

Financial Glossary of Terms used in Financial Express Analytics reports

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| <p>Alpha</p> | <p>Alpha is a measure of a fund's over- or under-performance by comparison to its benchmark. It represents the return of the fund when the benchmark is assumed to have a return of zero, and thus indicates the extra value that the manager's activities have contributed: if the Alpha is 5, the fund has outperformed its benchmark by 5% and the greater the Alpha, the greater the out performance.</p> <p>A further aspect of Alpha emerges when it is taken in conjunction with Beta. Assuming that a strong R-Squared correlation exists, the Beta will show how volatile the fund is compared to its benchmark, and thus indicate how much extra risk the manager has taken on in order to get that high-Alpha performance. Negative Alpha in conjunction with 1+ Beta is an indication of poor performance: managers are subjecting funds to volatility that is higher than the benchmark, while achieving returns that are lower than the benchmark attained. So, if Alpha indicates better/worse performance compared with the index, Beta shows higher/lower risk.</p> |
| <p>Annualised Return</p> | <p>The annualised return of the instrument over a specified period.</p> |
| <p>Beta</p> | <p>Beta is a statistical estimate of a fund's volatility by comparison to that of its benchmark, i.e. how sensitive the fund is to movements in the section of the market that comprises the benchmark. A fund with a Beta close to 1 means that the fund will move generally in line with the benchmark. Higher than 1 and the fund is more volatile than the benchmark, so that with a Beta of 1.5, say, the fund will be expected to rise or fall 1.5 points for every 1 point of benchmark movement.</p> <p>If this Beta is an advantage in a rising market – a 15% gain for every 10% rise in the benchmark – obviously the converse is the case when falls are expected. This is when managers will look for Betas below 1, so that in a down market the fund will not perform as badly as its benchmark.</p> <p>It's important to stress that Beta is just an estimate: however, the stronger the R-Squared correlation between fund and benchmark, the more reliable this estimate becomes.</p> |

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| <p>Crown Ratings</p> | <p>Outline of methodology</p> <p>Summary The Financial Express crown ratings are a quant-based ratings system designed to highlight funds that have had superior consistent performance in relation to risk, relative to their peer groups. Peer groups are deemed to be the sectors as defined by the IMA and ABI.</p> <p>The Crowns All rated funds get a crown rating, one crown being the lowest rating, and three crowns being the highest. No crowns means the fund has not been rated.</p> <p>Non rated funds Funds are not rated for the following reasons – a) the fund is less than 3 years old b) the sector is not meaningful for comparison purposes - e.g. the Specialist or Personal Pensions sectors c) the sector has had too few members over 3 years to be significant</p> <p>The constituents of the rating The rating is made up of three constituents - a) Alpha relative to the sector, measured over 3 years but with a higher weighting given to the more recent rather than the more distant past b) Volatility, measured over 3 years but with a higher weighting given to the more recent rather than the more distant past c) Consistency, based on a fund's performance ranking within its sector in each quarter of the last 3 years. Each quarter is weighted equally.</p> <p>Weighting the constituents In most cases, each constituent carries equal weight within the overall rating, except in the following cases – a) Cash and Gilts - here the volatility constituent is excluded altogether, since in these areas, volatility is extremely low, and with very little difference between funds b) Other bonds - here volatility is given half the weight of the other 2 constituents</p> <p>Combining the constituents For each sector, the best and worst raw scoring fund for each constituent is assigned a value of 100 and 0 respectively, and all intervening raw scores for that constituent are proportionately rescaled into this range. The rescaled scores for each fund's 3 constituents are then added to form an overall score (subject to the weighting constraints in section 5 above)</p> <p>Allocating the crowns Within each sector, the top 20% of funds (in terms of overall score) are awarded 3 crowns. The next 30% are awarded 2 crowns, with the bottom 50% getting 1 crown.</p> |
| <p>Domicile</p> | <p>The domicile is where the fund is domiciled, the fund in question will need to conform to the legal obligations that reside within the country it is in.</p> |
| <p>Downside Risk</p> | <p>Downside risk is a measurement which only considers negative returns. It is calculated as a downside deviation of returns below a specified Risk Free Rate. It represents and estimation of a security's potential to suffer a decline in price in negative market condition. It could be considered as an estimate of the potential loss on any investment.</p> |
| <p>Geographic Focus</p> | <p>The Geographic Focus describes where the fund is focusing its investments there are four choices which are Emerging Markets, Regions, Single Country and Global. The funds Geographical focus dictates which investment area choices can be made for example a fund which has a focus of Emerging Markets would have the options of Latin America, South East Asia, Brazil, Russia, China & India as well as several other choices.</p> |

