Protection glossary

Beneficiary	Person or persons benefiting from a trust
Deferment Period	The period of time you have to be out of work due to illness or injury before any claim payment will be made.
Excess	Contribution you are required to pay towards a claim before the provider will pay the rest of the claim.
Exclusions	A specific event not covered under the policy, such as a specific medical condition Also see: Special Terms
Life/Lives Assured	The person or persons whose life is covered in the policy
On Risk Date	Start Date
Ordinary Rates	No exclusions or ratings have been applied to the premium
Policy Holder	Person taking out the policy and is responsible for the premiums
Premium	This is the amount payable for an insurance policy and is paid at a set frequency (such as monthly) to keep the contract running
Rating	Underwriting of the policy results in an increase in the quoted premium Also see: special terms
Settlor	Person or persons setting up a trust Also see: policy holder
Special Terms	Exclusions and/or rating applied to the policy
Sum Assured	The amount of money a protection policy is guaranteed to pay
Total Permanent Disability	An additional benefit where the provider will pay out on the policy if you become totally and permanently incapacitated. There are normally two types: 'Own Occupation' - where a person is unable to do the material and substantial duties of their own occupation ever again and 'Working Tasks' - loss of the physical ability through an illness or injury to do a specified number of tasks, such as walking, lifting and bending.
Trustee	Person or persons responsible for managing a trust
Underwriting	This is the process that insurance companies use to assess applications. The information provided in an application allows insurers to determine if the applicant will be accepted for their desired policy and if so whether they are accepted on special terms, i.e. with any exclusions.
Waiver of Premium	The provider will waive your premiums, if you cannot work due to incapacity, caused by an illness or accident, after a certain period (such as 26 weeks).

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WEALTH MANAGEMENT

Investment glossary

Absolute return	An approach to investing designed to deliver positive investment performance regardless of the investment environment. This differs from peer group or market index relative investing.
Active managers	Refers to investment managers who aim to outperform a specific benchmark / index by making decisions about the type of investment to buy or which stocks to buy.
Alpha	A measure of outperformance compared with the market which can be said to have an alpha of 0.0.
Alternatives (asset type)	This asset class can take the form of many different investments, all of which do not fall into the other four more traditional asset classes. These can include "Absolute Return Funds" which are designed to produce positive returns in all investment conditions to Commodities which can be of a higher risk nature but potentially rewarding. Alternatives will be used to diversify risk and often to provide more stable total returns.
AMC	Annual Management Charge. Fees charged by investment (fund) managers for running portfolios or mutual funds for clients. **See also: Ongoing Charges Figure and Total Expense Ratio**
Attitude to Risk	An integral part of developing your investment strategies involves determining your attitude to risk. It has a direct impact on the likely returns of your investments. We call this your investment risk profile.
Beta	A measure of volatility compared with the market, which can be said to have a beta of 1.0. A stock with a beta of 1.1 can be said to be more volatile than the market while another stock with a beta of 0.9 is relatively less volatile.
Benchmark	Benchmarks have different uses in the investment community. One use of a benchmark is to act as a measure of performance, so you can see how the value of a security has changed over time relative to the rest of the market. A second use is to act as a guide or objective for performance of an investment fund
Bid-offer spread	The difference between the buying and selling price of a security. The price quoted in newspapers and shown on valuations is the midpoint between these, the mid-price.

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Investment glossary (continued)

CAP	Core Active Portfolio - A portfolio of funds investing across different asset classes managed in-house. Discretionary powers are not held and therefore rebalancing and changes to the portfolio require client consent. The CAP portfolios are rebalanced on a quarterly basis. **See also: Discretionary**
Capacity for Loss	Capacity for loss is the term given to the amount you could afford to lose on your investment plans. Your investments can go down as well as up and so there is always a risk that you could get back less than your initial investment. Your Attitude to Risk is the extent to which you are willing to accept risk with your investments for a higher potential return. Whilst your Attitude to Risk may not change, due to life's circumstances, your Capacity for Loss does.
Cost of dealing	Includes commission, spreads (the difference between the buying and selling price) and stamp duty.
Deposits (asset type)	Bank or Building Society deposits are good places to keep readily available funds. The problem with deposit accounts, however, is that the interest rates paid fluctuate. Your capital should be returned intact but if inflation is higher than the net interest received the capital's real value will erode. The portfolio will usually hold very small amounts in cash as superior returns are usually available investing directly into bank and building society accounts. Cash positions will be taken at certain times however to reduce risk.
Discretionary	Where a client allows their investment manager to make all the decisions on how the portfolio is run. The investment manager can make investments without asking for the client's approval, as long as it is a preferred class of investment and appropriate to the client's requirements, including their risk-return appetite. Fund managers hold discretionary powers over the selection of underlying assets, or other funds, in which their fund invests.

