

GLOSSARY

WE BELIEVE A GLOSSARY IS KEY FOR ANY CLIENT TRYING TO NAVIGATE THROUGH THE RANGE OF COMPLEX TERMS AND JARGON IN OUR INDUSTRY. OUR MOST FREQUENTLY DEFINED TERMS ARE DEFINED BELOW BUT IF THERE'S SOMETHING YOU THINK WE SHOULD ADD, PLEASE CONTACT US.

A SEPARATE ESG GLOSSARY, FOCUSING ON TERMS RELATED TO ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) FACTORS AND RESPONSIBLE INVESTMENT, IS AVAILABLE [HERE](#).

A

Absolute return

A change in value of an investment measured in absolute, not relative, terms. An absolute return fund aims to generate positive returns in all market conditions over a set period of time, for example three years or over a market cycle.

Accrued interest

Interest that has been earned but not yet paid.

Active management

Approach to investment management which aims to outperform rather than match the return of a particular market index or benchmark.

Alpha

The additional return generated by manager skill as opposed to general market movements. Historical alpha measures the returns achieved by active management over time.

Alternative investments

Investments that do not fit into traditional categories of equities, bonds and cash, examples are private equity, venture capital, hedge funds, absolute return funds and property.

Ammortising security

A security where cash flows issued to investors includes both the interest payments and principal re-payments.

Annuity

An annuity converts a lump sum, usually from a retirement fund, into a regular, guaranteed income that will last for the rest of retiree's life.

Arbitrage

Profiting from differences in price when the same security, currency or commodity is traded on two or more markets. By taking advantage of monetary disparities in prices between markets, arbitrageurs perform the economic function of making these markets trade more efficiently.

Asset allocation

The distribution of investments across categories of assets, such as equities, bonds and cash. Asset allocation affects both risk and return and is a central concept in financial planning and investment management. See also strategic asset allocation and tactical asset allocation.

Asset class

Category of assets, for example, equities, bonds, property and cash.

Asset-Backed Security (ABS)

Bonds or notes backed by a pool of assets, such as car loans or credit card receivables.

Asset-liability modelling

The comparison of projections of the future assets and liabilities of a particular pension scheme in order to gauge the suitability of various investment policies.

Attribution analysis

Decomposing the return achieved by a portfolio manager into its constituent parts (for example, asset allocation and stock selection) to show where value was added and lost.

B

Basis point (bp)

1/100 of a percentage point, also expressed as 0.01%. Therefore 100bps = 1%.

Bear market

Sustained decline in prices. See also bull market.

Benchmark

Measure against which a portfolio's risk and return is assessed. For total assets, the benchmark may be the customers stream of liability cash flows, a customised asset mix or a peer group average, or median.

Beta

Statistical measure of the sensitivity of a security or portfolio to movements in the relevant market, usually calculated by regression analysis. A security with a beta of 1 is expected to move in line with the market; high beta stocks or portfolios (beta greater than 1) are expected to outperform in rising markets and underperform in falling markets; low beta stocks (beta less than 1) are considered to be defensive stocks. Strategies that contain both beta and alpha are exposed to market risk as well as active risk.

Bid Price

Price at which a security or a unit in a pooled fund can be sold. See also offer price.

Bid/offer spread

Difference between the buying (offer) and selling (bid) price of a pooled fund unit or a security.

Bond

A tradeable loan issued by a borrower for a fixed period of time paying interest, known as the coupon, which is fixed at the issue date and is paid regularly to the holder of the bond until it is redeemed at maturity when the principal amount is repaid.

Book value

Value at which a security is recorded on a balance sheet, usually the cost of buying it, less any depreciation. If securities have been acquired at different times and different periods, the book value will reflect the average buying cost. See also market value.

Bottom-up

Approach to investment management that gives priority to the identification and selection of companies to build up an optimum investment portfolio. This approach places emphasis on stock selection within a portfolio. See also top-down.

Bridge lending/finance

A bridge loan is a type of short-term loan, typically taken out for a period of two weeks to three years, pending the arrangement of larger or longer-term financing. These loans normally have high interest rates and are backed by some form of collateral such as real estate or inventory.

Broker

An individual or firm that acts as an intermediary between buyers and sellers, usually for payment of a commission. The broker may also buy and sell securities for a profit while fulfilling its role.

Bulk annuities

An insurance policy that is purchased by pension scheme trustees to better secure members' benefits by removing longevity, investment, interest rate and inflation risks associated with defined benefit pension schemes, either as an asset of the scheme (a buy-in) or by issuance of individual policies to the members (a buy-out).

Bull market

Period of sustained asset price growth. See also bear market.

