

## Terms and Definitions

**Active Sortino Ratio** – Active return (average fund return – average benchmark return) divided by downside deviation. The additional amount of return above the benchmark you can expect to earn for each additional unit of risk (downside deviation) than the fund takes on.

### **Alpha**

Alpha measures non-market return, so it indicates how much value the manager has added based on his or her decisions. A positive alpha indicates that a portfolio (manager) has earned on average, a premium above that expected for the level of market risk (Beta), and a negative alpha indicates a return lower than that expected for the level of market risk. Or, positive alphas indicate that the manager has added value through security selection and timing; negative alphas indicate value subtracted by the manager's decision. Alpha will vary from quarter to quarter, so the alpha of any five-year period should be used carefully.  $\text{Alpha} = \text{Return} - (\text{Beta} \times \text{Index Return})$ .

### **Annual Turnover Ratio**

A measure of the trading activity in a fund's investment portfolio; in essence, how often securities are bought and sold by a fund. A turnover ratio of 100% means that, on average, all of a fund's portfolio holdings are bought and sold once a year.

### **Average Credit Quality**

An average of each bond's credit rating, adjusted for its relative weighting in the portfolio.

### **Average Effective Duration**

A measure of the fund's interest-rate sensitivity. The longer a fund's duration, the more sensitive the fund is to shifts in interest rates.

### **Average Effective Maturity**

A weighted average of all the maturities of the bonds in a portfolio computed by weighting each maturity date by the market value of the security.

### **Average Underperformance**

The average of all of the negative bootstrapped returns. The average amount of underperformance below the benchmark.

### **Balanced Portfolio**

Combination of stocks, bonds and cash

### **Barra Large Growth**

Market capitalization-weighted index of the stocks in the Standard & Poor's 500 Index having the lowest book to price ratios. The index consists of approximately half of the S&P 500 on a market capitalization basis.

### **Barra Large Value**

Market capitalization-weighted index of the stocks in the Standard & Poor's 500 Index having the highest book to price ratios. The index consists of approximately half of the S & P 500 on a market capitalization basis



### **Barra MidCap Growth**

Market capitalization-weighted index of the stocks in the Standard & Poor's MidCap 400 Index having the lowest book to price ratios. The index consists of approximately half of the S&P 400 on a market capitalization basis.

### **Barra MidCap Value**

Market capitalization-weighted index of the stocks in the Standard & Poor's MidCap 400 Index having the highest book to price ratios. The index consists of approximately half of the S&P 400 on a market capitalization basis.

### **Beta**

Beta is a measure of how a manager's portfolio has performed in relationship to the market (market or systematic risk). A manager that has performed directly in line with the market will have a beta of 1.00. A manager whose returns were more volatile than the market will have a beta of greater than 1.00, and are measured with less volatile returns will have a beta of less than 1.00. Disregarding the impact of stock selection (unsystematic risk), over 3-5 year, a fully diversified portfolio with a beta of 1.20 should have had about 20% higher return than the market. Similarly, for a portfolio with a beta of .80, the portfolio should have had a 20% lower return than the market over time. Any portfolio with a negative beta indicates that movement of the portfolio performance is opposite to the benchmark's movement.

### **Bonds**

IOUs issued by governments or corporations

### **Bottoms-Up**

This is an investment style where portfolio manager(s) search for outstanding performance of individual stocks before considering the impact of economic trends. This approach assumes that individual companies can do well, even in an industry that is not performing well.

### **Cash**

Short term IOUs issued by governments, corporations or financial institutions

### **Certificates of Deposit (3-6-Month CDs)**

This is used as a benchmark and is applied the same way as the T-bill. Because CDs are sponsored by banks, they are not as easily traded as T-bills and thus tend to offer higher yields. We collect yields on 3- and 6-Month CDs on the last business day of every month from the Wall Street Journal. For more information on CDs call the Federal Reserve at 312-322-5322.

### **Consumer Price Index (CPI)**

Morningstar collects prices on a monthly basis for the CPI-U or Consumer Price Index for Urban and Government Consumers. This index measures the change in prices of goods and services purchased by urban households. Many pension and employment contracts are tied to changes in consumer prices, as protection against inflation and reduced purchasing power. This figure is available around the 15th of each month, which may mean that the number before this date is an "estimate" and is subject to change. As a result, the prices for the VCPI are always one month behind in many data bases. Call 312-353-1883 for more information

### **Core**

An investment style that invests in both growth and value securities and seeks to add value through stock selection.



