

EQUITY PORTFOLIO CHARACTERISTICS

All portfolio characteristics are derived by first calculating the characteristics for each security, and then calculating the weighted average of these values for the portfolio.

Annual Return on Equity

Return on Equity is a measure of a company's profitability, specifically relating profits to the equity investment employed to achieve the profits. Return on Equity focuses on the returns accruing to the residual owners of a company, the equityholders. It is equal to income divided by total common equity. Income is after all expenses, including income taxes and minority interest, but before provision for dividends, extraordinary items, and discontinued operations. Common equity includes common stock outstanding, capital surplus, and retained earnings.

Cash Flow/Sales

Cash flow divided by sales. Cash flow is the cash generated by a company after all cash expenses, including income taxes and minority interest, but before provision for dividends. Expenses do not include non-cash expenses such as depreciation. Sales represent gross sales reduced by cash discounts, returned sales, etc.

Combined Z Score

The Combined Z Score is a single holdings-based measure of the "growthiness" or "valueyness" of an individual stock or portfolio of stocks based on fundamental financial ratio analysis. The Combined Z Score is simply the difference between the Growth Z Score and the Value Z Score (Growth - Value). The underlying Growth Z Score is an aggregate score based on the growth scores of 5 separate financial fundamentals: Long Term Forward Earnings Growth, Short Term Forward Earnings Growth, Current Internal Growth (ROE * (1-payout ratio)), Long Term Historical Earnings Growth and Long Term Historical Sales Growth. The underlying Value Z Score is an aggregate score based on the value scores of 3 separate financial fundamentals: Price/Book, Price/Forward Earnings, and Dividend Yield. The Combined Z Score usually ranges between +2 and -2. A significant positive Combined Z Score implies significant "growthiness" in the stock or portfolio. A Combined Z Score close to 0.00 (positive or negative) implies "core-like" style characteristics, and a significantly negative Combined Z Score implies more "valueyness" in the stock or portfolio.

Diversification Ratio

Diversification Ratio is the ratio of the number of issues in the top half of the portfolio's market value divided by the number of issues in the total portfolio. This value expresses to what extent a portfolio is equally weighted versus concentrated, given the number of names in the portfolio. This value can range from a high of 50% (equal weighted) to a low of 1% (half of the portfolio is in 1% of the names).

Earnings/Sales

This is a measure of a company's profitability, specifically measuring the relationship between the firm's costs and its sales. The value is equal to the earnings of a company divided by net sales. Earnings represent the income of a company after all expenses, income taxes, and minority interest, but before provisions for common and/or preferred stock dividends. Sales represent gross sales reduced by cash discounts, returned sales, etc.

Earnings Yield

The earnings per share for the preceding 12 months divided by the current closing price of a share of the common stock.

Equity PCR Coverage

Represents the coverage (in percentage format) that Callan's database of individual equity securities has of the product's overall portfolio.

Five-Year Growth in Earnings

This value represents a weighted average five-year annual growth rate of earnings per common stock share. The rates of growth in earnings for trailing twelve-month periods are calculated using the earnings-per-share values for each time period. The five-year growth in earnings figure is calculated for each security in a portfolio. From these individual values, a weighted average value is calculated for the portfolio. The number of shares in each time period is adjusted to reflect any splits, mergers, or other capital changes. In this case, the earnings per share are fully diluted and exclude extraordinary items and discontinued operations. Fully diluted earnings per share are earnings that are reduced, or diluted, by assuming the conversion of all securities that are convertible into equities.

Forecasted Earnings Yield

This “yield” is a forward-looking valuation measure of a company’s common stock. It expresses the amount of earnings estimated for next year per dollar of current share price as a percentage of yield. This value is calculated by dividing, for each stock, the consensus (mean) analysts’ earnings forecasts for the next year by the current share price. These earnings estimates are for recurring, non-extraordinary earnings per primary common share. The individual earnings yields (E/P) are then weighted by their respective portfolio market values in order to calculate a weighted average representative of the portfolio as a whole.

Forecasted Growth in Earnings

This growth rate is a measure of a company’s expected long-term success in generating future year-over-year earnings growth. This growth rate is a market value weighted average of the consensus (mean) analysts’ long-term earnings growth rate forecast for each company in the portfolio. The definition of long-term varies by analyst but is limited to a 3-8 year range. This value is expressed as the expected average annual growth of earnings in percent.

