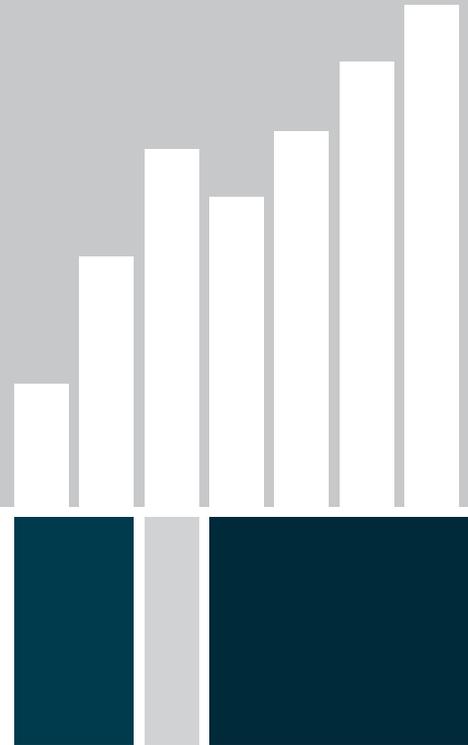


PURE STYLE INDICES: A UNIQUE PLAY ON STYLE FACTORS

- Style Investing is the process of allocating a portfolio towards growth, value, or core holdings.
- Pure style indices (such as the S&P 500 Pure Value or Pure Growth indices) display significant differences when compared to a traditional growth or value product.
- As markets rise, the higher capitalization stocks tend to be bought up in greater quantities which drives up the price of the stock.



Most of the investing world is familiar with the concept of style investing: the process of allocating a portfolio towards growth, value, or core holdings. Active managers accomplish this by purchasing growth or value stocks out of the appropriate universe. When dealing with indices and passive style investing, this involves buying or replicating an index whose constituents are classified as growth or value. In the case of the S&P 500, every stock in the index is either covered by the growth index, value index or both indices. When a company displays both growth and value characteristics, the S&P splits the company's market capitalization between the two indices. Furthermore, these indices are weighted based upon a company's market capitalization.

How are Pure Style Indices Different?

Pure style indices (such as the S&P 500 Pure Value or Pure Growth indices) display significant differences when compared to a traditional growth or value product. In a pure style index, only stocks which are exclusively growth or value are included. Thus, if a stock displays both growth and value characteristics, it will not be included in either index. Therefore, there are no overlapping stocks with pure styles. Another unique feature of the pure styles is the weighting scheme: the S&P pure style indices weight is based upon style factors, not market capitalization. Thus, the pure styles are less market capitalization-biased than traditional factor indices, but more biased towards style characteristics and factors.

Snapshot of Select Differences of Pure Style Indices		
	Style Indices	Pure Style Indices
Universe	Exhaustive: All stocks in the parent index are covered by at least one style.	Selective: Only stocks with pure characteristics are included in the index.
Overlapping Stocks	Yes. Stocks with both growth and value characteristics are split between the two styles.	No. Stocks with both growth and value characteristics are excluded from both indices.
Weighting	Market cap weighted	Style weighted. Thus, the more growth characteristics a stock displays, the higher the weight in the pure style growth index.
Breadth	Broader	Narrower

Source: Standard and Poor's.

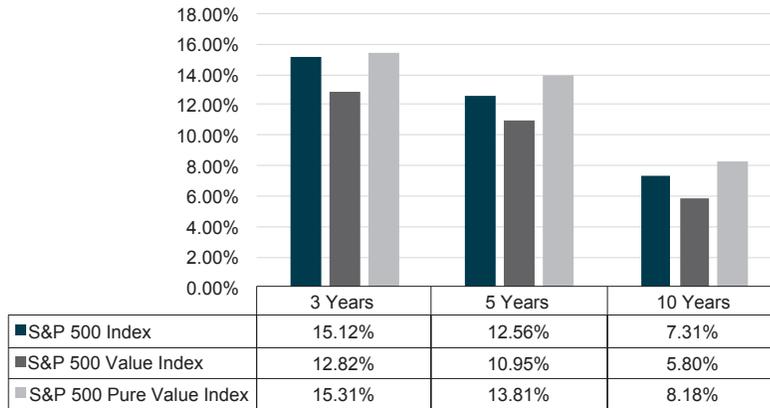
This chart may be found here: <http://us.spindices.com/documents/methodologies/methodology-sp-us-style.pdf>

Sample of Growth and Value Factors	
Growth Factors	Value Factors
Three-Year Change in Earnings per Share over Price Per Share	Book Value to Price Ratio
Three-Year Sales per Share Growth Rate	Earnings to Price Ratio
Momentum (12-Month Percentage Price Change)	Sales to Price Ratio

Source: Standard and Poor's. This list is not an exhaustive list of factors in determining growth and value components. Rather, it is a sample of some of the factors considered and used for illustrative purposes only.

