



Glossary of Municipal Securities Terms

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Accretion of Discount

An accounting process by which the book value of a security purchased at a discount from par is increased during the security's holding period. The accretion reflects the increase in the security's value as it approaches the redemption or maturity date. Under a "straight line" accretion method, the amount of the yearly accretion is the same for all years and is equal to the product of the total amount of the discount divided by the number of years to redemption. Under a "constant interest" accretion method, the amount of the yearly accretion increases as the redemption date approaches and for any semi-annual period is equal to (a) the original semi-annual yield to maturity multiplied by the current book value less (b) the current interest payment.

Advance Refunding

For purposes of certain tax and securities laws and regulations, a refunding in which the refunded issue remains outstanding for a period of more than 90 days after the issuance of the refunding issue. The proceeds of the refunding issue are generally invested in Treasury securities or federal agency securities (although other instruments are sometimes used), with principal and interest from these investments being used (with limited exceptions) to pay principal and interest on the refunded issue. Bonds are "escrowed to maturity" when the proceeds of the refunding issue are deposited in an escrow account for investment in an amount sufficient to pay the principal of and interest on the issue being refunded on the original interest payment and maturity dates, although in some cases an issuer may expressly reserve its right (pursuant to certain procedures delineated by the SEC) to exercise an early call of bonds that have been escrowed to maturity. Bonds are considered "prerefunded" when the refunding issue's proceeds are escrowed only until a call date or dates on the refunded issue, with the refunded issue redeemed at that time. The Internal Revenue Code and regulations thereunder restrict the yield that may be earned on investment of the proceeds of a refunding issue.

Amortization of Premium

An accounting process by which the book value of a security purchased at a premium above par is decreased during the security's holding period. The amortization reflects the decrease in the security's value as it approaches the redemption or maturity date. Under a "straight line" amortization method, the amount of the yearly amortization is the same for all years and is equal to the product of the total amount of the premium divided by the number of years to redemption or maturity. Under a "constant interest" amortization method, the amount of the yearly amortization decreases as the redemption or maturity date approaches and for any semi-annual period is equal to (a) the current interest payment less (b) the original semi-annual yield to maturity multiplied by the current book value.

Annualized Amortizations

The sum of daily rates of amortization of each lot's purchase premium times 365 (or 366 in the case of a leap year's February 29th being within a year of the current date). The rate of amortization is computed in accordance with the chosen amortization method. The amortization method choices are: straight-line, constant yield (scientific) and none.

Annualized Accretions

The sum of daily rates of accretion of each lot's purchase discount times 365 (or 366 in the case of a leap year's February 29th being within a year of the current date). The rate of accretion is computed in accordance with the chosen accretion method. The accretion method choices are: straight-line, constant yield (scientific), original-issue discount only and none.

Average Current Return

Total annualized coupon income divided by total market principal (not including accrued interest).

Average Market Yield

Market-value-weighted average of the market yields of the individual securities. It is calculated by summing the product of each security's market yield times its market value (including accrued interest) and then dividing the result by the total portfolio market value.

Average Maturity

Market value weighted average of the effective maturity dates of the individual securities. It is calculated by summing the product of each security's effective maturity times its market value (including accrued interest) and then dividing the result by the total portfolio market value. Effective maturity dates reflect tender option dates (on variable rate securities), mandatory put dates and refunding dates for prerefunded and crossover refunded securities.

Average "Priced-To" Date

For an individual security, its "priced-to" date is its maturity date, or alternatively, an earlier redemption date that is used in the yield/price calculation to determine yield-to-worst. The Average "Priced-To" Date is the market-value-weighted average of the "priced-to" dates of the individual securities. It is calculated by summing the product of each security's "priced-to" date times its market value (including accrued interest) and then dividing the result by the total portfolio market value.

Average Coupon

Par value weighted average of the coupon rates of the individual securities. It is calculated by summing the product of each security's coupon times its par value and then dividing the result by the total portfolio par value.

Average Market Price

Par-value-weighted average of the market prices of the individual securities. It is calculated by summing the product of each security's market price times its par value and then dividing the result by the total portfolio par value.

Average Acquisition Yield

Market-value-weighted average of the purchase yields of each lot of individual securities. It is calculated by summing the product of each lot's purchase yield times its market value

(including accrued interest) and then dividing the result by the total portfolio market value.

Average Book Price

Par value weighted average of the book value (per \$100) of the individual securities. It is calculated by summing the product of each lot's book value (per \$100) times its par value and then dividing the result by the total portfolio par value.

Call Protection

The aspects of the redemption provisions of an issue of callable bonds that partially protect an investor against an issuer's prepayment of the bonds prior to maturity or act as a disincentive to the issuer's exercise of its call privileges. These features include restrictions on an issuer's right to call bonds for a period of time after issuance (for example, an issue that cannot be called for ten years after its issuance is said to have "ten years of call protection") or requirements that an issuer pay a premium call price for bonds called within a certain period of time after issuance.

Convexity

A measure of the price sensitivity of a fixed income security to changes in interest rates. "Convexity" refers to the shape of the price curve when graphed against theoretical interest rate points. Convexity is influenced by such factors as the coupon rate, maturity and any calls that may or may not exist. Prices rise at increasing rates as yields fall and prices decline at decreasing rates as yields rise.

