<u>Glossary:</u> The ETF Portfolio Challenge Glossary is designed to help familiarize our participants with concepts and terminology closely associated with Exchange-Traded Products. For more educational offerings, please visit www.etfg.com.

ACTIVE MANAGEMENT
The process of hand selecting securities with the purpose of trying to outperform a benchmark index. Active portfolio managers use economic data, investment research, market forecasts, and other indicators to help make investment decisions

ALPHA
A measure of performance on a risk-adjusted basis. Alpha, often considered the active return on an investment, gauges the performance of an investment against a market index used as a benchmark, since they are often considered to represent the market's movement as a whole. The excess returns of a fund relative to the return of a benchmark index is the fund's alpha. Alpha is most often used for mutual funds and other similar investment types. It is often represented as a single number (like 3 or -5), but this refers to a percentage measuring how the portfolio or fund performed compared to the benchmark index (i.e. 3% better or 5% worse). Alpha is often used with beta, which measures volatility or risk, and is also often referred to as "excess return" or "abnormal rate of return"

AMERICAN DEPOSITARY RECEIPTS (ADR)
ADRs are a type of negotiable financial security that is traded on a local stock exchange but represent a security that is issued by a foreign publicly-listed company.

ANNUALIZED RETURN
The average amount of money earned by an investment each year over a given time period.

ARBITRAGE
The simultaneous purchase and sale of an asset in order to profit from a difference in the price. It is a trade that profits by exploiting price differences of identical or similar financial instruments, on different markets or in different forms. Arbitrage exists as a result of market inefficiencies; it provides a mechanism to ensure prices do not deviate substantially from fair value for long periods of time

ASK
The **ask** or **offer** price is the lowest price that a dealer is willing to sell the security at (equivalently, this is the least that you, as an investor, must pay to buy the security)

ASSET-BACKED SECURITY
A fixed income security whose value or cash flows depends on the value of another asset, such as a loan, lease, or receivable

AVERAGE DAILY VOLUME (ADV)
This is determined by the number of shares traded per day, averaged over a defined period of time, typically one year. Trading activity relates to the liquidity of a security; therefore,

when average daily trading volume is high, the stock can be easily traded and has high liquidity. Consequently, average daily trading volume can have an effect on the price of the security. If trading volume isn't very high, the security will tend to be less expensive because people are not as willing to buy it

AVERAGE EFFECTIVE MATURITY

A weighted average of the maturity dates for all securities in a money market or bond fund. (The maturity date is the date that a money market instrument or bond buyer will be repaid by the security's issuer.) The longer the average maturity, the more a fund's share price will move up or down in response to changes in interest rates.

AVERAGE TRADING DAILY VOLUME (ADTV)

The average daily trading volume (ADTV) is the amount of individual securities traded in a day on average over a specified period of time. Trading activity relates to the liquidity of a security--when average daily trading volume is high, the stock can be easily traded and has high liquidity; if trading volume isn't very high, the security will tend to be less expensive because people are not as willing to buy it. As a result, average daily trading volume can have an effect on the price of the security.

ASSET ALLOCATION

The process of apportioning investments among various asset classes, such as equities, fixed income, and cash equivalents. Asset allocation is a core feature of any investment strategy, as it affects both the risk and return of investors

ASSETS UNDER MANAGEMENT (AUM)

AUM refers to the total market value of investments managed by a mutual fund, money management firm, hedge fund, portfolio manager, or other financial services companies

AUTHORIZED PARTICIPANT (AP)

This term refers to large financial institutions, such as broker-dealers, specialist firms and market makers, which are involved in the creation and redemption of ETF shares. An AP typically enters into a legal contract with an ETF distributor to create and redeem shares of the fund. APs play a key role in the primary market for ETF shares because they are the only investors allowed to interact directly with the fund. APs do not receive compensation from an ETF or its sponsor and have no legal obligation to create or redeem the ETF's shares. APs typically derive their compensation from acting as dealers in ETF shares and they create and redeem shares in the primary market when doing so is a more effective way of managing their firms' aggregate exposure than trading in the secondary market

BASIS POINT

Measurement used to quote interest rates or other percentages in finance. One basis point is equal to 0.01%, or one one-hundredth of one percent. 100 basis points is equal to 1%, whereas 50 basis points would equal one half percent, or 0.50%

BASKET

A collection of securities. The underlying securities within an ETF are often collectively referred to as a basket

BACKWARDATION
A condition that occurs when the price of a commodity for delivery on a future date is lower than the spot price for delivery of the commodity today. When this condition occurs, it is beneficial for ETFs that are long the futures contracts expiring and in need of rolling them into new futures positions (this is because the proceeds from disposing of the near contracts reaching expiration is greater than the amount to be paid for similar underlying exposure in subsequent months futures contracts).

BENCHMARK
A benchmark is a standard or point of reference for assessing the performance of an investment. The objective of most money managers and investors is to outperform their respective benchmark

BETA
Beta is a volatility measurement of a stock, mutual fund or ETF against a comparable benchmark, such as the S&P 500 stock index. An ETF with a higher beta than the S&P 500 will rise or fall to a greater degree. Conversely, an ETF with a low beta will rise or fall less

BID
The **bid** price is the highest price that a dealer is willing to pay for a security (equivalently, it is the most that you, as an investor, can receive for selling a security)

BID-ASK SPREAD
The amount by which the ask price exceeds the bid. This is essentially the difference in price between the highest price that a buyer is willing to pay for an asset and the lowest price for which a seller is willing to sell it. The size of the spread from one asset to another will differ mainly because of the difference in liquidity of each asset

BLEND FUND
A category of equity funds with portfolios that are made up of a mix of value and growth stocks

BOOK VALUE
Refers to the net asset value of a company determined by subtracting liabilities and intangible assets from Total assets

