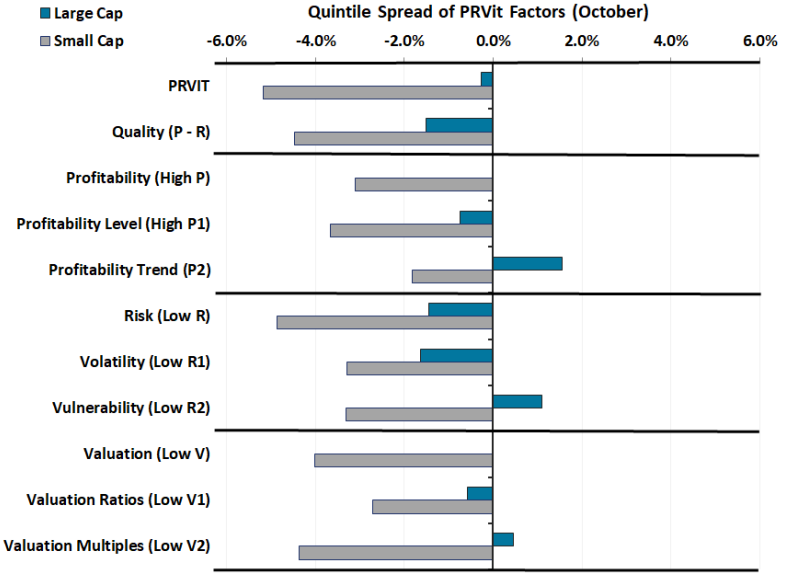
PRVit Factor Report – U.S.

October Results

Profitability Trend (P2) worked in Large Cap, with high-growth names outperforming low-growth names by +155bps in October. Vulnerability Risk (R2) also generated alpha in Large Cap. Quality and all of its subfactors were negative in Small Cap. Investors continued to have an appetite for Risk as high-Risk names outperformed low-Risk names by 146bps in Large Cap and 487bps in Small Cap. October was the 7th month in a row in which Large Cap investors added Risk. At the end of October, Small Caps had seen 6 of the last 7 months with negative Risk spreads (Risk-On). Overall Value (V) was flat in the Large Cap universe and off significantly in Small Cap. See page 5 for factor performance over time for both universes, as well as the overall U.S. market.

Figure 1: Factor Performance



Sector Attractiveness

Health Care and Staples continue to be the most attractive sectors in Large Cap, while Staples and Financials are the most attractive sectors in the Small Cap space. Utilities, Health Care, and Communication Services have the biggest discrepancies between the two universes. The Large Cap universe continued to score slightly unattractive (PRVit = 48). The Small Cap universe returned to a neutral position (PRVit = 50).

Figure 2: Sector Attractiveness

U.S. Large Cap	PRVit	Quality	Value
Health Care	54	57	63
Consumer Staples	53	66	56
Materials	52	48	51
Financials	50	65	59
Information Technology	49	62	74
Consumer Discretionary	48	65	63
Industrials	45	66	69
Energy	43	30	38
Communication Services	43	51	62
Utilities	36	42	57
U.S. Large Cap	48	60	63

U.S. Small Cap	PRVit	Quality	Value
Consumer Staples	58	57	41
Financials	54	53	35
Communication Services	53	40	37
Consumer Discretionary	53	46	37
Utilities	51	49	51
Industrials	49	49	47
Materials	48	34	44
Information Technology	47	43	59
Energy	46	31	36
Health Care	40	37	54
U.S. Small Cap	50	46	43

See our Sector Attractiveness: U.S. Analysis report for more details on the effectiveness of PRVit in identifying favorable sectors. Pharmaceuticals, Biotech, and Life Sciences with Market Cap < $5B have been removed from both lists.

Contents

Our monthly PRVit Reports summarize the performance of our PRVit stock selection model as well as its underlying factors: Profitability (P), Risk (R), and Value (V). We analyze the results by regions, by sectors, and by market cap size.

Key Takeaways:

- Investors continued to add Risk, as all Risk factors were negative for the seventh month in a row in Large Cap (6 of last 7 months in Small Cap).
- Value was neutral in the Large Cap and cheap Value was off in Small Cap.
- See HEAT Map zone performance on page 3.

Methodology:

The top-bottom spread ("**spread**") is the difference between the average return of the top 20% and the bottom 20% of stocks ranked by a factor. The information coefficient ("**IC**") is the cross-sectional correlation between the factor ranks and future returns. An IC around 5% indicates a very monotonic result: in other words, the top quintile should outperform the 2nd quintile, the 2nd quintile should outperform the 3rd quintile, etc.

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About ISS EVA

We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework. Our experienced team of global analysts offers both fundamental and quantitative company analysis on our +29,000 stock universe.

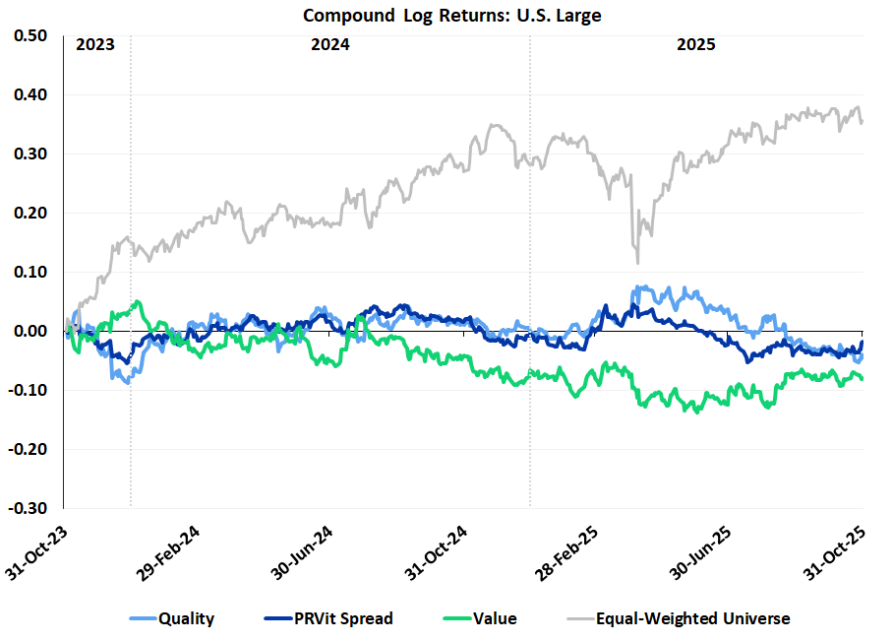
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Factor Rotation: Daily Performance over Trailing 24 Months

The Large Cap and Small Cap daily factor performances over the last two years are included below. Note these graphs are based on daily re-balancing of factors (versus the monthly re-balancing used in all other analyses). The 'equal-weighted universe' lines are included to show market direction. When the colored (Quality=blue, Value=green) factor lines are moving up, they are generating alpha, and when they are over the '0' line of the y-axis, they have had positive cumulative alpha.

Below we note that Quality has traded up in the last week of trading and believe this is connected to 82% of companies beating earnings estimates.

Figure 3: Large Cap

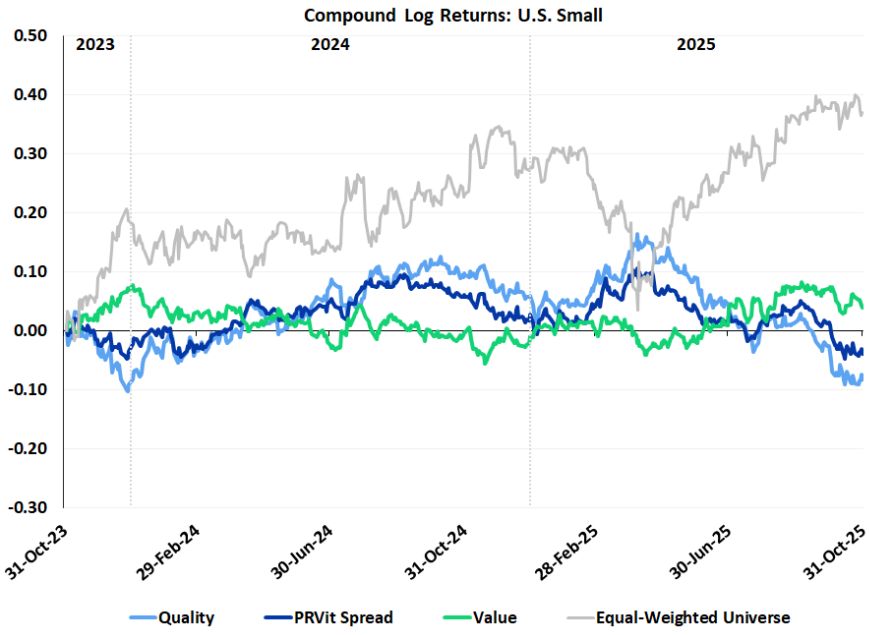


Large Cap

The market has been essentially flat in October. Quality continued to slip in October. Value dipped in the first half of the month and then rebounded in the second half of the month, although it ended the month net negative (-3bps).

