

LINDSELL TRAIN

**Glossary of Terms**

**Accumulation shares/units (“Acc”)**

Funds are divided into portions called shares or units. In accumulation shares/units, the income earned by the fund is automatically paid into the fund and reflected by an increase in the value of each share/unit. See also income units.

**Active share**

A measure of the percentage of stock holdings in a fund that differ from the benchmark index. A higher active share suggests that a fund has less in common with a benchmark.

**Alpha**

A measure of the excess return of an investment relative to its benchmark. A positive Alpha indicates that a manager has added value, or outperformed.

**Annual management charge (AMC)**

An ongoing fee paid to the management company for managing the fund, usually charged as a percentage of the investment.

**Annualised return**

For a period of greater than one year, a measure of the level of return that has been achieved on average each year. This scaling process allows investors to objectively compare the returns of any assets over any period.

**Asset class**

A broad grouping of different types of investments, which have similar characteristics. Among the most common investment asset classes are equities and bonds.

**Assets Under Management (AUM)**

Total market value of investments including cash in an investment fund or at a firm level.

**Attribution**

A type of performance analysis which calculates which securities have contributed to a fund’s returns. It is often used to identify which securities have had a positive and negative impact on returns. Contributors to return are those which have had a positive impact on performance, whereas detractors are those that have had a negative impact on performance. Attribution can be calculated on an absolute basis, or a relative basis compared to a fund’s benchmark.

**Base currency**

The accounting currency for an investment or fund.

**Benchmark**

A standard, (usually an index or market average) that an investment fund's performance is measured against. Many funds are managed with reference to a stated benchmark.

**Beta**

A measure of how an investment moves (on average) when a standard (usually an index) increases or decreases in value. It is often used to determine how sensitive a company share price or fund is to a move in markets. The beta of a market is 1, and therefore an investment with a beta of more than 1 moves on average to a greater extent than the market. A fund with a beta of less than 1 moves on average to a lesser extent. If beta is a minus number, it is likely that the stock and the market move in opposite directions.

**Bonds**

A loan, usually to a company or government, that pays interest. In exchange for an upfront payment from investors, a bond will typically commit the issuer to make annual interest payments and to repay the initial investment amount on maturity at a specified date in the future.

**Business cycle**

Business cycles are the "ups and downs" in economic activity, defined in terms of periods of expansion or recession.

**Capital discipline**

Where a company exercises discipline and prudence in how much money it borrows, raises and spends, in order to deliver the best returns to its shareholders and ensure its long-term stability.

**Carbon footprint**

A measure of the amount of carbon emissions released into the atmosphere as a result of the activities of a particular entity, such as an individual, company or fund. In the case of a company or fund this is typically calculated by dividing carbon emissions by revenues, though the denominator can also be square metre, per employee, unit of production, etc.

**Carbon neutral**

Achieving parity between carbon emissions and removals.

**Compounded annual growth rate (CAGR)**

The CAGR represents the annual growth of an investment over a specific time period.

**Country allocation**

The geographical location in which the holdings of the fund are listed. Exposure represents the relative risk particular to the percentage of investment in that particular geographic location.

**Correlation**

Correlation is a measure of how securities or asset classes move in relation to each other. Highly correlated investments tend to move up and down together while investments with low correlation tend to perform in different ways in different market conditions. A correlation of 1 means two securities or asset classes are perfectly correlated, while -1 means they are perfectly inversely correlated.

**Currency exposure**

The potential for a fund that invests overseas to lose or gain money purely because of changes in the currency exchange rate. Reducing or removing the risk of incurring losses through currency movements is called currency hedging. This is typically achieved through the use of derivatives such as futures or options.

**Current yield**

The annual income from an investment, expressed as a percentage of the current price.

**Custodian**

A financial institution or organisation that is responsible for ensuring the safeguarding of assets that are handed over for safekeeping.

**Cyclical stocks (cyclicals)**

A company that is more sensitive to macroeconomic or systematic changes in the overall economy. Cyclical stocks can be companies that make or sell discretionary items and services that are in demand when the economy is doing well.

