

# Glossary of Terms

**Active extension** - Active extension is defined as an investment strategy that allows for both long and short positions in an investment portfolio with a gross exposure above 100% of total portfolio value on an absolute basis, while maintaining a beta of one.

**Agency Securities** - Securities, usually bonds, issued by U.S. Government agencies. These securities have high credit ratings but are not backed by the full faith and credit of the U.S. Government.

**All-cap** - An investment approach that disregards market capitalization (i.e., small, medium, or large cap) in its security selection process.

**Alpha** - A coefficient which measures risk-adjusted performance, factoring in the risk due to the specific security, rather than the overall market. A high value for alpha implies that the stock or mutual fund has performed better than would have been expected given its beta (volatility).

**Asset** - Anything owned that has economic value; any interest in property, tangible or intangible, that can be used for payment of debts.

**Asset Backed Security** - Bonds or notes collateralized by one or more types of assets including real property, mortgages, and receivables.

**At Value** - A term used to denote the current value of an asset at a point in time. Generally used in presentations containing a mix of assets some of which are traded on an exchange and some that are valued on an appraisal or similar basis.

**Banker's Acceptance (BA)** - A high-quality, short-term negotiable discount note, drawn on and accepted by banks which are obligated to pay the face amount at maturity.

**Basis Point (bp)** - The smallest measure used in quoting yields or returns. One basis point is 0.01% of yield, 100 basis points equals 1%. For example, a yield that changed from 8.75% to 9.50% has increased by 75 basis points.

**Benchmark** - A standard unit used as the basis of comparison; a universal unit that is identified with sufficient detail so that other similar classifications can be compared as being above, below, or comparable to the benchmark.

**Benchmark composite** - A term used when reporting on a portfolio containing multiple asset classes. The composite is generally calculated as a weighted average of the benchmarks of the underlying portfolios.

**Beta** - A quantitative measure of the volatility of a given stock, mutual fund or portfolio relative to the overall market.

**Book Value (BV)** - The value of individual assets, calculated as actual cost minus accumulated depreciation. Book value may be more or less than current market value.

**Buyout** - See "Leveraged Buyout".

**Capital Gain (Loss)** - Also known as capital appreciation (depreciation), capital gain (loss) measures the increase (decrease) in valuation of an asset over time.

**Capitalized Fees** - Fees (and expenses) that increase the cost basis of an investment.

**Certificates of Deposit (CDs)** - A debt instrument issued by banks, usually paying interest, with maturities ranging from 3 months to six years.

**Citigroup Broad Investment** - Grade Bond Index (CBIG) - A market value-weighted index composed of over 4,000 individually priced securities with a quality rating of at least BBB. Each issue has a minimum maturity of one year with an outstanding par amount of at least \$25 million.

**Citigroup World Government Bond Index Non-U.S. (CWGBI)** - An unhedged index measuring government issues of 12 major industrialized countries.

**Close-End fund** - Funds that have set limits on the life of the fund and/or the total amount to be invested.

**Coefficient of Determination (R<sup>2</sup>)** - A measurement of how closely the returns of an investment portfolio and its benchmark match. An R<sup>2</sup> of 1.0 indicates that portfolio returns perfectly match the returns of the benchmark, while a value less than 1.0 indicates that the returns of the portfolio do not match the benchmark return. The closer the value is to 1 the closer the return of the portfolio is to the benchmark.

**Collateral** - Assets pledged by a borrower to secure a loan or other credit, and subject to seizure in the event of default.

**Collateralized Mortgage Obligation (CMO)** - A mortgage-backed, investment-grade bond that separates mortgage pools into different maturity classes. CMO payment obligations are backed by mortgage-backed securities with a fixed maturity.

**Commercial Paper** - Short-term obligations with maturities ranging from 2 to 270 days. An unsecured obligation issued by a corporation or bank to finance its short-term credit needs.

**Commingled fund** - A fund consisting of assets from multiple investors that are blended together. A mutual fund is a common example of a commingled fund.

