October 2022

Ninety One

Glossary of terms

—

Investing for a world of change

Glossary of terms

A

Absolute return

An absolute return fund seeks to generate a positive performance without reference to a benchmark or comparative index.

Actively managed

The investment manager is free to select investments with the aim of achieving the portfolio's objectives.

Accrued Interest

Interest earned on a security but not yet paid to the investor.

Alpha

A measure which describes whether an actively managed portfolio has added value in relation to the amount of risk taken relative to thebenchmark. Alpha can be positive or negative.

Alternative investments

These are non-traditional financial instruments that provide exposure to commodities, property, private equity and infrastructure.

American depository receipt (ADR)

Shares that represent ownership in shares of a non-US company that doesn't trade directly on US exchanges. They are purchased by US banks, denominated in US dollars and traded on US exchanges as if they were US securities.

Annual management fee

The annual charge paid by a client to an asset management company for managing clients' investments.

Annual percentage rate (APR)

The annual interest rate that is charged for borrowing, expressed as a percentage of the total balance to be paid.

Annualised return

This is the amount of money earned by an investment on an annual basis, often expressed as a percentage. It accounts for the compounding over an investment period, while the average annual return does not.

Arbitrage

As global markets are sometimes inefficient, this is a trading strategy to take advantage of the pricing differential in different markets between two very similar assets, such as stocks, bonds, and currencies.

Asset allocation

Spreading investments between a variety of assets. Not the same as diversification, which takes account of a lot of different risk and return levels.

Asset class

The main types of investment available. The traditional asset classes are equities, bonds and cash.

Asset-backed security (ABS)

Securities backed by the income stream of income-producing financial assets. These assets enable investors to gain exposure to instruments they might not otherwise be able to access, such as loan repayments.

Authorised fund

A fund that is authorised and regulated by the competent authority in the fund's home jurisdiction, so that it can be marketed to the general public.

B

Balanced fund

A fund that seeks to provide investors with both growth and income components by containing a combination of stocks (to provide the growth element), bonds (for income) and cash.

Bear market

A period of prolonged market weakness when prices fall consistently. A 20% correction is usually regarded as the threshold for a bear market.

Behavioural finance

The influence of psychology on the behaviour of investors. This is because investors are not always rational, have limits to their self-control and are influenced by their own biases.

Benchmark

A comparative performance index which is usually unmanaged.

Beta

A measure of a stock's volatility relative to the overall market. A beta greater than 1 means a stock is more volatile than the market, while a beta less than 1 means it is less volatile. The higher the beta, the more the expected returns but the greater the risks.

Bid price

The price at which a dealer will buy equity from an investor, or the price received by the investor when redeeming a share or unit in a dual-priced fund.

Biofuel

This is fuel produced from biomass, which is material from plants and algae or from animal waste. As alternatives to fossil fuels which are created through slow geological processes, biofuels are considered a renewable energy source as they can be readily replenished, unlike fossil fuels, which are a finite resource.

Boiler room schemes

Activities designed to lure investors into an investment scam, often using high-pressure sales tactics.

Bonds

These are fixed interest contracts issued by governments or companies, typically repaying interest at fixed periods.

Bond fund

A portfolio investing primarily in bonds and other debt securities, this may concentrate its investments in a particular type of bond or debt security — such as government bonds, municipal bonds, corporate bonds, convertible bonds, mortgage-backed securities, zero-coupon bonds — or a mixture of types.

Book cost

The original price paid for an investment.

Bottom-up investing

An investment approach that concentrates on the analysis of individual companies and considers the company's history, its management, and potential as more important than macroeconomic trends.

Glossary of terms

Blue chip

A well-known, financially strong, and highly regarded company.

Bull market

Used to describe financial markets when prices continue to rise over a long period of time. Investors are referred to as ‘bullish’ if they have a positive view of future prices.

C

Capital asset pricing model

The CAPM describes the relationship between the expected risk and return of investing in a security. The higher the risk the more an investor expects to earn. By helping investors calculate the expected return on an investment, the CAPM can help determine how appropriate a particular investment may be. Other pricing valuation models include discounted cash flow (DCF) and the dividend discount model (DDM).

Capital gain

This is the profit generated when an investment is sold for more than the price the investor paid.

Carbon credit

A permit (or tradeable certificate) allowing the holder to emit a certain amount of carbon dioxide or other greenhouse gas. Companies whose emissions exceed the limit set by governments or regulators must purchase additional carbon credits; those with unused credits (likely because they have introduced efficiency measures) can sell them. Usually traded in units of one tonne of CO_2 equivalent.

Carbon footprint

The total amount of greenhouse gases generated. Usually reported as 'CO_2 equivalent'.

