
Investment Glossary

by Bank of Ireland

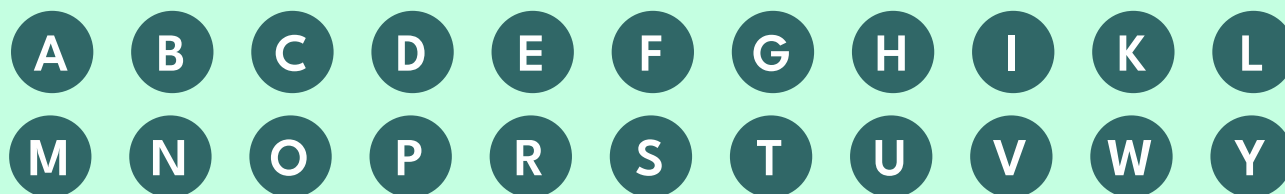
Investment Markets

Literature supports



We have created a high-level glossary in this PDF to explain some commonly used terms that are used in our investment literature. Hopefully this makes reading our literature a little easier for you.

Click on a letter below to navigate to that section



A

Absolute return funds	Funds which are managed with an objective of generating a positive return over rolling 12-month periods.
Active management	A style of investment management where the fund manager aims to outperform a benchmark by superior asset allocation, market timing or stock selection (or a combination).
Allocation rate	The percentage of an investment that is used to buy units in a fund. A 98% allocation rate means that for every €100 invested, €98 is invested and €2 is taken as a charge.
Annual management charge (AMC)	A fixed percentage of the value of an investment fund which is taken by the provider each year to pay for managing the fund and other running costs.
Annuity	A regular income payable (usually monthly) for as long as you live that you get in exchange for your pension savings when you decide to retire.
Article 6 Fund	A financial product that has no integration of sustainability. These products can include stocks that are excluded from Environmental, Social or Governance (ESG) funds, such as tobacco and coal producers, and should be clearly labelled as non-sustainable.
Article 8 Fund (light green fund)	A financial product that promotes, among other characteristics, environmental or social characteristics, or a combination of both but this is not the main focus of the fund.
Article 9 Fund (dark green fund)	A financial product that promotes investment in economic activity that contributes to an environmental objective. The main focus of the fund is on sustainability. The fund manager may be required to track an EU climate transition benchmark.
Artificial intelligence (AI)	The ability of a computer, or a robot controlled by a computer, to perform tasks that are normally performed by humans because they require human intelligence or judgement.

**A**

Asset	Anything with a commercial or exchange value that is owned by a business, institution or individual.
Asset allocation	Allocating a portfolio's assets according to risk tolerance and investment goals.
Asset class	Broad groups of different types of investments. The investment asset classes available to invest in are equities, bonds, property, cash, lifestyle, alternatives, multi-asset and passive.

B

Base effect	The impact of the increase in the previous year's inflation.
Basis point	One hundredth of 1% (i.e. 0.01%). Also referred to as bps.
Bear market	A market characterised by investor pessimism due to a prolonged period of declining stock prices.
Benchmark	A standard, usually an unmanaged index, used for comparative purposes in assessing the performance of a portfolio or mutual fund.
Bond	A loan in the form of a security, usually issued by a government or company. It normally pays a fixed rate of interest (also known as a coupon) over a given time period, at the end of which the initial amount borrowed is repaid. Also known as a fixed-income security.
Borrowing risk	The addition of borrowing to a fund involves an increased degree of financial risk and may increase the exposure of the fund to factors such as downturns in the economy or deterioration in the conditions of the assets underlying its investments.
Bull market	A market characterised by investor optimism and confidence in continuing strong returns, in which the stock prices are rising.

C

Capital	Refers to the financial assets, or resources, that a company has to fund its business operations.
Capital at risk	The risk that an investor may lose all or part of the assets invested.
Capital growth	Occurs when the current value of an investment is greater than the initial amount invested.
Capital protection	An investment where the aim is to preserve a specified amount of the initial investment.

