

Our glossary is designed to help investors cut through the jargon and make sense of commonly used investment terms.

ACTIVE INVESTING

A style of investing in which the investment manager individually chooses each asset the portfolio will invest in. [See also passive investing.](#)

ACTIVE SHARE

A statistical measure of the percentage of holdings in a portfolio that differs from the benchmark's holdings. It is a way to quantify the degree of active management in a portfolio. The higher the figure, the more active the portfolio. [See also active investing.](#)

ACCUMULATION (ACC) SHARES

Shares or fund units where any income earned is reinvested in buying additional shares or units, rather than being paid out as cash. [See also Income \(Inc\) Shares.](#)

ALPHA

A statistical measure of the excess return a portfolio has generated over the return of its comparative index. [See also beta.](#)

ALTERNATIVE INVESTMENT

A financial asset that does not fall into the category of stocks, bonds or cash. Examples include commodities, property and infrastructure.

ANNUALISED PERFORMANCE

The percentage movement of an investment over a defined period, calculated as an average per annum.

ASSET ALLOCATION

The act of determining which assets (for example equities, bonds and cash) to invest in, and what percentage of the portfolio to dedicate to each. [See also stock selection.](#)

BASE RATE

The interest rate that a central bank, such as the Bank of England, will charge to lend money to a commercial bank.

BASIC MATERIALS

A sector of the market that comprises companies working with raw materials. This includes industries such as metals & mining, forestry and chemical products.

BASIS POINT

A unit of measurement of the difference between two percentages. Basis points are often used when discussing performance, or interest rates. One basis point is equal to 1/100th of a percentage point. So, if a central bank raises its benchmark interest rate from 3% to 3.5%, it has increased the rate by half a percentage point or 50 basis points.

BEAR MARKET

When a market experiences prolonged price declines. It typically describes a situation where a stock market has fallen at least 20% from recent highs. Bear markets reflect negative sentiment about financial markets and the economy. [See also bull market.](#)

BENCHMARK

A standard against which something is compared. Investment managers use benchmarks to compare the performance of portfolios. These benchmarks are usually market indexes, although can sometimes be based on interest rates, peers or composed of several different elements.

BETA

A measure of the volatility of a security or portfolio when compared with the volatility of the overall market. A portfolio with a beta of 1 indicates that it tends to move with the market. A beta of greater than 1 indicates that the portfolio's price tends to be more volatile than the market. A beta of less than 1 means it tends to be less volatile than the market. [See also alpha.](#)

BOND

Essentially, a loan provided by an investor to a company or government, where the investor receives fixed interest payments and the initial amount is repaid at the end of an agreed period. [See also fixed income.](#)

BOTTOM-UP STOCK SELECTION

An investment strategy in which the portfolio manager chooses the portfolios investments on a stock by stock basis, rather than by looking at the wider economy or industry. [See also top-down investment approach.](#)

BULL MARKET

A sustained period of rising prices in a financial market. Bull markets reflect positive sentiment about the economy and are typically characterised by increased investor confidence and an overall optimistic outlook for potential gains. [See also bear market.](#)

BUYBACK

The repurchasing of a company's own stock from its shareholders, which can lift the stock's price on the open market, due to total earnings/profits being split between a lower amount of shares.

CALL

To redeem a bond before it reaches its maturity date, which entails paying investors the face value of the bond plus interest accrued to date and any applicable fees.

CAPITAL

Money used or available for growing wealth.

CAPITAL GAINS TAX (CGT)

A government tax imposed on profits earned from the sale of an asset that has increased in value since it was acquired. The rules and rates relating to CGT differ greatly by country.

CARRY

The potential profit, or cost, associated with holding an investment over a certain period. It can be influenced by such factors as interest rates, dividends or currency exchange rates.

CASH EQUIVALENT

A lower risk, low-return asset that can be quickly converted into cash.

CASHFLOW

Money flowing into and out of a company, after accounting for all transactions, during a set period.

COMMODITIES

Raw materials that can be bought and sold. Often agricultural products, like coffee or wheat, or natural resources such as oil and precious metals.

COMPARATIVE BENCHMARK

The standard against which performance is measured for illustrative purposes.

COMPOUNDING

The process of reinvesting profits from an investment, so that they can potentially generate further gains.

