

The path to financial truth.

# PRVIT Performance Update

## May 31, 2011



evaDimensions   
The Path to Financial Truth

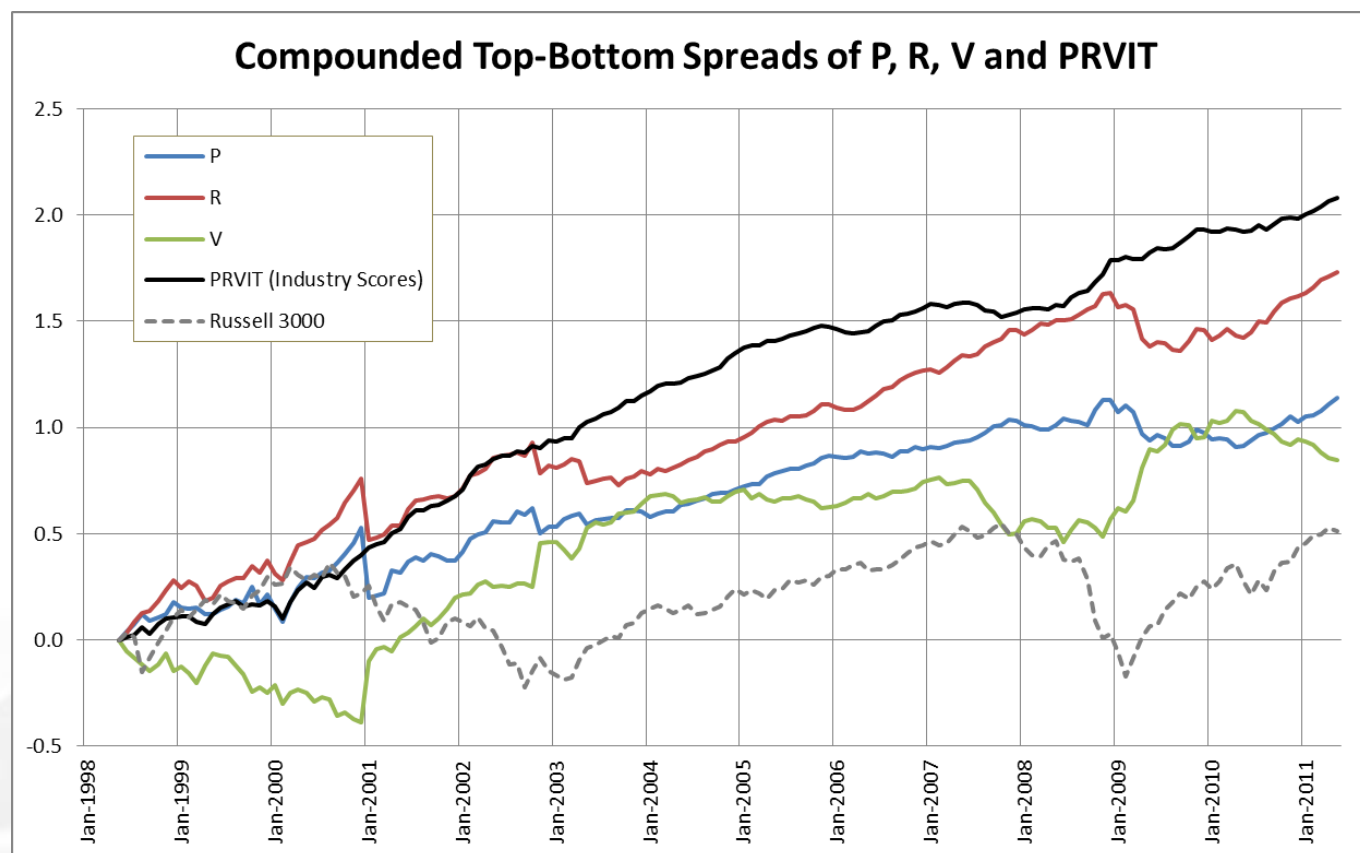
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## Definitions