Carbon market

A market where carbon offsets or credits can be traded. There are two types: compliance carbon markets are mandatory national, regional, or international markets; voluntary carbon markets are those in which companies or individuals can choose to participate.

Carbon neutral

When a company or country absorbs as much CO_2 (or equivalent) as it emits. Where companies are unable to absorb emissions directly, they may purchase carbon offsets to achieve carbon neutrality.

Carbon offset

A mechanism that compensates for the emission of CO_2 or other greenhouse gas by providing for an emission reduction elsewhere. Carbon offset credits can be bought, sold or traded as part of a carbon market.

Cash

The most liquid form of storing capital. While this is regarded as a safe asset class, over time the purchasing power of cash is eroded by inflation.

Cash flow

The net amount of cash that a business receives and pays out, usually over a standard reporting period (monthly, quarterly, annually). Cash flow is not the same as profits. A profitable business will eventually go out of business unless it has positive cash flow, but an unprofitable business can continue operating if it generates positive cash flow.

Central bank base rate

The basic rate of interest set by a central bank that determines the cost of borrowing.

China A-Shares

These are shares of mainland China-based companies trading on the Shanghai and Shenzhen Stock Exchanges.

Glossary of terms

Churning

This is an illegal practice when a broker carries out excessive buying and selling (i.e., trading) of securities in a customer's account, primarily to generate commissions benefiting the broker and without considering the customer's investment goals.

A collective investment scheme that issues a fixed amount of equity capital to investors who can only gain access by buying a unit in the fund that is being sold by an existing stakeholder. Shares in closed-ended funds are often traded on an exchange. as is the case with investment trusts.

Closed-end fund

This is a type of investment company that sells a fixed number of shares at one time to invest in stocks, bonds, or other financial instruments. The units then trade on a secondary market, with the unit price trading either at a premium or a discount to its net asset value (NAV). Closed-end funds often pay distributions to shareholders on a monthly or quarterly basis, which may be any combination of interest and/or principal.

Climate change

The change in average global temperatures and the impacts on weather patterns. Usually used in reference to the impacts arising from the release of greenhouse gasses.

Collateral

Assets provided by a borrower to a lender to secure a loan. If the borrower defaults on a loan payment, the lender is entitled to take ownership of the assets provided as collateral.

Collective investment scheme

A pooled fund in which investors hold units. Unit trusts and OEICS are examples of these pooled funds.

Commodities

An asset class which comprises physical assets such as oil, base and precious metals, and agricultural produce.

Compound interest

The process of generating earnings on an asset's reinvested earnings. This is the interest calculated on an initial investment, which includes the accumulated interest from previous periods.

Convertible security

A financial instrument that allows the holder to convert it into another asset, usually a share, at a discount to the market price at the time of conversion.

Contrarian

Investing in companies regarded as undervalued, and where the market sentiment is generally believed to be weak.

Corporate bond

A debt obligation issued by a company, essentially an IOU. By buying corporate bonds, investors are lending money to the bond issuer. In return, the company commits to pay interest on the principal, and in most cases returns the principal when due for repayment. Purchasing a bond does not equate to ownership in a company, unlike equity. Bondholders are only entitled to the interest and principal on the bond. A company has a legal obligation to pay interest and principal to its bond holders.

Corporate governance

The decision-making processes by which a company is managed and how its management is supervised, Businesses should have appropriate processes in place so that the interests of stakeholders (shareholders, employees, suppliers and customers) are balanced.

Corporate responsibility

The way of doing business that aims to increase a company's social impact while also meeting business objectives such as growth and revenue goals. Examples include increasing workforce diversity, reducing the company's carbon footprint and donating to charities.

Correlation

A measure of how asset classes move in relation to each other. Highly positively correlated investments imply two assets move in the same direction, while highly negatively correlated investments move in opposite directions. With lowly correlated securities, the price movement of one asset has no impact on the movement of the other. A combination of the latter is deemed to provide diversification benefits. Correlation is measured between 1 (perfect correlation) and -1 (perfect opposite correlation). A correlation coefficient of 0 suggests there is no correlation.

Coupon

The interest rate applied to the nominal value (principal) of a bond, paid on an annual or semi-annual basis.

Credit default swap (CDS)

A financial derivative providing protection against a bond default.

Credit quality

A measure of a company's creditworthiness, or the ability to repay its debt.

Credit rating agency

An institution that assigns credit ratings to debt issuers, such as companies and governments. Standard & Poor's and Moody's are well-known rating agencies.

Credit risk

The risk that a bond issuer or borrower will be unable to meet its contractual obligations.

Credit spread

The differences in yield between 'risk-free' bonds, such as gilts or US treasuries, and non-treasury (or gilt) bonds. Corporate bonds tend to offer an additional yield to compensate investors for the potential risk of default.