BOND
A bond is a debt investment in which an investor loans money to an entity (typically corporate or governmental) which borrows the funds for a defined period of time at a variable or fixed interest rate. Bonds are used by companies, municipalities, states and sovereign governments to raise money and finance a variety of projects and activities. Bonds are commonly referred to as fixed-income securities and are one of the three main generic asset classes, along with stocks (equities) and cash equivalents. Many corporate

and government bonds are publicly traded on exchanges, while others are traded only over-the-counter (OTC). When companies or other entities need to raise money to finance new projects, maintain ongoing operations, or refinance existing other debts, they may issue bonds directly to investors instead of obtaining loans from a bank. The indebted entity (issuer) issues a bond that contractually states the interest rate (coupon) that will be paid and the time at which the loaned funds (bond principal) must be returned (maturity date). The issuance price of a bond is typically set at par, usually $100 or $1,000 face value per individual bond. The actual market price of a bond depends on a number of factors including the credit quality of the issuer, the length of time until expiration, and the coupon rate compared to the general interest rate environment at the time

BROKER/BROKER-DEALER
An individual or firm that buys or sells mutual funds or other securities for the public. The term broker-dealer is used in U.S. securities regulation parlance to describe stock brokerages, because most of them act as both agents and principals. A brokerage acts as a broker (or agent) when it executes orders on behalf of clients, whereas it acts as a dealer, or principal, when it trades for its own account. Broker-dealers fulfill several important functions in the financial industry; these include providing investment advice to customers, supplying liquidity through market-making activities, facilitating trading activities, publishing investment research and raising capital for companies

CALL OPTION
A call option gives its owner the right (not obligation) to buy a predetermined quantity of stock or commodities from the seller at a specified price (strike price) within a certain time frame (expiration date)

CAPITAL GAIN
An increase in the value of a capital asset (investment or real estate) that gives it a higher worth than the purchase price. The gain is not realized until the asset is sold. A capital gain may be short term (one year or less) or long term (more than one year) and must be claimed on income taxes. A capital loss is incurred when there is a decrease in the capital asset value compared to an asset's purchase price

CAPITAL GAINS DISTRIBUTIONS
Payments to ETF shareholders of gains realized during the year on securities that the fund has sold at a profit, minus any realized losses.

CARRY
The amount of return that accrues from investing in fixed income or currency forward contracts. A carry traded is a trading strategy that involves borrowing at a low interest rate and investing in an asset that provides a higher rate of return. A carry trade is typically based on borrowing in a low-interest rate currency and converting the borrowed amount into another currency, with these proceeds either (a) placed on deposit in the second currency if it offers a higher rate of interest, or (b) deployed into assets – such as stocks, commodities, bonds, or real estate – that are denominated in the second currency. Carry trades are strategies that are only appropriate for deep-pocketed entities because of two

major risks – the risk of a sharp decline in the price of the invested assets, and the implicit exchange risk when the funding currency differs from the borrower's domestic currency

CLOSED-END FUND
Closed-end funds issue a fixed number of shares through an initial public offering and often use leverage to magnify their performance. Closed-end funds are bought and sold just like stocks and their share price often trades at a noticeable discount or premium to the fund's net asset value

COLLATERAL
Something pledged as security for repayment in the event of default or a loss

COLLATERALIZED DEBT OBLIGATION (CDO)
A structured financial product that pools together cash flow-generating assets and repackages this asset pool into discrete tranches that can be sold to investors. A collateralized debt obligation (CDO) is so-called because the pooled assets – such as mortgages, bonds and loans – are essentially debt obligations that serve as collateral for the CDO. The tranches in a CDO vary substantially in their risk profile. The senior tranches are relatively safer because they have first priority on the collateral in the event of default. As a result, the senior tranches of a CDO generally have a higher credit rating and offer lower coupon rates than the junior tranches, which offer higher coupon rates to compensate for their higher default risk

COMMISSION
Transaction fee paid to a broker for executing a securities trade. Commission amounts vary and are often dependent on the size of trade, the frequency of trades, and sometimes the size of the brokerage account. Discount brokers tend to charge lower commissions for trades versus full service brokers

CONTANGO
A condition that occurs when the price of a commodity or other asset is higher on a future delivery date than the current spot price for delivering the asset. This condition is detrimental for ETFs investing in commodities via futures contracts, in that they receive less proceeds from the sale of their contracts nearing expiry than that required to maintain similar exposure going forward – a condition known as "negative roll yield".

CORPORATE ACTIONS
Decisions made by the board of directors of a corporation that affect the shareholders of that corporation. Dividends, buybacks, bond calls and issuance, stock splits, mergers, acquisitions and spinoffs are all common examples of corporate actions.

CORRELATION
A measure of the degree to which the price trends of various investment categories or instruments move in the same direction. The correlation quantifies the strength of the relationship as a figure between -1 and +1. The closer the coefficient is to 1, the stronger

the correlation. If the coefficient is -1, the investments and the benchmark move in opposite directions. If the value is 0 there is no correlation.

COST BASIS
The original cost of an investment plus its associated purchase expenses and capital improvements. For tax purposes, the cost basis is subtracted from the sales price to determine any capital gain or loss.

COUNTERPARTY RISK
The risk that an institution defaults and fails to pay on a credit derivative, a credit default swap, insurance contract, a trade or another financial transaction. ETFs that use swaps or derivatives may be exposed to counterparty risk. ETNs too are subject to counterparty risk because they rely on the creditworthiness of the issuing financial institution.

COUPON RATE
Coupon rate is the rate of interest the bond issuer will pay on the face value of the bond, expressed as a percentage. Typical coupon payment intervals are annual or semi-annual.

