

This glossary is an abbreviated guide to investment/financial terminology and vocabulary used by the State Board of Administration. While every effort has been made to present accurate and up-to-date definitions, this glossary should be used as a resource to assist readers, not as an authority. Institutional investing is a complex and rapidly changing field, and it would be impractical to include every applicable term. Readers should refer to standard texts and reference material for more detail.

Active asset managers

Asset managers who rely on analytical research, forecasts, and their own judgment and experience in making investment decisions on what investments to buy, hold and sell. This is in contrast to passive asset managers, who seek to hold a defined mix of securities, typically to track the returns of a market index.

Alpha

A measure of risk-adjusted performance which captures risk attributable to the specific security rather than the overall market. A high alpha value implies that the investment has performed better than would have been expected relative to the overall market (beta).

Alternative Investments

Investments considered outside of the traditional publicly traded asset classes of stocks, bonds and cash. Examples of alternative investments include investments in a private equity fund, venture fund, hedge fund, or distress fund or a direct investment in a portfolio company through an investment manager.

Asset allocation

The division of assets on a percentage basis among different broad categories of investments, including stocks, bonds, etc. Asset allocation is a key strategy for managing the risk associated with investing and over the long-term will explain 90% of a fund's result.

Asset-Backed Commercial Paper

Short-term debt that is backed by assets held in trust to pay investors in the case of default, such as cash flows from receivables. Asset-backed commercial paper is issued by a financial institution and typically has a maturity of three to six months.

Asset-Backed Securities (ABS)

Bonds or notes backed by loans, accounts receivable, mortgages or other assets.

Asset class

An aggregation of one or more portfolios with the same principal asset type (global equities, for example).

Barclays Capital Aggregate Bond Index

A debt index for U.S. investment grade fixed income securities. The index covers the U.S. dollar denominated, investment grade, fixed-rate, taxable bond market of SEC-registered securities.

Barclays U.S. TIPS Index

An index used to measure the performance of Treasury Inflation-Protected Securities which adjust their principal and coupon to match increases in inflation and decreases in deflation as measured by the Consumer Price Index.

Basis point

One one-hundredth of one percent; i.e., 1/10,000.

Benchmark return

A benchmark is an index or market average whose movement is considered a general indicator of the direction of the overall asset class and against which investors may measure the performance of portfolios or asset classes.

Beta

A measure of the portion of the volatility of a stock or portfolio that is correlated with movements in the overall stock market. A beta of less than one indicates lower risk than the market; a beta of more than one indicates higher risk than the market.

Bond

A debt security issued by a company or government agency. The bond issuer promises to pay the bond holder a stated rate of interest up to the date of maturity, when the issuer promises to repay the principal.

Cash instruments

Short-term bonds that mature in less than 1 year issued by governments, corporations and other borrowers.

Commercial Mortgage-Backed Securities (CMBS)

A type of mortgage-backed security backed by commercial mortgages rather than residential mortgages.

Co-investment

An investment into a company that is backed by a private equity fund in which the investor participates.

Commercial paper

Short-term debt obligations with maturities ranging from 2 to 270 days issued by banks, corporations, and other borrowers.

Credit quality ratings

The best known agencies that provide credit quality ratings are Standard & Poor's, Moody's, and Fitch. Credit ratings of BBB or better are considered "investment grade"; credit ratings of BB and below are lower rated securities ("high yield bonds"); and credit ratings of CCC or below are considered to have the highest default risk.

Custodian

An organization, usually a bank, which holds assets for safekeeping and performs accounting and clearing functions.

Commingled investment vehicle

An investment that pools funds of individual accounts with each account owning a share of the total investment.

Corporate Governance Program

A function carried on by the SBA and other institutional investors which focuses on the relationship between a company's officers, directors, shareowners, stakeholders and government regulators, and how these parties interact to oversee the operations of a company. Particular emphasis is placed on managing the inherent tensions between a company's shareowners and the board of directors and management. Proxy voting (e.g., voting for corporate boards of directors) is a key corporate governing activity.

Credit spread

The difference in interest rates between Treasury securities and non-Treasury securities which are identical in all respects except for quality rating.

