GLOSSARY OF TERMS

AAA

The top credit rating accorded by rating agencies such as the US' Moody's Investors Service and Standard & Poor's.

Approved Deposit Fund (ADF)
A type of fund into which eligible termination payments (ETPs) can be "rolled over" upon a person's retirement, resignation or retrenchment. ADFs were introduced in the second half of 1984 in response to changes in the way that lump-sum superannuation payments are treated in terms of taxation. Funds placed in ADFs benefit from favourable tax treatment.

Accumulation fund
A type of superannuation fund in which the benefit a member receives reflects total contributions plus whatever they have earned, less expenses and tax, so the benefit reflects the performance of the fund's investments.

All Ordinaries Index
An Australian Stock Exchange measure of the share price movements of the 250 Australian companies identified in the index.

All Ordinaries Accumulation Index
An index which measures movements in the value of the major shares listed on the Australian Stock Exchange. It takes into account the capital appreciation and dividends of the 500 largest listed companies.

Amortisation
An accounting description of the writing-down of the book value of an asset over time or the systematic repayment of a debt.

Angel Investor
A wealthy individual who invests in private entrepreneurial firms. Although angels perform many of the same functions as venture capitalists, they invest their own capital rather than that of institutional and other individual investors.

Annuity
A form of life insurance which operates to provide retirement income. The person who takes out the annuity pays the life office a lump sum and in return receives a series of payments.

Asset allocation
The process of allocating the total investment between the different asset sectors such as shares, bonds (also known as fixed interest investments), property, cash (also known as short dated fixed interest) and overseas investments. Asset allocation can also be referred to as the split between growth and interest bearing investments.

Asset class/sector
Refers to a grouping of securities with broad characteristics in common. These sectors include Australian shares, international shares, property, cash, Australian fixed interest, international fixed interest and private capital (i.e. private equity and infrastructure).

Asset mix
The percentage of an investment held in each asset sector. Investment analysis is the outworking of asset allocation. Investment analysis shows the asset mix is a major factor in investment performance. An example of an asset mix is as follows:- Australian shares 27%, international shares 18%, property investments 15%, Australian fixed interest 35% and short dated fixed interest 5%. Asset mixes are applicable to both the total fund and individual products.

Average IRR
The arithmetic mean of the internal rates of return. See “Internal Rate of Return”

AWE
Average weekly earnings.

AWOTE
Average weekly ordinary time earnings – a measure of average wages.

B

Balanced fund
A fund or portfolio which invests in all major asset classes. i.e. cash, fixed interest, property and shares, domestically and internationally. It provides long term capital growth and a reasonable level of income.

Basis point
One hundredth of 1 per cent: 100 basis points equals 1 per cent.

Bear market
A market which is likely to fall; a situation where a dealer is more likely to sell an asset, even to the extent of selling assets which the dealer does not have. The bear hopes to close his short position by buying at a lower price than the assets he has contracted to deliver. The difference between the purchase price and the

original sale price represents the successful bear's profit. Assets can be in the form of stock, currency or commodities.

Benchmark
The long-term “neutral” asset mix within the limits (maximum and minimum) of the strategy range of a particular asset class. A benchmark provides a standard for measuring the individual fund manager’s investment performance. It is used by trustees to determine the investment option best suited to their profile. The benchmark index is the generally accepted market index, which is used to assess performance (e.g. the All Ordinaries Accumulation Index.)

Beta
A measure of the price volatility of a security or portfolio, compared with the market as a whole.

Bond
A debt security issued by entities such as:- corporations, Governments or their agencies (e.g. statutory authorities). A bond holder is a creditor of the issuer and not a shareholder.

Book to Market Ratio
The ratio of a firm’s accounting value (book value) of its equity to the value of the equity assigned by the market (i.e. the product of the number of shares outstanding and the share price).

Book value
The value of an asset as recorded in the books of account of an organisation.

Bull market
A market which is likely to rise; a situation where a dealer is more likely to buy than sell stock/currency/commodities and therefore establish a bull position. A bull with a long position hopes to sell his purchases at a higher price after the market has risen.