CREATION UNIT
The smallest block of shares in an exchange-traded fund that can be purchased or redeemed directly from the fund company at net asset value. Creation units are usually transacted in 50,000 share increments, rendering them large dollar transactions limited to large institutions and other authorized participants. Instead of receiving cash, the seller of a creation unit would receive a basket of securities that corresponds to the portfolio holdings in a particular ETF. This "in-kind" transfer process is unique to ETF's and does not create tax consequences for the seller

CREATIONS/REDEMPTIONS
The process by which Authorized Participants transact directly with the fund on an "in kind" basis. Creations/Redemptions occur in Creation Unit aggregations or multiples thereof and involve delivering a specified basket of securities to the fund in exchange for ETF shares and vice versa. Creations/Redemptions occur at the end-of-day Net Asset Value of the fund to avoid dilution of existing fund shares. Creations/Redemptions involve an "in kind" transfer of securities, a transaction that is not a taxable event for the fund. This allows imbalances between supply and demand for ETF shares to be satisfied without having an adverse taxable effect upon existing ETF shareholders. The creation and redemption mechanisms help ETF shares to trade at a price close to the market value of their underlying assets. When ETF shares begin to trade at a price that is higher than the market value of their underlying assets (at a “premium”), APs may find it profitable to create ETF shares by buying the underlying securities and exchanging them for ETF shares, and then sell those shares into the market. Similarly, when ETF shares begin to trade at a price lower than the market value of their underlying assets (at a “discount”), APs may find it profitable to buy ETF shares in the secondary market and redeem them to the ETF in exchange for the underlying securities. These actions by APs, commonly described as “arbitrage opportunities,” help to keep the market-determined price of an ETF’s shares close to the market value of their underlying assets

CREDIT DEFAULT SWAP
A credit default swap is a particular type of swap designed to transfer the credit exposure of fixed income products between two or more parties. In a credit default swap, the buyer of the swap makes payments to the swap's seller up until the maturity date of a contract. In return, the seller agrees that, in the event that the debt issuer defaults or experiences another credit event, the seller will pay the buyer the security's premium as well all interest payments that would have been paid between that time and the security's maturity date

CREDIT RATING
Measurement of the quality of a borrower, particularly in respect of solvency and willingness to pay. The credit rating makes it possible to draw conclusions regarding the quality of bonds and the probability that interest payments will be made regularly and that the principal amount will be repaid at maturity.

CUSTODIAN
Custody is the administration of securities by a financial institution; known as the custodian. The custodian is the primary record keeper of a client's investments and collects income, processes tax reclaims and provides other services, according to client instructions. The custodian bank is responsible for keeping the entire assets of the fund in its custody and for the issue and redemption of fund units.

DEBT-TO-EQUITY RATIO
Measure of a firm's total outstanding debt to the book value, or value of its equity listed on its balance sheet. Higher values indicate greater debt issuance, and potentially greater risk if events occur that can negatively impact debt

DERIVATIVES
A derivative is a security with a price that is dependent upon or derived from one or more underlying assets. The derivative itself is a contract between two or more parties based upon the asset or assets. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes. Derivatives either be traded over-the-counter (OTC) or on an exchange. OTC derivatives constitute the greater proportion of derivatives in existence and are unregulated, whereas derivatives traded on exchanges are standardized. OTC derivatives generally have greater risk for the counterparty than do standardized derivatives

DISCOUNT TO NAV
Different than non-exchange traded mutual funds, which are bought and sold directly from the fund company at the NAV at the end of the day, ETFs trade at prices determined by the market forces of supply and demand. A fund that trades at a price less than its NAV is said to trade at a discount to its NAV

DISTRIBUTION IN KIND

A payment made in the form of securities or other property, rather than in cash. A distribution in kind may be made in several different situations, including a stock dividend, inheritance or taking securities out of a tax-deferred account

DIVERSIFICATION
The distribution or spread of investments across a variety of different individual stocks, sectors, countries and currencies. Diversification, or the spreading of risk - a characteristic common to all investment funds - is regarded in modern portfolio theory as the key factor in reducing risk. Systematically distributing investments over a number of securities spreads risk so that the total risk of a portfolio is significantly lower than that of the individual securities.

DIVIDEND
Distribution of earnings paid out to shareholders. With mutual funds and ETFs, dividends can be a result of capital gains, interest income, or dividends paid to the fund itself by securities within the portfolio. Dividends are often paid quarterly, but the frequency can be less and is determined by fund management

DIVIDEND COVERAGE RATIO
Earnings per share divided by dividends per share. Higher numbers indicate a firm has a greater amount of earnings per share relative to its dividend payments

DIVIDEND YIELD
The distribution rate of a fund calculated by dividing the amount of the dividends per share by the per share market price of the fund. For example, a fund price of $20 that pays a $2 dividend per year has a 10% dividend yield

DOLLAR-DENOMINATED DEBT
Debt that is issued in U.S. dollars and must be paid in U.S. dollars. If the issuer's local currency depreciates against the U.S. dollar, it becomes more expensive for the issuer to pay off the debt; if the issuer's local currency appreciates against the U.S. dollar, the debt obligation becomes less expensive

DOWNSIDE PROTECTION
The use of an option or other hedging instrument in order to limit or reduce losses in the case of a decline in the value of the underlying security. Downside protection often involves the purchase of an option to hedge a long position. Other methods of downside protection include using stop losses or purchasing assets that are negatively correlated to the asset you are trying to hedge

DURATION
A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices

EARNINGS PER SHARE (EPS)
A common way of expressing company profits – dividing the profits after tax by the number of shares in issue. Earnings per share is the basis for the calculation of the PE ratio (price/earnings ratio).

EFFECTIVE DURATION
This statistic provides a measure of the sensitivity of the Fund's price to changes in interest rates and is calculated as the weighted average of the individual blond effective durations. Effective duration recognizes that changes in interest rates may also change the expected cash flows generated by any underlying bonds with embedded options. The calculation is expanded to incorporate the contribution of derivatives to the overall interest rate risk sensitivity to the portfolio. Credit ratings apply to the underlying holdings of the Fund, and not to the Fund itself. S&P and Moody's study the financial condition of an entity to ascertain its creditworthiness. The credit ratings reflect the rating agency's opinion of the holdings financial condition and histories

EMERGING MARKET
Refers to the economy or capital markets of developing nations, which are often new, un-established or have a limited history

ETF ADMINISTRATOR
The ETF Administrator is responsible for several activities for an ETF, including calculating the daily NAV, acting as transfer agent, and providing the reporting necessary for financial reporting and filings with the SEC

ETF CUSTODIAN
Most ETFs have an independent third party custodian who is responsible for holding all of the securities in an ETF. This role is segregated from the investment advisor and portfolio manager and provides an additional layer to help mitigate risks

ETF DISTRIBUTOR
Distributors have the role of conducting sales support for an ETF. They will reach out to brokerage firms, registered investment advisors (RIAs), retirement plan owners to introduce ETFs to them and support the inclusions of the ETF into sell-side firms ETF inventories. In some cases, the ETF sponsor will act as the distributor, especially if it has existing fund wholesaler resources. Small ETFs, however, are more likely to utilize the services of a distributor since they typically lack a dedicated sales force.