### **Correlation**

Measures the degree to which the movements of two variables are related. For investment returns, it measures the sensitivity of movement of one set of returns in relation to the movement of another series. Correlation coefficients fall between  $-1.00$  and  $1.00$ . A correlation coefficient of  $1.00$  between a portfolio and an index. (If the index goes up, the portfolio returns have moved in perfect tandem with the index. (If the index goes up, the portfolio goes up). A correlation coefficient of  $-1.00$  means that the portfolio returns have moved in perfect negative tandem with the index. (If the index goes up the portfolio goes down.). To diversify, one should combine asset classes or manager with low or negative correlation. This should help reduce portfolio risk and increase portfolio return potential. (Actual returns, of course, would depend upon the individual asset class of manager returns.)

### **Dow Jones Industrial Average**

Computed by summing the prices of the stocks of 30 companies and then dividing the total by an adjusted value-one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. View the Dow Jones Web site for more information.

### **Downside Probability**

The average number of negative bootstrapped years to total bootstrapped years. The probability of losing to the benchmark for any give year.

### **Earnings Growth %**

A measure of the trailing annualized earnings growth record of the stocks in the portfolio.

### **Expense Ratio**

Represents the percentage of fund assets paid for operating expenses and management fees, including 12b-1 fees, administrative fees and all other asset based costs incurred by the fund, except brokerage costs.

### **Focused or Concentrated**

An investment style for a portfolio generally limited to less than 15 securities.

### **GARP (Growth At a Reasonable Price)**

The GARP style of investing combines the two successful strategies of value and growth. The name really says it all, GARP investors look for a stock with growth potential, but only if it is reasonably priced.

### **Government Bond Funds**

These funds invest primarily in securities of the U.S. Government and its agencies, the fund's value is not guaranteed by these entities.

### **High-yield bond funds**

High yield funds are typically subject to greater risk and price volatility than funds, which invest in higher-rated debt securities.

### **Index Performance**

Market indices have been produced for comparison purposes only; they are unmanaged and no fees or expenses have been reflected. The benchmark index shown for each fund is intended to represent the index that most closely reflects the composition of the fund. Individuals cannot invest directly in an index.



### **Information Ratio**

The information ratio is a measure of value added by the manager. It is the ratio of (annualized) excess return above the benchmark to (annualized) tracking error. An Information Ratio of .5 is good, and a ratio of 1.0 is exceptional.

### **International / Emerging Market Funds**

International investing involves special additional risks, including currency fluctuations, political instability and foreign regulations, all of which are magnified in emerging markets.

### **International Stocks**

Shares of ownership in corporations headquartered outside of the U.S.

### **Large-Cap Stocks**

Shares of ownership in large corporations.

### **Lehman Brothers Aggregate Bonds Index**

This index is composed of the Lehman Brothers Gov/Credit Index, the Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. The returns we publish for the index are total returns, which include reinvestment of dividends.

### **Lehman Brothers Credit**

Listed for corporate bond-general and high-quality funds. This index tracks the returns of all publicly issued, fixed-rate, nonconvertible, dollar-denominated, SEC-registered, investment grade corporate debt. The returns we publish for the index are total returns, which include reinvestment of dividends. For more information, view the Lehman Brothers web site or call 212-526-1000.

### **Lehman Brothers Government Bond Index**

This index includes securities listed for government-bonds general and Treasury funds. Because it tracks the return of U.S. Treasuries, agency bonds, and one- to three-year U.S. government obligations, this index is effective for tracking portfolios holding non-mortgage government securities. The returns we publish for the index are total returns which include reinvestment of dividends.

### **Lehman Brothers Govt/Credit**

Includes both corporate (publicly-issued, fixed-rate, nonconvertible, investment grade, dollar denominated, SEC-registered, corporate dept.) and government (Treasury Bond index, Agency Bond index, 1-3 Year Government index and the 20+- Year treasury) indexes, including bonds with maturities up to ten years. The returns we publish for the index are total returns, which include reinvestment of dividends. For more information, view the Lehman Brothers web site or call 212-526-1000.

### **Lehman Government/Credit Intermediate Index**

The Lehman Brothers Government/Credit Intermediate Index is composed of all bonds that reinvestment grade (rated Baa or higher by Moody's or BBB or higher by S&P, in unrated by Moody's) with maturities between 1 and 9.99 years. The total return comprises price appreciation/depreciation and income as a percentage of the original investment. The Lehman Government/Corporate Intermediate Index is rebalanced monthly by market capitalization.