Growth in Cash Flow

This value represents a weighted average five year annual growth rate of cash flow per common stock share. The rates of growth in cash flow for trailing twelve month periods are calculated using the cash flow-per-share values for each time period. The five-year growth in cash flow figure is calculated for each security in a portfolio. From these individual values, a weighted average value is calculated for the portfolio. The number of shares in each time period is adjusted to reflect any splits, mergers, or other capital changes. Cash flow is the cash generated by a company after all cash expenses, including income taxes and minority interest, but before provision for dividends. In this case, common shares are the shares used to calculate primary earnings per share. Primary earnings per share are earnings per share that are not diluted, because it is assumed that securities that are convertible into equities are not converted.

Growth in Dividends

This value represents a weighted average five year annual growth rate of dividends per common stock share. The rates of growth in dividends for trailing twelve month periods are calculated using the dividend-per-share values for each time period. The five-year growth in dividends figure is calculated for each security in a portfolio. From these individual values, a weighted average value is calculated for the portfolio. The number of shares in each time period is adjusted to reflect any splits, mergers, or other capital changes. In this case, dividends are ex-dividends, meaning that the dividend has been declared and a buyer of the stock after the ex-dividend date does not receive the dividend.

Growth in Sales

This value represents a weighted average five year annual growth rate of sales per common stock share. The rates of growth in sales for trailing twelve month periods are calculated using the sales-per-share values for each time period. The five-year growth in sales figure is calculated for each security in a portfolio. From these individual values, a weighted average value is calculated for the portfolio. The number of shares in each time period is adjusted to reflect any splits, mergers, or other capital changes. Sales represent gross sales reduced by cash discounts, return sales, etc. In this case, common shares are the shares used to calculate primary earnings per share. Primary earnings per share are earnings per share that are not diluted, because it is assumed that securities that are convertible into equities are not converted.

Growth Z Score

The Growth Z Score is a holdings-based measure of the "growthiness" of an individual stock or portfolio of stocks based on fundamental financial ratio analysis. The Growth Z Score is an aggregate score based on the growth score of 5 separate financial fundamentals: Long Term Forward Earnings Growth, Short Term Forward Earnings Growth, Current Internal Growth (ROE * (1-payout ratio)), Long Term Historical Earnings Growth, and Long Term Historical Sales Growth. The Growth Z Score usually ranges between +3 and -3. A significant positive Growth Z-Score implies significant "growthiness" in the stock or portfolio. A Growth Z Score close to 0.0 (positive or negative) implies "core-like" style characteristics, and a significantly negative Growth Z Score implies a more "valueyness" in the stock or portfolio (although Value Z Score should be used to confirm this).

Indicated Dividend Yield

The total amount of dividends paid out for a stock over the proceeding twelve months divided by the closing price of a share of the common stock.

Issue Diversification

Issue Diversification is the number of stocks (largest holdings) making up half of the market value of the total portfolio.

Number of Holdings

The total number of securities that make up a portfolio.

Price/Book Value

The Price to Book Value (P/B) is a measure of value for a company. It is equal to the market value of all the shares of common stock divided by the book value of the company. The book value is the sum of capital surplus, common stock, and retained earnings.

Price/Cash Flow

The Price to Cash Flow is a measure of value for a company. It is equal to the current price per share divided by its annual cash flow per share.

Price/Earnings to Growth

The Price to Earnings Ratio (P/E) is a measure of value for a company. It is equal to the price of a share of common stock divided by the earnings per share for a twelve-month period.

Price/Earnings Ratio

The Price to Earnings Ratio (P/E) is a measure of value for a company. It is equal to the price of a share of common stock divided by the earnings per share for a twelve-month period.

Price/Forecasted Earnings

This ratio is a forward-looking valuation measure of a company's common stock. It encapsulates the amount of earnings estimated for next year per dollar of current share price. This value is calculated by dividing the present stock price of each company in the portfolio by the consensus (mean) analysts' earnings forecasts for the next year. These earnings estimates are for recurring, non-extraordinary earnings per primary common share. The individual P/E stock ratios are then weighted by their respective portfolio market values in order to calculate a weighted average representative of the portfolio as a whole.

Price/Sales

Price to Sales Ratio is a measure of value for a company. It is equal to the current price per share of common stock divided by its annual sales-per-share value. Sales represent gross sales reduced by cash discounts, return sales, etc.