CONSUMER DUTY

The obligation of financial firms to help ensure that their products and services are designed to meet the needs of consumers and are delivered in a way that is fair and transparent.

CONVERTIBLE BOND

A corporate bond that gives investors the opportunity, under certain circumstances, to exchange the bond for equity (shares in the company).

CONSUMER CYCLICALS

Stocks related to businesses that rely heavily on current business and economic conditions. Industries in this category include real estate, automotives and consumer discretionary.

CONSUMER PRICE INDEX (CPI)

A measurement of price variations for goods and services that consumers commonly buy, such as food, clothing and transportation. It is used to assess changes in the cost of living and identify periods of inflation or deflation.

CONTINGENT CONVERTIBLE BONDS

A corporate bond that gives investors the opportunity, under certain circumstances, to exchange the bond for equity (shares in the company), if a specific trigger event occurs.

CORPORATE BOND

A bond issued by a company rather than a government or supranational organisation.

CORPORATE GOVERNANCE

Rules, practices and processes for managing and supervising a company.

CORRELATION

A statistical measure of the degree to which two asset prices move in relation to each other.

COUNTERPARTY RISK

The possibility that one party in a transaction may default on its contractual obligation. Counterparty risk can exist in credit, investment and trading transactions. A borrower's credit rating reflects the level of counterparty risk to the lender or creditor.

COUPON

The annual interest an investor receives from owning a bond.

CREDIT DEFAULT SWAP (CDS)

A financial agreement that enables an investor to transfer or 'swap' the risk of an asset defaulting with another investor who agrees to reimburse them if a default does occur. In a CDS agreement, the initial investor provides regular premium payments to the second investor, who in turn commits to reimbursing the value of the security, inclusive of interest payments, in the event of a default.

CREDIT MATURITY

The length of time until the initial investment in a bond is repaid to the bondholder. It represents the date on which the bond issuer is obligated to return the borrowed funds to the bondholder (lender). On reaching maturity, the bondholder recoups the principal amount, and the bond ceases to accrue interest.

CREDIT RATING

An assessment of the soundness of a borrower (such as a company) with respect to its ability to fulfil financial obligations. Bonds issued by businesses and governments are rated by credit agencies using letter based systems ranging from AAA to D. [See also investment-grade bond, sub-investment grade bond.](#)

CREDIT RISK

The possibility of a loss resulting from a company's (borrower's) failure to repay a loan. Lenders can mitigate credit risk by analysing factors about a borrower's creditworthiness, such as their current debt load and income.

CREDIT SPREADS

The difference in yield between two bonds of similar maturity, but different credit quality. Credit spreads are measured in percentage points or basis points.

[See also yield curve.](#)

CUMULATIVE PERFORMANCE

The total aggregate return over a set period, typically expressed as a percentage. [See also annualised performance.](#)

CURRENCY EXPOSURE

The potential for investments in overseas assets to lose or gain money because of fluctuations in the currency exchange rate.

DEBT SECURITIES

Financial instruments issued by governments or corporations with the aim of raising money. Investors receive fixed interest payments and the initial amount is repaid at the end of the agreed period. Debt securities provide a means for companies or governments to access funding while offering investors regular income. Bonds are the most common example.

DEFAULT

The failure of an issuer or borrower to make the required payment on a debt obligation.

DEFAULT RISK

The possibility that a borrower will become unable to make the required payments on a debt obligation, such as a loan or a bond.

DEFENSIVE

Typically refers to a stock or sector that is less sensitive to economic news flow, because it provides a service or product that is always needed. Examples include utilities, healthcare and consumer staples.

DEFLATION

A widespread decline in the prices of goods and services. [See also inflation.](#)

DERIVATIVES

Investments that derive their value from underlying financial assets, such as bonds, currencies or shares.

DILUTION

When a company issues more shares, reducing each existing shareholder's ownership percentage.

DISCRETE ANNUAL PERFORMANCE

The performance of an investment over specific defined 12 month periods, expressed as a percentage. Typically conveyed in calendar years or rolling 12 month returns.

