

Glossary of terms

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| A | Absolute Return | A positive return in absolute terms rather than relative to an index or benchmark. |
| | Active Management | A style of investment management that aims to outperform a relevant benchmark through, amongst other things, asset allocation, market timing, duration selection or security (company or bond) selection. |
| | Alpha | The risk adjusted excess return generated over benchmark. |
| | Alternatives | Alternative Investments such as hedge funds, real estate and private equity. |
| | Asset Allocation | The apportionment of a fund's assets between asset classes. |
| | Asset Class | A collective term for assets of a similar type. The main asset classes are equities (shares), bonds, cash and property. |
| B | Balanced Fund | A fund invested in a range of asset classes, particularly equities and bonds. |
| | Basis Point (Bps) | 1/100 th of 1% (0.01%) |
| | Benchmark | Typically an index or asset allocation against which an investment strategy is measured. |
| | Beta | A measure of the sensitivity of a security or portfolio relative to the market. A beta greater than 1 identifies an issue or fund that will move more than the market, while a beta less than 1 identifies an issue or fund that will move less than the market. Beta is a proxy for non diversifiable risk. |
| | Bond | A bond is a debt investment. The issuer pays a pre-determined rate of interest (the coupon) and pays back the capital (principal) on specified dates. |

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| B | Bottom-up | An approach to active investment management that gives priority to the selection of companies (with less emphasis on sector and country selection) to build up an investment portfolio. This is the opposite of a top-down approach. |
| C | Collective Investment Scheme | Also known as a pooled fund. A vehicle in which a number of investors pool their assets so that they can be managed on a collective basis. Shares in pooled funds are denominated in units that are repriced regularly to reflect changes in the underlying assets. |
| | Commodities | Raw materials such as base and precious metals, oil or agricultural products. |
| | Corporate Bond | Often used as a generic term for all bonds except government bonds. Strictly it should apply to company (i.e.) corporate issues. |
| | Correlation | The statistical measurement of the relationship between two variables. |
| | Credit | A contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some later date. |
| | Currency Hedging | The process of eliminating or reducing foreign exchange risk when buying or holding foreign assets by entering off-setting transactions. |
| | Curve Positioning | Positioning a portfolio to capitalize on expected changes in the shape of the Treasury yield curve. |
| D | Defined Benefit Pension | A pension plan in which retirement benefits rather than contributions into the plan are specified. |

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| D | Developed Market | Developed markets are those countries that are thought to be the most developed and therefore less risky for investing within. The government and economy are more soundly established in such countries. |
| | Diversification | A method of portfolio allocation and management aimed at balancing risk and return by spreading investments among many different securities or sectors to reduce the risk of owning any single investment. |
| | Duration | This is a measure of a bond's price sensitivity to a change in yield. It can be measured in years. The higher the duration – the greater the price sensitivity. |
| E | Efficient Markets | An efficient market is one in which prices reflect all available information. This means that every security traded in the market is correctly valued given the available information. |
| | Emerging Markets | Emerging markets are nations with social or business activity in the process of rapid growth and industrialisation. The economy will be in the early stages of development whose markets have sufficient size and liquidity and are receptive to foreign investment. |
| | Equity | The shares in a company. |
| F | Fixed-Interest / Fixed-Income Securities | An interest-paying security, where the interest is calculated as a constant specified percentage of the principal amount and paid at the end of specified interest periods, usually annually or semi-annually until maturity. |
| | FTSE All Share | Representing 98-99% of UK market capitalisation, FTSE All-Share is the aggregation of the FTSE 100, FTSE 250 and FTSE Small Cap Indices. |

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| F | FTSE 100 | This index comprises the 100 most highly capitalised blue chip companies, representing approximately 81% of the UK market. It is used extensively as a basis for investment products, such as derivatives and exchange-traded funds. |
| | FTSE 250 | The FTSE 250 comprises mid-capitalised companies not covered by the FTSE 100, and represents approximately 15% of UK market capitalisation. |
| | FTSE Small Cap | The FTSE Small Cap consists of companies outside of the FTSE 350 Index and represents approximately 2% of the UK market capitalisation. |
| | Funding Strategy Statement | A statement that explains the funding objectives of a local authority pension fund and in particular; how the pension costs are met through the fund, the objectives in setting employer contribution rates and the strategy that is adopted to meet these objectives. |
| | Fund of Funds | An investment strategy of holding a portfolio of other investment funds rather than investing directly in shares, bonds or other securities. |
| G | Gilt | Name sometimes given to government bonds issued by the UK and Irish governments. |
| | Government Bond | See Gilt. |
| | Growth Stock | A stock that is expected to achieve above average earnings growth. Growth stocks normally have a high P/E ratio relative to the market as a whole, as investors are willing to pay a premium for future higher earnings. |
| | Growth Style/Investment | A portfolio focusing on growth stocks. |