ETF ISSUER
A legal entity that develops, registers and sells securities for the purpose of financing its operations. Issuers may be domestic or foreign governments, corporations or investment trusts. Issuers are legally responsible for the obligations of the issue and for reporting financial conditions, material developments and any other operational activities as required by the regulations of their jurisdictions

ETF SPONSOR

The company or financial institution which creates and administers an exchange-traded fund. They are the owner, originator, and primary portfolio manager of an ETF who establishes the ETF's investment strategy and prospectus and applies to regulators and stock exchanges for permission to issue a new ETF.

EXCHANGE-TRADED CURRENCY (ETC)
Exchange-traded funds (ETFs) invested in a single currency or basket of currencies. Currency ETFs aim to replicate movements in currency in the foreign exchange market by holding currencies either directly or through currency-denominated short-term debt instruments. Currency ETFs are widely used by investors who wish to gain exposure to the foreign exchange market and would prefer not to enter the futures or forex markets

EXCHANGE-TRADED FUND (ETF)
Exchange-traded funds are low cost index funds that trade like stocks. ETFs offer intraday liquidity meaning they can be bought or sold when the stock market is open for trading. Generally, ETFs are very tax-efficient and have lower annual expenses compared to closed end funds and mutual funds. ETFs cover a broad spectrum of assets including stocks, bonds, currencies, real estate and commodities. ETFs can be sold short, leveraged with margin, hedged with call/put options or bought and held

EXCHANGE-TRADED NOTE (ETN)
ETNs or exchange-traded notes are unsecured debt securities that pay a return linked to the performance of a single security or index. ETNs don't usually pay a dividend or annual coupon and they have maturity dates that can range up to 30 years. ETNs held to maturity pay the return of the note's underlying index minus its annual expense ratio. ETNs are subject to counterparty risk, meaning, the creditworthiness of the financial issuer can impact the note's final return and value

EXCHANGE-TRADED PRODUCT (ETP)
A type of security that is derivatively-priced and which trades intra-day on a national securities exchange. Exchange Traded Products are derivatively-priced, where the value is derived from another investment instruments such as a commodity, currency, share price or interest rate. Generally, exchange traded products are benchmarked to stocks, commodities, indices or they can be actively managed funds. Exchange traded products include exchange traded funds (ETFs), exchange traded vehicles (ETVs), exchange traded notes (ETNs) and certificates

EXPENSE RATIO
The annual fee that all funds or ETFs charge their shareholders, expressed as a percentage of the fund's average daily net assets. This ratio includes such items as the management fee, trustee's fee, license fee, and 12b-1 fee, among others. It does not include the commissions you must pay to buy and sell ETF shares, or the costs incurred by the fund in trading its securities

FAIR VALUE

The estimated value of all assets and liabilities of an acquired company used to consolidate the financial statements of both companies. In the futures market, fair value is the equilibrium price for a futures contract. This is equal to the spot price after taking into account compounded interest (and dividends lost because the investor owns the futures contract rather than the physical stocks) over a certain period of time

FIXED-INCOME SECURITY
An investment that provides a return in the form of fixed periodic payments and the eventual return of principal at maturity. Unlike a variable-income security, where payments change based on some underlying measure such as short-term interest rates, the payments of a fixed-income security are known in advance

FORWARD CONTRACT
A customized contract between two parties to buy or sell an asset at a specified price on a future date. A forward contract can be used for hedging or speculation, although its non-standardized nature makes it particularly apt for hedging. Unlike standard futures contracts, a forward contract can be customized to any commodity, amount and delivery date. A forward contract settlement can occur on a cash or delivery basis. Forward contracts do not trade on a centralized exchange and are therefore regarded as over-the-counter (OTC) instruments. While their OTC nature makes it easier to customize terms, the lack of a centralized clearinghouse also gives rise to a higher degree of default risk.

FUNDAMENTALS
The qualitative and quantitative information that contributes to the economic well-being and the subsequent financial valuation of a company, security or currency. Analysts and investors analyze these fundamentals to develop an estimate as to whether the underlying asset is considered a worthwhile investment. For businesses, information such as revenue, earnings, assets, liabilities and growth are considered some of the fundamentals

FUND FLOWS
Describes the money flow into or out of mutual funds and ETFs. The Investment Company Institute (ICI) tracks and reports monthly fund flow data

FUND OF FUNDS
Investment strategy that seeks to diversify risk exposure and manager style among various fund managers (holding a portfolio of other investment funds rather than investing directly in stocks, bonds or other securities). Potential pitfalls include a lack of transparency and an added layer of fees

FUTURES
A financial contract obligating the buyer to purchase an asset (or the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price. Futures contracts detail the quality and quantity of the underlying asset; they are standardized to facilitate trading on a futures exchange. Some futures contracts may call for physical delivery of the asset, while others are settled in cash. The futures markets are characterized by the ability to use very high leverage relative to stock markets

GRANTOR TRUST
This type of fund structure distributes dividends directly to shareholders and allows investors to retain their voting rights on the underlying securities within the fund. The original fund components of the index remain fixed and this ETF structure is not registered under the SEC Investment Company Act of 1940.

GROWTH FUND
Shares in a company or fund whose earnings are expected to grow at an above-average rate relative to the market. A growth stock usually does not pay a dividend, as the company would prefer to reinvest retained earnings in capital projects

HEDGE
A hedge is an investment strategy used to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract

HIGH YIELD
Sometimes referred to as "junk bonds," these securities have a higher risk of default than investment-grade securities

INDEX
A statistical measure used to track the aggregate performance of stock, bond and commodities markets. Widely followed indexes include those developed and managed by Standard & Poor's, Russell, MSCI and Dow Jones

INDEX FUND
A type of mutual fund or ETF that attempts to match the performance of a stock, bond or commodity index. Index funds are sometimes referred to as passive funds and are known for their tax efficiency and low fees. Some index funds follow traditional market cap indexes whereas others follow an equal weight or fundamental indexing approach

INDEX OPTIONS
Calls and puts on stock or bond indexes. Index options allow investors to trade a particular market sector or index of securities, without having to make individual purchases of each security in that sector. Index options are listed on various exchanges, including the American, New York, and Chicago Board Options Exchange

INDICATIVE NET ASSET VALUE (iNAV)
The iNAV (indicative net asset value) is an indication of the intraday price of an ETF. It is calculated by taking the last available price of the securities that deliver the performance of the ETF; the price of these securities are then summed, where appropriate cash components are added, and liabilities are subtracted. This then represents the "Total Value" of the ETF, which is subsequently converted into a "per share" value by dividing the "Total Value" by the number of ETF shares issued. It is important to note that the iNAV is

not the price at which you can purchase the ETF; however, it does provide a reference point from which to compare the trading price of the ETF offered on exchange.

