momentum investments

# Financial Glossary

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| **Absolute Return** | The return of an asset measured against the asset itself and not relative or against another asset or benchmark. |
| **Accrued Interest** | The amount of interest on an income generating asset that has been earned, but not yet paid to the investor. |
| **Active Management** | An investment strategy where an investor or manager makes investment decisions based on the economic and market environment in order to earn excess return, or alpha. An actively managed investment will differ from the benchmark. |
| **Alpha** | Refers to the difference between a portfolio's return and the return for an appropriate benchmark portfolio. Alpha is also referred to as excess return. Alpha is therefore the fund manager's ability to make the right calls in the portfolio or fund. If a fund manager tries to maximise alpha, he/she wants to outperform the benchmark by a large margin. |
| **Alternative Investment Strategies (AIS)** | An asset class that seeks to generate absolute positive returns by exploiting market inefficiencies while minimising exposure and correlation to traditional stock and bond investments. Private equity and hedge funds are examples of Alternative Investment Strategies. |
| **Annualised Return** | Describes the return gained, on average, each year of a multi-year period rather than a cumulative return. Also referred to as "average annual return," |
| **Annuity** | A stream of cash flows received over a period of time. |
| **Asset Allocation** | Spreading the risk of an investment by investing in various different asset classes, such as cash, bonds, property and equities. |
| **Association for Savings and Investment South Africa (ASISA)** | An organisation that represents the majority of the country's asset managers, collective investment scheme management companies, linked investment service providers, multi-managers and life insurance companies. ASISA proactively engages on policy, regulatory and issues of common concern. Previously known as Life Offices Association (LOA). |
| **Average Floor** | The protection level that is built into the product. The value of the investment will not fall below the level of the floor. |
| **Balance of Payments (BoP)** | A measure of the flow of money into and out of a country. The BoP is divided into the capital account and the current account. Countries should aim to have a positive BoP. |

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| **Base Case** | Used in probability analysis, where the base case represents the expected, or most likely outcome. |
| **Bear Market** | Describes a situation where the majority of share prices are falling and the market generally is declining. |
| **BEASSA 1 – 3 Year Bond Index** | The ALBI 1-3 Year is a sub-index of the ALBI Index based on a term to maturity of 1-3 years. This sub-index allows for analysis of the Vanilla Bond Market by term and by liquidity. |
| **Benchmark** | A point of reference against which progress can be measured. Unit trust funds have benchmarks and fund managers' performance is measured against a stated benchmark. |
| **Beta** | A measure of the systematic risk or volatility of a security or fund relative to its performance comparison index, i.e. how sensitive the security or fund is to movements in the market. A Beta of greater than 1 indicates that the fund will tend to outperform in a rising market and underperform in a falling one, in other words it is more volatile than the market. The reverse applies to a Beta less than 1. |
| **Bid/Offer Spread** | The difference between the bid (buy) and offer (sell) prices expressed either as an amount or as a percentage of the offer price. |
| **Bonds** | A loan that is made by an investor to the issuer of the instrument. Issuers of bonds include governments, parastatals, banks and other corporations.<br>The terms of the bond legally oblige the issuer (the borrower) to make regular interest (coupon) payments to the holder of the bond (lender/investor) on predetermined dates throughout the lifespan of the bond and, on expiration (maturity), repay the initial capital amount. A riskier bond has to provide a higher interest rate to compensate for the additional risk.<br>Bonds are bought and sold in the bond market with prices varying according to interest rates. As interest rates rise, the price of bonds falls, and vice versa.<br>Some bonds do not pay interest, but all bonds require a repayment of capital. When an investor buys a bond, he/she becomes a creditor of the issuer. However, the buyer does not gain any kind of ownership rights to the issuer, unlike in the case of equities. A bond holder however has a greater claim on an issuer's income than a shareholder in the case of financial distress (this is true for all creditors). |
| **Bond Fund** | A unit trust fund which invests the majority of its assets into government and/or corporate bonds. Bond funds usually aim to preserve capital and provide income to investors and are less risky than equity funds. |
| **Brent Oil** | Brent blend is a type of oil that is a combination of crude oil from 15 different oil fields in the Brent and Nanina systems located in the North Sea. Brent blend is ideal for making gasoline, which are consumed in large quantities in Northwest Europe, where Brent blend crude oil is typically refined. |
| **Bull Market** | Describes a situation where the majority of share prices are rising consistently over a long period. |
| **Buy And Hold** | An investment strategy where assets are bought at the inception of the investment and no subsequent changes are made to the portfolio. |