See **Figure 10**, page 6, for average monthly results for different time periods.

Figure 4: Small Cap



Small Cap

Quality has declined more rapidly in Small Cap than Large Cap, starting at the end of August. Value dipped in the first two weeks of October, recovered for a week, but then slipped again at the end of the month.

See **Figure 11**, page 6, for average monthly results for different time periods.

HEAT MAP: Examining the Zones

*Our HEAT Map captures the key factors that constitute PRVit: the trade-off between Quality and Valuation. Our Quality score is plotted on the y-axis, where the higher the value, the better the quality. Our Valuation factor is plotted on the x-axis, where the cheaper values are to the right and the expensive values are to the left. The green areas are in the 'Favorable' region: the upper left one is our 'Expensive But Worth It' category, where PRVit > 70, Quality > 60, and Valuation > 60; while the lower-right one is our 'Attractive Value' category, where PRVit > 70, Quality < 40, and Valuation < 40. Our 'Best of Best' green box is PRVit > 70, Quality > 60, and Valuation < 40: these companies have the largest disconnect between their Quality and Valuation. The red areas are in the 'Unfavorable' region: the upper-left one is our 'Overly Expensive Quality,' where PRVit < 30, Quality > 60, and Valuation > 60; while the lower-right one is our 'Value Traps,' where PRVit < 30, Quality < 40, and Valuation < 40. And, of course, we highlight the 'Worst of Worst' in the red box, where PRVit < 30, Quality < 40, and Valuation > 60: we sometimes refer to these as 'Story Stocks,' because if you own these, you better have a good story (see **Figure 5**).*

Figure 5: HEAT Map Zones



HEAT Map Primer

The beauty of the HEAT map is the visual trade-off between **Quality** and **Valuation**: companies in the favorable (blue) area offer higher quality and/or cheaper valuation than those in the unfavorable (red) area.

The y-axis is our measure of **Quality**, where the higher the score, the higher the company's quality or Risk-Adjusted Profitability is. This is a composite score, including Level and Trend of Profitability (P1 and P2) as well as Volatility and Vulnerability (R1 and R2).

The x-axis is our measure of **Valuation,** which includes Wealth Ratios and Wealth Multiples (V1 and V2). This axis is plotted in reverse, so the most expensive stocks (highest V scores) are to the left and the cheapest V scores are plotted to the right.

The upper left area tends to contain growth names while the bottom right area tends to contain the value plays.

Zones: Current Analysis

In **Figure 6**, we summarize the performance of these zones for the Large Cap and Small Cap universes across various time slices. In October ('1M' columns), the **Best of the Best** and the **Worst and the Worst** zones had the highest alpha in the Large Cap (+53bps and +54bps, respectively). **Worst of the Worst** zones had the highest performance in Small Cap (+569bps). Over the long term ('Since Dec '98'), the **Best of the Best**, **Expensive But Worth It**, and **Attractive Value** zones all have strong outperformance versus the universe.

Note: We have recently added the HEAT Zone option to our Screening tool in investorexpress.com. Please see our report from May highlighting the new feature and a backtest on the zones for each global sector.

Figure 6: Zone Alpha

Avg Monthly Spread vs Benchmark	1M		3M		1Y		3Y		5Y		10Y		Since Dec'98	
Zones	Large	Small	Large	Small	Large	Small	Large	Small	Large	Small	Large	Small	Large	Small
Best of the Best	0.53%	-0.85%	1.11%	0.56%	-0.24%	-0.42%	-0.06%	0.23%	0.16%	0.36%	-0.04%	0.14%	0.16%	0.51%
Expensive But Worth It	-0.03%	-1.72%	-0.32%	-1.54%	-0.26%	-0.11%	0.06%	0.15%	0.01%	0.17%	0.09%	-0.03%	0.22%	0.17%
Overly Expensive Quality	-0.23%	-3.61%	-0.61%	-1.58%	0.29%	-0.85%	-0.12%	-0.37%	-0.02%	-0.08%	-0.02%	-0.05%	-0.10%	-0.35%
Attractive Value	0.26%	-3.47%	4.56%	-2.15%	0.49%	-0.49%	-0.68%	0.32%	-0.36%	0.59%	-0.48%	0.30%	0.15%	0.50%
Value Trap	-1.85%	-0.94%	-1.36%	0.90%	-0.70%	0.24%	-0.02%	-0.32%	0.34%	-0.06%	0.19%	0.00%	0.07%	-0.19%
Worst of the Worst	0.54%	5.69%	0.18%	2.16%	0.56%	0.80%	0.05%	-0.14%	-0.32%	-0.59%	-0.11%	-0.25%	-0.28%	-0.65%

In **Figures 7 & 8** (next page), we plot the long-term returns of these zones for Large and Small Cap.

Long-Term HEAT Zone Performance

The graphs below show compounded performance of our zones (**Best of the Best**, **Expensive But Worth It**, **Overly Expensive Quality**, **Attractive Value**, **Value Trap,** and **Worst of the Worst**) versus the equal-weighted average of each universe. See the explanation of zones on the previous page.

