A

Accumulation shares

A type of share where distributions are automatically reinvested and reflected in the value of the shares.

Active management

An approach to investing whereby capital is allocated according to the judgment of the fund manager.

Active manager

A fund manager who follows an active approach to investing. The active investor aims to beat the returns from a specified index/sector rather than to match them.

Alpha

The excess return of a fund relative to the return of its comparative index.

Asset allocation

Apportioning a portfolio's assets according to risk tolerance and investment goals.

Asset class

Category of assets, such as cash, company shares, fixed income securities and their sub-categories, as well as tangible assets such as real estate.

B

Bear market

A market in which the prices of securities are falling, and widespread pessimism often causes the negative sentiment to be self-sustaining.

Bond

A loan in the form of a security, usually issued by a government or company, which normally pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.

Bond issue

A set of fixed income securities offered for sale to the public by a company or government. If the bonds are sold for the first time, it is called a 'new issue'.

Bottom-up selection

Selecting stocks based on the attractiveness of a company.

Bull market

A market in which the prices of securities are rising, often characterised by investor optimism and confidence in continuing strong returns.

Bunds

Fixed income securities issued by the German government.

C

Capital at risk

The risk an investor faces that he or she may lose all or part of the assets invested.

Capital growth

Occurs when the current value of an investment is greater than the initial amount invested.

Capital return

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

Capital structure

The composition of a firm's liabilities - refers to the way a firm finances its assets through a combination of equity, which refers to raising funds by selling shares, and debt. Often when capital structure is referred to, the focus is on the firm's debt-to-equity ratio, which is an indicator of how risky a company is.

Capitalisation

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

Cash equivalents

Deposits or investments with similar characteristics to cash.

Convertible bonds

Fixed income securities that can be exchanged for predetermined amounts of company shares at certain times during their life.

Corporate bonds

Fixed income securities issued by a company.

Coupon

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

Credit default swaps (CDS)

Are a type of derivative, namely financial instruments whose value, and price, are dependent on one or more underlying assets. CDS are insurance-like contracts that allow investors to transfer the risk of a fixed income security defaulting to another investor.

Credit rating

An independent assessment of a borrower's ability to repay its debts. A high rating indicates that the credit rating agency considers the issuer to be at low risk of default; likewise, a low rating indicates high risk of default.

Credit rating agency

A company that analyses the financial strength of issuers of fixed income securities and attaches a rating to their debt. Examples include Standard & Poor's and Moody's.

Credit research

The process of evaluating a fixed income security, also called a bond, in order to ascertain the ability of the borrower to meet its debt obligations. This research seeks to identify the appropriate level of default risk associated with investing in that particular bond.

Credit risk

Risk that a financial obligation will not be paid and a loss will result for the lender.

Credit spread

The difference between the yield of a corporate bond, a fixed income security 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.

D

Default

When a borrower does not maintain interest payments or repay the amount borrowed when due.

Default risk

Risk that a debtholder will not receive interest and full repayment of the loan when due.

Derivatives

Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded over the counter.

Distribution

Distributions represent a share in the net income of the fund and are paid out to income shareholders or reinvested for accumulation shareholders at set times of the year (monthly, quarterly, half-yearly or annually). They may either be in the form of interest distributions or dividend distributions.

Distribution yield

Expresses the amount that is expected to be distributed by the fund over the next 12 months as a percentage of the share price as at a certain date. It is based on the expected gross income less the ongoing charges.

Diversification

The practice of investing in a variety of assets. This is a risk management technique where, in a fully-diversified portfolio, any loss from an individual holding should be offset by gains in other holdings, thereby lessening the impact on the overall portfolio.

Dividend

Dividends represent a share in the profits of the company and are paid out to a company's shareholders at set times of the year.

Duration

A measure of the sensitivity of a fixed income security, also called a bond, or bond fund to changes in interest rates. The longer a bond or bond fund's duration, the more sensitive it is to interest rate movements.

Duration risk

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

E

Earnings per share

An indicator of a company's profitability - calculated as the net profit of a company divided by the number of shares in issue.

Emerging economy or market

Economies in the process of rapid growth and increasing industrialisation.

Equities

Shares of ownership in a company.

Exchange traded

Usually refers to investments traded on an exchange, such as company shares on a stock exchange.

