Breckinridge™
CAPITAL ADVISORS

Financial Glossary

VERSION 2026

FINANCIAL GLOSSARY

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ACCRUED INTEREST
The dollar amount of interest earned and accumulated on a security starting from and including the most recent interest payment date. Accrued interest is paid to the seller by the purchaser.

AFTER-TAX YIELD OR EFFECTIVE YIELD
When calculating the return on an investment, many investors consider the after-tax rate of return, which takes into consideration the taxes that will have to be paid on the investment. The amount remaining after taxes are deducted is known variously as the after-tax yield, the effective yield, or the effective after-tax yield.

- For example, if an investor earns $1,000 in interest on an investment that cost $10,000, the yield is 10 percent ($1,000/$10,000 = 0.10 or 10 percent).
- If the investor must pay 20 percent in taxes, the effective earnings are $800 ($1,000 x 0.20 = $200 in taxes. $1,000 earned - $200 in taxes = $800 in effective earnings).
- The effective earnings ($800) as a percent of the price paid for the investment, ($10,000 for this example), means the effective after-tax yield is 8 percent ($800/$10,000 = 0.08 or 8 percent).

AD VALOREM TAX
An ad valorem tax is a tax based on the assessed value of an item, such as real estate or personal property. The most common ad valorem taxes are property taxes levied on real estate. However, ad valorem taxes may also extend to a number of tax applications, such as import duty taxes on goods from abroad.

ALTERNATIVE MINIMUM TAX (AMT)
Taxation based on an alternative method of calculating federal income tax under the Internal Revenue Code. Interest on certain private activity bonds is subject to the AMT.

AMERICAN DEPOSITARY RECEIPTS (ADRS)
American Depository Receipts are securities offered by non-U.S. companies who want to list on an American exchange. Each ADR represents a certain number of a company's regular shares.

AMORTIZATION OF PRINCIPAL
The process of repaying principal by periodic payments, either directly, or through a sinking fund for the benefit of bondholders.

ANNUALIZED COUPON INCOME
Sum of each security's coupon rate (expressed as a decimal (e.g.: 4.5 percent is 0.045) times its par value. Includes income from step coupons, calculated as the current daily rate annualized.

- **Net Annualized Income:** Annualized coupon income that considers the premium or discount on the bond.

ASK AND BID PRICES
Ask and bid prices are each a proposal by a trading desk or third-party to sell or buy, respectively, securities at a specified price. Ask and bid offers are infrequently available for municipal bonds as compared to more liquid fixed income securities, such as U.S. Treasuries and corporate bonds.

ASSET-BACKED SECURITY
Asset-backed securities (ABS) are bonds or notes backed by financial assets of non-mortgage related loans, such as auto loans, consumer loans or credit card receivables.

(WEIGHTED) AVERAGE LIFE
The average life, also referred to as the "weighted average life" (WAL) or weighted average maturity" (WAM), reflects the speed with which the principal of an issue is expected to be paid.

b

BEAR FLATTENER
A bear flattener describes a yield-rate environment in which short-term interest rates are increasing at a faster rate than long-term interest rates. This event causes the yield curve to flatten as short- and long-term rates begin to converge.

BEAR STEEPENER
A bear steepener is the widening of the yield curve caused by long-term interest rates increasing at a faster rate than short-term rates. A bear steepener is usually suggestive of rising inflationary expectations–or a widespread rise in prices throughout the economy.

BENCHMARK INDEX
A benchmark index is comprised of a group of securities whose overall performance is generally agreed to be used as a standard against which relative investment performance is measured. Commonly referenced benchmark indices for fixed income investments are represented in the *Bloomberg fixed income indices*.

- **Index Fund:** An index fund is commonly a pooled investment vehicle with a portfolio designed to match or track the components of a market index

BETA
A measurement of a security or portfolio's volatility relative to the broader market. Values above or below 1 reflect higher or lower volatility, respectively.