Buy-in

Under an insurance buy-in, trustees typically transfer some of their assets to an insurance company in return for a cashflow stream that reflects the actual pension payments for a portion of the scheme membership (the members insured). The insurance company makes payments to the scheme, which in turn makes payments to the pensioners. The trustees retain the governance responsibility for managing the whole scheme, effectively making the buy-in an asset of the scheme.

Buy-out

Under an insurance buy-out, trustees typically transfer all their assets and liabilities to an insurance company. The insurer takes on legal responsibility for fulfilling pension obligations to scheme members. The corporate sponsor divests all responsibility for the scheme, and scheme members become policyholders with the insurer. This allows the trustees to wind up the scheme, extinguishing all governance responsibilities.

C

Call

A payment on a specified date on a partly paid stock, to be paid by the holder of the allotment letter. More generally, a requirement for an investor to make additional payments in order for an investment to be fully paid up.

Call Option

The purchaser of a call option has the right, but not the obligation, to buy an asset at a specified price on or before an agreed date. See also put option.

Cash flow matching

An asset-liability modelling technique that aims to create a portfolio with cash flows equal in timing and magnitude to the target liabilities.

Central clearing

The process by which a trade between two original counterparties is intermediated by a central counterparty.

Central counterparty (CCP) or clearing house

An entity that acts as an intermediary between two trading parties to mitigate against the risk of counterparty default. The CCP becomes the buyer to every seller and the seller to every buyer.

Certificate of Deposit (CD)

A deposit is made at a bank and the certificate that a deposit has been made is given in return to the lender. This is normally a bearer security. The Certificate of Deposit can then be sold in the secondary market whenever a firm needs cash.

Clean fees

Fund management fees that are all inclusive, to which there will be no extra charges added. Also known as transparent fees. See also dirty fee.

Clearing member

A member of a central counterparty that clears on its own behalf and on behalf of its customers.

Closed positions

A derivatives exposure which has been sold or otherwise offset is referred to as a 'closed position'.

Closed-end fund

A collective investment scheme which issues a fixed number of shares. To buy shares there must also be an investor wishing to sell an equal number of shares. Shares in closed-end funds are often dealt on a stock exchange. Investment Trusts are examples of closed-end funds.

Collar hedge

A means of stabilising portfolio returns by obtaining protection against a major decline in portfolio value in exchange for the sacrifice of part of the portfolio's appreciation in a major rally. A collar hedge can be achieved through a combination of put options and call options.

Collateral

An asset that is accepted by a lender as security.

Collateralised Debt Obligation (CDO)

A general, inclusive term to describe securities backed by types of debt obligations such as loans or mortgages.

Collective investment scheme

Also known as a pooled fund. A vehicle in which a number of investors pool their assets so they can be managed on a collective basis. This usually suits small to medium sized investors wishing to invest in a broad spread of investments, or larger investors wishing to gain exposure to specialised sectors. Shares in a pooled fund are denominated in units that are re-priced regularly to reflect changes in the underlying assets. This allows investors to value their holdings and provides a basis upon which transactions in units can take place. Unit trusts are examples of pooled funds.

Commercial paper

Unsecured short-dated debt instrument issued by banks, corporations and other borrowers, usually issued at a discount.

Commercial paper estate loans (CRE)

Loans secured on commercial property such as offices, hotels, retail parks, industrial parks, leisure and mixed use.

Constraint

Limits or restrictions imposed on an investment manager in relation to particular securities, sectors or markets. Constraints may be imposed for various reasons, for example, risk reduction or ethical considerations.

Contract note

Written record of an agreement to buy or sell securities.

Convertible security

Any security such as a bond that, under certain conditions, the owner can opt to convert into another security, such as an ordinary share.

Convexity

Convexity measures how interest rate sensitivity changes with rates. An investor will prefer a bond with positive convexity to one with a negative convexity.

Corporate bond

A debt obligation issued by a private or public company.

Corporate governance

The means by which shareholders govern the management of a company through the use of voting powers.

Counterparty

One of the parties to a specific transaction – may be the buyer or seller.

Country allocation

Integral part of an asset allocation process that selects desired weightings in particular countries and regions.

Coupon

Nominal interest rate payable (usually six-monthly) on a bond.

Covenant (bond)

Provisions within a borrowing agreement describing the obligations of a bond issuer to protect the interests of the bond holders. Affirmative covenants require the borrower to take certain actions (for example, retain a certain debt/equity ratio). Negative covenants prohibit the borrower from certain actions (for example, pay out too high dividends). The breach of a covenant might cause the default of the bond.

