



**Charity Intelligence**

Clarity for charities

# JARGON BUSTER

*Investment terms explained for charity trustees and staff*



# Jargon Buster

## *A quick introduction*

**Investing charity money can involve unfamiliar language. This guide is for trustees and charity staff. It explains some of the terms you're likely to encounter when you review investment policies, manager reports and investment proposals.**

The explanations are intended to provide you with a clear starting point rather than formal investment, legal or tax advice. Some terms can have different meanings, depending on the investment or document in which they are used. You should ask your investment manager or professional adviser to explain anything that is unclear.

You don't need to become an investment expert, but trustees in particular should understand enough to make informed decisions, challenge advisers and monitor whether your charity's investments continue to meet your objectives.





# Jargon Buster

## A

### **Absolute benchmark**

A way of comparing the performance of a portfolio against a distinct number, which requires an investment or strategy to achieve a specific numerical goal or target, regardless of broader market conditions. A good example is an inflation target.

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### **Absolute return**

This is the return – or measure of the gain or loss – that an asset or investment portfolio achieves over a period of time. It is expressed as a percentage of the capital invested.

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### **Accumulation unit**

A unit in a fund where income, such as dividends or interest, is automatically retained and reinvested rather than paid out to the investor. This is reflected in the value of the units.

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### **Active management**

An investment manager aims to achieve higher returns than the benchmark and/or relevant sector by actively selecting stocks they believe will be the best performers.

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### **Advisory management**

A professional adviser provides investment recommendations, but trustees make the final decisions. The adviser may recommend strategy, managers, or trades, but cannot act unless the charity approves.

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### **Alpha**

The active return of an investment above that of the relevant benchmark.

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### **Alternative investments**

Investments that are not one of the traditional asset types (equities, bonds or cash). They are typically investments in assets with a lower correlation to equity or bond markets, such as property, infrastructure, hedge funds, private equity, commodities and commodity funds.

# Jargon Buster



## A

### **Active ownership**

Using engagement and shareholder voting to influence companies and protect or enhance long-term value.

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### **Asset**

The type of investment held within a portfolio, for example, cash, a share (an equity), fixed interest securities (a gilt, a bond), a unit trust, and so on.

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### **Asset allocation**

The mix of investments held within a portfolio, such as equities, bonds, cash and property.

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### **Asset classes**

The type of asset (such as equities, bonds, cash and property) which a portfolio or fund can invest in. Different asset classes have different characteristics in terms of creating income and capital.

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### **Authorised unit trust**

Any unit trust that has been authorised by the Financial Conduct Authority (FCA) to be marketed to the public in the UK.



# Jargon Buster

## B

### **Basis point**

One hundredth of one percent i.e. 0.01% is one basis point.

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### **Bear market**

A term used when the stock market falls or is expected to fall in value. A market move of 20% is widely regarded as a bear market.

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### **Bearer stock or share**

A type of equity that is wholly owned by whoever holds the actual stock certificate. The issuing firm neither registers the owner of the stock, nor does it track transfers of ownership. The company shares dividends out among the bearer shares when an actual coupon is presented to the firm.

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### **Benchmark**

A standard used to compare investment performance.

For example, a portfolio may be measured against:

- inflation (e.g. CPI +3%)
  - a stock market index
  - or a peer group of similar charities.
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### **Best execution**

The process of achieving the best price for a retail client for a transaction (whether buying or selling a share in a company) of a particular type and size. It is a broker's legal obligation to execute a client's order at the most favourable terms possible under prevailing market conditions and it prioritises the client's interests over the broker's own profits and commissions.

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### **Beta**

Beta is the relationship between a security's returns and movements in the relevant market. A beta of 1 theoretically indicates that the security's price will move identically to the market.



# Jargon Buster

## B

### **Bid price**

The indicated price at which an investor can sell a security. This is generally lower than the offer price.

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### **Blue chip**

An informal term for shares in large, long-established and financially significant companies. They may be regarded as more established than smaller companies, but their shares can still fall substantially in value.

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### **Bonds**

Loans made to governments or companies in return for interest payments and repayment at maturity. Bonds are generally expected to be less volatile than equities, although their risk depends on the issuer, term, interest rate sensitivity and likelihood of repayment.