BOOK YIELD
The yield on a bond based on the book, or accounting, price of the bond. This calculation can be reported based on yield to worst, yield to call or yield to maturity.

BUILD AMERICA BONDS (BABS)
Taxable municipal securities issued through December 31, 2010, under the American Recovery and Reinvestment Act of 2009 (ARRA). BABs may be direct-pay subsidy bonds or tax credit bonds.

BULL FLATTENER
A bull flattener is a yield-rate environment in which long-term rates are decreasing more quickly than short-term rates. That causes the yield curve to flatten as the short-run and long-run rates start to converge.

BULL STEEPENER
A bull steepener is a change in the yield curve caused by short-term interest rates falling faster than long-term rates, resulting in a higher spread between the two rates. A bull steepener occurs when the Fed Reserve is expected to lower interest rates.

BULLET BONDS
Securities with a fixed maturity date and no call feature.

c

CALL DATE
The date on which bonds may be called for redemption by the issuer as specified by the bond contract.

CALL FEATURE
A call feature in a bond agreement allows the issuer to buy back bonds at a set price within certain future time frames. The issuer uses a call feature to hedge against interest rate risk; bonds can be bought back and replaced by bonds carrying a lower interest rate if interest rates decline. This feature may limit the amount of money that a bondholder might otherwise be able to earn by holding a bond, so investors demand a higher effective interest rate when a call feature is present.

CALL PROTECTION
Redemption provisions of callable bonds that partially (or fully, for bullet bonds) protect an investor against an issuer's prepayment of the bonds prior to maturity.

CALL RISK
The risk that declining interest rates may accelerate the redemption of a callable security, causing an investor's principal to be returned sooner than expected.

CALLABLE BONDS
Bonds that are subject to payment of principal and accrued interest prior to the stated maturity date, with or without payment of a call premium.

CONVEXITY
A measure of the price sensitivity of a fixed income security to changes in interest rates. Convexity is influenced by such factors as the coupon rate, maturity, and call structure.

- **Positive Convexity:** A bond is said to have positive convexity if duration rises as the yield declines. A bond with positive convexity will have larger price increases due to a decline in yields than it has price declines due to an increase in yields. Positive convexity can be thought of as in the *investor's* favor because price sensitivity is lower when yields rise (prices fall) than when yields decline (prices rise).
  - Examples of typical bonds with positive convexity: Noncallable bonds, bonds with make-whole calls.
- **Negative Convexity:** Bonds with negative convexity can experience declines in rate sensitivity or *duration* as interest rates fall. Conversely, negatively convex bonds can see duration extend when rates rise.
  - Examples of typical bonds with negative convexity: most MBS, bonds with traditional calls, preferred bonds.

COUPON
The coupon, an important bond descriptor, is calculated by adding the sum of coupons paid per year and dividing that amount by the bond's face value.

COUPON RATE
A measure of the coupon payments received annually on a bond, expressed as a percentage of the bond's face value.

CREDITWORTHINESS
Creditworthiness is a measure of the risk of default of an individual fixed-income security or the issuer of a fixed-income security; generally measured by one of the major ratings agencies.

CROSSOVER BONDS
Bonds rated BBB/BB – they "crossover" investment-grade and junk ratings.

CROSSOVER TRADE
At times, depending on the relative levels of yields on taxable and tax-exempt bonds, investors can benefit from crossing-over from tax-free municipals when municipal bond yields rise to abnormally high levels relative to taxable bonds. Conversely, taxable investors can benefit from the crossover trade in reverse; they may buy taxable securities when municipal bond yields are unusually low relative to taxable bonds.

CURRENT FACE
The current remaining monthly principal on a mortgage security. Current face is calculated by multiplying the original face value of the security by the current principal balance factor.

CURRENT YIELD
The ratio of the annual dollar amount of interest paid on a security, typically via coupon payments, to the purchase price or market price of the security, stated as a percentage.