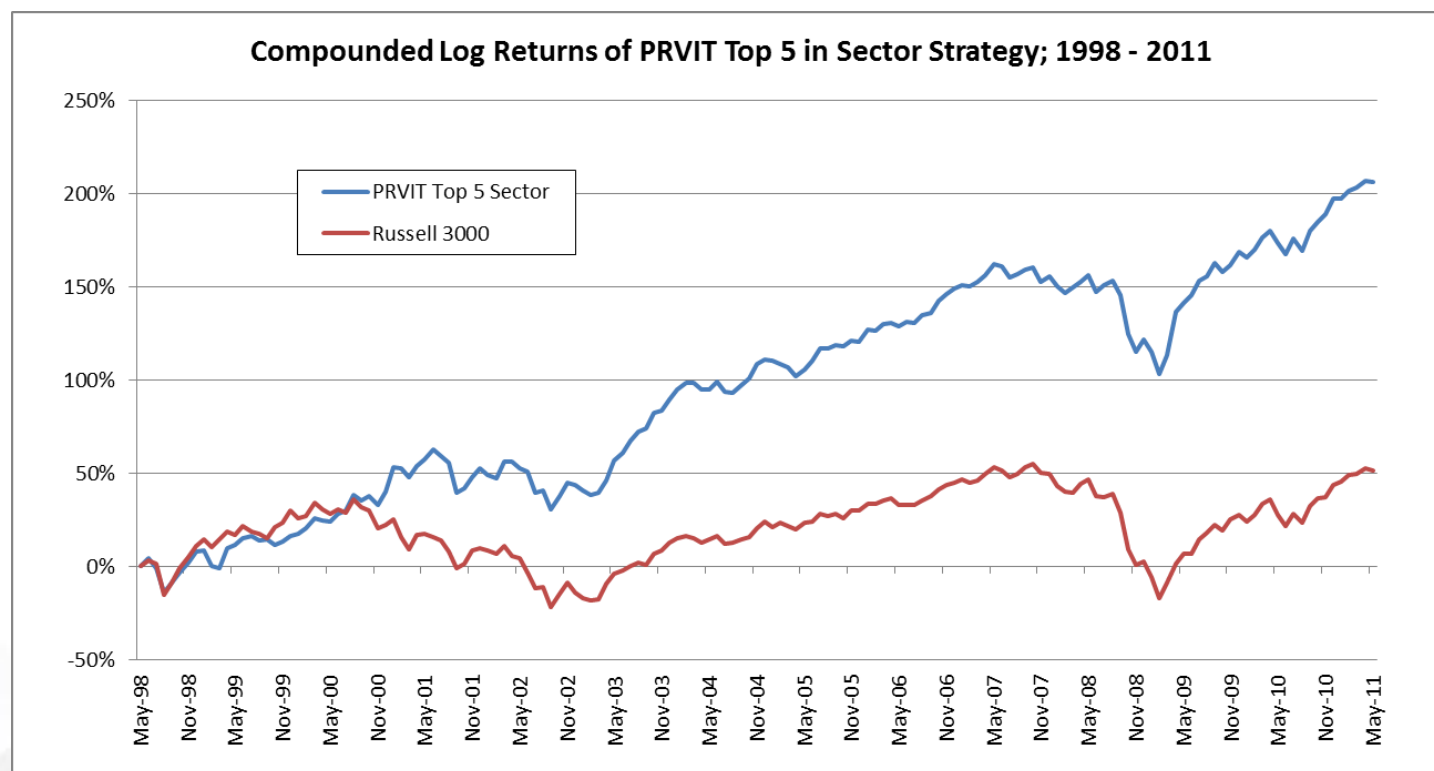
- ***PRVIT Score:*** A 0-100 ranking of a stock's alpha potential derived from EVA-based Performance, Risk, and Valuation metrics.
- ***Top-Bottom Spread:*** Performance of a basket which is long the top 10% of PRVIT-ranked stocks and short the bottom 10%.
- ***Active Return: Strategy Return – Benchmark Return.*** A measure of value added by the manager above a passive benchmark.
- ***Active Risk:*** Standard Deviation of *Active Return*. A measure of strategy risk.
- ***Information Ratio:*** Ratio of *Active Return* to *Active Risk*. Equal to the *Sharpe Ratio* when the benchmark is cash. A performance measure – higher is better.
- ***Predictive Accuracy Score:*** A measure of how accurate the PRVIT score may be for a given stock. Likely to be lower for ultra-high-growth companies.

## PRVIT Top-Bottom Spread (Long/Short Strategy)



- The black line is the return to a basket which is long the top 10% of PRVIT-ranked stocks and short the bottom 10%. The colored lines are similar returns for the Performance, Risk, and Value sub-components of the PRVIT model. The dashed line is the Russell 3000, for reference. Transaction costs are not included.
- With regards to PRVIT performance, the trends of 2011 continued through May. Specifically, returns to the aggregate model continue to be strong. Performance and risk factors are working again after underperformance during much of the “rebound rally” of 2009-2010, although value factors continue to underperform.