Figure 7: Long-Term Zone Performance – Large Cap

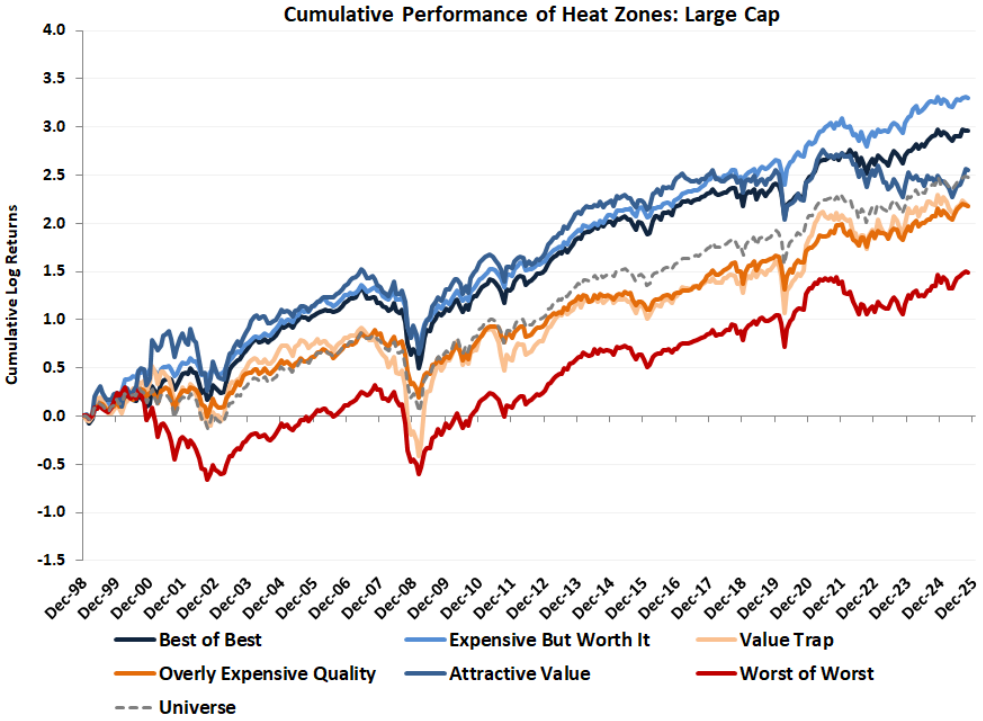
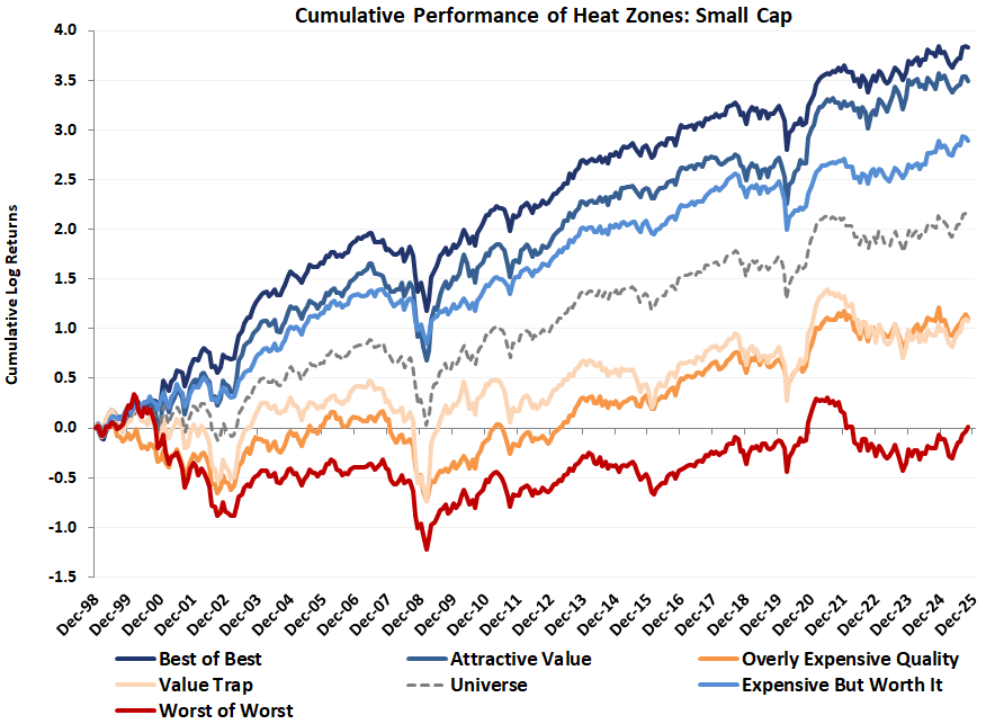


Figure 8: Long-Term Zone Performance – Small Cap



PRVit Performance and Factor Returns

Figures 9-11 show the performance of the PRVit model in different market cap ranges. The top-bottom spread ("**spread**") is the difference between the average return of the top 20% and the bottom 20% of stocks ranked by a factor. The information coefficient ("**IC**") is the cross-sectional correlation between the factor ranks and future returns. An IC around 5% indicates a very monotonic result: in other words, the top quintile should outperform the 2nd quintile, the 2nd quintile should outperform the 3rd quintile, etc.

The '1M' columns in **Figure 10** and **Figure 11** match the data provided in **Figure 1** on page 1.

Figure 9: All Cap

U.S. All Cap	1M		3M		1Y		3Y		5Y		10Y		Since Dec'98	
Industry Scores	IC	Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread
Profitability (High P)	0.0%	-1.09%	-2.5%	-1.88%	2.5%	-0.20%	4.5%	0.81%	3.8%	0.54%	3.0%	0.36%	2.8%	0.41%
Profitability Level (High P1)	-0.6%	-0.93%	-4.0%	-2.38%	1.6%	-0.66%	4.2%	0.48%	3.7%	0.33%	3.2%	0.31%	2.7%	0.36%
Profitability Trend (High P2)	0.7%	0.07%	0.4%	-0.44%	2.8%	0.37%	3.6%	0.77%	2.8%	0.55%	2.0%	0.33%	2.1%	0.39%
Risk (Low R)	-3.0%	-2.65%	-2.1%	-2.61%	-0.1%	-1.45%	2.3%	-0.06%	2.6%	-0.05%	1.8%	-0.06%	2.3%	0.34%
Volatility (Low R1)	0.6%	-1.63%	-3.8%	-3.27%	-0.1%	-1.79%	2.8%	-0.29%	2.9%	-0.24%	2.5%	-0.09%	2.7%	0.20%
Vulnerability (Low R2)	-3.3%	-2.51%	0.9%	-0.23%	0.2%	-0.54%	1.2%	0.03%	1.4%	0.11%	0.4%	-0.05%	1.0%	0.31%
Quality (High P - R)	-1.6%	-1.85%	-3.2%	-2.31%	1.8%	-0.82%	4.4%	0.58%	3.9%	0.39%	3.1%	0.28%	3.2%	0.48%
Valuation (Low V)	-5.8%	-2.58%	4.1%	1.88%	-1.8%	-0.02%	-2.3%	-0.28%	-0.1%	0.49%	-1.1%	0.09%	0.4%	0.59%
Valuation Ratios (Low V1)	-4.9%	-1.83%	3.7%	1.86%	-2.1%	0.32%	-3.0%	-0.18%	-0.7%	0.53%	-1.5%	0.10%	-0.1%	0.49%
Valuation Multiples (Low V2)	-4.1%	-2.26%	3.4%	1.05%	0.0%	-0.14%	0.6%	0.27%	2.1%	0.66%	0.7%	0.20%	2.1%	0.77%
PRVit	-5.1%	-2.98%	1.1%	-0.29%	1.0%	-0.38%	2.6%	0.51%	3.4%	0.85%	1.9%	0.36%	3.3%	0.93%

Figure 10: Large Cap

U.S. Large Cap	1M		3M		1Y		3Y		5Y		10Y		Since Dec'98	
Industry Scores	IC	Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread
Profitability (High P)	-1.0%	-0.01%	-3.0%	-0.79%	1.9%	0.33%	2.6%	0.40%	2.0%	0.26%	2.4%	0.41%	1.7%	0.30%
Profitability Level (High P1)	-4.3%	-0.74%	-3.3%	-0.78%	-0.1%	-0.10%	1.7%	0.18%	1.6%	0.16%	2.2%	0.37%	1.3%	0.18%
Profitability Trend (High P2)	4.0%	1.55%	-0.1%	0.18%	4.1%	1.20%	3.1%	0.70%	2.1%	0.41%	1.9%	0.39%	1.8%	0.35%
Risk (Low R)	-4.2%	-1.46%	-3.0%	-1.36%	-3.4%	-1.22%	-0.2%	-0.36%	0.5%	-0.18%	0.1%	-0.16%	1.1%	0.20%
Volatility (Low R1)	-4.4%	-1.64%	-5.3%	-2.21%	-4.7%	-1.91%	-0.8%	-0.72%	0.2%	-0.41%	0.4%	-0.20%	1.2%	0.08%
Vulnerability (Low R2)	2.7%	1.11%	1.3%	0.81%	-0.1%	-0.09%	0.8%	0.15%	0.8%	0.24%	-0.2%	-0.02%	0.5%	0.21%
Quality (High P - R)	-3.2%	-1.51%	-3.9%	-1.58%	-0.2%	-0.25%	1.9%	0.21%	1.8%	0.16%	2.1%	0.28%	1.8%	0.30%
Valuation (Low V)	4.4%	-0.03%	7.0%	1.33%	-0.3%	-0.55%	-1.3%	-0.50%	1.0%	0.28%	-1.0%	-0.21%	0.2%	0.26%
Valuation Ratios (Low V1)	5.9%	-0.59%	6.7%	0.74%	-0.5%	-0.78%	-1.6%	-0.34%	0.8%	0.36%	-1.1%	-0.13%	0.0%	0.23%
Valuation Multiples (Low V2)	3.1%	0.46%	6.8%	1.79%	-0.1%	-0.46%	-0.7%	-0.32%	1.7%	0.40%	-0.3%	-0.11%	0.8%	0.27%
PRVit	2.4%	-0.28%	3.6%	0.59%	0.6%	-0.37%	1.2%	0.00%	2.4%	0.40%	1.1%	0.15%	2.0%	0.47%

