



Glossary of Terms

- **Active Share:** Measures the disparity between a portfolio manager's holdings and that of its benchmark index.
- **Alpha:** Excess returns generated by an investment portfolio beyond the returns of a benchmark index.
- **American Depositary Receipt (ADR):** A negotiable certificate issued by a U.S. bank for a specified number of shares in a foreign stock that is traded on a U.S. exchange. ADRs are denominated in U.S. dollars, with the underlying security held by a U.S. financial institution overseas.
- **Appreciation:** An increase in an investment's value.
- **Asked or Offering Price:** The price at which a mutual fund's shares can be purchased. The asked or offering price includes the current net asset value per share plus any sales charge.
- **Assets:** The current dollar value of the pool of money invested in a fund.
- **Attribution:** A quantitative method for analyzing an investment managers investment selections and decisions to identify sources of excess returns when compared to a benchmark.
- **Average Annual Total Return:** A hypothetical rate of return that, if achieved annually, would have produced the same cumulative total return if performance had been constant over the entire period. Average annual total return smoothes out variation in performance. It is not the same as actual year-by-year results.
- **Beta:** A measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole.
- **Bond:** A debt security issued by a company, municipality or government agency. A bond investor lends money to the issuer and, in exchange, the issuer promises to repay the loan amount on a specified maturity date. The issuer usually pays the bondholder periodic interest payments over the life of the loan.
- **Buybacks:** A company's purchase of its outstanding stock shares. buybacks reduce the number of shares available on the open market. Companies usually buy back shares of their stock to increase the value of the remaining shares by reducing the supply.
- **Capital Gain:** The amount by which an asset's selling price exceeds its initial purchase price. A realized capital gain is an investment that has been sold at a profit. An unrealized capital gain is an investment that hasn't been sold yet but would result in a profit if sold. If unspecified, capital gain often refers to realized capital gain.



- **Capital Gain Distribution:** Payment to mutual fund shareholders from the profits of the sale of securities in the fund's portfolio. Typically, distributions are made annually.
- **Capitalization:** Also known as "market capitalization" or "market cap", is a way of describing a company's size. It is the total number of the company's outstanding shares multiplied by the current price of its stock. For example, if a company has 55 million shares outstanding*, each share with a market value of \$100 today, the company's market capitalization is \$5.5 billion, (55,000,000 shares outstanding* x \$100 per share).
*Shares Outstanding: The number of stock shares currently held by investors.
- **Certificate of Deposit (CD):** Short- or medium-term, interest-bearing, FDIC-insured debt instrument offered by banks and savings and loans. Low risk, low return. There is usually an early withdrawal penalty.
- **Collective Investment Trust (CIT):** A collective investment trust (CIT), also referred to as a commingled or collective fund, is a tax-exempt, pooled investment vehicle maintained by a bank or trust company exclusively for qualified plans by the Employee Retirement Income Security Act of 1974 (ERISA), including 401(k)s, and certain types of government plans.
- **Compounding:** A process whereby the value of an investment increases exponentially over time due to compound interest. Compound interest is calculated not only on the initial principal, but also on the accumulated interest of prior periods.
- **Credit Risk:** The possibility that a bond issuer may not be able to pay interest or repay its debt.
- **Current Beta:** The current measure of volatility of the portfolio compared to the market as a whole (usually the S&P 500). Stocks with beta higher than 1.0 can be more volatile than the broader market, and a beta less than 1.0 indicates a stock with lower volatility. Beta is a component of the Capital Asset Pricing Model, which calculates the cost of equity funding and can help determine the rate of return to expect relative to the perceived risk.
- **Discount to Private Market Value:** The percentage discount the portfolio trades at relative to Ariel Investments' internal estimate of the portfolio's private market value (PMV). There is no guarantee that companies we invest in will achieve our PMV or projected future earnings.
- **Distribution:** 1) The payment of dividends and capital gains to shareholders; 2) A term used to describe a method of selling to the public.
- **Diversification:** The practice of reducing risk by investing broadly across a number of securities that vary in style and objective.
- **Dividends:** Payments to fund shareholders of dividends (from stocks), interest (from bonds), and/or capital gains earned on the securities held by the fund. Income dividends are paid after deducting operating expenses.
- **Dividend Yield:** A financial ratio that shows how much a company pays out in dividends each year relative to its share price. In the absence of any capital gains, the dividend yield is the return on investment for a stock.
- **Dollar-cost Averaging:** The practice of investing a fixed amount of money at regular intervals, regardless of whether the securities markets are declining or rising.
- **Downside Capture Ratio:** A measure used to evaluate how well an investment performs in down markets compared to a benchmark. It calculates the percentage of the benchmark's losses that the investment captures, providing insight into its relative performance during periods of market decline.
- **EBITDA:** A company's earnings before interest, taxes, depreciation, and amortization.