INFLATION
A measure of the increase in prices of goods and services over time. Inflation erodes the real value of an investment's return.

INKIND CREATION/REDEMPTION
ETFs are created or redeemed through the trading of securities. The AP provides shares of stock to the fund, and the fund in turn provides ETF shares to the AP; no cash changes hands, thereby eliminating tax implications. Once the AP receives the ETF shares, they are then sold to the public on the open market, as shares of stock are.

ISIN NUMBER
International Securities Identification Numbering system. The ISIN code is a unique code given to a security and is used worldwide.

INTEREST RATE
An interest rate is a fee paid on capital borrowed. It indicates the price at which you can borrow. For example, when you get a bank loan, the interest rate is the rate you pay and will often depend on how much you want loaned to you.

INVESTMENT COMPANY ACT OF 1940
The Investment Company Act of 1940 regulates the organization of companies, including mutual funds that engage primarily in investing and trading in securities. The Act requires these companies to disclose their financial condition and investment policies to investors on a regular and timely basis

INVESTMENT GRADE
A rating given to a municipal or corporate bond. It is a relatively favorable rating by either Moody's or Standard & Poor's indicating a higher chance an issuer performs interest and principal obligations as promised by the terms of the debt issuance

LARGE CAP
A large company or large cap stock generally refers to companies with a market capitalization or size over $5 billion

LEVERAGE
The use of various financial instruments or borrowed capital, such as margin, to increase the potential return of an investment or the amount of debt used to finance a firm's assets. A firm with significantly more debt than equity is considered to be highly leveraged. Margin and use of option contracts are forms of leverage which allow investors to enhance their returns without adding to their investments

LEVERAGED ETFs

The main objective of leveraged ETFs is to deliver amplified performance of a particular stock, bond or commodity index. Most leveraged ETFs attempt to duplicate daily index returns by two or three times. Short leveraged ETFs aim for daily index returns that move in the opposite direction, but with magnified performance of two or three times

LIMIT ORDER
A limit order is a take-profit order placed with a bank or brokerage to buy or sell a set amount of a financial instrument at a specified price or better; because a limit order is not a market order, it may not be executed if the price set by the investor cannot be met during the period of time in which the order is left open. Limit orders also allow an investor to limit the length of time an order can be outstanding before being canceled. While the execution of a limit order is not guaranteed, it does ensure that the investor does not miss the opportunity to buy or sell at the target price point if it is dealt in the market.

LIQUIDITY
Liquidity refers to the ability to convert an asset to cash without substantially affecting its price. Assets that are quickly converted to cash have good liquidity whereas those that take time are less liquid. The liquidity of an ETF is best determined by the liquidity of the securities in its underlying stock, bond or commodity index along with the trading volume of the ETF itself. General market conditions are another secondary factor which can influence an ETF's liquidity

LONG POSITION
The buying of a security such as a stock, commodity or currency, with the expectation that the asset will rise in value. In the context of options, the buying of an options contract

MARGIN
Money that has been borrowed to purchase securities. To margin, also called buying on margin, refers to the practice of buying an asset where the buyer pays only a percentage of the asset's value and borrows the rest from the bank or broker. The broker acts as a lender, and he uses the funds in the securities account as collateral on the loan's balance. The margin is the amount the investor puts down on the account and is typically expressed as a percentage.

MARKET CAPITALIZATION
The market capitalization of a corporation is the measurement of the company's value based upon the company's number of outstanding shares multiplied by its current share price

MARKET IMPACT
Market impact is a measure of each trade’s average execution price versus the volume-weighted average price of the stock for that trading day. It is thus a measure of how the size of the order affects the price at which it is executed.

MARKET MAKER

A broker-dealer firm that accepts the risk of holding a certain number of shares of a particular security in order to facilitate trading in that security. Each market maker competes for customer order flow by displaying buy and sell quotations for a guaranteed number of shares. Once an order is received, the market maker immediately sells from its own inventory or seeks an offsetting order. Market Makers the financial markets running efficiently because they are willing to quote both bid and offer prices for an asset

MARKET ORDER
An order to buy or sell an investment immediately at the current market price. As long as there are willing sellers and buyers, market orders are filled. Market orders are therefore used when certainty of execution is a priority over price of execution

MARKET RISK
Risk that depends on factors which influence the whole market and which cannot be reduced or excluded by diversifying the portfolio.

MARK-TO-MARKET
Valuing stocks or other financial instruments held against the current market price to determine the paper profit or loss to date.

MARKET VALUE
The price an asset would fetch in the marketplace. Market value is also commonly used to refer to the market capitalization of a publicly-traded company, and is obtained by multiplying the number of its outstanding shares by the current share price

MASTER LIMITED PARTNERSHIP (MLP)
A type of limited partnership that is publicly traded. There are two types of partners in this type of partnership: The limited partner is the person or group that provides the capital to the MLP and receives periodic income distributions from the MLP's cash flow, whereas the general partner is the party responsible for managing the MLP's affairs and receives compensation that is linked to the performance of the venture. One of the most crucial criteria that must be met in order for a partnership to be legally classified as an MLP is that the partnership must derive most (~90%) of its cash flows from real estate, natural resources and commodities. The advantage of an MLP is that it combines the tax benefits of a limited partnership (the partnership does not pay taxes from the profit - the money is only taxed when unitholders receive distributions) with the liquidity of a publicly traded company

MATURITY
The period of time for which a financial instrument remains outstanding. Maturity refers to a finite time period at the end of which the financial instrument will cease to exist and the principal is repaid with interest. The term is most commonly used in the context of fixed income investments, such as bonds and deposits.

