

# DCREC GLOSSARY

**Value**

Developed by DCREC's Best Practices Committee

This **Glossary** is a reference source for key terms commonly used in discussions on real estate investments in defined contribution plans. It does not attempt to serve as a comprehensive glossary of investment terms.

<b>TERM</b>	<b>DEFINITION</b>
Active Management	Investment strategy that relies on analytical research, forecasts, and the manager's own judgment and experience in making investment decisions on what securities to buy, hold and sell. The opposite of active management is passive management, otherwise known as "indexing."
Alternative Investments	An alternative investment is generally an investment in asset classes other than stocks, bonds and cash. Alternative investments often include asset types such as private equity, hedge funds, managed futures, real estate, commodities and derivatives contracts.
Asset Class	A group of investments that exhibit similar characteristics. The major asset classes are generally thought of as stocks, bonds, cash, real estate, and other alternative investments.
(AUM) Assets Under Management	The amount of assets an investment manager has under its management
Auto Enrollment	A program to automatically enroll employees into a retirement plan unless they affirmatively opt out of the plan.
Basis Point	Basis point (BPS) refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01% (0.0001), and is used to denote the percentage change in a financial instrument. BPS can also be used to express the expenses or fees on an investment fund.
Cap Rate	Short for Capitalization Rate. The Cap Rate is the return yield on a real estate property based on the market value and the income generated. It is determined by dividing the property's net operating income by the market value.
(CIT) Collective Investment Trust	A commingled investment trust maintained by a bank or trust company acting as trustee. CITs are not registered with the SEC but are regulated by State Banking regulators and the OCC
Core Real Estate	An industry classification used to describe a real estate property and its position on the risk spectrum of investing in commercial real estate. Core real estate maintains the lowest position on the risk/return spectrum and is typically defined by the property's high occupancy, stable income sourced by high quality tenants, desirable location in a primary market, a lower allocation to new development or newly renovated properties and low leverage.
Daily Valued Direct Real Estate	An interest in direct real estate, the value of which is marked to market on a daily basis.

(DB) Defined Benefit Plan	A Defined Benefit plan, which is a type of retirement plan maintained by a plan sponsor (employer) that provides a retirement benefit based on a formula (e.g., an annual amount after retirement equal to 60% of the employee's final salary). Also commonly referred to as a pension plan.
(DC) Defined Contribution Plan	A Defined Contribution plan, which is a type of retirement plan that allows an employee to contribute a portion of their salary on a tax-deferred basis to an individual account maintained for the employee-participant. Some DC retirement plans also provide for employer matching contributions. Upon retirement, the participant is entitled to the amount accumulated in his or her account after adjustment for the investment return.
Direct Real Estate	Direct ownership of real estate (e.g., an office building, multi-family housing complex, or retail center) or investment in an entity, such as a private limited partnership or other fund, that owns real estate directly.  See: Private Real Estate, Unlisted Real Estate.
Dynamic Strategies	Asset allocation or Lifecycle funds that employ a dynamic asset allocation process informed by a pre-determined real return target. The dynamic strategy keeps risk "on" when below a specified target (similar to a target risk fund) and turns risk "off" when real returns are above the target (a target date fund) in the last 15 years of a participant's working life.
Fiduciary	Under Section 3(21) of ERISA, a person is a fiduciary to a plan and its participants regarding investment matters if the person is named in the plan document (such as the plan trustee or investment committee) or either exercises investment discretion or provides investment advice for a fee with respect to plan assets. When a plan fiduciary delegates investment discretion to an investment manager in accordance with Section 3(38) of ERISA, the investment manager may also be referred to as a "3(38) fiduciary." By law, a fiduciary must always act prudently and in the best interests of the plan and its participants.  States also have similar Fiduciary laws and standards that public funds (not subject to ERISA) are expected to comply with.
Fund of Funds	An investment fund that allocates its assets to other funds. A multi-asset portfolio (e.g. a target date fund) often achieves its diversification through allocation to a range of asset-class specific funds, like stocks, bonds and real estate funds.
Redemption Limitation	A limit on the amount that can be redeemed or distributed from an investment fund due to stated liquidity restrictions. Once the limit is reached, a gate is used to control or block the amount of further redemptions to ensure that such limitations are exercised.
Glide Path	The term Glide Path refers to the changes in the asset allocation of a target date fund over time. Generally, this involves "de-risking", or reducing exposure to asset classes characterized as having higher relative risk of loss as the plan participant gets closer to their "target" retirement date.