Covenant (pension scheme)

The ability and willingness of the sponsor to make good any shortfalls in a scheme's funding. A strong covenant reflects a financially strong sponsoring company, who can be relied upon to rectify funding shortfalls in the pension fund should they emerge. This imparts a degree of investment flexibility and freedom lacking from a pension fund with a weaker covenant from their plan sponsor.

Credit default risk

The risk that a loss will be experienced due to a default by the issuer of a bond, or counterparty in a swap transaction.

Credit Default Swap (CDS)

A credit insurance contract where a premium is paid on a regular basis in return for protection from loss in the event of a default by a specified entity.

Credit enhancement

A measure of the amount of credit protection given to investors. The amount of credit enhancement depends on both the seniority or tranche of the security and the specific features written into the bond covenant. Credit enhancement is quoted in percentage or basis points and indicates the extent of losses that have to be achieved before there is impairment to the security holder. All things being equal, a larger credit enhancement indicates better protection to the security holder and lower credit risk.

Credit rating

A measure of the creditworthiness of a bond issue. Generally provided by one of the specialist commercial credit rating agencies (for example Standard and Poors). For example, the highest (most favourable) rating applied to long-term debt by Standard & Poors is AAA.

Credit risk

Exposure to loss as a result of counterparty default on a swap, debt or other instrument.

Credit spread

The difference in yield between a reference security and some benchmark yield (usually the government or swap yield) where the securities are identical in all respects except for credit quality. Credit spreads will generally be higher for companies with lower credit ratings to compensate investors for the additional risk undertaken.

Currency hedging/currency overlay

Reduction or elimination of exchange rate risk using forward contracts, futures contracts, options or by borrowing in the exposed currency.

Currency risk

The risk of incurring losses in the value of overseas investments as a result of movements in international exchange rates. Can also refer to the additional volatility caused by exposure to assets in foreign currencies.

Custodian

A company that is responsible for the safekeeping of assets, income collection and settlement of trades.

Cyclical stock

Security that is particularly sensitive to movements in the business cycle, for example, financial stocks (that are generally interest rate sensitive) and capital goods. See also defensive stock.

D

Default

Failure to meet an obligation such as timely payment of interest or principal.

Deficit

The difference between the present value of assets and the net present value of the projected liabilities they are due to cover.

A deficit is the amount that the assets are under the required value to meet the liabilities. See also funding gap.

Defined benefit (DB)

A type of pension scheme where the benefits payable to members at retirement are clearly specified, usually as a percentage of salary at or near retirement. The employer's contributions that are required to ensure that this commitment can be met will vary depending on the scheme's experience (investments, mortality and leavers) and the benefits to be provided. See also final salary scheme.

Defined Contribution (DC)

A type of pension scheme where the rate of contribution paid by the employer and or the employee is defined (usually as a percentage of salary). The benefits paid to members will depend on the contributions paid into the scheme on behalf of the members, the investment return earned on those contributions and the terms available for converting the fund into a pension at retirement. Also known as a money purchase scheme.

Derivative

A financial contract whose value is derived from a stock, commodity, interest rate, currency or market index. A stock option, for example, is a derivative security whose value depends on the price of the underlying stock. Derivatives can be used by investors as a speculative tool, or to protect assets against changes in value. See also forward contract, futures contract, call option, put option and swap.

Discounted Cash Flows (DCF)

The process by which future cash flows (for example, dividends or interest payments) are adjusted to allow for the time value of money to arrive at a value in today's terms.

Diversification

A way of reducing risk by spreading investments among a number of different assets and strategies that are not perfectly correlated so that losses in any one asset class may be offset by gains in another.

Dividend

Payment from earnings by companies to their shareholders. The level of dividend payments is decided upon by company management.

Downgrade

A negative change in the rating of a security. This situation occurs when analysts feel that the future prospects for the security have weakened from the original recommendation, usually due to a material and fundamental change in the company's operations, future outlook or industry.

Due diligence

A detailed examination of information, not all publicly available, prior to a transaction. For example an acquisition of one company by another.

Duration

Average time weighted life of the payment streams from a bond or stream of liability cash flows taking into account the present value of each payment. In practice, duration is a measure of interest rate sensitivity, the longer the duration the more sensitive the present value of the bond or liability to changes in interest rates. See also Macaulay duration.

E

Environmental, social and governance (ESG)

ESG stands for 'environmental, social and governance'.

European Market Infrastructure Regulation (EMIR)

European Union regulation on derivatives, central counterparties and trade repositories introduced to improve transparency and reduce the risks associated with derivative markets.

Exercise price

The price at which an option holder has the right to buy or sell the underlying asset. Also known as the strike price.

