

Investment Fund Manager Glossary

Active Management	An investing strategy that attempts to exceed the performance of a market index by building and managing a portfolio of securities expected to exceed market performance.
Asset Class	An asset class is a grouping of investments that exhibit similar characteristics and are subject to the similar laws and regulations. Equities (stocks), fixed Income (bonds), cash and cash equivalents, real estate, and alternatives are examples of asset classes.
Benchmark	Benchmarks are indexes consisting of multiple securities representing some portion of the market. Benchmarks have been created across all asset classes and are typically used as a standard to measure investment manager performance against. A common benchmark used for Canadian equity managers is the S&P/TSX Composite Index.
Bottom-Up Investing	Bottom-up investing is an investment approach that focuses on the analysis of individual securities and de-emphasizes the significance of macroeconomic cycles and market cycles. In bottom-up investing, the investor focuses his attention on a specific company and its fundamentals, rather than top-down investing that looks industry groups or on the greater economy first. This is the opposite of top-down investing.
Cash or cash equivalents, such as money market funds	Cash and cash equivalents are currency or securities easily converted to cash. The primary advantage of cash or cash equivalent investments is their liquidity. Money held in the form of cash or cash equivalents can be easily accessed at any time.
Core Investment Style	An investment style with an objective of adding value through varying market conditions by focusing on a broad universe of securities.
Downside Protection	Downside protection in an investment occurs when the investor or fund manager uses techniques to prevent a decrease in the value of the investment, or invests in a manner that limits exposure to downside risks. It is a common objective of investors and fund managers to avoid losses and many instruments or investments can be used to achieve this objective, while noting that some risk is involved with investing generally.
Emerging Market Equities	Investments in company shares that trade on exchanges located in less-developed regions of the world.
Fixed Income Investments	Fixed-income investments/bonds are investments in debt securities that pay a rate of return in the form of interest in addition to the repayment of the principal amount.
Fundamental Investing	Fundamental investment management entails understanding a company's intrinsic value through deep financial and economic analysis. It involves more human judgement rather than objective, systematic decision making that is associated with Quantitative investing.
Growth Investing Style	An investing style that focuses on investments with good growth potential. Investments whose value is expected to grow at an above-average rate compared to its industry or the overall market may be considered a growth investment.
Hedging	A hedge is an investment or strategy to reduce the risk of adverse impact to an investment. Normally, a hedge consists of taking an offsetting position in a related security, such as hedging the currency exposure in an investment in a foreign equity or property such that the investor is exposed primarily to the equity or property held rather than the foreign currency in which it is valued.

Investment Fund Manager Glossary

Infrastructure	Infrastructure investments are a subset of private equity and represent financial claims to physical assets such as toll roads, airports, power generation, and telecommunications.
Large Cap	The market capitalization of the stocks of larger companies, generally with market values greater than \$10 billion, but this range depends on markets/regions.
Liquid Alternatives	Also known as hedge funds, liquid alternatives offer a higher degree of liquidity compared to other alternative investments. Liquid alternatives employ multiple strategies (i.e. leverage, long, short and derivative positions) with the goal of generating high returns (either in an absolute sense or over a specified market benchmark). These are similar to mutual funds in that investments are pooled and professionally managed, but differ in that the fund has far more flexibility in its investment strategies.
Low Volatility Investing Style	An investing style that focuses on securities that have historically displayed lower risk characteristics relative to the general market, which may lead to higher risk-adjusted returns.
Market Capitalization	Market capitalization refers to the total dollar market value of a company's outstanding shares of stock. Commonly referred to as "market cap," it is calculated by multiplying the total number of a company's outstanding shares by the current market price of one share. Publicly traded companies are typically grouped into three different market cap categories: large cap, mid cap, and small cap.
Mid Cap (Middle Cap)	The market capitalization of the stocks of companies with market values between \$3 billion to \$10 billion, but this range depends on markets/regions.
Momentum Investing Style	An investing style that focuses on holding stocks with strong recent performance and underweighting securities with poor recent performance.
Passive Management	An investing strategy that follows a market index by managing a portfolio that closely replicates the index in question.
Private Equity	Private equity is an alternative investment, and is a non-publicly traded form of ownership in a company. Investors directly invest in companies or engage in buyouts of companies. Private equity firms or funds employ different strategies to create value similar to publicly traded companies by growing revenues and/or reducing costs.
Quality Investment Style	An investment style focused on buying companies with strong balance sheets, consistent year-over-year earnings growth and low financial leverage.
Quantitative Investing	Quantitative investment management makes use of systematic models to study the behaviour of various investments and markets, to determine investment risks and opportunities available across asset classes and markets. Fundamental investing is the opposite investing style
Real estate or other tangible assets	Real estate and other physical assets are an asset class that offers protection against inflation. The tangible nature of such assets also leads to them being described as real assets.

