



# Glossary of Investment Terms

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**Absolute Return Funds**

Fund managers utilise Alternative Investment Strategies to achieve absolute returns, i.e. returns unrelated and independent of any index measure of performance. These funds will generally not benchmark themselves against any specific index, preferring rather to perform in line with the index in a rising market, whilst ensuring capital protection of assets in a falling market. Absolute Return Funds will generally aim to maximise their potential return in all market conditions. As the aim is to achieve less volatile returns than the market, results are less likely to lag in a strong bull market.

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**Alpha**

This figure describes the theoretical reward obtained by one investment when the second investment has a zero return. It can be considered to be the return over and above (or below) the market through portfolio strategy. Good managers have a positive Alpha.

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**Alternative Investment Strategy (Ais)**

These funds are often also referred to as hedge funds and refer to fund managers that adopt a number of alternative investment strategies in an endeavour to minimise the investment risk and deliver a profit irrespective of market climate. Since these funds are aiming for the best risk-adjusted returns, they must seek to control the level of risk. This is achieved by varying their net exposure to markets. This is done by controlling long and short positions and using futures, options and other strategies to minimise the volatility of the portfolio. It may mean surrendering some potential gains in exchange for limiting any possible losses.

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**Benchmarking**

The process of comparing the performance of a fund with the best available. Since, in fund management terms, there cannot be a constant comparator - as different funds fluctuate - an appropriate index is chosen that gives the closest match. Furthermore, an index is more appropriate than the sector average as, at any point in time, the fund manager is able to position his portfolio in line with the index or take active bets against it in order to outperform.

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**Beta**

The relative measure of the sensitivity of an investment's return to changes in the benchmark return. The Beta is the amount the first fund moves when the other moves by one unit. For example, if one fund always goes up and down by 1.5 times the performance of the index, its Beta will be 1.5. This implies that if the return of the index is positive, then 1.5 times this positive return can be expected of the fund. If the index goes up (or down) 10%, the fund goes up (or down) 15%. In other words, Beta represents the volatility of the first investment versus the second.

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**Bonds**

Fixed-interest securities issued by governments and corporates as well as money market instruments.

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**Bond Funds**

Unit Trust funds and collective investment schemes that invest in a spread of international bonds, with the objective of providing investors with returns in excess of cash, whilst at the same time providing a lower risk profile than an international equity fund.

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**Collective Investment Schemes**

Arrangements that pool investors' money prior to investing in the chosen sector or fund selections, thereby allowing investors to diversify and spread risk across a number of holdings.

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**Drawdown**

Shows the percentage scale of losses in falling markets.

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**Fund of Funds**

This is a single investment fund that invests in a range of top performing funds run either by the management group itself or by other fund management groups. The investor has access to a range of funds spread geographically across the world, and the investment group concentrates on picking the underlying funds where it believes the best returns are likely. This gives the investor an efficient, balanced portfolio, using asset allocation methods to weight the investment. The approach means that an investor is reliant on the group making the correct asset allocation predictions. There has to be a very clear understanding between parties as to what the fund is really trying to achieve in terms of risk and performance. Negotiations regarding fees with the underlying fund managers ensure that investors do not pay double entry charges at the fund level and at the fund of funds level.



<b>Futures</b>	These are investments traded on an exchange and allow an investor to buy or sell exposure to a financial index or commodity to create a long or short position in an underlying investment. Futures are dealt in contracts, each of which represents a specific amount of the underlying investment.
<b>International Equity Funds</b>	These are traditional unit trusts and collective investment schemes investing in international equity markets. They generally measure their progress in relative terms, comparing returns to some benchmark, often a market index like the FTSE 100, Dow Jones or MSCI World Index. These funds are less concerned with the level of risk they take on, and are content merely to beat their benchmark.
<b>Investment Trust</b>	A quoted company formed to act as a negotiable portfolio of shares or other assets. Depending upon demand, an Investment Trust's quoted price runs either at a premium or a discount to its net asset value.
<b>Long Position</b>	This occurs when an investor has purchased a holding of shares/commodities, which has resulted in him having a net positive exposure to that investment. Traditional unit trusts and collective investment schemes are referred to as being 'long only'.
<b>Multi-manager</b>	This approach offers a single route to a range of fund managers from different investment groups. Where a group does not employ a fund manager with expertise in a certain area, it then contracts the fund management of that area out to a third party. The investor goes into a fund with the name of the group he or she invested with, but the third party manager manages the fund. This gives the investor top class fund managers across the board and gives the group they invested in the ability to contract fund managers based on performance.
<b>Open Ended Investment Company (Oeic)</b>	A new type of fund structure offering shares in the fund, rather than units. The shares are single priced and therefore prove less confusing to investors. Investors also gain comfort in the knowledge that the investment vehicle is subject to company law.
<b>Options</b>	The right but not the obligation to buy or sell a share at a given price within a certain period.
<b>Qualitative Analysis</b>	Is the complete 'Due Diligence' report on a company, the fund manager and the fund. It includes the details of the fund, the experience and qualifications of the fund manager, the culture and stability of the company, and a detailed analysis on the entire investment process.
<b>Quantative Analysis</b>	An analysis of the past performance of a fund. It utilises a number of statistics to measure the risk and risk-adjusted performance of the fund. It also analyses the performance of the fund on an absolute basis as well as relative to one or more benchmarks. This analysis shows whether a fund has ever outperformed the market in the past, and attempts to highlight possible areas of risk for the future.
<b>Relative Returns</b>	This compares the return of one fund against its relevant benchmark or another fund in its investment sector.
<b>Risk-adjusted Returns</b>	These are returns that reflect the level of risk required to achieve them. If two funds have given the same return over a period, then the one with the lowest volatility will have the better risk-adjusted return.
<b>Risk/Return</b>	The relationship between the risk of an investment and its expected gain. Generally the higher the risk the higher its expected gain.
<b>Sharpe Ratio</b>	Shows the risk-adjusted performance (reward per unit of risk). A higher ratio indicates a better manager.
<b>Short Position</b>	This occurs when an investor has sold shares that he/she does not own. He/she is said to have 'gone short' of the share thus resulting in a short position.
<b>Target Return Funds</b>	Whilst these funds also adopt AIS in the management of their portfolios, they generally have a lower risk profile than the Absolute Return Funds. The objective of Target Return Funds is to achieve a stated annual return with minimum volatility, regardless of movements in the market. The return is usually stated as a fixed percentage per annum (usually 10 - 12% p.a. in USD terms).
<b>Ucits</b>	Undertaking for Collective Investments in Transferable Securities (UCITS) General term describing pooled asset funds.
<b>Unit Trust</b>	Traditional style of collective investment where investors purchase units in a fund at the offer price and sell at the bid price, the difference being approximately 5-6%. This dual pricing allows the manager to offset the bid/offer spread against charges and commissions.