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| **Call Option** | An option that gives the buyer of the option the right, but not the obligation, to buy the underlying instrument at a predetermined price (strike price) at a certain date in exchange for a premium paid by the option buyer. The buyer will profit if the underlying instrument's value rises above the sum of the striking price and the amount paid for the call option at the time of expiration. The premium can provide extra income for the seller (writer) of the option. |
| **Capital Gains Tax** | Tax payable on the capital gain made on disposal (selling) of an asset. The gain is the difference between the selling price and the base cost (price on purchase). |
| **Central Bank** | A national bank that controls a country's money supply, foreign reserves, set monetary policy and interest rates. Central banks act as lenders of last resort, lending to banks when they are unable to borrow from other sources. The South African Reserve Bank (SARB) is South Africa's central bank. |
| **Collective Investments Schemes Control Act (CISCA)** | The Act that regulates collective investment schemes in South Africa. All registered unit trust funds must adhere to the rules and regulations of the Act. |
| **Closed Period** | A period before the release of financial results during which the directors of a company may not comment or provide information to the public market.<br><br>An employee of a company cannot buy or sell shares in that company during the closed period. |
| **Collective Investment Scheme (Unit Trust)** | A collective investment scheme or unit trust is a fund where a group of investors pool their money together in a single fund with a predetermined investment objective. The unit trust funds trade at their net asset value. The fund will have a fund manager who is responsible for investing the pooled money into specific securities (usually stocks or bonds) in exchange for a fee. When you invest in a unit trust fund, you are buying units (or portions) of the fund and become a unitholder of the fund.<br><br>Unit trusts are one of the best investment vehicles created because they are cost efficient and easy to invest in (you don't have to select which stocks or bonds to buy). By pooling money together in a unit trust, investors can purchase stocks or bonds with much lower trading costs than if they tried to do it on their own. But the biggest advantage to unit trusts is the diversification that investors get for a relatively small investment amount. Also called a mutual fund in the USA. |
| **Compound Interest** | Interest received on the initial investment amount as well as on interest earned in prior periods. |
| **Consumer Price Index (CPI)** | CPI is a measure of inflation. CPI measures the rate and level of price increases experienced by consumers over a given period on a so-called basket of goods and services commonly purchased by households. In South Africa, CPI is measured and reported by StatsSA. |
| **Contract For Difference (CFD)** | A financial contract where the seller of the contract pays the difference between the current value of an asset and the value of the same asset at a contracted future date. CFD's are settled in cash and allow holders of CFDs to speculate on price movements of an asset without physically holding the asset. |
| **Convertible Bond** | A bond that is convertible to equity at a future date. The owner of a convertible bond has the right, but not the obligation, to exchange the bond for equity in the company. |
| **Coupon Interest** | The actual annual interest payment on a bond, gilt, promissory note or other fixed income securities. It is usually quoted as a percentage of the principal amount. |

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| **Correlation** | A measure of how two assets moves in relation to each other. Correlation coefficient (R2) measures the interdependence of two assets. R2 has a value between -1 and +1, where -1 represent perfect opposite movements and +1 indicates exact same movement. |
| **Counterparty Risk** | The risk that one party to an agreement will not honour the obligation as set out in the agreement. |
| **Country Risk Premium** | An additional return (premium) required to compensate an investor for taking on the risk of investing in a specific country. If investment in a specific country is deemed to be risky, the country risk premium will be higher. |
| **Credit Crunch** | A situation where lenders are overly pessimistic or cautious and not willing to lend out money to borrowers. The financial crisis of 2007 lead to a credit crunch. |
| **Credit Default Swap (CDS)** | An agreement whereby one party agrees to make a payment to (compensate) another party if a specified lender defaults on its debt obligations. |
| **Credit Linked Note (CLN)** | A financial instrument that allows the issuer to transfer credit risk to the CLN investor. |
| **Credit Rating** | A score awarded by an independent rating agency to indicate the financial strength of the issuer of a bond, and the potential for a default on interest and principal payments. The top credit rating is “AAA” and the lowest rating to be considered investment grade is “BBB”. Below “BBB” bonds are termed sub-investment grade, High Yield or junk. The three major rating agencies are Fitch, S&P and Moody’s. |
| **Credit Spread** | The difference in the yield of a corporate bond and the government bond of the country where the firm operates. The credit spread is a measure of the riskiness of a corporate bond investment relative to a government bond. Bonds of companies that are deemed to carry more risk (or are more likely to default) will have a higher credit spread. |
| **Crude Oil** | Petroleum (Latin for “rock” oil) in its natural form. |
| **Cross Rate** | The exchange rate between two countries’ currencies, e.g. ZAR/USD cross rate. |
| **Cumulative Return** | The total or aggregate investment return over a specified period. |
| **Currency Devaluation** | The decrease of buying power of a currency. Devaluation usually refers to an active decision by the central bank of a country to lower the value of a currency against other currencies. |
| **Current Account** | A national account that records the flow of money resulting from a country’s international trade of goods and services. |
| **Dead Cat Bounce** | An up movement in the market after a sharp decline. The gains are not supported by a fundamental improvement in conditions, but rather a recovery from very depressed prices. It can also refer to temporary gains after a sharp fall. |
| **Default** | A default occurs when a party to an agreement fails to make a scheduled payment. |
| **Deleverage** | Reducing the level of debt. This can be done by spending and borrowing less, paying back existing debt or raising additional equity. |