**Deflation**

The general decline in prices for goods and services, typically associated with a contraction in the supply of money and credit in the economy. Deflation occurs when the inflation rate falls below zero.

**Depository**

A financial institution or organization that accepts deposits and holds securities and other financial assets in a dematerialised form. A depository has legal ownership over these assets and is responsible for controlling those assets according to a set of rules, laws, regulations, and guidelines.

**Derivatives**

The collective name used for a broad class of financial instruments that use financial contracts, set between two or more parties, that derive their value from an underlying asset. Future, options and swaps are all types of derivative.

**Developed markets**

Countries with relatively high levels of personal income and established economies.

**Dividend pay date**

The date that a dividend is paid by an investment including a company or fund.

**Discrete performance**

The performance, usually expressed as a percentage, of an investment over specific defined time periods.

**Diversification**

A variety of different investments held together, typically for the mitigation of individual risks.

**Dividend**

A payment made by a company or fund to its holders. The company or fund states how much the dividend will be and when it will be paid, in advance of the payment. A dividend is usually regularly paid, typically annually or bi-annually.

**Dividend yield**

The annual dividends paid out by a company or fund expressed as a percentage of the current share price.

**Domicile**

The geographical location where an investment is incorporated.

**Earnings growth**

The percentage change in a company's earnings per share, generally measured over one year.

**Earnings per share (EPS)**

The profits of a company attributed to each share, calculated by dividing net profits after tax by the number of common shares outstanding.

**Earnings yield**

The earnings per share over the most recent 12-month period divided by the current market price. This measure of valuation is often used by investors to determine whether a company might be underpriced or overpriced.

**Emerging markets**

Countries that are progressing toward becoming advanced, usually shown by some development in financial markets, the existence of some form of stock exchange and a regulatory body.

**Engagement**

The process of dialogue between a company shareholder and company management, often with the aim of influencing corporate behaviour on environmental, social or governance practices.

**Enterprise Value-to Revenue (E/V-R)**

A measure of valuation, usually in relation to a company, which works out how much a company is worth in the context of its sales. It is calculated by taking the enterprise value of the company and dividing it by the company's annual revenue. Enterprise value includes market capitalisation and net debt.

**Equities**

The asset class of investing in the shares of companies.

**ESG**

Environmental, Social, and Governance refers to the three central factors in measuring the sustainability and societal impact of an investment in a company or business.

**Dividend XD (Ex Dividend)**

Ex-dividend describes an investment (e.g. a company or fund) that is trading without the value of an upcoming dividend payment. The ex-dividend date is the day the company or fund starts trading without the value of its next dividend payment.

**Fiscal policy**

The use of government spending and taxation to influence the economy. Governments typically use fiscal policy to help promote sustainable growth in the economy.

**Forward earnings yield**

The projected earnings yield of a company for its current financial year.

**Free cash flow (FCF)**

The cash a company generates after accounting for cash outflows that support its operations and capital base. It is calculated by deducting capital expenditures from operating cash flow.

**Free cash flow (FCF) margin**

A profitability ratio that measures a business' cash from operating activities, less capital expenditure, as a percentage of its revenue over a given period.

**Free cash flow (FCF) yield**

A financial valuation ratio that divides the free cash flow a company earns against its market value.

**Futures**

An agreement to buy or sell an asset such as a bond or equity, on a specific date in the future at a price agreed today.

**Gearing (leverage)**

Borrowing money to invest, with the aim of increasing returns.

**Government bonds**

A bond issued by a government to support government spending, most often issued in the country's domestic currency.

**Growth**

The increase in value of investments.

**Hedge fund**

A collective name for unregulated funds that invest in a wide range of strategies, including derivatives, foreign exchange, public equities and private equities.

**Historic gross yield**

The distributions declared over the past 12 months expressed as a percentage of the mid-market price, as at the date shown. It does not include any preliminary charge and investors may be subject to tax on the distribution.

**Income**

Money paid out by an investment, such as interest from a bond or a dividend from a share.

**Income shares/units**

Funds are divided into portions called 'shares' or 'units.' In income shares/units, the income earned by the fund is paid out to investors. See also Accumulation shares/units.