Figure 11: Small Cap

U.S. Small Cap	1M		3M		1Y		3Y		5Y		10Y		Since Dec'98	
Industry Scores	IC	Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread
Profitability (High P)	-5.3%	-3.11%	-2.1%	-1.81%	1.2%	-0.68%	4.0%	0.75%	3.7%	0.54%	2.6%	0.30%	2.8%	0.46%
Profitability Level (High P1)	-6.6%	-3.67%	-4.6%	-3.01%	0.3%	-1.75%	3.7%	0.08%	3.6%	0.15%	2.9%	0.19%	2.8%	0.41%
Profitability Trend (High P2)	-2.6%	-1.83%	0.6%	-0.71%	1.5%	0.26%	3.4%	0.86%	2.9%	0.69%	1.7%	0.28%	2.1%	0.43%
Risk (Low R)	-6.1%	-4.87%	-3.5%	-3.51%	-0.1%	-1.81%	2.9%	-0.08%	3.2%	-0.01%	2.3%	-0.01%	2.8%	0.41%
Volatility (Low R1)	-1.0%	-3.30%	-4.3%	-3.62%	1.0%	-1.80%	4.0%	-0.19%	3.9%	-0.17%	3.4%	-0.03%	3.4%	0.26%
Vulnerability (Low R2)	-7.1%	-3.31%	-1.0%	-1.23%	-0.6%	-1.30%	1.0%	-0.29%	1.4%	-0.13%	0.5%	-0.14%	1.1%	0.33%
Quality (High P - R)	-7.1%	-4.47%	-3.5%	-3.22%	0.8%	-1.49%	4.2%	0.47%	4.1%	0.39%	2.9%	0.19%	3.3%	0.54%
Valuation (Low V)	-8.4%	-4.01%	1.5%	0.34%	-0.5%	0.00%	-0.8%	0.03%	0.7%	0.67%	-0.3%	0.30%	1.0%	0.77%
Valuation Ratios (Low V1)	-6.9%	-2.70%	1.2%	0.28%	-0.7%	0.30%	-1.6%	0.09%	0.0%	0.71%	-0.7%	0.32%	0.4%	0.65%
Valuation Multiples (Low V2)	-8.7%	-4.37%	-0.1%	-0.57%	0.4%	-1.12%	2.2%	0.26%	3.0%	0.62%	1.5%	0.28%	2.8%	0.97%
PRVit	-11.9%	-5.16%	-2.0%	-1.80%	0.6%	-1.08%	3.3%	0.42%	4.0%	0.84%	2.3%	0.34%	3.8%	1.05%

Sector Results on Next Page

PRVit Performance by Sector

In **Figures 12**, **13**, and **14**, we show the Information Coefficients and Average Monthly Spreads for our PRVit, Quality, and Value factors, by sector. PRVit worked in Discretionary in October. Quality (**Figure 13**) worked in Materials, Staples, and Real Estate in October. Cheap Value (**Figure 14**) worked in Financials. Over time, PRVit, Quality, and Value work in most sectors.

Figure 12: PRVit Performance by Sector

PRVit Spreads	1M		3M		1Y		3Y		5Y		10Y		Since Dec'98	
Sector, U.S. All-Cap	IC	Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread
ENERGY	-2.5%	-1.68%	1.8%	-1.45%	-3.4%	-2.18%	0.8%	0.30%	1.6%	0.49%	-0.2%	0.26%	2.0%	0.74%
MATERIALS	4.5%	-0.22%	5.9%	1.22%	3.2%	1.40%	1.7%	0.21%	2.6%	0.64%	1.1%	-0.02%	2.6%	0.57%
INDUSTRIALS	-6.0%	-5.14%	3.2%	-0.57%	0.0%	-1.94%	3.7%	0.67%	3.9%	0.74%	1.9%	0.27%	3.8%	1.00%
CONS DISC	7.5%	2.46%	11.0%	4.64%	5.5%	2.06%	6.7%	1.93%	5.5%	1.86%	3.3%	0.87%	4.1%	1.15%
CONS STAP	-9.2%	-2.10%	1.2%	0.05%	3.5%	-0.50%	3.7%	0.87%	4.5%	0.76%	3.1%	0.51%	4.4%	1.01%
HEALTH CARE	-8.7%	-2.67%	-2.6%	-1.80%	-0.1%	-0.35%	1.8%	0.68%	3.6%	1.07%	1.8%	0.26%	3.9%	0.99%
FINANCIALS	-1.2%	-0.28%	-2.4%	0.09%	2.5%	0.41%	2.6%	0.43%	2.9%	0.56%	3.4%	0.56%	3.7%	0.73%
INFO TECH	-22.2%	-12.50%	-7.6%	-4.71%	-1.7%	-2.76%	1.9%	-0.90%	4.1%	0.17%	1.9%	0.07%	3.2%	0.94%
COMM SVC	-14.1%	-7.77%	-3.5%	-3.11%	-2.2%	-0.53%	-0.7%	0.27%	1.9%	1.04%	-1.5%	-0.49%	1.7%	0.53%
UTILITIES	-17.9%	-6.69%	-1.8%	-2.65%	-0.3%	0.57%	1.2%	0.70%	1.0%	0.60%	-0.2%	0.27%	2.0%	0.43%
REAL ESTATE	-20.0%	-2.73%	0.9%	0.78%	-0.7%	-0.04%	-1.7%	-0.46%	0.7%	0.42%	-1.0%	-0.10%	-1.0%	-0.10%

Figure 13: Quality Performance by Sector

Quality Spreads	1M		3M		1Y		3Y		5Y		10Y		Since Dec'98	
Sector, U.S. All-Cap	IC	Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread
ENERGY	-7.3%	-3.03%	-7.0%	-2.92%	-5.1%	-1.62%	0.3%	0.06%	-1.1%	-0.93%	1.3%	-0.23%	2.5%	0.39%
MATERIALS	4.3%	3.02%	3.8%	-0.63%	3.7%	0.64%	3.8%	0.25%	2.1%	-0.33%	1.0%	-0.47%	1.7%	0.05%
INDUSTRIALS	1.2%	-1.31%	-2.1%	-2.32%	1.0%	-1.83%	5.1%	0.57%	4.0%	0.03%	2.8%	0.05%	3.2%	0.40%
CONS DISC	5.8%	-1.04%	6.3%	1.23%	7.8%	1.57%	9.1%	2.17%	6.6%	1.23%	5.8%	1.04%	4.9%	0.93%
CONS STAP	6.8%	5.37%	-1.1%	0.13%	5.7%	1.51%	8.9%	2.53%	7.5%	1.92%	6.0%	1.26%	3.9%	0.96%
HEALTH CARE	0.8%	-1.87%	-3.7%	-2.59%	3.9%	-0.72%	6.4%	1.72%	6.9%	1.56%	4.8%	0.69%	4.0%	0.65%
FINANCIALS	-6.8%	-1.22%	-11.2%	-3.06%	-0.3%	-0.63%	1.2%	-0.23%	0.5%	-0.07%	1.0%	0.09%	1.4%	0.12%
INFO TECH	-14.4%	-11.35%	-8.6%	-5.57%	-0.7%	-3.22%	4.3%	-0.66%	5.4%	-0.05%	3.7%	-0.06%	3.7%	0.34%
COMM SVC	1.1%	-4.77%	-2.0%	-3.54%	2.5%	-0.59%	2.8%	-0.25%	2.6%	-0.65%	2.9%	-0.65%	3.3%	0.34%
UTILITIES	-32.3%	-5.99%	-14.7%	-5.44%	-7.5%	-0.05%	-3.3%	0.32%	-3.8%	0.06%	-3.0%	-0.16%	-1.0%	0.12%
REAL ESTATE	-9.5%	2.74%	-9.9%	-2.88%	-2.3%	-1.72%	0.2%	-0.77%	1.8%	-0.37%	0.3%	-0.16%	0.3%	-0.16%