(IRR) Internal Rate of Return	The IRR is the interest rate (also known as the discount rate) that will bring a series of cash flows (positive and negative) to a net present value (NPV) of zero (or to the current value of cash invested). Using IRR to obtain net present value is known as the discounted cash flow method of financial analysis.
Lifecycle Fund	<p>A single DC plan investment option designed to help individuals who do not have the time or expertise to design and manage their own portfolio, meet their savings and investing goals throughout their career. Lifecycle funds are characterized by automatic rebalancing or gradually changing asset allocations, which start with high allocations to riskier assets but de-risk over time, as the participant gets closer to retirement age.</p> <p>DC plans generally provide Lifecycle funds in a suite of "target" dates (i.e. 2040 Fund) with 5 or 10 year increments.</p>
Liquidity	Liquidity describes the degree to which an asset or security can be quickly bought or sold in the market. In the context of defined contribution plans and investments, this term is often used to describe the amount of assets that could be made available to accommodate individual investor redemption requests on a T+1 trading basis. Liquid assets can reside at many levels within a plan including the product/investment level, the target date portfolio level or at the plan level itself.
Listed Real Estate	Real estate investments that are accessed through purchases of shares of securities on a stock exchange; either listed equity REITs or stock exchange listed real estate companies.
Multi-asset Portfolios	Investment funds that hold stocks, bonds, real estate, and other asset classes. Examples include target date funds, target risk funds, and balanced portfolios.
National Council of Real Estate Investment Fiduciaries (NCREIF)	A leading provider of investment performance indices and transparent data for US commercial properties. NCREIF collects both property and fund level information from its members on a monthly or quarterly basis. This data is used to produce various indices and performance reports. The data is also available to members in masked form for research and other purposes.
NCREIF Fund Index - Daily Priced (NFI-DP)	An equal-weighted, net of advisory fees, time weighted return Index of funds providing daily total returns. It is published monthly with an inception date of October 1, 2009. The NFI-DP represents the performance of a group of daily-priced open-end funds that invest predominantly in private real estate, generally ranging from 75% to 95% allocation, with the balance in liquid investments such as cash and public listed securities. Funds in this universe are most commonly offered to defined contribution plans and/or high net worth investors.
Net Operating Income (NOI)	A calculation used to analyze real estate investments that generate income. Net operating income equals all revenue from the property minus all reasonably necessary operating expenses. Aside from rent, a property might also generate revenue from parking and service fees, like vending and laundry machines. Operating expenses are those required to run and maintain the building and its grounds, such as insurance, property management fees, utilities, property taxes, repairs and janitorial fees. NOI is a



	before-tax figure; it also excludes principal and interest payments on loans, capital expenditures, depreciation and amortization.
Opportunistic real estate	An industry classification used to describe a real estate property and its position on the risk spectrum of investing in commercial real estate. Opportunistic real estate is characteristic of an investor seeking return through development, re-development, capital improvements or executing the turn-around of a distressed property. Such investments are generally considered to have a higher level of capital risk to potentially achieve greater returns, compared to investments in traditional Core or Value Add Real Estate.
Outcome based investing	This refers to an investment strategy designed to meet the lifetime investing goals of the individual investor. With this approach, risk is defined as the probability that the investor does or does not meet those goals. Performance benchmarks are linked to the individual's goals rather than to broad market indexes.
Outsourced chief investment officer (OCIO or Outsourced CIO or "Delegated")	The process whereby a plan fiduciary delegates investment authority to a third party to manage all or a portion of the plan's investment portfolio. This arrangement can include functions such as establishing the asset allocation, selecting investment managers, implementing portfolio decisions (both strategic and tactical), providing on-going oversight, performing risk management and other areas of portfolio management. May also be referred to as a "delegated platform".
Passive management	Passive management is 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, where a fund's manager(s) attempts to beat the market utilizing various proactive investing strategies and makes buy/sell decisions regarding a portfolio's holdings.. A "passive strategy" (or "passive investing" or "index investing") describes an investment strategy that employs passive management. Passive investment management can either be full replication of the index or representative of index holdings and weights.
Private Real Estate	An investment in property and real estate related assets though issuances of direct interests or investments in private (unregistered) real estate funds, rather than through securities registered with the SEC and listed on a stock exchange. Often used interchangeably with Direct Real Estate and Unlisted Real Estate.
Property types	Major commercial real estate property types include office, industrial (e.g. warehouses), retail (e.g.: malls, shopping centers), hotels and multi-family (apartment complexes). Property types are also referred to as property sectors.
Public Real Estate	A Real Estate Investment Trust (REIT) or other real estate company that issues securities that are registered with the SEC and typically listed on a stock exchange. Used interchangeably with the term Listed Real Estate.
(QDIA) Qualified Default Investment Alternative	A Qualified Default Investment Alternative as defined by the U.S. Department of Labor which seeks to ensure that a DC plan default investment option is appropriate as a diversified single investment capable of meeting a participant's long-term retirement savings needs.

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Examples of QDIA's are target date (lifecycle), target risk(lifestyle), and balanced funds. DOL guidance provides a safe-harbor for DC plan fiduciaries that permit the contributions of DC plan participants who fail to make an active investment election to be "defaulted" into a QDIA. QDIA funds are also used in Auto Enrollment.