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### **Book cost**

The cost of a stock, gilt, bond, unit trust and so on, at the time it was bought. This cost might be used to work out whether any capital gains or capital losses are made when a holding is sold.

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### **Bull market**

A term used when the stock market rises or is expected to rise in value. A market move of 20% is widely regarded as a bull market.

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## **Call option**

An option that gives the holder (in other words, the person buying the option) the right, but not the obligation, to buy (call) an asset at a given price on or before a given future date.

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## **Capital**

The amount that is invested.

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## **Capital gain**

This represents the increase in the value of the capital (or the initial amount invested). It does not include income.

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## **Capital growth**

An increase in the value of investments over time.

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## **Capital loss**

The loss which is suffered when an asset drops in value. It is also the difference between the purchase price and the sale price (if this is lower). A fall in the value of an investment below its purchase price. The loss is unrealised while the investment is still held and becomes realised when it is sold.

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## **CC14**

A document issued by the Charity Commission providing guidance to charity trustees on investments.

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## **Cash flow**

Money expected to enter and leave the charity over a period. Forecast cash flow helps determine how much money must remain readily available.

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## **Cash reserves**

Money held in bank deposits or short-term investments to meet operational or emergency needs.



## **Certificate of deposit**

A promissory note issued by a bank with an expiry (end) date. It entitles the holder to receive interest at a set rate and can be issued in any currency.

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## **Charity Authorised Investment Funds**

A collective investment solution designed specifically for charities, where many charities invest together into one professionally managed fund. CAIFs are registered charities that are jointly regulated by the Charity Commission and the Financial Conduct Authority (FCA). There is no VAT applied to the management fee.

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## **Churning**

The act of carrying out excessive trading (buying and selling) within a portfolio.

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## **Clean (management) fee**

A fund charging structure that does not include commission or rebates paid to an adviser or investment platform. Other costs, including transaction costs and platform charges, may still apply.

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## **Client money**

The money belonging to an investment firm's clients which has been pooled together but kept separate from the firm's own money and held on trust in a specially designated account. As a result, the money is protected (in line with FCA rules) in case the firm becomes insolvent.

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## **Closed-ended fund**

An investment trust or collective investment scheme with a fixed capital that issues a limited number of shares. They are traded in the same way as an equity.

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## **Collective investment scheme or collective investment (CIS)**

A fund where investors' money is pooled together and managed with a shared investment aim.

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## C

### **Commercial paper**

An unsecured debt instrument which will become due for payment in less than one year from the date it is issued by a corporation to meet, for example, short-term debts.

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### **Commission**

Transaction charges for buying or selling an asset.

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### **Common Investment Funds (CIFs)**

Collective investment schemes that only charities can invest in and are authorised by the Charity Commission. These are largely redundant and replaced by Charity Authorised Investment Funds (CAIFs).

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### **Counterparty risk**

The risk that a bank, financial institution or investment provider fails to meet its obligations.

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### **Concentration risk**

The risk of excessive exposure to a single investment, sector, fund manager or asset class.

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### **CPI (Consumer Price Index)**

A common measure of inflation in the UK. Many charities use inflation-plus targets such as "CPI +3%".

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### **Contract note**

The document that sets out all the relevant details of a trade, in other words, whether it is a sale or a purchase, unit price, total price, trade date, settlement date, dealing costs and so on.

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### **Conventional gilt**

A bond issued by the UK Government which pays the holder a fixed rate of interest (or coupon) every six months until maturity (the point at which the Government buys back the stock). At this point, the holder receives their final coupon payment and the return of the amount invested. They offer a set return of income which is fixed throughout their life.



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## **Convertible debt**

Where a lender has the option to convert a debt into ordinary shares in a company rather than receiving repayment in cash.

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## **Convertible gilt**

A UK Government bond where the holder has the option to convert the bond into another issue of Government bonds rather than receive repayment in cash.

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## **Convertible loan**

A corporate bond with an option to convert to ordinary shares on a set date and at a set price.

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## **Corporate bond**

A type of bond (debt security) issued by a corporation with a fixed maturity date, where the capital is redeemed on a fixed date, usually at 'par' or £100 per bond, or the issue price. The holder receives interest payments (yield). They are considered higher risk than Government bonds and, as a result, usually have a higher yield. They are used by corporations to repay their debts and are issued instead of issuing further shares.

