Glossary

1. ABSOLUTE RETURN

The profit or loss on investment without comparing it to how other investments have performed. Absolute return investing aims to produce a profit over time irrespective of what the market does. Even when markets are falling, an absolute return fund can still make money - although this is never guaranteed.

2. ACCUMULATION SHARE/UNIT

Funds are divided into portions called shares or units. In the accumulation of shares/units, the income earned by the fund is paid into the fund and reflected by an increase in the value of each share/unit.

3. ACTIVE

Where the fund manager uses their expertise to pick investments to achieve the fund's objectives rather than copy the investments in a market index.

4. ADVANCED/DEVELOPED MARKETS

Countries with relatively high levels of personal income and established economies.

5. ALTERNATIVES

Any investment that does not fall in the traditional asset classes of stocks, bonds, or cash. Alternative investments include private equity, hedge funds, commodities, real estate, and infrastructure, but also less usual choices such as art.

6. ANNUAL MANAGEMENT CHARGE (AMC)

An ongoing fee is paid to the management company for managing the fund, usually charged as a percentage (%) of the investment.

7. ASSET

Anything having commercial or exchange value that is owned by a business, institution, or individual.

8. ASSET ALLOCATION

Apportioning a portfolio's assets to achieve a defined level of risk tolerance and investment goals. This can involve dividing the money invested in the fund across different investments ('assets'), e.g., in different geographic areas or by industry sectors such as oil and gas or financial companies.

9. ASSET CLASS

A category of assets, such as cash, company shares, bonds, property, and commodities (such as gold).

10. BEAR MARKET

Where the prices of assets are falling, and investor sentiment is generally pessimistic.

11. BETA

A measure of a stock's risk of volatility compared to the overall market.

12. BOND

A loan, usually to a company or government, that pays interest. Where relevant, consider using ‘bond’ instead of ‘fixed income’, which is a less well-understood term.

13. BOTTOM-UP

An investment approach that focuses on analysing individual shares rather than stock markets.

14. BULL MARKET

Where the prices of securities are rising, and investor sentiment is generally optimistic.

15. CAPITALIZATION

The total market value of all a company's outstanding shares.

16. CAPITAL MARKETS

Markets that raise money from those who want to invest and make those funds available to businesses or governments.

17. CONSUMER PRICE INDEX

A measure of inflation, constructed by using the price of a basket of goods and services.

18. CONSUMER DISCRETIONARY

Goods and services which are considered non-essential to consumers, such as entertainment or leisure.

19. CONSUMER STAPLES

Goods and services, which are considered essential to consumers, such as food and beverages.

20. CONVERTIBLE BOND

A bond that can be exchanged for predetermined amounts of the same company’s shares at certain times during their lifecycle.

21. CORPORATE BONDS

Bonds issued by a company.

22. COUPON

The interest paid by the government or company that has raised a loan by selling bonds.

23. CREDIT

The borrowing capacity of an individual, company, or government.

24. CREDIT RISK

The risk that a financial obligation will not be paid, and a loss will result for the lender.

25. CREDIT SPREAD

The difference between the yield of a corporate bond (issued by a company), and a government bond of the same life span. Yield refers to the income received from an investment and is expressed as a percentage of the investment's current market value.

26. CURRENCY EXPOSURE

The potential for a fund that is invested overseas to lose or gain money purely because of changes in the currency exchange rate.

27. CYCLICAL COMPANIES

A cyclical company is one whose share price is heavily dependent upon the strength of the economy and the broader business cycle. Examples include autos, airlines, and luxury retailers.

28. DEFENSIVE COMPANY

A defensive company is one that provides constant dividends and stable earnings, regardless of the state of the overall stock market or economy. Defensive companies are usually found in industries that produce essential products and/or services that consumers cannot go without, such as consumer staples, pharmaceutical manufacturers, and utilities.

29. DERIVATIVES

Investments whose value is linked to another investment, to the performance of a stock exchange, or to some other variable factor, such as interest rates.

30. DEVELOPED ECONOMY/MARKET

Well-established economies with a high degree of industrialization, the standard of living, and security.

31. DIVERSIFICATION

Holding a variety of investments in a portfolio that typically perform differently from one another to spread risk.

32. DOTCOM BUBBLE

A period of excessive speculation in the shares of technology companies, mainly in the US.

33. DOVE (DOVISH)

A central bank policy member who puts more emphasis on maximizing employment over-controlling inflation. The opposite of a hawk.

34. DRAWDOWN

Drawdown is a measure of the downside risk of a portfolio. It is a measure of decline from a fund’s peak value to its lowest point over a period of time – expressed as a percentage from top to bottom.

35. DURATION

A measure of the sensitivity of a bond (or bond fund) to changes in interest rates.

36. DURATION RISK

The longer a bond, or bond fund's duration, the more sensitive and therefore at risk, it is to changes in interest rates.

37. ECONOMIC CYCLE

The fluctuation between an economy’s periods of expansion (growth) and contraction (recession).

38. EMERGING ECONOMY OR MARKET

Countries that are progressing toward becoming advanced, are usually shown by some development in financial markets, the existence of some form of the stock exchange, and a regulatory body.

39. EQUITIES

Shares of ownership in a company.

40. EXPOSURE

The proportion of a fund invested in a particular asset class, bond, or sector/region, is usually expressed as a percentage of the overall portfolio.

41. FISCAL POLICY

Government policy on taxation, spending, and borrowing.

42. FIXED INCOME

A sector of investments that offers fixed rates of interest over a specified time period, at the end of which the initial amount is repaid. This may include but is not limited to, government bonds and corporate debt.

43. FUNDAMENTALS (ECONOMIC)

Economic fundamentals are factors such as inflation, employment, and economic growth.

