Glossary

M&G Investments

Absolute return The rise or fall in the value of an asset in a particular period of time, expressed as a percentage.

Accumulation shares A type of share where distributions are automatically reinvested and reflected in the value of the shares.

Accumulation units A type of unit where distributions are automatically reinvested and reflected in the value of the units.

Active management An approach to investing whereby capital is allocated according to the judgment of the investor or fund manager(s). The active investor aims to beat the returns from the stockmarket or specified benchmark index/sector, rather than to match them.

Active manager A fund manager who follows an active management approach to investing. The active investor aims to beat the returns from the stockmarket or specified benchmark index/sector rather than to match them.

Additional ESG specifications In the context of M&G, these are funds managed with an explicit ESG objective, outcome or in accordance with specific ESG criteria, and will have a number of minimum exclusions in place.

Alpha The excess return of a fund relative to the return of its benchmark. It is often considered to represent the value that a fund manager adds to or subtracts from a fund's return. Also known as relative return.

Annual charge A charge covering costs, fees and expenses for the operation and management of each share class, representing a percentage of the Net Asset Value (NAV) of each share class. It is calculated daily as one-365th of the annual percentage, applied to the NAV on the previous dealing day. Shareholders may benefit from potential discounts due to economies of scale if there is significant growth in assets under management. Details of these potential savings can be found in the fund's prospectus.

Asset Anything having 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-backed securities Bonds (fixed income securities) backed by assets that produce cashflows, such as mortgage loans, credit card receivables and auto loans.

Asset class Category of assets, such as cash, company shares, fixed income securities (bonds) and their sub-categories, as well as tangible assets such as real estate.

Bear market A market in which the prices of securities are falling and widespread pessimism often causes the negative sentiment to be self-sustaining. Typically, a security or index enters a bear market after a peak-to-trough decline of 20%.

Benchmark Measure, such as an index or sector, against which a portfolio's performance is judged.

Benchmark (target) A benchmark, such as an index or sector, which the fund managers aim to match or exceed. The managers have freedom in choosing the securities and strategy by which they do so.

Benchmark (constraint) The portfolio must replicate the securities contained in the benchmark and their weights. The benchmark can be an index or a sector. Depending on the fund's mandate, the managers can replicate the positions directly or via derivatives, which are instruments whose value is derived from that of an underlying security or pool of securities.

Benchmark (comparative) The fund managers choose the benchmark, which may be an index or a sector, as a comparator for the fund's performance, but they do not have to replicate its composition. The benchmark is not used for any other purpose, such as, for example, to serve as a reference when setting performance fees.

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.

Bond issue A set of fixed income securities (bonds) offered for sale to the public by a company or government. If the bonds are sold for the first time, it is called a 'new issue'.

Bottom-up selection Selecting stocks based on the attractiveness of fundamental characteristics of companies, such as earnings growth or dividends.

Bull market A market characterised by investor optimism and confidence in continuing strong returns, in which the prices of securities are rising.

Bunds Fixed income securities (bonds) issued by the German government.

Callable bond A bond that can be redeemed (in other words, called) by the issuer before the end of its life. The price at which the issuer buys back the bond is normally higher than its issue price. The issuer usually calls the bond when interest rates fall, in order to refinance its debt at the new, lower interest rates.

Capital Refers to the financial assets, or resources, that a company has to fund its business operations.

Capital at risk The risk an investor faces that he or she may lose all or part of the assets invested.

Responsible investment

Capital growth Occurs when the current value of an investment is greater than the initial amount invested.

Capital return The term for the gain or loss derived from 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).

Capital structure The composition of a company's liabilities. It refers to the way a company finances its assets through a combination of equity – which refers to raising funds by selling shares – and debt. Often when capital structure is referred to, the focus is on the company's debt-to-equity ratio, which is an indicator of how risky the business is. The higher the ratio, the riskier the business.

Capitalisation The total market value of all of a company's outstanding shares.

Cash equivalents Deposits or investments with similar characteristics to cash.

Charity Authorised Investment Fund (CAIF) An investment entity that is both a registered charity and an authorised investment fund. The CAIF must comply with charity law as well as financial services laws and regulations, and is usually treated as a registered charity for tax purposes.

Clean energy Energy from non-polluting sources, including solar, wind and water

Circular economy An economic model that seeks to recycle and reuse products in order to reduce waste. Usually presented in contrast with the traditional so-called "linear" economy's model of making products and discarding them after use.