Figure 14: Value Performance by Sector

Value Spreads	1M		3M		1Y		3Y		5Y		10Y		Since Dec'98	
Sector, U.S. All-Cap	IC	Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread	Avg IC	Avg Monthly Spread
ENERGY	3.3%	-2.54%	10.0%	0.80%	-0.3%	-1.75%	-0.9%	-0.81%	2.1%	0.93%	-2.2%	0.14%	-0.5%	0.22%
MATERIALS	-7.0%	-1.82%	-1.1%	0.25%	-1.9%	-0.86%	-3.1%	-0.97%	0.9%	0.76%	0.4%	0.86%	1.5%	1.00%
INDUSTRIALS	-7.7%	-4.22%	5.9%	2.07%	-1.5%	-0.05%	-1.9%	-0.25%	0.3%	0.77%	-0.7%	0.32%	0.9%	0.72%
CONS DISC	-2.3%	-0.85%	2.5%	0.99%	-3.7%	-0.09%	-3.2%	-0.39%	-0.5%	0.66%	-2.3%	-0.06%	-0.9%	0.41%
CONS STAP	-13.9%	-5.16%	2.6%	-0.76%	-0.8%	-2.04%	-4.0%	-1.65%	-0.8%	-0.09%	-1.7%	-0.13%	0.7%	0.45%
HEALTH CARE	-13.2%	-5.63%	0.5%	1.55%	-5.6%	0.11%	-5.5%	-1.03%	-3.3%	-0.58%	-3.5%	-0.65%	0.0%	0.67%
FINANCIALS	7.4%	0.83%	13.0%	3.84%	3.9%	1.21%	1.8%	0.95%	3.6%	1.09%	3.3%	0.65%	3.0%	0.69%
INFO TECH	-13.5%	-0.71%	-2.0%	0.59%	-3.6%	-0.88%	-3.8%	-0.74%	-1.4%	0.01%	-2.5%	-0.20%	-0.4%	0.61%
COMM SVC	-24.9%	-6.70%	-3.7%	1.49%	-6.1%	0.94%	-4.1%	0.77%	-0.1%	2.13%	-4.4%	-0.42%	-1.0%	0.01%
UTILITIES	-2.5%	-6.00%	1.7%	-0.38%	2.7%	-0.96%	4.1%	-0.39%	5.0%	0.28%	3.1%	0.42%	3.4%	0.43%
REAL ESTATE	-12.6%	-10.85%	9.1%	2.72%	1.5%	0.01%	-1.9%	-0.24%	-1.1%	0.18%	-1.1%	-0.25%	-1.1%	-0.25%

PRVit Performance by Quintiles and Long/Short

Figures 15 and **18** (next page) show the quintile performance over various time slices. Over the long term, PRVit performance tends to be monotonic (1st quintile beats the 2nd quintile, 2nd quintile beats the 3rd quintile, etc.). On the right (**Figures 16** and **19**), we isolate the performance of the top and bottom quintiles and show the alpha from buying the top quintile (long) or selling the bottom quintile (short).

Large Cap Commentary

In October, the top quintile underperformed the universe (-11bps), while the bottom quintile outperformed the universe (+17bps), driving the PRVit spread for the month to -28bps. In **Figure 16**, long alpha (+19bps/month) contributes less than short alpha (+27bps/month) over time.

Figure 15: Stock Returns by PRVit Quintiles

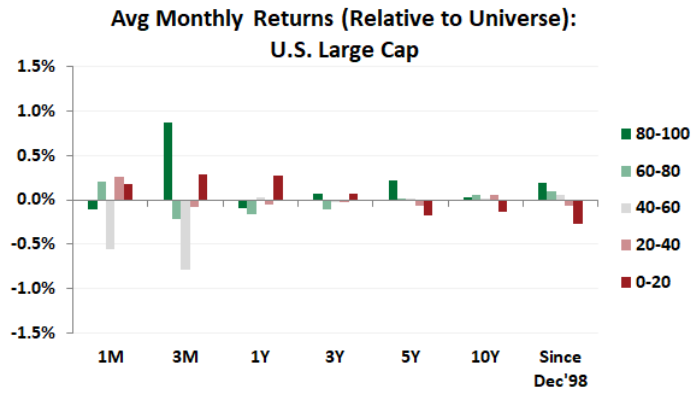
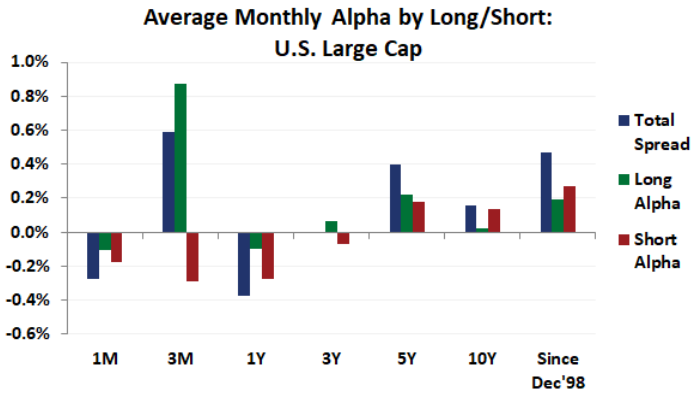


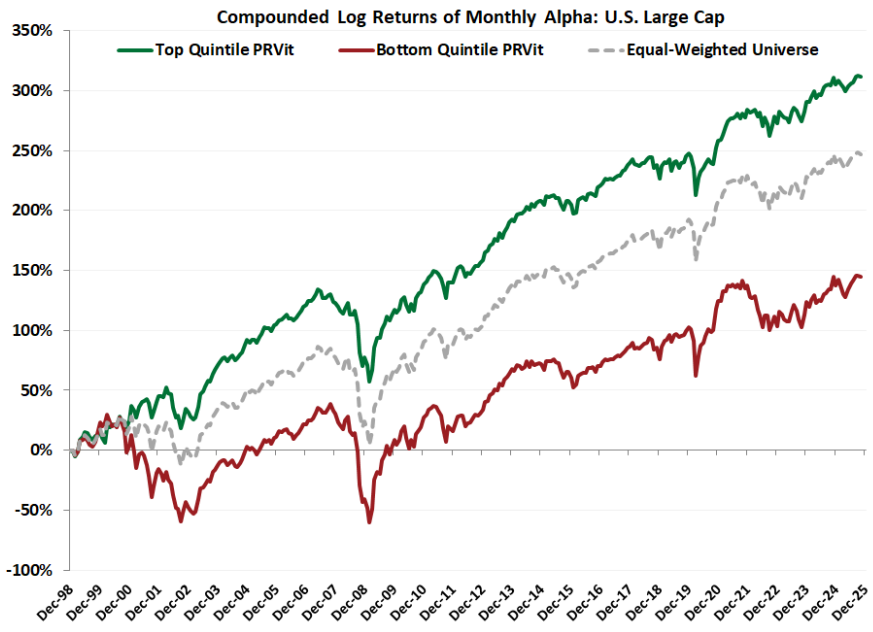
Figure 16: Long and Short Alpha



Compound Top and Bottom Quintiles

In **Figure 17**, we plot the return of the top (green line) and bottom (red line) quintiles of PRVit versus the equal-weighted benchmark returns. The top and bottom quintiles are re-balanced monthly and include all companies trading at the time. The difference between the green line and the dotted gray line is the **long alpha,** while the difference between the red line and the dotted gray line is the **short alpha**. The difference between the green line and the red line is the total spread.

Figure 17: Compound Performance of Top and Bottom Quintiles



Small Cap Commentary

In October, the top quintile underperformed the universe (-192bps), while the bottom quintile outperformed the universe by +325bps. The overall PRVit spread for the month was -516bps. Over the long term, alpha is relatively balanced between long (+46bps/month) and short (+59bps/month).