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| **Depression** | A term commonly used for a sustained downturn in the economy. Generally it is marked by a substantial and sustained shortfall of the ability to purchase goods relative to the amount that could be produced given current resources and technology (potential output). It is more severe than a recession (which is seen as a normal downturn in the business cycle). Like a recession, the start of a depression is characterised by increases in unemployment, restriction of credit, reduced output and investment, price deflation, numerous bankruptcies, and reduced amounts of trade and commerce. One could say that while a recession refers to the economy "falling down," a depression is a matter of "not being able to get up." |
| **Derivatives** | A collective concept for futures, options, swaps and other financial instruments or contracts whose value (intrinsic or actual) is derived from the underlying value of other assets such as shares, currencies, bonds or commodities. Investors sometimes purchase or sell derivatives to manage the risk associated with the underlying security, to protect against fluctuations in value, or to profit from periods of inactivity or decline. These techniques can be quite complicated and quite risky. |
| **Discount Rate** | The rate used to calculate the present value of future cash flows. |
| **Discretionary Account** | An account where the portfolio manager may trade on a client's behalf without explicit permission for each trade. |
| **Diversification** | A strategy where an investor spreads the risk of an investment by investing in various assets that are expected to behave differently, "not putting all your eggs in one basket". |
| **Dividend** | A payment made by a company to its equity holders from profits earned. |
| **Dividend Withholding Tax (DWT)** | Tax on dividends received by a shareholder that is a "withholding" tax.  The entity (Momentum) paying the dividend must subtract it from the dividends and withhold the tax before paying the net dividend to the shareholder. DWT is currently 20% (2018). |
| **Dovish** | A term used to describe a stance by a central bank on monetary policy and interest rates. It refers to the situation where central banks lower or keep interest rates low in order to support economic activity. |
| **Dow Jones Industrial Average** | An index that tracks the prices of 30 blue-chip companies trading their shares on the New York Stock Exchange.  Although this is a relatively small sample of the total number of shares available, it is widely used as an indicator of the whole exchange and the American share market generally. |
| **Downside Deviation** | A value representing the potential loss that may arise from risk as measured against a minimum acceptable return. Downside deviation aims to isolate the negative portion of volatility. |
| **Due Diligence** | An in-depth analysis performed on a company or fund before an investment decision is made. |
| **Duration** | The weighted maturity of the cash flows on a bond. Duration measures the risk of a bond as it predicts the sensitivity of the price of a bond given changes in interest rates. The higher the duration, the greater the volatility for the bond's performance resulting from changes to interest rates. For instance, if the duration is 1 and interest rates rise with 1%, then the bond will lose 1% each year. |

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| **Effective Annual Cost (EAC)** | A measure which has been introduced to allow a client to compare the charges they incur and their impact on investment returns when you invest in different financial products. It is expressed as an annualised percentage. The EAC is made up of four components, namely investment management, advice, administration and other. |
| **Effective Exchange Rate** | An overall measure of a currency against a basket of other currencies, usually the country's major trading partners. |
| **Emerging Market** | Economies of developing and middle income nations. Emerging economies tend to have inflation that is structurally higher, economic and market growth that is more volatile and political risks are much higher. South Africa is classified as an emerging market. |
| **Emerging Market Debt** | Government bonds issued by emerging markets. |
| **Equities** | Shares in a company. There are two types of equity, namely private equity and listed equity. Private equity is not available to the public and the purchase of the shares or stocks is limited. Listed equities are offered to the public, are done through an initial public offering and are facilitated by the Johannesburg Stock Exchange (JSE). |
| **Equity Risk Premium** | The additional return (premium) that investors demand above the risk free rate for investing in equities. |
| **Environmental, social and governance principles for responsible investing (ESG)** | Environmental (E): Issues relating to the quality and functioning of the natural environment and natural systems. These include: biodiversity loss; greenhouse gas (GHG) emissions, climate change, renewable energy, energy efficiency, air, water or resource depletion or pollution, waste management, stratospheric ozone depletion, changes in land use, ocean acidification and changes to the nitrogen and phosphorus cycles.<br><br>Social (S): Issues relating to the rights, well-being and interests of people and communities. These include: human rights, labour standards in the supply chain, child, slave and bonded labour, workplace health and safety, freedom of association and freedom of expression, human capital management and employee relations; diversity; relations with local communities, activities in conflict zones, health and access to medicine, HIV/AIDS, consumer protection; and controversial weapons.<br><br>Governance (G): Issues relating to the governance of companies and other investee entities. In the listed equity context these include: board structure, size, diversity, skills and independence, executive pay, shareholder rights, stakeholder interaction, disclosure of information, business ethics, bribery and corruption, internal controls and risk management, and, in general, issues dealing with the relationship between a company's management, its board, its shareholders and its other stakeholders. This category may also include matters of business strategy, encompassing both the implications of business strategy for environmental and social issues, and how the strategy is to be implemented. In the unlisted asset classes governance issues also include matters of fund governance, such as the powers of Advisory Committees, valuation issues, fee structures, etc. |
| **Exchange Traded Funds (ETFs)** | Listed index-based investment products that allow an investor to buy or sell shares of entire portfolios of stocks in a single product. They offer a wide range of investment strategies. ETFs are unique in that they combine the opportunities of indexing with the advantages of stock trading. Unlike unit trust funds which only price and trade once a day, ETFs are priced and can be bought and sold throughout the trading day. |

