



Glossary of Terms

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A

Accumulation Units A term that describes unit trusts where interest and dividends are not taken as income but reinvested to increase the value of your units. This option is relevant to investors seeking growth rather than income.

Actively managed A fund, such as a unit trust, where a fund manager follows an investment strategy. The manager will normally have an investment objective; often this is to beat a specific stockmarket index, such as the FTSE All Share. The opposite of an actively managed fund is a passive fund, more commonly known as a tracker or index fund.

Advance Corporation Tax (ACT) A tax, typically 20%, paid by companies on their dividends, that was abolished on 6 April 1999. This used to give rise to a tax credit that PEP managers could reclaim for investors in shares and funds. However, this ceased with the abolition of ACT. As a concession, the Chancellor has allowed ISA and PEP managers to claim back 10% of the tax on share dividends until 2004.

AITC The Association of Investment Trust Companies; a trade association for investment trusts.

Asset allocation A term that describes the process of apportioning money within an investment fund between different markets and sectors.

AUTIF The Association of Unit Trusts and Investment Funds; a trade association for open-ended investment funds.

B

Basis Point A basis point is a hundredth of a percent and is often used to describe changes in interest rates. If, for example, interest rates fall from 6.00% to 5.75%, they are said to have fallen by 25 basis points.

Bear Market A term used to describe stockmarkets when share prices fall for a prolonged period. If prices rise for a long period of time it is known as a bull market.

Bed & Breakfast A term still used, although the practice was abolished in 1998, where individuals could use their annual capital gains tax allowance by selling a fund one day and buying back the next. There must now be a minimum duration of 30 days between sale and buyback for this purpose, although the ability to sell a security and buy back immediately within an ISA still exists.

Benchmark Is a term for a "yardstick" against which fund performance can be measured. For example, many funds will have a particular stockmarket index as their benchmark, meaning performance should be measured relative to that index. The benchmark is selected based upon the market from which a manager picks their shares: for example the FTSE All-Share Index might be relevant for the UK stockmarket.

Bid Price The price at which investors sell a unit trust back to the fund manager.

Bid/offer spread The difference between the price at which investors buy units in a fund (the offer price), and the price at which they sell them back to the fund manager (the bid price). The spread is often around 5-6% and normally includes the manager's initial charge.

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Bottom-up The term used by fund managers to describe a style of investing. When a fund manager employs a bottom-up strategy, also known as stock-picking, their investment decisions are primarily driven to choosing which individual stocks to hold. Only once they have chosen a stock will they look at the wider picture such as the country and sector in which it is based. The opposite approach to this is known as top-down.

Bubble A bubble is caused by investors frantically buying shares in a rising market, in the belief that if they don't they will be forced to pay even higher prices later. Unfortunately, bubbles have a tendency to burst.

Bull Market A term used to describe stockmarkets when share prices increase for a prolonged period. If prices fall for a long period of time it is known as a bear market.

C

Capital Gains Tax (CGT) This is a tax on the increase in value of an asset (including unit trusts) after it has been sold. CGT is payable on gains of more than the annual exemption (£8500 in the 2005/06 tax year). You can avoid CGT altogether by sheltering your investments under a tax-free savings plan, such as an individual savings account (ISA).

Cash ISA An ISA component that allows you to hold a cash based investment.

CAT mark This is an official government stamp of approval for individual savings accounts (ISAs) that meet minimum standards on Cost, Access and Terms -- hence the name CAT. However, it is important to remember that a CAT mark is not a guarantee of performance.

CAT mark Cash ISA Cash ISAs carrying a CAT-mark must not have any one-off or regular charges, let you invest as little as £10 and allow you to take out your money without penalty within seven days. There is also an interest rate guarantee -- rates on these accounts must be no lower than 2% below the Bank of England base rate.

CAT mark Equity ISA Choose an equity ISA with a CAT-mark and the most an equity fund manager can charge is a 1% annual management fee. You should also be able to invest as little as £50 a month or a £500 lump sum.

