

# Glossary

**Aggregate Bond Index** – Includes treasury bonds, agencies, corporates, mortgages with maturities out to 30 years.

**Alpha** – A measure of value above a stated index. Positive alpha is a good sign for a portfolio.

**Basis Point** – 1 hundredth of 1% .0001 (1% = 100 bps).

**Balanced Account** – An account that invests in both stocks and bonds.

**Beta** – A measure of portfolio sensitivity (volatility) in relation to the market, based on past experiences.

**Commingled Fund** – An investment fund, offered by a bank or insurance company, which is similar to a mutual fund in that investors are permitted to purchase and redeem units that represent ownership in a pool of securities.

**Commission Recapture** – A similar program to a soft dollar relationship, where the clearing firm returns the ‘discount’ dollars directly to the client account.

**Core Style** – Stocks that have both value and growth characteristics.

**Custodian** – Holds the cash and securities and performs clerical functions. Does not manage any money.

**Duration** – A bond’s sensitivity to interest rates. In a falling interest rate environment bonds with longer durations will do better. In a rising interest rate environment bonds with shorter duration will do better.

**Fiduciary** – A person who acts on behalf of and for the benefit of someone else. When these persons make a decision in their official capacity, their primary concern must be for the interests of whom they are acting and not their own personal interests.

**Gross Returns** – Portfolio returns before taking out expenses.

**Growth Style** – Stocks that exhibit higher P/E ratios. Investors will pay more for growth companies due to the fact they think earnings will grow much faster “growth” than the industry average. Growth companies many times do not pay dividends as they reinvest earnings back into the company for better growth opportunities.

**Investment Grade Bonds** – Bonds with a rating of BBB or higher by Moody’s or S&P.

**Intermediate Aggregate Bond Index** – Includes treasury bonds, agencies, corporates, mortgages with maturities out to 10 years.

**Investment Policy Statement** – The business plan for the investment program. This document outlines the objectives for each money manager and what the trustees expect. It also provides guidelines for what types of investments can and cannot be utilized.

**Junk Bonds** – Below investment grade, BBB or lower.

**Large Cap Stocks** – A company that has a market capitalization above \$15 billion.

**Liquidity** – Cost & ease in which an asset can be converted into cash.

**Market Capitalization** – The public value of company. Determined by taking the share price multiplied by outstanding shares.

**Micro Cap Stocks** – A company that has a market capitalization lower than \$250 million.

**Mid Cap Stocks** – A company that has a market capitalization between \$2 billion and \$15 billion.

**Net Returns** – Portfolio returns after taking out expenses.

**Peer Universe** – A universe of other managers with similar investment objectives and investment styles. This allows trustees to compare their investment managers to their peers to see how they are doing.

**Policy Objective** – The blended index that the money manager(s) try to beat. Many times this is stated as 60% S&P 5000 and 40% Lehman Aggregate Bond Index.

**Quartile Ranking** – Within the peer universe your portfolio ranking against other managers with similar investment objectives. 1 is the best and 100 is the worse.

**Separately Managed Account** – A separate account is opened at a custodial firm where individual stocks and bonds are bought for the fund in the client’s name.

**Sharpe Ratio** – The ratio of the rate of return earned above the risk-free rate to the standard deviation of the portfolio.

**Small Cap Stocks** – A company that has a market capitalization between \$250 million and \$2 billion.

**Soft Dollar Programs** – A program whereby a client instructs the Investment Manager to direct trades to a particular brokerage firm for the benefit of the client’s ‘broker of record.’ The investment manager is still bound to best execution for the client. However, by guaranteeing a number of trades to the clearing firm, the clearing firm may offer a ‘volume discount’ to the manager. While the prevailing best execution price is charged to the client account, the dollars representing the ‘discount’ are set aside in a ‘soft dollar account’, and may be used to pay for certain purposes, including research and monitoring, which will benefit the client. Payment is made to the advisor by the clearing firm, not the Investment Manager.

**Standard Deviation** – Measure of the variability (dispersion) of historical returns around the mean. It measures how much exposure to volatility was experienced by the implementation of an investment strategy.

**Tracking Error** – A measure of how closely a manager's performance tracks an index; it is the annualized standard deviation of the differences between the quarterly returns for the manager and the benchmark.

**Up Market Capture Ratio** – Ratio that illustrated how a manager performed relative to the market during rising market periods; the higher the ratio, the better the manager performed (i.e., a ratio of 110 implies the manager performed 10% better than the market).

**Value Style** – Stocks that exhibit low P/E ratios, consistent earnings, trade at values lower than their intrinsic value. Many value stocks pay dividends and return capital to investors instead of reinvesting the earnings back into the company.