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| **Exchange Traded Note** | A publicly traded, index-linked debt instrument that pays the return of a linked investment. The investor is exposed to the credit risk of the issuer of the note. |
| **Financial Centre Intelligence Act (FICA)** | An Act that requires financial institutions to identify and verify a client's identity. FICA was introduced to fight financial crime, such as money laundering, tax evasion, and terrorist financing activities. |
| **Financial Sector Conduct Authority (FSCA)** | An organisation that regulates the market conduct of the financial services industry in South Africa. |
| **Fiscal Policy** | The means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy. It is the sister strategy to Monetary Policy. These two policies are used in various combinations to direct a country's economic goals. |
| **Fixed Income** | A security that pays a specified interest rate, such as a bond, money market instrument, or preferred stock. |
| **Floating Exchange Rate** | An exchange rate that is traded freely without interference from monetary authorities. South Africa has a floating exchange rate, while China does not. |
| **Floating Rate** | A floating rate note is a debt instrument with a variable coupon, linked to a floating interest rate. A floating interest rate is also known as a variable rate or adjustable rate. The floating rate is usually linked to a market interest rate. In South Africa, floating interest rates are often linked to Jibar. |
| **Federal Open Market Committee (FOMC)** | The US Federal Reserve body that sets monetary policy, including interest rates for the US economy. |
| **Foreign Reserves** | A country's holding of foreign currency and gold. Foreign reserves are held and managed by a country's central bank. Foreign reserves can be used to influence the exchange rate of a country. |
| **Forward Rate Agreement (FRA)** | An agreement that sets the interest rate payable for a certain date in future before the start of the term, e.g. the 1x3 FRA is a contract that will pay interest for three months, with payment starting 1 month into the future. The interest rate paid is the FRA rate. FRA rates give an indication of where the market expects short term interest rates will be in future. |
| **FTSE/JSE All Share Index (ALSI)** | The All Share Index represents 99% of the full market capitalisation of all eligible equities listed on the Main Board of the Johannesburg Stock Exchange (JSE). |
| **FTSE/JSE Africa Shareholder Weighted TR Index (SWIX)** | The Shareholder Weighted (SWIX) Index has the same constituents as the existing market capitalisation weighted Index (ALSI). However, all constituents in the SWIX index are weighted by applying an alternate free float, called the SWIX free float. The SWIX free float represents the proportion of a constituent's share capital that is held in dematerialised form and registered on the South African share register, maintained by Strate. The SWIX free float will not exceed the company free float. |
| **Fund of Funds (FoF)** | A collective investment scheme that invests exclusively in other collective investment schemes (unit trusts). A FoF has a dedicated fund manager who actively manages the fund and charges a management fee in addition to the underlying unit trust fees. |

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| **FTSE 100 (Financial Times Stock Exchange)** | A capitalisation-weighted Index of the 100 most highly capi-capitalised companies traded on the London Stock Exchange. |
| **Futures** | A standardised, transferable, exchange-traded contract that requires delivery of a commodity, bond, currency, or stock index, at a specified price, on a specified future date. Unlike options, futures convey an obligation to act. Also, in order to insure that payment will occur, futures have a margin requirement that must be settled daily. Finally, by making an offsetting trade, taking delivery of goods, or arranging for an exchange of goods, futures contracts can be closed. Hedgers often trade futures for the purpose of keeping price risk in check. |
| **G8** | A governmental political forum where the finance ministers from a group of eight industrialised nations meet. The member countries are Canada, France, Germany, Italy, Japan, United Kingdom, and United States. Russia is currently suspended. |
| **Government Bond** | A bond issued by a country's government, promising to repay borrowed money at a fixed rate of interest at a specified time. |
| **Gross Domestic Product (GDP)** | Reflects the total market value of all final goods produced domestically in a country's borders during a specific period. GDP is a broad measurement of a nation's overall economic activity. |
| **Growth Fund** | A unit trust fund that has a bias towards companies that have solid long-term growth prospects. The expected growth rate of companies is the most important factor when selecting assets for the fund. |
| **Haircut** | A term used when investors (lenders) in a bond will receive less than the initial capital investment back. A haircut is implemented when the bond issuer is in financial distress and is unable to pay back the full principal amount. Rather than defaulting completely, investors agree to a haircut. |
| **Hawkish** | A term used to describe a stance by a central bank on monetary policy and interest rates. It refers to the situation where central banks raise interest rates in order to supress economic activity or keep an economy from overheating. |
| **Hedge Fund** | A hedge fund's main objective is to constantly achieve returns, exceeding cash or market returns under all market conditions, often employing complex portfolio construction and risk management techniques. Hedge funds are distinct from unit trust funds by their use of leverage, derivatives and arbitrage. Hedge funds tend to have low correlation with the stock and bond markets. The hedge fund could serve as a hedge against market downturns. Hedge funds are not regulated in many parts of the world, but hedge fund regulation has been introduced in South Africa. |
| **High Water Mark** | The peak or highest value that an investment has ever reached. The term is used as part of the compensation structure of a fund. The fund manager only takes performance fees if the investment grows above the high water mark. |
| **High Yield** | Refers to investing in low-rated fixed-income securities of governments or companies that show significant upside potential, but also carry more risk. These non-investment grade bonds offer higher yield than investment grade bonds (usually rated BB and lower and often referred to as Junk Bonds). |
| **Hurdle Rate** | The return above which a fund manager begins taking incentive (performance) fees. For example If a fund has a hurdle rate of 10%, and the fund returns 25% for the year, the fund will only take incentive fees on the 15% return above the hurdle rate. |

