INVESTMENT GLOSSARY

LACERS
LA CITY EMPLOYEES'
RETIREMENT SYSTEM

Active Management: A portfolio management strategy that involves regularly making buy, hold, and sell decisions about the assets within a portfolio with the objective of outperforming a market benchmark such as the S&P 500 Index.

Asset Allocation: An investment strategy that aims to balance risk and reward by apportioning a portfolio's assets across various types of investments according to an investor's goals, risk tolerance, and investment horizon. A strategic asset allocation is a long term asset allocation consistent with an investor's risk profile, objectives, and expectations of long term economic conditions and capital market returns. A tactical asset allocation is a short to medium term deviation from a strategic asset allocation to capitalize on near term opportunities arising from current market conditions.

Asset Class: An asset class is a grouping of investments that exhibit similar characteristics and are subject to the same laws and regulations. Asset classes are made up of investments that often behave similarly to one another in the marketplace. Examples of asset classes include equities (stocks), fixed income (bonds), real estate, and cash.

Basis Point: One one-hundredth of one percent (i.e., 100 basis points = 1%).

Benchmark: A standard against which the performance of an investment manager can be measured. Generally, broad market and market-segment stock and bond indexes are used for this purpose. Examples include the S&P 500 Index for evaluating U.S. large cap stock strategies and the Bloomberg Barclays Aggregate Bond Index for evaluating U.S. bond strategies.

Bond: An interest-bearing or discounted certificate of debt issued by corporations, municipalities, governments and governmental agencies that represent a loan to the issuer and obligates the issuer to pay the bondholder a specified sum of money, usually semiannually, and to repay the principal amount of the loan at maturity.

Common Stock: A security that represents ownership in a corporation. Holders of common stock elect the board of directors and vote on corporate policies. This form of equity ownership typically yields higher rates of return long term. However, in the event of liquidation, common shareholders have rights to a company's assets only after bondholders, preferred shareholders, and other debtholders are paid in full. Common stock is reported in the stockholder's equity section of a company's balance sheet.

Core Bond (Fixed Income) Investment Strategy: A bond (fixed income) investment strategy with low risk that seeks investments in larger, more liquid fixed income sectors such as governments, mortgage-backed, and investment grade corporates that do not represent significant deviation from a given index in terms of sector, quality, coupon and maturity exposures. While some over/under weighting may occur in the portfolio, these will result from the manager's security selection process and not represent a deliberate attempt to bias the portfolio.

Dividend: A payment to owners of common or preferred stock. Dividends are usually paid out of the current earnings of a corporation. On preferred stock shares, the dividend is usually a fixed amount. On common stock shares, the dividend will vary with the fortunes of the corporation. Dividends are usually declared and paid quarterly.

Fixed Income: Debt instruments of corporations, government or agencies characterized by a fixed or variable interest rate and stated maturity date. Included are marketable bonds, cash equivalents and Rule 144A securities. Certain fixed income assets, such as cash equivalents, are often categorized separately.

Inflation: The overall general upward price movement of goods and services in an economy, usually measured by the Consumer Price Index in the U.S. Inflation is one of the major risks to investors over the long term because it erodes the purchasing power of their investments.

Interest Rate: Cost of money or credit expressed as a percentage rate per period of time usually one year.

Internal Rate of Return ("IRR"): A rate of return measure that accounts for the timing and size of cash flows. It is primarily used to assess the returns of private markets investments and is calculated as the discount rate that equates the net present value of an investment's or fund partnership's cash outflows with its inflows and an estimated residual value at the time of calculation. IRR may be calculated both gross and net of investment fees. The net IRR calculation for a fund partnership is net of management fees and the general partner's carried interest. The IRR is also known as a dollar-weighted rate of return.

Management Fee: A charge levied by an investment manager for managing an investment fund. The management fee is intended to compensate the managers for their time and expertise for selecting investments and managing the portfolio.

Maturity: The date on which a bond becomes due and the issuer redeems or pays the

Passive Management: An investment strategy that strives to match the risk and return of a market index by holding a portfolio of securities that closely tracks the index.

Private Equity: Equity investments in companies that do not trade publicly on an organized exchange. Types of private equity strategies include venture capital, buyout, mezzanine financing, distressed securities, and special situations. These investments are typically made in a pooled (commingled) format, usually a limited partnership or limited liability corporation.

Public Equities: Shares that represent ownership of a publicly traded corporation. Included in this category are publicly traded common stocks, rights, warrants, convertible securities and American and Global Depository Receipts.

Risk: The chance that an outcome or investment's actual gains will differ from an expected outcome or return. Risk includes the possibility of losing some or all of an original investment.

Time-Weighted Rate of Return: The total return calculated over a period of time by geometrically compounding a series of sub-period returns, accounting for cash flows. The amount and timing of cash flows do not impact time-weighted rates of returns since the returns for each sub-period are equally weighted. Since public markets investment managers have little control over cash flows in and out of an account, time-weighted returns are an appropriate method of analyzing the performance of public markets investment managers.

Yield: The yield of a security is the dividend or interest rate divided by current price of the security.

Definition Sources

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NEPC, LLC
The Townsend Group