Burn Rate (VC)
The amount of cash that a company requires to keep going. Closely related to “burn time” (ie “how long until we run out of cash?”).

Buy and Build
An investment strategy executed by private equity groups. Implementation of this strategy involves first purchasing a company in a specific industry that can then be used as the foundation for purchasing other (often smaller) companies. The foundation company then purchases several other companies to bolster is competitive position. See “Leveraged Build-Ups”.

Buy ins
A management buy in (MBI) uses a leveraged buy out organised by new managers or a management team external to the business to buy into a company.

Buy outs
There are two major types of buy outs, leveraged buy outs (LBOs) and management buy outs (MBOs). Both are organised by the existing management of the company. An MBO involves the acquisition of a product or business from either a public or private entity through the assistance of a venture capital or private equity firm. Financing is usually through the provision of equity. An LBO involves the acquisition of a product or business from either a public or private entity using a significant amount of debt and little or no equity (usually a ratio of 90% debt and 10% equity). In other words, the purchaser uses borrowed money for the acquisition, using the company's assets as collateral for the loan.

C

Call
When a company makes a call on shares it asks the holders of partly paid shares to contribute more money. A call in futures trading refers to a 'margin call'. Funds can be placed on the money market 'at call' which means they have not been lodged for a fixed term.

Call Option
The right, but not the obligation, to buy a financial instrument, such as a share or a commodity during a given period.

Called Capital
Used in private equity circles, this refers to the amount of committed capital an investor has actually transferred to a fund. Also known as the cumulative takedown amount. Capital is called upon when the manager is ready to make an investment.

Capital
The value of an investment in a house or business, represented by total assets less total liabilities.

Capital Asset Pricing Model
A model that shows the relationship between expected risk and expected return on an investment, based on the accepted theory that the higher the risk associated with an investment, the higher the required return.

Capital growth fund
An investment fund which invests principally in assets most likely to increase in value, such as shares and property.

Capital guaranteed fund
A Fund in which the original capital and the declared investment returns are guaranteed.

Capital stable option
A Fund in which security is normally provided by a conservative investment policy concentrating on fixed interest or short term investments, which may be held to maturity or on which no capital losses are realised.

Capital Structure
The debt and equity portfolio of a company balance sheet. Privately held companies can contain several levels (or tranches) of debt and equity in their capital structures.

Carried Interest
Carried interest is the share of profits received by a private equity manager. The carried interest is an incentive payment for the manager to achieve investment goals such as investment returns, capital appreciation and high profits. The most common carried interest split is 80/20 whereby 20% of profits go to the manager of the fund.

Cash-on-Cash
Refers to a series of cash flows used to compute an internal rate of return that is independent of any unrealised gains in the underlying investment. Without unrealised gains, the only flows returning to the investor are cash distributions and the current value of the investment, which is held at its cost basis.

Claw back
During a private equity fund's life some investments may be exited earlier than others and give rise to higher profits. This may mean that the private equity manager receives more than the agreed share of profits. A claw back ensures that the manager gets capital contributions, expenses and any preferred return, as promised in the partnership agreement.

Closed-End Fund
Most private equity or infrastructure funds are closed-end vehicles. These are funds with a defined investment term, at the end of which all capital arising from the divestment of assets will be returned to the investors.

Commitment (or Committed Capital)
An obligation to provide a certain amount of capital to a fund. This will be requested or "drawn down" by private equity managers on a deal-by-deal basis. This amount is different from invested funds for two reasons. Firstly, most partnerships will invest only between 80% and 95% of committed funds. Second, one has to deduct the annual management fee which is supposed to cover the cost of operation of a fund.

Complying fund
Fund which satisfies the conditions of the Superannuation Industry (Supervision) Act (SIS) and Regulations and therefore may be taxed concessionally.

Convertible notes
Securities that are convertible into the ordinary shares of a company at a pre set price or ratio at specified times. Convertible notes are attractive to some investors because they display certain properties of bonds and shares.

Corporate bonds
Security issued by a company in which the company acknowledges that a stated sum is owed and will be repaid at a certain date. A corporate bond, like a government-issued bond, usually pays a stipulated amount of interest throughout its life to the holder.