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| **Independent Financial Adviser (IFA)** | A financial adviser that acts independently, meaning that he/she is not employed by nor has any formal ties with a specific financial services or product provider. |
| **Index** | A compilation of stocks which track a particular market, industry, commodity, currency, bonds or other assets. The stock in an index is collectively known as a basket. The investor buys stocks in a certain index, and depending on what the index comprises of, he gains exposure to the entire sector without having to invest in each company individually. |
| **Index Fund** | A fund that invests its assets to replicate the performance of a predetermined index, for example the Satrix fund range. |
| **Inflation** | The rate at which the general level of prices is rising. Inflation results in a decline of the purchasing power of money and may be measured in terms of either the production price index (PPI) or the consumer price index (CPI). |
| **Inflation Linked Bonds** | A bond in which payment of income on the principal amount is related to a specific price index - often the Consumer Price Index (CPI). This feature provides protection to investors by shielding them from changes in inflation. The bond's cash flows are adjusted to ensure that the holder of the bond receives a known real rate of return. Inflation linked bonds have a high duration. Also referred to as index linked bonds. |
| **Information Ratio** | A ratio used to measure the returns of an investment relative to a benchmark, after accounting for the risk taken relative to the benchmark to generate the return. The ratio measures a portfolio manager's skill against a comparison index. The over-/underperformance of the fund relative to its comparison index is divided by the tracking error. The result is the value, per unit of extra risk assumed; that the manager's decisions have added to what the market would have delivered anyway. The higher the information ratio, the better. |
| **Initial Public Offering (IPO)** | The first sale of shares in a company to the public through a listing on the stock exchange. |
| **Interest Rate** | The rate of compensation agreed to between borrowers and lenders of money. |
| **Interest Rate Risk** | The potential variability of returns caused by changes in the market interest rate. The value of an asset is determined by calculating the present value of future cash flows. Present value moves inversely with changes in the market rate of interest. A typical example is the increase in the value of bonds when interest rates decline (and vice versa). |
| **Internal Rate Of Return (IRR)** | Rate of return earned on an investment over a specified period. |
| **Investment Grade Bonds** | Government or corporate debt that is deemed safe for investors. Rated BBB and higher by rating agencies. |
| **Islamic Finance (Shariah)** | According to the Islamic faith, payment of interest is prohibited. Many traditional investment options are therefore not accessible to Muslim investors. Islamic finance refers to investment products that are tailored for the needs of Muslim investors such as sukuks or Shariah compliant funds. |
| **Johannesburg Interbank Acceptance Rate (JIBAR)** | South Africa's money market rate, calculated daily. The rate can be expressed for one, six or twelve months. |

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| **Kicker** | An additional or potential upside to an investment. |
| **Know Your Client (KYC)** | A process whereby a financial services provider identifies and verifies the identity of a client before establishing a business relationship or entering into a transaction with the client. |
| **Large cap** | Stocks with a market capitalisation of R10 billion or more. |
| **Leverage (Gearing)** | A technique of magnifying the potential return and risk of an investment. When investors borrow funds to increase the amount that they have invested in a particular position, they use leverage. Investors use leverage when they believe that the return from the position will exceed the cost of the borrowed funds. This is also known as gearing. It is important to realise that more leverage equals more risk. |
| **Linked Investments** | A product offered via a single investment platform that channels investor's funds into a range of different underlying investment components, which are offered by a number of different product providers. |
| **Linked Investment Service Provider (LISP)** | Provider of various linked investments. |
| **Liquidity** | The ease with which assets can be bought and sold. |
| **Life Annuity** | An insurance product that features a predetermined periodic payout amount until the death of the annuitant. These products are most frequently used to help retirees budget their money by providing a reliable source of income. Annuitants buy the annuity product in one large purchase. When a triggering event (such as death) occurs, the periodic payments from the annuity usually cease, but are dependent on possible guarantees offered by the retirement fund/insurance provider. |
| **Living Annuity** | An insurance product that features a periodic payout amount until the death of the annuitant. Unlike a life annuity, the payout amount is determined by the annuitant and is not a predetermined amount. It places the risk and responsibility in the hands of the annuitant. In return, the annuitant has greater investment choice and flexibility. On the death of the annuitant, the capital left over will be passed on to his/her beneficiaries or the beneficiaries may continue with the periodic payments. Periodic payments do not automatically come to an end on the death of the annuitant. |
| **Living Standard Measures (LSM)** | A measure that indicates the quality of life of individuals. LSM 1 indicates the poorest section of individuals, with LSM 10 indicating the richest section of individuals. |
| **London Interbank Offered Rate (LIBOR)** | The rate at which UK banks lend to each other. LIBOR is often used as a reference interest rate in investment transactions. The UK equivalent of South African JIBAR. |
| **Long Position** | The buying or owning of a security such as a stock, commodity or currency, with the expectation that the asset will rise in value. |
| **Lump Sum** | A single payment, rather than a series of instalments. |
| **Mandate** | A written authority given by a client to a financial adviser or portfolio manager to act on behalf of the client (make investment decisions). |
| **Manco (Management Company)** | An organisation set up to manage collective investment schemes under an FSP licence. |

