

Investing in Large Cap Stocks with the S&P 4 Model Portfolio

The S&P 4 is a large cap core equity model portfolio that can be accessed via a separately managed account (SMA).



An Introduction to Large Cap Stocks

Large cap stocks represent some of the most well-known companies. Large cap is short for “large market capitalization,” which describes companies with the largest market share. The following are examples of large cap stocks:



Source: S&P Capital IQ platform, May 2017

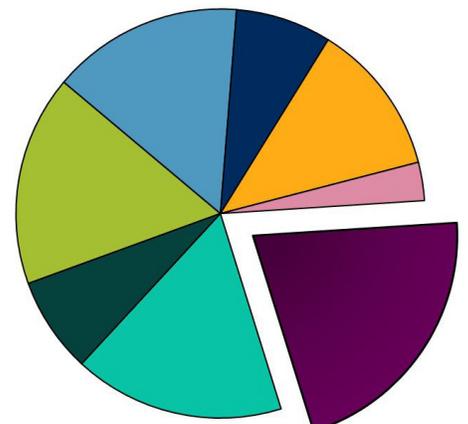
There are different categories that large cap stocks can fall into:

<i>Large Cap Value</i>	<ul style="list-style-type: none">• Considered undervalued in price• Primarily uses earnings to pay dividends, which typically results in producing more current income than growth• Offers the potential for long-term appreciation if the market recognizes the true value of the stocks
<i>Large Cap Growth</i>	<ul style="list-style-type: none">• Tends to experience faster than average growth as measured in revenue, earnings, or free cash flow• Pays little to no dividends, but instead reinvests earnings in capital expenditure projects to enhance the business• Expected to offer the potential for higher returns but also generally represents a greater risk compared to value stocks
<i>Large Cap Core</i>	<ul style="list-style-type: none">• Does not strongly identify with growth or value categories

Why Invest in Large Cap Stocks?

Through conversations with your financial advisor, you’ve likely already learned the importance of a well-diversified portfolio. Diversification is the process of strategically spreading your capital across different investments to balance risk and return. We believe large cap stocks are one piece of a well-diversified portfolio. They offer a unique set of risk and return characteristics that can be balanced with other investments.

Large cap stocks tend to be financially stable and those companies are likely to endure an economic slowdown rather than closing during hard times. With financial strength often comes free cash flow, which companies can choose to reinvest back into the business or pay to shareholders in the form of dividends. Dividends can serve as an inflation hedge or additional income for investors.



Accessing Institutional-Grade Investment Advice with Model Portfolios and Separately Managed Accounts (SMAs)

The S&P 4 is a model portfolio, which is similar to a blueprint that a financial advisor can implement in their clients' investments based on their goals, risk tolerance, and time frame. Model portfolios are a recommendation on which securities to include in a portfolio.

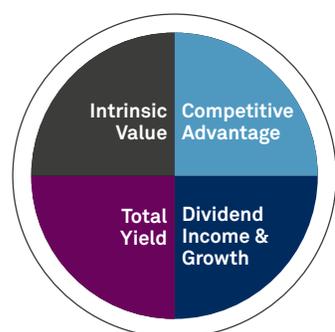
Investors cannot invest directly in a model portfolio like they could in a mutual fund. Using a model portfolio allows investors to access an institutional-grade product designed and actively managed by a seasoned investment team.

Comparing SMAs and Mutual Funds

	<i>Minimum Investment</i>	<i>Investor's Holdings</i>	<i>Professionally Managed?</i>
SMA	Generally larger	Individually-owned securities	Yes
Mutual Fund	Generally smaller	Shares of mutual fund	Yes

Financial advisors use model portfolios to create separately managed accounts (SMAs) for their clients. SMAs are investment accounts that hold an individually-owned collection of securities. They are designed by financial advisors to provide targeted exposure based on a client's investment objective. The S&P 4 targets capital appreciation using large cap stocks, and can be used as one piece of a well-diversified portfolio.

The S&P 4 Model Portfolio



The S&P 4 Model Portfolio seeks to maximize capital appreciation by blending four underlying strategies. The S&P 4 Model Portfolio is:

- **Equal Weighted:** Each of the four strategies begins the yearly cycle with equal weight in the model portfolio.
- **Rebalanced:** At the end of each yearly cycle, the model portfolio is rebalanced to equalize each strategy's weight.
- **Efficient by Design:** Stocks are selected with a buy-and-hold philosophy, so they normally remain in the portfolio unless there is a merger or another exceptional circumstance.

The S&P 4 Strategies at a Glance

Intrinsic Value

Seeks to identify undervalued but higher-earning companies that generate strong free cash flows.

Competitive Advantage

Combines profitability with value, seeking to identify companies with strong return on invested capital (ROIC) that trade at attractive valuations.

Total Yield

Seeks to identify companies that return cash to shareholders and bondholders.

Dividend Income & Growth

Selects companies that demonstrated strong earnings quality, strong credit quality, and attractive dividend yields for each sector.

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Glossary

<i>Capital appreciation</i>	Growth of invested funds.
<i>Capital expenditures (CAPEX)</i>	Funds spent by a company to improve or add long-term assets. For example, a company can use their free cash flow to build new factories or upgrade the machinery that builds their product.
<i>Diversification</i>	The process of spreading out your capital across different investments in an effort to reduce overall concentration risk
<i>Dividends</i>	A portion of a company's earnings that are paid back to shareholders, typically on a quarterly basis.
<i>Free cash flow (FCF)</i>	The cash a company is able to generate after the business maintenance costs are paid.
<i>Investment objective</i>	The reason for investing
<i>Large cap</i>	Companies with the largest market share as indicated by their market capitalization.
<i>Market capitalization</i>	A figure used to determine a company's size, calculated by multiplying the number of shares outstanding by the price of one share.
<i>Model portfolio</i>	A recommendation of which securities to include in an investor's portfolio. Investors cannot directly invest in model portfolios.
<i>Mutual fund</i>	A collection of securities invested in by many via a pooled fund. Investors own shares in the mutual fund, as opposed to directly owning the underlying securities.
<i>Return on invested capital (ROIC)</i>	Indicates how efficiently a company uses their capital. Typically calculated by subtracting the dividends from the net income, then dividing by the company's total capital.
<i>Separately managed account (SMA)</i>	Investment accounts that hold an individually-owned collection of securities.

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