Cryptocurrency

A digital currency system with no central issuing or regulating authority. There are many different cryptocurrencies – Bitcoin was the first and remains the most well-known.

Currency risk

The risk of incurring the loss of foreign assets due to adverse movements in exchange rates between domestic and foreign currencies.

D

Day trading

A high-risk strategy which involves the intra-day buying and selling of shares with the expectation of making a quick profit from the daily fluctuations in share prices.

Debenture

A bond supported by the general credit of a company, but which is not secured by collateral or any assets. While a debenture is a type of bond, not all bonds are debentures.

Debt to equity ratio

A company's borrowings divided by the market value of its equity. It is a measure of the level of gearing in a company and is an indicator of financial strength.

Decarbonisation

The process of reducing greenhouse gas emissions.

Default risk

This is the risk that a bond issuer or borrower will not be able to meet their debt payments. To mitigate the impact of default risk, lenders often charge rates of return that correspond to the debtor's level of default risk: the higher the risk, the higher the required return.

Defined benefit pension

An employer and employee both contribute to the employee's pension scheme which is then invested in a range of investments. Depending on how long the employee has been a member of the scheme and the salary at the time of leaving, the employee will receive a specified monthly benefit on retirement.

Defined contribution pension

The employer and employee both contribute to a pension scheme during the employee's employment, which is then invested in a range of investments. On retirement, the employee's pension will be based on the value of the investments.

Deflation

Often caused by a fall in demand for goods and services, or an increase in supply, this occurs when the prices of goods and services in an economy fall as the rate of inflation becomes negative.

Derivatives

An instrument whose value is linked to the price of an underlying asset.

Developed markets

Industrialised countries with relatively high levels of economic productivity, high standards of living and stable economies.

Disinflation

Refers to a slowing down in price growth, as opposed to deflation, where prices are already falling. Bonds often provide above-average returns in a disinflationary environment as central banks are less likely to raise interest rates.

Diversification

Holding a range of investments to reduce portfolio volatility. Assets that perform well at different times will allow investors to offset losses in one asset class with gains in another.

Discount rate

This estimates the current value of an investment or business based on its expected future cash flow. The discount rate is often the weighted average cost of capital, or the hurdle rate that investors expect to earn relative to the risk of the investment.

Distressed debt

Bonds whose issuers are in financial difficulty and trading significantly below face value.

Distribution fees

Fees that are paid out of fund assets to cover marketing and selling of the fund's shares.

Dividend

The portion of company net profits paid out to shareholders.

Dividend yield

The annual percentage return earned by a share or a fund, calculated by dividing the dividend per share distributed annually by the share price.

Diversification

The allocation of portfolio capital to a range of asset classes that will perform strongly at different times, so limiting exposure to any one investment.

Domicile

The country where an individual, company or investment vehicle is based for tax purposes.

Dollar (Pound) cost averaging

Investing money at regular intervals regardless of the market's performance. By committing to a set schedule, more shares are purchased when prices are low, and fewer shares when prices are high. This helps to provide some protection against volatility after the money is invested.

Drawdown

The peak-to-trough decline for a market or investment over a specific time period, expressed as a percentage.

Dual listing

When a quoted company has separate legal identities with two primary listings, though it functions as one economic entity.

Dual priced fund

With dual priced funds, there is a separate price for buying and selling units in the fund. The difference between the buying and selling prices is the bid/offer spread. This broadly comprises the initial charge plus the difference between the buying and selling prices of the underlying investments, plus any other costs involved in buying or selling the underlying investments. This means that when investments are bought or sold as a result of other investors joining or leaving the fund your investment is sheltered from the costs of these transactions.

Duration

Expressed in years, this measures how much a bond's price will rise or fall when interest rates change. The longer the duration, the more sensitive it is. The higher the duration, the greater the potential return (and the greater the risk).

E

EU Sustainable Finance Taxonomy

A classification system introduced by the European Union to establish a list of environmental sustainability economic activities. Other similar taxonomies exist.

Earnings growth

The percentage change in a company's earnings per share between reporting periods.

Earnings per share (EPS)

The profit of a company attributed to each ordinary share (common stock). It is calculated by dividing a company's net income (minus dividends payable to preference shares) by the average number of outstanding shares during the period.

Emerging market

A low or low-medium income country that is economically less developed than major economies.

Emerging markets debt

Debt issued by governments and corporates in emerging markets.

Environmental, Social & Governance (ESG)

Factors that may be analysed to inform an investment decision. Examples include:

- Environmental: carbon footprint, air/water pollution, waste generated, biodiversity impacts, consumption of water and natural/scarce materials.
- Social: health and safety, workplace policies, the use of labour in the supply chain, diversity & inclusions, relationships with society/communities and other stakeholders.
- Governance: board composition, corporate structure, allocation of roles and responsibilities, executive pay, financial reporting & accounting practices/standards.