Collective Investment Scheme (CIS) Sometimes referred to as a 'pooled investment', it is a scheme where a fund manager will invest the pooled money in one or more types of asset, such as stocks, bonds or property.

Consumer prices 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.

Convertible bonds Fixed income securities (bonds) that can be exchanged for predetermined amounts of company shares at certain times during their life.

Contingent convertible securities (CoCos) CoCos are debt securities that can be exchanged for company shares if certain conditions are met. They are also known as 'hybrid securities'.

Corporate bonds Fixed income securities issued by a company. They are also known as bonds and can offer higher interest payments than bonds issued by governments as they are often considered more risky. Also referred to by investors as "credit".

Correction When the price of an asset, security or index falls by up to 10%, usually following a bull, in other words rising, market.

Coupon The interest paid by the government or company that has raised a loan by selling bonds. It is usually a fixed amount, calculated as a percentage of the total loan and paid out at regular intervals.

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 default swap (CDS) An insurance-like contract that allows an investor to transfer the default risk of a bond to another investor. The buyer of the CDS pays regular premiums to the seller, who has to reimburse the buyer in the event of the underlying bond defaulting. A CDS is a type of derivative – a financial instrument whose value and price is dependent on the underlying asset.

Credit rating An assessment by a credit rating agency of a borrower's ability to repay its debts. A high rating indicates that the credit rating agency considers the issuer to be at low risk of non-payment. A low rating indicates high risk of non-payment. Standard & Poor's, Fitch and Moody's are the three most prominent credit rating agencies.

Credit rating agency A company that analyses the financial strength of issuers of fixed income securities (bonds) and attaches a rating to their debt. Examples include Standard & Poor's, Moody's and Fitch.

Credit research The process of evaluating a fixed income security (bond) in order to ascertain the ability of the borrower to meet its debt obligations. This research seeks to identify the appropriate level of risk of non-payment associated with investing in that particular bond.

Credit risk Risk that a financial obligation will not be paid and a loss will result for the lender.

Credit selection The decision whether to extend credit and how much, ie the decision whether or not to buy a particular fixed income security (bond).

Credit spread The difference between the yield of a corporate bond (a fixed income security issued by a company) and a government bond of the same life span. Yield refers to the income received from an investment and is expressed as a percentage of the investment's current market value.

Credit system A set of regulations and institutions involved in making loans on a commercial basis.

Debt instrument A formal contract that a government, a business or an individual can use to borrow money. Debt instruments outline the detailed conditions of the loan, such as the amount and schedule of payments of interest, the length of time before the principal is paid back, or any guarantees (collateral) that the borrower offers. Any type of debt can be a debt instrument – from bonds and loans to credit cards.

Default When a borrower does not maintain interest payments or repay the amount borrowed when due.

Default risk Risk that a debtholder will not receive interest and full repayment of the loan when due.

Defaulted bond When a bond issuer does not maintain interest payments or repay the amount borrowed when due.

Derivatives Financial instruments whose value and price depend on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or directly between two parties (over the counter).

Developed economy/ market Well-established economy with a high degree of industrialisation, standard of living and security.

Dilution adjustment A change to the price of the fund's shares, which is used to ensure that the costs of buying and selling the shares are borne by incoming and outgoing investors, not by ongoing investors. The dilution adjustment is made up of direct and indirect transaction costs incurred at the creation and cancellation of shares in the fund.
(Also see swing pricing).

Distribution Distributions represent a share in the income of the fund and are paid out to Income shareholders, or reinvested for Accumulation shareholders at set times of the year (monthly, quarterly, half-yearly or annually). They may be in the form of interest distributions (for bonds) or dividend distributions (for shares).

Distribution yield The amount that is expected to be distributed by the fund over the next 12 months expressed as a percentage of the share price as at a certain date. It is based on the expected gross income less the ongoing charges where they are deducted from income.

Diversification The practice of investing in a variety of assets, which typically should perform independently of each other. This is a risk management technique where, in a well-diversified portfolio, a loss from an individual holding should be offset by gains in other holdings, thereby lessening the impact on the overall portfolio.

Dividend A share in the profits of a company, paid out to the company's shareholders at set times of the year.

Dividend yield Annual income distributed by a company as a percentage of its share price as at a certain date.

Duration A measure of the sensitivity of a fixed income security (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 fixed income security (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.

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 reciprocal of the price/earnings ratio and can be used to compare the earnings of the company against returns from bonds, which are fixed income securities.

