GLOSSARY OF INVESTMENT-RELATED TERMS FOR NATIONAL ELECTRICAL ANNUITY PLAN PARTICIPANTS

General Information

This Glossary of Investment-Related Terms for National Electrical Annuity Plan Participants (the "Glossary") is meant to comply with the requirement in new Department of Labor regulations[1] that participant-directed retirement plans, such as the National Electrical Annuity Plan ("NEAP"), provide participants access to a glossary of investment-related terms. The Glossary is designed to assist NEAP participants and beneficiaries in understanding the Life Stage Fund investment options NEAP provides and includes excerpts from sample language published by The SPARK Institute and the Investment Company Institute on April 26, 2012.

Investment-Related Terms

Active Management: The trading of securities to take advantage of market opportunities as they occur, in contrast to passive management. Active managers rely on research, market forecasts, and their own judgment and experience in selecting securities to buy and sell.

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

Annual Report: A yearly report or record of an investment's (e.g., a mutual fund's or company's) or a retirement plan's financial position and operations.

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 include cash, real estate and investments.

Asset Allocation: A method of investing by which investors include a range of different investment classes − such as stocks, bonds, and cash alternatives or equivalents − in their portfolios. See Diversification.

Asset Class: A group of securities or investments that have similar characteristics and behave similarly in the marketplace. Three common asset classes are equities (e.g., stocks), fixed income (e.g., bonds), and real estate.

Average Annual Total Return: The yearly average percentage increase or decrease in an investment's value that includes dividends, gains, and changes in share price.

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[1] 29 CFR § 2550.404a-5.

Barclay’s Capital U.S. Aggregate Bond Index: A common index widely used to measure performance of U.S. bond funds.

Barclay’s Capital Mortgage-Backed Securities Index: An index used to measure performance of securities backed by the mortgage pools of the Government National Mortgage Association (Ginnie Mae), the Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (Freddie Mac).

Basis Point: One-hundredth of one percent, or 0.01%. For example, 20 basis points equal 0.20%. Investment expenses, interest rates, and yield differences among bonds are often expressed in basis points.

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 Standard & Poor’s 500 Index.

Bond: A debt security which represents the borrowing of money by a corporation, government, or other entity. The borrowing institution repays the amount of the loan plus a percentage as interest. Income funds generally invest in bonds.

Capitalization (Cap): The total market value of a company's outstanding equity.

Capital Gain: An increase in the value of an investment, calculated by the difference between the net purchase price and the net sale price.

Capital Loss: The loss in the value of an investment, calculated by the difference between the purchase price and the net sale price.

Capital Preservation: An investment goal or objective to keep the original investment amount (the principal) from decreasing in value.

Common Stock: An investment that represents a share of ownership in a corporation.

Compounding: The cumulative effect that reinvesting an investment’s earnings can have by generating additional earnings of their own.

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

Credit Risk: The risk that a bond issuer will default, meaning not repay principal or interest to the investor as promised. Credit risk is also known as "default risk."

Current Yield: The current rate of return of an investment calculated by dividing its expected income payments by its current market price.

Custodian: A person or entity (e.g., bank, trust company, or other organization) responsible for holding financial assets.

Deflation: The opposite of inflation − a decline in the prices of goods and services.

Department of Labor (DOL): The United States Department of Labor is the agency charged with administering and enforcing the provisions of ERISA, including supervising pension plans established under ERISA as well as the parties involved in the establishment, management, or administration of any such plan.

Depreciation: A decrease in the value of an investment.

Designated Investment Alternative: The Life Stage Fund investment options designed by NEAP into which participants can direct the investment of their plan accounts. See Life Stage Funds.

Diversification: The practice of investing in multiple asset classes and securities with different risk characteristics to reduce the risk of owning any single investment.

Dow Jones Industrial Average (Dow or DJIA): A widely followed price-weighted index of 30 of the largest, most widely held U.S. stocks.

Equity/Equities: A security or investment representing ownership in a corporation, unlike a bond, which represents a loan to a borrower. Often used interchangeably with "stock."

ERISA: The Employee Retirement Income Security Act of 1974, as amended, is the federal law that regulates retirement plans. Plans under ERISA must meet certain minimum standards regarding the management and administration of the plan and its assets.

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

Extension Risk: The risk that an issuer of a security may repay principal more slowly than expected because of rising interest rates.

Financial Statements: The written record of the financial status of a fund or company, usually published in the annual report. The financial statements generally include a balance sheet, income statement, and other financial statements and disclosures.

Hueler Stable Value Pooled Fund Index: A common index widely used to measure performance of stable value funds.

Inception Date: The date that a fund began operations.

Index or Market Index: A benchmark against which to evaluate an investment fund's performance. Commonly known indexes for stock funds are the Russell Indexes and Standard & Poor's 500 Index.

Index Fund: An investment fund that seeks to parallel the performance of a particular stock market or bond market index. Index funds are often referred to as passively managed investments.

Inflation: The overall general upward price movement of goods and services in an economy. Inflation is one of the major risks to investors over the long term because it erodes the purchasing power of their savings.

Interest Rate Risk: The possibility that a bond's or bond fund's market value will decrease (increase) due to rising (lowering) interest rates. When interest rates (and bond yields) go up, bond prices usually go down and vice versa.

Investment Adviser or Investment Manager: A person or organization hired by an investment fund or an individual to give professional advice on investments and asset management practices.

