up companies are excluded from the S&P indices. This was a distinct disadvantage for the S&P SmallCap indices during the late 1990's as the Internet IPO wave came to the stock market. The subsequent unraveling of these bubble stocks damaged small cap growth and blend portfolios.

Small cap value funds are the only fund category that provided positive three- and five-year returns above its index on both asset-weighted and equal-weighted bases. For the one-, three- and five-year periods, approximately 45% of funds moved ahead of the index. In 2002, 65% of funds outperformed the style index. Value strategies that emphasize cash flows, asset values, and dividends have been in favor.

Understanding Before Investing

Like all investing, mutual fund investing must start with understanding not only the funds but also the fund categories being considered. The SPIVA reports go beyond simple performance numbers of each fund category to provide detailed apples-to-apples comparisons corrected for survivorship bias, asset-weighted and equal-weighted peer averages, and measures of style consistency.

² See "Measuring Active Small Cap Manager Performance: Why benchmarks matter," Standard & Poor's (www.spglobal.com)

See the reports in subsequent pages for a clean, unbiased scorecard on the index versus active debate.

Standard & Poor's believes that planners, brokers, and investors should be aware of the overall objectives and costs of their active mutual funds, and understand the experience, investment styles and strategies of their fund managers. They should also understand the strengths and weaknesses of the fund's performance benchmarks and available passive investment vehicles. The SPIVA reports serve as clean, unbiased scorecards of the ongoing active versus passive debate. Readers will need to make their own judgments on where to invest, and equally important, where not to invest. The Nobel-winning professor, William F. Sharpe, best sums up our view on this debate:

Should everyone index everything? The answer is resoundingly no. In fact, if everyone indexed, capital markets would cease to provide the relatively efficient security prices that make indexing an attractive strategy for some investors. All the research undertaken by active managers keeps prices closer to values, enabling indexed investors to catch a free ride without paying the costs. Thus there is a fragile equilibrium in which some investors choose to index some or all of their money, while the rest continue to search for mispriced securities.

Should you index at least some of your portfolio? This is up to you. I only suggest that you consider the option. In the long run this boring approach can give you more time for more interesting activities such as music, art, literature, sports, and so on. And it very well may leave you with more money as well.

William F. Sharpe, 2002²

² www.stanford.edu/~wfsarpe/art/talks/indexed_investing.htm

Report 1: Percentage of Funds Outperformed by Index

Fund Category	Comparison Index	Last Quarter	Year-To-Date	One Year	Three Year	Five Year
All Domestic Funds	S&P SuperComposite 1500	49.3	51.2	45.9	44.6	62.3
All Large Cap Funds	S&P 500	42.6	50.6	46.9	46.0	62.9
All Mid Cap Funds	S&P MidCap 400	54.2	69.5	83.6	83.2	93.2
All Small Cap Funds	S&P SmallCap 600	52.5	71.5	78.0	71.2	67.3
Large Cap Growth Funds	S&P/BARRA 500 Growth	81.8	63.6	65.9	41.0	65.4
Large Cap Blend Funds	S&P 500	40.5	52.2	47.5	42.1	64.8
Large Cap Value Funds	S&P/BARRA 500 Value	16.9	30.0	20.3	37.0	50.8
Mid Cap Growth Funds	S&P/BARRA MidCap 400 Growth	74.3	80.6	94.3	88.8	97.2
Mid Cap Blend Funds	S&P MidCap 400	50.6	64.1	81.9	72.5	90.0
Mid Cap Value Funds	S&P/BARRA MidCap 400 Value	32.4	69.3	73.8	93.5	84.2
Small Cap Growth Funds	S&P/BARRA 600 SmallCap Growth	92.2	91.9	93.4	82.8	68.7
Small Cap Blend Funds	S&P SmallCap 600	46.7	75.2	78.4	68.0	61.8
Small Cap Value Funds	S&P/BARRA 600 SmallCap Value	15.6	35.4	54.5	55.4	54.3

Source: Standard & Poor's. For periods ending September 30, 2002. Outperformance is based upon equal-weighted fund counts.

