FuturePlus
Financial Services

Fact sheet

Glossary of investment terms

Active management: A style of investment management that seeks to attain returns above a set benchmark by constantly monitoring and, if necessary, changing the asset allocation and share selection within an investment strategy.

Asset allocation: The percentage of assets held in each asset class - i.e. shares, property, fixed interest or cash.

Asset class: A category of financial assets. The major classes are shares, property, fixed interest and cash, which in turn can be broken down to include Australian or international shares, Australian and international fixed interest and direct and indirect property. All asset classes have different risk and return characteristics.

Benchmark: A measure used for comparison of investment returns over a period of time – e.g. the S&P/ASX200 is a commonly used benchmark for Australian share portfolios, or the Dow Jones for the US markets.

Cash: A country's coin and note currency in circulation. Available on short notice.

Commonwealth Government Security (bond): Medium to long-term fixed interest securities issued by the Commonwealth Government, as the borrower, in return for cash from investors.

Corporate security: A fixed interest security where the borrower is a company rather than a government authority.

Deposit: An amount of money placed with a financial institution either at call (i.e. redeemable on demand) or for a fixed period. If for a fixed period, the deposit usually earns a higher rate of interest and is called a 'fixed' or 'term' deposit.

Derivatives: A security where the value is defined by, or derived from, the price of an underlying physical asset such as a share, a share price index, or currency (e.g. the value of a BHP option is derived from the value of the BHP shares). Derivatives include forwards, futures, options, share ratios, warrants and swaps. Derivatives are also known as synthetics.

Direct property: An investment where the property is purchased outright by an investor.

Emerging markets: A term for developing economies where industrialisation has commenced, but the economy is still considered immature – e.g. Mexico and Brazil.

Fixed interest: Fixed interest securities include bonds, bank bills and debentures. The holder is paid a fixed value on a fixed future date and usually a series of interest payments during the life of the security.

Floating rate note: A long-term debt security with an interest rate adjusted periodically to reflect current rates.

Fund: Refers to a pool of assets from a number of investors that are invested with a common set of fees and conditions.

Hedging: Term describing steps taken to reduce the risk of a loss, for example in respect of foreign currency transactions. Hedging is similar to insurance.

Indirect property: An investment where the investors do not hold the property themselves, but pool their money to buy units in a trust which holds the property.

International shares: Shares where the home stock exchange is not Australian.

Investment (fund) manager: An organisation specialising in the investment of money on behalf of investors.

Investment mix: Refers to the blend of asset classes for a particular investment.

Investment objective: The investment results the fund aims to achieve over a set timeframe.

Investment strategy: A strategy put in place to meet the investment objectives.

Liquidity: The ability of an investment to be easily converted into cash with little or no loss of capital and with minimal delay.

Passive management: A style of investment where no active stock selection decisions are made and the aim is to achieve investment returns in line with those of a specified market or index.

FuturePlus Financial Services Pty Limited (ABN 90 080 972 630) (AFSL No 238445)
Sydney Office Ground Floor, 28 Margaret Street, Sydney **Postal Address** PO Box N180, Grosvenor Place NSW 1220
Freecall: 1300 883 788 **Tel:** (02) 8234 6000 **Fax:** (02) 9279 4130 **Website:** www.futureplus.com.au

S21

Portfolio: A group of investments managed in accordance with a specified mandate, i.e. specified rules and instructions.

Promissory note: A type of fixed interest security, whereby the borrower agrees to repay an amount on a particular future date.

Property: Property includes commercial/office, industrial, residential, rural and retail real estate investments.

Return: The amount received annually from an investment, generally expressed as a percentage. The return includes income (such as interest) and growth (such as an increase in the value of the asset).

Security: A form of contract representing ownership in shares, fixed interest or derivatives.

Shares: The ownership of a part of a company. It gives the holder certain rights, such as the right to receive a proportion of the company's profits in the form of dividend payments.

Need further information?

FuturePlus Financial Services was established by the Local Government Superannuation Scheme and the Energy Industries Superannuation Scheme to provide members with comprehensive financial planning services.

If you have any questions about the material covered in this fact sheet, please contact FuturePlus on (02) 8234 6000 or 1300 883 788 between 9am and 5pm on any business day.

0000-FPFS-08/09

FuturePlus Financial Services Pty Limited (ABN 90 080 972 630) (AFSL No 238445)
Sydney Office Ground Floor, 28 Margaret Street, Sydney **Postal Address** PO Box N180, Grosvenor Place NSW 1220
Freecall: 1300 883 788 **Tel:** (02) 8234 6000 **Fax:** (02) 9279 4130 **Website:** www.futureplus.com.au

S21