CUSIP
An identification number assigned by the CUSIP Service Bureau to each bond issue to help facilitate the identification and clearance of securities. If a bond is issued with various maturities, a different CUSIP is assigned to the bond at each maturity level.

CREDIT RATINGS
A bond's credit rating represents the credit worthiness of corporate or government bond issuers. Credit ratings are assigned based on an issuer's ability to pay interest and principal. The ratings are published by credit rating agencies and are used by investment professionals to assess the likelihood the debt will be repaid.

Moody's Investors Service	Standard & Poor's	Fitch Ratings	Description
Aaa	AAA	AAA	High Grade
Aa1	AA+	AA+	
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	Investment Grade
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	
Baa2	BB	BB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	Non-investment Grade-Speculative
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	Highly Speculative
B2	B	B	
B3	B-	B-	
Caa1	CCC+	CCC+	Substantial Risk
Caa2	CCC		Extremely Speculative
Caa3	CCC-		Default imminent with little prospect for recovery
Ca	CC	CC	
	C	C	
C	D	D	In Default

CREDIT RISK
The risk for bond investors that the issuer will default on its obligation (default risk), that the bond value will decline and/or that the bond price performance will compare unfavorably to other bonds.

CREDIT SPREAD, G-SPREAD, INTEREST RATE SPREAD, NOMINAL SPREAD, SPREAD TO TREASURY, OR SPREAD
The spread represents the difference in yield between a bond and, typically, a comparable U.S. Treasury security. The spread reflects the issuer's credit quality. Because Treasury Bonds can be assumed to have zero default risk, the difference between yield on Treasury bonds and bonds issued by other entities represents default risk.

d

DIVIDEND GROWTH RATE
Measures annualized growth in dividend payments. Approaches vary, but a five-year historical time period is commonly used.

DIVIDEND YIELD
Annual dividends per share divided by the share price.

DISCOUNT BOND
A bond that is purchased or valued at a price lower than its original face or par value.

DURATION
A bond's duration is the weighted average of the length of the periods of times before the bond's fixed cash flows are received. When the price of an asset is considered as a function of yield, duration also measures and expresses in years the price sensitivity to yield, the rate of change of price with respect to yield, or the percentage change in price for a parallel shift in yields.

DURATION RISK
Duration risk is the risk associated with the sensitivity of a bond's price to a one percent change in interest rates. The higher a bond's duration, the greater its sensitivity to interest rates changes.

e

EXCESS RETURN
The absolute difference between a portfolio's return versus a benchmark's return.

EX-DIVIDEND DATE
The date that determines eligibility to receive an announced dividend. Security must be purchased before the ex-dividend date to receive the dividend.

EXTENSION RISK
The risk that rising interest rates could extend the anticipated time until call options are exercised, or mortgages or other loans in a pool are repaid. These risks could cause investors to have their principal committed longer than expected, extending the duration of the securities.

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FHLMC OR FREDDIE MAC
The Federal Home Loan Mortgage Corporation (FHLMC) is a government-sponsored entity (GSE) and a federally chartered, publicly owned corporation that was created by Congress to enhance the secondary mortgage market through the underwriting of pass-through, mortgage-backed securities. Debt service payments are implicitly guaranteed by the full faith and credit of the U.S. government.

FNMA OR FANNIE MAE
The Federal National Mortgage Association (FNMA) is a GSE and a federally chartered, publicly owned corporation that was created by Congress to enhance the secondary mortgage market through the underwriting of pass-through, mortgage-backed securities. Debt service payments are implicitly guaranteed by the full faith and credit of the U.S. government.

FACTOR
In an MBS, a factor is a decimal value reflecting the proportion of the outstanding principal balance of a mortgage security, which declines over time due to prepayments, in relation to its original principal value.

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GNMA OR GINNIE MAE
The Government National Mortgage Association (GNMA) is a wholly owned government corporation within the Department of Housing and Urban Development. Debt service payments are explicitly guaranteed by the full faith and credit of the U.S. government. Ginnie Mae securities are backed by pools of FHA-insured and VA- and RHS-guaranteed mortgages.