Investment Objective or Investment Strategy: The goal that an investment fund or investor seeks to achieve (e.g., growth or income).

Investment Return: The gain or loss on an investment over a certain period, expressed as a percentage. Income and capital gains or losses are included in calculating the investment return.

Investment Risk: The possibility of losing some or all of the amounts invested or not gaining value in an investment.

Investment Style: The different style characteristics of equities, bonds, or other asset classes within a given investment philosophy. Investment styles include value or growth investing and passive or active investing.

Large Capitalization (Cap): A reference to either a large company stock or an investment fund that invests in the stocks of large companies.

Large Cap Stocks: Stocks of companies with a large market capitalization. Large caps tend to be well-established companies, so their stocks typically entail less risk than smaller caps, but large-caps also offer less potential for dramatic growth.

Life Stage Funds: The designated investment alternatives NEAP offers to its participants. Each of NEAP's five Life Stage Funds is professionally designed and managed with an asset mix that is tailored for one of the following age groups: Under 30, 30s, 40s, 50s and 60s Plus. The Life Stage Funds have a varying degree of long-term appreciation and capital preservation based on participants' ages such that Life Stage Funds for younger age groups generally are more aggressive and have a higher risk/higher return profile when compared to the Life Stage Funds for older age groups that are closer to retirement.

Liquidity: The ease with which an investment can be converted into cash. If a security is very liquid, it can be bought or sold easily. If a security is not liquid, it may take additional time and/or a lower price to sell it.

Liquidity Risk: The risk that arises from the difficulty of selling an asset.

Management Fee: A fee or charge paid to an investment manager for its services.

Market Capitalization or Market Cap: The market value of a company. Market capitalization can be determined by multiplying the number of outstanding shares of a company's stock by the stock's current market price per share.

Market Risk: The possibility that the value of an investment will fall because of a general decline in the financial markets.

Mid Capitalization (Cap): A reference to either a medium sized company stock or an investment fund that invests in the stocks of medium-sized companies.

Mid Cap Stocks: Stocks of companies with a medium market capitalization. Mid caps are often considered to offer more growth potential than larger caps (but less than small caps) and less risk than small caps (but more than large caps).

NCREIF Property Index (NPI): An index measuring the investment performance of institutional grade real estate acquired in the private market for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors in the United States - the great majority being pension funds.

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

Operating Expenses: The expenses associated with running or operating an investment fund. Operating expenses may include custody fees, management fees, and transfer agent fees. See Expense Ratio and Total Annual Operating Expenses.

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 investments such as stocks and bonds that are owned by an individual, organization, or investment fund.

Portfolio Turnover Rate: A measure of how frequently investments are bought and sold within an investment fund during a year. The portfolio turnover rate is usually expressed as a percentage of the total value of an investment fund.

Prepayment Risk: The risk that an issuer of a debt security may be able to repay principal prior to the security's maturity because of an improvement in its credit quality or falling interest rates and the principal may have to be reinvested in securities with lower interest rates than the original securities, reducing the potential for income.

Principal: The original dollar amount of an investment. Principal may also be used to refer to the face value or original amount of a bond.

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.

Rebalance: The process of moving money from one type of investment to another to maintain a desired asset allocation.

Return: The gain or loss on an investment. A positive return indicates a gain, and a negative return indicates a loss.

Risk: The potential for investors to lose some or all the amounts invested or to fail to achieve their investment objectives.

Risk Tolerance: An investor's ability and willingness to lose some or all of an investment in exchange for greater potential returns.

Russell Indexes: A group of indexes that are widely used to benchmark investment performance. The **Russell 3000 Index** is composed of the 3,000 largest U.S. companies by market capitalization. The most common Russell index is the **Russell 2000 Index**, an index of U.S. small-cap stocks, which measures the performance of the 2,000 smallest U.S. companies in the **Russell 3000 Index**. The **Russell 1000 Index** measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the **Russell 3000 Index** and includes approximately 1,000 of the largest U.S. securities based on a combination of their market cap and current index membership. The **Russell Mid Cap Equity Index** (or Russell Midcap Index) measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Mid Cap Equity Index is a subset of the **Russell 1000 Index**. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership.

Security: A general term for stocks, bonds, mutual funds, and other investments.

Securities and Exchange Commission (SEC): Government agency created by Congress in 1934 to regulate the securities industry and to help protect investors. The SEC is responsible for ensuring that the securities markets operate fairly and honestly.

Small Capitalization (Cap): A reference to either a small company stock or an investment fund that invests in the stocks of small companies.

Small Cap Stocks: Stocks of companies with a smaller market capitalization. Small caps are often considered to offer more growth potential than large caps and mid caps but with more risk.

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 Stock Index (S&P 500): An index comprised of 500 widely held common stocks considered to be representative of the U.S. stock market in general. The S&P 500 is often used as a benchmark for equity fund performance.

Stock: A security that represents an ownership interest in a corporation.

Time Horizon: The amount of time that an investor expects to hold an investment before taking money out.

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. See Expense Ratio and Operating Expenses.

Volatility: The amount and frequency of fluctuations in the price of a security, commodity, or a market within a specified time period. Generally, an investment with high volatility is said to have higher risk since there is an increased chance that the price of the security will have fallen when an investor wants to sell.

Yield: The value of interest or dividend payments from an investment, usually stated as a percentage of the investment price.