**C**

Capital return	The term for the gain or loss made on an investment over a particular period. Capital return includes only capital gain or loss and excludes income (in the form of interest or dividend payments).
Commodities	An asset class which encompasses a broad range of physical assets, including oil and gas, metals and agricultural produce.
Concentration risk	This risk is the opposite of diversification. It can arise when an investment is spread over a small number of assets or within a specific asset. For example, with an equity fund that invests in a small number of equities, any fall in the value of one of those equities has a significant impact on the overall value of the fund.
Consumer Price Index (CPI)	An index used to measure inflation, or the rate at which prices for a basket of goods and services bought by households change. The contents of the basket are meant to be representative of products and services consumers typically spend money on and are updated regularly.
Core inflation	The change in the costs of goods and services that does not include those from the food and energy sectors.
Corporate bond	Debt securities issued by companies to raise capital. The term is generally used to cover all bonds other than those issued by governments in their own currency. Therefore, the 'credit' sector, as it is often known, includes issues by companies, supranational organisations and government agencies. The key feature that distinguishes corporate bonds from government bonds is the risk of default.
Counterparty risk	The risk to each party of a contract that the counterparty will not live up to its contractual obligations. This can be relevant for a secure investment where on maturity there is reliance on another party to repay an amount in full.
Credit	The borrowing capacity of an individual, company or government. The term is also used by investors as a synonym for fixed-income securities issued by companies (corporate bonds) and for any type of loan given to a company.
Credit risk	This refers to the risk that a bond issuer will not be able to pay its bondholders interest or repay principal at the maturity date as originally promised. Also known as default risk.
Currency risk	This refers to the possibility that the rates of exchange between currencies can change over time and could negatively affect the value of an investment.

**D**

Default	When a borrower does not maintain interest payments or repay the amount borrowed when due.
Developed economy or market	Well-established economy with a high quality of life and a high degree of industrialisation and security.
Diversification	The process of owning different investments that tend to perform well at different times in order to reduce the effects of volatility in a portfolio and also increase the potential for increasing returns.
Dividend	A share in the profits of a company, paid out to the company's shareholders at set times of the year. Also known as income shares or income units.
Dividend yield	Annual income distributed by a company as a percentage of its share price as at a certain date.
Downside	The potential loss for a given investment.
Drawdown	A drawdown measures the historical risk of different investments, compares fund performance, or monitors personal trading performance. It can help to compare an investment's possible reward to its risk. It can also refer to when an investor commits to invest a sum of money but doesn't give it all to the fund manager immediately. The fund manager makes the investments and draws down money as required.
Duration	A measure of the sensitivity of a bond or bond fund to changes in interest rates. The longer a bond or bond fund's duration, the more sensitive it is to interest rate movements.
Duration risk	The risk that the price of a bond or bond fund will change sharply when interest rates change. The longer the duration of a bond or bond fund, the more sensitive and therefore at risk it is to changes in interest rates.

E

Early encashment penalties	Typically it is advised to invest in our funds for the medium to long term (at least 5-7 years). The early encashment penalty is a fee you may be charged for any money you encash in the first few years. Typically, it reduces from 5% in year one to 1% in year 5.
Earnings per share	The net profit of a company, divided by the number of shares in issue.
Earnings yield	Earnings per share divided by the market price of the share, quoted as a percentage. It is the inverse of the price/earnings ratio and can be used to compare the earnings of the company against returns from bonds.



E

Emerging economy or market	Country in the process of catching up with developed economies, with rapid growth and increasing industrialisation. Investments in emerging markets are generally considered to be riskier than those in developed markets.
Environmental, social and governance (ESG) integration	<p>The systematic inclusion of ESG factors in investment analysis and investment decisions, with the goal of enhancing long-term, risk-adjusted financial returns:</p> <ul style="list-style-type: none">• Environmental - Factors that relate to the quality and functioning of the natural environment and natural systems, e.g., carbon emissions, environmental regulations, water stress and waste.• Social - Factors that relate to the rights, well-being, and interests of people and communities, e.g., labour management, health and safety.• Governance - Factors that relate to the management and oversight of companies and investee entities, e.g., board structure, pay.
Equities	Shares of ownership in a company. They offer investors participation in the company's potential profits but also the risk of losing all their investment if the company goes bankrupt.
Equity fund	An equity mutual fund is a professionally managed, pooled investment vehicle comprised primarily of stocks. Depending on the strategy employed by the mutual fund, it may own stocks issued by companies around the world or it may limit its investment portfolio to companies within a particular country/region.
Eurobonds	Bonds issued on the Euromarket which are exempt from withholding tax. Traditionally Eurobond trading is centered in London for tax reasons.