DISTRIBUTION YIELD

The annual income generated by a fund or investment, often in the form of dividends or interest payments, expressed as a percentage of the investment's current price. [See also historic yield, yield to worst.](#)

DIVERSIFICATION

To invest across a range of asset classes, geographic regions or sectors to control risk and potentially minimise losses.

DIVIDEND

The distribution of a company's earnings to its shareholders. Dividends are often distributed quarterly and may be paid out as cash or in the form of additional stocks.

DOVISH

Advocating a more cautious and accommodative approach to monetary policy, such as lower interest rates, in order to support economic growth. [See also hawkish.](#)

DRAWDOWN

A measure of how much an investment has declined from a recent high, represented as a percentage.

DURATION

A measure of a fixed income investment's sensitivity to interest rate movements. Higher duration bonds tend to have longer maturities, making them more sensitive to changes in interest rates because those changes will affect them for longer.

EMERGING MARKETS

The financial markets of countries that are transitioning from lower income economies to more industrial, consumer-led economies. Emerging market investments are often considered riskier.

EQUITIES

Shares in a company.

ESG

Environmental, Social and Governance factors used, where applicable, to measure the sustainability and societal impact of investment decisions.

ETHICAL INVESTING

Avoiding controversial areas like gambling, tobacco and alcohol, based on personal beliefs, though some investors may choose to influence these industries.

EXCHANGE-TRADED FUND (ETF)

An investment fund that is traded on the stock market. Typically, ETFs track an index, commodity or group of equities.

EXIT FEE

A charge levied by some investment providers that is paid by an investor when withdrawing money that was invested in a portfolio.

FIDUCIARY RESPONSIBILITIES

The legal and ethical obligation of a fiduciary to act in the best interest of their clients, prioritising their clients' needs above their own.

FISCAL STIMULUS

A government policy introduced to ease pressure on an economy during a downturn. This could take the form of lower taxes, subsidies for companies or consumer purchases, or direct payments to taxpayers.

FIXED INCOME

Financial securities that provide investors with regular income payments until the investment reaches its maturity date. Bonds are the most common example.

FUTURES CONTRACTS

Agreements to buy or sell an asset at a predetermined price and on a set date in the future.

GILTS

Bonds issued by the government of the United Kingdom.

GOVERNMENT BONDS

Bonds issued by a country's government for the purpose of raising capital. Also called sovereign bonds, they are generally considered lower risk investments, as they are backed by the creditworthiness and taxing power of the issuing government. Government bonds typically have fixed interest payments and a specified maturity date, upon which the principal amount is repaid to the bondholder. [See also sovereign bonds.](#)

GROSS DOMESTIC PRODUCT (GDP)

This is the monetary value of all finished goods and services made within a country during a specific period.

GROSS RETURN

The total rate of return on an investment before any fees are deducted. [See also net return.](#)

HAWKISH

Advocating stricter monetary policies, such as higher interest rates to control inflation, even at the expense of economic growth. [See also dovish.](#)

HEDGING

A risk management strategy to help reduce the risk of loss of an existing position, for example in currencies or to factors such as interest rates.

HIGH YIELD BONDS

Bonds that pay higher interest rates because they have lower credit ratings than investment grade and government bonds and are therefore riskier.

HISTORICAL YIELD

The income returned by an investment over a specific period, calculated as a percentage of its price. [See also distribution yield, yield to worst.](#)

ILLIQUID SECURITY

An asset that cannot be easily sold on the market because of low trading activity or limited potential buyers.

INCOME (INC) SHARES

Shares or fund units where any income earned can be paid out to investors as cash distributions, rather than being reinvested in buying additional shares or units. [See also Accumulation \(Acc\) shares.](#)

INCOME STOCKS/SHARES

Investments intended to generate income, usually in the form of dividends, rather than growing capital.

INDEX

A group of stocks representing a particular market, sector or asset class. Often used as a benchmark for evaluating the overall performance of an investment fund.

INDEX-LINKED BOND

Also called an inflation-linked bond, a fixed income investment in which both the bond's value and interest payments are adjusted in accordance with inflation until the maturity date.

INDUSTRIALS

A sector comprising companies that produce goods used primarily in manufacturing and construction, such as machinery or equipment.