Figure 18: Stock Returns by PRVit Quintiles

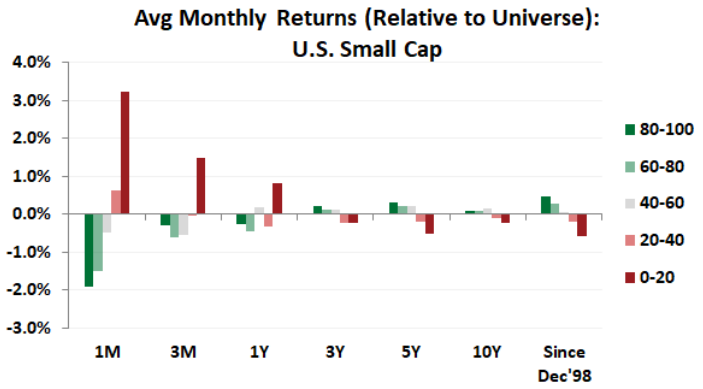
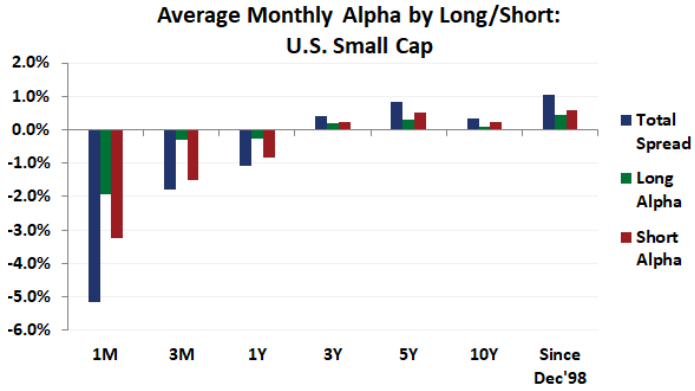


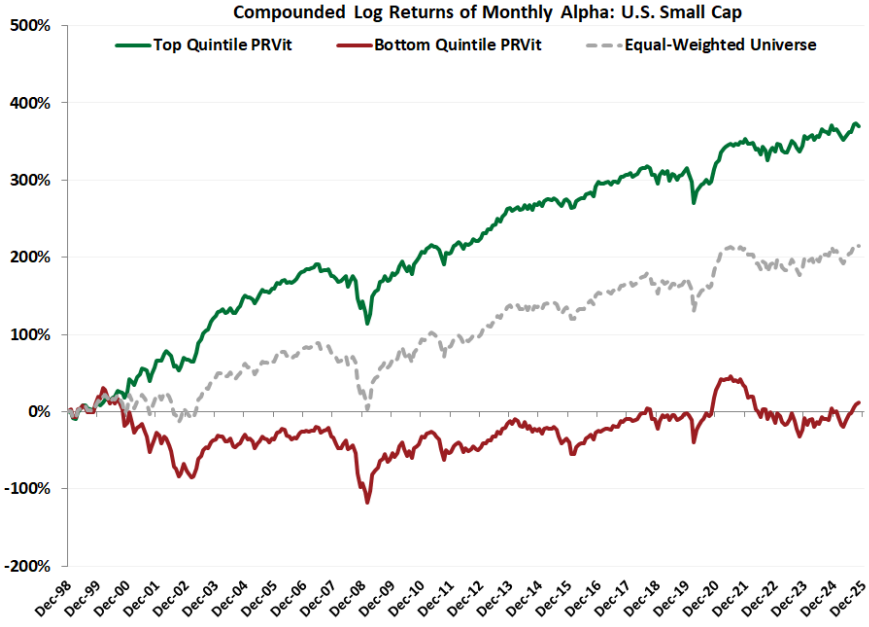
Figure 19: Long and Short Alpha



Compound Top and Bottom Quintiles

In **Figure 20**, we plot the return of the top (green line) and bottom (red line) quintiles of PRVit versus the equal-weighted benchmark returns. The top and bottom quintiles are re-balanced monthly and include all companies trading at the time. The difference between the green line and the dotted gray line is the **long alpha** while the difference between the red line and the dotted gray line is the **short alpha**. The difference between the green line and the red line is the total spread.

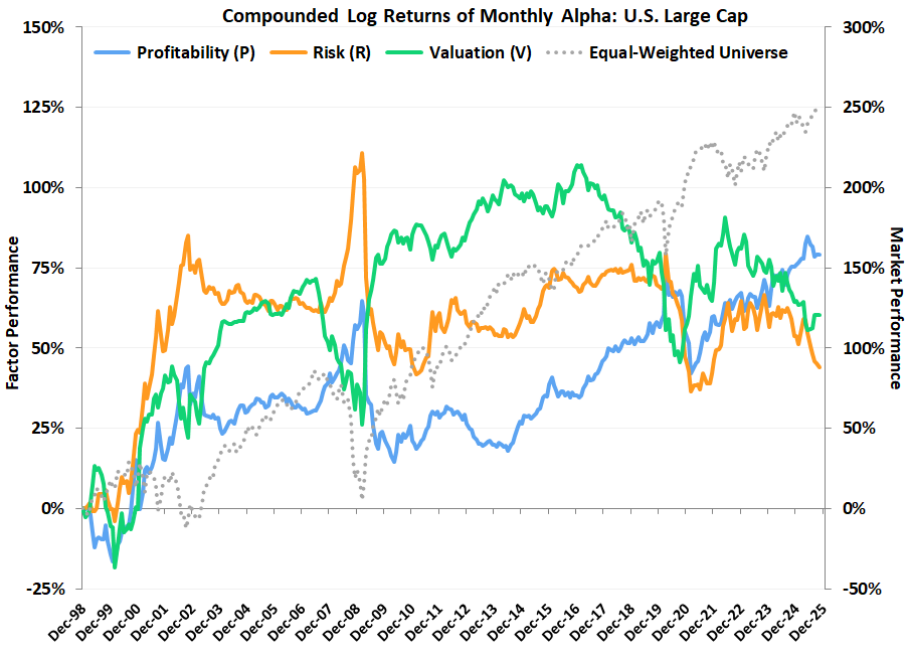
Figure 20: Compound Performance of Top and Bottom Quintiles



Long-Term Selected Factor Performance

The graphs below show compounded top/bottom spreads of our key factors: Profitability, Risk, and Value. The Equal Benchmark line is graphed on the secondary y-axis to show which factors work during certain market conditions. The factor performance is cumulative alpha: when the colored lines are above 0%, they have generated alpha.

Figure 21: Compounded Spreads – Large Cap

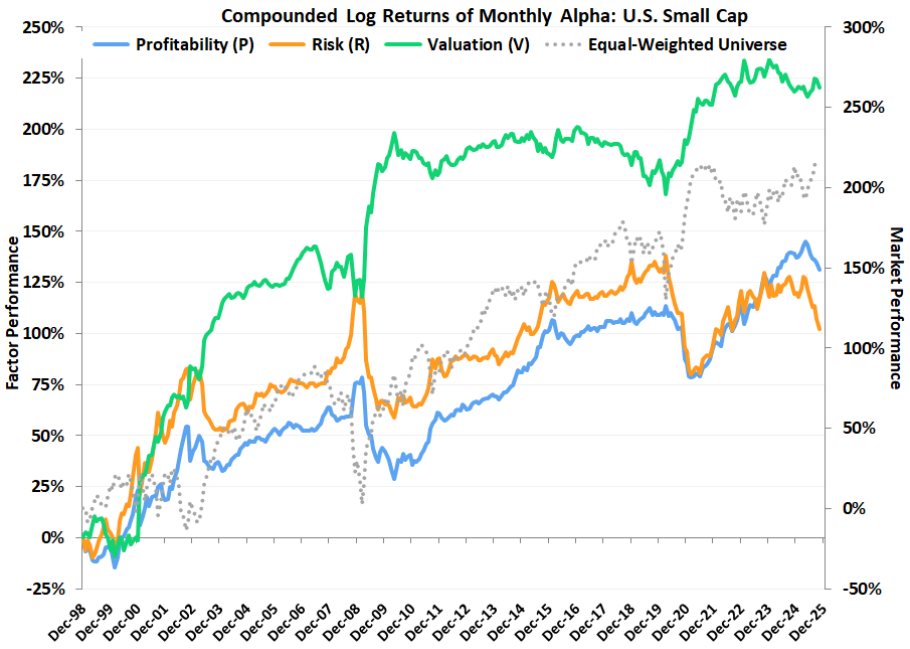


Commentary

Profitability had been positive in the first 5 months of 2025 but has been off for 4 of the last 5 months, averaging -110bps/month. Risk has been off for the last 7 months.

