Glossary of Terms

Alpha—measures the portion of an investment's return arising from specific (nonmarket) risk. In other words, alpha is a mathematical estimate of the amount of return expected from an investment's inherent values, such as the manager's investment selection. It is distinct from the amount of return caused by volatility, which is measured by the beta coefficient. Alpha measures the relationship between the fund's performance and its beta over a three-year period.

Asset Allocation—apportioning of investment funds among categories of assets, such as cash equivalents, stock, fixed-income investments, and such tangible assets as real estate, precious metals and collectibles. Also applies to subcategories such as government, municipal, and corporate bonds, and industry groupings of common stocks. Asset allocation affects both risk and return and is a central concept in personal financial planning and investment management.

Beta—coefficient measuring a stock's relative volatility. The beta is the covariance of a stock in relation to the rest of the stock market. The Standard & Poor's 500 Stock Index has a beta coefficient of 1. Any stock with a higher beta is more volatile than the market, and any with a lower beta can be expected to rise and fall more slowly than the market. A conservative investor whose main concern is preservation of capital should focus on stocks with low betas, whereas one willing to take high risks in an effort to earn high rewards should look for high-beta stocks.

Down Market Capture—this ratio is the direct opposite of the up-market capture ratio, gauging performance of the manager relative to the index in down markets. A ratio value of 80 would indicate the manager has declined only 80% as much as the declining overall market, indicating relative outperformance.

Downside Risk—estimate that a security will decline in value and the extent of the decline, taking into account the total range of factors affecting market price.

Expense Ratio—amount, expressed as a percentage of total investment, that shareholders pay annually for mutual fund operation expenses and management fees. These expenses include shareholder service, salaries for money managers and administrative staff, and investor centers, among many others. The expense ratio, which may be as low as 0.2% or more than 2% of shareholder assets, is taken out of the fund's current income and is disclosed in the prospectus to shareholders.

Fixed Income Investment—security that pays a fixed rate of return. This usually refers to government, corporate, or municipal bonds, which pay a fixed rate of interest until the bonds mature, and to preferred stock, paying a fixed dividend. Such investments are advantageous in a time of low inflation, but do not protect holders against erosion of buying power in a time of rising inflation, since the bondholder or preferred shareholder get the same amount of interest or dividends, even though consumer goods cost more.

Management Style—Growth vs. Value
Growth-growth funds hold stocks of companies that the fund manager believes will have significantly better revenue and profit growth than the overall market.
Value-value funds concentrate on stocks of companies that the fund manager believes to be currently undervalued in the markets. The managers buy the stock at what they believe to be less than the true value, with the expectation that the price will rise.

Market Capitalization—one way to classify equity funds is by market capitalization, which is the market value of the company. This is calculated by multiplying the total number of a company's shares by the current price per share. Generally, market capitalization is associated with the size of the company.
Large Cap—this generally refers to the stock of companies with market capitalizations over $5 billion. These seasoned companies, sometimes referred to as "blue-chips" in the U.S., often have long histories of solid returns. While large cap stocks tend to be relatively stable compared with other stocks, they do carry a degree of risk.
Mid Cap—with market capitalizations that generally range between $2 billion and $5 billion, these stocks can be more volatile than large cap stocks, but have the potential for higher relative returns. Because mid-capitalization stock prices have experienced a greater degree of market volatility than large-capitalization stock prices, investors should consider the Fund for long-term investment and should bear in mind that the higher return potential of mid-capitalization stocks is accompanied by additional business risk, significant stock price fluctuations and liquidity.
Small Cap—with market capitalizations of less than $2 billion, companies in this category often are new companies with short histories. Because small-capitalization stock prices have experienced a greater degree of market volatility than those of large-capitalization stocks, investors should consider funds that invest in small-cap stocks for long-term investment and should bear in mind that the higher return potential of small-capitalization stocks is accompanied by higher risk.

Peer Group—the category or group a fund has been assigned to based on what it owns, as well as by its prospectus objectives and styles. A fund's peer group identifies funds based on their actual investment styles as measured by their underlying portfolio holdings. By assigning funds to appropriate buckets for use in grouping similar funds, more appropriate "apples to apples" comparisons can be made.

R-squared—the percentage of a fund's movements that are explained by movements in its benchmark index. An R-Squared of 1.00 means that all movements of a fund are explained by movements in its benchmark index. Index funds often will have an R-squared very close to 1.00.

Sharpe Ratio—a risk-adjusted measure developed by Nobel Laureate William Sharpe. It is calculated by using standard deviation and excess return to determine reward per unit of risk. The higher the Sharpe Ratio, the better the fund's historical risk-adjusted performance. The Sharpe Ratio is calculated for the past 36-month period by dividing a fund's annualized excess return by the standard deviation of the fund's annualized excess returns.

Stable Value—a unique asset class offering defined contribution plan participants intermediate term returns and liquidity (subject to plan rules) with low market value risk. This is typically accomplished through a wrap contract or investment contract that guarantees the payment of plan-related benefits at book value (cost plus accrued interest), which enables the entire investment to be carried at its book value.

Standard Deviation—statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. It is widely applied in modern portfolio theory,for example, where the past performance of securities is used to determine the range of possible future performances and a probability is attached to each performance. The standard deviation of performance can then be calculated for each security and for the portfolio as a whole. The greater the degree of dispersion, the greater the risk.

Style—the description of the type of approach and strategy utilized by an investment manager to manage funds. The style is determined by, as an example for equities, portfolio characteristics such as: market capitalization of issues, price to earnings ratio and dividend yield. Some equity styles include Growth, Value, Yield, Core and Small Cap.

Style Drift—the propensity of some mutual funds to migrate from one style to another. Style drift happens when an active manager drifts from a specific style, asset class, or index that is described as the investment purpose of a portfolio or mutual fund.

Turnover—number of times a given asset is replaced during an accounting period, usually a year.

Up Market Capture—the up-market capture ratio is a measure of a manager's performance in up markets relative to the index during the same period. A ratio value of 115 indicates that the manager has outperformed the market index by 15% in periods when the index has risen.