

GLOSSARY OF TERMS

Absolute return funds

These funds seek to preserve investors' capital and to achieve consistently positive returns. They are generally measured against cash, so are therefore deemed to have an 'absolute' performance benchmark.

Alpha

Alpha is a measure of a fund's over- or under-performance by comparison to its benchmark. It represents the return of the fund when the benchmark is assumed to have a return of zero.

Alternative assets

Alternative assets are investments outside of the traditional three asset classes of bonds, equities and cash. Hedge Funds are one of the more common examples. However, they can also include investments such as derivatives or commodities.

Beta

Beta is a statistical estimate of a fund's volatility by comparison to that of its benchmark, i.e. how sensitive the fund is to movements in the section of the market that comprises the benchmark.

Collective investment schemes

These are funds that pool investors' money and invest on their behalf, either in investment trusts or unit trusts.

Correlation

In investment terms, correlation refers to the extent to which the prices of asset classes or securities move in the same direction. Assets with prices that usually move in opposite directions are 'negatively correlated'.

Distribution funds

In distribution funds, a large portion of the portfolio is usually invested in fixed-interest securities like gilts and corporate bonds to provide a stable income from the investment. The other main component of the portfolio is often income-bearing equities, which provide the potential for capital growth as well as additional income.

Dividends

A payment made by a company to its shareholders. The size of the payment is generally determined by the size of the company's profits and is usually paid twice a year. However, not every company pays a dividend.

Fixed-income securities

These include government, supranational and corporate bonds, other income-producing debt securities and bank certificates of deposit due in more than one year. They generally constitute a promise by the borrower (the issuer of the security or a bank) to pay the investor a specified amount of interest and to return the principal on a specified date.

Futures and options

Investment contracts that allow investors to bet on the future price movements of a commodity or other asset.

IMA fund categories

The Investment Managers' Association categorises funds into over thirty sectors to help investors compare funds with similar characteristics. The sector categories are broadly divided into funds that aim to provide an 'income' and those designed to provide 'growth'.

Investment Trust

This is a limited company with a fixed share capital whose shares are listed on a stock exchange and whose capital is invested in stocks and shares.

LIBOR

The London Inter Bank Offered Rate is the rate of interest at which banks lend money to each other – in effect, the 'wholesale' price of cash rather than the 'retail' price (the rate at which banks charge consumers to borrow money).

Liquidity

If an investment is 'liquid', it can be converted into cash quickly and easily. An 'illiquid' investment is difficult to convert to cash. Cash itself is liquid, as are most shares. Less liquid is a direct investment in commercial property, as the purchase and sale can take some months.

Market capitalisation

The total market value of a company's issued shares. Companies are referred to as 'large-cap', 'medium-cap' or 'small-cap', depending on their relative market capitalisations.

Money market instruments

These are short-term debt instruments with high liquidity, and include Treasury bills, commercial paper and certificates of deposit.

OEICs

Open-Ended Investment Companies are a type of collective investment that combines elements of both unit trusts and investment trusts. An OEIC works in a similar way to a unit trust, except an OEIC is legally constituted as a limited company, so that investors buy shares, rather than units.

Redemption date/maturity date

The date on which the issuer will repay the bond. This can range from a very short period of repayment (months) to a much longer term (over 50 years).

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Sharpe

This is a commonly-used measure which calculates the level of a fund's return over and above the return of a notional risk-free investment. The difference in returns is then divided by the fund's standard deviation – its volatility, or risk measurement. The resulting ratio is an indication of the amount of excess return generated per unit of risk.

Short selling

Short selling is the selling of a security that the seller does not own. Short sellers expect the price of the security to fall, enabling them to 'buy it back' at a lower price than the price at which they sold short, thereby making a profit.

Standard deviation

Standard deviation measures how much a set of data varies from its average. It is a common way of measuring and comparing the volatility (hence risk) of investment funds since it illustrates how much a fund's return deviates from its expected normal returns. The higher a fund's standard deviation, the higher its volatility.

Systematic and Non-Systematic Market Risk

Systematic risk is the investment risk attaching to a whole Market such that in adverse conditions all Shares will fall in value. Non-systematic market risk is where the Shares of perhaps one Company suffer within a sector. An example is Enron, the US energy giant, which was a specific Company risk rather than one attaching to the whole energy sector. Systematic risk is inevitable during any economic cycle whilst non-systematic risk can be reduced through skilled Stock selection and also by holding sector specific assets in an investment fund.

Time Horizon

We categorise time horizons as:-

Short Term	:	0 - 5 years
Medium Term	:	5 - 10 years
Long Term	:	10+ years

Treasury Bill

A promise by the Treasury to repay an investor a set sum of money at a specified day in the future, normally less than 91 days.

Unit Trust

A unit trust is an open-ended collective investment trust vehicle, where investors' monies are pooled into a single fund managed by investment professionals.

UCITs

These are collective investments funds that can be sold across EU borders in accordance with EU legislation on 'undertakings for Collective Investment in Tradable Securities'.

Volatility

Standard deviation is a statistical measurement which, when applied to an investment fund, expresses its volatility, or risk. It shows how widely a range of returns varied from the fund's average return over a particular period.

Warrants

Warrants give the holder the right, but not the obligation, to buy shares at a pre-determined price within a set period. Buying the shares is called 'exercising' the warrant. A warrant is normally issued with a bond, but the owner may trade the bond and the warrant separately.

IMPORTANT NOTICE

Investments can fall in value as well as rise so you could get back less than you invest. The value of an investment will depend on the future rate of return and the effect of charges; neither capital nor income is guaranteed. Our advice is based on current regulation, which is subject to change, the rates of tax benefits we refer to are those that currently apply, they change over time and how they impact will depend on your personal circumstance.