GSE
Government-sponsored enterprises (GSEs) are financing entities created by Congress to fund loans to certain groups of borrowers such as homeowners, farmers, and students.

GENERAL OBLIGATION (GO) BOND
A General Obligation (GO) bond is a type of municipal bond. GO bonds are issued by governmental entities but are not backed by revenues from a specific project, such as a toll road. Some GO bonds are backed by dedicated taxes on property, while others can be payable from general funds. The latter types of bonds are often referred to as backed by the full faith and credit of the governmental entity. While in many instances, general obligation means that the issuer has unlimited authority to tax residents to pay bondholders, there are cases in which the issuer or governmental entity may have limited or no taxing authority.

h

HIGH GRADE BONDS
High grade bonds are the bonds of issuers with credit ratings of AA or AAA (or equivalent rating by other rating agencies). *See Credit Ratings.*

HIGH YIELD (HY) BOND
High Yield (HY) Bonds are those consider to be non-investment grade credit quality. High yield credit ratings denote that the issuer's financial position is relatively weak, and its bonds should be considered a speculative investment. HY bonds are rated below Baa3 on Moody's credit rating scale, and below BBB- or the equivalent on S&P's or Fitch's credit rating scale.

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INVESTMENT GRADE BONDS
Investment grade bonds are the bonds of issuers with credit ratings of AAA (highest rated), AA, A or BBB (or equivalent rating by other rating agencies). *See Credit Ratings.*

INTEREST
Interest is the amount paid by a borrower to a creditor, or bondholder, as compensation for the use of borrowed money.

INTEREST ACCRUAL DATE
For new issue (primary market) fixed-income offerings, including bonds, the Interest Accrual Date is the date on which coupon interest will begin to accrue. For secondary market fixed-income offerings, this is generally the date the last coupon interest payment was paid.

INTEREST INCOME
Interest income is the dollar amount of all interest earned on government and corporate debt obligations.

INTEREST RATE RISK
Interest rate risk is the potential for investment losses that result from a change in interest rates. If interest rates rise, for instance, the value of a bond or other fixed-income investment will decline. The change in a bond's price given a change in interest rates is known as its duration.

ISSUE DATE
The issue date is the first date on which a fixed-income security, a bond could be bought. For a new issue offering, this is generally the expected date on which the security will be allocated to those participating in the offering.

ISSUE PRICE
For fixed income securities such as bonds, the issue price is the paid for fixed-income securities purchased directly from the issuer; for example, a Treasury Auction bond purchased directly from the U.S. government would cost $1,000 at face value.

ISSUER
The issuer of a bonds is a government, corporation, municipality, or agency that has issued a security in order to raise capital or to repay other debt. The issuer works with an underwriter to offer bonds sold in the new issue market. The bond issuer is the primary determinant of the security's characteristics, including coupon interest rate, maturity, call features, and other attributes.

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LADDER
Bond ladders are created by purchasing bonds with staggered maturity dates across the full spectrum of eligible maturities for a portfolio. Generally speaking, as bonds mature, proceeds are reinvested in longer-dated maturities to continue the reinvestment cycle and maintain a stable average maturity across the portfolio.

LIQUIDITY
Liquidity helps to describe the degree to which an asset can be bought or sold quickly or the ability to be otherwise converted to cash quickly.

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MACAULEY DURATION
(See duration)
Macaulay duration derives from a formula intended to estimate the number of years before an investor will be repaid the bond's price by its total cash flows.

MATERIAL EVENTS
For fixed income investments, material events may affect the price or value of a bond. Disclosure of such events is often the subject of regulatory requirements of organizations such as the SEC and the Financial Industry Regulatory Authority (FINRA).