Derivative instruments

Financial instruments which derive their value from the characteristics of one or more referenced assets. For example, a futures contract on the S&P 500 index has a value determined by the performance of the S&P 500 index.

Developed standard aggregate

A composite of portfolios consisting of investments in developed non-U.S. markets.

Diversification

An investment strategy for spreading investments among different markets, sectors, industries, time frames and securities. The goal is to protect the value of the overall portfolio in case a single security or market sector takes a serious downturn.

Domestic Equity

(asset class, combined with Foreign Equity asset class to form the Global Equity asset class effective July 1, 2010)

An asset class consisting principally of stocks of companies incorporated in the United States.

Emerging market

A foreign economy that is developing and has created its own financial markets.

Emerging market aggregate

A composite of portfolios consisting of investments in emerging markets.

Enhanced index fund

A portfolio that aims to modestly outperform the underlying index by taking small overweight and underweight positions relative to an index and/or by using trading strategies opportunistically.

External asset management

Management of investments by outside financial experts acting as fiduciaries on behalf of the SBA.

Fed (Federal Reserve) Funds Rate

The interest rate that banks charge each other for the use of funds (typically overnight).

Fiduciary

A person legally appointed and authorized to exercise discretion over assets held in trust for another person. The fiduciary manages the assets solely for the benefit of the other person. Advisors can also serve as fiduciaries.

Fixed Income (asset class)

An asset class consisting principally of investment grade bonds.

Funded ratio

A measure commonly used to gauge the health of a pension fund calculated by dividing actuarial assets by actuarial liabilities, expressed as a percentage. An index of 100% indicates full funding; i.e., assets are sufficient to pay all accrued benefits including those resulting from future service and salary increases.

Gross Domestic Product

The monetary value of all the finished goods and services produced within a country's borders, usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports.

Growth strategy

An investment strategy whose goal is to provide capital appreciation over the long-term in part by focusing on companies expected to have above average earnings growth.

Hedge fund

A private investment partnership in which the General Partner's compensation includes a management fee together with a performance fee or "carried interest" on profits. Hedge funds structures may be used for a range of investment strategies but generally will include both long and short positions.

High yield bonds

Fixed income securities that are rated below investment grade (below BBB-) by the major rating agencies.

Inflation-protected security

A bond whose face value at maturity and contemporaneous interest yield are adjusted to compensate for inflation. This is in contrast to conventional or “nominal” bonds which are not inflation adjusted. They are sometimes referred to as “real” bonds.

Internal asset management

The direct management of investments by SBA staff.

Investment grade

A bond rating of AAA to BBB-.

Investment strategy

The plan an investor uses when deciding how to allocate capital among several asset types including stocks, bonds, cash equivalents, commodities, and real estate, in order to achieve their investment objective(s). The plan includes target asset class exposures, allowable deviation from those exposures, and benchmark indices (indicating baseline return and risk) for the major asset types.

Large cap

Depending on the reference stock index (e.g., S&P, Russell, etc.), the largest 500 or 1,000 companies based on market capitalization. For example, the Russell Indices define large cap to encompass companies with over \$5 billion in capitalization, which in the U.S. is approximately 1,000 firms.

Leverage

A loan or implicit borrowing, the proceeds of which are invested with the intent to earn a greater rate of return than the cost of interest.

LIBOR (London Interbank Offered Rate)

An interest rate at which banks can borrow funds from other banks in the London interbank market.

Mandate

An SBA investment responsibility established as a requirement of Florida law.

Market capitalization

The value of a corporation as determined by the market price of its issued and outstanding common stock (number of shares times market price).

Mid cap

Middle-sized companies based on market capitalization, though exact size varies depending on the reference stock index. For example, the Russell Indices define mid cap to encompass companies with capitalization between \$500 million and \$5 billion.

Mortgage-Backed Security (MBS)

A security backed by mortgage loans. Investors receive payments from the interest and principal payments of the underlying mortgages.

Mezzanine debt

A hybrid debt instrument incorporating a higher coupon with equity-based options, such as warrants, which is senior only to that of the common equity in a company’s capital structure.

