INVESTMENT MANAGERS

A-Z

Your A – Z glossary of key words used in the investment management industry.

A

Accounting dates
The dates when a fund's accounts are finalised and income from a fund is calculated for distribution to shareholders or for accumulation.

Accumulation shares
Shares where the income from a fund is reinvested back into the fund to increase the share price.

Alternative Investment Market (AIM)
Part of the London Stock Exchange (LSE). It is an index where smaller, growing firms can list and enjoy more regulatory flexibility.

Annual management charge (AMC)
A fee charged by fund managers to investors for the day to day management of an investment portfolio (fund) based on a percentage of a fund's value. Fund managers use it to cover costs of managing the funds, however they don't cover all fees and are just a guide to what the annual charge to investors will be. AMCs can differ between funds.

Annuity
An annuity is a financial product typically sold by life insurers, which in return for a lump sum provides a guaranteed income every year for the rest of the retiree's life or a specified period.

Authorised Corporate Director (ACD)
A company authorised and regulated by the Financial Conduct Authority and given powers and duties under Financial Conduct Authority regulations to operate an OEIC.

B

Bear market
A market where an index has endured a prolonged fall and is anticipated to drop further still. Pessimism and negative sentiment tend to be characteristics of such a market. If a market falls 20%, it is considered to be a bear market. See Bull market for the opposite scenario.

Benchmark
Some investment funds measure their performance against a benchmark, others use these as a performance indicator. Fund managers typically try to outperform a certain benchmark. For example, a UK equity fund manager may benchmark their investment performance, against the FTSE All Share.

Blue chip
Shares in large companies with a strong credit rating.

Bonds
An IOU issued by a company or government. During the life of the bond, the bondholder usually receives regular interest payments based on the coupon rate. When you buy a bond, you are essentially lending out your money. They have a set duration period. The loan must be repaid in full when the bond reaches maturity. These are sometimes referred to as fixed interest or fixed income securities.

- Callable bonds: can be redeemed ("called") by the bond issuer, allowing the issuer to return the principal prior to the bond's maturity. These bonds often have a scaled call schedule and usually a premium redemption price above par is paid to the bond owner.
- Corporate bonds: bonds issued by businesses looking to raise cash. Generally companies pay in two instalments in a year, but this can vary.
- Government bonds: bonds issued by governments looking to raise cash. UK government bonds are also known as Gilts while US government bonds are called Treasuries.
- Junk bonds: high-yield or non-investment grade bonds. They are viewed as far higher risk than many bond investments, as the issuer carries a greater chance of defaulting on payment.

Bond Maturity
The issuer of a bond agrees to repay the original amount loaned at the bond's maturity date which is usually set when it is issued. This is the date on which the principal amount of a bond is to be paid in full.

Bottom-up
An investment approach used by fund managers. A manager who selects stocks by analysing companies based solely on their investment quality and potential, regardless of their wider industry and the macro-economic backdrop.

BRICs
Acronym for emerging market giants, Brazil, Russia, India and China.

Broker
Such as a stockbroker or insurance broker – a person or firm, which executes buy and sell orders on behalf of investors. Brokers make their money via commissions from their trades.

Bull market
This is the opposite of a 'bear market'. A market where securities such as shares and / or bonds have risen markedly. It is characterised by optimism, investor confidence and expectations of further rise. Generally speaking, a sustained 20% market rise would be considered to be a bull market.

C

Collective investment schemes
A general term encompassing authorised unit trusts, common investment funds, OEICs and investment trusts.

Commodities
Natural resources and raw materials from oil to gold. Includes 'hard' commodities such as industrial and precious metals, as well as 'soft' commodities such as agricultural produce including coffee and wheat.

Convertibles
A type of bond which can be converted into company shares at a later date.

Corporate bonds
A bond issued by a corporation to an investor as a means of raising money.

Coupon rate
A bond's coupon rate is the amount of interest income earned on the bond each year based on its principal.

Credit ratings and credit risk
An assessment of a bond's security, given by an independent ratings company such as Standard & Poor's. The highest rating is AAA, and the lowest is D. Bonds rated between AAA and BBB – are known as investment grade bonds and are considered more secure. Bonds with a lower rating are considered less secure.

D

Deflation
Deflation is the opposite of inflation when the price of goods and services declines. A country is in deflation if its inflation level drops below 0%. Prolonged bouts of deflation can be dangerous for an economy as consumers stop spending in the hope of buying something cheaper at a later date, and therefore money that flows into businesses slows down.

Default
Failure to pay interest or principal on a bond when due. Default occurs when a debtor is unable to meet the legal obligation of debt repayment.

Depositary
The depositary is a firm (usually a bank) authorised by the FCA and independent of the OEIC and its directors. It has legal title to the OEIC investments, is responsible for their safe custody and ensuring the OEIC complies with key regulatory requirements.