### **Lehman Brothers Intermediate Treasury**



This index includes treasury bonds with maturities of at least one year and up to 10 years with an outstanding par value of at least 100 million. They include fixed-rate debt issues, rated investment grade or higher by Moody's Investor Services, Standard & Poor's Corporation, or Fitch Investor's Service (in that order). Treasuries include all public obligations of the U.S. Treasury, excluding flower bonds and foreign-targeted issues. The returns we publish for the index are total returns, which include reinvestment of dividends.

### **Lehman Brothers Long Credit**

This index serves as a measure of all public-issued nonconvertible investment-grade corporate debts that have a maturity of 10 years or more. The returns we publish for the index are total returns, which include reinvestment of dividends

### **Lehman Brothers Long Term Treasury**

This includes all public obligations of the U.S. Treasury, excluding flower bonds and foreign-targeted issues with maturities of 10 years or longer. The returns we publish for the index are total returns, which include reinvestment of dividends.

### **Lehman Muni 5-Yr Index**

The Lehman Brothers Municipal Five Year Index is based on municipal bonds composed of about 60% revenue bonds and 40% state government bonds with an average duration of 5years.

### **Lehman Brothers 1-3 year Government Bond**

Comprised of both the Treasury Bond index (all public obligations of the U.S. Treasury, excluding flower bonds and foreign-targeted issues) and the Agency Bond Index (all publicly issued debt of U.S. Government agencies and quasi-federal corporations and corporate-debt guaranteed by the U.S. Government). These bonds also must have maturities of one to three years. The returns we publish for the index are total returns, which include reinvestment of dividends.

### **Median Market Capitalization (Med Market Cap)**

Provides a measure of the size of the companies in which the fund invests.

### **Mid-Cap Stocks**

Shares of ownership in mid-size corporations

### **Money Market Fund**

An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although the money market fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the money market.

### **Morningstar Investment Style Box**

The style box reveals a fund's investment strategy. For equity funds, the vertical axis shows the market capitalization of the stocks owned and the horizontal axis shows investment style (value blend or growth). For fixed-income funds, the vertical axis shows the average credit quality of the bonds owned, and the horizontal axis shows interest rate sensitivity as measured by a bond's duration (short, intermediate or long)



### **Morningstar Percentile Ranking**

This is the fund's total percentile rank relative to funds that have the same Morningstar Category in Morningstar's Mutual Fund universe. The highest (or most favorable) percentile rank is 1 and the lowest or least favorable percentile rank is 100. The top-performance fund in a category will always receive a rank of 1.

### **Morningstar Rating**

For each fund with at least a three-year history, Morningstar calculates a Morningstar rating based on Morningstar risk-adjusted return measure that accounts for variation in a fund's monthly performance (includes the effects of sales charges, loans, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receives 5 stars, the next 22.5% receives 4 stars, the next 35% receives 3 stars, the next 22.5% receives 2 stars and the bottom 10% receives 1 star. (Each share class is counted as a fraction of one fund within the scale and rated separately, which may cause slight variations in the distributed percentages). The Morningstar rating shown is for the share class displayed in the fund name. The overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three, five and ten year (if applicable) Morningstar rating metrics

### **Morningstar Return**

This statistic is a measurement of a fund's excess return over a risk-free rate (the return of the 90-day Treasury bill), after adjusting for all applicable loads and sales charges. In each Morningstar category, the top 10% of funds earn a High Morningstar Return, the next 22.5% Above average, the middle 35% Average, the next 22.5% Below Average, and the bottom 10% Low. Morningstar Return is measured for up to three time periods (three, five and ten years). These separate measures are then weighted and not averaged to produce an overall measure for the fund. Funds with less than three years of performance history are not rated.

### **Morningstar Risk**

This statistic evaluated the variations in a fund's monthly return, with an emphasis on downside variations. In each Morningstar category, the 10% of the funds with the lowest measured risk are described as Low Risk, the next Morningstar Risk is measured for up to three time periods (three, five and 10 years). These separate measures are performance history and are not rated.

### **MSCI EAFE ID**

This index is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US & Canada. This index consists of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The ID portion of the name indicates that it is listed in United States Currency and that dividends are not reinvested.