Report 2: Survivorship and Style Consistency**Last Quarter**

Fund Category	No. of Funds at Start	Survivorship (%)	Style Consistency (%)
All Domestic Funds	1967	98.0	94.6
All Large Cap Funds	1124	97.4	94.0
All Mid Cap Funds	325	98.5	94.8
All Small Cap Funds	518	98.8	95.8
Large Cap Growth Funds	395	96.5	94.9
Large Cap Blend Funds	385	97.1	91.7
Large Cap Value Funds	344	98.8	95.3
Mid Cap Growth Funds	144	98.6	95.8
Mid Cap Blend Funds	79	96.2	93.7
Mid Cap Value Funds	102	100.0	94.1
Small Cap Growth Funds	244	98.8	96.3
Small Cap Blend Funds	120	98.3	92.5
Small Cap Value Funds	154	99.4	97.4

Year-To-Date

All Domestic Funds	1986	95.3	83.8
All Large Cap Funds	1121	93.9	84.6
All Mid Cap Funds	308	98.4	81.2
All Small Cap Funds	557	96.4	83.7
Large Cap Growth Funds	396	93.7	87.6
Large Cap Blend Funds	402	92.0	77.1
Large Cap Value Funds	323	96.6	90.1
Mid Cap Growth Funds	129	97.7	84.5
Mid Cap Blend Funds	78	97.4	82.1
Mid Cap Value Funds	101	100.0	76.2
Small Cap Growth Funds	258	96.1	87.2
Small Cap Blend Funds	141	95.7	72.3
Small Cap Value Funds	158	97.5	88.0

One Year

All Domestic Funds	1967	93.5	79.5
All Large Cap Funds	1110	91.9	80.3
All Mid Cap Funds	298	97.0	76.8
All Small Cap Funds	559	94.8	79.4
Large Cap Growth Funds	393	92.1	85.2
Large Cap Blend Funds	406	88.7	69.2
Large Cap Value Funds	311	95.8	88.4
Mid Cap Growth Funds	123	95.9	82.9
Mid Cap Blend Funds	72	98.6	77.8
Mid Cap Value Funds	103	97.1	68.9
Small Cap Growth Funds	271	94.1	82.7
Small Cap Blend Funds	134	95.5	64.9
Small Cap Value Funds	154	95.5	86.4

Report 2: Survivorship and Style Consistency (Continued)**Three Year**

Fund Category	No. of Funds at Start	Survivorship (%)	Style Consistency (%)
All Domestic Funds	1744	86.7	46.3
All Large Cap Funds	955	85.9	51.4
All Mid Cap Funds	220	89.5	36.8
All Small Cap Funds	569	87.0	41.5
Large Cap Growth Funds	290	90.7	68.6
Large Cap Blend Funds	411	82.7	27.7
Large Cap Value Funds	254	85.4	70.1
Mid Cap Growth Funds	89	94.4	47.2
Mid Cap Blend Funds	69	88.4	20.3
Mid Cap Value Funds	62	83.9	40.3
Small Cap Growth Funds	233	87.6	59.2
Small Cap Blend Funds	197	83.8	12.7
Small Cap Value Funds	139	90.6	52.5

Five Year

All Domestic Funds	1431	83.8	36.8
All Large Cap Funds	733	81.7	41.1
All Mid Cap Funds	249	86.3	22.9
All Small Cap Funds	449	85.7	37.4
Large Cap Growth Funds	188	88.8	56.9
Large Cap Blend Funds	352	76.4	18.8
Large Cap Value Funds	193	84.5	66.3
Mid Cap Growth Funds	141	87.2	27.0
Mid Cap Blend Funds	70	82.9	10.0
Mid Cap Value Funds	38	89.5	31.6
Small Cap Growth Funds	182	84.6	52.7
Small Cap Blend Funds	173	84.4	9.8
Small Cap Value Funds	94	90.4	58.5

Data: Standard & Poor's. For periods ending September 30, 2002.