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| Gross Total Return (GTR) | The return of an instrument over a specified period with all income reinvested on a gross basis i.e. without any allowance for taxation.. |
| Information Ratio | <p>So called because it assesses the degree to which a manager uses skill and knowledge to enhance returns, this is a versatile and useful risk-adjusted measure of actively-managed fund performance. It is calculated by deducting the returns of the fund's benchmark from the fund's overall returns, then dividing the result by its Tracking Error (which is a measure of the volatility of those excess returns). In this way, we arrive at the value, per unit of extra risk assumed, that the manager's decisions have added to what the market would have delivered anyway.</p> <p>The higher the Information Ratio the better. It is generally considered that a figure of 0.5 reflects a good performance, 0.75 very good, and 1.00 outstanding. This is particularly useful when comparing a group of funds with similar management styles and asset allocation policies. If two funds have near-identical Alphas, the higher Information Ratio identifies the manager who has been more skilful in betting on stock-picks that deviated from the benchmark or index, while the lower denotes gains that have more to do with market movements than active management. However, this comes both with a caveat, and a means of using it creatively. As ever, the R-squared correlation between the fund and its benchmark must be strong if any discrete reliance is to be placed upon the Information Ratio. Its versatility, though, comes from the point that 'added value' does not necessarily mean value added to the fund's own benchmark. Analysts can decide which benchmark or index they wish the fund to outperform, and run the statistics accordingly.</p> |
| Investment Focus | <p>This describes the different types of investment focus a fund may be undertaking, the funds can have multiple investment focuses and again the options available for each fund will be determined by the asset class they sit within.</p> <p>A couple of examples of where the investment focus is used is the AXA Framlington Health Fund where the investment focus of the fund will be based upon Health where as the Torrey Biotech and Health Sciences will focus on both Health as well as Biotech.</p> |
| Investment Method | <p>The investment Method shows the type of securities that the fund is investing within. The choices available are driven by the asset class as different asset classes have different types of methods for investing.</p> <p>An example of this is an Equity Fund, the options available for this could be Futures, Indices, Mixed and Shares now a Money Market type fund would have the options of Deposits, Floating Rates, Short Dated Bonds.</p> |



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| Jensen's Alpha | <p>This is a risk-adjusted measure used to gauge the extent to which a manager has added value to the returns that could have been expected from a benchmark portfolio, while taking into account the fund's sensitivity to that benchmark.</p> <p>The calculation runs like this: take the benchmark's average return in excess of a notional risk-free rate (the rate that could have been earned from 'safe' investments like Gilts, or cash equivalents); then adjust that benchmark return by multiplying it by the fund's Beta – this adjustment compensates for the fund's sensitivity, or lack of, to movements in the market. The result is the Expected Rate: what could be expected from the fund, in that market, and with that degree of sensitivity to the market, with no active intervention from the Manager. Now take the fund's return over the risk-free rate, and subtract the Expected Rate – this is Jensen.</p> <p>So this is a test of whether a fund has achieved a better performance than its Beta would suggest: a positive Jensen Alpha indicates an active management style with superior stock-picking ability; a negative figure is produced if returns are falling short of the adjusted benchmark return. It can be useful to investors seeking funds with low sensitivity to the market, e.g. to minimise downward movements in Bear conditions. If two funds have similar lower Betas, then the one with the better positive Jensen's Alpha is making superior returns for the same reduced level of downside risk.</p> <p>Finally, since Jensen's Alpha is calculated by reference to a fund's Beta, a strong R-squared correlation between the fund and its benchmark is important if the measure is to have any significance.</p> <p>Financial Express gives the choice of both Jensen's Alpha and Annualised Jensen's Alpha.</p> |
| Legal Structure | The Legal Structure of the fund depicts the actual legal description given to a fund. There are numerous different legal descriptions of funds which differ from country to country. |
| Maximum Gain | Represents the best possible investment period. |
| Maximum Loss | Represents the worst possible investment period. |
| Negative Periods | Indicates number of negative monthly returns |
| Percentile | <p>A method of splitting up a set of ranked data into 100 equally large subsections. The percentile rank is the proportion of values in a distribution that a specific value is greater than or equal to.</p> <p>For example, if a fund has performance over 1 year of 10% and that value was greater than or equal to the value of 88% of funds in that sector then that value would place that fund in the 88th percentile.</p> |
| Positive Periods | Indicates number of positive monthly returns. |
| Price Return | Price Return shows capital return of the instrument i.e. with no income reinvested. |
| Quartile | Each quartile contains 25% of the total observations. The data is ordered from smallest to largest with those observations falling below 25% of all the data analyzed allocated within the 1st quartile, observations falling between 25.1% and 50% and allocated in the 2nd quartile, then the observations falling between 51% and 75% allocated in the 3rd quartile, and finally the remaining observations allocated in the 4th quartile. |
| Quintile | A statistical value of a data set that represents 20% of a given population. The 1st quartile represents the lowest fifth of the data (1-20%); the 2nd quartile represents the second fifth (21% - 40%) etc. |

