



Glossary of Financial Terms – An Overview

Absolute Return	Absolute return is the measure of the gain or loss on an investment portfolio expressed as a percentage of invested capital net of fees.	Derivative	A security with a value that is dependent upon, or derived from, one or more underlying assets. Types of derivative include put and call options, swaps and futures.
Active Management	A strategy followed by an investment manager to achieve excess returns. Rather than trying to track a benchmark or the performance of a sector, the manager actively selects investments he believes will outperform.	Developed Market	The market of a country which is perceived to have a solid regulatory and legal structure together with a long history of trading (e.g.: France, Germany, Japan). Such an environment is perceived to be less risky than an Emerging Market, where the infrastructure and trading history will be less mature (eg: Turkey, Mexico).
Alternative Investments	Investments with risk and return characteristics that differ markedly from those of traditional stock and bond investments.	Discretionary Investment Management	The service whereby an investment manager takes responsibility for all investment decisions relating to an individual's portfolio, on the basis of the information about the individual's needs and circumstances that they have provided to us.
Annual Management Charge ("AMC")	The annual fee paid for the investment management of a portfolio.	Diversification	An approach to investment designed to reduce risk by spreading the assets held in a portfolio across different issuers, sectors and types of investment.
Asset Allocation	The process used by an investment manager to determine the types of assets that they wish to hold and the percentage of investments that will be allocated to each type or "Asset Class".	Dividend	The income received by holders of equities, representing a portion of the profits of the company who issued the shares.
Basis Point	0.01%, one hundredth of one percent.	Equity	A security that provides the holder with the right to a share in the assets of a company on its winding up, to vote at meetings regarding its management and to ongoing income payments (Dividends). The terms "Stock" and "Share" have the same meaning.
Bear Market	A market in which share prices are falling and sentiment is negative thereby encouraging further selling.	European Central Bank ("ECB")	The central bank responsible for the Euro and for setting monetary policy across the 19 Eurozone member countries.
Benchmark	A measurement, generally an index, against which the performance of a portfolio is compared. In this context, the terms "Out Performance" and "Under Performance" are used.	Exchange Traded Fund ("ETF")	A fund traded on an Exchange, like a stock or bond, that typically tracks a basket of assets, an index or commodity.
Best Execution	This term is employed by the FCA to describe the process by which firms are obliged to take all reasonable steps to obtain the best possible result when executing client orders or placing orders with other entities to execute.	Execution Only	An investment service whereby the investment decisions are made by the client but carried out by the investment firm on the client's instruction.
Bond	A fixed-income investment where an investor loans funds to a body (usually a government or corporation) for a certain period of time, with an applicable rate of interest.	Financial Conduct Authority ("FCA")	The regulator responsible for supervising financial services firms in the UK. The FCA makes rules which regulated firms must adhere to and enforces action to address any failure.
BRIC	An acronym for Brazil, Russia, India and China.	Financial Ombudsman Service ("FOS")	An independent body responsible for investigating complaints against financial services firms operating in the UK. All retail clients have the right to ask the FOS to investigate any situation which they feel has given them the right to complain.
Bull Market	An environment in which the value of investments is rising and confidence in the market is high.	Financial Services Compensation Scheme ("FSCS")	The FSCS provides individuals and small businesses with the right to compensation (up to a limit) in circumstances where an investment firm cannot pay monies owed by them.
Capital Gain	The value of the profit made when an investment is sold. This may be subject to tax by the Government ("Capital Gains Tax"). Investments held in certain 'wrappers', such as ISAs, are exempt. There is an annual capital gains tax-free allowance.	Fund/ Collective Investment Scheme	A collective investment scheme is an arrangement that enables a number of investors to pool their assets and have these professionally managed by an independent manager. Investments may typically include bonds and quoted equities, but depending on the type of scheme may go wider.
Capital Return	The increase in the value of an individual's assets, excluding dividends and interest.	Gearing or Leverage	A measure of the amount of debt that a company has issued versus the value of its equity capital. A high level of gearing or leverage would suggest that the company has significant borrowings.
Closed Ended Fund	A fund that has a limited number of shares in issue, so that those interested in investing must purchase from a fixed pool.		
Commodities	A raw material or primary agricultural product (e.g.: oil, gold, pork, corn). Commodities are homogenous, and as such markets for these assets are typically very liquid.		
Consumer Price Index ("CPI")	The consumer price index is the official measure of inflation of consumer prices in the UK.		
Credit Rating	Three main rating agencies assess the issuers of debt, both government and corporate, to determine the strength of their ability to repay the debt. The very safest entities are rated AAA. Issuers rated below BBB- are considered speculative grade.		
Deflation	This is when the general price of goods and services declines.		