Expiration date

The forward date when a futures contract or other derivative ends. For example, the expiration date for the March 2005 Long Gilt futures contract is 31 March 2005, the day on which all outstanding March 2005 Long Gilt futures contract will be wound up and settled between buyers and sellers.

F

Final salary scheme

The most common type of defined benefit pension scheme. The amount of income received from a final salary scheme pension is based on a proportion of an employee's salary on retirement and the length of time worked for the company. Most commonly, workplace schemes pay one-sixtieth of final pay for each year of membership. The maximum pension receivable under Inland Revenue rules is two-thirds of an employee's final salary. See also defined benefit (DB).

Financial Reporting Council (FRC)

The FRC is a UK organisation that promotes high quality corporate governance and reporting to foster investment. See frc.org.uk/About-the-FRC for more information.

Fixed interest bond

A bond where the regular interest payment or coupon amounts are specified at the time of issue. See also Floating Rate Note (FRN).

Floating Rate Note (FRN)

A bond or loan instrument whose yield is re-set periodically relative to a reference index, for example the London Inter-Bank Offered Rate (LIBOR), to reflect changes in short or intermediate-term interest rates.

Forward contract

Contract to buy or sell an asset at an agreed price in the future.

Forward exchange rate

Exchange rate fixed today for the purchase or sale of a currency at some future date.

Forward interest rate

Interest rate fixed today on a loan to be made at some future date.

Forward starting interest rate swap

A contractual agreement to enter into an interest rate swap at a specified date in the future.

Funding gap

The difference between the present value of assets held within the funding portfolio and the Net Present Value (NPV) of projected liabilities they are due to cover.

Funding/contributions rate

This is the rate at which a sponsoring company of a pension scheme pays contributions into the scheme.

Futures contract

An agreement between two parties under which the seller promises to deliver a specific asset on a specific future date to the buyer for a pre-determined price to be paid on the delivery date.

Futures margin

When a futures contract is purchased, a deposit (the initial margin) is paid to the futures exchange. This normally represents a few percent of the value of the contract and helps in protecting the exchange against defaults. As the value of the position changes additional payments may be requested (the variation margin).

G

Gearing

1) In terms of a portfolio of assets, gearing the portfolio means borrowing cash to purchase more of the required assets so that the exposure to this is greater than the value of the original portfolio. Instead of borrowing, futures contracts are often used for gearing a portfolio. 2) In investment analysis, a highly-g geared company is one where small changes in underlying conditions produce big swings in profits. Gearing can be financial, or operational if, for example, a company has large fixed overheads. 3) The amount of a company's total borrowings divided by its share capital. High gearing means a proportionately large amount of debt compared to assets.

Gilt

A bond issued by the UK Government in sterling and traded on the London Stock Exchange.

Gilt repos

The practice of selling gilts and simultaneously entering into an agreement to repurchase them at a fixed time and price. A technique used to fund temporary cash shortfalls, to fund long gilt positions, or to gear portfolios by borrowing against gilts. Buying gilts with a resale agreement is called a reverse repo and is a means of lending cash on a collateralised basis.

Gilt strips

Investors can buy separately either individual coupons or the ultimate principal repayment due on a specific gilt. These separate elements are referred to as principal or coupon strips and are identified by the payment date. The separation process is achieved by 'stripping' the gilt. A key benefit is that the duration of a strip is equal to its term, thus making it easier for pension funds to find securities to match fixed liabilities.

Government bond

A long-term coupon-bearing instrument issued by a government to finance its borrowing requirements.

Green bond

A bond where the issuer specifies that the capital (proceeds) it receives from investors will be used to finance activities which have a positive environmental impact. For more information, please see our ESG glossary available [here](#).

H

Hedge fund

A fund which seeks to generate investment returns by using non-traditional investment strategies and tools such as short selling, leverage, programme trading swaps, arbitrage and derivatives. Their returns tend to be uncorrelated with standard market indices. They target positive returns in all market conditions.

Hedging

Action taken to protect the value of a portfolio against a change in market movements. It is normally used to reduce, minimise or eliminate risk, although similar techniques can also be used to speculate in a market.

High yield bonds

A bond rated 'BB' or below (on Standard & Poor's credit rating scale) because of its high default risk. Also known as a junk bond. High yield bonds pay higher yields in order to compensate bondholders for the additional credit risk over and above less risky (investment grade rated) bonds.

I

Impact bond

A bond that specifies its proceeds will be used to have a positive environmental or social impact. For more information, please see our ESG glossary available [here](#).

Index-linked bond

A debt instrument with principal and/or interest payments linked to the performance of an inflation index, for example the Retail Prices Index (RPI).

