**Jargon Buster – Terms and Definitions**

**Term Definition**

AiM Alternative Investment Market (AiM) is the London Stock Exchange’s global market for smaller, growing companies.

AIC Association of Investment Companies. This is a collective association for UK investment trust companies.

Annuity A sum of money paid to someone each year, typically for the rest of their lives. This can be a fixed amount, an increasing amount or sometimes a variable amount.

Assets The investments and cash held by an investment trust company.

Asset allocation The distribution of assets across a variety of geographic regions, asset classes or sectors.

Bank of England The UK’s central bank, responsible for the country’s monetary policy.

Base Rate The key interest rate set by the Bank of England (BoE). This is an overnight interest rate that the BoE charges to the banks for lending to them. The base rate and expectations about it’s future level directly affect the interest rates at which banks are willing to lend money to businesses, individuals and eachother.

Basic State Pension Nearly everyone qualifies for a Basic State Pension, and for each qualifying year that you have built up, you will get some basic state pension.

Bear Market A market in which prices fall over an extended period.

Benchmark A target against which investment performance is measured. A benchmark is usually an index or the average performance of other similar funds.

Beneficiary A person who receives money, or other assets for example, an insurance pay out or inheritance in someone’s death.

Bid price Investment trust shares are sold via the stock exchange at the bid price. This price is determined by supply and demand.

Blue Chips The share’s in companies with the highest status as investments.

Bond A form of loan paying a generally agreed rate of interest over a fixed term, with the principal paid at maturity. Bonds may be issued by governments or companies. Bonds can generally be traded on the stock market and therefore may trade above or below their issue price.

Bull market A market in which prices rise over an extended period.

Buy-backs Investment trusts have the ability to buy-back a certain proportion of their shares to improve shareholder value – usually to narrow the discount. Shareholders will be asked to vote each year so that a fund manager can exercise this right and when it is deemed suitable.

Capital Gains Tax A tax charged on gains arising from the sale of assets. There is a CGT exemption limit set each tax year and any gains up to that will not be taxable.

Capital structure The different amounts and types of ordinary and preference shares which are in issue.

Capital value In real estate investing, the value of a freehold or leasehold asset.

Cash investments Relatively safe, liquid assets. Cash investments include Treasury bills, money-market funds, and short-term certificates of deposits.

Closed-ended Investment

Company A collective investment scheme, such as an investment trust, with a fixed number of shares. Closed-ended investment companies are traded on the stock exchange.

Collective investment

scheme An investment scheme in which money from more than one investor is pooled into a single fund or trust, unit trusts, investment trusts, and open-ended investment companies (OEICs) are all types of collective investment schemes.

Commodities Commodities are products that, in their basic form are all the same so it makes little difference from which you buy them. That means that they can have a common market price. You would be unlikely to pay more for iron ore just because it came from a particular mine. Contracts to buy and sell commodities usually specify minimum common standards, such as the form and purity of the product, and where and when it must be delivered. The commodities markets range from soft commodities such as sugar and cotton to industrial metals such as iron or zinc.

Corporate Bond A form of loan issued by a company in order to raise capital and an alternative to issuing stock through a rights issue. Bonds pay a fixed rate of interest over a fixed term, with the principal repaid at maturity.

Coupon The interest rate stated on a bond when it’s issued. Typically coupons are paid six-monthly.

CPI Consumer Price Index is a measure of inflation. The index measures the cost of all goods and services to a typical consumer.

Creditor Someone that you owe money to.

Credit rating An independent assessment of a companies or government’s ability to pay its debt. Rating agencies provides credit ratings; changes to a company’s or government’s rating can dramatically affect the price of its bonds.

Dealing Buying and selling of shares.

Debt Money that you owe to someone else.

Deleveraging A process whereby borrowers reduce their debt loads. Primarily this occurs by repaying debts. It can also occur by bankruptcies and debt defaults, or by the borrowers increasing their incomes, meaning that their existing debt becomes more manageable.

