

# WILSHIRE

## COMPASS

Summer 2006

Setting New Standards in Fund Sponsor Information Systems and Investment Technology

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## New Wilshire Style Scoring Methodology

Beginning with the third quarter of 2006, Wilshire Compass will implement Wilshire's new size and style scoring methodology for use in U.S.-based Equity portfolios. The new scoring is based upon the construction methodology of the Dow Jones Wilshire Style Indexes. In addition it provides broader security coverage and a greater level of transparency than what was available with the original "Wilshire Style Metrics" approach.

The new Wilshire style scores are based on six fundamental factors, two forward-looking factors (projected price-to-earnings ratio and projected earnings growth), 2 current (price-to-book ratio and dividend yield) and two historical (trailing 5-year earnings growth & trailing 5-year revenue growth). The new size score is based on the log of market capitalization. The table below summarizes the key differences between the old Wilshire Style Metrics and the new methodology:

Feature	Legacy Approach	New Approach
Size Designation	Ordinal Capitalization Ranking	Log of Market Capitalization
Style Factors	No Forward-looking Factors	Includes Forward-looking Factors
Security Coverage	~3,000 Securities	All DJ Wilshire 5000 securities (plus other U.S. traded stocks)
Underlying Indexes	Wilshire Target Style Indexes (unpublished constituent list)	DJ Wilshire US Style Indexes (published constituent list)
Standardization Universe	Proprietary / Unpublished	Transparent / Published

While Wilshire has already begun calculating the new size and style scores, Wilshire Compass will not reflect these new scores within the holdings-based style analytic until after the third quarter of 2006. This timing will permit consistency between the quarter-end style scores and the historical style scores used for calculating the Wilshire defined Style Universes which are available throughout Wilshire Compass.

Clients will notice very little impact when comparing old and new size scores. A slightly more noticeable change in the style scores is likely as a result of introducing the two forward-looking factors. Using March 31, 2006 U.S. equity portfolio style scores from Wilshire Compass, the legacy and new style scores exhibit a correlation of 0.78. A cross-sectional regression analysis of the legacy and new style scores shows a very statistically significant relationship. The analysis indicates that, on average, portfolios exhibit a slightly higher growth style score. This observation is intuitively consistent with the forward-looking consensus growth forecasts now being incorporated into the scores.

Note: The information contained herein has been obtained from sources believed to be reliable. Wilshire Consulting gives no representations or warranties as to the accuracy of such information, and accepts no responsibility or liability (including for indirect, consequential or incidental damages) for any error, omission or inaccuracy in such information and for results obtained from its use.

## Dow Jones Wilshire Style Indexes to Replace Wilshire Style Indexes

Since the mid 1980's, Wilshire has been a pioneer in evaluating the effects of style and size in U.S. Equity portfolios, starting with the creation of what are now called the Target Style Indexes. In 1986, Wilshire introduced the "Target Style Indexes" comprised of stocks with very concentrated growth or value characteristics. The "Wilshire Style Metrics," discussed on page one, were an outcrop of the work used to develop and maintain the Target Style Indexes.

In 1996, additional style indexes now called the "Wilshire Style Indexes" were created to measure the performance of a broader variety of investment styles and to act as benchmarks to evaluate the performance of more mainstream active managers. A construction hallmark of each Wilshire Style Index is the fact that each index is mutually exclusive, meaning that every stock was classified as either growth or value, and that there is no stock overlap among the style indexes. In addition, adding all capitalization component growth and value indexes together with the micro-cap index (which is not bifurcated by style) would give the desirable result of reproducing the Wilshire 5000 Index.

Given the introduction of the new Wilshire Style scoring methodology, the current Wilshire Style Indexes ceased calculation on July 31, 2006 and are being replaced by the Dow Jones Wilshire Style Indexes which were released in March 2005. The Dow Jones Wilshire Style Indexes rely on the new six factor style model in their construction process.

More detailed information and research on the Dow Jones Wilshire Style Indexes, including their specific construction methodology, can be found at <http://www.wilshire.com/Indexess/Research/>

How similar is the performance of these new and old style indexes? One way to answer this question is to turn to a review of historical returns, more specifically their degree of correlation. The table below shows the correlation of historical returns to be very high.