Derivatives
Derivatives are investments, whose value depends on the changes in an underlying asset or security. The stock is not physically held but there is a contract based on a number of predictions in time or price in the future. The use of derivatives can result in greater fluctuations of a fund's value and may cause the fund to lose as much as, or more than, the amount invested.

Discount
Usually refers to an investment trust trading in a range less than its net asset value. As investment trusts are traded as shares on the stock exchange, their share price can fluctuate, based on demand. If a trust is in great demand, its shares can trade at a premium i.e. at a great value than their actual net worth.

Distribution/Distribution shares
Shares where the income generated by a fund can be paid to investors rather than accumulated. This income is known as the Distribution.

Dividends
Payouts made to shareholders of corporation who share their profits with their investors. Usually dividends are paid either quarterly, twice a year or annually.

Drawdown
The difference between the highest price and lowest price during a specific period, usually quoted as a percentage. Not to be confused with pension drawdown.

Duration
A measure of the extent to which the value of a bond will be affected by changes in interest rates expressed as a number of years. As a general rule, the greater the value of duration, the greater the price volatility which results from interest rate movements.

E

Equities
Another name for shares which give ownership interests in companies, which trade on a stock exchange. Supply and demand dictates performance, whereby if a stock is in demand, its price will rise and vice versa.

F

Financial Conduct Authority
Regulator formerly known as the Financial Services Authority. The FCA oversees and regulates financial firms providing services and products to UK consumers.

Fixed interest securities or Fixed income
Another term for bond related investments. Fixed income assets are IOUs issued by governments. They pay a fixed rate of return, and have a set duration period.

Forward pricing
The price at which shares of a fund are bought and sold. This price is based upon the next valuation of a fund's assets following an instruction to buy or sell shares.

Forward transactions
These are transactions where the buyer and seller agree on a price now for a delivery of a commodity at a later date.

Fund
A pooled investment. Typically run by a fund manager who uses investors' money to invest in a wide range of assets, such as stocks or bonds, following a determined strategy, and with the aim of delivering capital growth and/or income.

Fund-of-funds
Sometimes known as a multi-manager fund, is an investment portfolio, which invests in a range of other funds, as opposed to individual stocks or securities.

Financial Services Compensation Scheme (FSCS)
The FSCS is a free service and the UK's compensation scheme of last resort for customers dealing with authorised financial services firms. The organisation only pays customers compensation if a company is unable to, usually as a result of going bust.

Futures
Like derivatives, futures are contracts agreed for assets. Commonly used in oil trading, a future contract refers to an asset, which is purchased at a set price but will not be delivered until sometime later.

G

Gearing
This describes the ratio of a corporation's debt that its books to the value of its shares. Investment trusts often take on debt or use gearing to boost investor returns. While gearing can increase potential returns in a rising market, it can also magnify the extent of losses in a declining market. A geared investment trust will also fluctuate more than an equivalent non-geared fund,

Gilts, gilt edged securities and index linked gilts
Gilts is an abbreviated name for fixed interest securities such as gilt edged securities or index linked securities issued by the UK Government.

H

Hedging
A transaction involving derivatives, with the aim of reducing a particular financial risk, for example exchange rate risk. However, hedging transactions can also expose a fund to additional risks, such as the risk that the counterparty to the transaction may not be able to make its payments, which may result in loss to the fund.

I

ICVC
Investment Company with Variable Capital - another term for an OEIC.

Income shares
See 'Distribution/distribution shares'.

Index
Index refers to stock markets, such as the FTSE 100 index of the UK's largest firms or the S&P 500 index, which represents the biggest firms in the US. An index tracker fund will mirror the performance of a particular index.

Index-linked gilts
UK Government bonds where income payments and the principal value are adjusted in line with movements in the General Index of Retail Prices in the UK.

Inflation
Inflation represents an increase in the cost of everyday living as it devalues spending power. The higher it rises, the less money is worth and people have to spend more to buy the same items. Measured in the UK by the Consumer Prices Index (CPI).

Investment trust
An investment trust operates like an investment fund but it is structured as a limited company, and its primary business is to invest its shareholders money. They are bought and sold on the London Stock Exchange.

Initial charge
A fee charged on the purchase of shares in a fund based on the value of the initial investment.

Initial Public Offering (IPO)
An IPO, sometimes referred to as floatation, marks a company's stock market debut. It is the very first time it sells shares on a stock exchange, when it goes public.

Investment grade bonds
Bonds issued by a company that has a higher credit rating, and so are considered more secure.

J

Junk bonds
See bonds.

K

Key Ratio
Key ratios can be used to easily obtain an idea of a company's financial status. Companies that are in good condition financially will have superior ratios to those that are performing poorly. A mathematical ratio that illustrates and summarizes the current financial condition of a company.

L

Liquidity
This refers to cash flow, or how easily an asset can be converted into cash. Shares which can be bought or sold rapidly on the stock market are considered a liquid asset whereas a commercial property would be considered more illiquid as it is much more cumbersome to sell.

M

Maturity
See 'bond maturity'.