Investment Fund Manager Glossary

Stocks or equities	Equities are shares of ownership issued by publicly-traded companies. They are traded on stock exchanges such as the TSX or NYSE.
Stock Exchange	A market in which securities are bought and sold. An example of a stock exchange is the Toronto Stock Exchange (TSX) in Canada and the New York Stock Exchange (NYSE) in the U.S.
Top-down Investing	An approach to security selection and portfolio construction which places emphasis on macroeconomic factors such as global growth and financial conditions.
Value-Add	The difference between an investment manager's performance and the benchmark the manager is measured against. For example, if a manager's one-year performance is 15 per cent vs. the 14 per cent benchmark, the manager's value-add is one per cent. Value-Add can be a positive or negative number.
Value Investment Style	An investment style focused on buying out-of-vogue companies selling at a discount to an analyst's estimates of their intrinsic business value with the expectation that the market should eventually realize the true worth of such companies.

Private Markets Glossary

Advisory Board	A committee of Limited Partners (LPs) within a fund delegated by the General Partner (GP) to give approval and/or guidance on any situations involving a possible conflict of interest.
Allocation	The amount of ownership or securities assigned to an investor, broker, or underwriter in an offering. An allocation can be equal to or less than the amount indicated by the investor during the subscription process depending on market demand for the securities. In a limited partnership, this can take form in an investor that requested a commitment of \$10 million, but was only allocated \$5 million due to the fund being oversubscribed.
Buyout	A form of private equity, characterized chiefly by risk investment in established private or publicly listed firms that are undergoing a fundamental change in operations or strategy. General partners usually establish controlling ownership positions in portfolio companies.
Capital Call	When a General Partner (GP) has decided to make an investment in a Portfolio Company, it will approach its investors in order to "draw down" the money. Investors will have previously committed to the Limited Partnership or fund but this is the act of calling monies from the Limited Partners at a specific time in order to complete an investment transaction.
Capital Commitment	An investor in a private equity fund commits to investing a certain amount of capital to a fund. This "capital commitment" is not paid to the fund at one time, but is "called" by the fund over time.
Carried Interest	A performance-based incentive accruing to a Limited Partnership's management company. Carried interest, also known as "carry" or "profit participation," is the share in the profits that the general partner receives from the fund. Carried interest is typically subject to a hurdle rate that must be achieved before carried interest is earned.
Closed-end Fund	A type of fund that has a fixed period or life, common in private markets. In contrast, an open-end fund will allow new and/or existing investors to continue to invest new monies into the fund with no specified end date or termination.
Closing	"Closing" refers to the time when investors sign a limited partnership agreement and legally commit to provide capital to the fund, and are accepted into the fund by the general partner.
Co-Investments	A co-investment is a minority investment in an individual portfolio company made by investors alongside a private equity fund. Co-investment enables investors to participate specific fund investments without paying the usual fees charged by a private equity fund. Co-investment opportunities are typically restricted to large institutional investors who already have an existing relationship with the GP. Co-investment opportunities within a limited partnership are attractive to investors because they are generally offered free from management fees, but they provide higher exposures to specific portfolio companies.
Committed Capital	The total dollar amount of capital pledged to a private equity fund. A fund will have specific committed capital figures from every investor and a total committed capital figure for the fund overall. An investor may have committed \$10 million to a \$1 billion fund, representing a 1% interest in the fund.
Commitment Period	The period of time within which the fund can make investments as established in the limited partnership agreement (LPA) for the fund. This period typically occurs over the first five years of a fund's life. Also known as the Investment Period.