- For a municipal bond, material events may include the following: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves; (4) unscheduled draws on credit enhancements; (5) substitution of credit or liquidity providers; (6) adverse tax events affecting the tax-exempt status of the security; (7) modifications to rights of securities holders; (8) bond calls; (9) defeasances (the action or process of rendering something null and void); (10) release, substitution, or sale of property securing repayment; (11) rating changes; and (12) failure to provide annual financial information as required, for example. The Municipal Securities Rulemaking Board (MSRB) offers free access to the Electronic Municipal Market Access (EMMA) website for municipal disclosures, market data and education.
- For a corporate bonds, material information may be found in a prospectus, which is the offering document filed with the SEC by a company that issues bonds for sale to the public in a registered transaction. Among other things, the prospectus relating to a corporate bond issuance describes the (1) terms of the bond, (2) significant risks of investing in the offering, (3) the financial condition of the company issuing the bond, and (4) how

the company plans to use the proceeds from the bond sale. Prospectuses also are available to the public without charge on the SEC's *EDGAR website.*

Regular periodic reports are filed by both companies that have sold bonds in a public offering. Companies that have sold bonds in a public offering file quarterly reports on Form 10-Q and annual reports on Form 10-K, among other filings. You can use these reports to learn about and monitor a company's financial condition. These reports are available to the public without charge on the EDGAR website.

Reports on price and trading histories for particular bonds are available to the public without charge at the Financial Industry Regulatory Authority's (FINRA's) *Market Data Center*.

MARKET CAPITALIZATION ("MARKET CAP")
Measures the total market value of a company's stock. Calculated by multiplying the total shares outstanding by the price per share of the stock. Stocks are commonly grouped in tiers by market capitalization; industry convention currently estimates capitalization breakpoints, as follows:

- Large Cap: Stocks over $10 billion in market capitalization
- Mid Cap: Stocks between $2 billion and $10 billion in market capitalization
- Small Cap: Stocks with less than $2 billion in market capitalization

MATURITY DATE
The date at which the principal amount of a security becomes due and payable if not subject to earlier call or redemption.

MARKET FLUCTUATION
Market Fluctuation describes the rise or fall in a security's price or portfolio's value within a short-term period, depending on market and other conditions.

MATURITY RISK AND MATURITY RISK PREMIUM
Maturity risk is the risk that prevailing interest rates will change and unfavorably influence the value of a bond before it matures. Typically, a long-term bond offers a premium—*the Maturity risk premium*—in the form of a higher interest rate, to compensate for the higher risk investors take when holding a bond with a longer term before maturity.

MMD
Municipal Market Data is the yield curve of the highest rated (AAA) municipal bonds as published by Thomson Reuters Corporation.

MODIFIED DURATION *(See duration)*
Modified duration is duration adjusted to represent the price sensitivity of a bond to a 1 percent change in interest rates.

MORTGAGE-BACKED SECURITY
Mortgage-backed securities, called MBS, are bonds or notes backed by mortgages on residential or commercial properties.

MORTGAGE PASS-THROUGH SECURITY
A security representing a direct interest in a pool of mortgage loans. The pass-through issuer or servicer collects the payments on the loans in the pool and "passes through" the principal and interest to the security holders on a pro rata basis.

MUNICIPAL/TREASURY RATIO (OR M/T RATIO)
One way to assess the value of municipal bonds is to compare their yields to those of U.S. Treasuries. The M/T ratio compares the current rates of municipal bonds with those of U.S. Treasury bonds. The ratio may be helpful in assessing the relative attractiveness of municipal bonds companies with Treasuries of the same maturity. After-tax yield is another helpful indicative factor of relative value.

The M/T ratio is the yield on AAA-rated municipal bonds relative to the yield on a U.S. Treasury of similar maturity. If the yield on AAA municipal bonds is 1.5 percent and the yield on the 10-year Treasury is 2.0 percent, the ratio is 0.75. The higher the M/T ratio, the more attractive municipal bonds are relative to Treasuries.