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## **Correlation**

The extent to which different assets' returns behave in the same way.

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## **Coupon**

The fixed rate of interest that is paid on a bond. For example, a bond with a 5% coupon and a nominal value of £100 will pay yearly interest before tax of £5 for every £100 held, no matter what the price at which the bond is trading in the market. It is also the term applied to the detachable part of a bearer stock which gives you an entitlement to interest or other rights.

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## **Counterparty**

The person or organisation who is the other party in a financial arrangement.

# Jargon Buster

## C

### **Creation price**

The lowest price at which units in a collective investment scheme can be bought by a fund manager. This is the cost of 'creating' units to meet purchase orders.

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### **Credit risk**

The risk that a bond issuer, bank or borrower cannot make interest payments or repay the money owed.

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### **Credit rating**

An assessment by a credit-rating agency of an issuer's ability to meet its financial obligations. Ratings are opinions rather than guarantees.

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### **Currency risk**

If investments are held in a different currency, changes in the rate of that currency will affect the value of those investments.

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### **Current yield**

The expected dividend (on a share) or interest (on a bond or fixed-interest investment) divided by the market price of the asset. This can either be before or after tax.

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### **Custodian**

The organisation responsible for safeguarding investment assets on behalf of the charity.



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## D

### **Debenture stock**

A type of debt instrument (corporate bond) on which the company issuing it guarantees payments on a fixed term or a fixed rate of interest. It is secured against a specific asset or pool of assets.

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### **Debt security or debt instrument**

A financial instrument which contains a promise by the issuer to pay the holder of the instrument a defined amount on or by a set date (the date when a debt security is said to 'mature'), usually with interest.

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### **Delegate or delegation**

The process of passing responsibility for managing a portfolio to an investment manager.

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### **Depository receipts**

Negotiable certificates, like bonds, which represent owning shares of a foreign-based issuer. They are usually issued by a bank or a company to raise money. Each certificate (depository receipt) will represent a specific number of shares in a company. They are traded on a stock exchange independently of the underlying shares.

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### **Derivatives**

A financial instrument, the value of which comes from the price of an asset. The main types of derivatives are futures, options and swaps.

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### **Discretionary investment management**

An arrangement where trustees appoint an investment manager to make day-to-day investment decisions within agreed guidelines.

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### **Distribution units**

Units in a collective investment scheme which pay an interest payment or dividend.

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### **Diversification**

Spreading investments across different asset types, sectors and regions to reduce risk.

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## D

### **Dividend**

Income paid by companies to shareholders.

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### **Dividend reinvestment**

This is where the income is used to buy more shares rather than being paid out, in other words, it is reinvested into shares in the company.

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### **Dividend yield**

This is the gross dividend per share divided by the share price. It can be either before or after tax.

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### **Duration**

A measure of how sensitive a bond or bond portfolio is likely to be to changes in interest rates. Higher duration generally means greater price sensitivity.



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## E

### **Equalisation**

A payment sometimes included in the first distribution received after buying units in a fund. It represents income that had already built up in the unit price before the units were purchased and is normally treated as a return of part of the investor's capital rather than new income.

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### **Equity**

Equities are shares in companies and are typically expected to provide higher long-term growth potential than cash or bonds, although with greater short-term volatility and risk.

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### **ESG (Environmental, Social and Governance)**

Factors used to assess the sustainability, governance, resilience and long-term risks of companies and investments.

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### **Ethical investment policy**

Restrictions or guidelines designed to ensure investments align with the charity's values and mission. May also be referred to as a responsible investment policy.

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### **Exchange Traded Fund (ETF)**

A fund whose shares are traded on a stock exchange. Many ETFs aim to track an index, although some are actively managed.

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### **Ex-dividend (XD)**

It shows that the seller of the share keeps the right to receive the next dividend payment even though they no longer own that share. Any buyer of the share is not entitled to the next dividend.

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### **Execution only**

A type of investment management where a manager simply carries out transactions instructed by the charity, with no advice and no suitability assessment. The provider is essentially an administrative platform or broker.



# Jargon Buster

## F

### **Financial Conduct Authority (FCA)**

Regulates the financial services industry in the UK. Its role includes protecting consumers, keeping the industry stable, and promoting healthy competition between financial service providers.