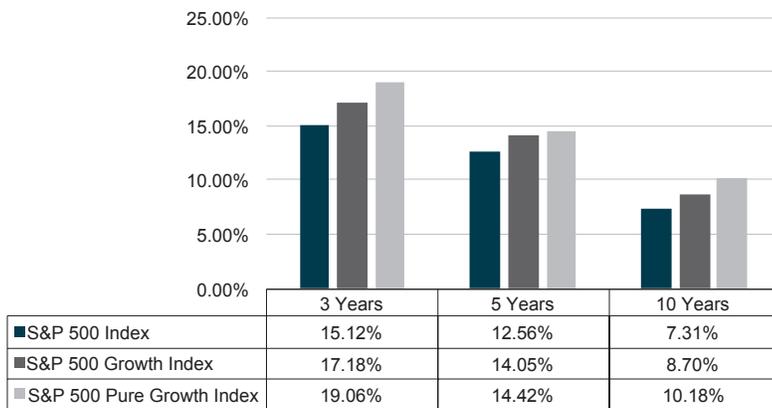
These differences result in measurably different performance over time. Furthermore, they impact asset allocation decisions premised on the growth/value concept. Below are two graphs showing the differences in performance for the S&P 500 from 2006 to 2015.

S&P 500 Annulized Returns v. Value & Pure Value as of 12/31/2015



Data Source: Bloomberg

S&P 500 Annulized Returns v. Growth & Pure Growth as of 12/31/2015



Data Source: Bloomberg

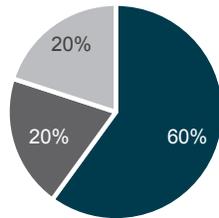
Steward Funds & Pure Style Indices

Pure style S&P indices are used in two of Steward’s enhanced funds: Steward Large Cap & Steward Small & Mid Cap (SMID). In the case of Steward Large Cap, an SRI indexed S&P 500 comprises 60% of the fund. The other 40% is comprised of a mix between the S&P 500 Pure Value and the S&P 500 Pure Growth indices. The Steward Large Cap & SMID funds benchmark against 40% pure styles (SMID accomplishes the same mix with the S&P 1000) along with 60% of the parent index in attempt to capture these factors. As an added feature, the portfolio managers may elect to tilt the 40% pure allocation towards either pure growth or pure value. For example, the Steward Large Cap Fund could be indexed to 60% S&P 500, 20% S&P 500 Pure Growth, and 20% S&P 500 Pure Value. In different market scenarios, these tilts may be adjusted. Below is a hypothetical table of what a tilt may look like in some market scenarios:

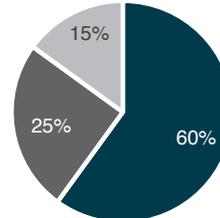
Pure growth and pure value have performed better than both the standard growth/value indices and the S&P 500 as a whole.

Hypothetical Tilts in Market Scenarios			
	Heavy Economic Growth Cycle	Market Neutral	Peak Market & High Valuations
S&P 500	60%	60%	60%
S&P 500 Pure Value	17.5% to 15%	20%	22.5% to 25%
S&P 500 Pure Growth	22.5% to 25%	20%	17.5% to 15%
Total	100%	100%	100%

Market Neutral Scenario



Hypothetical Tilt Scenario



■ S&P 500 ■ S&P 500 Pure Value ■ S&P 500 Pure Growth

Given that pure style indices are heavily weighted towards characteristics, a 2.5% to 5% tilt can have a larger impact on the growth/value proposition than standard style indices. In other words, the use of pure styles allows for less drastic moves to accomplish the goal of a growth/value conviction than the standard indices. Regardless of the tilt, the design towards pure indices changes the Large Cap and SMID Steward Funds by valuing characteristics more than a standard capitalization-biased Large Cap or SMID index. The theory of this design is relatively complex, but can be summarized as follows: growth and value characteristics are superior predictors of future performance than simply market capitalization. An interesting fact about market capitalization may be observed from the 1955 Fortune 500 list. Since this list was published, 88% of the 1955 companies are no longer listed as Fortune 500 members.¹ Furthermore, as markets rise, the higher capitalization stocks tend to be bought up in greater quantities. This drives up the price of the stock. The opposite occurs when the market begins selling off in a bear cycle: the larger stocks are sold off in greater quantities. While there are many factors (such as acquisitions) that explain this phenomenon, it does require a question about solely weighting securities based upon market capitalization.

¹ Vijay Govindarajan & Hylke Faber. *How Companies Escape the Traps of the Past*. Harvard Business Review. April 26, 2016. < <https://hbr.org/2016/04/how-companies-escape-the-traps-of-the-past>>.

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