Historically, according to *thebalance.com*, the M/T ratio has averaged about 0.8. The yields on municipal bonds are typically lower than those of Treasuries because the interest on municipals is tax-exempt, whereas the interest paid on Treasury securities is subject to federal income tax but exempt from state and local taxes. Investors, therefore, require higher yields to invest in Treasuries.

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NET ANNUALIZED INCOME
Annualized coupon interest income less amortization (i.e. repayment of principal). When buying bonds at a premium (i.e.: at a cost higher than its par or face value), if a coupon is due, part of that amount is considered coupon interest while the remainder qualifies as repayment of principal (i.e. amortization), as bonds revert towards par by the final maturity.

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OFF-THE-RUN TREASURIES AND ON-THE-RUN TREASURIES
Off-the-Run Treasuries are all Treasury bonds and notes issued before the most recently issued bond or notes of a particular maturity. On-the-Run Treasuries are the most recently issued U.S. Treasury bonds or notes of a particular maturity. Media mentions about Treasury yields and prices generally reference On-the-Run Treasuries.

OPTION ADJUSTED DURATION (OAD) OR EFFECTIVE DURATION
(See Duration)

Option adjusted duration (OAD) is a measure intended to help approximate the degree of price sensitivity to changes in interest rates of a bond with embedded options—for example, callable or puttable bonds—that may change the expected cash flows of the bond. For example, if a bond is called, interest payments cease, and principal is returned earlier than the bond's maturity.

ORIGINAL FACE
The face value or original principal amount of a security on its issue date.

ORIGINAL ISSUE DISCOUNT
The amount by which a security's price at issuance is lower than its par value.

p

PAR VALUE
Par value is the nominal, face or stated value of a bond indicated in writing on the document. The par value is the amount of money that bond issuers promise to repay bondholders at the maturity date of the bond. The price of a bond can vary from its par value.

PAYDOWN
A principal and/or interest payment from a mortgage borrower.

PAYOUT RATIO
Measures the proportion of a company's earnings paid out as dividends to shareholders.

PENSION OBLIGATION BONDS (POBS)
State and local governments issue debt in the form of pension obligation bonds (POBs, which are taxable bonds intended to fund unfunded pension liabilities.

POOL
A collection of mortgage or other loans assembled by an originator or master servicer to serve as the underlying assets to an asset-backed security.

PREMIUM
The amount by which the price paid for a security exceeds the security's par value.

PREMIUM BOND
A security purchased at a price in excess of the par or face value.

PRICE/BOOK RATIO
Price per share of a stock divided by the book value of company assets per share.

PRICE/EARNINGS RATIO (P/E)
Price per share of a stock divided by company earnings per share. Commonly expressed as trailing (historical earnings, often the previous 12 months) or forward (average of analyst forecasts for future earnings).

PRINCIPAL REPAYMENT
Principal repayment is the payment of the face value of a bond by the issuer. The event can be due to a security reaching its maturity date, or because the issuer redeemed the securities prior to maturity, due to a call feature or other form or redemption.

PRIVATE ACTIVITY BONDS (PABS)
An element of the tax code curtails the use of tax-exempt financing for the benefit of private entities. Private activity bonds (PABs) are tax-exempt bonds issued by or on behalf of a local or state government for the purpose of providing special financing benefits for qualified projects. The financing is most often for projects of a private user, and the government generally does not pledge its credit. PABs are sometimes referred to as conduit bonds.

PUBLIC CREDIT RATING OR CREDIT RATING
An opinion by a public rating agency of the creditworthiness of a bond, expressed in a letter grade.

PUT OPTION/TENDER OPTION
A provision in a bond contract under which the investor has the right, on specified dates after required notification, to surrender the securities to the issuer (or an entity acting on the issuer's behalf, such as a tender agent) at a predetermined price (typically, par).

