

Glossary of terms

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Active Premium – A measure of the Investment's annualized return minus the Benchmark's annualized return.

Additions – Frequency at which fund additions are accepted by the fund.

Administrator – The offshore fund entity that manages the back office work and individual accounts for the fund.

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.

AUM – Assets Under Management

Average Annual Return or Average Rolling 12 Month Return – The average of the rolling 12 month performance periods of the fund. *For example. If a fund begins in January 1997, and it is currently March 1998, then there are four rolling 12 month periods for the fund. (The first is January 1997 - December 1997, the next is February 1997 - January 1998, the next is March 1997 - February 1998, and the last is April 1997 - March 1998.) The average annual return is the average of the four rolling 12-month periods. The average annual return might not match an annualized calculation of the monthly return.*

Average Monthly Gain – The average of the profitable months of the fund.

Average Monthly Loss – The average of the negative months of the fund.

Average Monthly Return – The average of all the monthly performance numbers of the fund.

Average Number of Positions – The number of securities that a fund holds on any given day.

Average Portfolio Turnover – The percentage of the portfolio that is bought and sold each year.

Benchmark for Correlation Values – The benchmark that the fund has chosen to run correlation values such as alpha, beta, R and R squared.

Benchmark for Graphing – The benchmark that the fund has chosen to graph itself against.

Beta – Beta is the measure of a fund's volatility relative to the market. (Almost all fund managers correlate themselves to the S&P 500). A beta of greater than 1.0 indicates that the fund is more

volatile than the market, and less than 1.0 is less volatile than the market. *For example, if the market rises 1% and a fund has a beta greater than 2.5, the fund will rise, on average, 2.5%. For a fund with a beta of 0.4, if the market rises 1%, the fund will rise on average, 0.4%. The relationship is the same in a falling market. (Please note that funds can have a negative beta, meaning that on average they rise when the market falls and vice versa).*

Calmar Ratio – This is a return/risk ratio. Return (numerator) is defined as the Compound Annualized Rate of Return over the last 3 years. Risk (denominator) is defined as the Maximum Drawdown over the last 3 years. If three years of data are not available, the available data is used. ABS is the Absolute Value.

Compounded Annual Return – The compounded annual return is simply the compounded monthly return multiplied by the 12th power.

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%.*

Current Leverage – The amount of leverage currently used by the fund as a percentage of the fund. *For example, if the fund has \$1,000,000 and borrowing another \$2,000,000, to bring the total dollars invested to \$3,000,000, then the leverage used is 200%.*

Current 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 – Similar to the loss standard deviation except the downside deviation considers only returns that fall below a defined Minimum Acceptable Return (MAR) rather than 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).*

High Water Mark – The assurance that a fund only takes fees on profits unique to an individual investment. *For example, a \$1,000,000 investment is made in year 1 and the fund declines by 50%, leaving \$500,000 in the fund. In year 2, the fund returns 100%, bring the investment value back to \$1,000,000. If a fund has a high water mark, it will not take incentive fees on the return in year 2, since the investment has never grown. The fund will only take incentive fees if the investment grows above the initial level of \$1,000,000.*

Highest 12 Month Return – The best or highest 12 month period of a fund's performance.

Highest Monthly Return – The best or highest monthly return of the fund.

Hurdle Rate – The return above which a hedge fund manager begins taking incentive fees. *For example, if a fund has a hurdle rate of 10%, and the fund returns 25% for the year, the fund will only take incentive fees on the 15% return above the hurdle rate.*

Incentive Fee – The fee on new profits earned by the fund for the period. *For example, if the initial investment was \$1,000,000 and the fund returned 25% during the period (creating profits of \$250,000) and the fund has an incentive fee of 20%, then the fund receives 20% of the \$250,000 in profits, or \$50,000.*

Inception Date – The date that the fund began trading.

Jensen Ratio – The Jensen Ratio, developed by Michael Jensen, quantifies the extent to which an investment has added value relative to a benchmark. The Jensen Alpha is equal to the Investment's average return in excess of the risk free rate minus the Beta times the Benchmark's average return in excess of the risk free rate.

Lockup – Time period that initial investment cannot be redeemed from the fund.

Longest Losing Streak – The number of consecutive months of negative performance.

Lowest Monthly Return – The lowest or worst monthly return of the fund.