- **Economic Moat:** A perceived competitive advantage that acts as a barrier to entry for other companies in the same industry. This perceived advantage cannot protect investors from the volatility associated with stocks, incorrect assumptions or estimations, declining fundamentals or external forces.
- **Ending Weight:** The value of the holding relative to the portfolio's total assets as of the report date.
- **EPS Growth:** The percentage change in earnings per share (EPS), on a five-year annualized basis. This figure is derived by the least squares method, using six data points - a base year plus five subsequent annual data points.
- **EV/EBITDA:** (Enterprise Value/EBITDA) is a valuation multiple used to value a company.
- **Equity:** 1) Ownership interest in a corporation in the form of common stock or preferred stock; 2) Total assets (amounts owned) minus total liabilities (amounts owed). Also called shareholder's equity, net worth or book value.
- **Exchange Traded Fund (ETF):** An ETF is an investment vehicle that pools a group of securities into a fund and trades on an exchange just like a stock does. ETF share prices fluctuate all day as the ETF is bought and sold; this is different from mutual funds which only trade once a day after the market closes.
- **Ex-dividend Date:** With regard to mutual funds, this is the day on which declared distributions (dividends or capital gains) are deducted from the fund's assets before it calculates its net asset value (NAV). The NAV per share will drop by the amount of the distribution per share.
- **Expense Ratio:** The fund's operating expenses—disclosed in the prospectus— expressed as a percentage of its average net assets. Funds with lower expense ratios are able to distribute a higher percentage of their gross income returns to shareholders.
- **Forward Price/Earnings (P/E) Ratio:** A measure of price- to-earnings ratio ("P/E") using forecasted earnings for the P/E calculation. The forecasted earnings used in the formula can either be for the next 12 months or for the next full-year fiscal period.
- **Global Depository Receipt:** A bank certificate issued in more than one country for shares in a foreign company. The shares are held by a foreign branch of an international bank. The shares trade as domestic shares, but are offered for sale globally through the various bank branches.
- **Hedge Fund:** A pooled investment fund that holds liquid assets and makes use of complex trading and risk management techniques to improve investment performance. Among these portfolio techniques are short selling and the use of leverage and derivatives. In the U.S., financial regulations require hedge funds be marketed only to institutional and high-net-worth investors.
- **Income:** Dividend, interest and/or short-term capital gains paid to a mutual fund's shareholders. Income is earned on a fund's investment portfolio after deducting operating expenses.
- **Indices:** (also known as benchmarks) measure the ups and downs of the stock market, reflecting market prices and the number of shares outstanding for companies in the index. There are many indices available, each measuring a different portion of the overall stock market. When evaluating the performance of a mutual fund, be sure to compare its performance to the appropriate index.
- **Individual Retirement Account (IRA):** An investor-established, tax-deferred account created to hold and invest funds until retirement. Contributions are often tax-deductible, but they are taxed as ordinary income when withdrawn.
- **Inflation:** The overall upward price movement of goods and services in an economy, usually measured by the Consumer Price Index and the Producer Price Index.