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QUALIFIED INSTITUTIONAL BUYERS (QIBS)
Qualified institutional buyers, in U.S. law and finance, is a purchaser of securities that is deemed financially sophisticated and is legally recognized by securities market regulators to need less protection from issuers than most public investors.

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RATE RESET
The adjustment of the interest rate on a floating-rate security according to a prescribed formula.

REINVESTMENT RISK
The risk that interest rates may be lower than the yield on a fixed income security when the bondholder seeks to reinvest interest income or other redemptions from the security.

RETURN ON EQUITY
Proportion of a company's net income divided by shareholder's equity.

REVENUE BOND
Revenue Bonds are secured by revenues generated by the issuer or by certain taxes such as sales, fuel, or hotel occupancy taxes. The only exception is when a municipality issues bonds as a conduit issuer. In those cases, while the municipality is the issuing entity, a third party is responsible for payments of both interest and principal.

RISK-FREE RATE
Theoretically, the rate of return of an investment with zero risk. US government securities are most frequently referenced for calculations utilizing a risk free rate, typically the yield on 3 month T-bills.

RULE 144A AND RULE 144A SECURITIES
Rule 144A provides a mechanism for the sale of securities that are privately placed to Qualified Institutional Buyers (QIBs) (See *Qualified Institutional Buyers*). Issuers of Rule 144A securities are not required to have a Securities and Exchange Commission (SEC) registration in place. Rule 144A securities issuers are only required to provide whatever information is deemed necessary for the purchaser before making an investment. For more on Rule 144A, please see: *What Is a 144A Bond Offering*.

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SECONDARY OFFERING OR MARKET
A secondary offering or secondary market refers to public sale of previously issued securities held by investors, usually corporations or institutions.

SECTOR
The grouping of securities into a category based upon shared similarities. Typically, securities in the same distinct industry are grouped together.

SECURITIZATION
The process of pooling individual securities with contractual obligations to pay into a larger group. Securitized products, such as ABS or MBS, are secured by the debt service payments of the securities in these pools.

SHAREHOLDER EQUITY
Represents the difference between a total assets and liabilities. May also be referred to as owner's equity.

SHARPE RATIO
A measure of risk-adjusted return calculated by dividing the difference between a portfolio's return and the risk-free rate by the portfolio's standard deviation. Higher numbers reflect higher returns per unit of risk.

SINKING FUND
A fund into which capital is placed to redeem securities in accordance with a redemption schedule specified in the bond contract.

SORTINO RATIO
Similar to the Sharpe Ratio, the Sortino Ratio is a measurement of risk-adjusted returns, calculated by dividing the difference between a portfolio's return and the risk-free rate by the portfolio's downside deviation (standard deviation of only negative portfolio returns). Higher numbers reflect higher returns per unit of risk.

SOVEREIGN BOND
A sovereign bond is **a debt security issued by a national government** to raise money for financing government programs, paying down old debt, paying interest on current debt, and any other government spending needs. Sovereign bonds can be denominated in a foreign currency or the government's domestic currency.

STANDARD DEVIATION (STD DEV)
The square root of the variance of a portfolio's returns. Commonly used as a risk metric, standard deviation measures how much a portfolio's return typically deviates from its mean.

SUPRANATIONAL BOND
A bond issued by a supranational agency, such as the World Bank or the European Investment Bank.

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TAX-EQUIVALENT YIELD
The tax-equivalent yield is the return that a tax-exempt bond would need to earn to be comparable with a taxable bond. The calculation is a tool that investors can use to compare the returns between a tax-free investment and a taxable alternative.

TAX LOSS HARVESTING
Tax-loss harvesting is the practice of selling one or more tax lots (investments in a stock or bond) at a loss to offset capital gains elsewhere in an investor's account. The strategy may also potentially reduce an investor's tax liability on ordinary income and may improve after-tax performance.

TAXABLE MUNICIPAL BOND
Municipal securities on which interest payments are included in gross income for federal income tax purposes. Taxable municipals typically offer a higher yield than tax-exempt municipal bonds.