**Index-linked bonds**

Bonds where coupon and capital payments are linked to movements in inflation.

**Inflation**

A measure of the increase in prices of goods and services over time.

**Investment trust**

An investment trust is a closed-ended investment company which has a fixed number of shares in issue at any one time. These are traded backwards and forwards on the stock market, which has no impact on the underlying portfolio.

**Investment universe**

The total range of investments from which a fund can invest in – either defined by a fund's stated investment objective, or by a set of criteria generated by the fund management team.

**ISIN**

International Securities Identification Number. A 12-digit alphanumeric code that uniquely identifies a specific security or fund.

**Key Investor Information Document (KIID)**

A two-page document, required for funds that come under EU law, which contains critical information about a fund. These documents should be written in plain English and are designed to help investors understand the nature and key risks of the fund in order to make a more informed investment decision.

**Large cap**

See Market Capitalisation.

**Liquidity**

The degree to which an investment can be quickly bought or sold on a market without affecting its price.

**Macroeconomic**

A branch of economics that studies how an overall economy, consisting of markets, companies, consumers and governments, behave. Factors studied include inflation, interest rates, unemployment, national productivity and economic growth.

**Market capitalisation**

A measure of a company's size, calculated by multiplying the total number of shares in issue by the current share price. Companies are commonly grouped according to size as large cap, mid cap and small cap. There is no consensus on the monetary boundaries of these ranges but many define it as follows: large cap >\$10bn, mid cap \$2bn - \$10bn and small cap \$250m - \$2bn.

**Materiality**

A measure of the importance of specific topics and information to a company's financial performance. The more significant a topic is, the more material it is, and vice versa. Materiality is often used in the context of ESG, in order to quantify the degree to which environmental, social and governance issues have an impact on a company's financial performance.

**Maturity**

The date when the original amount invested in a bond is repaid. Maturity can also mean the date on which the life of a transaction or financial instrument ends.

**Mid cap**

See also Market Capitalisation.



**Monetary policy**

The tools used by central banks to control the quantity of money available in the economy and the channels by which new money is supplied. Monetary policy is used as a tool to influence and control macroeconomic factors such as inflation, interest rates, unemployment and economic growth.

**NAV**

Net Asset Value is the net value of an investment fund's assets less its liabilities, divided by the number of shares outstanding.

**Net Debt/EBITDA (earnings before interest, taxes, depreciation, and amortisation)**

A measurement of leverage used to determine a company's ability to settle its debt. It is measured by calculating the amount of income that is available to pay down debt before covering interest, taxes, depreciation, and amortisation expenses.

**Net Zero Target**

Net Zero Target refers to achieving a balance between the amount of greenhouse gas emissions produced to the amount removed from the atmosphere by an entity, such as a company or a fund.

**NURS**

Non-UCITS Retail Schemes (NURS) are funds set up and managed in accordance with FCA regulations for such schemes. NURS rules allow funds to access additional asset classes over and above UCITS. NURS funds may also allow greater concentration in assets or individual holdings.

**OEIC**

An Open-Ended Investment Company is a type of collective investment scheme, also known as a managed fund, where the investments of many investors are pooled together. By being open ended, the number of shares or units in the fund goes up as money is put in and goes down as it is taken out.

**Ongoing Charges Figure (OCF)**

A measure of what it costs to invest in a fund. It includes the fee paid to the management company and other operating costs.

**Operating profit margin (OPM)**

The OPM is a measure of the efficiency of operations. It represents the percent of revenue after operating expenses.

**Overweight**

When a fund has more exposure to an asset class, sector, country or company than the benchmark against which it is measured.

**Price-to-book value**

A measure of valuation, usually in relation to a company. The ratio compares how a stock is priced relative to the book value of its assets. Book value equates to the actual value of the company assets minus its liabilities.

**Price-to-earnings (P/E) ratio**

A measure of valuation, usually in relation to a company. The ratio compares how a stock is priced relative to its earnings per share (EPS).

**Private equity**

Investing in shares of private companies, as opposed to companies whose shares are public and listed on a public exchange.