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.

Engagement Interaction with company management on various financial and non-financial issues, including ESG. Engagement allows investors to better understand how a company operates and how it interacts with its stakeholders, as well as advising on and influencing company behaviour and disclosures where appropriate.

Episode A period of time during which investors' emotions affect their decision-making more than they usually do. This can cause financial markets to move irrationally.

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.

ESG integration The explicit and systematic inclusion of Environmental, Social and Governance (ESG) factors in investment analysis and decisions. It underpins a responsible investment approach and, in our view, allows investors to better manage risk and generate sustainable, long-term returns.

Exclusions Excluding or restricting investment in companies based on the sector in which they operate or for other specific criteria, ie they are deemed to be in breach of the United Nations Global Compact principles on human rights, labour, the environment and anti-corruption.

Exchange traded Usually refers to securities traded on an exchange, such as company shares on a stock exchange.

Exchange-traded fund (ETF) A type of fund that is traded on the stockmarket like ordinary shares. ETFs can be bought and sold throughout the day, like ordinary shares, whereas other types of funds are priced once a day only.

Ex-dividend, ex-distribution or XD date The date on which declared distributions officially belong to underlying investors. On the XD date, the stock's price usually falls by the amount of the dividend, reflecting the payout.

Exposure The proportion of a fund invested in a particular share/fixed income security/index, sector/region, usually expressed as a percentage of the overall fund.

Fiscal policy Government policy on taxation, spending and borrowing.

Fixed income security A loan in the form of a security, usually issued by a government or company, which normally pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid. Also referred to as a bond.

Floating rate notes (FRNs) Securities whose interest (income) payments are periodically adjusted depending on the change in a reference interest rate.

Foreign exchange The conversion of one currency into another currency. Foreign exchange also refers to the global market where currencies are traded virtually around the clock. The term 'foreign exchange' is usually abbreviated as 'forex' and occasionally as 'FX'.

Foreign-exchange (FX) strategy Currencies can be a stand-alone asset class just like company shares, fixed income securities, property and cash. Foreign exchange strategy – where the fund manager tries to benefit from exchange-rate movements – can therefore be a source of investment returns.

Forward contract A contract between two parties to buy or sell a particular commodity or financial instrument at a pre-determined price at a future date. Forward contracts are customised and do not trade on public exchanges, but directly between interested parties (over the counter).

Fundamentals (company) A basic principle, rule, law, or the like, that serves as the groundwork of a system. A company's fundamentals pertain specifically to that company, and are factors such as its business model, earnings, balance sheet and debt.

Fundamentals (economic) A basic principle, rule, law, or the like, that serves as the groundwork of a system. Economic fundamentals are factors such as inflation, employment, economic growth.

Futures A futures contract is a contract between two parties to buy or sell a particular commodity or financial instrument at a pre-determined price at a future date. Futures contracts are standardised and trade on regulated exchanges.

Gearing The level of a company's debt in relation to its capital. A company with significantly more debt than capital is considered to be highly geared.

Gilts Fixed income securities issued by the UK government. They are called gilts because they used to be issued on gilt-edged paper.

Government bonds Loans issued in the form of fixed income securities 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.

Green technology Refers to products, services and manufacturing methods that seek to be environmentally sustainable, and/or mitigate negative effects on the environment.

Hard currency (bonds) Fixed income securities (bonds) denominated in a highly traded, relatively stable international currency, rather than in the bond issuer's local currency. Bonds issued in a more stable hard currency, such as the US dollar, can be more attractive to investors where there are concerns that the local currency could lose value over time, eroding the value of bonds and their income.

Hedging A method of reducing unnecessary or unintended risk.

High water mark (HWM) The highest level that a fund's NAV (net asset value) has reached at the end of any 12-month accounting period. The fund can usually charge a performance fee once its NAV exceeds this level.

High yield bonds Loans taken out in the form of fixed income securities 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 fixed income securities, but they have the potential for higher rewards. Default means that a bond issuer is unable to meet interest payments or repay the initial amount borrowed at the end of a security's life.

Historic yield The historic yield reflects distributions declared over the past 12 months as a percentage of the share price as at the date shown.

Impact Investment with the purpose of generating a measurable social or environmental return, alongside a financial return.

Income Money paid out by an investment. Dividends are income from shares. Income from bonds is called interest or coupon.

Income shares A type of share where distributions (also called dividends) are paid out as cash on the payment date.