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### **Fixed income**

A broad term for bonds and similar debt investments. They normally make interest payments and repay capital at maturity, although the amount of income and the market value may vary.

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### **Fixed-income security**

A security where the income return is set by the coupon.

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### **Fund of funds**

A fund that invests in other funds rather than investing directly in assets (such as cash, bonds, shares or property) to meet its investment aim.

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## **Gating**

Temporary restrictions on withdrawing money from certain investment funds, usually during stressed market conditions.

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## **Gearing or leverage**

Some collective investment schemes can borrow money to make further investments in the hope of earning profits greater than the cost of borrowing. As a result, they improve the return to investors. However, this can increase the investment risk by increasing rises and falls and exposure to increased capital risk.

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## **Gilt or gilt-edged security**

The name for a bond (fixed interest security) issued by the UK Government through the Debt Management Office. Originally, the certificates for these bonds were printed with gold (or gilt) edges. The sale of gilts helps the UK Government fund the difference between what it spends and what it receives in taxes, for example.

There are two types of gilts: conventional and index-linked. Both types are quoted on the London Stock Exchange. Gilts are generally regarded as having very low default risk because they are issued by the UK Government. Their market value can nevertheless rise or fall significantly, particularly when interest rates change.

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## **Gilt yields**

The gross income from a gilt divided by the price of the gilt.

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## **Government stock**

A bond sold by the Government to pay for its budget deficit.

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## **Greenwashing**

The use of misinformation to gain investor confidence about the ESG credentials of an investment fund or company. Highly relevant for trustees reviewing ESG claims.

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## **Gross redemption yield**

The total return on a bond, taking into account both the coupon and the capital gain or capital loss if held until it becomes due for payment. This is also known as yield to maturity.

# Jargon Buster

## H

### **Hedge fund**

An actively managed collective investment fund that may use strategies such as short selling, derivatives and borrowing. Hedge funds can be complex, may have restricted liquidity, and are often structured outside mainstream UK retail fund arrangements.

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### **Hedging**

Techniques used to reduce specific risks, such as currency movements.



# Jargon Buster



## **Illiquid Investments**

Investments that cannot easily be sold quickly without affecting price. Examples may include property or private market investments.

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## **Income**

The return on an investment by way of a dividend on shares or interest on bonds or cash.

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## **Income fund**

A collective investment scheme with the aim of paying out a higher-than-average income.

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## **Income unit or share**

A unit or share that pays out income to the unitholder or shareholder.

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## **Income only approach**

Spending all the income from an investment portfolio without capital gains.

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## **Income yield**

The annual income generated from investments expressed as a percentage of value.

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## **Index**

An index is a collection of assets, such as stocks or commodities, designed to track the performance of a specific market, sector, or economy. Instead of measuring individual stock prices, it provides a single number, reflecting the collective performance of its underlying assets. A good example is the FTSE 100 or MSCI World. It could also be a charity index, that allows trustees to evaluate and benchmark the performance of their investment portfolios against other charity investments and peer-group data.

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## **Index fund**

A fund whose structure (in other words, the underlying assets) is designed to copy the performance of a specific stock-market index.

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## **Index-linked gilt (government bond)**

Where the coupon payments and capital redemption value are linked to the increase in the Retail Price Index (RPI) over the period the gilt is in issue. The larger the increase in the RPI, the bigger the value of the coupon and the capital value. The income is indexed and paid every six months in arrears.

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## **Inflation-linked assets**

Investments designed to help protect the portfolio against inflation over time.

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## **Inflation risk**

The risk that investment returns fail to keep pace with rising prices over time.

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## **Interest-rate risk**

Interest rates can rise as well as fall. A risk exists in that the relative value of a security, especially a bond, will get worse due to an increase in the interest rate. This could have a negative effect on other products.

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## **Investment company with variable capital (ICVC)**

An open-ended collective investment vehicle, similar to a unit trust, where numerous investors' money is pooled together and then invested. By pooling funds together, investors get the benefit of diversification and access to professional investment management.

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## **Investment horizon**

The time period over which an investment or portfolio is to be managed.

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## **Investment governance**

The arrangements through which trustees set objectives, delegate responsibilities, receive information, monitor results and make investment decisions.

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## **Investment risk**

The possibility that investments may lose value or fail to deliver the income, growth or access to cash that the charity requires.