MID CAP

A mid-sized company or mid cap stock generally refers to companies with a market capitalization or size between $1 billion and $5 billion

MODIFIED DURATION
Weighted average measurable change in the value of a bond portfolio in response to a one-percent change in reference interest rate. Bonds with higher duration have a greater price sensitivity to changes in interest rates.

MOMENTUM STOCKS
Stocks characterized by high sensitivity to sentiment and perception of potential, with lower sensitivity to actual business operations

MONEY MARKET
A general term for the banks and other institutions that accept cash deposits.

MONEY MARKET FUND
Investment funds which invest in short-term fixed-interest paper (less than a year to maturity) in specific currencies.

NET ASSET VALUE (NAV)
Represents the per share price of a mutual fund. With closed end funds and ETFs, the true NAV is not always reflected in the share price of the security because it may trade at a premium or discount to the NAV. The calculation of NAV is the fund's total net assets divided by the number of shares outstanding, minus fees and expenses

NOMINAL VALUE
The stated value of an issued security. Nominal value in economics also refers to a value expressed in monetary terms for a specific year or years, without adjusting for inflation. When used in reference to securities, nominal value is also known face value or par value

OPEN END FUND
A type of fund that does not have restrictions on the amount of shares the fund will issue. If demand is high enough, the fund will continue to issue shares no matter how many investors there are. Open-end funds also buy back shares when investors wish to sell

OPTIMIZATION
A mathematical process of selecting and weighting a portfolio of securities in an attempt to achieve the highest probability of achieving a certain desired risk-and-return outcome.

OPTION
A financial derivative that represents a contract sold by one party (option writer) to another party (option holder). The contract offers the buyer the right, but not the obligation, to buy (call) or sell (put) a security or other financial asset at an agreed-upon price (the strike price) during a certain period of time or on a specific date (exercise date)

OVER-THE-COUNTER (OTC)

A security traded in some context other than on a formal exchange such as the NYSE, TSX, AMEX, etc. The phrase "over-the-counter" can be used to refer to stocks that trade via a dealer network as opposed to on a centralized exchange. It also refers to debt securities and other financial instruments such as derivatives, which are traded through a dealer network.

PAR VALUE
The face value of a bond. Par value for a share refers to the stock value stated in the corporate charter. Par value is important for a bond or fixed-income instrument because it determines its maturity value as well as the dollar value of coupon payments. Par value for a bond is typically $1,000 or $100. Shares usually have no par value or very low par value, such as 1 cent per share. The market price of a bond may be above or below par, depending on factors such as the level of interest rates and the bond's credit status. In the case of equity, par value has very little relation to the shares' market price

PASSIVE MANAGEMENT
A style of management associated with mutual and exchange-traded funds (ETF) where a fund's portfolio mirrors a market index. Passive management is the opposite of active management in which a fund's manager(s) attempt to beat the market with various investing strategies and buying/selling decisions of a portfolio's securities

PERFORMANCE DRAG
A reduction of portfolio performance due to various factors. An example of performance drag occurs when gains within a portfolio are offset by various expenses, such as management fees, transaction costs and taxes. These expenses create a drag or negative effect on the portfolio's performance.

PHYSICAL REPLICATION
In physical replication, an ETF invests directly in securities held in the benchmark it is tracking. To do so, the ETF can buy all the securities that make up the replicated index - this method is called full replication and is suitable for liquid indices. Alternatively, instead of buying all the securities, it can buy just some of the corresponding underlying instruments. Called "sampling," this can be a useful option if an index is made up of many securities that are not easily traded or are illiquid. Synthetic replication differs from physical replication.

PORTFOLIO COMPOSITION FILE (PCF)
A daily list of the exact names and quantity of the underlying securities and cash that need to be turned in by an authorized participant to receive one creation unit.

PORTFOLIO THEORY
The relationship between risk and return is a key tenet of modern portfolio theory. In principle, a higher return can only be "purchased" for a higher risk. However, the relationship between risk and return may be optimized via a broad spread of investments (diversification). By doing so, a higher return can be generated with the same level of risk, and a lower return can be achieved with a lower level of risk.

PORTFOLIO TURNOVER
The percentage of a mutual fund or other investment vehicle's holdings that have been "turned over" or replaced with other holdings in a given year. The type of mutual fund, its investment objective and/or the portfolio manager's investing style will play an important role in determining its turnover ratio. Portfolio turnover measures the frequency by which securities within a mutual fund or ETF are bought and sold. Turnover is determined by the dollar value of buys or sells (whichever is less) during a year divided by the total assets in the fund. High portfolio turnover translates into higher investment costs whereas low portfolio turnover is better because it lessens the impact of trading and tax related expenses

PREMIUM TO NAV
Unlike regular mutual funds, which are bought and sold directly from the fund company at the net asset value of their portfolio securities, ETFs trade at prices determined by the market forces of supply and demand. A fund that trades at a price higher than its NAV is said to trade at a premium to its NAV

PRICE/BOOK VALUE RATIO
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. The ratio denotes how much equity investors are paying for each dollar in net assets. Book value, usually located on a company's balance sheet as "stockholder equity," represents the total amount that would be left over if the company liquidated all of its assets and repaid all of its liabilities

PRICE/CASH FLOW RATIO
The price/cash flow ratio is used by investors to evaluate the investment attractiveness, from a value standpoint, of a company's stock. This metric compares the stock's market price to the amount of cash flow the company generates on a per-share basis

PRICE/EARNINGS RATIO
The Price-to-Earnings Ratio or P/E ratio is a ratio for valuing a company that measures its current share price relative to its per-share earnings. The P/E gives you an idea of what the market is willing to pay for the company’s earnings. The higher the P/E the more the market is willing to pay for the company’s earnings

PRIMARY MARKET
A primary market issues new securities on an exchange for companies, governments and other groups to obtain financing through debt-based or equity-based securities. Primary markets are facilitated by underwriting groups consisting of investment banks that set a beginning price range for a given security and oversee its sale to investors. Once the initial sale is complete, further trading is conducted on the secondary market, where the bulk of exchange trading occurs each day.