44. GROWTH

The increase in value of investments.

45. HAWK (HAWKISH)

A central bank policy member who puts more emphasis on controlling inflation over maximizing employment. The opposite of a dove.

46. HEDGING

A method of reducing unnecessary or unintended risk on a portfolio.

47. HIGH YIELD BONDS

Bonds that are issued by companies with a low credit rating from a recognized credit rating agency. They are at a higher risk of default than better quality (higher rated) bonds but have potential for higher rewards.

48. INCOME

Money that is paid out by an investment, such as interest from a bond or a dividend from a share.

49. INCOME SHARE/UNIT

Funds are divided into portions called ‘shares’ or ‘units.’ In income shares/units, the income earned by the fund is paid out to investors.

50. INDEX

A representative portfolio of shares, bonds, or commodities, that helps to track market trends and performance.

51. INDEX-LINKED BONDS

Bonds where both the value of the loan and the interest payments are adjusted in line with inflation over the life of the security. Also referred to as inflation-linked bonds.

52. INFLATION

The rate at which the price of goods and services rises.

53. INVESTMENT GRADE BONDS

Bonds issued by a company with a medium or high credit rating from a recognized credit rating agency. They are considered lower risk from default than those issued by companies with lower credit ratings.

54. LIQUIDITY

The degree to which an investment can be quickly bought or sold on a market without affecting its price.

55. MONETARY EASING

When central banks lower interest rates or buy securities on the open market to increase the amount of money in circulation.

56. MONETARY POLICY

A central bank's regulation of money in circulation and interest rates.

57. MONETARY TIGHTENING

When central banks raise interest rates or sell securities on the open market to decrease the amount of money in circulation.

58. MONEY MARKET INSTRUMENTS

Investments that are usually issued by banks or governments, short-term loans to the issuer by the buyer. The buyer receives interest and the return of the original amount at the end of a certain period.

59. MULTI-ASSETSSET PORTFOLIO

A portfolio that is invested in different types of assets such as company shares, bonds, property, or cash among others.

60. OVERWEIGHT

Holding a larger proportion of a particular asset class, sector, or region than that defined by the fund’s asset allocation framework.

61. Passive management

Investing according to the stock or sector weightings of an index. Passive management is also referred to as 'indexing' or 'tracking'.

62. Platform

Software that is used to manage investments through a financial intermediary.

63. Private capital/private debt

Investors or funds which invest directly in private companies (i.e., not via a stock exchange).

64. Real return

The money made or lost on investment, after accounting for taxes and inflation.

65. Relative return

The profit or loss on investment compared to how other investments have performed.

66. Return

The money made or lost on an investment.

67. Risk

The chance that an investment's return will be different from what is expected. Risk includes the possibility of losing some or all the original or initial capital investment.

68. Risk management

The term is used to describe the activities the fund manager undertakes to limit the risk of a loss in a fund.

69. Risk premium

The difference between the return from a risk-free asset, such as a high-quality government bond or cash, and the return from an investment in any other asset. The risk premium can be considered the 'price' or 'pay-off' for taking on increased risk.

70. Risk/reward ratio

A ratio comparing the expected returns of an investment with the amount of risk undertaken.

71. Risk-free asset

An asset that notionally carries no risk of non-payment by the borrower such as a high-quality fixed income security issued by a government or cash.

72. ROLLING FIVE-YEAR PERIOD

Any period of five years, irrespective of starting day. Rolling returns give a more realistic idea of what might really happen to an investment, depending on the length of the investment.

73. SAFE-HAVEN ASSETS

Assets that investors perceive to be relatively safe from suffering a loss in times of market turmoil.

74. SECTOR

An investment category that is used to define the primary business of a company, such as technology, energy, or healthcare.

75. SEQUENCE OF RETURNS

The order in which investment returns are received.

76. SEQUENCE OF RETURNS RISK

The risk of facing lower investment returns at the start of retirement when you begin to draw down income, compared with higher returns in later years.

77. SHARE/STOCK

An equal portion, representing part ownership of a company. Can also apply to a fund.

78. SHARE CLASS

One of the types of shares representing part ownership of the fund, that is different from other share classes for some reason, such as it pays out income rather than paying it back into the fund.

79. SPLICED

The combination of model and fund data.

80. STOCK EXCHANGE

A financial market in which shares are bought, sold, and issued such as the London Stock Exchange (LSE100) or New York Stock Exchange (NYSE).

81. TOP-DOWN INVESTING

An investment approach that looks at the big picture first, such as the economy, then at the detail, such as how individual assets, such as shares, bonds, property, or commodities are performing, before selecting which to invest in.

82. TOTAL RETURN

The term for the gain or loss derived from an investment over a particular period. Total return includes income (in the form of interest or dividend payments) and capital gains.

83. UNCONSTRAINED

The fund manager has the freedom to invest according to the fund's strategy and is not obliged to allocate capital according to the weightings of any index, for example.

84. UNDERWEIGHT

Holding a smaller proportion of a particular asset class, sector, or region than that defined by the fund's asset allocation framework.

85. VALUATION

The worth of an asset or company based on its current market price.

86. VOLATILE

When the value of a particular asset, market, or sector moves up and down fairly frequently and/or significantly.

87. VOLATILITY

The degree to the price of a given asset rapidly changes. The higher the volatility, the riskier the asset tends to be.

88. YIELD (BONDS)

The interest received from a bond, which is usually expressed annually as a percentage based on the investment's cost, its current market value, or its face value.

89. YIELD (EQUITY)

The dividends received by a holder of company shares are referred to as the yield and are usually expressed annually as a percentage based on the investment's cost, its current market value or face value.

90. YIELD (INCOME)

The income received from an investment and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value.

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