



Standard & Poor's Separately Managed Account Report Glossary

Alpha: A statistic measuring that portion of a stock, fund, or composite's total return attributable to specific or non-market risk. Because Alpha measures non-market return, it indicates how much value has been added or lost by a portfolio manager, based on that manager's investment decisions.

Annualized Return: An annualized return represents the geometric average performance per year during the cumulative period.

Asset Class: Asset classes are major categories of financial securities. The three major asset classes are cash investments, equity (stocks), and fixed income (bonds). Asset classes may be further subdivided by market capitalization, domestic or international, valuation characteristics, etc.

Average Credit Quality: Derived by taking the weighted average of the credit ratings, as assigned by Standard & Poor's or Moody's, for each bond in the portfolio. Average credit quality offers a quick way of assessing how much credit risk there is in a given bond portfolio.

Average P/B: The weighted average of the price/book ratios of all the stocks in a composite. A company's book value is the total assets of the company, less total liabilities. A company's P/B ratio is calculated by dividing the market price of its outstanding stock by the company's book value, and then adjusting for the number of shares outstanding.

Average P/E: The price/earnings ratio of a portfolio is the weighted average of the price/earnings ratios of the stocks in a portfolio. The P/E ratio of a company is calculated by dividing the price of the company's stock by its trailing 12-month earnings per share.

Benchmark: A benchmark provides a point of reference for evaluating the performance of a fund or private account composite.

Beta: A quantitative measure of the volatility of a given portfolio composite relative to its assigned benchmark. A portfolio composite with a beta of 1.10 is expected (based on previous performance) to perform 10% better than its benchmark index in up markets and 10% worse in down markets.

Calendar Year Performance: The performance or return of a fund or composite for the calendar year January through December.

Cash: Cash and cash equivalents represents the percentage of cash held in a portfolio.

Composite: An aggregation of portfolios into a single group designed to represent a particular investment objective or strategy. Composites are the primary vehicle for presenting performance of separately managed account strategies.

Coupon: The periodic interest payment on a fixed-income security, expressed as a percentage of par value, made to the bondholders during the life of the bond.

Discipline: A manager has either an active investment discipline or a passive investment discipline. Passive managers do not try to beat the market, but rather expect that investments will increase in value as the market increases. Active discipline managers try to beat the market by choosing investments based on research and the expectation that the investment's potential earnings and growth will exceed the market.

Down Market Capture Ratio: Refers to the measure of a fund or composite's performance in down markets relative to the market itself. The lower the down market capture ratio, the better the performance during a market decline. A ratio of 90% indicates that, on average, a fund or composite's loss was only 90% of the market's loss during a down market.

Down Quarters: The number of quarters a manager has had a return below the risk-free rate over the stated time period.

Duration: A measure that allows coupon and maturity to be considered simultaneously in one measure. It is defined as the weighted average time to full recovery of principal and interest payments on a fixed income security. The duration of a portfolio is the weighted average of the portfolio's securities' durations. The longer the portfolio's duration, the more sensitive the portfolio is to changes in interest rates.

3 Year Earnings Growth: Refers to the weighted average of a portfolio's securities' 3-year historical earnings per share growth rates.

Equity: Refers the amount of equity holdings (stock) in the portfolio as a percentage of total assets in the portfolio.

Fee Schedule: Investment advisory fees charged by the manager based on the portfolio's average assets, but sometimes determined on a sliding scale that declines as the dollar amount of the portfolio increases.

Firm Overview & Objective: A basic description covering the firm and investment objective. This assessment does not include any opinions from Prima or Standard & Poor's. It is meant only to provide a consolidated version of the manager's story.

Fixed Income: Refers to the amount invested in Fixed Income securities (usually bonds) as a percentage of assets in the portfolio.

Gross of Fees: The performance of a composite as calculated before the deduction of fees. Separately managed accounts are usually reported gross of fees, as the fee charged to a client may depend on several different factors.

Growth: An investment approach that focuses on stocks with high future earnings growth expectations. Growth stocks are companies that offer above average prospects for capital growth due to their strong earnings and revenue potential.

High Yield Bond: A bond with a rating of BB or lower, as rated by Standard and Poor's. Because of their lower credit rating, High Yield bonds must pay a higher yield to compensate for the greater risk of default assumed by investors.

Investment Process and Personnel: A basic description covering the manager's investment process and the principal employees. This assessment does not include any opinions from Prima or Standard & Poor's. It is meant only to provide a consolidated version of the manager's story.

Large Cap: Refers to the category of companies with the highest capitalizations.

Manager: The individual or individuals responsible for the overall portfolio strategy, as well as the buying and selling decisions of the securities in a portfolio.

Maturity: The date upon which the principal amount of a note, bond, or other debt instrument becomes due. For a portfolio, maturity is a weighted average of all the maturities of the bonds in a portfolio.