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## **In specie**

The distribution of an asset in its present form, rather than selling it and distributing it as cash. This is used where cash is not readily available or where it's advantageous to distribute the asset in its present form.

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## **Investment objective**

The long-term goal of the investment portfolio, such as:

- preserving capital,
  - generating income,
  - or growing assets above inflation.
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## **Investment trust**

A public limited company which issues shares to raise funds and then invests the funds in certain securities. It is a type of collective investment scheme but is closed-ended rather than being open-ended; in other words, it has a fixed number of shares. Investment trusts trade on a stock exchange throughout the day. This differs from many open-ended funds, which are normally priced once each business day.

# Jargon Buster

## J

### **Junk bond (Investment Grade Bond)**

A bond of non-investment grade which often has a higher return than other types of bond but also a higher risk.

## L

### **Leverage**

See [gearing](#).

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### **Liquidity**

The ability to convert investments into cash quickly and without significantly affecting value.

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### **Loan note / loan stock**

This takes the form of a financial instrument as evidence of a debt between the borrower (the issuer, usually a company) and one or more lenders (noteholders) with the promise by the issuer to repay the debt. Also commonly known as loan stock. A debenture is a common form of loan note.

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### **London Interbank Offered Rate (LIBOR)**

A former interest-rate benchmark used in financial contracts. All LIBOR settings have now ceased.

# Jargon Buster

## M

### **Mandate**

The instructions and limits agreed between a charity and its investment manager.

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### **Manager benchmark versus charity objective**

A manager benchmark measures how well an investment manager performs, relative to market indices or peer groups, while a charity objective defines the return on investment a charity is looking to achieve.

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### **Market capitalisation**

The value of a company, calculated by multiplying its shares by the current market price of one share. The investment community uses this figure to decide on a company's size, as opposed to sales or total asset figures.

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### **Mid-price and mid-market price**

The price midway between the bid price and the offer price of a share or unit. It is usually the basis on which investments are valued.

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### **Maximum drawdown**

The largest fall in the value of an investment or portfolio from a previous high point to a subsequent low point during a stated period.

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### **Market risk**

The risk that the price or value of an investment will fluctuate (move) due to factors such as market supply and demand, the viewpoint of investors, and the prices of any underlying or linked investments.

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### **Monetary Policy Committee (MPC)**

The committee at the Bank of England which is responsible for setting interest rates.



# Jargon Buster

## M

### **Money market funds**

A collective investment scheme that holds cash or near cash investments.

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### **Multi-asset portfolio**

A portfolio invested across several asset classes such as equities, bonds, cash and alternatives.

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### **Mutual fund**

The American term for a collective investment scheme.



# Jargon Buster

## N

### **Net asset value (NAV)**

The value of a fund's assets. For an investment trust this is often different to the share price that it trades at. If the share price is higher than the NAV, the investment trust is trading at a premium. If it is below then it is trading at a discount.

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### **Net return and gross return**

Gross return is the reported performance of an investment before manager fees have been paid; net return is the performance after.

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### **Nil paid rights option**

The right to buy additional shares in a company at a known price.

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### **Nominal value**

The principal or face value of a bond.

# Jargon Buster



## **Offer price**

The price at which you can buy a security.

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## **Open-ended fund**

A fund that creates new shares (units) whenever money is invested to meet demand and cancels shares (units) when sale orders (redemptions) are made.

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## **Open ended investment companies (OEICs)**

A pooled vehicle which may create or cancel units for its holders as required.

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## **Option**

A contract which gives the holder the right to buy or sell a certain asset at an agreed price on or before an agreed date in the future.

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## **Ordinary shares**

Ordinary shares are issued by limited liability companies as the main way of raising risk capital. Ordinary shares usually carry a right to vote at general meetings of the company which issued them. There is no guaranteed return on an investment in ordinary shares. If the issuer goes into liquidation, ordinary shareholders are among the last with a right to get their capital back or to or any surplus funds of the issuer (or both).

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## **Ongoing Charges Figure (OCF)**

The recurring annual costs of running a fund, expressed as a percentage of its value. It normally includes the fund manager's fee and administrative expenses, but does not usually include all transaction costs or any performance fee. The FCA's current disclosures distinguish ongoing costs, one-off costs and transaction costs.



