

# Definitions of Terms

**Agency** – Agency bonds are issued by Government Sponsored Enterprises (GSE), but are NOT direct obligations of the U.S. government. Common GSE's are the Federal Home Loan Mortgage Corp. (Freddie Mac) Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Bank (FHLB).

**Beta:** A measure of the risk arising from exposure to general market movements as opposed to company-specific factors. Betas in this report, unless otherwise noted, use the S&P 500 as the market benchmark and result from calculations over historic periods. A beta below 1.0, for example, can suggest the equity has tended to move with lower volatility than the broader market or, due to company-specific factors, has had higher volatility but generally low correlations with the overall market.

Consensus Estimate data points are provided by Bloomberg. The **Bloomberg Consensus** is an arithmetic average of selected broker estimates for a specific company. The Bloomberg Professional service utilizes statistics and accounting, as well as market, industry, and company knowledge to determine which estimates to include in the consensus for the best representation of the current and future fundamentals of the company.

**Corporate Bonds** – Are debt instruments issued by a private corporation. Non-Investment grade securities, commonly known as “high-yield” or “junk” bonds, are historically subject to greater risk of default, including the loss of principal and interest, than higher-rated bonds, which may result in greater price volatility than experienced with a higher-rated issue.

**EV/EBITDA:** Enterprise value as a multiple of earnings before interest, taxes, depreciation and amortization (EBITDA). Enterprise value is the theoretical takeover price of a firm. It is calculated by adding the value of debt to the company's market capitalization and subtracting out the cash and cash equivalents.

The **FactSet Consensus** price target represents the average projected price over the next 6 to 12 months, for a particular security, from a universe of broker research that contributes to FactSet. By default, consensus estimates calculated by FactSet are based on estimates that have been validated via broker research within the past 100 days. Brokers who have “dropped coverage” are excluded for all fiscal periods that are not completed.

**Mortgage Backed Securities (MBS)** – Bonds are subject to prepayment risk. Yield and average lives shown consider prepayment assumptions that may not be met. Changes in payments may significantly affect yield and average life. Please contact your financial advisor for information on CMOs and how they react to different market conditions.

**Municipal Bonds** – Interest income may be subject to state and/or local income taxes and/or the alternative minimum tax (AMT). Municipal securities subject to AMT assume a “nontaxable” status for yield calculations. Certain municipal bond income may be subject to federal income tax and are identified as “taxable”. Gains on sales/redemptions of municipal bonds may be taxed as capital gains. If the bonds are insured, the insurance pertains to the timely payment of principal (at maturity) and interest by the insurer of the underlying securities and not to the price of the bond, which will fluctuate prior to maturity. The guarantees are backed by the claims-paying ability of the listed insurance company.

**Net Debt to EBITDA** (Earnings Before Interest, Taxes, Depreciation and Amortization) Ratio is a pure measure of a firm's leverage. It divides the company's interest-bearing liabilities, minus cash and equivalents, divided by its trailing 12-month EBITDA (cash flow). Assuming all other things held constant, the ratio provides a theoretic timeline for how long it would take the company to pay down these obligations based on current cash flow generating capabilities.

**The PEG Ratio** is defined as a company's price-to-earnings ratio (P/E) divided by the growth rate (G) of the company's earnings for a given period. The PEG calculation helps balance a company's stock value in the context of the company's ability to grow earnings over that same period.

**Price/Book:** A financial ratio used to compare a company's market share price, as of a certain date, to its book value per share. Book value relates to the accounting value of assets and liabilities in a company's balance sheet. It is generally not a direct reflection of future earnings prospects or hard to value intangibles, such as brand, that could help generate those earnings.

**Price/Cash Flow:** The P/CF ratio is the ratio of a stock's price to its cash flow per share. The P/CF ratio is an indicator of a stock's valuation. Although there is no single figure to indicate an optimal P/CF ratio, a ratio in the low single digits may indicate the stock is undervalued, while a higher ratio may suggest potential overvaluation. The ratio takes into consideration a stock's operating cash flow, which adds non-cash earnings such as depreciation and amortization to net income. It is especially useful for valuing stocks that have positive cash flow but are not profitable because of large non-cash charges.

**Price/Earnings:** An equity valuation multiple calculated by dividing the market share price, as of a certain date, by earnings per share. Trailing P/E uses the share price divided by the past four-quarters' earnings per share. Forward P/E uses the share price as of a certain date divided by the consensus estimate of the future four-quarters' EPS.

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**Price/FFO:** An equity valuation multiple calculated by dividing the market share price, as of a certain date, by funds from operations per share. Trailing P/FFO uses the share price divided by the past four-quarters' FFO per share. Forward P/FFO uses the share price as of a certain date divided by the consensus estimate of the future four-quarters' FFO.

**Price/Sales:** An equity valuation multiple calculated by dividing the market share price, as of a certain date, by the company's sales per share over the most recent year.