**Committed capital** - Money that is committed by limited partners to a private investment fund.

**Company risk** - The risk of investing in any single company's stock or bonds.

**Compounded Annual Total Return** - Compounded annual total return measures the implicit annual percentage change in value of an investment, assuming reinvestment of dividends, interest, and realized capital gains, including those attributable to currency fluctuations. In effect, compounded annual total return "smooths" fluctuations in long-term investment returns to derive an implied year-to-year annual return.

**Consumer Price Index (CPI)** - A measure of change in the cost of a fixed basket of products and services as determined by a monthly survey of the U.S. Bureau of Labor Statistics. Components of the CPI include housing costs, food, transportation, and electricity.

**Core real estate strategy** - Lower risk, low leverage, vehicles that invest in stabilized income-producing properties that provide steady net operating income or cash flow. Properties are usually located in major regional markets, have investment grade tenants, at-market rents, and high occupancy levels.

**Cost basis** - The original price paid for an investment.

**Counter-party risk** - The risk to each party of a contract that the counterparty will not live up to its contractual obligations.

**Credit default risk** - The risk that a debtor will not make payments in accordance with the terms of the debt.

**Credit risk** - The risk that a borrower will fail to make payments in a timely manner.

**Cumulative Rate of Return** - A measure of the total return earned for a particular time period. This calculation measures the absolute percentage change in value of an investment over a specified period, assuming reinvestment of dividends, interest income, and realized capital gains. For example, if a \$100 investment grew to \$120 in a two-year period, the cumulative rate of return would be 20%.

**Currency exchange risk** - The risk that a foreign country's currency may appreciate or depreciate relative to the U. S. dollar, thus impacting the value of foreign investments.

**Currency hedging** - Transactions intended to manage the foreign exchange rate risk associated with investing in foreign securities.

**Currency spot** - A contract for the purchase or sale of a commodity, security, or currency for settlement (payment and delivery) on the spot date, which is normally two business days after the trade date.

**Current Yield** - The relationship between the stated annual interest or dividend rate and the market price of a security. In calculating current yield, only income payments are considered; no consideration is given to capital gain/loss.

**Default risk** - The chance that an issuer will not make the required coupon payments or principal repayments to its debt holders.

**Derivative** - Derivatives are generally defined as contracts whose value depend on, or are derived from, the value of an underlying asset, reference rate, or index. For example, an option is a derivative instrument because its value derives from an underlying stock, stock index, commodity.

**Discount Rate** - The interest rate that the Federal Reserve charges banks for loans, using government securities or eligible paper as collateral.

**Diversification** - A portfolio strategy designed to reduce exposure to risk by putting assets in several different securities or categories of investments.

**Drawdown** - (a) A request for cash charged against capital committed to a limited partnership, limited liability corporation, or other like entity; (b) a decline in the current value of an investment or other asset.

**Duration** - Duration is a measure of the price sensitivity of a fixed-income investment to a change in interest rates. (See Modified and Macaulay Duration).

**Economic risk** - The risk that economic activities will negatively impact an investment.

**Enhanced indexing** - Refers to the application of strategies to an index fund designed to generate higher rates of returns.

**Equity** - The ownership interest possessed by shareholders in a corporation in the form of common stock or preferred stock.

**ERISA (Employee Retirement Income Security Act)** - The 1974 federal law which established legal guidelines for private pension plan administration and investment practices.

**Expense Ratio** - Operating costs (including management fees) expressed as a percentage of the fund's average net assets for a given time period.

**Fair Value** - The amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

**Federal Funds Rate** - The interest rate that banks charge each other for the use of Federal Funds. This rate changes daily and is a sensitive indicator of general interest rate trends.

**Federal Reserve Board** - The seven-member Board of Governors that oversees Federal Reserve Banks, establishes monetary policy and monitors the economic health of the economy.

**Fiduciary** - A person, company, or association holding assets in trust for a beneficiary. The fiduciary is charged with the responsibility to invest the assets prudently and solely for the beneficiary's benefit.

**Fitch Investor Services** - A financial services rating agency.

**Floating Rate Note** - A fixed principal instrument which has a long or even indefinite life and whose yield is periodically reset relative to a reference index rate to reflect changes in short or intermediate term interest rates.