Private Markets Glossary

Deal	A deal can refer to a limited partner (LP) committing to a specific limited partnership, or a limited partnership transacting to acquire a portfolio company.
Distributions	Cash and/or securities paid out to the Limited Partners from the Limited Partnership. Most Limited Partnerships will distribute cash proceeds to LPs upon selling a portfolio company, but sometimes the Limited Partnerships may distribute the securities of an investment within the Limited Partnership, often following an IPO where privately held shares can now be traded on a public exchange.
Due Diligence	The process by which investors evaluate investment opportunities. This can refer to the process a general partner undergoes to analyze the risks and opportunities of a portfolio company, the process limited partners undergoes when evaluating general partners and limited partnerships, or the legal due diligence that limited partners may perform on the contractual terms of the limited partnership agreement.
Economic Infrastructure	Infrastructure investments which derive its value from its underlying revenue generation. End users pay directly for the services provided by these assets. Examples include toll roads, power generation, cell towers, airports and seaports.
Enterprise Value	The total value of a business, the price at which it may be bought or sold.
Exit Strategy	An investor's intended method for exiting its investments while achieving the maximum possible return. These strategies depend on the exit climates including market conditions and industry trends. Exit strategies can include selling or distributing the portfolio company's shares after an initial public offering (IPO), the sale of the portfolio company to a financial buyer, or a trade sale to a larger entity within the portfolio company's industry.
Fund	The fund or limited partnership is a legal entity whereby investors provide capital for the purpose of investment in a portfolio of companies.
Fund Manager	The general partner or professional investment manager of a private equity fund or funds.
Fund Size	The total amount of capital committed by the investors of a private markets fund.
General Partner (GP)	The private equity management company who manages the investments, income and expenses of the limited partnership. The General Partner is the intermediary between investors with capital and businesses seeking capital to grow.
Harvesting Period	The period where fund managers begin to exit portfolio companies after executing their strategy, resulting in distributions being sent back to investors / limited partners.
Holding Period	The amount of time an investor has held an investment. The period begins on the date of purchase and ends on the date of sale, and determines whether a gain or loss has resulted.
Hurdle Rate (or Preferred Return)	The internal rate of return that a fund must achieve before its general partners or managers may receive an increased interest in the proceeds of the fund (i.e. carried interest).

Private Markets Glossary

Infrastructure Classifications	Four classifications of infrastructure assets, in order of increasing risk and return are: core, core-plus, value-add, and opportunistic. Core infrastructure are considered on the low end of the risk spectrum, and consists of operating assets (i.e. – brownfield) that generate consistent, stable cash flows (like fixed income). These assets are held for long time-horizons. Opportunistic infrastructure assets are on the higher-end of the risk spectrum and derive the majority of returns from capital appreciation (more equity-like). Opportunistic assets are more exposed to greenfield / construction projects, have less stable cash-flow profiles, and shorter investment holding periods. Core-Plus and Value-add infrastructure assets fall in between core and opportunistic infrastructure assets on the risk-return spectrum and will derive returns from both income and capital appreciation.
Initial Investment Date	The date a fund completed its first contribution of capital to an underlying holding.
Initial Public Offering (IPO)	The sale or distribution of the privately-held stock of a portfolio company on public markets for the first time. This is a common exit mechanism for private equity fund investments.
Internal rate of return (IRR)	The discount rate at which the present value of future cash flows of an investment equals to the cost of the investment. It is determined when the net present value of the cash outflows (the cost of the investment) and the cash inflows (returns on the investment) equal zero, with the discount rate equal to the IRR. The IRR is a rate of return calculation that is one of the mostly common performance measurements used in private market investing that helps investors evaluate and compare investment opportunities.
Invested Capital	The total amount of committed capital which has actually been invested in portfolio companies.
Investment Manager	The professional investment manager of a private equity fund or funds.
Investment Period	The period of time within which the fund can make investments as established in the limited partnership agreement (LPA) for the fund. This period typically occurs over the first five years of a fund's life. Also known as Commitment Period.
J-Curve Effect	The curve realized by plotting the returns generated by a private equity fund against time (from inception to termination). The common practice of paying the management fee and start-up costs out of the earlier capital calls does not usually produce a positive return. As a result, a private equity fund will generally initially show a negative return. When the portfolio companies produce positive cash flows and/or the first exits or realizations are made, the fund returns can rise sharply.
Leveraged Buyout (LBO)	A LBO is a transaction where an investor acquires control of a mature operating company (which may be public or private) and where a significant portion of the purchase price consists of debt. The takeover of the company, using a combination of equity and borrowed funds, may use the target company's assets as the collateral for the loans taken out by the acquiring group. The acquiring group then repays the loan from the cash flow of the acquired company. In most LBOs, public shareholders receive a premium to the market price of the shares.
Limited Partner (LP)	The investors in a limited partnership. Limited partners are not involved in the day-to-day management of the partnership and generally cannot lose more than their capital contribution.