Inflation sensitivity (IE01)

The sensitivity of assets or liabilities to a change in inflation expectations is referred to as (measured by) IE01. The higher the measure, the more sensitive the assets/liabilities to a change in inflation expectations.

Inflation swap

A contractual agreement where one counterparty agrees to pay a fixed rate on a notional amount in exchange for a payment linked to realised inflation on a notional amount over the term of the contract from the other counterparty.

Initial margin

This is the returnable collateral that must be deposited by a futures market participant when initiating an open position. It is also required of writers of options.

Interest rate sensitivity (PV01)

The sensitivity of assets or liabilities to a change in interest rates is referred to as (measured by) PV01. The higher the measure, the more sensitive the assets/liabilities to a change in interest rates.

Interest rate swap

A contractual agreement to exchange a stream of periodic payments between counterparties. The agreement defines the dates when the cash flows are to be exchanged and the way that they are calculated.

Issued share capital

The portion of a company's authorised capital that has been issued by the company.

L

Leverage

In terms of a portfolio of assets, using leverage means borrowing cash to purchase more assets so that exposure to those assets is greater than the value of the original portfolio. In investment analysis, a highly-leveraged company is one where small changes in underlying conditions produce big swings in profits. Leverage can be financial, or operational if, for example, a company has large fixed overheads. The amount of a company's total borrowings divided by its share capital. High leverage means a proportionately large amount of debt compared to assets.

Leveraged loans

Loans extended to companies or individuals that already have considerable amounts of debt. Leveraged loans for companies or individuals with debt tend to offer higher interest rates than typical loans. These rates reflect the higher level of risk involved in issuing the loan. Leveraged loans are also used in the leveraged buy-outs of other companies.

Liabilities

The projected cash flows that a pension scheme, or insurance company, is committed to pay out to its members.

Liability benchmark

Typically a portion of the scheme's liability cash flows, converted to investible instruments, to which a present value can be assigned and scaled to reflect the trustee's target hedge ratio.

Liability cashflows

Projections of the future benefit payments of the scheme, usually calculated by the scheme actuary.

Liability Driven Investment (LDI)

Managing assets directly against projected liabilities in order to ensure that they can be met. Often used by defined-benefit schemes.

Liability matching

Investing in assets which are sensitive to interest rates and inflation in order to reduce the mismatch between a scheme's assets and its liabilities. The purpose is to reduce the expected volatility of the funding position.

Libor

The London Interbank Offered Rate is the quoted average index rate at which banks are willing to lend to one another. Libor is commonly used as the rate reference for the floating payments under an interest rate swap and many other derivatives.

Limited Price Indexation (LPI)

A measure of price inflation used to index the value of pension payments to annual increases in the cost of living. The annual LPI increase is the lower of the increase in the RPI and 5%, with a floor of 0%.

Liquid asset

An asset that can be readily and inexpensively turned into cash.

Liquidity

The ease with which buying and selling takes place in the market. Liquidity can be measured by the daily trading volume in a security.

Liquidity fund

A fund which aims to provide competitive money market rates whilst offering same-day access to cash tied up in the fund.

Liquidity risk premium (LRP)

In order to overcome investors' desire for liquidity, less liquid assets must offer a higher return to compensate for reduced flexibility.

London Inter-Bank Bid Rate (LIBID)

The interest rate paid by a bank on Euro currency deposits. It is the rate at which a bank can borrow from other banks.

Longevity risk

In defined benefit pension schemes, the risk that members live for longer than is currently expected. That results in pensions being paid for longer than expected, thus costing schemes more money.

Long trades/positions

The buying of a security such as a stock, commodity or currency with the expectation that the asset will rise in value. In the context of options, the buying of an options contract.

M

Margin

Refers to the amount of deposit that an investor has to place with an exchange or counterparty against open derivative positions. Rather like paying a deposit on a buy-now-pay-later agreement, the margin is an indication of an investors' ability to pay. If the derivatives position incurs a loss whilst it is still open, the investor may be asked to increase the margin deposit in order to demonstrate an ability to cover any losses on the investment.

Market neutral

A long/short fund with no net exposure to the underlying market.

Mark-to-market

Recording the price or value of a security, portfolio or account according to the market value.

Maturity

Length of time until the last interest payment and the principal of a bond is redeemed.

Maximum drawdown

Maximum drawdown refers to the greatest possible percentage loss of capital an investor could have experienced from owning a particular asset. It can be calculated as the percentage drop from the asset's highest achieved unit price to any subsequent lowest unit price.

Money market

The market for short-term loans and cash deposits.

Money weighted rate of return (or internal rate of return)

Actual return achieved over a period that does not adjust for the timing of cash flows. It is therefore not suitable for comparative analysis of an investment manager's performance if external cash flows are beyond the manager's control. See also time weighted rate of return.