Diluted Net Asset Value A method of calculating the net asset value of a company after taking into consideration any outstanding convertible loan stock, warrants or options which are assumed to be exercised by the holders, so increasing the number of shares among which the assets are divided.

Discount When the share price is lower than the Net Asset Value (NAV), it is referred to as trading at a discount. The discount is expressed as a percentage of the Net Asset Value.

Disposable income How much money you have left over after you have paid all your essential living expenses.

Dividend Income paid to shareholders by the company they invest in.

Dividend Yield The annual dividend income per share received from a company dividend by its current share price. Put simply – how much income you’re getting out of the company for the capital you’ve got locked up in it.

Economic Cycle The recurring and fluctuating levels of economic activity and economy experiences over an extended period of time.

Emerging markets Countries with low per-head income compared to the developed world but with a functioning stock exchange. The potential for rapid growth makes emerging markets attractive for investors prepared to accept a higher level of risk. Emerging markets include Brazil, Russia, India and China, others of significance include Mexico, Indonesia, South Africa, Poland and South Korea.

Equities Shares in a company listed on a stock exchange. Shareholders are effectively the owners of the company and typically have the right to vote on company matters.

European Central Bank The institution in the European Union responsible for setting monetary policy for all European Union countries that use the Euro.

Ex-dividend Purchase of shares without entitlement to current dividends.

FCA (Financial Conduct

Authority) This is the financial watchdog set up by the government to regulate financial services and protect your rights.

Fixed-income securities Investments that obligate the borrower to pay the owner interest during the term of the loan and to return the principal when the loan matures. Bonds are an example of fixed-income securities.

FTSE The Financial Times and Stock Exchange, a publisher of indices and the name of the family of indices it publishes.

FTSE 100 Index An index that tracks the share price of the largest companies, by market value, listed on the London Stock Exchange.

FTSE All-share index An index of the UK’s leading companies’ share prices, covering around 800 companies including investment trusts.

Fund manager The person responsible for the day-to-day management of the investment trusts.

Fund of Funds A fund that invests in several funds at the same time with the aim of spreading risk and minimising the impact of any poor performance in a single fund. Fund of funds managers select the funds they invest in, but not the individual stocks.

Fund size The total value of assets under management in a trust.

Gearing The amount of borrowing a company or trust has relative to its share capital. Trusts that are geared have the ability to borrow money and therefore take advantage of wider investment opportunities. If a company is highly geared, its profits and losses can be greatly affected by even small changes in interest rates.

Government bond A bond issued by a government to raise finance. Government bonds are negotiable and can be traded on the stock market. In the UK they are often referred to as gilts.

GDP Gross Domestic Product – A measure of economic activity in a country, namely of all the services and goods produced in a year. There are three main ways of calculating GDP – through output, through income and through expenditure.

Gross Salary The amount you earn (your wages) before tax and national insurance are taken off.

Growth trust A trust whose main objective is to maximise the value of the capital sum invested rather than generating income.

High-yield bonds Bonds issued by companies where there is perceived to be a higher risk of default – but also the potential for higher returns. Also known as sub-investment-grade bonds.

IFA Independent Financial Adviser – someone who studies your goals and personal circumstances and recommends suitable financial products, services or practical things that meet your financial needs. They are regulated by the Financial Services Authority (FSA)

Income trust A trust whose main objective is to provide investors with a regular income from its investments.

Index A scale that measures relative changes in performance. A financial market index, such as the FTSE 100, is an imaginary portfolio of securities. The method for calculating changes in indices differs across financial markets.

Indirect property trust A trust that invests in real estate vehicles such as property shares, property investment companies, REIT’s, limited partnerships or property unit trusts as opposed to the actual properties themselves.

Inflation The upward price movement of goods and services.