**Forward contract** - A contract between two parties that requires the parties to sell or purchase an asset at a price set when the contract is entered into for settlement at a specified future date.

**Funded Capital** - Amount of cash invested.

**Geopolitical risk** - See "Political risk".

**Gross Domestic Product** - Total market value of goods and services produced in a country over a particular period of time, usually one year. The GDP growth rate is the primary indicator of the health of the economy.

**Hedge** - An investment in assets which serves to reduce the risk of adverse price movements in a security, by taking an offsetting position in a related security, such as an option or short sale.

**Index** - A benchmark of securities used as an independent representation of market performance. Example: S&P 500 index.

**Index Fund** - A passively managed fund constructed to mirror the performance of a specific index, such as the S&P 500.

**Individual company risk** - The risk associated with investment in the securities of any single company.

**Inflation** - The overall general upward price movement of goods and services in an economy, usually as measured by the Consumer Price Index and the Producer Price Index.

**Inflation risk** - The risk that the value of an investment will erode as a result of inflationary pressures.

**Interest rate risk** - The risk that changes in the general level of interest rates will adversely affect the fair value of an investment.

**Investment Income** - The equity dividends, bond interest, and/or cash interest paid on an investment.

**J-Curve** - An economic theory stating that a policy designed to have one effect will initially have the opposite effect. With regard to closed end commingled fund investments, this generally refers to a trend whereby a fund's return tends to be negative in the early years of a fund's existence until income and valuations increase in the later periods as investments mature and as the relative size of fees and other costs diminish relative to the value of invested capital.

**JP Morgan Emerging Markets Bond Index Plus (EMBI+)** - An index which tracks total returns for traded external debt instruments in the emerging markets. The instruments include external-currency- denominated Brady bonds, loans, and Eurobonds, as well as U.S. dollar denominated local market instruments. The EMBI+ expands upon JP Morgan's original Emerging Markets Bond Index, which was introduced in 1992 and covers only Brady bonds.

**Letter of Credit** - An instrument or document issued by a bank, guaranteeing the payment of a customer's drafts up to a stated amount for a specified period. It substitutes the bank's credit for the buyer's and reduces the seller's risk.

**Leverage** - The use of borrowed funds to increase purchasing power and, ideally, to increase profitability of an investment transaction or business.

**Leveraged buyout** - A leveraged buyout (LBO) is an acquisition (usually of a company) financed through a combination of equity and debt and in which the cash flows or assets of the target are used to secure and repay the debt used to finance the acquisition.

**Liability** - The claim on the assets of a company or individual excluding ownership equity. An obligation that legally binds an individual or company to settle a debt.

**Limited Partnership** - A partnership formed by two or more entities with at least one limited partner and one general partner. Limited partner responsibility for debts and losses is limited to the amount of their investment in the partnership. In addition, the limited partner does not participate in the activities of the partnership. The general partner has control over the management of the partnership and has unlimited liability for partnership debt and losses.

**Liquidity risk** - The risk that an investment cannot be immediately liquidated unless discounted in value.

**Macaulay Duration** - The weighted-average term to maturity of a bond's cash flows. The weighting is based on the present value of each cash flow divided by price.

**Management risk** - The risks associated with ineffective, destructive or underperforming management.

**Marked-to-market pricing** - An accounting practice in which the price of an investment recorded within the accounting records is the market value at the end of the month.

**Market Risk** - The risk that fluctuations in the overall market for securities will impact an investment portfolio.

**Market Value** - A security's last reported sale price or its current bid and ask prices. The price as determined dynamically by buyers and sellers in an open market.

**Master Custodian** - An entity, usually a bank, used for safekeeping of securities and other assets. May be responsible for other functions including accounting, performance measurement and securities lending.

**Maturity Date** - The date on which the principal amount of a bond or other debt instrument becomes payable or due.

**Mezzanine Debt** - Debt that incorporates equity-based options, such as warrants, and is subordinated debt.

**MFR Index (iMoneyNet's First Tier Institutional-only Rated Money Fund Report Averages™ Index)** - An index which represents an average of the returns of institutional money market mutual funds that invest primarily in first tier (securities rated A-1, P-1) taxable securities.

