



A

Active returns

The difference between the return of a fund and the returns of its associated benchmark.

Alpha

Measures the return in excess of what was expected given the risks taken to generate those returns.

Annualized

The process of expressing a return over a certain period into its equivalent 12-month return.

Asset allocation

The process whereby an investment manager decides what percentage of their fund will be invested in different asset classes, such as cash, equities, and/or fixed income.

Asset class

A group of similar investments that share similar characteristics, such as equities or bonds.

B

Balanced fund

A single fund that invests in equities as well as fixed income, sometimes adding a cash or money market component, ensuring it is well diversified.

Benchmark

A standard or bespoke index used for comparative purposes in measuring the performance of a fund.

Beta

A measure of volatility. A fund or investment with a beta of 1 has a relative risk which is equal to that of the market. A beta of less than 1 indicates a fund or investment less volatile than the market. A beta greater than 1 indicates a fund or investment more volatile than the market.

Bloomberg

Bloomberg is a financial software, data, and media company that provides 24-hour financial news, information, and price data.

Bond

A debt security issued by a corporation, municipality, or a government in order to raise capital. The issuer of a bond is required to repay the full amount borrowed on a specific maturity date and pay a specified coupon rate to the investor at specific time intervals.

Bond fund

A fund that invests only in bonds. Bond funds can invest in certain countries, regions or global bond funds.

C

Common stock

Equity securities that represent ownership in a company. Investors seek to earn a return through the distribution of profits (dividends) and/or capital gains.

Corporate bond

A debt security issued specially by a company. Investment grade corporate bonds have relatively less credit risk than high yield corporate bonds.

Custodian

A bank that safeguards the assets of an investment manager. A custodian can also help to settle trades and to collect data required to calculate a fund's net asset value.

D

Diversification

The process of building a portfolio of different investments to perform well at different times in order to reduce risk and the volatility of a portfolio.

E

Equities

Shares issued by a company, representing an ownership stake in that company. Also see Common stock.

Expense ratio

The ratio between a fund's annual expenses and average value of its assets over the year.

F

Fixed income fund

A single fund or portfolio that invests only in bonds. Also see Bond fund.

Fund

An investment vehicle where money used to buy securities has been contributed by a group of investors. Investment decisions are made by an investment manager on behalf of investors.





G

Growth funds

Investment managers selecting securities based on a growth style look for companies they expect to grow earnings rapidly. Equities in these companies tend to pay little or no dividends, as these companies reinvest cash into the business.

H

High yield bonds

Bonds with a credit rating lower than 'BBB -' (using Fitch and S&P ratings) or 'Baa3' (using Moody's ratings) are classified as high yield bonds. High yield bonds have a relatively high credit risk but compensate investors with higher returns. They are also sometimes called junk bonds.

I

Index

An index is used to track the performance of a group of assets (e.g. SP&P 500 for US equities), or economic activity such as inflation (e.g. the Consumer Price Index).

Investment analyst

Responsible for supporting investment decisions made by the investment manager by providing research on investments which could be held in the fund. Investment analysts normally specialise in a sector or geography.

Investment company

A partnership, trust or company that pools money from investors and invests it in a range of securities to create funds.

Investment grade bond

Bonds with a credit rating of 'BBB-' or above (using Fitch and S&P ratings) or 'Baa3' and above (using Moody's ratings) are classed as investment grade bonds. These bonds have relatively low credit risk but tend to offer investors lower returns as a consequence.

Investment manager

The person with overall responsibility for the investment decisions in the fund is the investment manager. They may also be called the portfolio manager or fund manager.

Investment objective

The goal of a fund e.g. growth, growth and income, or income.

Investment risk

The risk that changes in the market price of securities will adversely impact the performance of a fund. Also known as market risk.

J

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K

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L

Large cap

An investment style that invests in stocks of companies with market values greater than USD 10 billion.

Loads

Sales charges on funds sold by an investment company to investors.

M

Management fee

The fee, expressed as an annual percentage, paid by customers/clients.

Market risk

The risk that changes in the market price of securities will adversely impact the performance of a fund. Also known as investment risk.