Report 3: Average Fund Performance (Equal Weighted)

	Last Quarter (%)	Year-To-Date (%)	One Year (%)	Three Year (Annualized %)	Five Year (Annualized %)
S&P SuperComposite 1500 Index	-17.3	-27.2	-18.8	-11.4	-1.2
All Domestic Funds	-17.3	-27.0	-16.1	-7.8	-1.5
S&P 500 Index	-17.3	-28.1	-20.5	-12.9	-1.6
All Large Cap Funds	-16.7	-28.0	-19.3	-11.5	-2.6
S&P MidCap 400 Index	-16.5	-19.2	-4.7	3.4	5.4
All Mid Cap Funds	-16.7	-25.2	-13.1	-4.0	0.9
S&P SmallCap 600 Index	-18.6	-18.6	-1.8	2.9	0.8
All Small Cap Funds	-19.0	-26.2	-11.4	-3.2	-0.7
Large Cap					
S&P/BARRA 500 Growth Index	-14.1	-28.7	-19.4	-16.6	-1.7
Large Cap Growth Funds	-16.0	-30.5	-20.9	-16.4	-4.0
S&P 500 Index	-17.3	-28.1	-20.5	-12.9	-1.6
Large Cap Blend Funds	-16.5	-27.7	-19.1	-11.2	-2.5
S&P/BARRA 500 Value Index	-20.5	-28.0	-22.2	-9.8	-2.3
Large Cap Value Funds	-17.8	-25.1	-17.9	-6.7	-1.3
Mid Cap					
S&P/BARRA Midcap 400 Growth Index	-14.6	-23.1	-6.3	-0.4	5.2
Mid Cap Growth Funds	-16.4	-28.8	-15.7	-10.0	-1.4
S&P Midcap 400 Index	-16.5	-19.2	-4.7	3.4	5.4
Mid Cap Blend Funds	-16.4	-25.6	-13.8	-3.4	1.2
S&P/BARRA Midcap 400 Value Index	-18.5	-15.6	-3.4	7.4	5.5
Mid Cap Value Funds	-17.3	-19.9	-8.8	1.2	1.5
Small Cap					
S&P/BARRA 600 SmallCap Growth Index	-14.6	-19.5	-3.2	-1.2	-1.7
Small Cap Growth Funds	-19.5	-32.6	-17.3	-10.0	-4.3
S&P SmallCap 600 Index	-18.6	-18.6	-1.8	2.9	0.8
Small Cap Blend Funds	-17.9	-24.0	-10.3	-0.1	1.7
S&P/BARRA 600 SmallCap Value Index	-22.5	-18.3	-1.1	4.7	1.8
Small Cap Value Funds	-18.9	-17.1	-2.5	5.5	2.2

Source: Standard & Poor's. For periods ending September 30, 2002.

Report 4: Average Fund Performance (Asset Weighted)