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| H | Hedge Funds | A fund that seeks to generate investment returns by using non-traditional investment strategies, utilising mechanisms such as short selling, leverage, programme trading, arbitrage, and tools such as options, futures, swaps, and forwards (derivatives in general). |
| I | Illiquidity | This is the opposite of liquidity. Illiquid markets are typified by low levels of trading, with little underlying stock readily available. Buying and selling can cause exaggerated price fluctuations. |
| | Index-Linked Gilt | A bond issued by the UK Government (gilt) whose interest (coupon) and capital (principal) payments are linked to the UK Retail Prices Index (RPI). Note: Many pension fund liabilities are wage inflation linked. Earnings have historically grown faster than prices, so this asset is not a perfect match for such liabilities. |
| | Indexation (Passive Management) | A passive management approach designed to mimic the investment performance of a specific market index. A portfolio may be indexed either by buying every security in the index in the same proportion as the index (known as replication), or by selecting a smaller number of securities that together reflect as accurately as possible the characteristics of the index (known as sampling). |
| | Inter-bank Rates | The rates at which banks bid for or offer funds to each other in a particular market. |
| | Investment Grade Bond | A bond whose issuer has a credit rating of BBB- or higher with S&P or Baa3 or higher with Moody's. |

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| L | LIBID or London Interbank Bid Rate | The rate at which major London banks offer to take funds on deposit from other banks. |
| | LIBOR or London Interbank Offered Rate | The rate at which major London banks offer to lend funds to other banks. |
| | Liquidity | The ease with which buying and selling takes place in the market. Liquidity can be measured by the daily trading volume in a security. |
| | Liquidity Risk Premium (LRP) | In order to overcome investors' desire for liquidity, less liquid assets must offer a higher return ('premium') to compensate for reduced flexibility. |
| M | Mandate | The agreement between a client and investment manager laying down how the fund is to be managed. May include performance targets by reference to a benchmark. |
| | Market Inefficiency | A condition in which current security prices do not reflect all the publicly available information about a security, such as when some investors do not effectively analyse the available information. |
| | Median | The value in a distribution of values, where 50% of the other values are bigger and 50% of the other values are smaller. In a symmetric distribution, the mean and median are identical. |
| | Mid-Cap | Used to describe collectively those companies of medium-sized market capitalisation. |
| | Multi-Asset Management | A single manager is responsible for several asset classes and is measured against a peer group or customised benchmark which specifies a fixed asset allocation. (The manager may or may not have discretion to vary the allocation around this benchmark.) |

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| O | Outperformance | The excess return of a fund when compared to the return of its benchmark. |
| | Overweight | Exposure to a specific asset (or asset class) which is higher than the proportion it represents in the market index or benchmark against which the portfolio is measure. Investment managers may take overweight positions in shares or sectors they expect to outperform in order to add value to the portfolio. |
| P | Passive Management | A style of investment management that seeks to attain performance equal to market or index returns. |
| | Peer Group Analysis | A ranking table of the competitive performance of investment managers / funds in, for example, a performance survey such as CAPS or WM. |
| | Portfolio Drift | The divergence of a mutual fund from its stated investment style or objective. Style drift occurs as a result of intentional portfolio investing decisions by management, a change of the fund's management or, in the case of stocks, a company's growth. |
| | Pooled Fund | A fund that pools investors money and invests in a portfolio of shares, bonds and cash. |
| | Private Equity | Funds put up by investors to finance new or unquoted, i.e. non-public, business. Also known as venture capital. |
| R | Rebalancing | The process of realigning the weightings of one's portfolio of assets. Rebalancing involves periodically buying or selling assets in your portfolio to maintain your original desired level of asset allocation. |

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| S | Small-Cap | Used to describe collectively those companies of small market capitalisation. |
| | Specialist Management | Employing a fund manager who specialises in a certain asset class. |
| | Statement of Investment Principles | A SIP details the policy which controls how a pension fund invests. Local government pension schemes have been required by law to keep an up-to-date SIP since 1999. To be replaced from 1 April 2017 by the Investment Strategy Statement. |
| | Strategic Asset Allocation | Long-term allocation between the main asset classes with the aim of meeting the investor's risk and return objectives. |
| T | Tactical Asset Allocation (TAA) | Day-to-day decisions to deviate from the long-term strategic asset allocation of the portfolio to reflect the fund managers short-term market views. |
| | Target | The targeted return that a manager is aiming to achieve. |
| | Tracker Fund | Also known as an index fund, it aims to replicate the performance of a specific stock market or bond market index. |
| | Tracking Error | A measure of the variability of investment returns relative to benchmark or index. It is usually expressed as the annualised standard deviation of relative returns. Can be expressed as either ex-post, which is simply the historical tracking error, or ex-ante, which is a forward-looking estimate of the future tracking error. |
| | Transitional Fund | A fund managed by a transitional manager when a firm makes significant changes to their investment arrangements, assets held or fund managers they employ. These specialists will aim to reduce costs, control risks and provide efficient management during the transition. |

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| U | Underweight | Exposure to a specific asset (or asset class) which is lower than the proportion it represents in the benchmark against which the portfolio is measured. |
| | Unit Trust | A UK based, open-ended, collective fund where new units are created for new investors and units are cashed in if the investor wants to leave the fund. |
| V | Value Investment/Style | An approach to investment that places emphasis on identifying shares that are believed to be underpriced (on the basis of indicators such as P/E ratio and dividend yield) by the market. |