Mortgage Backed Securities (MBS)

An investment instrument that represents ownership of an interest in a pool of mortgages. Principal and interest from the individual mortgages are used to pay principal and interest on the MBS.

Multi-asset management

A single manager is responsible for several asset classes and is measured against a peer group or customised benchmark which specifies a fixed asset allocation. (The manager may or may not have discretion to vary the allocation around this benchmark.)

Mutual fund

The US name for a pooled fund (usually an open-ended fund) operated by an investment manager.

N

Negative convexity

A bond is said to exhibit negative convexity when its price rises less for a downward move in yield than its price declines for an equal upward move in yield.

Negative gearing

The purchase of an investment using borrowed funds, where the interest on the borrowing exceeds the income derived from the investment. For tax purposes, this negative net income can be offset against income gained from other sources. Negative gearing is most often associated with purchases of investment real estate, but can also apply in the case of shares or managed investments.

Net Asset Value (NAV)

The market value of assets less the net present value (NPV) of any liabilities.

Net Present Value (NPV)

A method used in evaluating investments whereby all future cash flows are first discounted at a given discount rate and then added. An investment is acceptable if the NPV is positive.

Nominal amount or value

The value stated on the face of a security.

Nominal interest rate/nominal rate of return

The rate of interest or return before adjustment for inflation.

Non-cyclical stock

A security that is less sensitive to movements in the business cycle than a cyclical stock. For example, the performance of a utility company may be little impacted by an upturn or a downturn in the economic cycle. See also cyclical stock.

Non-performing loan

Loans on which the borrower is not making interest payments or repaying any of the original capital.

O

Offer price

Price at which a security or a unit in a pooled fund can be purchased. See also bid price.

Open interest

The total number of open positions in a particular futures contract.

Open-ended fund

Collective investment scheme in which the number of units in the fund varies from day-to-day according to the number of investors wishing to buy or sell the holding in the fund.

Open-Ended Investment Company (OEIC)

A form of pooled fund investment, which is governed by company law (as opposed to a unit trust which is governed by trustees).

Option

The right, but not obligation, to buy or sell a security at an agreed price within an agreed time period. The right to buy a security is known as a call option; the right to sell a security is known as a put option.

Option Adjusted Spread (OAS)

An option adjusted spread analysis measures the incremental yield of a fixed-income security, adjusted for embedded options, compared to the term structure of interest rates. OAS is used for Corporate, Municipal, Mortgage, Convertible and Government securities.

Originator

Generally an institution such as a bank, that lends (e.g. mortgages) to borrowers. Once these loans are issued, they are assets sitting on the balance sheet of the originator.

Out-of-the-money

A call option whose exercise price is higher than the current underlying share price, or a put option with an exercise price below the current underlying share price.

Overcollateralisation

Occurs when the principal amount of an underlying pool of assets is greater than the principal amount of the issued securities. This is a form of credit enhancement as it lowers investors' exposure to default risk in the underlying pool of assets.

Overnight Indexed Swap (OIS)

An interest rate swap where the periodic floating payment is generally based on a return calculated from a daily compound interest investment.

Over-The-Counter (OTC)

A transaction that does not take place via an exchange. Many derivatives contracts are traded in this way.

Overweight

Exposure to a specific asset (or asset class) which is higher than the proportion it represents in the market index or benchmark against which the portfolio is measured. Investment managers may take overweight positions in shares or sectors they expect to outperform in order to add relative value to the portfolio.

P

Pair trades

Strategy that pairs long and short ideas with a hedge to focus exposure on specific risk factors in the lead idea while minimising unwanted risks.

Pension Protection Fund (PPF)

The Pension Protection Fund was established to pay compensation to members of eligible defined benefit pension schemes, when there is a qualifying insolvency event in relation to the employer and where there are insufficient assets in the pension scheme to cover Pension Protection Fund levels of compensation. Pension Protection Fund compensation payments will be funded partly by the assets transferred from schemes for which the Pension Protection Fund has assumed responsibility, and partly by an annual risk based levy raised on eligible pension schemes.

Performance attribution

Process which attributes outperformance or underperformance to the different investment decisions taken in the investment management process, such as asset allocation, stock selection, currency management, etc.

Performance measurement

The calculation of a portfolio's return on its investments. This can be performed on total assets or on individual asset classes. For the purposes of analysing a manager's performance relative to benchmark, performance is calculated on a time weighted rate of return basis which is unaffected by the size and incidence of client cash flows (which are outside of the manager's control). See also money weighted rate of return (or internal rate of return).