TRACKING ERROR
The annualized standard deviation of a portfolio's excess returns relative to a benchmark. It is influenced by the size of active positions (including that of cash) relative to a benchmark.

TREASURIES
U.S. Treasury securities include Treasury bills, Treasury bonds, and Treasury notes; Treasuries are debt obligations of the U.S. government that are issued at various intervals and with various maturities, typically by way of auction. Revenue from these bonds is used to raise capital and/or refund outstanding debt. Treasury securities are backed by the full faith and credit of the U.S. government and are generally considered to be free from credit risk. As a result, the interest rate paid on Treasury securities is often referred to as the risk-free rate. The interest paid by Treasuries is exempt from state and local tax but is subject to federal taxes and may be subject to the federal Alternative Minimum Tax (AMT). The Treasury also issues to investors zero-coupon bonds and Treasury Inflation Protected Securities (TIPS) during Treasury auctions.

- **U.S. Treasury Bills:** U.S. Treasury Bills, often called T-bills, are sold in terms ranging from a few days to 52 weeks. Bills are typically sold at a discount from the par or face value. When a bill matures, investors are paid the par value.
- **U.S. Treasury Notes:** U.S. Treasury Notes are fixed interest bonds issued by the U.S. government with a maturity of 2, 3, 5, 7, or 10 years. Treasury notes pay interest semiannually and the income that holders receive is only taxed at the federal level.
- **U.S. Treasury Bonds:** U.S. Treasury Bonds are fixed-interest bonds issued by the U.S. government with a maturity of more than 10 years. Treasury bonds make interest payments semiannually and the income that holders receive is only taxed at the federal level.

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UNREALIZED GAIN/LOSS
The gain or loss in the portfolio that has not been realized.

USE OF PROCEEDS
In fixed income, use of proceeds describes the area or activities to which the funds raised from a municipal or corporate bond issue will be directed and, in turn, the source of future bond interest payments and principal repayment. For municipal general obligation bonds, funds raised may be for general purposes, both operating and infrastructure, and payments are secured by the general taxing power of the issuer—usually a state, town, or city; revenue bonds are categorized under terms such as Utilities or Transportation.

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VALUE AT RISK (VaR)
VaR reflects scenario analyses that calculate expected loss for a given confidence level, given a specific time horizon; this figure is typically expressed as a percentage of portfolio value.

VARIABLE RATE BOND
A long-term bond in which the interest rate is adjusted periodically, typically based on specific market indicators.

VOLATILITY
Volatility is a measure of risk based on the standard deviation of the asset return. The Chicago Board of Exchange VIX Index is a commonly referenced volatility index.

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WEIGHTED AVERAGE LIFE—WAL
The weighted average life (WAL) is the average length of time that each dollar of unpaid principal on a loan, a mortgage or an amortizing bond remains outstanding. Calculating the WAL shows an investor, an analyst, or a portfolio manager how many years it will take to receive half the amount of the outstanding principal.

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YIELD TO CALL
The rate of return or yield on a bond that is calculated to an optional redemption feature or call.

YIELD TO MATURITY (YTM)
Yield to maturity is the rate of return or yield on a bond that is calculated to its stated date of maturity.

YIELD TO WORST (YTW)
Yield to worst is the lowest rate of return or yield on a bond, whether it is calculated to a call or its stated date of maturity.

YIELD CURVE
A graph that plots the market yields of a bond versus the maturities on that bond at a given point in time.

- **Normal or Positive Yield Curve:** Indicates that short-term securities have a lower interest rate than long-term securities.
- **Inverted or Negative Yield Curve:** Indicates that short-term rates exceed long-term rates.
- **Flat Yield Curve:** Indicates that short- and long-term rates are approximately the same, or that the distance between short- and long-term rates has fallen.
- **Humpbacked or Bell-Shaped Yield Curve:** An unusual shape, indicating that rates are low in the early years, peak in the middle years and decline in later years.