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| R-Squared | <p>The R-Squared measure is an indication of how closely correlated a fund is to an index or a benchmark. It can be treated as a percentage, showing what proportion of a fund's movements can be attributed to those of the benchmark. Values for R-Squared range between 0 and 1, with 0 indicating no correlation at all, and 1, rarely, showing a perfect match. Values upwards of 0.7 suggest that the fund's behaviour is increasingly closely linked to its benchmark, whereas the relevance diminishes as R-Squared descends towards 0.5, and starts to disappear altogether below that.</p> <p>R-Squared is a key ratio, in that other measures of a fund's performance – such as Alpha and Beta - will have been calculated by reference to its benchmark. The weaker the R-Squared correlation, the more unsuitable the benchmark is, and the more unreliable these measures will be in assessing the fund.</p> |
| Relative Return | <p>The relative return is the return of the instrument or instruments shown relative to a fund or benchmark where the relative instrument return is rebased to 0 and the return of the other instruments shown as the amount greater or lesser than the relative.</p> <p>Financial Express gives the choice of both Relative Return and Annualised Relative Return.</p> |
| Sharpe Ratio | <p>This is a commonly-used measure which calculates the level of a fund's return over and above the return of a notional risk-free investment, such as cash or Government bonds. The difference in returns is then divided by the fund's standard deviation – its volatility, or risk measurement. The resulting ratio is an indication of the amount of excess return generated per unit of risk.</p> <p>Sharpe is useful, when comparing similar portfolios or instruments. There is no absolute definition of a 'good' or 'bad' Sharpe ratio, beyond the thought that a fund with a negative Sharpe would have been better off investing in risk-free government securities. But clearly the higher the Sharpe ratio the better: as the ratio increases, so does the risk-adjusted performance. In effect, when analysing similar investments, the one with the highest Sharpe has achieved more return while taking on no more risk than its fellows – or, conversely, has achieved a similar return with less risk.</p> |
| Sortino Ratio | <p>This ratio is similar to the Sharpe Ratio, using downside risk rather than standard deviation as the denominator. Thus the Sortino Ratio is calculated by subtracting the risk free rate from the return of the portfolio and then dividing by the downside deviation. The Sortino ratio measures the return to "bad" volatility thereby giving investors a measure to assess risk in a better manner than simply looking at excess returns to total volatility. A large Sortino Ratio indicates a low risk.</p> |
| Stochastic Modeling | <p>A method of financial modeling in which one or more variables within the model are random. Stochastic modeling is for the purpose of estimating the probability of outcomes within a forecast to predict what conditions might be like under different situations. The random variables are usually constrained by historical data, such as past market returns.</p> |
| Total Expense Ratio (TER) | <p>TER (Total Expense Ratio) is a measure of the total costs associated with managing and operating an investment fund such as a mutual fund. These costs consist primarily of management fees and additional expenses such as trading fees and legal fees as well as any other operational expenses. The total cost of the fund is divided by the fund's total assets to arrive at a percentage amount, which represents the TER.</p> <p>The size of the TER is important to investors, as the costs come out of the fund, affecting investors' returns.</p> |
| Total Return (TR) | <p>Total Return shows the total return of the instrument with all income reinvested and assuming income is taxed at basic rates of income tax.</p> |

