Glossary of investment and general terms

The glossary is organized into two sections, Investment Terms and General Terms. This glossary is being provided as required by regulations issued by the Department of Labor under ERISA Section 404a-5. It does not provide investment, legal, or tax advice. The glossary has not been reviewed, approved, or authorized by any federal or state regulatory agency as meeting the requirements of any applicable rules or regulations.

Investment terms

The Investment Terms section of this glossary contains explanations for terms that may be used on disclosure documents and other information you may receive regarding your plan's designated investment alternatives.

12b-1 Fee: A fee assessed on certain mutual funds or share classes permitted under an SEC rule to help cover the costs associated with marketing and selling the fund. 12b-1 fees may also be used to cover shareholder servicing expenses.

Active Management: An investment management style that aims to meet investor objectives such as growth, income and preservation of capital through informed, independent investment judgment. Active management is the opposite of passive management.

Aggressive: An investment approach that accepts above-average risk of loss in return for potentially above-average investment returns.

Annual Rate of Return: The annual rate of gain or loss on an investment expressed as a percentage.

Appreciation: An increase in the value of an investment.

Asset: Anything with commercial or exchange value owned by a business, institution or individual. Examples of an asset include cash, real estate and investments. In the case of a mutual fund, assets consist of the securities held in the fund's portfolio.

Balanced Fund: A mutual fund which seeks to preserve capital and provide income to shareholders by investing in a mix of bonds, common stocks, preferred stocks and short-term securities. Long-term growth of capital and income is normally also an objective of a balanced fund.

Basis Point (BPS): A unit normally used to measure changes in interest rates and bond yields. One basis point equals .01%, or 1/100 of 1%; 100 basis points equal 1%. A bond's yield that increased from 8.00% to 8.50% is said to have risen 50 basis points. Basis points are also used to measure mutual fund expenses. For example, a fund that has an investment management fee of 150 basis points charges a fee of 1.50% of assets.

Benchmark: An unmanaged group of securities whose performance is used as a standard to measure investment performance. Some well-known benchmarks are the Dow Jones Industrial Average and the S&P 500 Index.

Bond: A debt instrument (IOU) issued by a corporation or government agency. In return for the use of the lender's money, the bond issuer promises to pay regular interest payments and return the principal upon maturity. A secured bond is backed by collateral which may be sold by the bondholder to satisfy a claim if the bond issuer fails to pay interest and principal. An unsecured bond, or debenture, is backed by the full faith and credit of the issuer but not by any specific collateral. The value of a bond prior to maturity depends on multiple factors including the creditworthiness of the issuer, and current rates of interest on similar bonds. Bondholders do not have any of the corporate ownership privileges of stockholders.

Bond Fund: A mutual fund that primarily invests in bonds. Some bond funds specialize in a particular kind of bond (government, high quality, junk, etc.), while others will diversify across categories. Bond funds generally pay regular distributions, making them particularly appropriate for investors seeking current income.

Bond Rating: A rating or grade that is intended to indicate the credit quality of a bond, considering the financial strength of its issuer and the likelihood that it will repay the debt. Agencies such as Standard & Poor's, Moody's Investors Service, and Fitch issue ratings for different bonds, ranging from AAA (highly unlikely to default) to D (in default).

Capital Gain Distribution: The net long-term capital gain amount generated by a mutual fund from the sale of stocks or bonds, paid to shareholders on a per-share basis. In a retirement plan, these distributions are reinvested in more shares of the mutual fund that paid them.

Cash Equivalent: An investment that is short term, highly liquid, and has high credit quality.

Compounding: The ability of an asset to generate earnings that are then added to principal and previous earnings. For example, if an investor puts $1,000 in a mutual fund that returns 10% each year, the account will be worth $1,100 at the end of the first year and $1,210 at the end of the second year. The $10 earned on the $100 return from the first year is the compound interest.

Conservative: An investment approach that accepts lower rewards in return for potentially lower risks.

Correction: A sudden, temporary decline in stock or bond prices following a period of increases. Corrections can be expected over a long-term investment horizon.

Cyclical Stocks: Stocks of companies whose earnings are tied to the business cycle. When economic and business conditions are good, a cyclical company prospers. When there is an economic downturn, the company suffers. Examples of cyclical stocks include housing and automobiles.

Diversification: An investment strategy designed to reduce exposure to risk by combining a variety of investments, such as U.S. stocks, international stocks, bonds and cash, which are unlikely to all move in the same direction at the same time. Holding mutual funds with different objectives can help investors achieve diversification through the broad range of investments held in fund portfolios.