Misfit

The difference between the aggregate return of the benchmarks of the individual portfolios that constitute an asset class or fund and the target index for that class or fund.

MSCI ACWI ex-U.S. Investable Market Index

A common benchmark for foreign equity asset classes: the Morgan Stanley Capital International All Country World Index excluding the U.S.

Net asset value (NAV)

The total market value of all the securities held, less any liabilities.

Passive asset management

An investment style that is intended to mirror a market index return, recognizing costs associated with buying and selling constituent securities.

Portable alpha

An investment strategy which has two separate components. Using the U.S. stock market as an example to illustrate the components, the first seeks to obtain portfolio returns that reflect only the manager’s skill (alpha) in selecting investments within the U.S. stock market or in uncorrelated markets (e.g., short-term money markets), and thus be independent of the direction or magnitude of the U.S. stock market’s movement. The elimination of stock market risk can potentially be accomplished through short selling or use of derivatives (e.g., futures, swaps, options). The second component seeks to obtain very low cost U.S. stock market returns. This would typically be done through the use of futures or swaps.

Portfolio

Assets are managed within portfolios. A portfolio will typically contain one principal asset type (common stocks, for example), but may contain small amounts of other asset types as well. A portfolio is the basic organization unit of an asset class; an asset class is typically made up of several portfolios.

Private Equity (asset class)

An asset class consisting principally of equity investments through limited partnerships.

Proxy

The granting of authority by shareowners to others, most often corporate management, to vote their shares at an annual or special shareowners’ meeting.

Real Estate Investment Trust (REIT)

A trust that purchases and manages real estate property and pays net income to owners according to certain IRS requirements. REITs are generally publicly traded as stocks.

Real Estate (asset class)

An asset class consisting principally of direct-owned real properties, joint ventures, open-end and closed-end funds, and publicly traded real estate securities (e.g., Real Estate Investment Trusts).

Rebalancing

Moving funds between asset classes to counteract the fact that asset classes perform differently over time and therefore make up different percentages of the fund than the desired long-term percentages.

Russell 1000

An index measuring the performance of approximately 1,000 of the largest companies in the U.S. equity markets.

Russell 2000

An index measuring the performance of the 2,000 smallest companies in the Russell 3000 Index.

Russell 3000

An index measuring the performance of approximately 3,000 of the largest companies in the U.S. equity markets.

S&P 500

An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors.

SBA managed return

The return actually earned by the investment activities of the SBA, commonly expressed as a percentage, net of fees.

Structured Investment Vehicle (SIV)

A pool of investment assets that attempts to profit from credit spreads between short-term debt and long-term structured finance products such as asset-backed securities (ABS). Funding for SIVs comes from the issuance of commercial paper that is continuously renewed or rolled over; the proceeds are then invested in longer maturity assets that have less liquidity but pay

higher yields. The SIV earns profits on the spread between incoming cash flows (principal and interest payments on ABS) and the high-rated commercial paper that it issues. SIVs often employ great amounts of leverage to generate returns.

Small cap

A company with market capitalization under \$500 million.

STIPFRS

A cash sweep vehicle for all FRS portfolios intended to invest idle cash from multiple mandates in short-term fixed instruments.

Strategic Investments (asset class)

An asset class in the FRS Pension plan established to potentially contain a variety of portfolios which represent asset types or strategies not suitable for inclusion in other asset classes and a variety of opportunistic investments.

Subprime

A classification of consumer borrowers considered to have poor credit histories and therefore low (i.e., below prime) credit scores.

Total return

The annual gain or loss on an equity or debt investment. It includes reinvested dividends or interest, plus any change in the market value of the investment. When total return is expressed as a percentage, it is figured by dividing the increase in value, plus dividends or interest, by the original purchase price.

Value investing

A strategy of investing in stocks that are considered undervalued relative to other stocks.

Value added

The difference between the SBA's managed return and the fund's benchmark.

Venture capital funds

A fund that invests in start-up companies with strong growth potential.

Wilshire RESI Index

An index used to measure the performance of publicly traded real estate securities in the United States.