PROSPECTUS

A formal legal document, which is required by and filed with the Securities and Exchange Commission, that provides details about an investment offering for sale to the public. A prospectus should contain the facts that an investor needs to make an informed investment decision

PUT-CALL RATIO
A ratio of the trading volume of put options to call options. The put-call ratio has long been viewed as an indicator of investor sentiment in the markets. Times where the number of traded call options outpaces the number of traded put options would signal a bullish sentiment, and vice versa

PUT OPTION
An option contract giving the owner the right, but not the obligation, to sell a specified amount of an underlying security at a specified price within a specified time. This is the opposite of a call option, which gives the holder the right to buy shares. A put becomes more valuable as the price of the underlying stock depreciates relative to the strike price

QUOTATION
A price offered by a broker for the sale or purchase of a stock or other security

R-SQUARED (R2)
R-squared measures the correlation of a fund's movement in comparison to its corresponding benchmark. An R squared score of 1.00 would indicate a perfect correlation, whereas a score of 0.00 indicates no correlation.

REAL ESTATE INVESTMENT TRUST (REIT)
Real Estate Investment Trusts or REITs are publicly traded companies involved in property development, management or sales. REITs cover various segments of the real estate market including apartments, hotels, industrial properties, medical facilities, shopping malls and offices

REBALANCING
The process of realigning the weightings of one's portfolio of assets. Rebalancing involves periodically buying or selling assets in your portfolio to maintain your original desired level of asset allocation

RETURN ON ASSETS
Firm profits (after accounting for all expenses) divided by the firm’s total assets. Higher numbers indicate greater profits relative to the level of assets utilized to generate them

RETURN ON EQUITY (ROE)
The rate of investment return a company earns on shareholders' equity. An indicator of profitability; ROE is determined by dividing net income from the past 12 months by shareholders' equity. It measures how much profit a company has generated with the money shareholders have invested

RISK
In a financial context, the possibility of financial loss, or of returns less than those expected. Such losses could come from market movements (market risk), counterparty or bond issuer default (credit risk), or errors, legal problems or fraud (operational risk). Generally investors deliberately take market risk through investments in risk assets such as equities and bonds. In return for the risk, investors expect higher returns than they would get from a riskless investment such as treasury bills in their home currency.

RISK-ADJUSTED RETURN
A concept that refines an investment's return by measuring how much risk is involved in producing that return, which is generally expressed as a number or rating. Risk-adjusted returns are applied to individual securities and investment funds portfolios

ROBO-ADVISOR
A robo-advisor is an online wealth management service that provides automated, algorithm-based portfolio management advice without the use human financial planners

SEC YIELD
A yield calculation developed by the SEC to standardize yield data for mutual funds, close-end funds, and ETFs. The calculation uses the fund's net investment income over the last 30 days, minus income generated from capital gains or other sources. SEC yields are often quoted for bond funds.

SECONDARY MARKET
A market where investors purchase or sell securities or assets from or to other investors, rather than from issuing companies themselves—exchanges such as the New York Stock Exchange and the NASDAQ—are secondary markets

SECTOR ROTATION
An investment strategy that uses elements of market timing to identify industry sectors of the economy ready to outperform. Conversely, a sector rotation strategy would likely avoid or underweight industry sectors that are expected to lag the rest of the market

SECURITIES BASKET
A basket of securities, as defined by an ETF sponsor, that the Designated Broker can either deliver to, or accept from, the sponsor in exchange for units of the fund.

SECURITIES LENDING
The lending of securities against remuneration and on provision of collateral. The lending of a security by the registered owner, to an authorized third party, for a fixed or open period of time, for an agreed consideration secured by collateral. The demand to borrow securities comes mainly from market makers and hedge funds to cover short positions or take arbitrage opportunities. Also referred to as securities lending.

SHARES OUTSTANDING

The number of ETF shares issued as of the closing on the previous trading day. It is the number used to calculate the NAV.

SHARPE RATIO
A measure for calculating risk-adjusted return or that indicates the average return minus the risk-free return divided by the standard deviation of return on an investment. The ratio describes how much excess return you are receiving for the extra volatility that you endure for holding a riskier asset

SHORT (INVERSE) ETFs
The main objective of short ETFs is to deliver inverse or opposite performance to a particular stock, bond or commodity index. Most short ETFs attempt to duplicate daily index returns in the opposite direction. Some short ETFs aim for daily index returns in the opposite direction but with leverage or magnified performance

SHORT POSITION
The sale of a borrowed security, commodity or currency with the expectation that the asset will fall in value

SMALL CAP
A small company or small cap stock generally refers to companies with a market capitalization between $250 million and $1 billion

SMART BETA
An investment strategy using an alternative weighting mechanism instead of a traditional market capitalization based index. Typically, smart beta uses fundamentals or market inefficiencies to weight an index. Alternative weighting schemes, such as volatility, are used. The increased popularity of smart beta is linked to a desire for portfolio risk management and diversification along factor dimensions as well as seeking to enhance risk-adjusted returns above cap-weighted indices

SORTINO RATIO
A modification of the Sharpe ratio that differentiates harmful volatility from general volatility by taking into account the standard deviation of negative asset returns, called downside deviation. The Sortino ratio subtracts the risk-free rate of return from the portfolio’s return, and then divides that by the downside deviation. A large Sortino ratio indicates there is a low probability of a large loss

SPOT PRICE
The current price at which a particular security can be bought or sold at a specified time and place. A security's spot price is regarded as the explicit value of the security at any given time in the marketplace. In contrast, a securities futures price is the expected value of the security, in relation to its current spot price and time frame in question

STANDARD DEVIATION

Indicates the volatility of a fund's total return. In general, the higher the standard deviation, the greater the volatility of return

STOP ORDER
A stop order is an order to buy or sell a security when its price surpasses a particular point, thus ensuring a greater probability of achieving a predetermined entry or exit price, limiting the investor's loss or locking in his or her profit. Once the price surpasses the predefined entry/exit point, the stop order becomes a market order.