CAT mark Insurance ISA There are also CAT-marks on insurance ISAs -- annual fees cannot exceed 3% and you should be able to invest a sum as low as £250 a year or £25 a month. There should not be any penalties if you cash in your investment early.

Commission A fee that is often paid by a fund manager to a broker upon the sale of a fund through that broker. The broker may decide to pass some of the commission to the investor, providing greater value for money.

Corporate Bond A corporate bond is basically a loan to a company. Buying a corporate bond is agreeing to lend money to a firm for a fixed period of time. In return, it pays a set rate of interest. For this reason this type of bond is often known as a fixed interest security. Corporate Bonds are normally traded on the stockmarket and many fund managers offer corporate bond based unit trusts.

Cumulative Performance Describes the performance figure that shows the overall movement in a fund's price over a period of time. The most common periods are 3 and 5 years.

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D

Demutualisation Building societies, some life insurance companies and friendly societies are all "mutual" organisations, this means that they are owned by their members. Demutualisation is the process of converting the company to a conventional business, usually by floating its shares on the stockmarket.

Disclosure Describes the obligation for a broker to show how much commission they expect to receive from the sale of a fund to an investor.

Discrete Performance Describes figures that show performance over a number of fixed time periods for an overall period of time. For example, you might show performance for 1 Jan to 31 Dec each year for the last 3 years. Such figures show consistency of performance far better than cumulative figures.

Dividend Companies normally distribute a proportion of their profits to shareholders, this is known as a dividend. They are usually paid twice yearly.

E

Emerging market funds A fund investing in companies listed on the stockmarkets of developing economies, these funds are likely to be relatively volatile.

Equity Usually used as an alternative name for a share.

Ethical Investment An investment approach, or a fund, that invests according to a set of moral as well as financial principles. Ethical investments may avoid investments into companies making products such as weapons, cigarettes and alcohol, or perhaps companies whose operations are thought to damage the environment. Different funds will take different tacks, some stressing environmental and others, ethical considerations.

Euro The European single currency, adopted originally in 1999 by 11 members of the European Union.

Exit Charge Some investment funds may levy a charge if the fund is sold within a specific period after purchase, typically five years. This charge is most common on funds where there is no initial charge.

F

Fixed interest securities A common term for gilts and corporate bonds, basically a loan to the government or a company. Buying a fixed interest security is agreeing to lend money for a fixed period of time and receiving a set rate of interest in return. Fixed interest securities are normally traded on the stockmarket and will fluctuate in value according to the attractiveness of the fixed rate paid.

Flotation When a private company decides to sell its shares to the public and list on a stock exchange.

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Friendly Societies Friendly societies are mutual organisations that provide savings and life assurance plans to their members. Their products benefit from special tax breaks, with any growth or income from qualifying plans given tax-free to investors. However, the maximum contribution is low: currently the limit is £25 a month.

FSA The Financial Services Authority is the city's chief financial consumer watchdog.

Fund manager A fund manager, often supported by a team, is responsible for making investment decisions for a particular fund within a fund management company. It is the fund manager's skill and judgment that will determine how successful fund performance will be.

Fund of Funds As the name suggests, a fund that buys investments in a selection of other funds, usually unit trusts. Funds of funds are designed to spread risk and to give investors access to a wider range of holdings than they could afford to by investing directly, although charges can be high.

Fund Supermarket A recent innovation providing flexibility and value for money when investing in funds. Fund Supermarkets allow you to buy funds from a range of fund managers, at low cost, within a single account. This means that investors can manage their fund portfolio via a single source.

G

Gilts A gilt is basically a loan to the government. Buying a gilt is agreeing to lend money to the government for a fixed period of time, in return for which you receive a set rate of interest. For this reason gilts are often known as fixed interest securities. Gilts are normally traded on the stockmarket and will fluctuate in value dependent upon the attractiveness of the interest paid.

Gross Often refers to income, such as interest or a dividend, before tax or other charges are removed.

Growth fund A fund that invests primarily in companies which seem to offer exceptional potential for growth in revenue.