Since mid-2022, Value has had some spikes where cheap Value worked but had generally been trending down. August saw cheap Value drive the market (+412bps), but the last two months have been Value-neutral (averaging -7bps/month).

Figure 22: Compounded Spreads – Small Cap



Commentary

Profitability has been negative in the last 6 months but has had a strong run since 2020. High-Risk names have outperformed low-Risk names in 6 of the last 7 months, averaging -356bps/month over that time.

Value started to slide in the beginning of 2024, jumped in the summer (averaging +298bps/month), but has been off in the last two months.

Expectations Analysis

A key driver of our Value scores is the imbedded expectations of the market. For this, we use the Future Growth Reliance (FGR) metric, which computes the implied future EVA growth.

Figure 23 below plots FGR over the last 10 years (previous reports used five years) – the gray area is the overall range (min to max), the orange lines represent the mean, the greenish-blue lines show the mean plus/minus 1 standard deviation, the green diamonds represent the current value, the red 'Xs' indicate the lows from March 2009, and the blue 'Xs' represent the lows of March 2020. **Figure 24** contains similar metrics for our MVA Spread, which is our version of price-to-book (Market Value Added to Capital base). Small Cap versions can be found on the next page.

Formulas

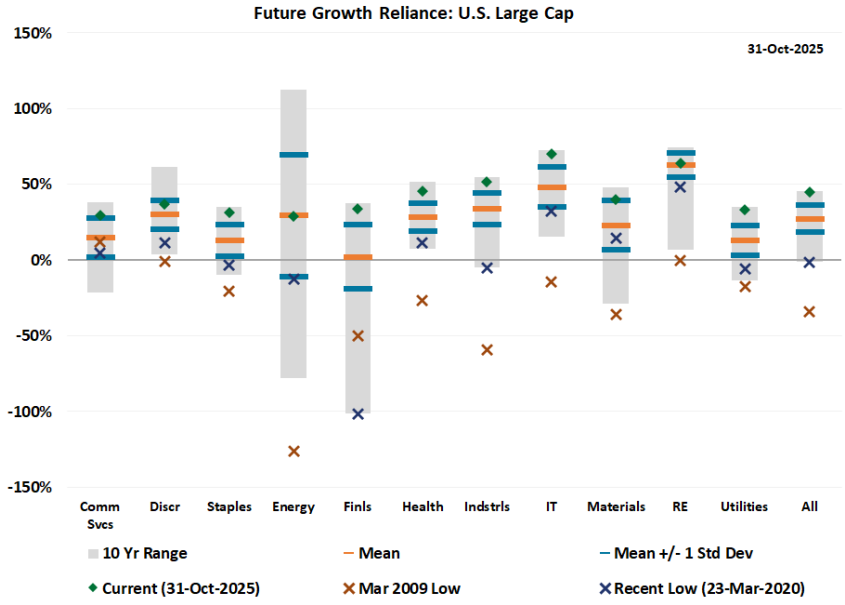
Future Growth Reliance (FGR) = FVA / Market Cap

Future Value Added (FVA) = Market Cap – Current Value Added (CVA)

Current Value Added (CVA) = EVA / Cost of Capital (no-growth scenario)

('Xs' below represent the number of standard deviations the current value is from the mean)

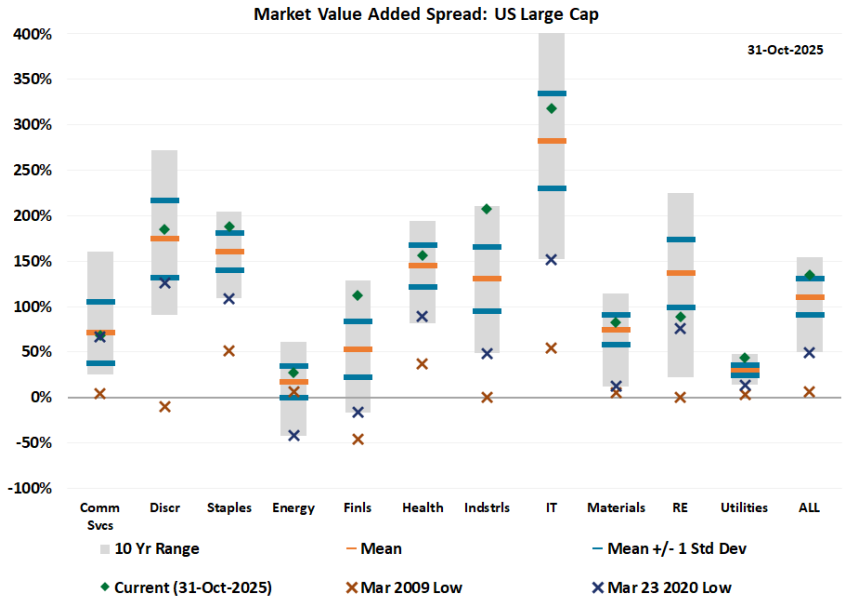
Figure 23: Expectations – Large Cap by Sector



Large Cap

Utilities (+2.1x), Health Care (+1.8x), and Staples (+1.8x) have the highest expectations relative to their own history. Energy (-0.0x), Discretionary (+0.7x), and Materials (+1.0x) have some of the lowest relative expectations (despite the latter two being above their historical averages).

Figure 24: Market Value Added Spread (Price-to-Book) Large Cap

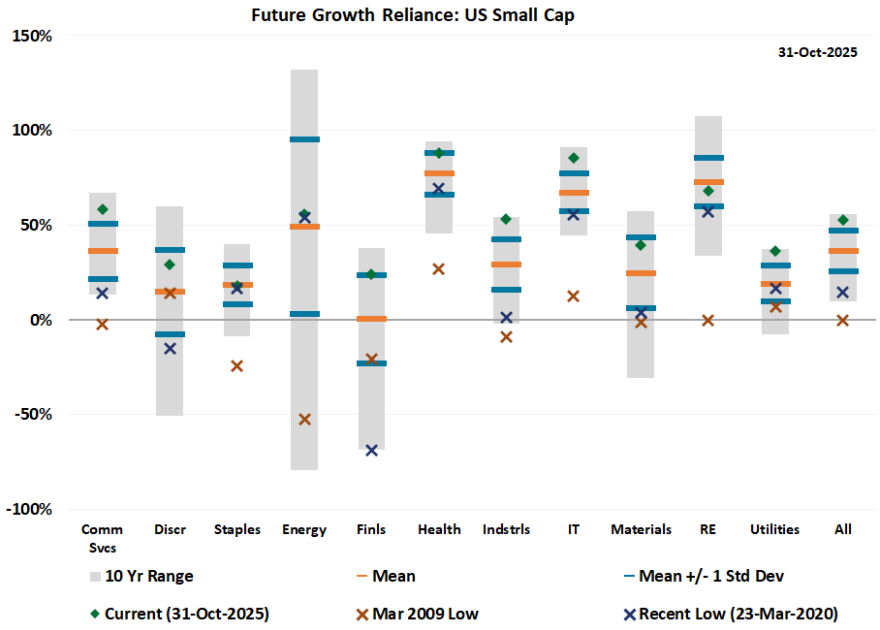


Large Cap

Utilities (+2.5x), Industrials (+2.2x), and Financials (+1.9x) have MVA Spreads well above their historical levels. Communication Services (-0.1x), Discretionary (+0.3x), and Materials (+0.5x) have some of the lowest relative prices (despite the latter two being above their historical averages).

MVA Spread is the Market Value Added divided by the Capital base. FGR looks at just the portion of MVA coming from future EVA creation, while MVA Spread looks at the value coming from existing profitability (CVA) as well as future EVA (FVA). MVA Spread is our version of a price-to-book ratio using our EVA-adjusted Capital base.