Relative Sector Variance

Relative Sector Variance is a measure that illustrates how aggressively the manager deviates from the sector weights of the index. This measure is simply the sum of the difference (absolute value) in the manager's sector weights from those of the index across all sectors. The higher the number the more aggressively the manager has deviated from the index sector weights.

Return on Assets

This value represents a measure of a company's profitability, specifically relating profits to the total investments required to achieve the profits/. It is equal to income divided by total assets. Income is after all expenses, including income taxes and minority interest, but before provision for dividends, extraordinary items, and discounted operations. Total Assets include the sum of all current, non-current, and intangible assets.

Sector Concentration

Sector Concentration is a simple measure of diversification by sector, and illustrates how many sectors comprise half of the portfolio market value.

Value Z Score

The Value Z Score is a holdings-based measure of the "valueyness" of an individual stock or portfolio of stocks based on fundamental financial ratio analysis. The Value Z Score is an aggregate score based on the value scores of 3 separate financial fundamentals: Price/Book, Price/Forward Earnings, and Dividend Yield. The Value Z Score usually ranges from +3 and -3. A significant positive Value Z Score implies significant "valueyness" in the stock or portfolio. A Value Z Score close to 0.0 (positive or negative) implies "core-like" style characteristics, and a significantly negative Value Z Score implies a more "growthyness: in the stock or portfolio (although the Growth Z Score should be used to confirm this).

Weighted Average Market Capitalization

The market value of all the shares of common stock issued by the company at a point in time, computed as the product of the number of shares of common stock at a specific point in time.

Weighted Median Market Capitalization

The weighted median market cap is the point at which half of the market value of a portfolio is invested in stocks with a greater market cap, and consequently the other half is invested in stocks with a lower market cap.

FIXED-INCOME PORTFOLIO CHARACTERISTICS

All portfolio characteristics are derived by first calculating the characteristics for each security, and then calculating the weighted average of these values for the portfolio.

Coupon Rate

The average coupon is the market value weighted average coupon of all securities in the portfolio. The total coupon payments per year are divided by the total portfolio par value.

Current Yield

The current yield is the current annual income generated by the total portfolio market value. It is equal to the total portfolio coupon payments per year divided by the current total portfolio market value.

Effective Maturity

This is a measure of the market-value-weighted-average of the years to expected maturity across all of the securities in the portfolio. Expected years to maturity takes into account any put or call options embedded in the security, any expected sinking-fund paydowns or any expected mortgage principal prepayments.

Effective Yield

The effective yield is the actual total annualized return that would be realized if all securities in the portfolio were held to their expected maturities. Effective yield is calculated as the internal rate of return, using the current market value and all expected future interest and principal cash flows. This measure incorporates sinking fund paydowns, expected mortgage principal prepayments, and the exercise of any “in-the-money” imbedded put or call options.

OA Convexity

Convexity is a measure of the portfolio's exposure to interest rate risk. It is a measure of how much the duration of the portfolio will change given a change in interest rates. Generally, securities with negative convexities are considered to be risky in that changes in interest rates will result in disadvantageous changes in duration. When a security's duration changes it indicates that the stream of expected future cash-flows has changed, generally having a significant impact on the value of the security. The option adjusted convexity for each security in the portfolio is calculated using models developed by Lehman Brothers and Salomon Brothers which determine the expected stream of cash-flows for the security based on various interest rate scenarios. Expected cash-flows take into account any put or call options embedded in the security, any expected sinking-fund paydowns or any expected mortgage principal prepayments.

OA Duration

Duration is one measure of the portfolio's exposure to interest rate risk. Generally, the higher a portfolio's duration, the more that its value will change in response to interest rate changes. The option adjusted duration for each security in the portfolio is calculated using models developed by Lehman Brothers and Salomon Brothers which determine the expected stream of cash-flows for the security based on various interest rate scenarios. Expected cash-flows take into account any put or call options embedded in the security, any expected sinking-fund paydowns or any expected mortgage principal prepayments.

Quality Ratings

A Standard & Poor's issue credit rating is a current opinion of the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligation, or a specific financial program. The ratings for each security, from S&P, are compiled into a composite rating for the whole portfolio. Quality symbols range from AAA to D. The ratings from AA to CCC can be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Stated Maturity

The average years to stated maturity is the market value weighted average time to stated maturity for all securities in the portfolio. This measure does not take into account imbedded options, sinking fund paydowns, or prepayments.

Fixed Income PCR Coverage

Represents the coverage (in percentage format) that Callan's database of individual fixed-income securities has of the product's overall portfolio.

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