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Investment Terms

Alpha: Describes a strategy's ability to beat the market, or its "edge." Also referred to as excess return.

Basis Point (bps or "bips"): A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent) or 0.0001 in decimal form.

Beta: The measure of the volatility—or systematic risk—of a security or portfolio compared to the market as a whole.

Free Cash Flow (FCF) Yield: A financial solvency ratio that compares the free cash flow per share a company is expected to generate against its price per share. The ratio is calculated by taking the free cash flow per share divided by the current share price.

Inflation: A quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over some period of time. It is the rise in the general level of prices where a unit of currency effectively buys less than it did in prior periods.

Interest Rates: The amount a lender charges for the use of assets expressed as a percentage of the principal.

MSCI EAFE Index: The MSCI EAFE Index (which stands for Europe, Australasia, and the Far East) is an unmanaged index of large- and mid-sized stocks across 21 developed stock markets around the world. It is one of the most popular benchmarks of international equity performance in the developed world excluding the U.S. and Canada.

MSCI EAFE Value Index: The MSCI EAFE Value Index captures large and mid cap securities exhibiting overall value style characteristics across Developed Markets countries around the world, excluding the US and Canada. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

MSCI Emerging Markets (EM) Index: The MSCI Emerging Markets Index is an unmanaged index used to measure equity market performance in global emerging markets.

MSCI World Index: The MSCI World Index is an unmanaged index of approximately 1,500 large- and mid-sized stocks, based on market capitalization, across 23 developed markets around the world. It is not exposed to emerging markets. The index is often used as a barometer of the performance of global stocks in the developed world.

Operating Return on Assets (OROA): An efficiency or profitability ratio that measures variation of the traditional return on assets ratio. Operating return on assets is used to show a company's operating income generated per dollar invested specifically in assets used in its everyday business operations. Like the return on assets ratio, OROA measures the level of profits relative to the company's assets, but uses a narrower definition of its assets.

Price-to-Earnings (PE): The ratio for valuing a company that measures its current share price relative to its per-share earnings.

Reflation: Reflation is a fiscal or monetary policy designed to expand output, stimulate spending, and curb the effects of deflation, which usually occurs after a period of economic uncertainty or a recession. The term may also be used to describe the first phase of economic recovery after a period of contraction.

Return on Equity (ROE): A measure of financial performance calculated by dividing net income by shareholders' equity. ROE is considered a measure of how effectively management is using a company's assets (minus liabilities) to create profits.

Russell 1000 Value Index: The Russell 1000 Index is an unmanaged index of the largest publicly traded U.S. stocks, based on market capitalization, that exhibit value characteristics. It is often used as a barometer of the performance of U.S. large-cap value stocks.

S&P 500 Index: The Standard & Poor's 500 Index is an unmanaged index of the common shares of the 500 largest publicly traded U.S. companies based on market capitalization. It is often used as a barometer for the performance of the U.S. large-cap stock market.