Eurocurrency market

The market in which currencies are borrowed and lent outside the countries in which they are legal tender, e.g. a bank outside the US borrowing or lending US dollars.

Equities

An equity investment is investing in shares in a company, providing an investor with part ownership.

Ex-dividend

Buying a stock ex-dividend means the purchaser is not entitled to the upcoming dividend payment.

Ex-dividend date

The date when a stock goes ex-dividend. Shareholders who purchase shares before the ex-dividend date are entitled to the next dividend payment. Shareholders who purchase shares on the ex-dividend date, or after, are not entitled to that dividend but will be eligible for the subsequent dividend if they remain shareholders.

Exchange Traded Fund (ETF)

An instrument which trades on a stock market, allowing investors to gain exposure to a wide selection of equities or bonds.

Expense ratio

A fund's total annual operating expenses, including management fees, distribution fees, and other expenses, expressed as a percentage of average net assets.

F

Factor investing

This is an investment approach positioned between passive and active management while targeting investments that exhibit certain 'factors'. There are two main types of factor investing – style and microelectronic. Over 600 factors have been identified which could influence risk and return, but there are five style factors widely regarded as the most important:

- Value – Stocks that trade at a discount to similar companies often outperform more expensive ones
- Quality – High quality companies (those generating strong cash flow and/or high profitability) will generally perform better than lower quality companies
- Size – Smaller companies will tend to offer a higher return than larger companies
- Momentum – The belief that stocks that have recently outperformed an index will continue to outperform, and vice-versa
- Volatility – The propensity for low volatility stocks to outperform higher volatility stocks

By capturing or avoiding certain factors, the aim is to improve portfolio returns.

Fed Funds Rate

This is the central interest rate in the US, set daily. It is the overnight interest rate charged by depositary banks' lending their excess Federal Reserve balances to other depositary institutions. It influences other interest rates such as the prime rate, and also longer-term rates used for mortgages, loans and savings.

Financial advisor

A professional who helps individuals manage their finances by providing advice on money issues, such as investments. In the UK, there are two types of financial advisors – independent financial advisors (IFAs), able to consider and recommend all types of retail investment products from all firms across the market; and restricted financial advisers, who can only recommend certain products and providers.

Fiscal policy

The taxation and public spending plans of a government.

Fixed annuity

A guaranteed income for a set period of time, which can be up to 40 years. The annuity provider invests the money and at the end of the term, the amount paid in plus the accumulated growth is distributed, minus the income received so far.

Fixed Income

An investment that provides a return in the form of fixed periodic payments and the eventual return of principal at maturity.

Flat yield

Describes a yield curve where short-term and long-term bonds are offering equivalent yields.

Floating rate note (FRN)

A note with a variable interest rate. The adjustments to the interest rate are usually made every three to six months and are tied to a money-market rate.

Flotation

When a company first offers shares to the public on an exchange. It is also referred to as an initial public offering (IPO).

Foreign exchange market

A market that trades currencies.

Free cash flow

A measure showing the amount of cash that a company is able to generate after laying out the money required to maintain or expand its asset base. Free cash flow is important because it allows a company to pursue opportunities that may enhance shareholder value.

Frontier markets

Countries that, because of demographics, development, politics and liquidity, are less mature than emerging markets but are more established than least developed countries. Many Middle Eastern markets are frontier markets, as are Argentina and Vietnam.

Fund of funds

Funds that invest in other funds rather than investing directly in the underlying financial instruments.

Fundamental Analysis

Analysing an asset using macroeconomic and microeconomic factors, usually to find its intrinsic value.

Futures

An obligation to buy or sell an asset on a specific date in the future at an agreed price.

G

Gearing

In accounting terms, gearing (also known as leverage) is the amount of a company's total borrowings divided by its share capital. High gearing means a proportionately large amount of debt, which may be considered riskier for equity holders. However, gearing also entails tax advantages. In investment analysis, a highly geared company is one where small changes in sales produce big swings in profits.

Gilt

A bond that is issued by the British government which is generally considered low risk.

Global depositary receipt (GDR)

Similar to an American depository receipt, this is a bank certificate relating to the ownership of a foreign company's shares that is issued in more than one country.

Global warming

The long-term increase in the Earth's average air temperatures. Often used to describe the impact of humankind on climatic conditions.

Good-till-cancelled order

A good-till-cancelled (GTC) order is one that remains in the market until it is completed or cancelled.

Good governance

An attractive management and corporate culture, alongside strong company board practices, capital allocation and renumeration policies.

Green bond

Debt instruments whose proceeds are used exclusively to finance projects that have a positive environmental impact, such as renewable energy, energy efficiency, clean transportation and green buildings.