F

Financial year	Period between one year-end closing and the next. A fund's financial year need not necessarily coincide with the calendar year. Also known as business year.
Fiscal policy	Government policy on taxation, spending and borrowing.
Floor	Lower limit below which the invested capital may not fall on a set date.
Foreign exchange (forex or FX)	The conversion of one currency into another currency. Foreign exchange also refers to the global market, where currencies are traded virtually around the clock.



G

Gilts	Bonds issued by the UK government. They are called gilts because they used to be issued on gilt-edged paper.
Gold	Gold is potentially attractive as an investment due to its high liquidity, its status as an asset held by central banks, and because it is seen as a good source of diversification for funds and an inflation hedge.
Government bonds	Loans issued in the form of bonds by governments. They normally pay a fixed rate of interest over a given time period, at the end of which the initial investment is repaid.
Growth stocks	Stocks issued by companies demonstrating a high potential for development.

H

Hedge fund	A collective name for funds targeting absolute returns through investment in financial markets and/or applying non-traditional portfolio management techniques. Hedge funds can invest using a broad array of strategies, ranging from conservative to aggressive.
Hedging	An advanced risk management strategy that involves buying or selling an investment to potentially reduce unnecessary or unintended risk..
High-yield bonds	Loans taken out in the form of bonds issued by companies with a low credit rating from a recognised credit rating agency. They are considered to be at higher risk of default than better quality, higher-rated bonds, but they have the potential for higher rewards.
Historic yield	The historic yield is calculated by looking at the income the fund has paid over the last year and dividing it by the latest unit price.

I

Income	Money paid out by an investment. Dividends are income from shares. Income from bonds is called interest or coupon.
Income yield	Refers to the income received from an investment. Usually expressed annually as a percentage based on the investment's cost, its current market value, or original cost of the stock.
Index	An index represents a particular market or a portion of it, serving as a performance indicator for that market or segment.
Index tracking	A fund management strategy that aims to replicate the holdings and the performance of a particular index. It is a passive investing strategy.



I

Index-linked bonds	Bonds where both the value of the loan and the interest payments are adjusted in line with inflation over the life of the security. Also known as inflation-linked bonds.
Index-linked fund	A fund that invests in index-linked bonds.
Industry risk	Risks affecting a particular industry, like shortages of raw materials or changes in consumer preferences.
Inflation	The rate of increase in the cost of living. Inflation is usually quoted as an annual percentage, comparing the average price this month with that of the same month a year earlier.
Inflation risk	The change in the costs of goods and services that does not include those from the food and energy sectors.
Inflation swaps	Instruments in which a fixed payment is swapped for a payment equivalent to the rate of inflation.
Interest rate	An interest rate is a fee paid on capital borrowed. It indicates the price at which you can borrow. For example, when you get a bank loan, the interest rate is the rate you pay and will often depend on how much you want loaned to you.
Interest rate risk	This relates to how increases or decreases in interest rates can influence the value of another investment, specifically bonds. There is an inverse relationship between bond prices and interest rates. As interest rates rise, the price of bonds fall; as interest rates falls, bond prices tend to rise. If you need to sell your bond investment before it matures, you run the risk of loss if interest rates are higher than when you purchased the bond. Often called duration risk.
Investment strategy	The investment strategy describes the approach taken to achieve the investment objective (stock selection, timing, cash holdings, etc.).
Investor	Holder of fund units. By purchasing units, the investor acquires the right to participate proportionately in the assets and earnings of the fund.