Mid-price
The price at which shares in a fund are bought and sold by investors. It is mid-way between the real buying and selling prices based on the underlying assets held by a fund.

Money-market instruments
Short-term debt instruments, usually running for a year or less. Examples of these include Treasury bills. These are issued by the Treasury, via the Debt Management Office, and represent a promise to repay a set sum of money on a specified date in the future.

Multi-asset
A fund that generally invests across a very wide spread of asset classes in order to diversify risk. As well as other funds multi-asset portfolios can invest in individual shares, bonds and commodities such as gold.

M&A
A common phrase used to describe Merger & Acquisition activity - company consolidation trends. A merger is when two firms join forces to create a new corporation. An acquisition is the purchase of another company, which is absorbed into the buying firm.

N

Net asset value (NAV)
This is a mutual fund's price per share.

O

OEIC
An OEIC (Open Ended Investment Company) is a type of investment product that offers indirect investment in securities and other assets. Your money is pooled with that of other investors who choose to invest in the same fund. Funds will use this money to buy investments, such as stocks and shares, as selected by the Investment Adviser for the fund in line with the objectives of that fund. The value of your shares in the fund is directly related to the underlying value of these investments.

P

Pay dates
Income is paid or accumulated on these dates.

Portfolio turnover rate (PTR)
The percentage of a fund's portfolio that is bought and sold over a 12 month period.

Premium
The difference between an assets net asset value and the price being paid. For example an investment trust's shares can trade at a premium to the portfolios actual net worth, if it is in high demand.

Principal
The amount of cash the bond-issuer owes to the bondholder at the bond's maturity (not including any accrued interest.) This is often referred to as "face value" or "par value" or "nominal value".

Q

Quantitative Easing (QE)
A tactic used by central banks to encourage lending and spending whereby they electronically print money in a bid to prop up the economy and stave off a period of deflation. Essentially QE typically involves a central bank purchasing government bonds.

R

Rights issue
A rights issue occurs when a publicly listed firm issues new shares to existing shareholders in a bid to raise money. Existing shareholders have pre-emption rights to buy the shares before anyone else. A company might do it if it was in financial difficulty and needs more cash or if it wants to raise money for expansion. It will dilute the value of the share already in issue.

S

Securities
An investment instrument such as shares or bonds, issued by a corporation, government or other organisation which offers evidence of debt or equity.

Sub-investment grade bonds
These tend to be issued by a company that has a lower credit rating and so have a greater possibility of failing to make their repayments. (See also: Credit Ratings).

Swing pricing
A swing price is used to protect your investment from the costs of buying or selling investments that result from a large investment joining or leaving the fund.

T

Total expense ratio (TER)
The annual costs of running a fund summarised into a single figure.

Top down
A term used by professional investors. Top down investors select industries and stocks to invest in based on the wider macro-economic backdrop rather than the fundamentals of individual shares. Most investors will combine top-down and bottom-up strategies (looking at an individual shares characteristics) when they make investment decisions.

Tracker fund
A tracker fund, sometimes known as an index tracker, is essentially a computer run fund which mirrors, or tracks, the trajectory of a particular market or index, such as the FTSE 100.

Transferable securities
These are securities which can be freely traded on a market.

U

UCITS
Undertakings for Collective Investment in Transferable Securities - UCITS funds can be marketed within all countries that are a part of the European Union, provided that the fund and fund managers are registered within the European Union.

Unit trust
Legal term for a type of open-ended pooled investment or mutual fund, where investors can buy up units. The unit trust manager creates units for new investors and cancels them when they are redeemed.

V

Valuation point
The date and time of day when funds are valued and their shares priced.

Volatility
The measure of the tendency and magnitude of an asset's price changes over time. Generally a measure to assess risk.

X

XD (ex-dividend)
The dates by which you have to hold shares in a fund in order to be entitled to the next income payment from that fund.

Y

Yield
A measure of return from interest or dividend income expressed as a percentage of an asset's price.

Yield to Maturity (YTM)
The rate of return an investor would receive if a bond is held to its maturity date. This include all coupon interest and principal payments and is expressed as an annual percentage rate (this is also known as the internal rate of return).

Yield to Worst (YTW)
This is the lowest potential yield a corporate bond holder can expect. If a bond is callable, the rate of return is calculated to each call date. The YTW is then the lowest of either the yield to maturity or yield to call. Because YTW is the most conservative way to look at a bond, it is often used in high yield investments, where bonds are frequently callable. See callable bonds.

Yield to call
The yield of a bond if you were to buy and hold it until its call date. This yield is valid only if the bond is called prior to maturity.

Z

Zero coupon bond
A debt security that doesn't pay interest (a coupon) but is traded at a deep discount, rendering profit at maturity when the bond is redeemed for its full face value. Because they offer the entire payment at maturity, zero coupon bonds tend to fluctuate in price much more than coupon bonds.

To see the impact of duration on a zero coupon bond, have a look at the interactive tool. →