H

High yield corporate bond fund A corporate bond fund that invests part or all of its portfolio in bonds with companies that have a lower credit rating. These companies need to pay investors a higher rate of return than companies who have stronger credit ratings to compensate for the additional risk of default.

I

IMRO Investment Managers Regulatory Organisation, responsible for the regulatory aspects of fund management.

Income units A term that describes unit trusts where interest and dividends are distributed as income to the investor. This option is relevant to investors seeking income from their investment.

Index tracker fund Tracker funds simply follow the growth of a particular share index, such as the FTSE-100 or the All Share Index. Because there is no active management involved, trackers are cheap to run and sometimes seen as a worthwhile portfolio addition for many investors.

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Individual Savings Account (ISA) Can be thought of as a "wrapper" that surrounds an investment which offers tax benefits. The types of investment that can be held within an ISA include unit trusts, OEICs, investment trusts and shares. ISAs come in two varieties, mini and maxi, and comprise three components - cash, insurance and stocks & shares.

Investment trust A company that is set up to pool investors' money to invest in a wide range of other companies' shares. An investment trust is split into a fixed number of shares which can be bought and sold on the Stock Exchange. The price of these shares may rise and fall separately from the value of the assets owned by the trust.

J

K

Key Features Document (KFD – sometimes known as KFI) A document that fund managers must produce for their range of funds, containing important details that the investor should read before investing. Details shown include fund charges, investment limits and the investment objectives. There is also an illustration showing what your investment would be worth over different periods assuming different growth rates, intended to illustrate the effect of charges.

L

Large cap company A major company usually within the FTSE 100 index of blue chip companies.

M

Managed fund A fund run by a professional fund manager, making investment decisions on your behalf. The fund may contain UK and overseas shares, bonds, and property (usually commercial).

Medium cap company A company whose shares are in the FTSE 250 index; typically with a market capitalization of about £250m to £3bn.

Maxi ISA A type of ISA that requires you to invest in all three ISA components with one ISA manager each tax year. Unlike a mini ISA, you are allowed to invest over £3,000 into the stocks and shares component.

Mini ISA A type of ISA that allows you to invest into each component with a different ISA manager each tax year. This provides greater flexibility compared to a maxi ISA, but it does restrict the maximum investment within the stocks and shares component to £4,000 from 6 April 2005.

Mutual Fund Effectively the American equivalent of unit trusts.

N

Net Refers to a figure after the deduction of tax, often used with reference to income.

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Nominee account Is a type of account set up so that a third party can hold and administer assets on behalf of an investor. Using a nominee account can often help cut down on paperwork and administration.

O

Offer price The price at which investors buy units in a unit trust from the fund manager.

Offshore Investments Offshore investments are savings and investments held in a region outside the UK tax system. The Isle of Man, Jersey and Luxemburg are well-known examples. For UK investors, in some instances there can be tax benefits whilst funds are held offshore, but tax must be paid when funds are brought back into the UK, for example when an investment is sold.

OEIC (Open-ended investment company) A relatively new type of investment fund that combines some of the best features of unit trusts and investment trusts. The fund is 'open-ended' meaning it can accept limitless premiums like a unit trust, but it issues shares, like an investment trust. The shares are bought and sold at a single price, making it easier to work out what your gain or loss will be.

Open ended funds Refers to investment funds where the number of units in issue can vary from one day to the next. Unit trusts are a popular example of this type of fund.

Overweight Overweight means having more money in a sector of the stockmarket - such as technology - than its percentage of the market. If, for example, the technology sector makes up 10% of the market, and you have 15% of your portfolio in the sector, you would be taking an overweight position.

P

Passive Fund Also known as a "tracker" fund. A fund that simply aims to mirror a particular stockmarket index (such as the FTSE 100) rather than actively deciding which stocks to buy and sell.

Personal Equity Plan (PEP) An investment tax wrapper that was replaced by ISAs in April 1999.

PEP Transfer Although PEPs closed for new investments in April 1999, you can still transfer existing PEP funds to other investment companies.