	Last Quarter (%)	Year-To- Date (%)	One Year (%)	Three Year (Annualized %)	Five Year (Annualized %)
S&P SuperComposite 1500 Index	-17.3	-27.2	-18.8	-11.4	-1.2
All Domestic Funds	-16.7	-26.8	-17.3	-11.4	-2.9
S&P 500 Index	-17.3	-28.1	-20.5	-12.9	-1.6
All Large Cap Funds	-16.4	-27.1	-18.7	-12.6	-2.9
S&P MidCap 400 Index	-16.5	-19.2	-4.7	3.4	5.4
All Mid Cap Funds	-17.0	-27.0	-15.4	-9.0	-1.3
S&P SmallCap 600 Index	-18.6	-18.6	-1.8	2.9	0.8
All Small Cap Funds	-18.4	-24.5	-9.1	-4.9	-1.3
Large Cap					
S&P/BARRA 500 Growth Index	-14.1	-28.7	-19.4	-16.6	-1.7
Large Cap Growth Funds	-15.6	-29.6	-20.0	-16.0	-3.2
S&P 500 Index	-17.3	-28.1	-20.5	-12.9	-1.6
Large Cap Blend Funds	-16.1	-26.2	-18.3	-11.7	-2.0
S&P/BARRA 500 Value Index	-20.5	-28.0	-22.2	-9.8	-2.3
Large Cap Value Funds	-17.3	-24.1	-17.3	-6.6	-1.0
Mid Cap					
S&P/BARRA Midcap 400 Growth Index	-14.6	-23.1	-6.3	-0.4	5.2
Mid Cap Growth Funds	-17.2	-30.9	-18.0	-12.7	-2.2
S&P Midcap 400 Index	-16.5	-19.2	-4.7	3.4	5.4
Mid Cap Blend Funds	-17.4	-26.8	-15.1	-7.0	-1.3
S&P/BARRA Midcap 400 Value Index	-18.5	-15.6	-3.4	7.4	5.5
Mid Cap Value Funds	-16.6	-19.8	-10.3	1.4	1.5
Small Cap					
S&P/BARRA 600 SmallCap Growth Index	-14.6	-19.5	-3.2	-1.2	-1.7
Small Cap Growth Funds	-18.5	-31.2	-15.6	-10.5	-3.9
S&P SmallCap 600 Index	-18.6	-18.6	-1.8	2.9	0.8
Small Cap Blend Funds	-18.4	-22.9	-8.2	-2.9	-1.1
S&P/BARRA 600 SmallCap Value Index	-22.5	-18.3	-1.1	4.7	1.8
Small Cap Value Funds	-18.2	-16.6	-2.1	5.3	2.7

Source: Standard & Poor's. For periods ending September 30, 2002.

Glossary

Fund Data The fund information used in this report is drawn from Standard & Poor's Mutual Fund database, which has information on more than 14,000 U.S. funds.¹

Fund Universe The universe used in these reports is domestic U.S. equity funds. Index Funds, sector funds and index-based dynamic (bull/bear) funds are excluded from the sample.

Style Classification Each fund in the universe is classified into one of nine investment styles, as shown in the figure below. Standard & Poor's uses Returns Based Style Analysis to compare the historical performance of a fund to a series of index benchmarks to determine which benchmark or combination of benchmarks most closely describes the fund's actual returns.²

Style Classification

	Growth	Blend	Value
Large Cap			
Mid Cap			
Small Cap			

Style Consistency This measure, shown in Report 2, shows what percent of funds had the same style classification at the end of the period as at the beginning of the period.

Survivorship Bias Many funds might liquidate or merge during a period of study. Most of these occur because of continued poor performance by the fund. Therefore, if index returns are compared to fund returns using only surviving funds, the comparison would be biased in favor of the fund category. These reports remove this bias by (a) taking all available funds in that particular category as the investment opportunity set as the denominator for outperformance calculations in Report 1, and (b) explicitly

showing the survivorship rate in each category in Report 2.

Indices The S&P SuperComposite 1500 is a broad market, capitalization-weighted index of 1500 stocks. This index is comprised of three size-based indices: the S&P 500 index, the S&P MidCap 400 index, and the S&P SmallCap 600 index, which measure the performance of large, mid and small cap stocks respectively. Each of these three size-based indices has value and growth indices, which are termed as S&P/Barra style indices.³

Equal-Weighted Returns Equal-weighted returns for a particular style category in a month are determined by calculating a simple average return of all funds in that category in that particular month.

Asset-Weighted Returns Asset-weighted returns for a particular style category in a month are determined by calculating a weighted average return of all funds in that category in that particular month, with each fund's return being weighted by its total net assets. Asset-weighted returns are a better indicator of fund category performance because they reflect the returns of the total money invested in that particular style category.

¹ For more information on Standard & Poor's mutual fund database, please visit www.funds-sp.com.

² This technique is derived from work by Nobel laureate William Sharpe. See William F. Sharpe, "Asset Allocation: Management Style and Performance Measurement," *Journal of Portfolio Management*, Winter 1992.

³ For more information on Standard & Poor's indices, please visit www.spglobal.com.

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