**Modified Duration** - A measure of the price sensitivity of a bond to interest rate movements. It is the primary basis for comparing the effect of interest rate changes on prices of fixed income securities.

**Money Market Fund** - An open-ended mutual fund that invests in commercial paper, bankers' acceptances, repurchase agreements, government securities, certificates of deposit, and other highly liquid and safe securities and pays money market rates of interest. The fund's net asset value remains a constant \$1 per share - only the interest rate goes up or down.

**Moody's (Moody's Investors Service)** - A financial services rating agency.

**MSCI EAFE** - Morgan Stanley Europe Australasia Far East foreign equity index. An arithmetic value weighted average of the performance of over 900 securities on the stock exchanges of 23 countries on three continents.

**NCREIF (National Council of Real Estate Investment Fiduciaries)** - National Council of Real Estate Investment Fiduciaries, a non-profit organization established to serve the institutional real estate investment community as a non-partisan collector, processor, validator and disseminator of real estate performance information.

**Net Asset Value (NAV)** - The total assets (including any valuation gains or losses on investments or currencies) minus total liabilities divided by shares outstanding.

**Netted Fees** - Refers to instances in which investment management fees/expenses are offset against income normally distributed to investors. May also refer to practices whereby investment management fees/expenses are added to the cost basis of an investment.

**NCREIF (National Council of Real Estate Investment Fiduciaries)** - The NCREIF Property Index is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. Properties comprising this benchmark, which include wholly owned and joint venture investments, are held on an all-cash, non-leveraged basis, and is restricted to investment grade, nonagricultural, and income-producing properties.

**Open-End fund** - A fund operated by an investment company in accordance with a stated set of objectives. Open-end funds raise money by periodically selling shares of the fund to the public.

**Operations risk** - The risk associated with negative operating events (net operating losses, inventory write-downs, breakdown in internal procedures, etc.).

**Par Value** - The stated or face value of a stock or bond. While it has little significance for common stocks, for bonds, it specifies the payment amount at maturity.

**Pension Fund** - A fund set up by a corporation, labor union, governmental entity, or other organization to provide retirement income.

**Percentile** - A description of the percentage rank of a portfolio's performance, relative to a larger universe of portfolios.

**Political Risk** - The risk resulting from political changes or instability in a country's system of government, laws or regulation.

**Prepayment risk** - The risk associated with the prepayment of fixed income investments in a declining rate environment.

**Present Value** - The current value of a future cash flow or series of cash flows discounted at an appropriate interest rate or rates. For example, at a 12% interest rate, the value of one dollar a year from now has a present value of \$0.89286.

**Price/Book (P/B)** - A ratio showing the price of a stock divided by its book value per share. The P/B measures the multiple at which the market is capitalizing the net asset value per share of a company at any given time.

**Price/Earnings (P/E)** - A ratio showing the price of a stock divided by its earnings per share. The P/E measures the multiple at which the market is capitalizing the earnings per share of a company at any given time.

**Principal** - Face value of an obligation, such as a bond or a loan, that must be repaid at maturity.

**Product risk** - The risk associated with the introduction of a new product or process.

**Prudent Person Rule** - The standard adopted by some states to guide those fiduciaries with responsibility for investing the money of others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

**Purchasing power risk** - See "Inflation risk".

**Pure indexing** - Refers to the application of strategies to an index fund designed to exactly match the returns of the portfolio benchmark.

**R2** - See "Coefficient of Determination".

**Real interest rate** - An interest rate that has been adjusted to remove the effects of inflation.

**Real rate of return** - The return realized on an investment adjusted for changes due to inflation or other external effects.

**Realized Gain (Loss)** - A gain (loss) that has occurred financially. The difference between the principal amount received and the cost basis of an asset realized at sale.

**Reinvestment risk** - The risk that cash flows received from a security will be reinvested at lower rates due to declining interest rates.

**Relative Volatility** - The standard deviation of the Fund divided by the standard deviation of its selected benchmark. A relative volatility greater than 1.0 suggests comparatively more volatility in Fund returns than those of the benchmark.