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Gilt or Gilt-Edged Security	A bond issued by the UK Government. The sale of gilts is used to finance the shortfall between tax revenue and government spending.	Open Ended Investment Company ("OEIC")	A legal wrapper that can be used to create an Open Ended Fund.
Hedge Fund	An alternative investment typically used by sophisticated investors which can employ a wider range of investment strategies than traditional 'long only' funds.	Passive Management	A strategy where a portfolio mirrors a market index, thus relying on automatic adjustments as opposed to a manager actively selecting investments.
Hedging	The strategy of taking an offsetting position to protect against a movement in the value of an asset. For example, an investor concerned about the price at which an equity might trade in the future could buy an option giving him the right to sell the shares at a predetermined price if the price falls below a certain level.	Preference Shares	Holders are entitled to a fixed dividend, a guarantee of payment that is more like the feature of a bond than an ordinary share. Preference Shares do not, generally, confer voting rights but holders will rank above ordinary shareholders in order of priority in the event of a liquidation.
Index	A theoretical portfolio of securities, designed to be an indicator of the value of a sector of assets in a market. For example, the FTSE 100 represents the largest companies listed on the London Stock Exchange by market capitalisation.	Quantitative Easing	A policy employed by Central Banks, whereby money is electronically created to purchase financial assets, such as government bonds. The desired impact is an increase in lending to businesses and individuals, which can be then invested or spent and therefore spur economic growth.
Inflation	This is when the general price of goods and services increases.	Retail Client	A classification used by the FCA to denote individuals who require the most regulatory protection. More sophisticated investors may be classified as Professional Clients or Eligible Counterparties.
In-specie	In-specie is Latin for 'in the actual form'. Transferring an asset 'in-specie' means to transfer it in its current form without the need to convert it to cash.	Risk Profile	An evaluation of a client's willingness or ability to accept changes in the value of their capital. This will take into consideration the time horizon for their investment, any external assets that they may have, their financial knowledge and experience and their financial commitments.
Investment Savings Account ("ISA")	A scheme created by the UK Government to allow investors to hold certain assets, such as cash, shares and unit trusts, largely free from tax on income and capital gains. Individuals must be resident in the UK and the maximum contribution to an ISA is capped on an annual basis.	Self-Invested Personal Pension ("SIPP")	An HMRC approved personal pension scheme allowing members autonomy on many aspects of the investment.
Investment Trust	A closed ended investment scheme, issuing shares to raise funds and investing the proceeds in certain assets. The shares are listed and traded throughout the day, as opposed to at a fixed time only.	Small Self-Administered Schemes ("SSAS")	An occupational pension scheme approved by HMRC with 12 or fewer members.
Market Capitalisation	A common method of valuing a company. It is calculated by multiplying the total number of issued shares in a company by the price at which those shares trade.	Structured Product	A structured product is designed to facilitate highly customized risk-return objectives. This is accomplished by taking a traditional security such as a conventional investment-grade bond, and replacing the usual payment features (e.g. periodic coupons and final principal) with non-traditional payoffs derived not from the issuer's own cash flow, but from the performance of one or more underlying assets. The payoffs from these performance outcomes are contingent on the underlying asset.
Money Laundering	The process by which ownership of illegally obtained funds is disguised. The financial services industry is required to adopt specific measures to help prevent the 3 stages of Money Laundering: placement, layering and integration. Generally, this will involve checking the identity of clients and validating the source of funds.	Suitability	The ongoing duty investment managers owe to clients to ensure that their portfolio is appropriate to their circumstances.
Net Asset Value ("NAV")	A simple and commonly used measure of the value of a fund, calculated by deducting liabilities from assets.	Time Weighted Return	A measure of return that is adjusted to take account of external cash flows, such as injections or withdrawals from a portfolio; it is the method often used to compare returns of investment managers.
Offshore Bond	An offshore bond is a wrapper set up by a life insurance company based outside of the UK in a country with a favourable tax regime, for example: The Isle of Man.	Total Return	The combined capital and income return on an individual's portfolio.
Ongoing Charges Figure ("OCF")	The running costs of a fund including any annual management charge and administration fee, expressed as a percentage.	Treating Customers Fairly ("TCF")	An FCA initiative intended to ensure that financial firms establish standards of best practice in dealing with all of their customers.
Open Ended Fund	A fund that creates new units whenever money is invested to meet demand. Conversely, it cancels units when redemptions are made.	Unit Trust	A type of open ended collective investment scheme established in the form of a trust. Funds are managed in accordance with strict investment guidelines.
		Volatility	The movement in the price of the security.
		Yield	The income generated by an asset, divided by the price.

Risk Warnings/Important information

This is intended as a guide only and you should not rely on any of the definitions below in making investment decisions. However, please don't hesitate to contact us if you would like any assistance in understanding a particular concept. Whilst we believe the information within this document to be correct, we cannot assume liability for any errors or omissions, except insofar as liability under any statute cannot be excluded.

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