# PRVIT Top 5 in Sector Strategy

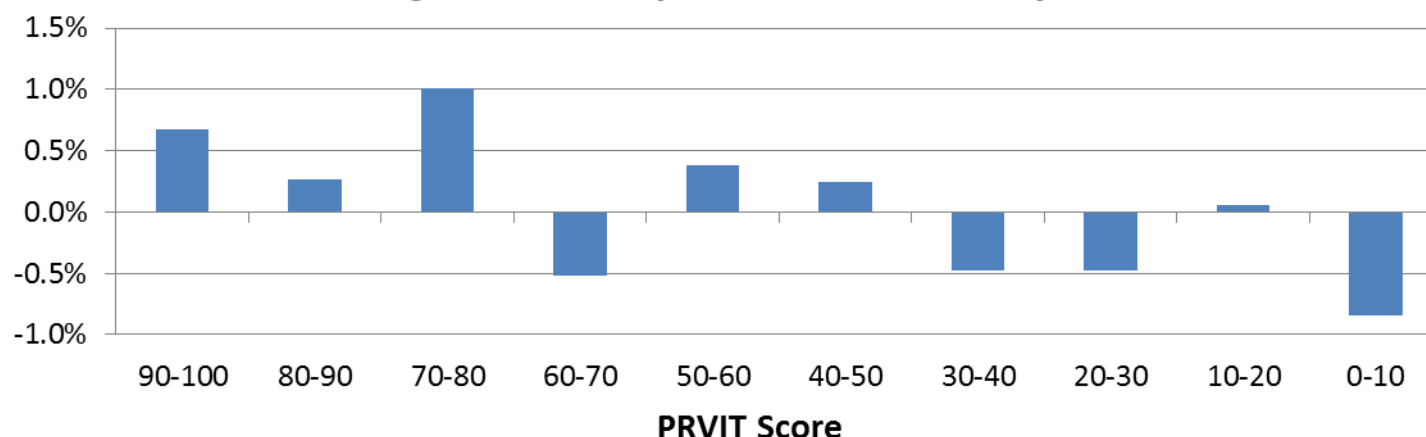


- The PRVIT Top 5 in Sector Strategy buys the top 5 PRVIT picks in each sector, each month. But it will not buy stocks which are ranked low by the Predictive Accuracy Score – such as ultra-high growth stocks. Transaction costs of 30 bps each way are included.
- Last month, the strategy returned -0.60% compared to a Russell 3000 return of -1.14%, for 54 bps of alpha after costs. Over the trailing year, the strategy has outperformed the index by 9.9%.

Annualized Stats with Costs	1998-2011	Trailing Five Years	Trailing Year	Last Month (not annualized)
Strategy Return	17.9%	20.7%	35.2%	-0.60%
Russell 3000 Return	5.4%	4.2%	25.3%	-1.14%
Active Return	12.5%	16.5%	9.9%	0.54%
Active Risk	10.3%	10.7%	5.9%	
Information Ratio	1.22	1.54	1.69	
Turnover	62%	62%	68%	6%

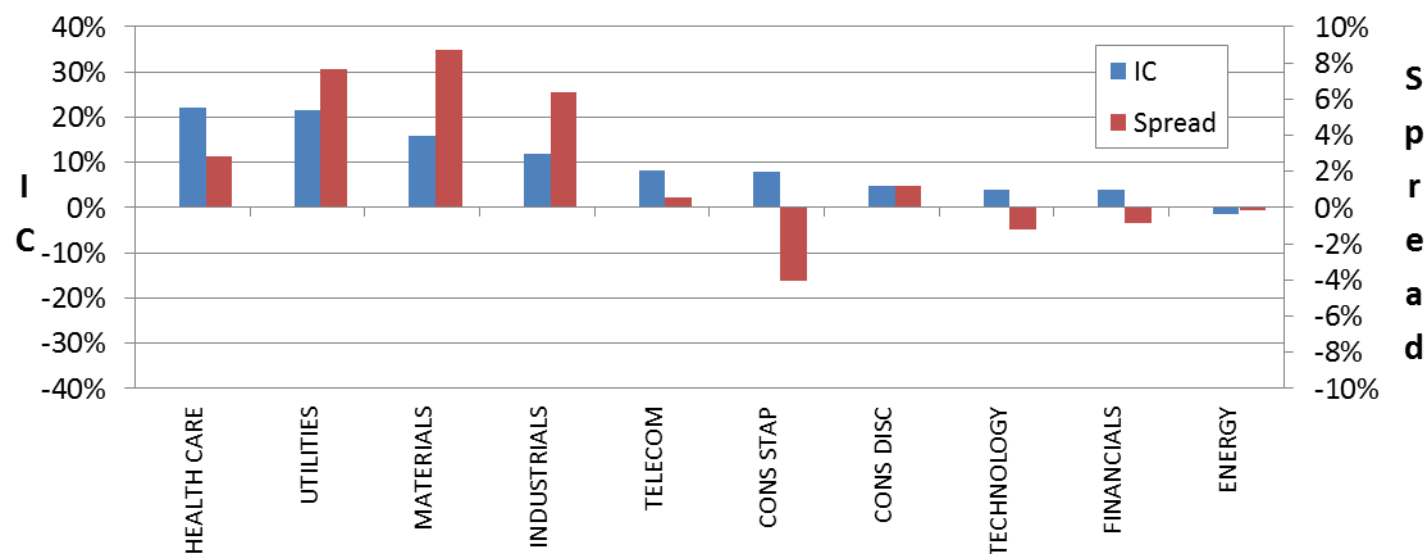
## Other Statistics: Deciles and Sectors