STRIKE PRICE
The price at which a specific derivative contract can be exercised. Strike prices is mostly used to describe stock and index options, in which strike prices are fixed in the contract. For call options, the strike price is where the security can be bought (up to the expiration date), while for put options the strike price is the price at which shares can be sold. The difference between the underlying security's current market price and the option's strike price represents the amount of profit per share gained upon the exercise or the sale of the option. This is true for options that are in the money; the maximum amount that can be lost is the premium paid. Also known as the "exercise price"

SWAP
A swap is a derivative contract through which two parties exchange financial instruments. These instruments can be almost anything, but most swaps involve cash flows based on a notional principal amount that both parties agree to. Usually, the principal does not change hands. Each cash flow comprises one leg of the swap. One cash flow is generally fixed, while the other is variable, that is, based on a benchmark interest rate, floating currency exchange rate or index price

SYNTHETIC REPLICATION
In contrast to physical replication, with synthetic replication an ETF does not invest directly in the securities held in the benchmark. Instead it enters into a swap agreement with a counterparty, which promises to pay the return on the replicated index to the ETF. The ETF in turn pays the counterparty with the return from an asset portfolio that it holds, any counterparty risk is typically mitigated through collateralization, and via the physical payment of the amount owed to the ETF by the counterparty. In this manner virtually all counterparty risk that could arise from a swap agreement. In accordance with UCITS regulations, counterparty risk cannot exceed 10 percent.

SYSTEMATIC RISK
The risk inherent to the entire market or an entire market segment. Systematic risk, also known as "undiversifiable risk," "volatility" or "market risk," affects the overall market, not just a particular stock or industry

TAX LOSS HARVESTING
This market strategy focuses on selling a portfolio's worst performing security to 1) offset realized capital gains of winning securities, and 2) to reinvest the sale proceeds into securities with a similar investment objective or correlation.

TOTAL EXPENSE RATIO (TER)
The total expense ratio (TER) is a measure of the total costs associated with managing and operating an investment fund, such as a mutual fund. These costs consist primarily of management fees and additional expenses, such as trading fees, legal fees, auditor fees and other operational expenses. The total cost of the fund is divided by the fund's total assets to arrive at a percentage amount, which represents the TER, most often referred to as simply "expense ratio." TER should be monitored closely, as it is an important determinant of investment return.

TOTAL RETURN
Essentially, a combination of capital return and income return. To be precise, the aggregate increase (or decrease) in the value of the portfolio resulting from the net appreciation (or depreciation) of the principal of the fund, plus the net income during the period. This is expressed as a percentage of the value of the fund at the start of the period.

TRACKING ERROR

Measure of the deviation of the return of a fund compared to the return of a benchmark over a fixed period of time. Expressed as a percentage. The more passively the investment fund is managed, the smaller the tracking error. The tracking error is calculated using the annualized standard deviation of a portfolio's excess return over the corresponding index return.

TRANSACTION FEES
Expenses incurred when buying or selling securities. These are fees to offset the fund's transfer and other transaction costs associated with the issuance and redemption of Creation Units of shares. These are disclosed in the fund's prospectus. Transaction costs are important to investors because they are one of the key determinants of net returns

TRANSFER AGENTS
Transfer agents keep track of which brokerage firms have custody of the various ETF shares, as well as the investors who own the shares. They work in close coordination with the custodians.

TRANSPARENCY
Refers to the visibility level of securities holdings within a given portfolio or fund. Generally, the transparency of an index fund will be greater than an actively managed fund. This is due to the fact that holdings within an index fund are openly disclosed and available

TECHNICAL ANALYSIS
An attempt to predict the performance of a security by spotting trends in price, without regard to the underlying fundamentals, such as cash flow and balance sheet

TREYNOR RATIO

The Treynor ratio is a risk-adjusted measure of return based on systematic risk. Unlike Sharpe, Treynor uses beta in the denominator instead of the standard deviation. The beta measures only the portfolio's sensitivity to the market movement, while the standard deviation is a measure of the total volatility both upside as well as downside. A fund with a higher Treynor ratio implies that the fund has a better risk adjusted return than that of another fund with a lower Treynor ratio

UCITS
Undertakings for Collective Investments in Transferable Securities. A UCITS fund is an authorized fund that may be sold across all countries in the EU.

UNIT INVESTMENT TRUST
This type of fund structure does not reinvest dividends in the fund and pays them out via a quarterly cash distribution. In order to comply with diversification rules, this ETF structure will sometimes deviate from the exact composition of a benchmark index. This type of fund is registered under the SEC Investment Company Act of 1940. The Dow DIAMONDS (DIA), PowerShares QQQ (QQQQ) and the S&P 500 SPDRs (SPY) follow this product format

VALUE FUND
A stock mutual fund that primarily holds stocks that are deemed to be undervalued in price and that are likely to pay dividends. Value funds are one of three main mutual fund types; the other two are growth and blend (a mix of value and growth stocks) funds. The premise of value investing is that the market has inherent inefficiencies that enable companies to trade at levels below what they are actually worth

VOLATILITY
Volatility is determined by the price movement (rise or fall) of a security. Securities that experience sharp increases or declines within a short time frame are considered more volatile than those that don't

VOLUME
Total number of shares or contracts traded on a security. Volume data is tracked and reported daily by major stock exchanges around the world

WARRANTS
A certificate giving the holder the right to purchase shares or stock at a stipulated price within a specified time span, or in some cases, forever.

YEAR-TO-DATE (YTD)
The period beginning at the start of the calendar year up until the most current date. YTD describes the return so far this year

YIELD
The income return on an investment. This refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value

YIELD CURVE
The relationship between the yields of bonds with the same credit quality, but with varying maturities. A positive yield curve means short term interest rates are lower versus long term rates. A negative yield curve is just the opposite, whereas a flat yield curve shows little variance in the yields of short term bonds and long term bonds.

YIELD TO MATURITY (YTM)
The total return anticipated on a bond if the bond is held until the end of its lifetime. Yield to maturity is considered a long-term bond yield, but is expressed as an annual rate. In other words, it is the internal rate of return of an investment in a bond if the investor holds the bond until maturity and if all payments are made as scheduled