Dividend Distribution: Payment to mutual fund shareholders of income from interest or dividends generated by a fund's investments. In a retirement plan, these distributions are reinvested in more shares of the mutual fund that paid them.

Dow Jones Industrial Average℠ (DJIA): A market index maintained by the editors of The Wall Street Journal and is composed of 30 actively traded blue chip U.S. stocks. Approximately 20 of the companies in the average are manufacturers of industrial and consumer goods. The Dow is a price-weighted average, which means that the price movement of each stock is weighted equally regardless of its market capitalization. The Dow is the most commonly quoted index to determine daily market activity and direction.

Emerging Markets: Countries in the process of rapid growth and industrialization.

Expense Ratio: A measure of the annual expenses of a mutual fund determined by dividing the fund's operating expenses by the average dollar value of its assets under management. The ratio shows the percentage of a fund's average net assets used to pay its expenses. When comparing funds with similar investment objectives, the fund with the lower expense ratio can be said to be more efficient.

Fixed Income Fund: A fund that invests primarily in bonds and other fixed-income securities, often to provide shareholders with current income.

Fund of Funds: A mutual fund, collective investment fund or other pooled investment that invests primarily in other mutual funds, collective investment funds or pooled investments rather than investing directly in individual securities (such as stocks, bonds or money market securities).

Global Fund: A mutual fund that invests in securities from throughout the world, including the United States (an international fund, on the other hand, invests only outside the U.S.).

Growth Fund: A mutual fund that seeks to provide shareholders with growth of capital by investing in companies with a history of rapidly growing earnings and generally higher price-to-earnings ratios. Growth funds are generally more volatile than income funds, rising faster in bull markets and dropping more sharply in bear markets.

High-yield Bond: A bond rated BB or lower that pays a higher yield than bonds sold by higher rated issuers to compensate for its greater risk. These bonds are generally issued by companies without long track records of sales and earnings, or by those with questionable credit strength. They are also known as a junk bond.

Inception Date: The date that a fund began operations.

Income Fund: A mutual fund that seeks to provide current income for shareholders. Examples include bond funds and money market funds, which invest in corporate and government securities. Equity-income funds seek income as their primary objective by investing in a mixture of stocks and bonds.

Index Fund: A mutual fund designed to replicate market performance by holding a portfolio that mirrors the composition of an index, such as the S&P 500.

International Fund: A mutual fund that invests in securities from outside the United States (a global fund, on the other hand, invests in securities from throughout the world, including the U.S.).

Large Cap: Typically a company with a market capitalization of at least $10 billion.

Lifestyle Fund: A fund that maintains a predetermined risk level and generally uses words such as “conservative,” “moderate,” or “aggressive” in its name to indicate the fund’s risk level. It is used interchangeably with “target risk fund.”

Lipper: A leading mutual fund research and tracking firm. Lipper categorizes funds by objective and size, and then ranks fund performance within those categories.

Load: A sales charge assessed on certain investments to cover selling costs. A front-end load is charged at the time of purchase. A back-end load is charged at the time of sale or redemption.

MSCI EAFE Index: An index known by an acronym for the Europe, Australasia, and Far East markets produced by Morgan Stanley Capital International (MSCI). Markets are represented in the index according to their approximate share of world market capitalization. The index is a widely used benchmark for managers of international stock fund portfolios.

Management Fee: A charge paid to a mutual fund's investment adviser for its services. The fee is disclosed in each fund's prospectus and is typically between 0.5% and 2%. It is also part of the expense ratio.

Market Capitalization: A measure of a company's value determined by multiplying its share price by its outstanding shares.

Mid Cap: Typically a company with a market capitalization between $2 billion and $10 billion.

Money Market Fund: A mutual fund that invests in money market securities such as commercial paper, certificates of deposit, Treasury bills and other highly liquid and safe securities. Money market funds typically credit interest monthly to shareholders.

Mutual Fund: An investment vehicle that brings together money from multiple investors and invests it in stocks, bonds or other assets. The fund is operated by a manager and has a specific investment objective. The combined holdings of stocks, bonds or other assets the fund owns are known as its portfolio. Each investor in the fund owns shares, which represents his share of the fund's portfolio. The price of the fund's shares varies daily based on the prices of the securities in the portfolio. The fund's prospectus contains the details regarding the fund's operation.