**Average Returns by PRVIT Scores; May 2011**



- Returns across PRVIT Deciles were decreasing from the top to bottom decile. The ordering of the deciles was muddy but there was a clear trend for high-rated stocks to outperform low-rated ones.

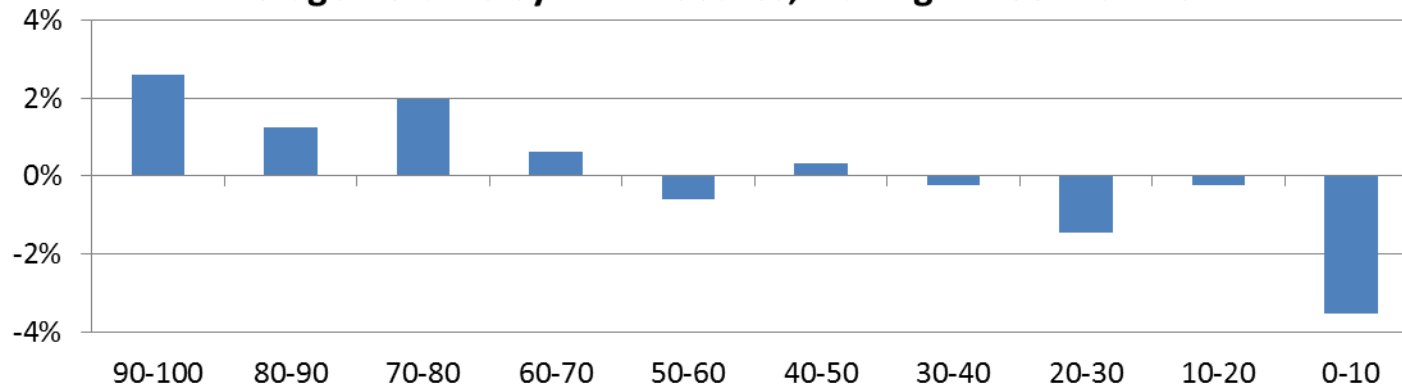
**PRVIT IC and Spread by Sector; May 2011**



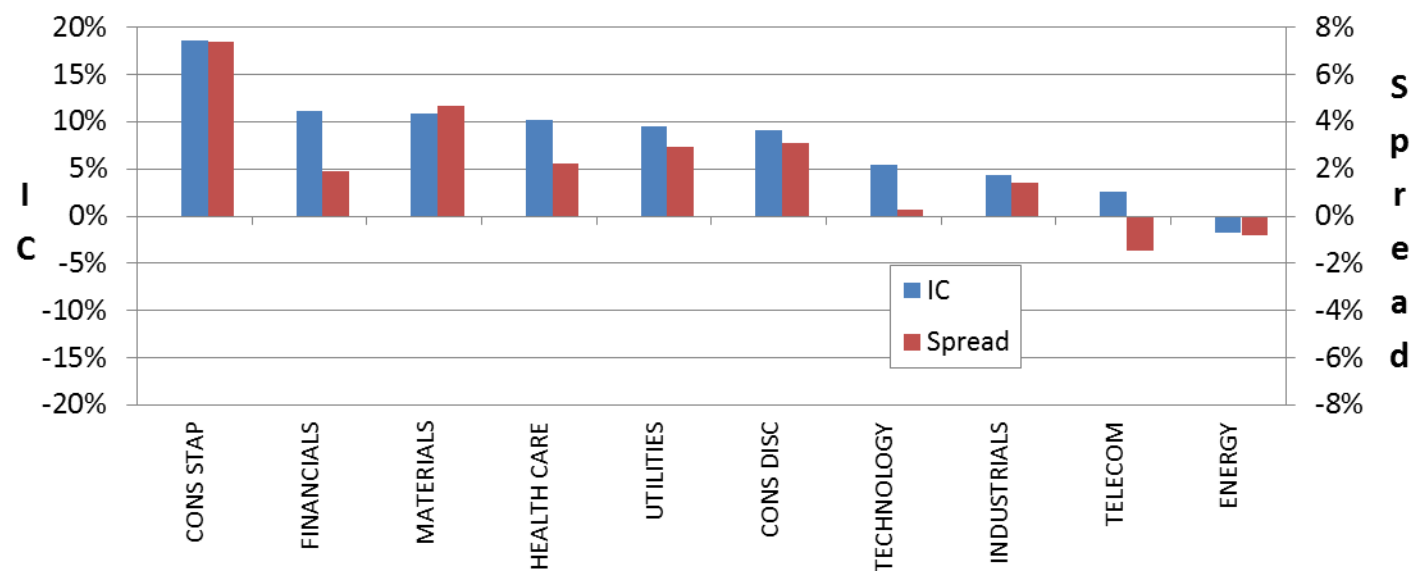
- PRVIT had a positive information coefficient in all sectors except for energy. PRVIT was especially good in healthcare, materials and industrial stocks this month. It was weaker in the financial and technology sectors.