INFLATION

The rate at which the prices of goods and services rise, expressed as a percentage. [See also deflation, consumer price index.](#)

INTEREST RATE RISK

The risk associated with how interest rate fluctuations could affect asset prices. [See also duration.](#)

INVESTMENT GRADE BOND

A sovereign or corporate bond that presents a relatively low risk of default. Credit rating firms such as Standard & Poor's and Moody's use different designations, consisting of letters, to identify a bond's credit quality rating.

ISIN

International Securities Identification Number. A 12 digit alphanumeric code that uniquely identifies a specific security.

ISSUER

A legal entity that sells securities (such as bonds) to finance its operations.

LIQUIDITY

A measure of how easily an asset or security can be bought or sold in the market without significant changes to its price.

LIQUIDITY RISK

The risk that a portfolio could have difficulty selling an asset quickly on the market, which could cause it to suffer losses.

LONG-DATED

Typically referred to in the context of bonds or portfolios of bonds which have maturity dates far in the future (typically greater than 10 years). [See also duration and short-dated](#)

LONG POSITION

An investment made with the expectation that the asset will increase in value. [See also short position.](#)

MACROECONOMIC

Related to overall trends in an economy and comprising factors such as inflation rates, GDP growth, unemployment and monetary policy.

MARKET CAPITALISATION

A representation of a company's size as determined by the total value of its shares on the open market. It is also a measure commonly used to reflect the size of a company.

MARKET RISK

The possibility that an investor will experience losses due to factors that affect the overall performance of investments in financial markets.

MARKET SHARE

The portion or percentage of total sales within a specific market or industry that a company captures. A reflection of how successful that company is compared with its competitors.

MATURITY

The agreed upon date at which an investment ends, often triggering the repayment of a loan or bond, or some other payment or settlement term.

MATURITY DATE

The date upon which the initial investment is repaid to a bondholder.

MEDIAN

The middle value in a set of data.

MORTGAGE-BACKED SECURITY (MBS)

A financial asset derived from a group of mortgages on residential real estate packaged together. It behaves like a bond, paying income at a fixed rate for a set amount of time.

MODIFIED DURATION

A calculation that expresses the measurable change in the value of a security or portfolio of securities in response to a change in interest rates. [See also duration, interest rate risk.](#)

MONEY MARKETS

Financial markets in which participants trade short term, low risk fixed income assets. These can include short term government bonds and certificates of deposit.

MONEY MARKET DEPOSITS

Short term, easily sellable investments that are subject to an insignificant risk of change in value. They can be considered a cash equivalent.

MONETARY POLICY

The actions and decisions taken by a central bank to manage and regulate a country's money supply, interest rates and credit conditions with the goal of growth and stability. [See also quantitative easing.](#)

NET RETURN

The total rate of return on an investment after any fees, commissions or expenses are deducted. [See also gross return.](#)

NUMBER OF ISSUERS

The total number of distinct entities (for example governments or companies) of which securities are held within the portfolio. A higher number of issuers generally implies a more diversified portfolio.

NUMBER OF STOCKS

The total number of distinct entities (for example company shares) of which securities are held within the portfolio.

OPEN-ENDED INVESTMENT COMPANY (OEIC)

A type of UK domiciled investment fund that is structured as a company to invest in stocks and other securities. Shares in OEICs do not trade on the London Stock Exchange.

OPEC

The Organisation of the Petroleum Exporting Countries, a group of 13 oil producing nations that coordinate and manage oil production levels to stabilise prices in the global oil market. Collectively, OPEC member countries account for a significant portion of the world's oil reserves and production.

OUTPERFORMING

Generating a higher return than that of peers or the market, typically expressed through a comparative index. [See also underperforming.](#)

PASSIVE INVESTING

A style of investing in which the investment manager seeks to mirror the return of a specific index. The manager does so by investing in the same or a representative sample of securities as that index and in the same proportions. [See also active investing.](#)

PERCENTAGE POINT

The unit used to measure the difference between two percentages. For example, if an interest rate rises from 1% to 3%, it increases by two percentage points. One percentage point is equal to 100 basis points. So, if an interest rate rises from 5% to 5.25%, it has increased by 25 basis points or a quarter of a percentage point.

POOLED VEHICLES

Investment funds that pool together capital from multiple investors to invest in a diversified portfolio of assets, such as mutual funds.