Greenhouse gases

Any gas (including carbon dioxide and methane) that contributes to the greenhouse effect (i.e., they trap heat in the atmosphere).

Greenwashing

Making false or misleading claims about the environmental sustainability of a company, product or business practice.

Gross redemption yield

The total return you could receive on a bond including the interest or coupon plus any capital.

Growth stock

A company enjoying a rapid rise in earnings and revenue. Usually pays little/no dividend.

Growth fund

A fund that concentrates on companies within rapidly rising sectors of the economy.

H

Hard currencies

Globally traded major currencies.

Hedge fund

An alternative investment vehicle available only to sophisticated investors, such as institutions and individuals with significant assets. Hedge funds target absolute returns and can invest using a broad array of strategies ranging from conservative to non-traditional investment strategies, such as short selling, gearing arbitrage and tools such as options, futures, swaps and forwards.

Hedging

A technique which aims to protect the value of an investment against adverse price movements.

Helicopter money

An unconventional monetary policy tool, whereby money is printed and distributed to the general public in order to stimulate the economy.

High quality

A company which has generated consistently high levels of returns on invested capital and free cash flow.

High yield bond

A below investment grade rated bond, providing the investor with greater returns due to its higher default risk.

I

Illiquid asset

Technically regarded as an asset that cannot be sold within seven calendar days. The lack of ready buyers can lead to larger discrepancies between the asking price (from the seller) and the bidding price (from a buyer) than would be found in an orderly market with a healthy daily trading activity.

Impact investing

A sustainable investment style aiming to intentionally deliver a quantifiable and beneficial social and/or environmental impact.

Income distribution

The distribution of income to unit holders of pooled funds.

Independent fund-research rating

A measure of the quality of a fund's management and investment process undertaken by third parties such as Morningstar or FE Trustnet.

In the money

This is when an option has value, or its strike price is favourable compared to the market price of the underlying asset.

Index

This is a collection of shares used to give an indication of a sector, exchange or economy. Most indices are weighted, either by market capitalisation or share price, meaning that not all component stocks receive the same representation.

Index fund

This is a passively managed group of investments that usually track a benchmark.

Index-linked bonds

Bonds whose coupons and principal payment are linked to movements in inflation.

Individual investor

People who buy and sell securities for their personal account, and not for another company or organisation.

Individual Savings Account (ISA)

A tax-free savings account in the U.K. There are two main types, a Cash ISA and a Stocks and Shares ISA. You can put money into a Cash ISA and you don't pay tax on any interest you receive. Invest in a Stock and Shares ISA, and you don't pay tax on any further dividends or capital gains.

Inflation

The rate of increase in prices over a period, expressed as a percentage. After an extended period of low inflation, households (and investors) are now faced with much higher levels of inflation that could erode the performance and value of their investments. The impact of inflationary pressures on sectors will vary depending on companies' ability to pass on these higher costs to end users.

Information Ratio

A risk-adjusted measure of actively-managed performance against a benchmark that can be used to compare fund managers with similar strategies. The higher the information ratio the better, while a ratio less than zero indicates a failure to outperform the benchmark.

Glossary of terms

Initial charge

The upfront expenses an investment company charges an investor when purchasing a fund. This covers the costs of setting up the investment, such as administration and marketing costs.

Initial public offering (IPO)

The first public sale of a company's equity resulting in a quoted stock price on a stock exchange.

Institutional investor

An investor not trading on behalf of a sole investor, such as a pension fund, insurance company or charity.

Interest

The return earned on funds which have been deposited, loaned or invested.

Intrinsic Value

The present value of all expected future cash flows discounted at the appropriate discount rate. Intrinsic value only looks at the inherent value of a business, not in comparison with other businesses.

Investment grade

Bonds considered of the highest quality by credit rating agencies.

Investment trust

A closed-ended collective investment scheme which trades as a company in its own right on an exchange.

Investment universe

The total range of investments from which a fund manager can pick - as defined by a fund's stated investment objective.

Inverted yield curve

When a yield curve flattens to the point that short-term interest rates are higher than long-term rates. A relatively rare occurrence, an inverted yield curve often precedes a recession as investors will often tolerate low interest rates if they believe they are set to fall even further.

ISIN

The International Securities Identification Numbering (ISIN) system. The ISIN code is a unique 12-digit code given to asecurity and is used worldwide.

J

Junk bond

A lowly-rated bond, providing the investor with greater returns due to its higher default risk.

K

Key investor information document (KIID)

A document that must be distributed to potential and existing clients which provides details of a fund. It should be easily understood and contains information about the fund's investment objectives, notable risks, past performance and fees.