Historical Correlation Between:

	Dow Jones Wilshire Index:								
	Large Cap	Lrg Grwth	Lrg Val	Mid Cap	Mid Grwth	Mid Val	Small Cap	Sml Grwth	Sml Val
Corresponding Legacy Wilshire Style Index:	1.00	0.99	0.98	0.99	0.98	0.96	1.00	0.99	0.98

Correlation based on monthly return series from 12/31/91 though 6/30/2006

Wilshire Compass users will note that many of the returns-based U.S. Equity Style & Attribution analyses currently use the Wilshire Style Indexes as default factors. With the discontinuation of their calculation, users will need to select other indexes as factors in the returns-based analyses. Users can select indexes/factors from any *Select Indexes* tab, and then from the setup screen in the appropriate returns-based analytic (**Style Analysis** or **Attribution**), select *Custom* and highlight all of the desired series to use as factors as shown below. (Wilshire Compass will also be releasing an update in the near future to automatically populate the Dow Jones Wilshire Style Indexes as *Default* indexes in each analysis.)



## ***Wilshire Compass Mutual Fund Data***

After much consideration and research, Wilshire has decided to change its mutual fund data vendor from Morningstar to Standard & Poor's (S&P). There were many factors that led to this decision, and the change offers us the opportunity to enhance the quality and quantity of the mutual fund data available to Wilshire Compass clients.

S&P tracks data for over 20,000 mutual funds and offers categories that are similar to Morningstar. Through this new relationship, Wilshire Compass will now be able to provide data on Money Market funds a category of funds which were not available to clients before. Also, with S&P mutual fund data, Wilshire Compass clients will still be able to search and run reports on all of the following data items:

- Fund Name
- Fund Family Name
- S&P Objective Name
- S&P Style Sector Name
- S&P Style Asset Class Name
- S&P Category Name
- # Of Years Manager Has Been in Place
- 12B-1 Fee
- Expense Ratio
- Load Information
- Portfolio Turnover (%)
- Monthly Returns
- Net Assets

The S&P data will replace Morningstar beginning with the September update (month-end August data). To receive the S&P data, users will be required to either: 1) replace their current Mutual Fund database via a CD, or 2) "refresh" their mutual fund database (this may involve a significant download of data). Please contact any of the Wilshire Compass Client Service Team for assistance with either of the above.

## ***S&P/TSX Family of Indexes***

We are pleased to announce that the S&P/TSX family of indexes will soon be added to the Wilshire Compass database. The addition of S&P/TSX will provide users with a leading data source to Canada's equity capital markets. A list of the indexes to be added may be found below:

- S&P/TSX Composite Index (formerly TSE 300)
- S&P/TSX 60 Index
- S&P/TSX Mid-Cap Index
- S&P/TSX Small-Cap Index
- S&P/TSX Income Trust Index

## *Users' Group Meetings*

In the past two months, the Wilshire Compass team has held one-day workshops in three major cities: Chicago, New York City, and Washington D.C. Clients worked through various investment topics including Asset Allocation, Simulation Techniques (highlighting use of both the Asset & Spending models), U.S. Equity Manager Search & Investment Structure, and Total Fund Analysis. Attendance at all three events was very good, and we reported our biggest attendance ever for a one-day Users' Group Session at the Washington D.C. event.

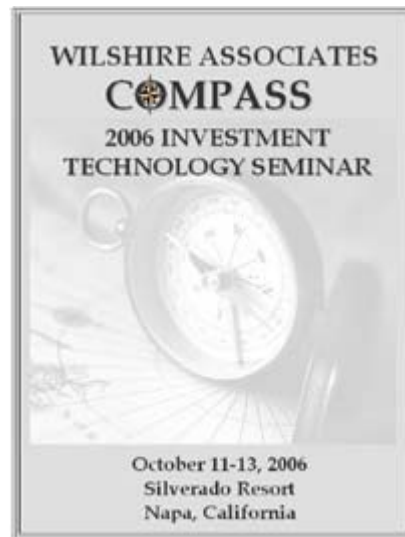
We always welcome advice on improving the one-day sessions, so please feel free to contact any of the Wilshire Compass Client Service Team with any suggestions. Thank you to all who attended and for your continued support!

## *2006 Investment Technology Seminar*

The agenda for the upcoming Wilshire Compass Annual Technology Seminar is set! The event will be held at the Silverado Resort in Napa, California from October 11-13, 2006. We have planned a jam-packed event, complete with many hands-on Wilshire Compass sessions and general investment topics. Space is limited, so make your reservations today!

### TO REGISTER FOR THE SEMINAR:

1. Go to [www.wilshirecompass.com](http://www.wilshirecompass.com)
2. Click on the conference registration link and complete the form.
3. To make room reservations contact the resort directly at (800) 532-0500. Please mention that you are attending the Wilshire Associates Seminar.



Please feel free to contact any of the Wilshire Compass Client Service Team should you have any questions.