K

Key Investor Information Document (KIID)	A two-page document, required for funds that come under EU law that has replaced the Simplified Prospectus. It should be written in plain English and is designed to allow comparability across funds, and includes the investment objective, key risks, ongoing charges figure, and past performance.
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L

Large caps	Companies with very large stock market capitalisation in relation to the market on which they are traded.
Liabilities	Liabilities are the legal debts a company owes to third-party creditors. They can include accounts payable, notes payable and bank debt. All businesses must take on liabilities in order to operate and grow. A proper balance of liabilities and equity provides a stable foundation for a company.
Liquidity	Refers to the ease of turning assets into cash when needed. A company's shares are considered highly liquid if they can be easily bought or sold, since they are regularly traded in high numbers.
Liquidity risk	This refers to how easily your investments can be converted to cash as there might not be buyers interested in your investment when you want to sell. Some investments may include the flexibility to withdraw liquidity for a period of time due to a reduced ability to sell an underlying asset for example property funds.
Long-term investment strategy	A strategy that looks past the day-to-day fluctuations of the stock and bond markets and responds to fundamental changes in the financial markets or the economy.

M

Management fee	The amount paid by a mutual fund to the investment advisor for its services.
Market capitalisation	Market capitalisation, or market cap, is one measurement of a company's size. It's the total value of a company's outstanding shares of stock, which include publicly traded shares plus restricted shares held by company officers and insiders.
Market price	The current price of an asset.
Market risk	The possibility that the value of an investment will fall because of a general decline in financial markets, due to one or more economic, political, or other factors.
Market value	Is the price an asset would fetch in the market, based on the price that buyers are willing to pay and sellers are willing to accept.
Maturity	The date specified in a note or bond on which the debt is due and payable.
Monetary easing	When central banks lower interest rates or buy securities on the open market to increase the amount of money in circulation.



M

Monetary policy	A central bank's regulation of money in circulation and interest rates.
Monetary tightening	When central banks raise interest rates or sell securities on the open market to decrease the amount of money in circulation.
Mutual fund	A mutual fund is a company that pools money from many investors and invests the money in securities such as stocks, bonds, and short-term debt.

N

Near cash	Investments with similar characteristics to cash.
Net assets	The net (fund) assets are the sum of the market values minus liabilities and the anticipated liquidation taxes (property gains taxes).
Net asset value (NAV)	The current value of the fund's assets minus its liabilities.

O

Overweight	When a portfolio or fund has a greater percentage weighting in an asset class, sector, geographical region, or stock than the index or benchmark against which it is measured.
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P

Passive management	An approach to investing whereby capital is allocated according to the stock or sector weightings of an index. Also known as indexing or tracking.
Passive manager	A fund manager who takes a passive approach to investing. The passive investor aims to match the returns from the stock market or specified index or sector, rather than to beat them.
Political risk	This refers to the possibility that new legislation or changes in foreign governments can adversely affect companies invested in. It can also affect financial markets.
Portfolio	A collection of investments owned by one organisation or individual and managed as a collective whole with specific investment goals in mind.
Portfolio allocation	Amount of assets in a portfolio specifically designated for a certain type of investment.
Portfolio holdings	Investments included in a portfolio.



P

Property Expense Ratio (PER)	The ratio of property expenses to the fund's net asset value. Property expenses are the operating expenses that relate to the management of the property assets in the portfolio. These include insurance and rates, rent review and lease renewal costs and maintenance and repairs, but not improvements. They depend on the level of activity taking place within the fund.
Purchasing Managers' Index (PMI)	An index of the prevailing direction of economic trends in the manufacturing and service sectors.
Premium	The amount by which a bond or stock sells above its original value.
Producer Price Index (PPI)	A measure of the change in prices that domestic producers receive for their goods and services.

R

Real Estate Investment Trust (REIT)	Companies which earn rental income from commercial or residential property.
Real return	The return on an investment adjusted for changes in inflation. Also known as real yield.
Reinvestment rate risk	This refers to the possibility that funds might have to be reinvested at a lower rate of return than that offered by the original investment. For example, a five year, 3.75% bond might mature at a time when an equivalent new bond pays just 3%. Such differences can in turn affect the yield of a bond fund.
Relative return	The return of an asset in a given period compared with that of a particular benchmark. It is expressed as the difference between the asset's percentage return and that of the benchmark.
Retail Price Index (RPI)	A UK inflation index that measures the rate of change of prices for a basket of goods and services in the UK, including mortgage payments and council tax.
Risk	The chance that an investment's return will be different from what is expected. Risk includes the possibility of losing some or all of the original investment.
Risk management	The term used to describe the activities the fund manager undertakes to limit the risk of a loss in a fund.
Risk/reward ratio	A ratio comparing the expected returns of an investment with the amount of risk undertaken.