Income units A type of unit where distributions (also called dividends) are paid out as cash on the payment date.

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 face value.

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 known as a passive investing strategy.

Index-linked bonds Fixed income securities where both the value of the loan and the interest payments are adjusted in line with inflation over the life of the security. Also referred to as inflation-linked bonds.

Index-linked fund A fund that invests in index-linked bonds. The latter are fixed income securities where both the value of the loan and the interest payments are adjusted in line with inflation over the life of the security.

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 risk that inflation will reduce the return of an investment. (Also see real return)

Inflation-linked bonds Fixed income securities where both the value of the loan and the interest payments are adjusted in line with inflation over the life of the security. Also referred to as index-linked bonds.

Initial public offering (IPO) The first sale of shares by a private company to the public.

Interest rate risk The risk that a fixed income investment will lose value if interest rates rise.

Responsible investment

Interest rate swap An agreement between two parties to swap a fixed interest payment with a variable interest payment over a specified period of time.

Investment Association (IA) The UK trade body that represents fund managers. It works with investment managers, liaising with government on matters of taxation and regulation, and also aims to help investors understand the industry and the investment options available to them.

Investment grade bonds Fixed income securities issued by a government or company with a medium or high credit rating from a recognised credit rating agency. They are considered to be at lower risk of default than those issued by issuers with lower credit ratings. Default means that a borrower is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

Investment Trust Company A form of closed-ended fund traded on the public markets. The number of shares in issue is fixed and the share price fluctuates either above or below the book value of the underlying assets.

Issuer An entity that sells securities such as fixed income securities and company shares.

Leverage When referring to a company, leverage is the level of a company's debt in relation to its assets. A company with significantly more debt than capital is considered to be leveraged. It can also refer to a fund that borrows money or uses derivatives to magnify an investment position.

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.

Local currency bonds Bonds denominated in the currency of the issuer's country, rather than in a highly traded international 'hard' currency, such as the US dollar. The value of local currency bonds tends to fluctuate more than that of bonds issued in a hard currency, as these currencies tend to be less stable.

Long position Holding a security in the expectation that its value will rise.

Macroeconomic Refers to the overall performance and behaviour of an economy, for example at the regional or national level. Economy-wide factors such as gross domestic output, unemployment or inflation are known as macroeconomic factors and are key indicators of economic performance. Sometimes abbreviated to 'macro'.

Maturity The length of time until the initial amount invested in a fixed income security is due to be repaid to the holder of the security.

Modified duration A measure of the sensitivity of a bond, or bond fund, to changes in interest rates, expressed in years. The longer a bond or bond fund's duration, the more sensitive it is to interest rate movements.

Money market instruments Debt due to be repaid within a year, in the form of securities that are bought and sold by institutional investors such as banks, pension funds, asset managers, etc. Individual investors need to go through an intermediary such as a bank or asset manager to invest in these instruments.

Monetary easing When central banks lower interest rates or buy securities on the open market to increase the amount of money in circulation.

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.

Morningstar™ A provider of independent investment research, including performance statistics and independent fund ratings.

Near cash Deposits or investments with similar characteristics to cash.

Net asset value (NAV) The current value of the fund's assets minus its liabilities.

Ongoing charge figure The ongoing charge figure represents the operating costs investors can reasonably expect to pay under normal circumstances.

Open-ended investment company (OEIC) A type of managed fund whose value is directly linked to the value of the fund's underlying investments. The fund creates or cancels shares depending on whether investors want to redeem or purchase them.

Options Financial contracts that offer the right, but not the obligation, to buy or sell an asset at a given price on or before a given date in the future.

Over-the-counter (OTC) Whereby financial assets are traded directly between two parties, rather than carried out through exchanges set up specifically for the purpose of trading. OTC is also known as off-exchange trading.

Overweight If a fund is 'overweight' a stock, it holds a larger proportion of that stock than the benchmark index or sector.

Passive management An approach to investing whereby capital is allocated according to the stock or sector weightings of an index. Passive management is also referred to 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 stockmarket or specified index/sector, rather than to beat them.

Payment date The date on which distributions will be paid by the fund to investors, usually the last business day of the month.

Physical assets An item of value that has tangible existence; for example cash, equipment, inventory or real estate. Physical assets can also refer to securities, such as company shares or fixed income securities.

Portfolio transaction cost It includes trading costs such as brokerage, clearing, exchange fees and bid-offer spread, as well as taxes such as stamp duty.