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## P

### **Partly paid share**

A share where the shareholder is still legally responsible for paying an extra amount to the issuer. In other words, the company in which that individual owns the shares, when the outstanding amount is called for. There can be a loss in value if the shareholder does not pay the extra amount.

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### **Peer group**

A collection of similar funds or portfolios used for comparison purposes.

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### **Permanent endowment**

Money, property or other assets given to a charity for investment purposes. Only the investment income can be spent.

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### **Platform**

An administration service through which investments can be held, valued and traded. A platform does not necessarily provide investment advice.

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### **Pooled funds**

A collective investment vehicle where multiple investors' money is combined into one fund.

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### **Preference shares**

These give shareholders the right to a fixed dividend and so tend to be a less risky form of investment than ordinary shares. Preference shares do not usually give you the right to vote at general meetings of the issuer, but you will rank higher than ordinary shareholders if the issuer goes bankrupt.

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### **Principles of Responsible Investment (PRI)**

The world's leading voluntary initiative on responsible investment. Launched in 2006 it now has thousands of investor signatories globally who commit to adopt six principles for responsible investment and report against these annually. Although voluntary and investor-led, the PRI is supported by the United Nations.

# Jargon Buster

## P

### **Private equity funds**

Usually, closed ended funds which generally take or have a controlling stake in shares in a business (or several businesses) that is either private or becomes private once the funds have been bought. Private equity funds can generate returns significantly higher than share markets but they also carry a higher risk.

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### **Put option**

An option that gives the holder (in other words, the buyer of the option) the right, but not the obligation, to sell (put) an asset at a given price on or before a given date.

## Q

### **Quantitative easing**

A policy used by central banks to stimulate the economy by increasing the amount of money in circulation and using it to buy financial assets such as gilts.



# Jargon Buster

## R

### **Real Estate Investment Trust (REIT)**

A closed-ended fund that invests in real estate and meets specific HMRC rules for REITs.

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### **Realised and unrealised gain or loss**

Unrealised gain or loss is the increase or decrease in the value of an investment that a charity holds. Realised gain or loss is the increase or decrease in the value of the investment when the charity sells it.

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### **Real return**

Investment return after inflation has been deducted.

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### **Rebalancing**

Adjusting investments back toward target asset allocation levels after market movements.

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### **Redemption yield**

The theoretical return on a bond if it is held until it is due for payment (maturity). The yield is mathematically calculated to reflect the interest payments a bondholder will receive over the life of the bond if there is any gain or loss made when it matures.

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### **Relative benchmark**

It is called relative as the fund's performance is judged against the benchmark. It may be that (for example) the fund has fallen 3% in value, but the benchmark has fallen 5%, so on a relative basis the fund has performed well, despite not producing a positive return (see [absolute benchmark](#)).

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### **Responsible investment**

Responsible investment considers environmental, social and governance factors when selecting, managing and overseeing a charity's investments.

# Jargon Buster

## R

### **Reserves**

Funds held by a charity to support future commitments, manage risks and ensure financial resilience.

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### **Retail Price Index (RPI)**

The measure of the rate of inflation in the UK. It uses the prices of a range of typical goods to show how much the cost of living changes from month to month. It works out the cost of buying these goods and expresses this as a percentage of the base year index.

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### **Risk tolerance**

The level of investment risk, volatility and potential loss that trustees are willing and financially able to accept in pursuit of the charity's objectives.



# Jargon Buster

## S

### **Security and securities**

A document or electronic record that gives the holder (shareholder) the entitlement to part own a company or shows you are owed part of a debt issue. A security is tradeable. It is a general term which covers shares (equities), bonds and certain other investments which can be bought or sold.

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### **Segregated portfolio**

A portfolio built specifically for one charity (or investor), where they directly own the underlying investments (shares, bonds, funds, cash, etc.) in their own account.

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### **Share**

Also known as an equity. It relates to any of the equal parts into which a company's capital is divided and entitles the holders (shareholders) to a proportionate share of the company's profits.

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### **Sharpe ratio**

Measurement of risk adjusted return: it is the return earned in excess of the risk-free rate (usually the rate you can earn on cash) per unit of risk (volatility).

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### **Single pricing**

The term used to describe the obligations of an Open-Ended Investment Company (OEIC) manager to provide one single price for both buying and selling the OEIC's shares.