**Quartile**

A measure of how an investment is performing relative to its peer group. For example, the top 25% of funds in a peer group is referred to as the top or first quartile, while the bottom 25% is referred to as the bottom or fourth quartile.

**Real return**

The return generated by an investment, which also takes into account the impact of inflation.

**Real yield**

The yield generated by an investment, which also takes into account the impact of inflation.

**Relative return**

The performance of an investment compared to a particular benchmark.

**Return on equity (ROE)**

A measure of the profitability of a company. It measures a company's net income relative to the value of all shareholders' equity. It is often used to determine how effective a company is in using the money shareholders have invested to generate profit.

**Return on capital (ROC) or Return on invested capital (ROIC)**

A measure of the profitability of a company. It measures a company's net income relative to the sum of its equity and debt value. Unlike ROE, ROC and ROIC also include the total value of debts owed by a company in the form of loans and bonds.

**Revenue**

The money generated by the normal business operations of a company.

**Rights Issue**

An invitation to existing shareholders to purchase additional shares in a company within a given period, in proportion to their existing holding, at a given price (usually at a discount).

**Risk**

The chance of incurring a loss from an investment.

**Sector allocation**

The sector location in which the holdings of the Fund are listed. Exposure represents the relative risk particular to the percentage of investment in that particular geographic location.

**Security**

General term for an equity or debt instrument issued by a government or company.

**SEDOL**

The stock exchange daily official list (SEDOL) is a seven-character identification code assigned to securities that trade on the London Stock Exchange and other smaller exchanges in the UK.

**Share price**

The price of an individual share of a security, usually a company. The price is not fixed, but goes up and down according to market conditions. For example, if a company is perceived to be doing well the price will likely increase, or if the company isn't meeting expectations it is likely to fall.

**Share class**

The types of share representing part ownership of the fund. Each share class usually has some difference to other share classes, such as it pays out income rather than automatically reinvesting it, or it may be denominated in a different currency.

**Short selling (also referred to as shorting)**

Selling assets that you have borrowed from a third party, and then buying them back at a later date to return to the lender. Short sellers hope to profit from a decline in the price of the assets between the sale and the repurchase.

**Small cap**

Small cap See Market Capitalisation.

**Stewardship**

The use of influence by investors to maximise overall long-term value including the value of common economic, social and environmental assets, on which returns and clients' interests depend.

**Top 10 holdings**

The ten largest securities held by a fund.

**Total return**

The total return on an investment, including any capital appreciation/depreciation plus any income from interest or dividends. It is usually measured as a percentage over a set period of time, such as three years.

**Tracking error**

A measure of how closely an investment portfolio tracks an index, usually its benchmark. The higher the tracking error, the greater divergence in performance between an investment and the index.

**Transaction costs**

The expenses incurred when buying or selling securities in a fund.

**Turnover**

The percentage of a fund's holdings that have changed over a period of time. A higher turnover will suggest there have been a number of changes in the composition of a fund, while a lower turnover will suggest that there have been few changes. Turnover is often calculated by taking the lower of purchases and sales and dividing this figure by the average net assets of the fund over the period.

**UCITS (Undertakings for Collective Investments in Transferable Securities)**

This refers to a regulatory framework that allows for the sale of authorised funds in the EU.

**Underweight**

When a fund has less exposure to an asset class, sector, country or company than the benchmark against which it is measured.

**Unit trust**

A type of open-ended pooled investment vehicle, or fund, which is structured as a trust.

**Volatility**

A statistical measure of the fluctuations of an investment, including a company share price or a fund. It can also be used to describe fluctuations in a particular market. It is often used to describe the measure of the size of short-term changes in the value of an investment.

**Weighted average carbon intensity (WACI)**

An index or fund's overall exposure to carbon-intensive companies, expressed in tonnes CO<sub>2</sub>e. This is achieved by first calculating the carbon intensity (Scope 1 + Scope 2 emissions/\$m revenue) of each company and then calculating the weighted average by portfolio weight.

**Yield**

The income from an investment, usually stated as a percentage of the value of the investment.

**Disclaimer**

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