### **MSCI EAFE Value Index**

The Morgan Stanley Capital International (MSCI) EAFE Index measures the Morgan Stanley Capital International (MSCI) EAFE Index which is a market capitalization weighted index composed of companies representative of the market structure of 20 developed Market countries in Europe, Australia and the Far East. The index is calculated with gross dividends reinvested, in US Dollars. All of the securities in the index are sorted in ascending order by their previous month-end Price/Book Value ratio. The 50% market capitalization with the higher Price/Book Value ratios are classified as Growth. In this manner, every security is either a value security or a growth security based upon where the majority of its market capitalization is located.

### **MSCI EAFE Index**

The Morgan Stanley Capital International (MSCU) EAFE Index is a market capitalization weighted index composed of company's representative of the market structure of 20 Developed Market countries in Europe, Australia and the Far East. The index is calculated with gross dividends reinvested in US Dollars and located.

### **MSCI EMF ID**

A capitalization-weighted index of stocks from 26 emerging markets that only includes issues that may be traded by foreign investors, the reported returns reflect equities priced in US dollars and do not include the effects of reinvested dividends. Consists of equities from emerging markets in Argentina, Brazil, Chile, China, Columbia, Czech Republic, Greece, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia Mexico, Pakistan, Peru, Philippines, Portugal, Poland, South Africa, Sri Lanka, Taiwan Free, Turkey, Thailand, and Venezuela.

### **MSCI Europe ID**

This measures the performance of the stock market in the following countries: Czech Republic, Hungary, Poland, Russia, and Turkey. The ID portion of the name indicates that it is listed in United States currency and that dividends are not reinvested.

### **MSCI Europe Index**

The MSCI Europe Index is a regional composite index of the MSCI World Index. Countries include, Austria, Germany. Portugal. Belgium, Ireland, Spain, Denmark, Italy, Sweden, Finland, Netherlands, Switzerland, France, Norway, United Kingdom.

### **MSCI Em Latin America**

Formerly known as MS EMG Latin America ID, this index measures the performance of the stock market in Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. The ID portion of the name indicates that it is listed in U.S. dollars without net dividends reinvested.

### **MSCI Pacific Free ID**

This index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the Pacific Region. The index measures the performance of the stock market in the following countries: Australia, Hong Kong, Japan, New Zealand, and Singapore. The ID portion of the name indicates that it is listed in United States currency and that dividends are not reinvested.

### **MSCI World ID**

This index is a free float-adjusted market capitalization index that is designed to measure developed market equity performance. This index consists of the following 23 developed market country indices: Australia Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United



Kingdom, and the United States. The ID portion of the name indicates that it is listed in United States Currency and that dividends are not reinvested.

### **MSCI World Growth Index**

Morgan Stanley Capital International World Growth Index measures the Morgan Stanley Capital International World Index which is composed of companies that are representative of the market structure of 21 developed Market Countries in North America, Europe, and the Asia/Pacific Region. All of the securities in the index are sorted in ascending order by their previous month-end Price/Book Value ratio. The 50% market capitalization with the lower Price/Book Value ratios are classified as Value. In this manner, every security is either a value security or a growth security based upon where the majority of its market capitalization is located.

### **MCSI World Index**

Morgan Stanley Capital International World Index is a market capitalization weighted index composed of companies representative of the market structure of 21 developed Market countries in North America, Europe, and the Asia/Pacific Region.

### **NAREIT Equity Index**

The NAREIT Equity Index is based upon the last closing price of the month for all tax-qualified REITs listed on the New York Stock Exchange, American Stock Exchange, and the NASDAQ National Market System. The data is market weighted. The total return calculation is based upon the weighting at the beginning of the period depending upon whether it is one month, three months, or 12 months. Only those REITs listed for the entire period are used in the total return calculation. Dividends are included in the month based upon their payment date. There is no smoothing of income. Liquidating dividends, whether full or partial, are treated as income. This has the effect of negatively biasing the price appreciation component of the index but resulting in accurate realized income and total return numbers. The annualized dividend yield numbers are market weighted with the most recent dividend annualized plus any extraordinary dividends included, dividend by the most recent price.

### **New York Stock Exchange Composite (NYSE)**

This index serves as a comprehensive measure of the market trend for the benefit of investors who are concerned with general stock market price movements. The index is a composite of all common stocks listed on the NYSE and four sub-groups-Industrial, Transportation, Utility, and Finance. The return number that Morningstar reports is a price return, it does not reflect the influence of reinvested dividends. For more information about the NYSE, call 212-656-3000.