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Real Asset Fund

Real assets are physical assets that have value due to their substance and diversification characteristics to traditional stock and bond assets. Real assets include precious metals, commodities, real estate, agricultural land, machinery and oil.. Real asset funds are also sometimes referred to as inflation protection strategies.

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Real Rate of Return

A real rate of return is the annual percentage return realized on an investment after adjusting for changes in prices due to inflation or other external effects. Real return is often measured as the excess return over the Consumer Price Index (CPI).

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Record keeper

The service provider for a DC plan responsible for, among other things, maintaining records with respect to the individual participant accounts, including contributions to and distributions from the account, expenses charged to the account, allocation of the account among plan investment options, and investment return credited to the account. The record keeper may also be charged with trading the plans' investments through the Fund Serve platform of NSCC (National Securities Clearing Corp.).

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(REIT) Real Estate Investment Trust

A Real Estate Investment Trust, is a company that owns or finances income-producing real estate and receives certain tax benefits under the Internal Revenue Code. Securities of a REIT can be private or public. Similar to a mutual fund, listed REITs are registered with the SEC. The securities of listed REITs trade on stock exchanges.

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Retirement Wealth Ratio

The Ratio between a plan participant's final year salary and their final DC plan account value.

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(RIA) Registered Investment Adviser

A Registered Investment Adviser is an investment adviser that is registered with the SEC under the Investment Advisers Act of 1940

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Risk-Adjusted Return

Risk-adjusted return defines an investment's return by measuring how much risk is assumed in producing that return, which is generally expressed as a number or rating. The measurement of Risk-adjusted returns can be applied to individual securities, investment funds and portfolios.

Some common risk measures include alpha, beta, R-squared, standard deviation and the Sharpe ratio. Risk measures assist investors in comparing the returns of two or more potential investments with different levels of risk.

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Separate Account

1. A separate account is a managed investment account opened through a brokerage, financial or investment advisor that invests directly in securities or other assets (rather than investing in commingled funds, mutual funds or other pooled investment vehicles to gain exposure to such investments). Separate Accounts of this type can either be single investor managed accounts or commingled investor accounts.

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2. In the context of variable annuities, the payments made to an insurance company for the annuity contract are segregated from the insurance company's general assets in an "insurance company separate account" and the annuity contract holder is credited with the return on the segregated portfolio investments.

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Sequencing Risk

Sequencing risk recognizes the potentially greater impact of negative market returns later in the wealth accumulation phase, when portfolios are generally larger and there are fewer years to recover the participant's loss of principal prior to retirement.

Strategies that focus on Sequencing Risk generally try to minimize negative returns late in the accumulation phase in order to preserve investment value or wealth for retirement.

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Sleeve, Investment Sleeve or Sub-Fund

Generally refers to an individual investment (e.g. fund) or asset class within larger multi-asset portfolios, like target date or balanced portfolios. Typically used in the context a "sleeve" or "sub-fund" of the portfolio.

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Target Date Funds (Age-based, Lifecycle)

A DC plan investment option(s) with a deterministic strategy in which the asset allocation for a plan participant is often established based on the participant's potential retirement year or decade. The asset allocation and risk tolerance of Target Date Funds typically changes automatically as the plan participant/employee gets older and closer to retirement age. This de-risking process is called the "glide path". Target date funds are generally offer in a suite of funds with 5 or 10 year date increments (i.e. 2020, 2030,2040).

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Target Risk Funds (Risk-based, Lifestyle)

Target Risk Funds are DC plan investment options that are also multi-asset but are named based on investment objective or risk tolerance. For example, the funds may be labeled "conservative", "balanced", or "aggressive" in nature. Unlike Target date funds, they are generally static in their asset allocation and do not change over time.

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Unlisted Real Estate

Securities in a REIT legal structure, limited partnership or other investment vehicle that are not registered with the SEC or listed on a stock exchange. Often used interchangeably with the terms Private Real Estate and Direct Real Estate.

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Value Added Real Estate

An industry classification used to describe a real estate property and its position on the risk spectrum of investing in commercial real estate. Value Added Real Estate sits in the risk/reward spectrum between Core and Opportunistic. A value-added strategy generally involves investing in new construction, major renovation, or to reposition or upgrade an existing commercial property. It may also include "counter cyclical" strategies – investing in out of favor property types. Value added strategies generally use higher levels of leverage than Core Real Estate, but still less than Opportunistic Strategies. There is generally a small percentage of Core Real Estate Funds that include value added activities.

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## ADDITIONAL RESOURCES

Plan Sponsor Council of America Glossary of Terms  
<https://www.pzca.org/glossary-1>

INREV Glossary of Terms for Unlisted Real Estate  
<https://www.inrev.org/definitions/>

NAREIT Glossary of Terms for Listed Real Estate  
<https://www.reit.com/what-reit/glossary-reit-terms>

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January 2018