Preference shares Preference shares entitle the holder to receive a fixed dividend, whose payment takes precedence over common shares. Usually, holders of preference shares do not have voting rights, whereas common shareholders do. Also known as preferred shares.

Price-earnings ratio A company's current share price divided by its earnings per share. It provides a guide to the market's opinion about the prospects of a company's future earnings. The higher the ratio, the more the company's profit will need to grow to justify its current share price.

Principal The face value of a fixed income security, which is the amount due to be repaid to the investor by the borrower when the security reaches the end of its life.

Private placement An offer of sale of securities to a relatively small number of investors selected by the company, generally investment banks, mutual funds, insurance companies or pension funds.

Profit and loss (P&L) A financial statement that summarises a company's revenues, costs and expenses during a specific time period – a usually a quarter or year.

Property expense ratio (PER) 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. The Property Expense Ratio is the ratio of property expenses to the fund's net asset value.

Real Estate Investment Trust (REIT) A publicly traded company that owns, operates or finances income-producing properties.

Real return The return on an investment, adjusted for changes in prices in an economy (inflation).

Real yield The return of an investment, adjusted for changes in prices in an economy (inflation).

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, and it is also known as alpha.

Retail prices 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 to 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 premium The price or payoff for taking on increased risk. It is the difference between the return from a risk-free asset, such as a high-quality government bond or cash, and the return from an investment in any other asset. A higher risk premium implies higher risk.

Risk/reward ratio A ratio comparing the expected returns of an investment with the amount of risk undertaken.

Risk-free asset 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.

Safe-haven assets Assets that investors perceive to be relatively safe from suffering a loss in times of market turmoil.

Sector A group of funds with similar investment objectives and/or types of investment, as classified by bodies such as the Investment Association (IA) or Morningstar™. 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.

Securitise/securitisation The creation and issuance of tradable securities, such as bonds, that are backed by the income generated by an illiquid asset or group of assets. By pooling a collection of illiquid assets, such as mortgages, securities backed by the mortgages' income payments can be packaged and sold to a wider range of investors.

Security Financial term for a paper asset – usually a share in a company or a fixed income security also known as a bond.

Share An ownership stake in a company, usually in the form of a security. Also called equity. Shares offer investors participation in the company's potential profits, but also the risk of losing all their investment if the company goes bankrupt.

Share class Type of fund shares held by investors in a fund (share classes differ by levels of charge and/ or by other features such as hedging against currency risk). Each M&G fund has different share classes, such as A, R and I. Each has a different level of charges and minimum investment. Details on charges and minimum investments can be found in the Key Investor Information Documents.

Share class hedging Activities undertaken in respect of hedged shares to mitigate the impact on performance of exchange rate movements between the fund's currency exposure and the investor's chosen currency.

Short position A way for an investor to express their view that the market might fall in value.

Short selling The practice whereby market participants sell assets they do not own after borrowing them in exchange for a fee from someone who does own them. The short-seller must eventually return the borrowed asset by buying it in the open market. If the asset price has fallen, the short-seller buys it for less than they sold it for, thus making a profit. However, the contrary may also occur.

Short-dated corporate bonds Fixed income securities issued by companies and repaid over relatively short periods.

Short-dated government bonds Fixed income securities issued by governments and repaid over relatively short periods.

SICAV In French, it stands for société d'investissement à capital variable. It is the western European version of an open-ended collective investment fund, much like an OEIC. Common in Luxembourg, Switzerland, Italy and France, and regulated by regulators in the European Union.

Sovereign debt Government debt. Also referred to as government bonds.

Standard deviation A statistical measure of dispersion of a set of data from its mean, indicating the spread of a fund's returns over a certain period of time.

Sub-investment grade bonds Debt securities issued by a company with a low rating from a recognised credit rating agency. They are considered to be at higher risk from default than those issued by companies with higher credit ratings. Default means that a borrower is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

Sustainability/ Sustainable Our sustainable funds are those where the investment universe is driven by sustainability themed considerations, which might include climate change mitigation, pollution prevention, sustainability solutions and approaches that address one or more of the UN Sustainable Development Goals (SDGs).

Swap A swap is a derivative contract where two parties agree to exchange separate streams of cashflows. A common type of swap is an interest rate swap, where one party swaps cashflows based on variable interest rates for those based on a fixed interest rate, to hedge against interest rate risk.