NASDAQ® Composite Index: A measure of more than 3,000 companies traded on the NASDAQ over-the-counter exchange. Many are technology and Internet related, although financial, consumer and industrial companies are represented as well. The NASDAQ is weighted by market capitalization, which means larger companies have more of an impact than smaller ones when determining the overall movement of the index.

Net Asset Value (NAV): The net dollar value of a single share or unit of an investment fund that is calculated by the fund on a daily basis.

Non-cyclical Stocks: Stocks of companies whose earnings are normally not tied to the business cycle. Examples of non-cyclical stocks include food, insurance and pharmaceuticals.

No-Load Fund: A mutual fund whose shares are sold without a sales commission and which does not charge a combined 12b-1 fee and service fee of more than 25 basis points or 0.25% per year.

Passive Management: The process or approach to operating or managing a fund in a passive or non-active manner, typically with the goal of mirroring an index. These funds are often referred to as index funds and differ from investment funds that are actively managed.

Portfolio: A collection of stocks, bonds and/or other investments owned by a mutual fund and designed to help reduce risk through diversification. A portfolio is designed in accordance with the fund's investment objective.

Portfolio Turnover Rate: The volume of a mutual fund's holdings that is sold and replaced with new securities annually, usually expressed as a percentage of the fund's total assets. A fund with a portfolio turnover of 25%, for example, holds assets for an average of about four years, while a fund with a portfolio turnover of 100% holds assets for an average of one year. A fund with a high turnover rate will typically incur more transaction costs than a fund with a lower turnover rate.

Prospectus: A legal document filed with the Securities and Exchange Commission describing the objectives of a mutual fund, the background of fund managers, and key financial data, such as expenses and fund results. A prospectus is designed to provide investors with the information they need to make an informed decision about investing in a mutual fund. Investors normally receive a shorter form known as a Summary Prospectus.

Rate of Return: The gain or loss on an investment over a period of time. The rate of return is typically reported on an annual basis and expressed as a percentage.

Risk: The chance that an investment's return will be different from the return that was expected, including the chance of an investment losing some or all of its value. The risk level of a mutual fund generally depends on the types of securities held in the fund's portfolio. For example, a growth fund has more risk (and also historically higher returns) than a bond fund. Many types of risk exist, including inflation risk, interest rate risk and exchange rate risk.

Russell 2000® Index: A benchmark for mutual funds that invest in small-cap companies, representing 2,000 small companies with a weighted average market capitalization of approximately $1.3 billion.

Share Class: Some investment funds and companies offer more than one type or group of shares, each of which is considered a class (e.g., "Class A," "Advisor" or "Institutional" shares). For most investment funds, each class has different fees and expenses, but all of the classes invest in the same pool of securities and share the same investment objectives.

Small Cap: Typically a company with a market capitalization of less than $2 billion.

Stable Value Fund: An investment fund that seeks to preserve principal, provide consistent returns and liquidity. Stable value funds include collective investment funds sponsored by banks or trust companies or contracts issued by insurance companies.

Standard & Poor's 500℠ (S&P 500®): Standard & Poor's 500 Composite Index measures the change in value of 500 of the most widely held stocks on U.S. stock exchanges. The stocks in the index are selected by a committee and are meant to represent the U.S. economy as a whole. The S&P 500 is weighted by market capitalization, which means larger companies have more of an impact than smaller ones when determining overall price movement of the index.

Statement of Additional Information: A supplement to the prospectus that contains detailed information about various fund policies; officers, directors and others who manage the fund; investment services; brokerage commissions and tax issues. It is available online or upon request from the fund.

Stock Fund: A mutual fund holding primarily or exclusively stocks. Many stock funds are designed to meet certain financial objectives, such as capital growth and dividend income. Some funds specialize in a category of stocks, such as large cap or international companies.

Total Annual Operating Expenses: A measure of what it costs to operate an investment, expressed as a percentage of its assets, as a dollar amount, or in basis points. These are costs the investor pays through a reduction in the investment's rate of return.

Total Return: The gain or loss on an investment over a certain time period, expressed as a percentage of the total amount invested. For stock mutual funds, the total return is determined by the level of dividends and capital appreciation of the holdings in the fund's portfolio. For bond funds, total return represents the coupon payments received and capital appreciation of the holdings in the fund's portfolio. Total return for mutual funds is measured assuming all fund distributions are reinvested.

