JARGON BUSTER

Active management	Fund management style which attempts to better the returns of a benchmark by using manager expertise to select and invest in securities that are expected to outperform some index.
Asset allocation	A portfolio's mix of equities, fixed income, cash and other asset classes. Asset allocation is typically determined by your return objectives, risk tolerance, income needs, and other factors. For example, a fund may have an asset allocation of 5% NZ shares, 50% global shares, 10% global listed infrastructure, 15% NZ fixed interest, 15% global fixed interest and 5% cash.
Basis point	One basis point equals 0.01%. There are 100 basis points to one percent. For instance, if a fund manager charges a fee of 40 basis points per annum of assets under management, this amounts to 0.4%. For a fund size of $100m, 40 basis points would be $400,000. Often abbreviated as 'bp' and pronounced as 'bips'.
Bear market	A market going through a downward trend and dominated by pessimists - the opposite of a Bull market.
Bond/fixed income	Bonds, also known as fixed interest or fixed income securities, are securities that promise to pay fixed sums of money (coupons and face value) at a predetermined dates in the future. Bonds are generally issued by governments, banks and companies to borrow money. Most bonds pay coupons over regular intervals and the face value at maturity.
Bull market	A market going through an upward trend and dominated by optimists - the opposite of a Bear market.
Coupon	The regular interest payment associated with a bond or similar debt security. The the interest payment is given by the coupon rate times the face/par value of the security.
Custodian	The entity which technically holds assets on behalf of investors. It keeps custody of securities and other assets of a mutual fund for purposes of safekeeping. The custodian may collect income and do some simple reporting on the value of the assets.
Derivatives	Securities that derive their value from another physical or financial asset. Examples of derivatives include futures and options.
Diversification	The practice of mixing a wide variety of investments and/or asset classes in a portfolio as a way to potentially reduce the risk of the portfolio.
Dividend	A payment to shareholders, usually from a company's after-tax earnings, and at the discretion of the firm's board. A dividend normally represents a portion of a company's profit paid to shareholders.
Dividend yield	Dividend amount divided by share price. For example, a share selling for $2 a share with an annual dividend of $0.10 a share provides a 5% dividend yield.
Efficient market	A market in which all publicly available information is incorporated in market prices.
Futures	A derivative investment which represents an obligation to buy or sell a specified quantity of an underlying asset at some time in the future, at a price which is agreed upon today.

Growth assets	A term given to assets such as shares and property which are expected to provide strong investment returns over the long term (compared to income assets).
Hedging	The use of financial contracts or other measures to protect against the potential loss in an investment. Options and futures can be used to hedge an investment.
Imputation credit	Tax credits that represent tax paid by companies which are passed onto shareholders.
Income assets	A term given to assets such as bonds and cash which are expected to provide reliable income over the short term, but weaker long term capital growth (compared to growth assets).
Index	A statistical tool that measures the performance of a security market or economy, based on the performance of a group of securities that represent a particular portion of that market or economy. Each index has its own calculation methods, usually expressed as a percentage change from the base value. Examples include MSCI All Country World Index (MSCI ACWI), and S&P/NZX 50 Index (NZX 50).
Option	A derivative investment, giving the holder of the option the right to buy or sell a specified quantity of an underlying asset at some time in the future at a fixed price known as the strike price.
Passive management	Management style where the fund manager does not attempt to add value through its own expertise. Instead, it aims to match as closely as possible the returns achieved by a particular index.
Private equity	Investment in shares of companies which are not publicly traded, that is, companies which are not listed on the stock exchange.
Return	The total amount of money received from an investment each year usually expressed in percentage. This can be comprised of income and/or capital gain.
Risk	The variability of returns. Generally speaking, the higher the level of risk an investor is required to bear, the higher the expected or required return for a particular investment.
Sovereign debt	Bonds isued by a government. Also known as government bonds, treasury bonds and sovereign bonds.
Stock/equity	An investment that represents part ownership of a company.
Tracking Error	Tracking error measures the variation between the return of an investment and its associated benchmark.
Yield	The income generated by a stock or bond. A stock's yield is its annual cash dividends divided by its current price. A bond's yield is the amount of return an investor realizes on a bond.

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