Key features document (KFD)

Similar to a KIID, it is a pre-sale disclosure document required for life policies, personal pension schemes and cash deposit ISAs.

L

Large-cap

Generally taken to be the market capitalisation of a listed company with a value of more than US$ 10 billion.

Leverage

The proportion of a company's funding from debt, compared to the proportion from equity capital.

Liabilities

Financial obligations that must be met.

Liability driven investing (LDI)

A pension fund strategy designed to help pensions manage their pensions more efficiently so that they can pay future retirees. An LDI manager will buy a range of financial instruments to hedge again the risk that adverse moves in interest rates and inflation will increase their future obligations, reducing the amount that can be paid out to retirees.

Liquidity

The ease with which an asset can be sold at a reasonable price for cash.

Long-dated bond

A bond with usually 15 years or more remaining before redemption, at which point the principal is paid to the holder.

Long-short strategy

Commonly used by hedge funds, this strategy involves holding both long (expecting the value of investments to rise) positions and short (expecting the value of investments to fall) positions in order to maximise returns or hedge risks.

Long-term investment

Holding an asset for an extended period of time. Depending on the security, a long-term asset may be held for as little as one year or for as long as 30 years.

M

Macroeconomic

Refers to the big trends in an economy, such as inflation and unemployment

Management fee

A fixed annual fee that a manager charges for his services, such as fund administration costs and investor relations.

Market capitalisation

The total value of a company's equity, calculated by the number of shares multiplied by the market price.

Market risk

Also referred to as systematic risk, it refers to the risk which is inherent within an asset class or broader market and cannot be eliminatedby diversification.

Maturity

With regards to bonds, maturity refers to the time at which the principal of the bond is repaid and it ceases to exist. In terms of a pension fund, it conveys the average age of the membership and the time until benefits are payable.

Microeconomic

The study of individuals, households and firms' behaviour in decision making and the allocation of resources.

Mid-cap

The market capitalisation of a listed company with a value between US$2 billion and US$10 billion.

Mid-market price

The price of an asset calculated as the mid-point between its offer and bid price. Most newspapers use mid-market prices in the stock data tables.

MiFID

The Markets in Financial Instruments Directive is an EU directive which seeks to harmonise financial markets across the EU.

Money-market

The market for short-term fixed income instruments (typically with less than one year to maturity).

Money-market instruments

Types of tradeable short-term securities (typically with less than one year to maturity).

Momentum investing

An investment strategy based on the belief that the recent (3-12 months) stock market outperformers will continue to perform well in the short-term, and conversely that weaker stocks will continue to be weak.

Mutual fund

A professionally managed collective investment scheme that pools money from a large number of investors.

N

Net asset value (NAV)

In a company context, the NAV is the sum of the total assets minus the total liabilities.

Net-zero emissions

Achieving a balance between the amount of man-made emissions generated and those removed through reduction efforts.

Non-systematic risk

This is the risk attributable to an individual company, as opposed to the sector or broader market. The impact of non-systematic risk factors can be reduced by portfolio diversification.

O

Open-ended

A collective investment scheme that can issue an unlimited number of units or shares, meaning the number of units fluctuates as a result of inflows and outflows.

Open-ended Investment Company (OEIC)

A UK-domiciled collective investment scheme structured as a limited company in which investors can buy and sell shares and other securities.

Offer price

The price at which a dealer will sell a security to an investor. In a dual priced fund, this is the cost of buying a share or unit.

Option

The right to buy or sell a particular asset at an agreed price, at (or before, if an American option) a specific point in time.

Outperformance

The return of a fund in excess of the comparative performance index.

Over-the- counter (OTC)

Financial contracts which are traded directly between two parties, usually with minimal regulation, rather than on an exchange.

Overweight

When a fund has greater exposure to an asset than the comparative performance index.

P

Paris Agreement

A legally binding international treaty on climate change adopted in 2015. Signatories must take action to prevent global temperatures from increasing more than 2°C above the pre-Industrial Revolution benchmark, while aiming to limit the increase to 1.5°C.

Passive management

Passive management seeks to build a fund that is similar in composition to a comparative index in order to closely track its performance.

Peer group

A group of funds that can be compared with one another for performance purposes. A peer group will usually be based on the funds' investment scope, for example, UK equities.

Performance

The results of an investment over a given period.

Performance fee

A fee, which has been stipulated in advance, which is sometimes paid on top of a management fee if a fund outperforms its performance/comparison index or meets other conditions stipulated in advance.

Pooled fund / pooled vehicle

A fund, such as a mutual fund (US) or unit trust or OEIC (UK), which invests the assets of many different individuals or institutions collectively.

Portfolio

A grouping of financial assets, such as equities, bonds and cash equivalents. Portfolios are held directly by investors and/or managed by financial professionals.