Investment glossary (continued)

Equities (asset type)	Commonly known as shares, equities offer an investment in companies. As the company's profits rise they should pay out more in dividends to reward their shareholders and maintain their loyalty. The company's share price will generally follow the movement of dividends. The attraction of equities is that, taken as a whole and over the longer term, they have increased in value much faster than the rate of inflation. The disadvantage of equities is that individually and over the shorter term they can fall in value. However, they do offer the best hope of achieving a rise in capital value over time. As their fortunes are varied it is safer to hold probably at least twenty or so, rather than just a handful. This can efficiently be achieved via a collective investment e.g. Open-Ended Investment Company (OEIC). The portfolio will manage the exposure to UK and Global markets depending upon your risk profile and prevailing economic conditions. The type of fund will also vary from "growth" to "value" funds at differing points in the economic cycle.
Fixed Interest Securities (asset type)	The main form of Fixed Interest holding is UK Government Gilt Edged Stocks. Gilts, as they are called, allow you to lock into a Fixed Interest return for a pre-specified period. So far as the capital is concerned, you know exactly what you will receive if you retain the holding until its repayment, or redemption date. The prices of Gilts fluctuate according to the interest rate levels; a rise in interest rates usually means that Gilt prices fall. Other Fixed Interest Securities include Corporate Bonds. These resemble Gilts but are offered by companies. The greater the perceived risk of the company defaulting on their obligation to honour their Bond the greater the potential returns. Index Linked Gilts will also be considered which pay a fixed return over inflation. Higher inflation will tend to generate higher returns and greater demand for these Gilts. The portfolio will manage the Fixed Interest exposure by selecting a greater percentage in Index Linked when inflation looks as if it may rise and in high yielding Bond funds when credit risk subsides for example.

Investment glossary (continued)

ICVC	Stands for Investment Company with Variable Capital. It is a type of open-ended collective investment formed as a corporation under the Open-Ended Investment Companies Regulations. An investment product formed under these regulations must create shares when money is invested and redeem shares as requested by Shareholders.
In-house	Work carried out within the company.
Information ratio	Is a measurement of how well investments have performed, given the risk they have taken. It is calculated by dividing the return over and above the benchmark/index, by the standard deviation of those returns. **See also: Sharpe ratio**
OEIC	Short for Open Ended Investment Company. This is a type of unit trust where the bid price and offer price are the same.
On-going charges figure (OCF)	The OCF is calculated as the ratio of the total ongoing charges (applied to the fund) to the average net asset value (of the fund) calculated over a 12-month period and expressed as a percentage. It includes all payments made to the Fund Manager, the Investment Manager, the depositary or trustee and the custodian. It also includes other charges such as administration, audit and legal fees. However, it does not include all costs. Some of the costs excluded include performance fees, transaction costs (the cost of buying and selling securities) and fees paid directly by investors, such as entry/exit fees. **See also: Annual Management Charge and Total Expense Ratio**
Passive funds	Funds aiming to reproduce the performance of a relevant index. This is done by investing in securities in the same proportions as the index and so acting passively (like the index).
Price/book (P/B) ratio	A financial ratio which divides the market value of a security by its net asset value. The higher, the more expensive the shares look. More suitable for some industries than others.
Price/earnings (P/E) ratio	A financial ratio which divides the market value of a company by the after-tax profits. It is, perhaps, the most common way of valuing shares.

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Investment glossary (continued)

Property (asset type)	The majority of property funds invest in Commercial Property only. They tend to either invest in bricks and mortar or shares in property companies. Those investing in shares tend to be more volatile than those investing in bricks and mortar. All property funds reserve the right to defer encashments, sometimes for as much as a year. This is because if there is a particularly large encashment it might involve selling a property or shares in a depressed market. The portfolio will usually invest in bricks and mortar funds to provide more diversification away from Equity markets.
R-Squared	A statistical measure that represents the percentage of a fund or security's movements that can be explained by movements in a benchmark index. For fixed-income securities, the benchmark is the T-bill. For equities, the benchmark is the S&P 500. R-squared values range from 0 to 100. (Sometimes expressed as a range from 0.00 to 1.00) An R-squared of 100 means that all movements of a security are completely explained by movements in the index. A high R-squared (between 85 and 100) indicates the fund's performance patterns have been in line with the index. A fund with a low R-squared (70 or less) doesn't act much like the index. A higher R- squared value will indicate a more useful beta figure. For example, if a fund has an R-squared value of close to 100 but has a beta below 1, it is most likely offering higher risk-adjusted returns. A low R-squared means you should ignore the beta.
Real risk-free rate of return	This is a theoretical measure of the 'appropriate' return for a totally risk-free investment.
Running yield	This represents, at any point in time, the effective annual yield paid on a bond or fund expressed as a percentage. It takes the annual interest paid on the bond and divides it by the market price of the bond. This is sometimes known as the current yield. **See also: Underlying yield**
Shares	See 'Equities'
Sharpe ratio	A measure of the return achieved for each unit of risk taken. It is calculated by taking the risk-free return, typically cash, from the investment return, and dividing the result by the standard deviation of returns.