Swing pricing Swing pricing is a method of protecting long-term shareholders in the fund from bearing the costs of transactions carried out by shorter-term investors. When investors buy or sell shares in the fund, the fund manager has to buy or sell underlying securities to either invest the cash obtained from investors, or to provide them with cash in exchange for their shares. Swing pricing essentially adjusts the fund shares' daily price to take into account the costs of buying or selling the underlying securities held by the fund. This ensures that transaction costs such as brokerage fees and administrative charges are borne by those investors who trade shares in the fund, not by those who remain invested in the fund. (Also see dilution adjustment)

Synthetic inflation-linked bonds Securities created using a combination of assets to mimic the characteristics of inflation-linked bonds. Such a combined investment can be created by buying inflation-linked government bonds and selling protection against companies defaulting on their debts using credit default swaps. The resulting synthetic investment will behave like a physical inflation-linked corporate bond, had one had been issued. Synthetic inflation-linked bonds are usually created where a company does not have any inflation-linked bonds in issue.

Top-down investing An investment approach that analyses economic factors, ie surveys the 'big picture', before selecting which companies to invest in. The top-down investor will look at things like economic growth, inflation and the business cycle to pick stocks.

Total return The gain or loss derived from an investment over a particular period, including income and price appreciation in that period. Income can be in the form of interest for bonds or dividend payments for shares.

Trading suspension Temporarily halting the trading of a listed security on the stock exchange. It can be voluntary (requested by the issuing company) or imposed by regulators. Typically, trading suspensions are introduced ahead of important news announcements, following technical glitches, or due to regulatory concerns.

Transaction cost The cost of trading, such as brokerage, clearing and exchange fees as well as taxes such as stamp duty.

Treasuries Fixed income securities 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. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

UCITS Stands for Undertakings for Collective Investments in Transferable Securities. This is the European regulatory framework for an investment vehicle that can be marketed across the European Union and is designed to enhance the single market in financial assets while maintaining high levels of investor protection.

Unconstrained The mandate of a fund whereby the manager has the freedom to invest according to his or her own strategy, rather than being obliged to allocate capital according to the weightings of an index that the fund seeks to beat or track.

Underlying value The fundamental value of a company reflecting its tangible and intangible assets, rather than the 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/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/share type Type of units/shares held by investors in a trust or fund. Unit/share types differ by features such as whether income is to be paid out as cash or reinvested on the payment date.

Responsible investment

Unit trust A type of managed fund whose value is directly linked to the value of the fund's underlying investments and which is structured as a trust, rather than as a company.

United Nations Global Compact A United Nations initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies and to report on their implementation.

Valuation The worth of an asset or company, based on the present value of the cashflows it will generate.

Valuation metrics Measures used for determining the current worth of an asset or company.

Volatile When the value of a particular share, market or sector swings up and down fairly frequently and/or significantly, it is considered volatile.

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.

Voting As the partial owners of a company, shareholders have the right to vote on resolutions put forward at a company's annual general meeting. These resolutions include the re-election of directors, executive remuneration and business strategy, and may also include resolutions put forward by shareholders.

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.

Yield This refers to either the interest received from a fixed income security or to the dividends received from a share. It is usually expressed as a percentage based on the investment's costs, its current market value or its face value. Dividends represent a share in the profits of a company and are paid out to the company's shareholders at set times of the year.

Yield (equity) Refers to the dividends received by a holder of company shares and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value. Dividends represent a share in the profits of a company and are paid out to the company's shareholders at set times of the year.

Yield (bonds) This refers to the interest received from a fixed income security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

Yield (income) Refers to the income received from an investment and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value.

Yield to expected maturity (fund) The yield to expected maturity is calculated gross of fund expenses as the weighted-average yield of all the fund's holdings. It is calculated in the fund's base currency and includes effects from derivative instruments.

Yield to maturity (bond) The yield to maturity of a bond is an estimate of the annualised return over the life of the bond if the bond is held until maturity and assuming that all payments (interest and principal) are made as scheduled. It is the bond's internal rate of return, which is the interest rate used to discount all the cashflows of the bond so that their present values sum up to the price at which the bond currently trades in the market.

■ Responsible investment

M&G Investments

Issued by M&G Luxembourg S.A., Registered Office: 16, boulevard Royal, L-2449, Luxembourg and M&G Securities Limited, Registered office: 10 Fenchurch Avenue, London EC3M 5AG, authorised and regulated by the Financial Conduct Authority. **JUL 23 / 1023001**