Preference share

A class of share, which like a bond, pays income at fixed periods of time.

Price-to-book ratio

A measure used to gauge the relative value of a share, calculated by dividing the share price by its book value per share.

Price-to-earnings ratio

A measure used to gauge the relative value of a share, calculated by dividing the share price by the latest (or forecast) earnings per share.

Prime (lending) rate

A commonly used short-term interest rate in the US banking system.

Private equity

Refers to investments whose shares are not traded on a public exchange.

Prospectus

A formal legal document, which contains the information an investor needs to make an informed investment decision.

Q

Qualitative analysis

Examining the non-numeric characteristics of an investment, such as management and process.

Quantitative analysis

Examining the statistical and numerical relationships between securities and their returns. By assigning a numerical value to variables, quantitative analysts try to replicate reality mathematically.

Quartile

A measure of how an investment is performing in its peer group. A top-quartile performing fund would be in the top 25% of funds in its peer group.

R

Rally

A swift rise in an asset.

Real estate

An asset class comprising buildings and land.

Real return

The return on an investment minus the effect of inflation. Therefore, if the return on an investment is 6% and inflation is 2%, then the real yield is 4%.

Redemption

The repayment of a bond's principal at maturity.

Redemption yield

A measure of the return that an investor will earn on a bond if held to maturity.

Renewable energy

Energy from replenishable sources such as the sun (solar), rivers (hydroelectric), tides (tidal) and hot springs (geothermal).

Retail investor

Individual investors who buy and sell securities for their personal account, and not for another company or organisation. (See individualinvestor).

Return on equity

Essentially capturing how effectively management is using shareholder funds, it is a measure of company profitability. Rights issue

A form of capital raising where existing shareholders are given rights to purchase newly used shares in proportion to their existing holding.

Risk-adjusted performance

The performance of a security or investment relative to its risk. There are several ways to calculate risk-adjusted performance: measuringthe investment's volatility or comparing its performance to the performance of the market as a whole or relative to securities or investments with similar levels of risk.

Risk premium

The extra return expected by an investor in compensation for holding a risky asset.

S

Security

A general term for a tradable financial instrument or assets, such as shares or bonds.

Secondary Market

Where existing securities are bought and sold in transactions between investors, rather than from the company.

Secured Overnight Financing Rate (SOFR)

The SOFR is an interest rate based on overnight transactions in the US dollar treasury market.

Scope 1, 2 and 3 emissions

Categories of greenhouse gases emission:

- Scope 1 – All direct emissions from activities of a business or under its control. This includes fuel combustion on site such as heating boilers and vehicles.
- Scope 2 – Indirect emissions from electricity purchased and consumed by a business. Emissions are created during the production of the energy which is eventually used by the business.
- Scope 3 – All indirect emissions not in Scope 2 i.e., from a business's activities, but from sources that it does not own or control. Also known as value chain emissions, this is often the greatest proportion of the carbon footprint and covers emissions associated with business travel, procurement, waste and water.

Share buy-back

When a company buys some of its own shares in the market, which leads to a rise in the share price. It changes the company's debt-to-equity ratio and is a tax-efficient alternative to paying out dividends.

Sharpe Ratio

A measure of risk-adjusted performance in a portfolio which captures the average additional return per unit of risk. The higher this ratio, the better the returns relative to the amount of investment risk taken. A ratio above 2 is regarded as very good, while a ratio less than 1 is viewed as poor.

Short selling

Positioning to benefit from the belief that an asset or group of assets will weaken. This is done by selling assets that have been borrowed from a third party and if successful, buying them back later at a lower price.

Short duration bond

Generally, a bond with 5 years or less to maturity.

Short-term investment

Investments that are held for or mature in 12 months or less.

Smart beta

A simple form of factor investing, this can be viewed as a hybrid of passive and actively managed strategies. It seeks to deliver a better return/risk trade-off than conventional market cap weighted indices, by mechanically using an index designed to take advantage of perceived biases or inefficiencies in the market.

Standard deviation

A measure of risk, deriving from the historic volatility of a particular asset.

Stranded assets

Physical assets recorded on a corporate balance sheet but whose investment value cannot be recouped and must be written off. Their loss of value could be due to new government regulations (limiting the use of fossil fuels), changing demand (the shift to renewables) or legal action.

Structured credit

Similar debt obligations such as loans and mortgages are pooled and the resultant cashflows are distributed to investors. For issuers, the advantages include the potential off-balance sheet treatment of assets and lower financing costs while investors in structured credit products can potentially earn higher returns.

The most commonly created structured credit instruments include securities backed by residential property mortgages (RMBS), those backed by commercial properties (CMBS), while asset-backed securities (ABS) comprise packages of consumer products (car loans, credit card receivables) and collateralised loan obligations (CLO) represent a pool of corporate loans.