Ex-dividend date

The date on which declared distributions officially belong to underlying investors, rather than the fund, usually the first business day of the month.

Exposure

The proportion of a fund invested in a particular share/fixed income security, sector/region, usually expressed as a percentage of the overall portfolio.

F

Fiscal policy

Government policy on taxation, spending and borrowing.

Fixed income security

A loan in the form of a security, usually issued by a government or company, which normally pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid. Also referred to as a bond.

Floating rate notes (FRNs)

Securities whose interest (income) payments are periodically adjusted depending on the change in a reference interest rate.

Foreign exchange

The exchange of one currency for another, or the conversion of one currency into another currency. Foreign exchange also refers to the global market where currencies are traded virtually around the clock. The term foreign exchange is usually abbreviated as 'forex' and occasionally as 'FX'.

Forward contract

A contract between two parties to buy or sell a particular commodity or financial instrument at a pre-determined price at a future date. Examples include forward currency contracts.

Futures

A futures contract is a contract between two parties to buy or sell a particular commodity or financial instrument at a pre-determined price at a future date. Futures are traded on a regulated exchange.

G

Gearing

Is the level of a company's debt in relation to its assets. A company with significantly more debt than capital is considered to be geared.

Gilts

Fixed income securities issued by the UK government.

Government bonds

Fixed income securities issued by governments, that normally pay a fixed rate of interest over a given time period, at the end of which the initial investment is repaid.

H

Hedging

A method of reducing unnecessary or unintended risk.

High yield bonds

Fixed income securities issued by companies with a low credit rating from a recognised credit rating agency. They are considered to be at higher risk of default than better quality, i.e. higher-rated fixed income securities but have the potential for higher rewards.

Historic yield

The historic yield reflects distributions declared over the past 12 months as a percentage of the share price, as at the date shown.

I

Income shares

A type of share where distributions are paid out as cash on the payment date.

Income yield

Refers to 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.

Index

An index represents a particular market or a portion of it, serving as a performance indicator for that market.

Index-linked bonds

Fixed income securities 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.

Inflation risk

The risk that inflation will reduce the return of an investment in real terms.

Inflation-linked bonds

Fixed income securities 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 index-linked bonds.

Initial public offering (IPO)

The first sale of shares by a private company to the public.

Interest rate risk

The risk that a fixed income investment will lose value if interest rates rise.

Interest rate swap

An agreement between two parties to swap a fixed interest payment with a variable interest payment over a specified period of time.

Investment grade bonds

Fixed income securities issued by a company with a medium or high credit rating from a recognised credit rating agency. They are considered to be at lower risk from default than those issued by companies with lower credit ratings.

Issuer

An entity that sells securities, such as fixed income securities and company shares.

L

Leverage

When referring to a company, leverage is the level of a company's debt in relation to its assets. A company with significantly more debt than capital is considered to be leveraged. It can also refer to a fund that borrows money or uses derivatives to magnify an investment position.

Liquidity

A company is considered highly liquid if it has plenty of cash at its disposal. A company's shares are considered highly liquid if they can be easily bought or sold since large amounts are regularly traded.

Long position

Refers to ownership of a security held in the expectation that the security will rise in value.

M

Macroeconomic

Refers to the performance and behavior of an economy at the regional or national level. Macroeconomic factors such as economic output, unemployment, inflation and investment are key indicators of economic performance. Sometimes abbreviated to 'macro'.

Maturity

The length of time until the initial investment amount of a fixed income security is due to be repaid to the holder of the security.

Modified duration

A measure of the sensitivity of a fixed income security, called a bond, or bond fund to changes in interest rates. The longer a bond or bond fund's duration, the more sensitive it is to interest rate movements.

Monetary easing

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

Monetary policy

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

Monetary tightening

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

N

Near cash

Deposits or investments with similar characteristics to cash.

Net asset value (NAV)

A fund's net asset value is calculated by taking the current value of the fund's assets and subtracting its liabilities.

O

Options

Financial contracts that offer the right, but not the obligation, to buy or sell an asset at a given price on or before a given date in the future.

Over-the-counter (OTC)

Whereby financial assets are traded directly between two parties. This is in contrast to exchange trading, which is carried out through exchanges set up specifically for the purpose of trading. OTC is also known as off-exchange trading.

Overweight

If a fund is 'overweight' a stock, it holds a larger proportion of that stock than the comparable index or sector.