Interest Only Mortgage A mortgage where the borrower only pays the interest on the amount borrowed without the amount they owe changing. At the end of the interest only period the borrower may either renew the mortgage, pay off the mortgage or transfer to a different type of mortgage.

Investment property A real estate purchased as an investment rather than a place to live.

Investment trust A public limited company that is listed on the London Stock Exchange. It exists to invest in the equity of other companies with the aim of producing a return for its shareholders.

ISA Individual Savings Account (ISA) offers tax advantages for UK based investors. Any returns earned are free from capital gains tax and no further income tax is paid.

Junk The term junk is often used to refer to high yield bonds, these bonds are considered to be high risk of not making the repayments on their loans.

Libor London Inter Bank Offered Rate. The rate at which banks in London lend money to each other for the short-term in a particular currency. A new Libor rate is calculated every morning by financial data firm Thomson Reuters based on interest rates provided by members of the British Bankers Association.

Liquidity This is a measure of how easy something is to convert into cash. A bank account for example is more liquid than your house. If you need to sell your house quickly to pay bills you would have to drop the price substantially to get a sale.

Mid-cap These are UK companies that generally have a market value in the $2 billion to $10 billion range and make up indices such as the FTSE 250 index.

Monetary policy Decisions made by a government or central banks regarding the amount of money in circulation in the economy. This includes setting official interest rates.

Money Markets Global markets dealing in borrowing and lending on a short-term basis.

Net asset value A key measure of the value of a company or trust – the total value of assets less liabilities, divided by the number of shares.

Net income The amount you earn after tax and national insurance.

NEST National Employment Savings Trust is a workplace retirement scheme open to employers of any size and self-employed people, it was set up as a low cost retirement scheme option partially funded by the government by the Department of Work and Pensions to encourage more people into private pension schemes.

Offer price Investment trust shares are bought at offer price.

Open-ended Investment funds that are not restricted in the number of shares they may issue.

OEIC Open Ended Investment Company (OEIC is a company or fund in the UK that invests in other companies and is permitted to adjust the number of shares in issue on a daily basis.

Ordinary Shares Companies can have different types of shares, but the vast majority are ‘ordinary’ shares. As a holder of ordinary shares, you have bought a stake in the ownership of the company. You will be invited to attend shareholders’ general meetings, including the Annual General Meeting and have the right to vote on certain decisions of the company.

Overweight A portfolio holding an excess amount of a particular security (or sector or region) compared to the security’s weight in benchmark portfolio.

Passive management A style of investment management in which the trust’s portfolio mirrors its benchmark.

Personal Pension Plan (PPP) A personal pension plan is a tax efficient way of saving for your retirement. When you retire you must use at least 75% of the fund to provide an income for the rest of your life usually by purchasing an annuity. You may take up to 25% of the non-protected rights fund as a tax-free lump sum.

Preference shares Shares in a company that have a higher claim on the assets and earnings than ordinary shares. Dividends for preference shares generally must be paid out before those to ordinary shares. Preference shares usually don’t have voting rights.

Portfolio The collection of investments held by an investor or trust.

Power of Attorney Legal power to manage the affairs of another person on their behalf.

Premium When shares of an investment trust trade at a price above their net asset value, they are said to trade at premium.

Prime unit A real estate investment regarded as the best in its class and location.

Prospectus A document required by law to be published on the occasion of an issue of shares or fixed interest securities to the public. A prospectus gives details of the company and the issue.

PLC A Public Limited Company in the UK is a company limited by shares and having authorised share capital of not less than £50,000.00.

Quantitative easing Increasing the supply of money in a national economy by buying government (or other) securities from the market in order to promote greater lending and increased liquidity.

Quartile A group containing 25% of the total. Trusts are often ranked by their quartile performance. A top quartile fund has outperformed at least 75% of its peers.

Rating Agency A company responsible for issuing credit ratings. The major three rating agencies are Moody’s, Standard & Poor’s and Fitch.