Maximum Drawdown: Refers to the most a client could have possibly lost (percentage) over a the stated time period.

Mid Cap: Refers to the category of companies with capitalizations lower than large-caps but higher than small caps.

Minimum Account Size: The minimum dollar amount that a manager will accept to begin managing a separate account.

Modern Portfolio Theory: Principles underlying the analysis and evaluation of rational portfolio choices based on risk-return trade-offs and efficient diversification.

Overall S&P Ranking: These five factors, ranked on a one (poor) to five (excellent) scale, can help gauge the suitability of a product for meeting the needs of a particular investor. Created on the premise that no single investment style or product will be suitable for every client, the scoring system has been devised in such a way that it will be virtually impossible for any manager or product to score well on all five factors. Advisors and investors should prioritize their needs for each element of a diversified managed investment strategy, then use the independent research and multi-factor ranking system to assist in choosing the SMAs that best fit those needs. Please refer to the 'SMAR Multifactor Ranking System' white paper, available on the SMAR web site, for details on how the scores are calculated.

Portfolio: The combined holding of more than one stock, bond, commodity, real estate, cash, or other investment by an individual, money manager, or institutional investor.

Process: Refers to the procedure that a manager follows in selecting securities for a portfolio and how the investment philosophy is implemented.

Product: Refers to an equity, fixed income, or balanced portfolio as offered by a management firm.

REIT: Similar to a closed-end fund, REITs invest in real estate or loans secured by real estate and issue shares in such investments.

Return: The percentage change in the value of a composite, adjusted for any contributions or distributions, over an evaluation period.

Risk: In Modern Portfolio Theory, risk is the variability, or volatility, of returns measured by calculating a composite's variance and standard deviation, which are measures of the dispersion of returns from their average return over a defined period.

R2: A measure of correlation, R2 ranges from 0 to 1 and reflects the percentage of a composite's variability that is explained by the variability of the benchmark. An R2 of 1 indicates that the regression model for the composite and the benchmark has perfect predictability. The higher the R2, the more useful the Beta and Alpha.

Sector Analysis: The percentage of the portfolio invested in each of the economic sectors and the respective percentage weights of the benchmark.

Sharpe Ratio: The Sharpe ratio adjusts a return based on the amount of risk taken to achieve it. It is calculated by dividing the total risk premium by the standard deviation of the risk premium. The risk premium is the return above the risk-free rate, such as the T-Bill rate. Higher Sharpe ratios are preferred as relative measures of total risk-adjusted return.

Small Cap: Refers to the category of companies with small capitalizations.

Standard Deviation: Measures the total volatility or range of a composite's return. It explains how much a composite's rate of return fluctuates compared to its average rate of return for the measured period. It measures total risk, which can be broken into market risk and specific risk. The larger the standard deviation, the greater the volatility.

Sterling Ratio: The negative of the composite's five year annualized return divided by the maximum draw down. All else held equal, a higher Sterling ratio is generally better because it means that the investment(s) are receiving a higher return relative to risk.

Style: For equity managers, style refers to the manager's orientation towards value, growth, or core holdings. For fixed income managers, style refers to the general credit quality of the holdings.

Tax Efficiency Rating: A qualitative ranking on a scale from 1 to 10 that will gauge a manager's ability, willingness, and strength in managing taxable portfolios. It is derived primarily by gauging the manager's relative strength in 3 key areas: minimizing turnover and yield; harvesting year-end losses; and the utilization of a tax minimization process.

Treynor Ratio: A measure of the risk-adjusted return calculated by dividing a composite's risk premium by its beta. The result reveals how much excess return the composite earned per unit of beta, or market risk. Higher Treynor ratios are preferred as relative measures of marginal risk-adjusted return.

Turnover: Refers to the lesser of purchases or sales of noncash securities divided by total net assets.

Universe Comparison: Evaluation of the performance of a manager's composite and its respective benchmark versus the universe of managers (peers) with similar investment styles. This provides insight as to how a manager's performance ranks both recently and historically among a group of peers. For example: If a manager's performance ranks in the 5th percentile, that manager has performed better than 95% of all managers in the select universe.

Up Market Capture Ratio: Refers to the measure of a composite's performance in up markets relative to the market itself. The higher the up market capture ratio, the better the performance during a rising market. A ratio of 110 indicates that a composite performed, on average, 10% better than the market in up quarters.

Up Quarters: The number of quarters a manager has had a return above the risk-free rate over the stated time period.

Value: An investment approach which focuses on stocks that an investor or manager thinks are currently undervalued in price and will eventually have their true value recognized by the market.

Yield-to-Maturity: The percentage rate of return paid on a fixed income security if the investor buys and holds it to its maturity date. The calculation for YTM is based on the coupon rate, length of time to maturity, and market price. It assumes that coupon interest paid over the life of the bond will be reinvested at the same rate.