P

Passive management

An approach to investing whereby capital is allocated according to the stock or sector weightings of an index. Passive management is also referred to as 'indexing' or 'tracking'.

Passive manager

A fund manager who takes a passive approach to investing. The passive investor aims to match the returns from a specified index/sector, rather than to beat them.

Payment date

The date on which distributions will be paid by the fund to investors, usually the last business day of the month.

Physical

The fund's exposure excluding derivatives, which are financial instruments whose value, and price, is dependent on one or more underlying securities.

Physical assets

An item of value that has tangible existence, for example, cash, equipment, inventory or real estate. Physical assets can also refer to securities, such as company shares or fixed income securities.

Portfolio transaction cost

The cost of trading, such as brokerage, clearing, exchange fees and bid offer spread as well as taxes such as stamp duty.

Price-earnings ratio

A measure that compares a company's current share price to its earnings per share. It provides a guide to the market's opinion about the company's future earnings prospects. Calculated by dividing the market value per share by the earnings per share.

Principal

The face value of a fixed income security, which is the amount due back to the investor by the borrower when the security reaches the end of its life.

Private placement

An offer of sale of securities to a relatively small number of investors selected by the company, generally investment banks, mutual funds, insurance companies or pension funds.

R

Real return

The return on an investment, adjusted for changes in prices in an economy.

Real yield

The return of an investment, adjusted for changes in prices in an economy.

Risk management

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

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. A higher risk premium implies higher risk.

Risk/reward ratio

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

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.

S

Safe-haven assets

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

Security

Financial term for a paper asset – usually a share in a company or a fixed income security also known as a bond.

Short-dated corporate bonds

Fixed income securities issued by companies and repaid over relatively short periods.

Short-dated government bonds

Fixed income securities issued by governments and repaid over relatively short periods.

Sovereign debt

Debt of a government. Also referred to as government bonds.

Standard deviation

A statistical measure of dispersion of a set of data from its mean, indicating the spread of a fund's returns over a certain period of time.

Sub-investment grade bonds

Fixed income securities issued by a company with a low rating from a recognised credit rating agency. They are considered to be at higher risk from default than those issued by companies with higher credit ratings.

Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

T

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.

Transaction cost

The cost of trading, such as brokerage, clearing and exchange fees as well as taxes such as stamp duty.

Treasuries

Fixed income securities issued by the US government

Triple A or AAA rated

The highest possible rating a fixed income security, also called a bond, can be assigned by credit rating agencies. Bonds that are rated AAA are perceived to have the lowest risk of default. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

U

UCITS

Stands for Undertakings for Collective Investments in Transferable Securities. This is the European regulatory framework for an investment vehicle that can be marketed across the European Union and is designed to enhance the single market in financial assets while maintaining high levels of investor protection.

Unconstrained

The term used to describe the mandate of a fund whereby the manager has the freedom to invest according to his or her own strategy, not being obliged to allocate capital according to the weightings of any index, for example.

Underlying value

The fundamental value of a company, reflecting both tangible and intangible assets, rather than the current market value.

Underlying yield

Refers to the income received by a managed fund, and is usually expressed annually as a percentage based on the fund's current value.

Underweight

If a portfolio is 'underweight' a stock, it holds a smaller proportion of that stock than the comparable index or sector.

V

Valuation

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

Valuation metrics

Measures used for determining the current worth of an asset or company.

Volatile

When the value of a particular share, market or sector swings up and down fairly frequently and/or significantly, it is considered volatile.

Volatility

The degree to which a given security, fund, or index rapidly changes. It is calculated as the degree of deviation from the norm for that type of investment over a given time period. The higher the volatility, the riskier the security tends to be.

W

Warrant

A security issued by a company that gives the holder the right to buy shares in that company at a specified price and within a certain timeframe.

Y

Yield

This refers to either the interest received from a fixed income security or to the dividends received from a share. It is usually expressed as a percentage based on the investment's costs, its current market value or its face value. Dividends represent a share in the profits of the company and are paid out to a company's shareholders at set times of the year.

Yield (bonds)

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

Yield (equity)

Refers to the dividends received by a holder of company shares and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value. Dividends represent a share in the profits of the company and are paid out to a company's shareholders at set times of the year.

Yield (income)

Refers to 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.