POST-HEDGE

After the impact of currency hedging on the holdings has been reflected. [See also hedging.](#)

PRE-HEDGE

Before the impact of currency hedging on the holdings has been reflected. [See also hedging.](#)

PRICE RETURN

The amount gained or lost from an investment, often expressed as a percentage, only factoring in capital moves and not income paid out.

PURCHASE POWER PARITY (PPP)

Purchasing power parity (PPP) is a popular metric used by macroeconomic analysts that compares different countries' currencies through a "basket of goods" approach. PPP allows economists to compare economic productivity and standards of living between countries. Some countries adjust their gross domestic product (GDP) figures to reflect PPP.

QUANTITATIVE EASING

A monetary policy strategy in which a central bank purchases quantities of government bonds or other financial assets for the purpose of stimulating the economy. Quantitative easing is often described as 'printing money' because it effectively puts more money into circulation in the economy.

REAL ASSETS

Tangible, physical assets, such as real estate, infrastructure, commodities and natural resources.

RECESSION

A notable downturn in economic activity that extends throughout the economy, persisting for a number of months. Many countries define a recession as two consecutive quarters of negative Gross Domestic Product growth.

RELATIVE PERFORMANCE

The performance of an investment when compared with a benchmark. Usually either outperformance or underperformance. Whereas absolute performance is typically expressed in percentages, relative performance is expressed in percentage points e.g. 'The portfolio rose by 10% while its benchmark index rose by 8%, so the portfolio outperformed by two percentage points'.

See also [basis points](#).

RELATIVE VALUE

The value of one asset compared with another, which helps an investor to determine whether one is undervalued and therefore might provide an opportunity for income or growth.

REMUNERATION

The payment that an individual receives in exchange for their services. This can include salary, bonuses, benefits, or any other form of financial or non-financial compensation.

REVENUE

The total income generated by a business or organisation from its primary activities, such as sales of goods or services. It represents the amount of money earned before deducting expenses, taxes and other costs.

RISK-ADJUSTED RETURN

An assessment of the profit or potential profit generated from an investment, taking into consideration the level of risk that must be assumed to achieve it.

See also [absolute return](#).

RISK ASSETS

Investments that are more susceptible to substantial price volatility. These may include equities, high yield bonds, property and currencies.

RISK PROFILE

An evaluation of the threats or challenges to which a company is exposed.

SECTOR

A way of grouping companies with similar business activities, such as technology, energy, industrials and financials.

SECTOR ALLOCATION

The breakdown of the industries represented within a fund or portfolio, usually expressed as a percentage.

See also [asset allocation](#).

SECURITIES

Tradeable assets that can be bought and sold in financial markets, such as a company's stock or bonds.

SERVICE FEE

The price that customers or clients pay in exchange for financial services or assistance. This typically covers the costs associated with account management and maintenance, transaction fees and advice.

SHARE

A portion of a company owned by an investor. See also [stock](#).

SHAREHOLDER

A person or organisations which holds one or more shares in a company.

SHARPE RATIO

A statistical measure that indicates how well an investment has performed in comparison with the rate of return on a risk free investment, such as a government bond.

SHORT-DATED

Typically referred to in the context of bonds or portfolios of bonds which have maturity dates in the near term, typically up to 5 years. See also [duration](#), [long-dated](#).

SOVEREIGN BONDS

Bonds issued by a country's government for the purpose of raising capital. Also called government bonds, they are considered low risk investments as they are backed by the creditworthiness and taxing power of the issuing government. Sovereign bonds typically have fixed interest payments and a specified maturity date, upon which the principal amount is repaid to the bondholder.

See also [government bonds](#).

SPREAD

The difference between the yield of two bonds of the same maturity (for example, a government bond and a corporate bond). Spreads are measured in percentage points or basis points. See also [yield curve](#).

STAGFLATION

A period of sustained high inflation.

STANDARD DEVIATION

A statistical measure that helps determine market volatility or how much an asset price will vary from its average price. When prices move sharply, standard deviation is high, meaning an investment is riskier. A low standard deviation means prices fluctuate less, so investments come with lower risk.