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| **Market Value Adjustment (MVA)** | A mechanism employed by investment administrators that help to create a smoother return profile for an investor. A portion of the returns on the investment portfolio are retained during high-return periods and added to periods where market returns are lower. |
| **Maximum Drawdown** | The performance recorded as the “worst peak-to-trough movement”. It represents the amount by which you are less well off than you were, or the magnitude of the loss an investor could have incurred by investing in an investment portfolio in the past, indicating the worst case scenario. |
| **Mean** | The expected value of a mathematical average of two or more numbers. |
| **Median** | The middle number in a sorted list of numbers. To determine the median value, the numbers must first be arranged in value order from lowest to highest; the median value is the number that is in the middle with the same amount of numbers below and above. The median can be used to determine an approximate average. |
| **Mid cap** | Stocks with a medium market capitalisation of between R1 billion and R10 billion. |
| **Monetary Policy** | A policy implemented by a central bank, which influences the economy through the setting of interest rates and managing of money supply. |
| **Money Market Fund** | An investment portfolio that invests in short-term interest bearing instruments. The unit value of the portfolio stays constant and interest is accrued throughout the month and paid out on month end. |
| **MSCI World Index** | The Morgan Stanley Capital International Index is a capitalisation weighted Index of the world’s stock exchanges focusing on developed market equities. |
| **Multi-Manager Fund** | An investment portfolio where assets are managed by various investment managers. Manager diversification reduces manager specific risk and reduces the dependence one has on a single manager’s intellectual capital capability. Given the level of skill needed to identify and exploit opportunities a combination of managers are needed; each with their own philosophy governing how they extract value out of the various markets. |
| **National Association of Securities Dealers Automated Quotation System (NASDAQ)** | A computerised system that facilitates securities trading and provides up-to-the-minute price quotations, on some of the more actively traded over-the-counter stocks. The NASDAQ is traditionally home to many high technology or very volatile stocks. There is also an index available which tracks the performance of stocks on the NASDAQ system. |
| **National Treasury** | One of the departments of the South African government, which manages national economic policy, prepares the South African government's annual budget and manages the government's finances. |
| **Negotiable Certificate of Deposit (NCD)** | A certificate of deposit issued by banks that acknowledges the deposit of a specific sum of money for a fixed period at a defined interest rate. The deposit is guaranteed by the issuing bank. An NCD can be sold in the secondary market to a third party. |
| **Net Asset Value (NAV)** | Represents an investment portfolio’s per unit market value. This is the price at which investors buy units from an investment company and sell them to an investment company. It is derived by dividing the total value of all the cash and securities in a portfolio, less any liabilities, by the number of units outstanding. A NAV computation is undertaken at the end of each trading day based on the closing market prices of the portfolio's securities. |

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| **New York Stock Exchange (NYSE)** | A stock exchange where American stocks are listed and publicly traded, situated on Wall Street in New York. |
| **Nikkei 225** | A price-weighted Index of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange. |
| **Nominal Yield** | The amount of income earned from a fixed-income security divided by the security's par value, expressed as a percentage. |
| **Nominal Yield Curve** | A curve indicating the yield available on bonds with different maturities. |
| **Organisation for Economic Co-Operation and Development (OECD)** | An international organisation of countries that accept the principles of representative democracy and free-market economy. Most OECD members are high-income economies and are regarded as developed countries. The mission of the OECD is to promote policies that will improve the economic and social well-being of people around the world. |
| **Organisation for Petroleum Exporting Countries (OPEC)** | A cartel that influences the price of oil by setting supply levels for its member countries. |
| **Opportunity Cost** | A measure of possible benefits forgone by selecting an alternative. It is not an actual cost. |
| **Option** | A derivative financial instrument that establishes a contract between two parties concerning the buying or selling of an asset at a reference price at a specified future date. The buyer of the option gains the right, but not the obligation, to engage in some specific transaction on the underlying asset, while the seller incurs the obligation to fulfil the transaction if so requested by the buyer. The price of an option is derived from the value of an underlying asset (commonly a stock, bond, currency or futures contract) plus a premium. An option which conveys the right to buy the underlying instrument is called a call option; an option which conveys the right to sell is called a put option. The price specified at which the underlying may be traded is called the strike price or exercise price. |
| **Outlier** | A data point that lays far outside (above or below) of the majority of data point observations. |
| **Over The Counter (OTC)** | Markets or transactions in securities that happen away from a formalised market/ exchange between two parties directly without support or supervision of an exchange. The risk of trading instruments OTC are higher as the instruments are less liquid and less information is available. OTC is usually used for specialised investment products. |
| **Parastatal** | A company where the government is one of the major (and often controlling) shareholders. In South Africa ESKOM, Transnet and Telkom are examples of parastatal companies. Also called state owned enterprise. |
| **Passive Management** | An investment management strategy that aims to meet (and not exceed) a stated benchmark return. No active management decisions are made by the investment manager. |
| **Percentage of Positive Returns** | The percentage of months that an investment portfolio performs positively (return above 0%) over a specified period. |

| Term | Definition |
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| **Price-to-earnings (P/E) Ratio** | A measure of the price paid for a share relative to the income or profit (historical) earned by the company per share. For example, if stock A is trading at R24 and the earnings per share for the most recent 12 month period is R3, then stock A has a P/E ratio of 24/3 or 8. Put another way, the purchaser of stock A is paying R8 for every R1 of earnings. Companies with losses (negative earnings) or no profit have an undefined P/E ratio (usually shown as Not applicable or "N/A"). Investors can use the P/E ratio to compare the value of stocks. If stock A has a P/E twice that of stock B, all things being equal, stock A is more expensive and it is a less attractive investment. The forward PE ratio uses forward estimates of earnings in the calculation (not the historic earnings as with the normal PE ratio). |
| **Public Investment Corporation (PIC)** | PIC is the only investment management company in South Africa that focuses exclusively on the public sector. Wholly owned by the South African Government, PIC is in the hands of the public, yet operates in a manner comparable with any private sector asset manager. The PIC invests funds on behalf of public sector entities, based on investment mandates set by each of these clients, such as the Government Employees Pension Fund (GEPF). |
| **Preference Shares** | Capital stock which provides a specific dividend that is paid before any dividends are paid to common stock holders, and which takes precedence over common stock in the event of a liquidation. Like common stock, preference shares represent partial ownership in a company, although preferred stock shareholders do not enjoy any of the voting rights of common stockholders. Also unlike common stock, preference shares pay a fixed dividend that does not fluctuate, although the company does not have to pay this dividend if it lacks the financial ability to do so. In general, there are four different types of preference shares, namely cumulative preference shares, non-cumulative preference shares, participating preference shares, and convertible preference shares. |
| **Prime Lending Rate** | The interest rate commercial banks charge their clients on overdraft or loan balances. In South Africa, the prime rate is fixed at 3.50% above the repo rate. |
| **Private Equity** | Equity of companies that have not “gone public” (i.e. are not listed on a public exchange). Private equity is generally illiquid and thought of as a long-term investment. As they are not listed on an exchange, any investor wishing to sell securities in private companies must find a buyer in the absence of a market place. In addition, there are many transfer restrictions on private securities. Investors in private securities generally receive their return in one of three ways, namely initial public offering, sale/merger, or recapitalisation. |
| **Producer Price Index (PPI)** | Measures the rate and level of price increases on goods and services at wholesale level. PPI measures price changes at the factory gate, whereas CPI measures price changes at shop counter. |
| **Probate** | The granting of probate is the first step in the legal process of administering the estate of a deceased person, resolving all claims and distributing the deceased person's property under a will. Probate is applicable to offshore investments. |
| **Purchasing Managers Index (PMI)** | An index or indicator that measures activity in the manufacturing sector. The PMI value can be between 0-100. A value of 50 indicates no change in activity, a level above 50 indicates expansion in the sector (positive) and a level below 50 indicates contraction (negative). |
| **Put Option** | An agreement that gives the buyer the right to sell a specific quantity of a particular security for a specified price by a specific date. The option is not obligatory and is traded during its life. The holder hopes the underlying asset will drop in price. |
| **Quantitative Analysis** | The process of determining the value of an asset by examining its numerical, measurable characteristics. |