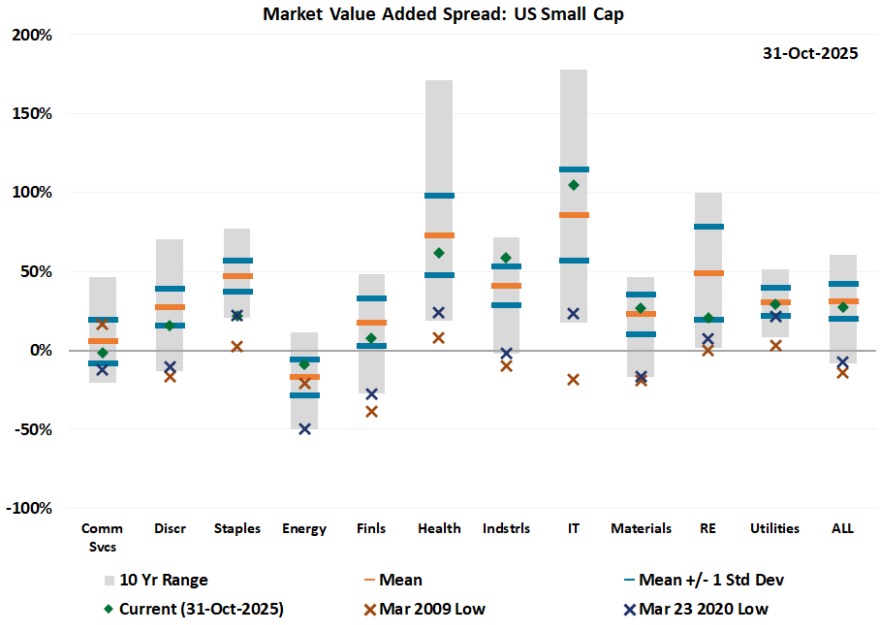
Figure 25: Expectations – Small Cap by Sector



Small Cap

IT (+1.8x), Utilities (+1.8x), and Industrials (+1.8x) have the highest expectations priced in, relative to their own histories. Staples (-0.0x), Energy (+0.1x), and Discretionary (+0.6x) have some of the lowest expectations relative to their own histories.

Figure 26: Market Value Added Spread (Price-to-Book) Small Cap



Small Cap

Industrials (+1.5x), Energy (+0.7x), and IT (+0.7x) have the highest MVA Spreads relative to their own histories. Staples (-2.6x), Discretionary (-1.0x), and Financials (-0.7x) have some of the lowest relative prices.

ISS ESG US EVA Leaders Index Results on Next Page

EVA & ESG Index

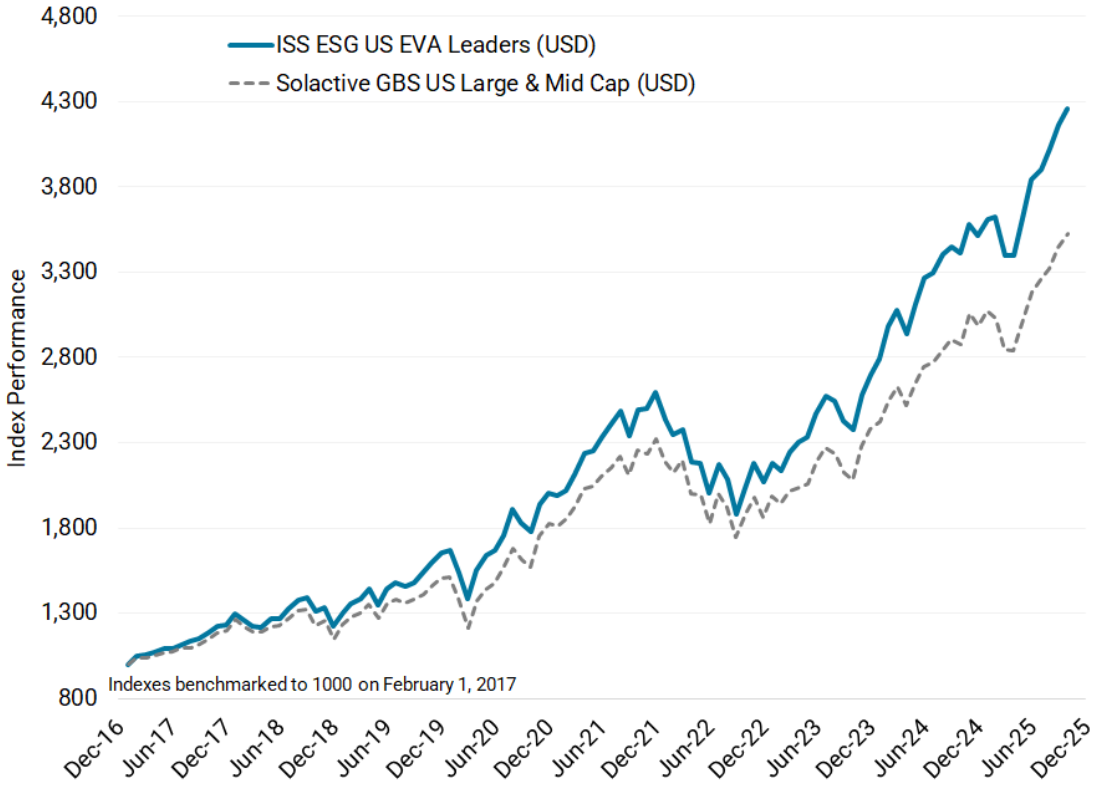
Creation of the index follows a four-step process and starts with the screening of constituents of the Solactive Global Benchmark Series. From there, ISS ESG screens are applied to remove prospective constituents with Red Norm-Based Research flags, Red Controversial Weapons flags, and those with an overall ISS ESG Corporate Rating of D-, D, and D+. Next, the EVA screen is applied to remove prospective constituents with a negative EVA Margin. Last, qualifying constituents are added by sector, based on descending EVA Margin, until reaching a market cap threshold and targeting sector neutrality. Indexes are market cap weighted after the above steps and rebalanced quarterly.

Index methodologies are available on the ISS website and that of the Index Administrator, Solactive AG, an authorized benchmark administrator under European Benchmarks Regulation (BMR). We currently offer three indexes covering the U.S. (ISSEVAUT), Europe (ISSEVAET), and Developed Markets (ISSEVADT) – Bloomberg tickers in parentheses.

To learn more about ISS ESG's index offerings, please click here.

See PRVit Report – Global and Europe for similar graphs with those regional indexes.

Figure 27: ISS ESG US EVA Leaders



About ISS EVA

We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework.
EVA converts accounting profits into economic profits and charges businesses for the use of Invested Capital. EVA is superior to traditional measures of profit because it is comparable across companies, industries, and countries, links to a consistent, transparent valuation framework, and provides a unique, unbiased view of Quality, Value, and Growth.

Our experienced team of analysts offers both fundamental and quantitative company analysis through written research, bespoke research, a stock selection model, an online analytical tool offering +29,000 companies as viewed through the EVA framework, custom screening, and portfolio analysis.

Key EVA Concepts

The value of a firm = Capital + Present Value of EVA
If EVA is increasing then the intrinsic value of the firm is too, suggesting that market value should follow (and vice versa).

EVA = NOPAT - Capital Charge
EVA is profit after all costs, including the cost of giving shareholders a decent return.

EVA Margin = EVA / Sales
A true economic profit margin covering income and asset efficiency. Our EVA Income Statement examines EVA's line item drivers and offers key insights into business profitability.

EVA Momentum = Δ EVA / Sales
An incremental EVA growth rate indicator and key valuation signal and screening measure. The more positive the Momentum, the greater the growth in EVA, and upward pressure on shareholder returns. Inflections in EVA Momentum are an early and more reliable indicator of stock price inflections.

EVA Shock = Δ EVA Momentum
Changes in EVA Momentum is a powerful signal within our framework, with significant relationship with stock price performance.

Market Implied Momentum (MIM)
The annual EVA improvement required for 10 years to justify the prevailing market enterprise value, expressed as a percent of sales; represents a market implied, long-range EVA margin improvement target.

Future Growth Reliance (FGR) = (Market implied value of future EVA growth) / EV
Measures the % of a company's total enterprise value represented by expectations for future growth in EVA. FGR is key to understanding embedded expectations today and versus history. A low FGR versus history coupled with improving EVA trends indicates that the market is not pricing in the improving business model.

Additional Resources

evaExpress.com (link): Our online offering provides a comprehensive suite of fundamental and quantitative tools utilizing the EVA framework
EVA for Investors (link): A full introduction to the key EVA concepts and metrics

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