- **Inflation Risk:** The risk that an investment's return may be negatively affected by inflation.
- **Interest Coverage Ratio:** A liquidity measure that represents the ratio of earnings before interest and taxes (EBIT) relative to the interest expense for the period.
- **Intrinsic Value:** The perceived or calculated value of an asset, investment or company, determined by fundamental factors such as earnings, assets, growth potential, and industry outlook.
- **Large-cap Stocks:** Stocks of larger-sized companies, which are generally considered to be companies whose total outstanding shares are valued at \$10 billion or more.
- **Liquidity:** The ability to gain ready access to invested money. Mutual funds are liquid because their shares can be redeemed for current value (which may be more or less than the original cost).
- **Long-term Government Bonds:** Government bonds that mature in more than 10 years.
- **Management Fee:** The amount paid by a mutual fund to the investment adviser for its services.
- **Market capitalization:** Also known as "market cap" or "capitalization", is a way of describing a company's size. It is the total number of the company's outstanding shares multiplied by the current price of its stock. For example, if a company has 55 million shares outstanding*, each share with a market value of \$100 today, the company's market capitalization is \$5.5 billion, (55,000,000 shares outstanding* x \$100 per share).
*Shares Outstanding: The number of stock shares currently held by investors.
- **Mid-cap Stocks:** Stocks of medium-sized companies, which are generally considered to be companies whose total outstanding shares are valued between \$1 and \$10 billion.
- **Mutual Fund:** A type of investment that pools money and invests it in different securities. Investors own a proportionate amount of the fund's holdings. Mutual funds offer the small investor the benefits of diversification, liquidity and professional management.
- **Money Market Account:** Account for short-term debt securities, such as banker's acceptances, commercial paper, repurchase agreements, negotiable certificates of deposit and Treasury Bills, with a maturity of one year or less, and often 30 days or less. Typically, a safe, highly liquid investment.
- **Nlog:** An abbreviation for Natural Log return called logarithmic return or continuously compounded return. The primary advantage to such calculation is that it is symmetric, versus the arithmetic return which is not: positive and negative percent returns are not equal.
- **No-load Fund:** A mutual fund whose shares are sold without a sales commission and without a 12b-1 fee of more than .25% per year.
- **Net Asset Value (NAV):** The per-share value of a mutual fund, found by subtracting the fund's liabilities from its assets and dividing by the number of shares outstanding. Mutual funds calculate their NAVs at least daily.
- **Net Debt/Equity:** A financial leverage measure that represents total net debt as a percentage of total equity for the period.
- **Outstanding Shares:** The total number of shares issued by a company.
- **Price/Book:** A ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share.



- **Price-to-earnings ratio:** A valuation ratio of a company's share price to its per-share earnings. In general, a high "P/E ratio" suggests that investors are expecting higher earnings growth in the future compared to companies with lower P/E ratios. P/E ratio comparisons are more applicable for companies in the same industry, against the stock market in general or against the company's own historical P/E ratio.
- **Profitability:** Ability of a company to use its resources to generate revenues in excess of its expenses.
- **Return on Equity:** A measure of a corporation's profitability that reveals how much profit a company generates with the money shareholders have invested.
- **Risk/Reward Tradeoff:** The principle that an investment must offer higher potential returns as compensation for greater potential volatility.
- **Roth IRA:** An IRA established in the Taxpayer Relief Act of 1997 which allows taxpayers, subject to certain income limits, to save for retirement while allowing the savings to grow tax-free. Taxes are paid on contributions, but withdrawals, subject to certain rules, are not taxed at all.
- **Sales Charge or Load:** An amount charged for the sale of fund shares, usually those sold by brokers or other sales professionals. By regulation, a mutual fund sales charge may not exceed 8.5% of an investment purchase. The charge is reflected in the offering price and may vary depending on the amount invested and the fund chosen.
- **Small-cap Stocks:** Stocks of smaller-sized companies, which are generally considered to be companies whose total outstanding shares are valued at less than \$1 billion.
- **Total Return:** The percentage change in the value of an investment over a particular period, including any income from the investment and any change in its market value.
- **Trailing Price/Earnings Ratio:** A valuation measure that represents the price divided by the earnings per share (EPS) for the trailing twelve months as of the run date.
- **Treasury Bill:** A negotiable debt obligation issued by the U.S. government and backed by its full faith and credit, having a maturity of one year or less. Exempt from state and local taxes. Also called a bill or T-bill.
- **Turnover:** An indication of how long a fund typically holds the stocks it purchases. A turnover rate of 100% implies that a fund changes its entire investment portfolio every year.
- **Upside Capture Ratio:** A measure used to evaluate how well an investment performs in up markets compared to a benchmark. It calculates the percentage of the benchmark's gains that the investment captures, providing insight into its relative performance during periods of market growth.
- **Yield:** A measure of net income (dividends and interest) earned by the securities in a fund's portfolio minus the fund's expenses during a specified period. A fund's yield is expressed as a percentage of the maximum offering price per share on a specified date.
- **5-Year Beta:** The measure of volatility of the portfolio over a 5-year period compared to the market as a whole during the same period (benchmarked against the S&P 500).



