

Glossary

This is not a definitive list of terms used in the Financial Services industry.

- Alternative Investments - These are mainly derivative instruments and futures. Derivatives are contracts to either purchase or sell an asset at a future date at an agreed price. These are normally used to mitigate risks. Futures are similar to derivatives but the contracts are standardised and traded on the futures exchange and in some instances futures are settled in cash rather than delivery of the underlying asset. Normally both are quite liquid.
- Asset - Any possession that has value when exchanged, such as shares, bonds, property and cash.
- Asset Allocation – The allocation of a portfolio’s assets between different asset classes, ie equities, bonds, cash and property.
- Asset Classes – These include equities, bonds, listed property, cash and global investments. Balanced investment portfolios normally invest in more than one asset class in an attempt to reduce the risk of a portfolio. Asset classes have different characteristics and risk/return profiles so they behave differently in the same market conditions.
- Benchmark – This is a target set by the Trustees. It can be a target specifying the percentage of the Funds assets or a specified return or a measuring index
- Bonds – These are loan stock issued by government or parastatals. A Bond is a promise to pay a certain amount of capital at a specific future date and in the interim to pay a fixed interest rate for the entire period of the bond. A Bond is a stream of interest income with a capital payment at some future date. Bonds are normally quite liquid (it can be bought and sold easily within a week) and is less volatile than equities
- Capital Gains – This is the increase/decrease in price of any share, property or other investment.
- Cash – This is very liquid and not volatile, although the interest earned on the cash can change when the reserve bank changes the repo rate. Cash cannot decrease in value. Over time cash offers unattractive returns in relation to inflation.
- CPI - Consumer Price Index
- Defined Benefit Fund – A retirement fund to which employer and employee contribute, but the employer has to meet a promise to pay a pension at a predetermined level. The level is a factor of years of service multiplied by a percentage multiplied by final salary. Pension increases are determined by the trustees of the retirement fund



- Defined Contribution – A fund to which employer and employee contribute an agreed-to amount every month. When the employee retires, the accumulated capital amount and growth are used to purchase a pension from a third-party supplier.
- Diversification – A portfolio strategy to reduce exposure to risk by investing in various instruments or asset classes such as shares, bonds and listed property, which are unlikely to all move in the same direction at the same time. In order, it is the process of spreading investments among several different instruments or markets to reduce the overall risk or loss if a single instrument performs poorly.
- Equity – These are shares listed on the Johannesburg Stock exchange. Equities are volatile but are very liquid (can be bought and sold in one day).
- Investment Policy – This specifies the investment guidelines of the portfolio in relation to its liability profile, risk profile, member composition, time horizon and return expectations. It is a vital consideration for defined-benefit and defined-contribution retirement funds. It defines the universe of acceptable asset classes, the risk profile in relation to asset mixes, tracking errors, investment strategies and corporate and financial risk considerations. It sets out any restrictions or prohibitions on specific shares or shares or strategies and gives an indication of return expectations and the measures applied to determine whether the portfolio is achieving its objectives.
- Investment Portfolio – A pool of cash made up of investors' contributions and invested in turn in shares, bonds, property and interest-bearing investments. An investment manager is responsible for running the fund and choosing and monitoring the investments it makes.
- Investment Return – This is a combination of interest received from cash investments and bonds, dividends from equity, rental income from property and capital gains.
- Investment Risk – The degree of aggressiveness permitted to the active manager to add value above the benchmark return.
- Portfolio Managers - Professional managers responsible for buying and selling shares and other securities on behalf of investors. Sometimes referred to as money managers, they are skilled in selecting investments and strive for the highest return on the investor's portfolio while minimising the risk. A portfolio manager may work for an investment management company, unit trust management company, pension fund, insurance company, stockbroker, bank or registered portfolio company.
- Preservation Fund – Used to park retirement money without it being taxed when people move between jobs.
- Regulation 28 – The legislation controlling retirement-fund investments in South Africa. It is intended to ensure a conservative investment spread for retirement-funding products, and to protect the investor from loss of value due to risky investment selection.



- Retirement Annuity – An approved retirement fund aimed at investors who wish to build up retirement capital within a secure and tax-efficient investment vehicle. It is also ideal for members of pension and provident funds who wish to supplement their retirement provision with maximum tax efficiency.
- Shares - Part ownership of a company. A company issues shares to raise capital. Shareholders are rewarded with certain rights, such as being eligible to vote at annual dividends if the company makes sufficient profits. The capital value of a share can also increase if there are interested investors prepared to offer higher prices to buy the shares.
- Umbrella Fund – A retirement fund in which several employers not associated with one another participate. The fund is managed by a single board of trustees.
- Unit Trusts – A unit trust is an investment that enables an investor to pool money with other investors who have similar investment objectives. Different unit trust invest in different assets, and the value or price of the unit reflects the underlying value of the overall investment portfolio.
- Volatile - If an investment is described as being volatile it means that the move of the price of the share is easily influenced by external factors and a share can lose or gain on any given day.