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| **R186** | A South African nominal government bond with a coupon rate of 10.5% (semi-annual payments) which matures on 21 December 2027. |
| **R197** | A South African inflation-linked government bond with a coupon rate of 5.5% (semi-annual payments) which matures on 7 December 2023. |
| **Rand Hedge** | South African stocks that benefit from rand weakness because it earns the majority of its revenue in foreign currencies. |
| **Rebalancing** | Portfolios are rebalanced when prices of the assets change in relation to one another, leading to different portfolio weights than intended. The assets are then bought or sold to bring it in line with the intended weights. |
| **Rebate** | A portion of the asset management fee is returned to the client, by way of rebate (lower total cost) when invested through a LISP platform. |
| **Recession** | The time when business activity has reached its peak and starts to fall until the time when business activity bottoms out. A recession is determined by the amount of business activity in the economy by evaluating measures such as employ-ment, industrial production, real income and wholesale-retail sales. A recession is usually defined in macroeconomics as a fall of a country's Gross Domestic Product (GDP) during two successive quarters. Combined with inflation, this process is known as stagflation. A sustained recession is known as an economic depression. |
| **Real Estate Investment Trust (REIT)** | A trust that owns, and often also manages, income-producing real estate assets such as apartments, shopping centres, offices and warehouses. REITs have turned a physical asset into a financial instrument, which makes it more liquid, as REITs trade on a stock exchange. |
| **Regulation 28** | Issued under the Pension Funds Act. It limits the extent to which retirement funds may invest in particular assets or in particular asset classes. The main purpose is to protect the members' retirement savings from the effects of poorly diversified investment portfolios. |
| **Replacement Ratio** | The client's gross income after retirement divided by his gross income before retirement. |
| **Repo Rate** | The rate at which the South African Reserve Bank lends out money to commercial banks. |
| **Responsible Investing** | An approach to investment that explicitly acknowledges the relevance of environmental, social and governance (ESG) factors, as well as the long-term health and stability of the market as a whole. It recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well-governed social, environmental and economic systems. |
| **Rights Issue** | The offer of new shares to existing shareholders at a specified price and date. Rights issues are used to raise equity capital, either for expansion projects or to improve the balance sheet of a company. Rights issues often happen at a discount to the market value of the shares. |
| **Risk-Free Rate** | The rate at which capital would grow if it were placed in risk-free assets i.e. the bank deposit rate or Fed funds rate or long dated government bonds. It is an indication of a minimum acceptable rate of return that investors require. |

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| **Rule of 72** | The time it takes to double one's money on a compound interest investment, by doing the following calculation: 72/r%, e.g. it will take approximately seven years to double your money on an investment that offers a 10% annual return (72/10 = 7.2 years). |
| **Standard & Poors 500 Index (S&P 500)** | An index consisting of 500 US stocks chosen from market size, liquidity, and industry group representation. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large-cap universe. The S&P 500 is one of the most commonly used benchmarks for the overall U.S. stock market and is considered as being the definition of the equity market. |
| **South African Revenue Service (SARS)** | The revenue service of the South African government. It was established by legislation to collect revenue and ensure compliance with tax legislation. |
| **SAVI** | A measure of volatility or risk in the equity market, also commonly referred to as a "fear index". It enables investors to gauge fear and market sentiment relating to the local equity market. Volatility or risk is priced higher when market participants are more concerned about future returns. |
| **Satrix** | A provider of index tracking products in South Africa. |
| **Securities** | General name for investment instruments of all types. Another name for stocks and shares, but also applies to any approved or registered financial instrument, such as bonds. |
| **Segregated Portfolio (Seggies)** | A portfolio that is tailored to the specific needs of an investor. The assets in a segregated portfolio are not pooled with the assets of other investors. |
| **Sens (Stock Exchange News Service)** | The central information service provided by the JSE. Companies use SENS yo provide the market with important information and general company announcements. |
| **Shares** | A piece of the capital or part ownership of a company. When a person buys a share, they are paying for a small percentage of everything that the company owns and are known as shareholders. Therefore, a share is a representation of the amount of a company that a person owns. A dividend is a sum of money a company pays a shareholder as income in respect of the shares they own. The sum depends on the company's profits. Dividends can be in the form of additional shares or cash. Companies generally offer two types of shares, namely ordinary shares or preferential shares. |
| **Share Buy - Back** | The repurchase by a company of its own shares in the public market. Companies sometimes do a share buyback instead of paying dividends. |
| **Sharpe Ratio** | A measure of risk-adjusted return which can be useful in comparing one investment's consistency of returns to another. The formula is the average rolling 12-months return minus the risk-free rate, divided by the standard deviation of the investment. The higher the ratio, the greater the return per unit of risk. |
| **Short Position** | A position that will gain in the event of a fall in the value of the underlying asset. Short positions are often used for risk management or protection. |
| **Small Cap** | Stocks with a market capitalisation of below R1 billion. |