STERLING OVERNIGHT INDEX AVERAGE (SONIA)

A benchmark UK interest rate that reflects the average interest rate at which banks lend to one another overnight. SONIA is widely used in financial markets as a reference rate for various financial products, including loans and bonds.

STOCK

Another word for share.

STOCK EXCHANGE DAILY OFFICIAL LIST (SEDOL)

A unique seven character alphanumeric identifier assigned to securities that trade on the London Stock Exchange and other smaller exchanges within the UK.

STOCK SELECTION

The process of deciding which securities to invest in. [See also asset allocation.](#)

SUB-INVESTMENT GRADE BONDS

Fixed income securities that have a low credit rating. They are considered higher risk, as a lower rating indicates a higher probability of the bond issuer being unable to meet its payment obligations. Also known as high yield bonds or junk bonds.

SUBORDINATED DEBT

A type of loan that has a lower priority compared with other loans if a company faces financial trouble. If a company goes bankrupt, subordinated debt holders will be paid back after other lenders have been fully repaid. Because of this, subordinated debt usually offers higher interest rates to compensate lenders for the increased risk of not being fully repaid.

SUPRANATIONAL ORGANISATION

A large organisation that operates across multiple countries. These organisations typically have authority and decision-making power and can impose policies or regulations on member states. Examples include the International Monetary Fund (IMF) and World Trade Organisation (WTO).

TOTAL RETURN

The total amount gained or lost from an investment, often expressed as a percentage.

TREASURY INFLATION-PROTECTED SECURITIES (TIPS)

A type of US government bond in which the original value and any interest payments are adjusted based on changes in inflation, as indicated by the Consumer Price Index.

TOP-DOWN INVESTMENT APPROACH

An investment strategy in which the portfolio manager chooses the investments by analysing the wider economy and market trends, before selecting individual securities. [See also bottom-up stock selection.](#)

TRANSACTION COSTS

Expenses incurred when buying or selling financial assets.

TURNOVER

A measurement of the level of trading activity in a portfolio over a given period, usually one year. A high turnover ratio indicates vigorous trading activity, while a low turnover ratio indicates a lower level of trading activity.

UCITS

The Undertakings for the Collective Investment in Transferable Securities (UCITS) is the European Commission's regulatory framework for managing and selling mutual funds. UCITS funds can be registered and sold in any country in the European Union, using investor protection requirements established by the European Commission's regulatory framework for managing and selling mutual funds.

UNDERLYING YIELD

The rate of return on an investment or fund excluding any fees, expenses or taxes associated with the investment. It represents the gross return generated by the investment. [See also yield, yield to worst, distribution yield, yield curve.](#)

UNDERPERFORMING

Generating a lower return than that of the market, a comparative index or peers. [See also outperforming.](#)

UNHEDGED

Not balanced by a potentially equal and opposite holding (a 'hedge') that could help to compensate for losses incurred (for example by investing in one currency to offset potential losses from another).

VOLATILITY

Frequent, potentially meaningful swings in the price of an asset or market.

VOTING

Exercising voting rights on management and shareholder resolutions, either in person at meetings or by proxy.

WEIGHTING

A measurement of how much a portfolio is invested in or exposed to a certain sector, industry, country or asset, expressed as a percentage

YEAR ON YEAR PERFORMANCE

A measure of how a portfolio, stock or company has performed in terms of returns or changes in value over a one year period. It helps evaluate an entity's financial performance and can be useful in comparing it with peers.

YIELD

A general term for the income generated from an investment, usually stated as an annual percentage.
See also [distribution yield](#), [historic yield](#), [underlying yield](#), [yield to worst](#) for more specific examples of types of yield.

YIELD CURVE

A representation of the interest rates (yields) on bonds of different maturities, typically plotted on a graph, which shows how they compare with each other. It is thought that the shape of the yield curve can provide insights into economic conditions and investor sentiment.

See also [spreads](#).

YIELD TO MATURITY

A calculation that reflects the anticipated yield a bond or portfolio of bonds can provide if held until maturity, assuming the issuers do not default on payment.

YIELD TO WORST

A calculation that reflects the lowest possible yield a bond or portfolio of bonds can provide, assuming the issuers do not default on payment. Unlike yield to maturity, yield to worst selects the worst outcome, such as bond issuers choosing to call bonds before maturity.



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