Private Markets Glossary

Limited Partnership Agreement (LPA)	The document which constitutes a Limited Partnership, and is essentially the contract that sets out the terms for the limited partners or investors and the investment manager or general partner.
Limited Partnership	An entity comprised of a general partner, who manages a fund, and limited partners, who invest money into the fund but are not involved with individual investment decisions or the day-to-day management of the fund. The general partner typically receives a management fee and a percentage of the profits (or carried interest) for performance above a certain target or hurdle rate. The limited partners receive income and capital gains.
Lock-up Period	The period of time that certain stockholders have agreed to waive their right to sell their shares of a public company.
Management Fee	The management fee is the fee charged by the general partner to the fund for running the day-to-day operation of the fund, and is typically charged as a percentage of committed capital or invested capital.
Management Team	The persons who oversee the activities of a private equity fund or portfolio company within a fund.
Mezzanine Capital	A specialized form of private equity, mezzanine financing is a capital resource that sits between (less risky) senior debt and (higher) risk equity that has both debt and equity features.
Net IRR	Net Return for a fund is the return that deducts all management fees, fund expenses and carried interest paid to the GP. Net Return is the actual return experienced by the LP.
Offering Memorandum (OM)	An OM is a document issued by or on behalf of a limited partnership with the objective of raising interest from potential investors. Sometimes referred to as a Private Placement Memorandum.
Open-end Fund	An open-end fund, or evergreen fund, generally issues as many units as investor demand requires, while respecting the capacity of the strategy or fund. As additional capital is received, additional units are issued and the fund grows. If net redemptions exit the fund the number of units decrease and the fund shrinks, relatively speaking. Open-end funds can soft-close, ceasing to be available to new investors while remaining open to investment from existing investors, and may hard-close, where the fund ceases to accept new capital from new and existing investors.
Paid-in Capital	The amount of committed capital a limited partner has actually transferred or "paid-in" to a private equity fund.
Portfolio Company	A portfolio company is a company in which a private equity fund has made an investment.
Secondary Market	The market for the purchase and sale of partnership interests in private equity funds. Sometimes limited partners choose to sell their interest in a partnership, in order to generate cash or fund preferred investment opportunities. Secondary market transactions often require the approval of the GP.

Private Markets Glossary

Seed Money	The first round of capital for a start-up business. Seed money usually takes the structure of a loan or an investment in preferred stock or convertible bonds, although sometimes it is equity. Seed money provides startup companies with the capital required for their initial development and growth. Angel investors and early-stage venture capital funds often provide seed money.
Social Infrastructure	Infrastructure investments where users pay indirectly through taxes and governments pay directly for the services provided. Examples include schools, hospitals, and public transportation.
Subordinated Debt	Subordinated debt is debt which ranks after other debts if a company falls into liquidation or bankruptcy. Subordinated debt has a lower priority and ranks below the hierarchy of creditors.
Subscription Agreement	The application submitted by an investor wishing to join a limited partnership, in addition to the limited partnership agreement.
Termination Date	The date defined in the LPA whereby the fund must cease operations and liquidate its investments.
Unfunded Commitment	Money that has been committed to an investment but not yet transferred to the General Partner.
Venture Capital	A specialized form of private equity, characterized chiefly by higher risk investments in new or young companies where risk and return are generally the highest.
Vintage Year	The year of fund formation and/or its first takedown of capital. By indicating a fund's vintage year, the Limited Partner can compare the performance of a given fund with all other similar types of funds from that particular year.