

# GLOSSARY OF TERMS

# APPENDIX F

## **Basis Point**

1/100<sup>th</sup> of 1%, ie, 0.01%

## **Base Rate**

Minimum lending rate of a bank or financial institution in the UK

## **Benchmark**

A measure against which the investment policy or performance of a fund manager can be compared

## **Bill of Exchange**

A financial instrument financing trade

## **Callable Deposit**

A deposit placed with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre-agreed dates, before maturity. This decision is based on how market rates have moved since the deal was agreed. If rates have fallen, the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower

## **Cash Fund Management**

Fund management is the management of an investment portfolio of cash on behalf of a private client or an institution, the receipts and distribution of dividends and interest, and all other administrative work in connection with the portfolio

## **Certificate of Deposit (CD)**

Evidence of a deposit with a specified bank or building society repayable on a fixed date. They are negotiable instruments and have a secondary market, therefore the holder of a CD is able to sell it to a third party before the maturity of the CD

## **Commercial Paper**

Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing

## **Corporate Bond**

Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies

## **Counterparty**

Another (or the other) party to an agreement or other market contract (eg, lender/borrower/writer of a swap, etc)

## **CPI**

Consumer Price Index – calculated by collecting and comparing prices of a set basket of goods and services as bought by a typical consumer, at regular intervals over time.

## **CDS**

Credit Default Swap – a swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap

## **Derivative**

A contract whose value is based on the performance of an underlying financial asset, index or other investment, eg, an option is a derivative because its value changes in relation to the performance of an underlying stock.

## **DMADF**

Deposit Account offered by the Debt Management office, guaranteed by the UK government

## **ECB**

European Central Bank – sets the central interest rates in the EMU area. The ECB determines the targets itself for its interest rate setting policy; this is to keep inflation within a band of 0 to 2%. It does not accept that monetary policy is to be used to manage fluctuations in unemployment and growth caused by the business cycle

## **EMU**

European Monetary Union

## **Equity**

A share in a company with a limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain

## **Fed.**

Federal Reserve Bank of America – sets the central rates in the USA

**Floating Rate Notes**

Bonds on which the rate of interest is established periodically with reference to short-term interest rates

**Forward Deal**

The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed date

**Forward Deposits**

Same as forward dealing (above)

**FSA (Financial Services Authority)**

Body responsible for overseeing financial services

**Fiscal Policy**

The Government policy on taxation and welfare payments

**Gilt**

Registered British Government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent

**Gilt Funds**

Pooled fund investing in bonds guaranteed by the UK government

**Money Market Fund (MMF)**

A well rated, highly diversified pooled investment vehicle whose assets mainly comprise of short term instruments. It is very similar to a unit trust, however in a MMF

**Monetary Policy Committee (MPC)**

Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or

minus 1% of a central target of 2.5% in two years time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government in maintaining high and stable levels of growth and employment

**Open Ended Investment Companies**

A well diversified pooled investment vehicle, with a single purchase price, rather than a bid/offer spread

**Other Bond Funds**

Pooled funds investing in a wide range of bonds

**Reverse Gilt Repo**

This is a transaction as seen from the point of view of the party which is buying the gifts. In this case, one party buys gifts from the other and, at the same time and as part of the same transaction, commits to resell equivalent gifts on a specified future date, or at call, at a specified price

**Retail Price Index (RPI)**

Measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person

**Sovereign Issues (Ex UK Gilts)**

Bonds issued or guaranteed by nation states, but excluding UK government bonds

**Supranational Bonds**

Bonds issued by supranational bodies, eg, European investment bank. These bonds – also known as Multilateral Development Bank bonds – are generally AAA rated and behave similarly to gilts, but pay a higher yield (“spread”) given

their relative illiquidity when compared with gilts

**Term Deposit**

A deposit held in a financial institution for a fixed term at a fixed rate

**Treasury Bill**

Treasury bills are short term debt instruments issued by the UK or other governments. They provide a return to the investor by virtue of being issued at a discount to their final redemption value

**WARoR**

Weighted Average Rate of Return is the average annualised rate of return weighted by the principal amount in each rate

**WAM**

Weighted Average Time to Maturity is the average time, in days, till the portfolio matures, weighted by principal amount

**WATT**

Weighted Average Total Time is the average time, in days, that deposits are lent out for, weighted by principal amount