### **Non-Diversified Funds**

Non-diversified funds, those concentrating in a relatively small number of securities or specific sectors, may be subject to greater volatility than a more diversified investment and should be considered a vehicle for diversification and not a balanced investment program.



## **Performance**

The performance data provided represents past performance and should not be considered indicative of future results. Principal value and investment return will fluctuate so that an investor's units, when redeemed, may be worth more or less than the original investment. Fund portfolio statistics are current as of the last date of the period reported and are subject to change. Total return reflects performance without adjusting for program changes, a contingent deferred sales charge, and applicable variable annuity fees, for the effects of taxation, but is adjusted to reflect all actual ongoing fund expenses and assumes reinvestment of dividends and capital gains. If adjusted, additional charges would reduce performance shown. The performance shown is for the share class displayed in the fund name. For A share classes, the front-end sales charge is waived for qualified plans.

## **Price/Book Ratio**

The price of a share of stock divided by book value per share.

## **Price/Earnings Ratio**

The price of a share of stock divided by earnings per share.

## **Real Estate Funds**

Investing in real estate funds entails the risk of the real estate business generally, including sensitivity to economic and business cycles, changing demographic patterns and government actions.

## **Relative Risk**

The relative risk measure is the relationship between the risk of the portfolio and the risk of the benchmark. Good performance is indicated by a low relative risk ratio; i.e., a ratio of 0.5 indicates that the portfolio has half the variability of risk that the market offers.

## **R-Squared**

R-Squared explains how closely the movement of a portfolio's returns relates to that of a benchmark. In other words, it is a measure of correlation. For example, a portfolio that owns all the stocks in a benchmark, such as the S&P 500 index fund, has a R-Squared of 1.00 since it exactly mirrors the index. R-squared values can range from 0 to 1.00, with the market index at 1.00. For a portfolio with an R-squared of .90, 90% of the portfolio risk can be attributed to "being in the market" (systematic risk). The remaining 10% are associated with company/issuer specific (unsystematic) risk. The more diversified a portfolio is, the less risk related to an individual security (unsystematic risk) is has. Higher R-squared values indicate more reliable alpha and beta statistics and are useful in assessing a manger's investment style.

## **Russell MidCap**

The Russell MidCap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represents approximately 25% of the total market capitalization was approximately \$4.0 billion; the median market capitalization was approximately \$2.9 billion. The largest company in the index had an approximate market capitalization of \$12 billion. For more information call 253-594-1734.

## **Russell 1000**

Consists of the 1000 largest companies with the Russell 3000 index. Also known as the Market Oriented Index, because it represents the group of stocks from which most active money managers choose. The returns we publish for the index are total returns, which include reinvestment of dividends. Frank Russell Company reports its indices as one-month total returns. For more information on Russell indexes call 253-594-1734.



### **Russell 1000 Growth**

Market-capitalization weighted index of those firms in the Russell 1000 with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 includes the largest 1000 firms in the Russell 3000, which represents approximately 98% of the investable U.S. equity market. For more information call 253-594-1858.

### **Russell 1000 Growth Index**

The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Index consists of the 1000 largest securities in the Russell 3000 Index. The Russell 3000 Index is composed of the 3000 largest US securities, as determined by total market capitalization.

### **Russell 1000 Value**

Market-capitalization weighted index of those firms in the Russell 1000 with lower price –to-book ratios and lower forecasted growth values. The Russell 1000 includes the largest 1000 firms in the Russell 3000, which represents approximately 98% of the investable U.S. equity market. For more information call 253-594-1858.

### **Russell 2000**

This index consists of the smallest 2000 companies in the Russell 3000 Index, representing approximately 7% of the Russell 3000 total market capitalization. The returns we publish for the index are total returns, which include reinvestment of dividends. For more information on Russell indexes call 253-594-1734.

### **Russell 2000 Growth**

This is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having higher price –to-book ratios and lower forecasted growth values. The Russell 2000 Index includes the 2000 firms from the Russell 3000 Index with the smallest market capitalizations. The Russell 3000 Index has an approximate market capitalization of \$12 billion. For more information call 253-594-1734.

### **Russell 2000 Value**

This is a weighted total return index that measures the performance of companies within the Russell 2000 Index having lower price-to-book ratios and lower forecasted growth values. The Russell 2000 Index includes the 2000 firms from the Russell 3000 Index with the smallest market capitalizations. The Russell 3000 Index represents 98% of the investable US equity market

### **Russell 3000 Growth Index**

This measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. The stocks in this index are also members of either the Russell 1000 Growth or the Russell 2000 Growth indexes. The Russell 3000 Index is composed of the 3,000 largest U.S. securities, as determined by total market capitalization.

