

Glossary

Performance and risk indicators

Benchmark

A standard for comparing investment success. Benchmarks are often a market index or a combination of several indices that guide investment objectives and the investment universe.

Performance calculation

The investment's performance is its percentage change between the invested assets at the start of the investment period and its value at the end of the investment period. Distributions are assumed to be invested on an ongoing basis in new fund units. This allows for comparing returns of distribution and capitalisation funds with each other.

Jensen's Alpha

Jensen's Alpha is an indicator of the current portfolio's riskadjusted excess return in relation to the benchmark (in the form of beta). It measures the absolute difference between the fund's excess return vs. a risk-free rate and the expected excess return had it invested in the benchmark at the same beta.

Beta (β)

Beta measures systematic risk in relation to a defined benchmark. Beta is an indicator of how much the fund fluctuates compared to the market, i.e., if the benchmark rises or falls by X%, the fund will reflect this move by an average of $\beta * X\%$. The systematic risk reflects the remaining residual risk that cannot be diversified away even if the individual securities in the portfolio are optimally mixed.

Correlation coefficient

The correlation coefficient is a mathematical-statistical measure for quantifying the relationship between two random variables. It measures the extent to which the prices of two or more investments track each other. It is measured on a scale from minus one to plus one. If the prices of two investments continually move in the same direction with the same premium, they are perfectly correlated (+1), while negative values suggest the opposite.

Duration

Duration is a measure of sensitivity that describes the average time in which capital is tied up in a fixed-income security. It is measured in years. Duration is shorter than residual maturity because the amortization period is shortened by interim interest payments on the invested capital. For zero-coupon bonds, duration is equal to residual maturity, as interest payments are implicitly made only upon maturity. They are therefore particularly sensitive to interest rates.

Distance to the bond floor

Expressed as a percentage of the difference between the market price of the convertible bond and its bond floor. The bond floor is the value of the convertible bond's bond component. The difference vs. market value is the value of the share-conversion option.

Maximum drawdown

The maximum cumulative loss within a period considered that would have resulted from the investor investing at the worst point (the highest price) and selling at the worst point (the lowest price) during that period.

Time to recovery

The amount of time in which the maximum loss would be made up.

Sharpe Ratio

The Sharpe Ratio is the extra return vs. a risk-free investment that a fund achieves per unit of risk (volatility). It is a measure of reward achieved on risk taken, hence how successful a fund manager was. The higher the Sharpe Ratio, the better the fund manager's performance compared to a risk-free investment.

Information ratio

The information ratio is a fund's active return relative to active risk vs. a benchmark. It compares



Jensen's Alpha to tracking error. When the information ratio is high, the fund manager's deviation from the benchmark has paid off.

Value-at-risk

A measure of a loss that is not exceeded within a given probability (confidence level) and within a given period of time. Using the parametric method (also known as the variancecovariance method), the VaR is calculated on the basis of historical volatilities of daily fund returns based on the assumption of normal distribution (which is subject to error).

Turnover ratio

This is the percentage of the portfolio that was reallocated over a given period of time (usually one year). A turnover ratio of 20% means that the total volume of transactions was one fifth of the fund volume.

Tracking Error

This is the volatility of the return differential between a fund and its benchmark. Also called active risk. It is useful in assessing performance. The higher the outperformance compared to the active risk, the better.

Volatility

Volatility is the price movement (fluctuation range) of a security or fund. The most frequently used indicator for this is the standard deviation. Volatility and standard deviation are commonly used measures of risk.

Active weight

A key securities portfolio metric. It measures the percentage by which the portfolio deviates from the benchmark. A higher active weight suggests that a portfolio allocation deviates more strongly from the benchmark.