**Active Management:** Active managers rely on analytical research, forecasts, and their own judgment and experience in making investment decisions on what securities to buy, hold and sell.

**Asset Class:** A group of securities that exhibit similar characteristics, behave similarly in the marketplace, and are subject to the same laws and regulations. The three main asset classes are equities (stocks), fixed-income (bonds) and cash equivalents (money market instruments).

**Average Returns:** The simple mathematical average of a series of returns generated over a period of time. An average return is calculated the same way a simple average is calculated for any set of numbers; the numbers are added together into a single sum, and then the sum is divided by the count of the numbers in the set.

**Benchmark Index:** A collection of stocks or bonds used to measure the trading of a specific kind of attribute. One cannot invest directly in an index but in a mutual or exchange traded fund that mimics an index. These are often used to compare the performance of managed and or invested portfolios. Examples

* **Dow Jones Industrial Average:** The 30 largest and most influential companies in the US
* **Standard and Poor’s 500**: The largest 500 companies in the US
* **Russel 2000:** The smallest 2000 US companies
* **Barclays Aggregate Bond:** Government and corporate bonds, securitized loans

**Beta:** A measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. Beta is used in the capital asset pricing model (CAPM), a model that calculates the expected return of an asset based on its beta and expected market returns. The S & P 500 has a beta of 1. A fund with a beta of .9 will track the S&P 500 with 10% less volatility than the benchmark. A fund with a beta of 1.2 will have 20% more volatility than the S&P 500 benchmark.

**Bonds:** A loan to a company that pays the investor interest over a defined period of time. Bond owners are creditors to the issuer.

* High yield bonds: non-investment grade bonds that have a high default risk and high interest rates.
* Investment Grade Bond: a rating that indicates that the issuer has a relatively low risk of default.

**CAPEX or Capital Expenditure:** Money used by a company to acquire or upgrade  physical assets such as property, industrial buildings or equipment. It is often used to undertake new projects or investments by the firm. This type of outlay is also made by companies to maintain or increase the scope of their operations. These expenditures can include everything from repairing equipment, exploration and purchase of reserves and installing equipment in new wells and mines.

**Expense Ratio:** The inherent cost of the mutual fund that is removed from the share value and defined as a fixed percentage. This expense will include all operating expenses for the fund such as, manager’s fees, trading fees, advertising costs, and everything involved in running a business.   
  
**Historical Returns:** The past performance of a security or index. Analysts review historical return data when trying to predict future returns, or to estimate how a security might react to a particular situation, such as a drop in consumer demand. Historical returns can also be useful when estimating where future points of data may fall in terms of standard deviations***.  Past performance is no guarantee of future returns.***

**Index/Passive Investments:** Indexing or passive management aims to generate the same rate of return as a benchmark index by mirroring the defining characteristics of a given market. Typically lower management fees than actively managed investments.

**Portfolio**: A grouping of financial assets such as stocks, bonds and cash equivalents, as well as their mutual, exchange-traded and closed-fund counterparts. Portfolios are held directly by investors and/or managed by financial professionals.

**Return:** The gain or loss of a security in a particular period. The return consists of the income and the capital gains on an investment. It is usually quoted as a percentage. Income can come from interest and dividends while capital gains or losses comes from changes in share price relative to the purchase price.

**Risk:** The chance that an investment's actual return will be different than expected. Risk includes the possibility of losing some or all of the original investment. Different versions of risk are usually measured by calculating the *standard deviation* of the *historical returns* or *average returns* of a specific investment***. A high standard deviation indicates a high degree of risk.***

**Share Classes:** When buying mutual funds they are offered with different expense ratios and sales charges depending on the amount of purchase and the type of buyer.

* **Retail** class shares are labeled A B or C and typically purchased by individual investors. An institutional investor such as an endowment should never be purchasing retail class shares.

**A shares** have lower operating expense costs (expense ratios) with an upfront sales charge depending on the amount of dollar amount purchased. Typically 5% of the purchase is the initial price, however as the amount of the purchase increases break points are reached and the percentage of the purchase cost declines. Ex $5000 of Fund X has a 5% sales charge, but a $50,000 purchase of Fund X may have a 2.5% sales charge

**B and C share**s have higher operating expenses, but have instead of upfront sales charges a back end sales charge when the share is sold. C shares will always have a 1% deferred sales charge, while B shares will have a decreasing sales charge percentage over time and convert to A shares after 7 years.

* **Institutional** Class shares of X,Y,Z and other letters of the alphabet have significantly lower operating expenses than retail shares, require a significant initial purchase amount, usually will have a short term redemption fee within 30,60,90 or 180 days to prevent excessive trading and can only be purchased by approved investors. Endowments and foundations should have the ability and the knowledge to use institutional class shares.

**Shareholder activism:** The ability of a stock owner to put a resolution on the corporate ballot for all shareholders to vote upon. The shareholder must on $2000 worth of shares one year prior to the vote.

**Stocks:** A type of security that signifies ownership in a corporation and represents a claim on part of the corporation’s assets and earnings.

* Small Capitalization Companies: $300 Million to $2 Billion (high risk)
* Mid Capitalization Companies: $2 Billion to $10 Billion (medium risk)
* Large Capitalized Companies: $10 Billion + (lower risk)
* Growth Stock: shares in a company that has expected above average earnings, usually does not pay dividends, has a high degree of risk, and are typically overvalued
* Value Stock: Shares in a company that tend to trade lower in price relative to the value of the company’s assets. They typically pay a high dividend while there is low risk in the share price
* International stock: one that is outside the US

**Standard Deviation:** In finance, standard deviation is applied to the annual rate of return of an investment to measure the investment's volatility. Standard deviation is also known as historical volatility and is used by investors as a gauge for the amount of expected volatility.

**Stranded Asset:** Assets that may **lose economic value ahead of their expected life** because of changes in regulation, market forces, environmental concerns, societal norms, and innovation associated with the transition to a low carbon economy.

**Tracking Error:** The difference between the price changes of a portfolio and the price changes of a benchmark.

Source: Investopedia,