### **Russell 3000 Value Index**

This measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values. The stocks in this index are also members of either the Russell 1000 Value or the Russell 2000 Value indexes.



### **Salomon Brothers Emerging Markets Mutual Fund (EMMF) Debt Index**

This index covers thirteen government bond markets: Argentina, Brazil, Bulgaria, Ecuador, Mexico, Morocco, Nigeria, Panama, Peru, Philippines, Poland, Russia, Venezuela. For inclusion in this index, a market must total at least (US) \$500 million. The EMMF index is constructed to conform to mutual fund diversification regulations. Under these rules, half of a portfolio must be invested in individual credits in amounts of less than 5% of the total portfolio size. The remaining half may be invested in positions not greater than 25%. Since there are not enough countries to conform to these regulations, the index is rounded out with non-Brady bond Index countries of Morocco, Russia and Ecuador.

### **Salomon Brothers Corporate index**

This index includes bonds issued by industrial companies, utilities, and financial service companies, including those that carry back guarantees. In addition, special purpose debt-issuing subsidiaries of such corporations are included, as are subsidiaries whose primary purpose is to provide financing to customers for the purchase and or lease of the parent companies' products.

### **Salomon Brothers Government/Corporate Index**

This index includes all Government sponsored (US agency and supranational securities) and Corporate bonds listed in the SSB US Broad Investment-Grade (USBIG) Bond index which have maturities between 1 and 3 years. This index is designed to track performance of bonds issued in the US investment-grade bond market, and maintain a high standard of pricing reliability. The returns we publish for this index are net of dividends.

### **Salomon Brothers Government/ Corporate index 1-3 years**

This index includes all government sponsored (US agency and supranational securities) and corporate bonds listed in the SSB US Broad Investment-Grade (USBIG) Bond index which have maturities between 1 to 3 years. This index is designed to track performance of bonds issued in the US investment-grade bond market, and high standard of pricing reliability. The returns we publish for this index are net of dividends.

### **Salomon Brothers Government/ Corporate Index 10+ years**

This index includes all Government sponsored (US agency and Supranational securities) and Corporate bonds listed in the SSB U.S. Broad Investment-Grade (USBIG) Bond Index which have maturities of 10 years or longer. This index is designed to track the performance of bonds issued in the US investment-grade bond market, and maintain a high standard of pricing reliability. The returns we publish for this index are net of dividends.

### **Salomon Brothers Treasury /Government Sponsored Index**

This index includes all government sponsored (US agency and supranational securities) and Treasury bonds listed in the SSB US Broad Investment-Grade (USBIG) bond index. Which have maturities between 1 to 3 years. This index is designed to track performance of bonds issued in the US investment-grade bond market, and maintain a high standard of pricing reliability. The returns we publish for this index are net of dividends.

### **Salomon Brothers Treasury/ Government Sponsored Index 1-3 years**

This index includes all Government sponsored (US agency and supranational securities) and Treasury bonds listed in the SSB US Broad Investment-Grade (USBIG) bond index which have maturities of 10 years or longer. This index is designed to track performance of bonds issued in the US investment –grade bond market, and maintain a high standard of pricing reliability. The returns we publish for this index are net of dividends.



### **Salomon Brothers Treasury / Government Index Sponsored 10 years Plus**

This index includes all government sponsored (US agency and supranational securities) and treasury bonds listed in the SSB US broad investment-grade (USBIG) bond index which have maturities of 10 years or longer. This index is designed to track performance of bonds issued in the US investment grade bond market, and maintain a high standard of pricing reliability. The returns we publish for this index are net of dividends.

### **Salomon Brothers 3 Month Treasury Bill Index**

This index measures monthly return equivalents of yield averages that are not marked to market. It is an average of the last three three-month Treasury bills issued. Returns for this index are calculated on a monthly basis only.

### **Sector Rotation**

An investment style that seeks to identify and overweight stock market sectors expected to outperform the market, and underweight those sectors expected to under-perform.

### **Sectors**

As another tool for evaluating risk, Morningstar tracks the holdings of funds based on a standard set of sector categories. This chart lists the percentage of assets in key sectors as of a stated date.