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| **Smart Beta** | An investment strategy that tries to enhance the return from tracking an asset class by deviating from the traditional "market cap-weighted" indexation approach. It is a rules-based strategy that uses alternative construction rules, aimed at capturing a certain return factor, such as value, momentum or size. |
| **Sortino Ratio** | A measure of downside risk-adjusted return. The formula is the average rolling 12-months return minus the risk-free rate divided by the downside deviation i.e. the volatility of the negative monthly returns. The higher the ratio, the greater the return per unit of downside risk. |
| **Stagflation** | An economic environment where inflation is high or rising and economic growth is low or slowing. Monetary policy is difficult in this environment as interest rates have to rise to combat rising inflation, but higher interest rates will impact negatively on economic growth. |
| **Standard Deviation** | A statistical measure of the range of an investments' return relative to the average return, often reported as an annual number. When an investment portfolio has a high standard deviation, its range of returns have been wide, indicating that there is a greater potential for volatility or variability in returns. Standard deviation is a measure of total risk. |
| **Sukuk** | A financial certificate (form of bond) that subscribes to the rules of Islamic investing. The issuer of a sukuk sells the certificate to investors, who then rent it back to the issuer for a predetermined rental fee. |
| **Suspended Share** | A share that is not allowed to trade on the exchange where it is listed because the company has breached the listing requirements. |
| **SWAP** | A legally binding agreement where counterparties agree to exchange one set of cash flows for another at predefined dates. Swaps are probably the most flexible of all risk management tools. They can cover short- and long dated exposures and are increasingly used by SA banks and other institutions for risk management. |
| **Tax-Free Savings Account (TFSA)** | A product in South Africa where interest, dividends and capital gains on the investment is not taxable. There are yearly and life-time limits on the TFSA. |
| **Technical Analysis** | An analysis (usually involving charts) to determine the timing of the buy or sell point of an instrument. |
| **Time Value of Money** | Due to inflation, the purchasing power of a unit of currency diminishes over time. Cash flows or values are often adjusted for the time value of money (discounted) to compare purchasing power at different time periods. |
| **Total Expense Ratio (TER)** | A measure of the total costs associated with managing and operating a unit trust portfolio. It is the actual expenses of that portfolio for a period of 12 months and expressed as a percentage of the average NAV. It is calculated quarterly. |
| **Tracking Error** | Measures the standard deviation of the difference between the portfolio and benchmark returns (active return); used as the risk measure in the Information Ratio calculation. The lower the number, the closer the portfolio's historical performance has followed that of its performance comparison index. |
| **Treasury Bill (T-Bill)** | A short-term (less than one year) debt instrument issued by the government (treasury) of a country. |

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| **UCITS (Undertaking for Collective Investment in Transferable Securities)** | A European Union directive (law) that many European collective investment schemes subscribe to. It gives the Collective investment scheme the authority to operate throughout all European countries from a single European state. Similar to a unit trust portfolio in South Africa. |
| **US Treasury Bonds** | A negotiable, coupon-bearing debt obligation issued by the U.S. government and backed by its full faith and credit, having a maturity of more than 7 years. Interest is paid semi-annually. U.S. Treasury Bonds are exempt from state and local taxes. |
| **Value Fund** | A unit trust portfolio that has a bias towards companies that are trading at a discount to their intrinsic value. These companies are characterised by low P/E ratio, low P/B ratio and high dividend yields. |
| **Vanilla** | A straight-forward or ordinary financial instrument. |
| **Volatility** | The amount by which the performance of an investment fluctuates over a given period. It is a measure of risk. A high figure indicates a higher risk. |
| **Warrant** | An instrument issued by a company which gives the holder the right, but not the obligation, to subscribe for a specific number of shares in the company at a specific price (called the exercise price) during a specific period. |
| **Wrap Funds** | A portfolio consisting of a number of underlying investment tools wrapped into a single product. The underlying combination of investment tools or instruments is selected to target the risk/return requirements of individual investors. Wrap funds are administered by linked investment service providers on their platform. Wrap funds are not regulated by the CISCA Act. |
| **Yield** | A financial return or interest paid to buyers of government or corporate bonds. The yield / rate of return on bond takes into account the total of annual interest payments, the purchase price, the redemption value and the amount of time remaining until maturity. |
| **Zero Coupon Bonds** | A debt instrument where interest is accrued and paid on maturity of the instrument. No interim coupon (interest) payments are made during the life of the bond. |