# Deciles and Sectors: Trailing 3 Months

Average Returns by PRVIT Scores; Trailing Three Months



PRVIT IC and Spread by Sector; Trailing Three Months



- Over the past three months, cumulative returns across PRVIT Deciles were decreasing from the top to bottom decile. The ordering of the middle deciles was a little muddy but there was a clear trend for high-rated stocks to outperform low-rated ones.
- Over the past three months, PRVIT had a positive average IC in all sectors except for energy.

## Other Statistics: PRVIT Sub-Components

As of 5/31/2011	Trailing Month		Trailing 3 Months		Trailing Year		Trailing 5 Years		05/31/1998 - Present		
Factor	IC	Spread	Avg IC	Avg Spread	Avg IC	Avg Spread	Avg IC	Avg Spread	Avg IC	IC t-stat	Avg Spread
<b>P</b>	11.1%	3.6%	11.7%	2.9%	8.5%	1.9%	3.6%	0.5%	3.5%	7.1	0.8%
<b>P1: PROFITABILITY</b>	10.9%	3.3%	11.8%	3.2%	9.0%	2.1%	3.9%	0.7%	3.4%	7.3	0.7%
<b>P2: MOMENTUM</b>	7.2%	1.7%	6.8%	1.4%	4.2%	1.2%	1.6%	0.5%	2.4%	5.8	0.7%
<b>R</b>	10.4%	1.9%	11.3%	2.3%	9.9%	2.6%	4.9%	1.1%	4.4%	10.3	1.2%
<b>R1: VOLATILITY</b>	7.2%	2.6%	9.8%	3.1%	10.0%	3.3%	4.9%	1.1%	4.1%	9.7	0.8%
<b>R2: VULNERABILITY</b>	9.5%	2.7%	8.0%	2.3%	6.0%	1.8%	2.9%	0.9%	3.0%	9.4	1.1%
<b>V</b>	-5.5%	-0.8%	-6.9%	-2.3%	-5.1%	-1.8%	-0.9%	0.4%	0.5%	0.8	0.7%
<b>V1: WEALTH RATIOS</b>	-6.5%	-1.7%	-8.6%	-2.9%	-6.6%	-2.4%	-1.8%	0.0%	-0.5%	-0.7	0.3%
<b>V2: WEALTH MULTIPLES</b>	1.8%	1.4%	3.6%	1.6%	3.8%	1.1%	2.9%	0.9%	3.6%	8.8	1.1%
<b>P1 + V1</b>	2.6%	1.3%	1.3%	0.9%	1.5%	0.1%	1.8%	0.7%	2.7%	6.4	1.0%
<b>PRVIT (INDUSTRY SCORES)</b>	8.8%	1.5%	7.9%	2.0%	5.7%	1.4%	3.5%	1.1%	4.1%	12.2	1.4%

- The universe for the above statistics is a broad universe composed of the union of the Russell 3000 plus the S&P 1500, ex-REITS and ex- all companies with sales under \$10 MM. All indicators are expressed such that a positive information coefficient (IC) and spread are good.
- PRVIT posted a very strong month with an IC of 8.8% and a top-bottom decile spread of 1.5%.
- The dynamics of this month in terms of performance across factors and sectors were very similar to those of the last two months.
- Performance and Risk factors in particular performed well.
- Value measures were mixed. “Deep Value” wealth ratios like MVA Margin underperformed while wealth multiples based on earnings or cash generation did OK.