Personal Investment Authority (PIA) The authority in the UK that regulates companies who market financial products to the public.

Pound cost averaging A 'smoothing' effect that can happen when you buy fund units on a regular basis. Sometimes you will buy when prices are high, getting less for your money, and sometimes when they are low, getting more for your money. However, over time the prices can average out, providing you with a reasonable overall purchase price.

Protected Funds Normal stockmarket investments can go down as well as up. Protected funds use financial instruments, usually derivatives, to protect your capital. This protection costs though, usually meaning lower returns.

Q

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R

Real Return The return on an investment after inflation has been taken into account.

Redemption Yield The actual rate of return you receive on a bond. The return takes into account both the coupon (or fixed rate of interest) payments you receive, and the capital gain or loss you may incur at maturity. A capital gain can occur when you pay less than the redemption price for a bond, and a loss occurs when you pay more than the redemption price.

Reduction in yield A measure that aims to show the total effect of charges on an investment fund. It shows by how much growth is reduced by charges over time.

Running Yield (current yield) This return shows the income level that you might expect to receive from a bond. It takes no account of any capital gain or loss you may suffer on maturity of the bond.

S

Sector A group of companies or funds conducting similar business. In the UK, unit trusts and OEICs are categorised into a group of specifically defined sectors.

Smaller or small cap company A company in the FTSE Small Cap index, with a market capitalization of about £17m to £500m.

Split capital investment trust An investment trust that offers different types of share and has a fixed life span. Each share performs a different role - for example, income shares pay a high level of income because they receive most if not all of the dividends earned by the investment trust, while zero dividend preference shares receive no dividend income but offer a fixed capital return when the trust is wound up.

Stamp Duty A tax payable on buying shares in the UK, currently 0.5%.

Stock selection Describes the process of picking individual shares to create a portfolio.

Stockmarket index A stockmarket index measures the value of certain companies listed on the stockmarket. The FTSE 100 (called the "footsie") measures the value of the UK's 100 biggest companies, while the FTSE All Share measures the value of almost all of the companies listed on the stockmarket.

T

Tax year A period that runs from April 6th to April 5th the following year. Many financial products, including ISAs, revolve around the tax year rather than the calendar year.

TESSA (Tax Exempt Special Savings Accounts) are government-approved savings schemes that pay interest free of tax, provided you leave your money untouched for five years. Cash ISAs replaced TESSA's in April 1999, but you can continue to hold funds in existing plans. When they mature, you can switch your original investment - but not the accrued interest, to a TESSA-only ISA (**TOISA**) or cash ISA, both of which also pay interest tax-free.

Top down The term used by fund managers to describe a style of investing. When a fund manager employs a top-down strategy, also known as asset allocation, their investment decisions are primarily driven to choosing in which sectors to invest. Only once they have chosen a sector

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will they look at the individual stocks within that sector. The opposite approach to this is known as bottom-up.

Tracker fund A fund that is designed to mirror the movements of a particular stockmarket index.

U

Underweight Underweight means having less money in a sector of the stockmarket - such as technology - than its percentage of the market. If, for example, the technology sector makes up 15% of the market, and you have 10% of your portfolio in the sector, you would be taking an underweight position.

Unit linked fund A fund that pools your money to buy a wide range of assets, usually shares or bonds. The fund is split into units of equal size that rise and fall in price in line with the value of the assets in the fund. The fund manager can create an unlimited number of units, meaning investors can continue investing money in the fund indefinitely.

Unit trust An investment fund that pools the money of many investors to buy a much wider range of shares than would be possible invested on an individual basis. The fund is divided into units, which rise and fall in line with the value of the assets owned by the fund.

V

Value stock Shares that are thought to be under-priced, often because the market has overlooked the company or a factor that has a positive effect on its performance.

Volatility A term that describes how wildly a fund price fluctuates. If fluctuations are great then that fund is said to have a high volatility.

W

X

Y

Yield The gross annual dividend of a fund or stock expressed as a percentage of the current share or unit price.

Z