Glossary of Terms and Abbreviations

(This guide is not intended to be all inclusive, nor is it to be used as a legal reference – it is simply a guide to commonly used financial terms)

Absolute Return[1]: Absolute return is the return that an asset achieves over a certain period of time. This measure looks at the appreciation or depreciation, expressed as a percentage that an asset, such as a stock or a mutual fund, achieves over a given period of time. Absolute return differs from relative return because it is concerned with the return of a particular asset and does not compare it to any other measure or benchmark.

Alpha[1]: Alpha, often considered the active return on an investment, gauges the performance of an investment against a market index used as a benchmark, since they are often considered to represent the market's movement as a whole. The excess return of a fund relative to the return of a benchmark index is the fund's alpha.

Active Management[2]: When the manager of a fund or portfolio makes proactive trading decisions in order to maximize returns. The opposite is passive management, when a fund or portfolio is tied to an index or basket of securities and the manager's role is limited.

Asset Allocation: The annually determined target distribution of the VPIC portfolio along various different managers.

AUM: Assets Under Management.

Basis Point[1]: Basis point (BPS) refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, and is used to denote the percentage change in a financial instrument.

Benchmark[2]: A point of reference that is used to compare investment performance. It forms an objective test of the effective implementation of an investment strategy. Benchmarks allow returns and variations in investment returns to be measured and attributed, thereby making it possible to determine how effectively investors have performed against them. Well chosen, benchmarks allow returns to be decomposed at every level. They allow the users of the resultant analysis to communicate effectively and to make informed decisions.

Beta[3]: Part of an economic theory for valuing financial securities and calculating the cost of capital, known as the capital asset pricing model, beta measurers the sensitivity of the price of a particular asset to changes in the market as a whole. If a company's shares have a beta of 0.8, it implies that on average the share price will change by 0.8% if there is a 1% change in the market.

Black Swan Event[3]: A high-impact event, hard to predict and rare. It was long assumed that swans are inevitably white, and thus a black swan was a metaphor for something that could not

Source: [1]Investopedia, [2]Financial Times, [3]Bishop, Matthew. *Economics An A-Z Guide.* Public Affairs. 2016. Print
[4]CFA Institute, [5]InvestorForce, [6]NEPC, LLC, [7]Guggenheim Partners

exist. Then black swans were discovered in Australia in the 17th century, and the black swan came to represent an occurrence of the unexpected.

Bottom-Up Investing[4]: An approach to investing that focuses on the individual characteristics of securities rather than on macroeconomic or overall market forecasts.

BRICs[3]: Shorthand for fast-growing developing countries. In 2001 Jim O'Neill, chief economist of Goldman Sachs, came up with the acronym BRICs for the next four countries it expected to enter the economic big league: Brazil, Russia, India, and China.

Collateralized Loan Obligations (CLOs)[7]: A type of structured credit. CLOs purchase a diverse pool of senior secured bank loans made to businesses that are generally rated below investment grade. First lien bank loans, which comprise the bulk of the underlying collateral pool of a CLOS, are secured by a debtor's assets and rank first in priority of payment in eh capital structure in the event of bankruptcy, ahead of unsecured debt.

Co-Mingled Funds: Similar to a Mutual Fund but only available to institutional investors. These are funds consisting of assets such as stocks, bonds, or both which are managed professionally with a certain investment objective. Investors own shares of the fund, and therefore cannot vote proxies.

Commodity[3]: A comparatively homogenous product that can typically be bought in bulk. It usually refers to a raw material – oil, cotton, cocoa, silver – but can also describe a manufactured product used to make other things, for example microchips used in personal computers.

Correlation[5]: A range of statistical relationships between two or more random variables or observed data values. A correlation is a single number that describes the degree of relationship between variables.

Coupon[1]: The interest rate stated on a bond when it is issued. The coupon is typically paid semiannually. This is also referred to as the "coupon rate" or "coupon percent rate".

Credit[1]: A contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future, generally with interest.

Derivative[4]: A financial instrument whose value depends on the value of some underlying asset or factor (e.g., a stock price, and interest rate, or an exchange rate).

ESG Criteria[1]: The Environmental, Social and Governance (ESG) Criteria is a set of standards for a company's operations that socially conscious investors use to screen investments.

J-Curve[2]: The pattern of change in the balance of trade after a currency devaluation. The balance deteriorates initially as the local currency value of imports rises and export revenue falls. However this is followed by an improved trend, as demand for imports falls owing to their costliness, while exports become more attractive due to their low price. Also used to describe initial negative returns of a closed end fund which may occur before investment mature.