R

Risk rating	<p>The level of risk assigned to an investment or a fund.</p> <p>There are three main types of investment risk ratings: high, medium and low. High-risk investments have a high chance of losing money. Medium-risk investments have a moderate chance of losing money. Low-risk investments have a low chance of losing money. New Ireland rate their funds on a 1-7 scale, 1 being very low risk and 7 being very high risk, for further information on the New Ireland risk scale please talk to your Financial Broker or Advisor.</p>
Risk-free asset	<p>An asset that theoretically carries no risk of non-payment by the borrower, for example, cash, or a high-quality bond issued by a government.</p>

S

Safe-haven assets	<p>Assets that investors perceive to be relatively safe from suffering a loss in times of market turmoil.</p>
Sector	<p>A group of funds with similar investment objectives and/or types of investment. Sector definitions are mostly based on the main assets a fund should invest in and may also have a geographic focus. Sectors can be the basis for comparing the different characteristics of similar funds, such as their performance or charging structure.</p>
Security	<p>Financial term for a paper asset – usually a share in a company.</p>
Small/mid-cap funds	<p>Funds which invest in shares of companies with relatively small market capitalisation.</p>
Spread	<p>The difference in yield between different types of bonds, for example, between government bonds and corporate bonds. Also known as yield spread.</p>
Strategic asset allocation (SAA)	<p>The long-term benchmark asset allocation, designed to meet the fund's risk and return objectives.</p>
Stock	<p>Stock is a share in the ownership of a company. Stock represents a claim on the company's assets and earnings. As you acquire more stock, your ownership stake in the company becomes greater.</p>
Stock price	<p>A stock price is the price of a single share of a number of saleable equity shares of a company. In layman's terms, the stock price is the highest amount someone is willing to pay for the stock, or the lowest amount that it can be bought for.</p>

**S**

Sustainable Finance Disclosure Regulation (SFDR)	SFDR aims to improve the clarity and comparability of sustainability disclosures provided by financial market participants' in their investment policies and products.
Sustainability risk	An environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material adverse impact on the value of the investment.

T

Total return	The gain or loss earned by an investment over a particular period, including income and price appreciation in that period. Income can be in the form of interest on bonds or dividend payments on shares.
Treasuries	Bonds issued by the US government.
Triple-A or AAA-rated	The highest possible rating a bond can be assigned by credit rating agencies. Bonds that are rated AAA are perceived to have the lowest risk of default.

U

Underlying value	The fundamental value of a company reflecting its tangible and intangible assets rather than its current market value or stock price.
Underlying yield	Refers to the income received by a managed fund after deducting all ongoing charges and is usually expressed annually as a percentage of the fund's current value.
Underweight	Holding a smaller proportion of a stock than the benchmark index or sector.
Unlisted or unquoted stocks	Shares of ownership in companies that are not listed on a public exchange, known as private companies.
Unit	Share in a unit trust, which is a type of managed fund whose value is linked to the underlying investments. The unit trust's size grows or shrinks as investors buy or sell units.
Unit or share type	Type of units or shares held by investors in a trust or fund. Unit or share types differ by features such as whether income is to be paid out as cash or reinvested on the payment date.



V

Valuation	The worth of an asset or company, based on the present value of the cash flows it will generate.
Volatility	The degree to which the price of a given security, fund, or index changes. It is calculated as the degree of deviation from the norm for that type of investment over a given time period. The higher the volatility, the riskier the security tends to be.

W

Warrant	A security issued by a company that gives the holder the right to buy or sell shares in that company at a specified price and within a certain timeframe.
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Y

Yield	A measure of the income return earned on an investment. In the case of a share, the yield is the annual dividend payment expressed as a percentage of the market price of the share. For property, it is the rental income as a percentage of the capital value. For bonds, the yield is the annual interest as a percentage of the current market price.
Yield spread	The difference in yield between different types of bonds (for example, between government bonds and corporate bonds).
Yield to maturity	The rate of return anticipated on a bond if it is held until the maturity date.

For more information:



Fund Centre
fundcentre.newireland.ie

Sustainable Investing Hub



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