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| <p>Tracking Error</p> | <p>This statistic measures the standard deviation of a fund's excess returns over the returns of an index or benchmark portfolio. As such, it can be an indication of 'riskiness' in the manager's investment style. A Tracking Error below 2 suggests a passive approach, with a close fit between the fund and its benchmark. At 3 and above the correlation is progressively looser: the manager will be deploying a more active investment style, and taking bigger positions away from the benchmark's composition.</p> <p>While zero Tracking Error would indicate a fund that was a perfect replication of its benchmark portfolio, this is hardly likely to be encountered in reality. The fund will not be fully invested at all times in its benchmark components, since an element of liquidity will need to be retained for redemptions, and the assumed reinvestment of dividends will not always be possible. Transaction costs dilute returns, and proportionately more so in smaller funds. Issues of timing and availability mean that changes in the benchmark's constituents cannot be instantaneously mirrored in the fund's portfolio. These factors will all produce greater Tracking Error – and be reflected in the Beta and R-squared ratios. But ultimately, of course, this is actually only an 'error' if the investment strategy goes unrewarded by out performance of the benchmark.</p> <p>Financial Express gives the choice of both Tracking Error and Annualised Tracking Error.</p> |
| <p>Treynor Ratio</p> | <p>This is another risk-adjusted performance measure, similar in calculation and application to the Sharpe Ratio. The difference is that while Sharpe weighs a fund's returns against total risk (standard deviation, or volatility), Treynor looks at excess return for each unit of systemic risk (the volatility, inherent in the market that cannot be diversified). The Treynor calculation, then, takes the fund's excess return over a notional risk-free rate (what would be earned from, say, cash on deposit, or Government bonds), then divides it by the fund's Beta. A Treynor Ratio greater than 1 shows that the fund has produced more units of return than of risk. So, in basing on market risk alone, the ratio assumes that non-systemic risk is capable of being eliminated by diversification across a wide range of investments, and measures whether the systemic risk has been rewarded.</p> <p>Also known as the Volatility to Reward ratio, Treynor is useful in comparing funds that invest in similar market sectors and achieve similar returns. For example, when assessing a range of UK Equity funds, it is the one with the highest Treynor Ratio that is taking on the least market risk to achieve its level of performance. Also, since it factors out the manager's ability from movements in the fund's sector, Treynor may be used to compare fund performances adjusted for systemic risks in different market sectors – because, although intuitively the ratio should be higher for bond funds than for those investing entirely in equities, this is not necessarily true in every case. While not perfect, and not to be taken in isolation, the Treynor Ratio can be a pointer to the optimum risk- and sector adjusted fund for a particular risk-aversion profile.</p> |
| <p>Volatility</p> | <p>Standard deviation is a statistical measurement which, when applied to an investment fund, expresses its volatility, or risk. It shows how widely a range of returns varied from the fund's average return over a particular period. Low volatility reduces the risk of buying into an investment in the upper range of its deviation cycle, then seeing its value head towards the lower extreme. For example, if a fund had an average return of 5%, and its volatility was 15, this would mean that the range of its returns over the period had swung between +20% and -10%. Another fund with the same average return and 5% volatility would return between 10% and nothing, but there would at least be no loss.</p> <p>While volatility is specific to a fund's particular mix of investments, and comparison to other portfolios is difficult, clearly, for those that offer similar returns, the lower-volatility funds are preferable. There is no point in taking on higher risk than necessary in order to achieve the same reward.</p> <p>Financial Express gives the choice of both Volatility and Annualised Volatility.</p> |
| <p>Yields</p> | <p>The yield shown in the factsheet is supplied by the Fund Manager on a regular basis (daily/weekly/monthly). The fund manager is under no obligation to define the type of yield supplied i.e. Gross/Net or Running/Redemption.</p> <p>Funds comprising mainly of bonds normally quote a gross redemption yield after all charges but before tax has been deducted. Funds mainly made up of equities normally quote a yield representing the estimated annual payout net of tax of basic rate tax payer. For further information contact the management company directly.</p> <p>The Portfolio Scan contains the historic yield which is based on the performance of the fund over the past year using the dividends paid out for the fund over this period.</p> |

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