LIBOR[3]: Short for London interbank offered rate, the rate of interest that top-quality banks charge each other for loans. Banks often use it as a base for calculating the interest rate they charge on other loans. LIBOR is a floating rate, changing all the time.

IPA: Investment Performance Analysis. A report provided by VPIC's Custodian detailing past performance for a stated period of time.

Left-Tail Event: See also Black Swan Event. An unlikely but still possible highly negative economic event in which significant losses are taken.

MBS[6]: Mortgage Backed Securities. Bonds which are a general obligation of the issuing institution but are also collateralized by a pool of mortgages.

Most-Favored Nation[3]: Equal treatment, at least, in international trade. If country A grants country B the status of a most-favored nation, it means that B's exports will face tariffs that are no higher (and also no lower) that those applied to any other country that A calls a most favored nation. This will be the most favorable tariff treatment available to imports.

Municipal Bond (Muni)[6]: A debt security issued by a state, municipality or county to finance its capital expenditures.

Passive Management[2]: Buying stock in the same proportion as the index. Because this is relatively easy to do, it has lower costs than active management, and proponents claim it is a better proposition for investors who do not have skill in selective fund managers, since active managers by definition cannot on average outperform the market.

Private Equity[2]: When a firm's shares are held privately and not traded in the public markets. Private equity includes shares both in mature private companies and, as venture capital, in newly started businesses. As it is less liquid than publicly traded equity, investors in private equity expect on average to earn a higher equity risk premium from it.

Real Exchange Rate[3]: An exchange rate that has been adjusted to take account of any difference in the rate of inflation in the two countries whose currency is being exchanged.

Real Interest Rate[2]: The actual interest rate (the nominal interest rate) minus the inflation rate.

Relative Return[1]: The return that an asset achieves over a period of time compared to a benchmark. The relative return is the difference between the absolute return achieved by the asset and the return achieved by the benchmark.

Risk Premium[3]: The extra returns that investors require to hold a risky asset instead of a risk-free one; the difference between the expected return from a risky investment and the risk-free rate.

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[4]CFA Institute, [5]InvestorForce, [6]NEPC, LLC, [7]Guggenheim Partners

Risk-Free Rate of Return[1]: The risk-free rate of return is the theoretical rate of return of an investment with zero risk. The risk-free rate represents the interest rate an investor would expect from an absolutely risk-free investment over a specified period of time.

Separately Managed Account: An account which holds individual securities, and is managed by a professional manager who must comply with various restrictions imposed by the account holder (VPIC in this case). Since the underlying securities are held directly the investor may vote proxies.

Sharpe Ratio[4]: The average return in excess of the risk-free rate divided by the standard deviation of return; a measure of the average excess return earned per unit of standard deviation of return.

Standard Deviation[3]: A measure of how far a variable moves over time away from its average (mean) value.

Stress Test[3]: A process for exploring how a portfolio of assets and/or liabilities would fare in extreme adverse conditions. A useful tool in rick management.

Systematic Risk[3]: The risk that remains after diversification, also known as market risk or undiversifiable risk. It is systematic risk that determines the return earned on a well-diversified portfolio of assets.

Taper Tantrum: The 2013 surge in U.S. Treasury yields which was sparked by the Federal Reserve's decision to taper the amount of money it was feeding into the economy. Markets reacted significantly leading to significant short term losses.

Tear Sheet: A slang term which came about from Standard & Poor's one page summary sheets for public companies. Today the term refers to any brief summary of an investment, or current balance and performance of a fund, or asset class.

TIPS: Treasury Inflation Protected Securities. Treasury securities that make adjustments for inflation as reflected in the Consumer Price Index (CPI). TIPS have a fixed interest rate that is paid semi-annually.

Top-Down analysis[4]: With reference to investment selection process, an approach that starts with macro selection (i.e. identifying attractive geographic segments and/or industry segments) and then addresses selection of the most attractive investments within those segments.

Total Return[5]: The actual rate of return of an investment over a specified time period. Total return includes interest, capital gains, dividends, and distributions realized over a defined time period.

Trade-weighted Exchange Rate[3]: A country's exchange rate with the currencies of its trading partners weighted by the amount of trade done by the country in each currency.

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Volatility[3]: The most widely accepted measure of risk in financial markets is the amount by which the price of a security swings up and down. The more volatile the price, the riskier is the security.

Yield[3]: The annual income from a security, expressed as a percentage of the current market price of the security. The yield on a share of stock is its dividend divided by its price. A bond yield is also knows as its interest rate: the annual coupon divided by the market price.

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