**Repurchase Agreements (Repos)** - A contract in which the seller of securities, such as Treasury Bills, agrees to buy them back at a specified time and price. Repos are widely used as a money market instrument.

**Return on Equity (ROE)** - Net income of a company (after payment of preferred stock dividends but before payment of common stock dividends) divided by common shareholder equity.

**Reverse Repurchase Agreements (Reverse Repos)** - A purchase of securities with an agreement to resell them at a higher price at a specific future date.

**Risk Adjusted Return** - A measure of investment return which accounts for the amount of risk taken over a specified period.

**Russell 3000** - An equity index comprised of the securities of the 3,000 largest public U.S. companies as determined by total market capitalization. This index represents approximately 98% of the U.S. equity market's capitalization.

**Securities Lending** - A collateralized process of loaning portfolio positions to custodians, dealers, and short sellers who must make physical delivery of positions. Securities lending may reduce custody costs or enhance annual returns by a full percentage point or more in certain market environments.

**Senior debt securities** - Debt that must be paid off before other liabilities in the event of a business failure or bankruptcy.

**Separate accounts** - An investment portfolio managed by a third-party investment manager in which the investor directly owns the securities within the portfolio.

**Soft Dollars** - The value of research or other services that broker- age houses and other service entities provide to a client "free of charge" in exchange for the client's brokerage.

**S&P 500 (Standard & Poor's)** - A basket of 500 stocks chosen for market size, liquidity and industry grouping, among other factors, designed to represent a US equity universe of large capitalization stocks.

**S&P Credit Ratings Service** - A financial services rating agency.

**Special situations** - Private equity investments in a variety of securities (Debt, Preferred Equity and/or Common Equity) in portfolio companies at a variety of stages of development (Seed, Early Stage, Later Stage).

**Standard Deviation** - A measure of the dispersion of a set of data from its mean. Often used as a measure of investment volatility or risk, it measures how much an investment return may vary from its average return.

**Tail risk** - The risk that a loss (or gain) would be three standard deviations from the mean or current price.

**Treasury Bill (T-Bill)** - Short-term, highly liquid government securities issued at a discount from the face value and returning the face amount at maturity.

**Treasury Bond or Note** - Debt obligations of the Federal government that make semiannual coupon payments and are sold at or near par value in denominations of \$1,000 or more.

**Trust** - A fiduciary relationship in which a person, called a trustee, holds title to property for the benefit of another person, called a beneficiary.

**TUCS - Trust Universe Comparison Service.** TUCS is a universe based upon a pooling of quarterly trust accounting data from participating banks and other organizations that provide custody for trust assets.

**Turnover** - Security purchases and sales divided by the fiscal year's average market value  $\{(P+S)/[(BMV+EMV)/2]\}$  for a given portfolio.

**Unhedged** - Not protected from market actions.

**Unlevered** - Investments made without the use of debt or debt like securities.

**Unrealized Gain (Loss)** - A profit (loss) that has not been realized through the sale of a security. The gain (loss) is realized when a security or futures contract is actually sold or settled.

**Variable Rate Note** - Floating rate notes with a coupon rate adjusted at set intervals, such as daily, weekly, or monthly, based on different interest rate indices, such as LIBOR, Fed Funds, and Treasury Bills.

**Vintage year** - The year in which a capital commitment is made to an investment, most often applied to real estate and private equity investments.

**Volatility** - A statistical measure of the tendency of a market price or yield to vary over time. Volatility is said to be high if the price, yield, or return typically changes dramatically in a short period of time.

**Warrant** - A security that entitles the holder to buy a specific security at a specified price within a specified time frame.

**Yield** - The income return on an investment.

**Yield Curve** - A graph showing the term structure of interest rates by plotting the yields of all bonds of the same quality with maturities ranging from the shortest to the longest. The Y-axis represents the interest rate and the X-axis represents time, generally with a normal curve that is convex in shape.

**Zero Coupon Bond** - A bond paying no interest that sells at a discount and returns principal only at maturity.