Current Yield

The ratio of the annual dollar amount of interest paid on a security to the purchase price or market price of the security, stated as a percentage. For example, a \$1,000 bond purchased at par with a 5% coupon pays \$50 per year, or a current yield of 5%. The same bond, if purchased at a discount price of \$800, would have a current yield of 6.25%. A \$1,000 bond purchased at a premium price of \$1,200 would have a current yield of 4.17%.

Duration

A measure of the timing of the cash flows (i.e., the interest payments and the principal repayment) to be received from a given fixed income security. The duration of the security is equal to (a) the sum of the present values of each of the cash flows weighted by the time to receipt of each cash flow, divided by (b) the total of the present values of the cash flows. The duration of a security is a useful indicator of its price volatility for given changes in interest rates. Duration is also a useful concept in assessing the reinvestment risk associated with a given portfolio or the interest rate risk associated with matching particular interest-rate-sensitive assets and liabilities.

Average Duration – Modified

Average Duration Modified is the market-value-weighted average of modified durations of the individual securities. It is

often used as a proxy, although an imprecise one, for market volatility. All durations are necessarily approximations of market volatility because they are based on present values at market yields as assumed market yields change, the present values of cash flows change disproportionately. The greater the projected market change, the more imprecise will be duration as a predictor. Modified duration is used to approximate the effect on market price of a particular yield shift, or, conversely, the yield shift necessary to bring about a particular market price change. At the portfolio level, average modified duration is an indicator of approximate portfolio volatility.

Net Annualized Income

This is the Total Annualized Coupon Income less Annualized Amortizations and plus Annualized Accretions.

Original Issue Discount (O.I.D.)

An amount by which the par value of a security exceeded its public offering price at the time of its original issuance. The original issue discount is amortized over the life of the security and, on a municipal security, is generally treated as tax-exempt interest. When the investor sells the security before maturity, any profit realized on such sale is calculated (for tax purposes) on the adjusted book value, which is calculated for each year the security is outstanding by adding the accretion value to the original offering price. The amount of the accretion value (and the existence and total amount of original issue discount) is determined in accordance with the provisions of the Internal Revenue Code and the rules and regulations of the Internal Revenue Service.

Portfolio Average Convexity

Portfolio Average Convexity is the market-value-weighted average of the convexities of the individual securities. It is calculated by summing the product of each security's convexity times its market value (including accrued interest) and then dividing the result by the total portfolio market value.

Portfolio Income

Portfolio Income is Net Annualized Income divided by Total Market Principal.

Redemption Provisions

The terms of the bond contract, sometimes referred to as "call or prepayment provisions," giving the issuer the right to redeem or call (an "optional redemption"), or requiring the issuer to redeem or call (a "mandatory redemption"), all (an "in-whole redemption") or a portion (a "partial redemption") of an outstanding issue of bonds prior to its stated date of maturity. Bonds may be redeemed at a specified price, usually at par or accreted value in the case of original issue discount bonds (a "par call") or above par or accreted value (a "premium call"), plus any accrued interest to the redemption date. Issuers may be limited to redeeming bonds on interest payment dates (an "any-interest-date redemption") or may be permitted to redeem bonds on any date (an "any time or continuous call").

Refunding

A procedure whereby an issuer refinances outstanding bonds by issuing new bonds. There are generally two major reasons for refunding: to reduce the issuer's interest costs or to remove a burdensome or restrictive covenant imposed by the terms of the bonds being refinanced. The proceeds of the new bonds are either deposited in escrow to pay the debt service on the outstanding bonds when due or used to promptly (typically within 90 days) retire the outstanding bonds. The new bonds are referred to as the "refunding bonds," and the outstanding bonds being refinanced are referred to as the "refunded bonds" or the "prior issue." Generally, refunded bonds are not considered a part of the issuer's debt because the lien of the holders of the refunded bonds, in the first instance, is on the escrowed funds, not on the originally pledged source of revenues

Total Gain/Loss

The difference between Total Market Principal and the total of book values of all lots of individual securities.

Total Annualized Coupon

This is the sum of each security's coupon rate times its par value.

Total Market Value (No accrued interest)

An individual security's market principal is its market price times its par. Total Market Principal is the sum of the market principal of each of the individual securities. This does not include accrued interest.

Total Market Value (with Accrued interest)

This is the same as the previous line except that it includes accrued interest as of the current date. This is also referred to as "market value." The inclusion of accrued interest makes this a more meaningful representation of market value than the previous statistic.

Total Par

Total par is the sum of the par values of the individual securities.

Yield to Call

The rate of return to the investor earned from payments of principal and interest, with interest compounded semi-annually at the stated yield, presuming that the security is redeemed on a specified call date (if the security is redeemed at a premium call price, the amount of the premium is also reflected in the yield). Yield to call takes into account the amount of the premium or discount at the time of purchase, if any, and the time value of the investment.

Yield to Maturity

The rate of return to the investor earned from payments of principal and interest, with interest compounded semi-annually at the stated yield, presuming that the security remains outstanding until the maturity date. Yield to maturity takes into account the amount of the premium or discount at the time of purchase, if any, and the time value of the investment.

Yield to Worst

For a given dollar price on a municipal security, the lowest of the yield calculated to the pricing call, par option or maturity.