REIT Real Estate Investment Trust. A form of indirect property investment.

Repayment mortgage This is a mortgage where the monthly payments consist of repaying part of the amount borrowed as well as the interest.

Return The amount by which an investment may change due to a combination of capital growth and/or interest/dividend income. This is normally as a percentage.

Rights issue A method of raising extra capital through the issue of new equity shares. Existing shareholders can buy new shares in proportion to their current holdings, usually at a discount, or sell their rights to other investors.

Risk In respect of investments, risk is the possibility that you could lose money or that your investment may not fulfil your expectations. Your view of risk is likely to depend on your short and long term investment goals and how much you can afford to lose.

RPI Retail Price Index. The main measure of inflation used for calculating indexation for capital-gains tax and on index-linked gilts and National Savings products.

Sector Investment trusts similar to each other in scope and objectives. A sector also refers to an industry or area of commerce in which a company operates (for example, mining).

SIPP Self Invested Personal Pension – an alternative type of pension which gives you greater control over what the money is invested in.

Small-cap These companies tend to exhibit higher volatility than a large or medium cap companies, but can offer excellent growth potential.

Spread The spread is the term used to describe the difference between the offer price and the bid price.

Stamp duty A Government tax imposed on buying of shares and property. Stamp duty only applies to purchases and not to sales.

Stock exchange A place where stocks and shares are traded

Total return The growth in value of a shareholding over a specified period, assuming the dividends are re-invested to buy additional units of the stock.

Tracker fund A fund that aims to replicate the performance of a particular stock market index by buying all or a representative proportion of the stocks within that index. Tracker funds are passively managed.

Underweight A portfolio holding less of a particular security than the security’s weight in the benchmark portfolio.

Unit trust Money for a number of investors pooled together and invested collectively in investments such as shares and bonds. Each investor owns a unit or a number of units, the value of which relates to the value of those items owned by the fund.

Warrants This gives the holder the right to buy shares at a fixed time in the future for a price that is set when the warrant is issued.

Yield The annual dividend or income on an investment expressed as a percentage of the purchase price.

Zero dividend A share with no right to receive a dividend. It is entitled instead to a fixed sum on a fixed repayment date. These are shares that aim to deliver pre-determined growth.

# Attitude to Risk

# Cautious

# You are prepared to take only a small amount of investment risk and capital protection is important. This means that your portfolio will contain a small amount of riskier assets in order to increase the chance of obtaining better long-term returns. A typical Cautious investor will be invested in fixed interest and cash and will also include an element of equities and property. The range of assets provides diversification benefits to reduce overall risk.

## Cautious to Moderate

You are prepared to take some investment risk in order to increase the chances of achieving a reasonable return but would still like to ensure that capital protection is still considered. A typical Cautious to Moderate investor will be invested in a moderate amount of fixed interest, but with a greater proportion in equities and property. At the shorter terms there may also be some cash.

## Moderate

You are prepared to take a reasonable amount of investment risk in order to increase the chance of achieving a better return. Capital protection is less important to you than the return on the investment. A typical moderate investor will usually invest in a variety of assets to obtain diversification. There would be a higher proportion of equities compared to fixed interest and cash, and the range of assets provides diversification benefits.

## Moderate to Adventurous

You are prepared to take some risk with your investment in return for the prospect of the improving longer-term investment performance, as short-term capital protection is not important. A typical Moderate to Adventurous investor will be invested mainly in equities but with other assets included to provide some diversification. There may be a small amount of specialised equity within the portfolio.

## Adventurous

You are prepared to take greater risks with your investment in return for the prospect of the highest longer-term investment performance. You appreciate that over some periods of time there can be significant falls, as well as rises, in the value of your investment and you may get back less than you invested. This strategy holds significant risk in the shorter term. A typical Adventurous investor will be invested fully in equities, both in the UK and overseas. There may be a significant proportion of the investment in specialised equities.