Performance related fee

A management fee determined by the degree of outperformance relative to an agreed benchmark.

Perpetuity

An annuity in which the periodic payments begin on a fixed date and continue indefinitely.

Pooled fund

Vehicle in which a number of investors pool their assets so that they can be managed on a collective basis. This usually suits investors wishing to invest in a broad spread of investments. Holdings in a pooled fund are denominated in units or shares that are re-priced regularly to reflect changes in the value of underlying assets. This allows investors to value their holdings and provides a basis upon which transactions into and out of the fund can take place.

Primary market

The main market for the purchase and sale of an investment.

Principal, face value or nominal amount

That amount inscribed on the face of a security, exclusive of interest or premium, due to a security holder at maturity and it is the amount used in the computation of interest due on such security.

Principles of Responsible Investment (PRI)

The PRI is the world's leading proponent of responsible investment. It works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. See www.unpri.org/about for more information.

Put option

The purchaser of a put option has the right, but not the obligation, to sell an asset at an agreed price within an agreed time limit. See also call option.

PV01

A measure of an instrument or portfolio's sensitivity to changes in interest rates. It measures the change in the present value of the instrument or portfolio resulting from a 0.01% upward shift in the yield curve.

Q

Qualifying Investor Alternative Investment Fund (QIAIF)

An open-ended or closed-end fund permitted to be sold only to qualifying investors who are typically professional or experienced investors. Previously known as a Qualifying Investor Fund (QIF).

R

Real interest rate/real rate of return

Nominal interest rate or nominal rate of return adjusted for inflation.

Redemption

When a debt (bond) is cancelled by repayment of the capital (principal) to the bond holders.

Redemption yield (or gross redemption yield)

The combined capital and interest return that an investor will earn on a bond to redemption.

Re-investment risk

The risk arising from uncertainty in the interest rate at which coupons and principal repayments will be reinvested.

Repurchase agreement (REPO)

An agreement to sell securities, usually bonds, to another party and to buy them, back at a specified date and price, usually after a few days.

Residential mortgage-backed securities (RMBS)

Secured on a pool of residential mortgages. These are typically amortising, meaning that the cash flows will include both interest and principal payments. The underlying mortgages can have varying characteristics: prime mortgages (e.g. the highest quality, most credit-worthy borrowers), buy-to-let mortgages and non-conforming mortgages (e.g. borrowers that don't meet standard borrowing criteria).

Responsible investment

Responsible investment typically refers to an approach that seeks to take ESG risk factors into account alongside other risks, including financial factors. For more information, please see our ESG glossary available [here](#).

Retail Prices Index (RPI)

The most common measure of inflation in the UK. A basket of representative retail goods in the market is priced monthly to monitor the rate of price inflation. See also Limited Price Indexation (LPI).

Return

Usually a percentage which takes account of the income generated and the increase in value of a security over a given period, such as a year. Often confused with yield, which only takes account of the income.

Risk

The possibility that a particular outcome may not occur. In investment terms, risk is used to define all of the uncertainty relating to an asset, including upside as well as downside possibilities. (The popular definition of risk is the downside only). Risk in investment returns is commonly measured by the variance of the historical returns.

Risk premium

The incremental return that an investor expects over and above the risk-free rate of return in exchange for assuming an additional amount of risk.

Risk tolerance/appetite

Extent to which an investor is prepared to accept volatility risk in a portfolio to achieve higher returns.

Risk-free rate of return

The return on cash is typically taken as a measure of the risk-free return against which other riskier assets are measured.

Risk-reward trade-off

The balance that all investors must strike between the desire for higher returns and low risk.

Roll period

Futures contracts expire, so to maintain exposure to an index, contracts have to be sold and new ones bought as expiry dates approach. This process is known as rolling. The roll period is the period in which this 'rolling' takes place.

S

Secondary market

A market in which an investor purchases a security from another investor rather than the issuer.

Secured bond

A bond for which the issuer has set aside assets as collateral to ensure principal repayment and encourage timely interest payments.

Securitisation

The process of creating a tradable financial instrument by combining other non-tradable instruments, usually loan-based assets, and marketing them to investors.

Security

A negotiable certificate evidencing a debt or equity obligation.

Settlement

Payment or collection of proceeds after trading a security.

Short-dated bond

A bond with a term to redemption of less than five years.

Short-selling

Borrowing a security and selling it with the expectation of being able to repurchase it at a later date at a lower price, thereby making a profit.

Social bond

A bond that specifies its proceeds will be used to have a positive social impact. For more information, please see our ESG glossary available [here](#).

Sovereign debt

Bonds issued by a central government.

Special purpose vehicle (SPV)

A subsidiary company whose operations are limited to the acquisition and financing of specific assets.

