Glossary of Terms

Source: Hedgefund.net & Morgan Stanley Prime Brokerage

- **Alpha** - Alpha is the measure of a fund's average performance independent of the market, (i.e. if the market return was zero.) For example, if a fund has an alpha of 2.0, and the market return was 0% for a given month, then the fund would, on average, return 2% for the month.
- **Beta** -- Beta describes the sensitivity of an instrument or portfolio to broad market movements. The stock market (represented by an index such as the S&P 500 or FTSE) is assigned a beta of 1.0. By comparison, a portfolio (or instrument) which has a beta of 0.5 will tend to participate in broad market moves, but only half as much as the market overall. A portfolio (or instrument) with a beta of 2.0 will tend to benefit or suffer from broad market moves twice as much as the market overall.
- **Annualized Alpha Generation** – measurement of average annualized out performance over the benchmark shown.
- **Compounded Monthly Return** – The compounded monthly return is the return that if compounded over the life of the fund would lead to the total return of the fund. For example, if a fund has 10 months of return equaling 100% as a total compounded return, the compounded monthly return would be 7.18%.
- **Compounded Annual Return** – The compounded annual return is simply the compounded monthly return compounded 12 times for the 12 months.
- **Delta and Delta Adjusted Exposure** – Delta Definition: Measure of the sensitivity between an option price and the underlying stock price at the beginning or at the end of the time period. (Option Price/ Underlying Price). Delta Adjusted Exposure Definition: Market value at the beginning or at the end of the time period times Delta.
- **Gross Exposure** – Gross exposure equals long exposure plus the absolute value of short exposure. For example, for 100 USD of capital, if a fund is 150 USD long and 50 USD short, it means that gross exposure is 150 + 50 = 200 USD or 200%. Net exposure is long exposure less short exposure and in our example above would be 100 - 50 = 50 USD or 50%.
- **Liquidity Bucket** -- For a security, the number of shares of the security in the portfolio divided by the median daily composite trading volume (in shares) of the security for the last 21 trading days; For a long or short portfolio, the weighted-average liquidity of the securities in the portfolio, where the weight for a given security equals the market value of the security (in the portfolio) divided by the total market value of the portfolio. In the Exposure Details tab, the Delta Adjusted Quantity = Delta Adjusted Exposure / Stock Price is used for number of shares.
- **Market Capitalization or Market Value** -- Number of shares of the security multiplied by its price. Futures and equity swaps are assigned a market value of zero.
- **Net Exposure** – The exposure level of the fund to the market at the present time. It is calculated by subtracting the short percentage from the long percentage. For example, if a fund is 100% long and 25% short, then the net exposure is 75%.
- **Downside Deviation or Downside Volatility** - Similar to the loss standard deviation except the downside deviation considers only returns that fall below a defined Minimum Acceptable Return (MAR) rather then the arithmetic mean. *For example, if the MAR is assumed to be 10%, the downside deviation would measure the variation of each period that falls below 10%. (The loss standard deviation, on the other hand, would take only losing periods, calculate an average return for the losing periods, and then measure the variation between each losing return and the losing return average).* Alkeon uses 3.47% for MAR.
- **Sortino Ratio** – The Sortino Ratio is similar to the Sharpe Ratio, except that instead of using standard deviation as the denominator, it uses Downside Deviation. The Sortino Ratio was developed to differentiate between "good" and "bad" volatility in the Sharpe Ratio. If a fund is volatile to the upside (which is generally a good thing) its Sharpe ratio would still be low. To quote the Sortino web site: "A comparable downside risk ratio that has come to be called the Sortino ratio has for the numerator the difference between the return on the portfolio and the MAR. The denominator for the Sharpe ratio is standard deviation, and for the Sortino ratio it is downside deviation."
- **Sharpe Ratio or Annualized Sharpe Ratio** - Here are two ways of stating the same thing:
    - The average monthly return minus the monthly risk free rate (we use 0.41%) divided by the Standard Deviation. We take that number and multiply it by the square root of 12 to annualize it.
    - [(Average Monthly Return - Risk Free Rate (0.41%) / Standard Deviation] *12 to the 1/2 power.