Stock Connect

A share trading link between the Hong Kong Stock Exchange and mainland Chinese equity markets.

Stock option

This provides the holder with the right, but not the obligation to 'exercise' their option to purchase a set number of shares in a company at an agreed (strike) price after a vesting period.

Sustainability

Meeting current development aims without compromising the ability of future generations to meet their own needs.

Sustainable finance

Investment decisions that take into account the environmental, social and governance (ESG) factors of an economic activity or project.

SFDR

The Sustainable Finance Disclosure Regulation seeks to strengthen and standardise disclosures on the Environmental, Social and Governance ('ESG') characteristics of EU financial products.

Sustainable Finance Action Plan

Aiming to promote sustainable investment across the EU, the Plan has three main objectives:

- Reorient capital flows towards sustainable investment, to achieve sustainable and inclusive growth.
- Mainstream sustainability into risk management.
- Encourage transparency and long-termism in financial and economic activity.

Swap

An agreement between investors to exchange future cashflows.

Systematic risk

Risk caused by factors beyond the control of a specific company or individual.

Systemic risk

Risk caused by an event that may trigger a collapse in an industry or economy.

T

Technical Analysis

Using price charts, this is the study of statistical patterns to forecast share price behaviour.

Top-down investing

In contrast with bottom-up investing, a top-down approach to investment analysis begins with an assessment of macroeconomic factors, then business cycles, before moving on to analyse individual sectors and companies.

Total return

Captures both the capital appreciation and depreciation of an investment as well as the income generated over a holding period.

Tracking error

A measure of how closely an investment portfolio's price movements reflect that of its benchmark.

Transferrable securities

Financial instruments, such as shares or bonds, which are negotiable on capital markets.

Treasuries

Debt securities issued by the US government. Treasuries fall under three categories: treasury bills (T-bills), treasury notes(T-notes) and treasury bonds (T-bonds).

U

Undertakings for Collective Investments of Transferable Securities (UCITS)

These are collective investment schemes that can be sold in any EU country.

Underweight

When a fund has less exposure to an asset than its benchmark.

Unit trust

An open-ended collective investment scheme.

V

Value companies

Companies that appear to trade at low prices relative to their fundamentals.

Venture capital

Private equity investing in young, and therefore riskier, companies.

Volatility

The pace of price change for a financial asset. This is generated if a stock or market delivers periods of unpredictable and sharp price moves, either up or down. If a stock fluctuates rapidly in a short period, hitting new highs and lows, it exhibits high volatility. If the price moves higher or lower more slowly, or stays relatively stable, it is showing low volatility. Historic volatility is calculated on past price action, while implied volatility estimates future volatility based on option prices.

W

Warrant

A derivative security – usually issued with a bond – that gives the holder the right to buy ordinary shares at a fixed price. The main difference between warrants and call options is that warrants are issued and guaranteed by the company.

Weighted average market capitalisation

An index in which each component is weighted relative to its total market capitalisation, so companies with a larger market capitalisation will account for a greater proportion and exert a greater effect.

X-Y

Year-to-date (YTD)

Refers to the period extending from the beginning of the current calendar year to the present date.

Yield

A measure of the income return earned on an investment. In the case of a share, the yield expresses the annual dividend payment as the percentage of the market price of the share. In the case of a property, it is the rental income as a percentage of the capital value. In the case of a bond, the running yield (or flat or current yield) is the annual interest payable as a percentage of the current market price. The redemption yield (or yield to maturity) allows for any gain or loss of capital which will be realised at the maturity date.

Yield curve

The yield curve is used to gauge bond investors' sentiment towards risk, with the US yield curve acting as a global benchmark.

A **normal yield curve** slopes upwards from the left to the right as maturities lengthen and yields rise. This reflects the greater rewards for investors the longer they commit their funds.

When an economy slows, longer-dated bonds will usually decline as longer dated maturities represent investors' expectations for economic prospects. Investors also believe there is less need for central banks to increase interest rates. This may lead to a **flattening yield curve**, often regarded as a recessionary signal.

Should economic conditions continue to deteriorate, this may lead to **an inverted yield curve,** when short-term bonds have higher yields than long-term bonds. This is because the default risk increases in periods with weak economic conditions and investors need to be compensated for this short-term additional risk.

In an expansionary economy, the **yield curve steepens** as investors believe this will lead to higher yields in the future.

Yield spread

The difference in yield between different bonds.

Yield to maturity

The annualised return (internal rate of return) that would be earned on a bond if held to maturity and all interest and coupon payments are made on schedule.

Z

Zero-coupon bond

Issued at a deep discount to face value, this is a bond which does not pay interest. Instead, investors receive the full value when the bond matures.