Spot price

The present market price of the relevant commodity, currency or investment instrument.

Spread

The difference in yield between two different bonds, for example the extra yield offered by corporate bonds over gilts.

Spread duration

A measure of the percentage change in a bond's price for a 1% change in its option-adjusted spread. Often used to quantify the sensitivity of a portfolio to changes in spreads. The spread duration of a portfolio is the market weighted average of the spread duration of all its securities.

Standard deviation

A statistical measure of the variability of returns. Though often used to quantify risk, it assumes a normal (Gaussian) distribution of returns which may be unrepresentative of the behaviour of financial markets.

Strategic asset allocation

Development of a long-term asset allocation that is expected to meet the investor's return objectives at an acceptable level of risk. See also tactical asset allocation.

Supply chain finance

Provides short-term credit that optimises working capital for both the buyer and the seller. Supply chain finance generally involves the use of a technology platform in order to automate transactions and track the invoice approval and settlement process from initiation to completion.

Sustainable investment

A broad term used to refer to investment approaches that reflect sustainability themes, typically focusing on the long-term impact on the environment and/or society. For more information, please see our ESG glossary available [here](#).

Sustainability bond

A bond that specifies its proceeds will be used to have a positive environmental and/or social impact. For more information, please see our ESG glossary available [here](#).

Swap

A contractual agreement to exchange a stream of periodic payments between counterparties. See also interest rate swap and inflation-linked swap.

T

Tactical asset allocation

Short-term deviation from a long-term strategic asset allocation to exploit predicted short-term relative movements in markets.

Time weighted rate of return

Rate of return of an asset or a portfolio that adjusts for the effect of cash flows. The time weighted return can be used to compare portfolios' performance against each other and against market indices since it is unaffected by the size and incidence of external cash flows (which are outside the investment manager's control). See also money weighted rate of return.

Total return

The overall return on a stock or portfolio taking into account changes in capital values and income earned.

Total return swap

A contract where the total return on a specified asset is exchanged for fixed or floating payments.

Trade receivables

Amounts billed by a company to its customers when it delivers goods or services to them in the ordinary course of business. These billings are typically documented on formal invoices, which are summarised in an accounts receivable aging report.

Tranche

A tier created during the process of dividing up access to an underlying pool of assets into securities of varying seniority and/or maturities.

Transaction costs

The costs incurred when buying or selling securities. Also referred to as explicit costs.

U

Undertakings for Collective Investments in Transferable Securities (UCITS)

The UCITS legislation governs how a fund can be marketed within the European Union and is designed to allow cross border fund sales to investors of different nationalities. To obtain UCITS status a fund must invest within defined but wide parameters.

Underweight

Exposure to a specific asset (or asset class) which is lower than the proportion it represents in the market index or benchmark against which the portfolio is measured. Investment managers may take underweight positions in shares or sectors they expect to underperform in order to add value to the portfolio.

Unit trust

A pooled fund that is established under trust. If there is a demand for units, the manager will create more units for sale to investors. If investors wish to redeem their units, the manager will buy them back and cancel them.

Unsecured debt

A debt obligation with no collateral and backed only by the debtor's creditworthiness.

V

Variable interest rate

An interest rate that adjusts over time because it is based on an underlying benchmark interest rate such as Libor or base rates.

Variation margin

A payment made by counterparties to a trade to cover daily, or even intraday, profits and losses.

Volatility

A measure of risk that encompasses the variation in an investment's return or price over a set time period versus the expected return or price, as represented by the mean. See also standard deviation.

Y

Yield

The percentage return paid on a stock in the form of a dividend or the effective rate of interest paid on a bond.

Yield curve

A sloping line that plots the yields of bonds from the same issuer but which have differing maturity dates. In a typical yield curve, the line will slope upwards, reflecting the fact that long-dated bonds should yield more than shorter-dated bonds. An inverted yield curve is where long-dated bonds yield less than short-dated bonds. This unusual situation may reflect a number of scenarios, including unusual demand/supply dynamics (for instance pension fund demand for long-dated assets to match their liabilities), or the fact that the market expects interest rates to decline and/or an economy to fall into recession.

Yield spread

The difference in yields available on different types of bond, for example between gilts and corporate bonds.

Z

Zero coupon bond

A debt instrument issued at a discount to its face value. The bond makes no payment until maturity, at which point it is redeemed at face value.

Zero coupon swap

An interest rate swap agreement with the fixed rate side based on a zero coupon bond.

Z-spread

The difference in yield between a bond and corresponding swaps. A positive z-spread number means that a bond's yield is higher than swap yields for the given set of projected future cash flows and the bond price today.

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