Lowest 12 Month Return – The lowest or worst 12-month period of a fund's performance

Management Fee – The fees taken by the manager on the entire asset level of the investment. *For example, if at the end of the period, the investment is valued at \$1,000,000, and the management fee is 1%, then the fees would be \$10,000.*

Master-Feeder Fund – A typical structure for a hedge fund. It involves a master trading vehicle that is domiciled offshore. The master fund has 2 investors: Another offshore fund, and a US (usually Delaware) Limited Partnership. These two funds are the feeder funds. Investors invest in the feeder funds, which in turn invest all the money in the Master fund, which is traded by the manager.

Maximum Drawdown – The worst period of "peak to valley" performance for the fund, regardless of whether or not the drawdown consisted of consecutive months of negative performance.

Minimum Investment – The minimum initial investment for the fund.

Peak to Valley Drawdown – The worst period of return of the fund.

Percent Long – The percentage of the fund invested in long positions

Percent Short – The percentage of the fund that is sold short.

Profitable Percentage – The percentage of monthly returns that the fund made money.

Pro-Forma – A monthly return that, for some reason, was not completed by the fund in the exact structure as it is now. *Examples: 1. A fund manager who manages a master feeder structure does not have any money in the offshore fund, but since the offshore fund is simply an investor in the master fund, he reports the returns as pro-forma. 2. A fund manager runs managed accounts with the same exact strategy and fee structure as his new fund. He may list the performance of the managed accounts as pro forma, for while there was a real track record, it just was not in the fund structure. 3. A fund manager leaves his management company and brings the fund with him. He may report the performance under the old management company as pro-forma. 4. A fund of funds launches with 10 funds in the portfolio. It may report the historical results of the weighted funds as pro forma.* **Note:** HedgeFund.net discourages the reporting of pro-forma results, as they oftentimes confuse investors because there are so many definitions of pro-forma results.

R and R Squared - R and R Squared show if there is any correlation between the fund and the market. 1.0 is perfect correlation, 0.0 is absolutely no correlation and -1.0 is perfect negative correlation. The industry assumes that an R squared below 0.3 has no correlation to the market.

Redemptions – Frequency at which fund redemptions are accepted by the fund.

Reporting Agent – Any third party that analyses and verifies the monthly returns of a fund.

Risk Free Rate for Sharpe Ratio: 5%

Risk Free Rate for Sortino Ratio: 5%

Standard Deviation or Average Standard Deviation – The Standard Deviation of monthly returns.

Rolling 12 Month Standard Deviation – Standard Deviation of Rolling 12 Month Returns.

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 divided by the Standard Deviation. We take that number and multiply it by the square root of 12 to annualize it.

- $[(\text{Average Monthly Return} - \text{Risk Free Rate} / \text{Standard Deviation}) * 12 \text{ to the } 1/2 \text{ power}.$

Rolling 12 Month Sharpe Ratio – It is the same calculations as the above Sharpe ratio, except we use annual and rolling 12 month numbers. So, it's the Average Annual Return - the Annual risk free rate (5%) divided by the rolling 12 Month Standard Deviation.

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.” The MAR is the Minimum Acceptable Return.

Sterling Ratio – This is a return/risk ratio. Return (numerator) is defined as the Compound Annualized Rate of Return over the last 3 years. Risk (denominator) is defined as the Average Yearly Maximum Drawdown over the last 3 years less an arbitrary 10%. To calculate this average yearly drawdown, the latest 3 years (36 months) is divided into 3 separate 12-month periods and the maximum drawdown is calculated for each. Then these 3 drawdowns are averaged to produce the Average Yearly Maximum Drawdown for the 3 year period. If three years of data are not available, the available data is used.

Total Return Since Inception – The total Cumulative return for the fund since inception

Treynor Ratio – The Treynor Ratio, developed by Jack Treynor, is similar to the Sharpe Ratio, except that it uses Beta as the volatility measurement. Return (numerator) is defined as the incremental average return of an investment over the risk free rate. Risk (denominator) is defined as the Beta of the investment returns relative to a benchmark.

Typical Leverage – The amount of leverage typically used by the fund as a percentage of the fund. *For example, if the fund has \$1,000,000 and borrowing another \$2,000,000, to bring the total dollars invested to \$3,000,000, then the leverage used is 200%.*

Typical Net Exposure – The exposure level of the fund to the market that the fund attempts to maintain over 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%.*

Waterfall – The calculation of gains subject to an incentive/performance fee. Gains for the measurement period *minus* loss carryforwards (previous high water mark deficit) *minus* cumulative hurdle rate *minus* current hurdle rate.