### **Sharpe Ratio**

This ratio measures the manager's relative value added as compared to the market. The Sharpe Ratio is found by taking the difference between the portfolio return and the T-bill (risk-free) rate for the period and dividing it by the portfolio standard deviation. A risk adjusted performance measure that adjusts excess return for total standard deviation risk. Example: Sharpe Ratio = 0.5%. Therefore, on a risk-adjusted basis, the portfolio earned 0.5% for every unit of total risk taken (total risk = standard deviation).

### **Small-Cap Stocks**

Shares of ownership in small corporations

### **Small Company Funds**

Small company funds have higher risk than stocks of larger, more established companies and have significant short-term volatility.

### **Specialty**

Securities from narrow sub-sectors of the broader market or uncommon asset class

### **S&P 400 Index**

This index includes approximately 10% of the capitalization of US equity securities. These are comprised of stocks in the middle capitalization range. At the original time of screening, this was a \$200 million to \$5 billion market value range. Any midcap stocks already included in the S&P 500 are excluded from this index, which started on December 31, 1990. The level of the index reflects the total market value of all 400 component stocks relative to this date. A level of 135, for example, indicates that the market value of the index portfolio has risen 35% from December 31, 1990. The S&P 400 figure is presented as a total return.

### **S&P 600 Index**

This small cap index consists of 600 domestic stocks chosen for market size, liquidity and industry group representation. It is a market weighted index (stock price x shares outstanding), with each stock affecting the index in proportion to its market value. The S&P 600 figure is presented as a total return.



### **Standard Deviation**

It is a statistical measure of risk reflecting the extent to which rates of return for an asset or portfolio may vary from period to period and gauges the dispersion of returns around the average returns around the average returns. Since it measures total variation of return, standard deviation is a measure of total risk, unlike beta, which measures market risk. The larger the standard deviation, the greater the range of possible return and therefore, the more risky the asset or portfolio is.

### **3-Yr. Standard Deviation**

A statistical measure of the volatility of the fund's returns over 3 years.

### **Standard & Poor's 500**

A market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. It measures the movement of the largest issues. Standard and Poor's choose the member companies for the 500 based on market size, liquidity and industry group representation. Included are the stocks of industrial, financial, utility, and transportation companies. Since mid 1989, this composition has been more flexible and the number of issues in each sector has varied. The returns presented in Principia Pro for the S&P 500 are total returns, including the reinvestment of dividends each month. For more information, visit the Standard & Poor's web site or call 212-438-2046.

### **Three Way TAA (Tactical Asset Allocation)**

An investment style that uses research analysis of stock and bond market risks and opportunities to determine asset allocation among cash, bonds, stocks.

### **Top-Down**

This is an investment style where portfolio manager(s) first looks at the trends in the general economy, and next selects sectors/industries and then companies that should benefit from those trends.

### **Tracking Error**

Tracking error measures how closely a manager's returns track the returns of a benchmark. If a manager tracks a benchmark closely, then the tracking error will be low. If a manager tracks a benchmark perfectly, then the tracking error will be 0. Another statistic for measuring the quality of alpha and beta

### **Treasury Bill (3-Month or 90-day)**

Three-month treasury bills are government-backed short-term investments considered to be risk-free and as good as cash because the maturity is only three months. Morningstar collects yields on the T-bill on a weekly basis from the Wall Street Journal. For more information, go to the U.S. Treasury Bill web site.

### **Treynor Ratio**

Similar to Sharpe Ratio, Treynor Ratio measures excess return per unit of risk. Unlike Sharpe Ratio, Treynor Ratio utilizes beta (market risk) instead of standard deviation (total risk). The Treynor Ratio relates the difference between the portfolio return and the risk-free rate to the portfolio beta for a given time period. Good performance is measured by high ratio; i.e., a Treynor Ratio of 1 is better than a ratio of 0.5 Example: Treynor Ratio = 5.5% Therefore, on a risk-adjusted basis, the portfolio earned 5.5% for every unit of market risk taken.

### **Upside and Downside Capture Ratio**

Another measurement of volatility used by managers, these ratios can be useful in evaluating how an investment manager performed in both up and down markets. The general market capture ratio is set at a baseline figure of 100. Example: if a manager has an upside capture ratio of 120 with the market baseline at 100, then the manager outperformed the market by 20 % over that time frame. If manager's upside capture ratio is 80, and then the manager failed to take full advantage of the market's positive direction. By the same token, if a manager's downside capture ratio is .75 he only participated in 75 % of the downside volatility in the market. However, if the manager's downside capture ratio is 1.15, the manager was 15% more volatile than the market over the specific time period.