Volatility: The size and frequency of fluctuations in the price of a security or mutual fund. Funds that hold stocks are generally more volatile than bond funds, since stocks generally have more frequent and pronounced price movements than bonds. Volatility is an important measure of the risk of a security or mutual fund.

Yield: The income return on an investment, expressed as a percentage of the price. For stocks, yield is the annual dividend divided by the purchase price, also known as a dividend yield. Bonds have different types of yields. The coupon rate is determined when it is issued. The current yield is the coupon rate divided by the market price. For example, a bond selling for $1,000 with a 10% coupon ($100 coupon payment) offers a 10% current yield; if that bond's price rises to $1,500, the yield would fall to 6.7%. The yield to maturity is an estimate of what an investor would receive if he held the bond to maturity.

General Terms

The General Terms section of this glossary contains explanations for terms that may be used on your participant statement and fee disclosure.

Administration Fee: Fees paid for a plan's legal, accounting, trustee, investment advisor or other services. These fees are in the Administration Fee box of the Fee Summary on your quarterly statement.

Brokerage Window: A plan feature that permits participants to purchase investments that are not included among the plan's general menu of designated investment alternatives.

Brokerage Window Participant Fee: A fee assessed to any participant electing to use the Brokerage Window option. This fee is in the Brokerage Fee box of the Fee Summary on your quarterly statement.

Distribution Fee: A fee for each distribution paid to a participant. This fee is in the Distribution Fee box of the Fee Summary on your quarterly statement.

Forfeiture Reallocation: The non-vested portion of terminated participants' accounts that are reallocated to the accounts of remaining eligible plan participants as provided by the plan. The amount is shown on your quarterly participant statement in the Net Forfeitures column.

Form 5500: An annual report filed with the Department of Labor that shows plan statistics including participants and assets. Copies of the plan's Form 5500 may be obtained on the Department of Labor's web site and from the Plan Administrator.

Loan Administration Fee: A flat-dollar fee charged to a participant's account for each plan loan outstanding at the end of a quarter. This fee is in the Loan Fee box of the Fee Summary on your quarterly statement.

Loan Application Fee: A one-time flat-dollar fee charged to a participant's account each time a loan is set up. This fee is in the Loan Fee box of the Fee Summary on your quarterly statement.

Managed Portfolio Fee: A fee charged by the plan's investment advisor for overseeing the operation of the plan's managed portfolios. This fee is in the Managed Portfolio Fee box of the Fee Summary on your quarterly statement.

Per Capita: A method of assessing fees where a flat fee is charged to all participants regardless of their plan balances. For example, all accounts are charged $15 per quarter for recordkeeping services. In addition, fees directly traceable to a participant are normally charged per capita (for example, distribution fees).

Plan Administrator: The Plan Administrator is a fiduciary appointed by the Employer whose duty is to interpret and administer the plan for the exclusive benefit of participants and beneficiaries.

Pro Rata: A method of assessing fees where fees are charged to participants in proportion to their plan balances. For example, you have a total account balance of $50,000, total plan balances are $1,000,000 and plan expenses for the quarter that are allocated pro rata are $2,000. Your account would be charged $100 of expenses that are charged to the plan because your balance is 5% of total plan assets.

QDRO (Qualified Domestic Relations Order): A court order requiring a portion of a participant's account be segregated for the benefit of, or paid to, the alternate payee. A QDRO normally occurs as part of a divorce.

QDRO Review Fee: A fee for QDRO review and processing. Payment of the fee depends on the terms of the QDRO and the plan's service agreement. This fee is in the QDRO Fee box of the Fee Summary on your quarterly statement.

Recordkeeping Fee: The fee paid to a service provider for maintaining participant accounts, performing required testing, and providing required reports. This fee is in the Recordkeeping Fee box of the Fee Summary on your quarterly statement.

Redemption Fee: A fee assessed to a participant account by an investment management company if shares of a particular mutual fund are purchased and sold within the minimum holding period determined by the investment management company.

Revenue Sharing: A payment by a mutual fund or its investment advisor to a third party for services. Payments are usually in the form of 12b-1 fees to compensate broker/dealers for selling the fund, and sub-transfer agent fees to compensate a retirement plan's recordkeeper for shareholder accounting. Revenue sharing payments to McCready and Keene are used to offset fees, they are not kept as additional compensation.

Shareholder-Type Fees: Fees charged by an investment option against a participant's account for items such as sales charges, redemption fees, and surrender charges.

Vesting: The process by which a participant acquires a non-forfeitable right to his account balance under the terms of a retirement plan.