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Investment glossary (continued)

Total Expense Ratio (TER)	The Total Expense Ratio (TER) provides investors with a clearer picture of the total annual costs involved in running an investment fund. The TER consists principally of the manager's annual charge, but also includes the costs for other services paid for by the fund, such as the fees paid to the trustee (or depositary), custodian, auditors and registrar. Collectively, these fees are known as the "additional costs". TERs on actively managed funds are typically between 1 per cent and 2 per cent, while tracker funds typically charge 0.5 per cent or less. It is likely that large funds will have lower TERs than small funds, that funds investing in overseas markets have higher TERs than UK funds and that new funds will show higher costs than old funds. However, the principal difference in TERs is whether the fund manager has a higher or lower Annual Management Charge. As it sounds, the TER is a measure of what a fund costs to run. Typically it includes the Annual Management Charge, plus other charges incurred in running the fund. These can include share registration fees, legal fees, custodian fees etc. Trading costs are not included. **See also: Annual Management Charge and Ongoing Charges Figure**
Tracking error	Looks at the volatility of the active return between the fund and benchmark/index.
Trustee Investment Plan	A Trustee Investment Plan (TIP) is a pension investment product for Trustees of registered pension schemes. Each plan forms part of the pension scheme assets. If required, plans can be for the specific benefit of a nominated member.
Underlying yield	The underlying yield reflects the annualised income, net of expenses, of the fund (calculated in accordance with relevant accounting standards) as a percentage of the mid-market unit price of the fund as at the date shown. It is based on a snapshot of the portfolio on that day. It does not include any preliminary charge and investors may be subject to tax on distributions. **See also: Running yield**
Volatility	The amount by which a security's price can vary over a given period.

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Pension glossary

Adjusted Income	Annual income before tax plus the value of your own and any employer pension contributions
Annual Allowance (AA)	The maximum you can save into a pension each year and obtain tax relief on the contribution. Can be reduced if the **Money Purchase Annual Allowance (MPAA)** has been triggered or you have a **Tapered Annual Allowance**
Annuity	Income product bought with the proceeds of your pension fund. The basis of the annuity such as structure of the income, how long the annuity will last etc are agreed at the point the product is taken out.
Benefit Crystallisation Event (BCE)	Events set out by legislation where your pension benefits should be tested against the **Lifetime Allowance**
Career Average Scheme	Salary used to calculate benefits at retirement is an average across your career. **Also see: Defined Benefit and Final Salary Scheme**
Carry Forward	Utilising unused **Annual Allowance** from the preceding three tax years
Crystallised Funds	Pension fund where benefits have been taken i.e., a **benefit crystallisation event** has taken place. **Also see: Uncrystallised Funds**
Defined Benefit	Pays an income based on your salary and how long you worked for an employer. Income is normally guaranteed and will increase based on scheme rules.
Defined Contribution	Where you build up a pot of money through contributions and investment growth. Benefits will depend on how much of a pension pot you have accumulated and are not guaranteed.
Drawdown pension	Income taken from a pension which continues to remain invested.
Final Salary Scheme	The salary used to calculate benefits at retirement is how much you were paid at the point of retirement **Also see: Defined Benefit and Career Average Scheme**
Guaranteed Annuity Rate (GAR)	Some pensions have a guaranteed level of income built into them.
Lifetime Allowance (LTA)	Highest value your pension can be without paying tax. Your pension fund will be tested against the **Lifetime Allowance** when you draw benefits/trigger a **Benefit Crystallisation Event**. This is due to be abolished on 6 April 2024.

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Pension glossary (continued)

Money Purchase Annual Allowance (MPAA)	When you access your benefits 'flexibly' you trigger the Money Purchase Annual Allowance (MPAA); this works in the same way as the **Annual Allowance** but is set much lower
Money Purchase Pension	**See: Defined Contribution**
Open Market Option	You do not need to take benefits from the provider you held your pension with, moving your pension to another provider is known as taking the 'Open Market Option'
Pension Commencement Lump Sum (PCLS)	25% of your pension fund taken as a tax-free lump sum
Tapered Annual Allowance	Your **Annual Allowance** is tapered down when your adjusted income is over £260,000.
Tax-Free Cash (TFC)	Old name for **Pension Commencement Lump Sum (PCLS)** which is still used as an alternative name.
Uncrystallised Funds	Pension fund where benefits have not been taken yet. **Also see: Crystallised Funds**
Uncrystallised Funds Pension Lump Sum (UFPLS)	Option to take your pension as a single lump sum or series of regular lump sums of which 25% will be tax-free and 75% will be taxable.