**Upside Potential** – the average of all of the positive bootstrapped returns. The average amount of excess return above the benchmark.

### **Upside Potential Ratio**

Upside Potential (bootstrapped out-performance of the benchmark) you can expect to earn for each additional unit of risk (downside deviation) that the fund takes on.

**Upside Probability** – the average number of positive bootstrapped years to total bootstrapped returns. The amount of variation around the average underperformance.

### **Variance**

This is the square of the standard deviation. It can also be used as a relative measure of risk (volatility)". The higher the portfolio variance is to a benchmark's variance, the more risky, or volatile it is compared to the benchmark.

### **1st Boston Convertible Sec Index**

First Boston Convertible Securities Index is a performance benchmark for convertible accounts. This index generally includes 250 to 300 issues. To be included, convertible bonds and preferreds must be rated B- or better by Standard and Poor's (quality-related adjustments are made at the end of each calendar year), convertibles must have a minimum issue size of \$50 million (new issues are added in the month following their issuance), and preferreds must have a minimum of 500,000 shares outstanding. Eurobonds are also included if they are issued by US-domiciled companies, rated B-or higher by Standard & Poor's, and have an issue size greater than \$100 million.

### **50/50 R1000/LBGC Int Index**

This is a blended index with 50% in the Russell and 50% in the Lehman Brothers Government and Credit Intermediate Bond Index. The Russell 1000 Index consists of the 1000 largest securities in the Russell 3000 Index. The Lehman Brothers Government Credit Intermediate Index is composed of all bonds that are investment grade (rated Baa or higher by Moody's or BBB or higher by S&P, if unrated by Moody's) with maturities between 1 and 9.99 years. Total return comprise price appreciation/depreciation and income as a percentage of the original investment. The Lehman Brothers Government Credit Intermediate Index is rebalanced monthly by market capitalization.



### **60/40 R1000/LBGC Int Index**

This is a blended index with 60% Russell 1000 Growth Index and 40% Lehman Brothers Government and Credit Intermediate Bond Index. The Russell 1000 Growth Index measures the performance of the Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Index consists of the 1000 largest securities in the Russell 3000 Index is composed of the 3000 largest U.S. securities, as determined by total market capitalization. The Lehman Brothers Government Credit Intermediate Index is composed of all bonds that are investment grade (rate Baa or higher by Moody's or BBB or higher by S&P, if unrated by Moody's) with maturities between 1 and 9.99 years. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. The Lehman Brothers Government Credit Intermediate Index is rebalanced monthly by market capitalization.

### **60/40 R1000V/LBGC Int Index**

This is a blended index with 60% Russell Value Index and 40% Lehman Brothers Government and Credit Intermediate Bond Index. The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. The Lehman Brothers Government Credit Intermediate Index is rebalanced monthly by market capitalization.

### **70/30 R1000/LBGC Int Index**

This is a blended index with 70% Russell 1000 Index and 30% Lehman Brothers Government and Credit Intermediate Bond Index. The Russell 1000 Index consists of the 1000 largest securities in the Russell 3000 Index. The Lehman Brothers Government credit Intermediate Index is composed of all bonds that are investment grade (rated Baa or higher by Moody's or BBB or higher by S&P, if unrated by Moody's) with maturities between 1 and 9.99 years. Total return comprise price appreciation/depreciation and income as a percentage of the original investment. The Lehman Brothers Government Credit Intermediate Index is rebalanced monthly by market capitalization.

### **70/30 R1000G/LBGC Int Index**

This is a blended index with 70% Russell 1000 Growth Index and 30% Lehman Brother Intermediate Government and Corporate Intermediate Bond Index. The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Index consists of the 1000 largest securities in the Russell 3000 Index. The Russell 3000 Index is composed of the 3000 largest U.S. securities, as determined by total market capitalization. The Lehman brothers Government Credit Intermediate Index is composed of all bonds that are investment grade (rate Baa or higher by Moody's or BBB or higher by S&P, if not rated by Moody's) with maturities between 1 and 9.99 years. Total return comprise price appreciation/depreciation and income as a percentage of the original investment. The Lehman Brothers Government Credit Intermediate Index is rebalanced monthly by market capitalization.

**99th Percentile** – the 99th percent of the returns on the downside. There is a 1% chance of earning a return less than this, relative to the benchmark.