Mid-cap

An investment style that invests in stocks of companies with market values between USD 3 to USD 10 billion.

Money market fund

A fund that invests in short term debt securities such as short term government bonds and certificates of deposits. These securities generally have very little risk attached to them.

Morningstar ratings

A system rates that rates funds based on their risk adjusted performance. Morningstar Inc uses a rating scale from 1 to 5 stars, with 5 stars awarded to the best performing funds.

Mutual fund

An open-ended fund structure.

N

Net Asset Value per share (NAV)

The current value of a fund, either expressed on a per unit basis or total fund basis. The NAV is calculated daily by taking the total assets less liabilities of a fund. If NAV is expressed on a per unit basis then this difference is then divided by the total number of units of the fund.





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P

Pension funds

A large institutional investor manages pension funds for the investment of an employee's retirement savings. Pension funds are major fixed income investors.

Portfolio

A collection of investments owned by one asset owner and managed with specific investment goals in mind.

Portfolio allocation

The amount within a portfolio invested in a specific asset.

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R

Redemption

The sale of the units of a fund by an investor.

Risk

The chance that an investment's actual returns will deviate from what was expected by investors. Sources of risk with asset management are investment risk, operational risk, regulatory risk and compliance risk.

S

Sales charge

A charge relating to the sale of some fund shares, usually those sold by brokers, financial advisors or other sales professionals. Also see Loads.

Sector

Refers to the part of the economy from which a corporate bond issuer primarily operates in. Examples are the oil and gas, financial or industrial sector. Within each sector are industry groups. For example, insurance would be an industry group within the financial sector.

Securities

Stocks and bonds.

Shares

Securities issued by a company, representing an ownership stake in that company. Also see Equities.

Sharpe ratio

A measure of risk-adjusted returns of a fund. A higher Sharpe ratio indicates a better risk adjusted performance of the fund.

Small cap

An investment style that invests in stocks of companies with market values less than USD 3 billion

Sovereign debt

Another name for government bonds.

Sovereign Wealth Fund

Sovereign Wealth Funds have become very large investors in the bond markets over recent years and are state-owned investment funds used to benefit the country's economy and citizens.

Standard and Poor's Corporation

A company well known for issuing credit ratings, but also involved in the publication of indices, investment research and risk evaluations and solutions.

Supranational

International organizations or groups that operate beyond national boundaries and whose membership is made up of a multi country membership. The International Bank for Reconstruction and Development (more commonly called the World Bank) is a supranational. Supranationals issue bonds as a way to finance their objectives.

Stocks

Securities issued by a company, representing an ownership stake in that company. Also see Shares.





T

Time horizon

The expected term of an investment.

Time value of money

The time value of money is an investment principle that money today is worth more than an equivalent amount in the future, because you can invest it to make more money. Time value of money is dependent on the time interval being the present and receiving the future cash flow, and the discount rate used in calculating current or future values.

Total return

The return of a stock or a bond that accounts for all of the dividends and interest earned as well as capital gains.

Tracking Error

A measure of a portfolio's active risk. Mathematically it is equal to the annualized standard deviation of active returns.

Transfer agent

A commercial bank appointed to monitor investors in a fund. A transfer agent ensures that units sold by an investor are properly cancelled and new units are issued to the new investor.

Treasuries

Bonds issued by the US government, issued regularly and with various maturities. Since Treasury bonds are fully backed by the US government, they are considered to be free from credit risk, and therefore offer investors relatively low returns. The various types of Treasuries are bills, notes, bonds, Floating Rate Notes (FRNs), and Treasury Inflation-Protected Securities (TIPS).

V

Value investing

An investment strategy that invests in securities that investors believe are selling below their true value.

Value funds

Investment managers selecting securities based on a value typically invest in companies with high revenues but limited growth potential - because of this they are often priced lower than the broader market. Value stocks pay high dividends as they are often mature businesses.

W

Workout date

The date a callable bond will mature if it is not called.

X

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Y

Yield

The return, expressed as an annual percentage, an investor receives. It can be based either on the amount originally invested or on the current market value of the bond. There are a number of different yield measures used in the fixed income markets.

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