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### **SONIA (Sterling Overnight Index Average)**

A sterling interest-rate benchmark based on actual overnight transactions. It replaced sterling LIBOR as the principal risk-free reference rate used in many financial contracts.



# Jargon Buster

## S

### **Social investment**

Using a charity's money or property with a view both to directly furthering its charitable purposes and achieving a financial return. The expected financial return may be less than would be sought from a purely financial investment because part of the benefit is the direct achievement of the charity's purposes.

You may still encounter terms such as 'programme-related investment' and 'mixed motive investment', but current Charity Commission guidance generally brings these approaches under the broader term 'social investment'.

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### **Stamp duty / stamp duty reserve tax (SDRT)**

Stamp duty is a transaction tax which is charged on paper share transfers where the purchase needs to be recorded on a stock transfer form. Stamp duty reserve tax is a tax charged on the electronic transfer of chargeable securities without using a stock transfer form.

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### **Statement of Investment Policy**

A document in which the charity sets out its investment objectives and requirements.

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### **Spending policy or spending rule**

The method used to decide how much a charity may withdraw from an investment portfolio each year while balancing current needs with the interests of future beneficiaries.

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### **Stock**

Another term for a share, equity or bond.

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### **Stock lending**

When stock is lent to another financial services entity. It means the lender is often unable to exercise their voting rights on the lent stock.

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### **Stock-specific risk**

The risk associated with having a large percentage of your money invested in one or few stocks.

# Jargon Buster



## S

### **Suitability**

The duty an investment manager owes in managing your investments or providing advisory services to you to make sure you make investments and receive advice that is appropriate and relevant to your needs.

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### **Sustainable investment**

Investing in companies, organisations or projects that contribute to positive environmental or social outcomes while also seeking a financial return.

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### **Swap**

A derivative in which two counter-parties exchange cash flows of each other's financial instruments. This may be used to hedge certain risks such as interest rate risk.

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### **Strategic asset allocation**

The long-term target mix of investments agreed by trustees.

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### **Strategic benchmark**

A benchmark reflecting the long-term target asset allocation of your charity's investment portfolio.

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### **Stewardship**

The responsible oversight of investments through engagement, voting and monitoring of companies and fund managers.



# Jargon Buster

## T

### **Timely execution**

Under FCA rules, transactions have to be carried out in a timely way. In other words, as soon as reasonably possible after the order to buy or sell has been given or the decision to buy or sell has been made.

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### **Total expense ratio (TER)**

The calculation of all costs associated with a portfolio, including the annual management charge, any dealing charges, custody and administration fees, as well as any other charges being made within a portfolio or a fund.

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### **Top quartile performance**

Quartiles divide investment performance data into four equal groups and reflect how well funds have performed within a peer group. The best performing 25% of funds are in the top quartile.

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### **Total return**

An investment approach where trustees focus on the combined return from income and capital growth rather than income alone.

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### **Total return approach**

When an investor is agnostic as to whether they take capital or income as withdrawals from the portfolio.

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### **Time horizon - also called Investment horizon**

The period over which investments are expected to be held before being required for expenditure or other purposes.

# Jargon Buster

## U

### **Undertakings for collective investment in transferable securities (UCITS)**

A type of collective investment or fund that, once authorised in one member state, can be marketed freely across the European Union.

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### **Unit trust**

A type of collective investment scheme organised as a trust and in which money is pooled together and invested according to specific investment guidelines.

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### **Unlisted**

A term used for a security which is not listed on a stock exchange.

## V

### **Value at Risk (VaR)**

A model-based estimate of the potential loss on a portfolio over a specified period and at a specified confidence level. For example, a one-day 95% VaR of £100,000 suggests a 5% probability of losing more than £100,000 over one day, based on the model's assumptions.

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### **Volatility**

The extent to which investment values rise and fall over time. Higher volatility means greater short-term fluctuations, although not necessarily permanent loss.

## Y

### **Yield**

The income produced by an investment, usually expressed as a percentage.

## IMPORTANT INFORMATION

This guide provides general explanations of investment terminology and is not investment, legal, accounting or tax advice. Definitions have been simplified for accessibility and may vary according to the particular investment, provider or legal context. Trustees remain responsible for their decisions and should obtain appropriate professional advice where necessary.

Charity law references principally apply to England and Wales.

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