Cost Basis
The value of an investment, not taking into account unrealised gains associated with market valuations. It consists of the amount of the original investment, any additional incremental investments, capitalised fees, retained earnings from the investment etc.

Coupon rate
The annualized value of a bond's regular interest rate repayments expressed as a percentage of a bond's par value.

CPI
Consumer Price Index. A measurement taken quarterly of movements in the prices of a fixed list of goods and services. The CPI is used as a guide in adjusting award wages and other costs, which are linked to the inflation rate.

Credit Crunch
A period when there is a sharp reduction in the availability of finance from banks and other financial institutions, particularly from small businesses. This usually occurs during a recession or tough economic times.

Credit downgrade or upgrade
A change to a company's credit rating. An upgrade reflects a perceived heightened ability to meet debt obligations. A downgrade reflects a deterioration in the company's perceived ability to repay debt.

Credit rating
Rating applied to a company's debt or debt security that indicates the company's relative creditworthiness. The most well-known ratings are issued by US ratings companies Moody's Investors Services or Standard & Poor's. Debt issuers pay these companies to rate their debt to make it easier to attract investors.

D

Debt security
A financial security that represents borrowings that must be repaid by the issuer.

Deal Flow
A term used to describe the number of proposals being received by a private equity fund on some calendar basis (eg. three deals a week).

Dealers licence
A licence issued by the Australian Securities Commission under the Corporations Law to a person in the business of dealing in securities or making securities recommendations or providing investment. The licence may be subject to conditions, including liquidity requirements.

Debt security
A financial security that represents borrowings that must be repaid by the issuer.

Default
Failure to meet a debt obligation.

Deferred annuity
A type of annuity that pays an income starting from a future age or date. Deferred annuities can only accept eligible termination payment (ETPs) such as lump sums from superannuation funds.

Derivative
Financial tool which enables investors to obtain returns from an investment in a market or a particular security without physically purchasing that security. They generally require a small deposit, can usually be bought or sold more quickly than physical securities and are generally much cheaper to transact. Derivatives can be used as a risk management tool or to speculate. They can provide key benefits in that they can improve liquidity and reduce transaction costs.

Development Capital
Sometimes known as Expansion Capital. See Expansion Capital definition.

Dilution
The reduction in the percentage of equity owned by a company’s founders and existing shareholders as a result of a new financing round. The new round brings in new shareholders which dilutes the percentage ownership of current shareholders.

Direct investment
Taking a stake in a company or joint venture which brings a say in how the operation is run, although it does not necessarily give a controlling interest.

Distressed Debt
A private equity investment strategy that involves purchasing discounted bonds of a financially distressed firm. Distressed debt investors frequently convert their holdings into equity and become actively involved with the management of the distressed firm.

Discretionary option
Refers to the type of AMP investment product where AMP undertakes asset allocation. For example, the Equity Based Option is an alternative which has an asset mix weighted towards equities. The Capital Stable Option on the other hand has an asset mix which a much higher percentage invested in fixed interest securities. Asset mixes of the options has been changed within strategic ranges at the fund manager's discretion, according to the investment outlook.

Diversification
The process whereby funds are spread among classes of securities and geographical localities in order to distribute and control risk. As a result, the return on the portfolio as a whole varies less than the return on smaller lots of individual stocks.

Diversified option
An option which generally invests in more than three asset sectors.

Dividend
The distribution of part of the earnings of a company to its shareholders.

Draw downs
Payments to private equity managers by investors in order to finance investments. Funds are drawn down from investors on a deal-by-deal basis.

Due Diligence
Detailed research of a business, its management team and other factors to ensure the accuracy, soundness and completeness of its operations. A critical step in the investment selection process.

Duration
In fixed interest investments this is a measure of the portfolio's sensitivity to interest rate changes. It takes into account the maturity date of a debt plus its coupon payments. As an indicator of risk, duration is useful for two reasons. First it provides a means of assessing the degree of mismatch between the assets and the benchmark or liabilities of a portfolio. Second, it provides an indication of portfolio volatility or risk.

E

Earning rate
Interest or growth rate earned on amounts held in the superannuation plan (usually expressed as a percentage of each year).

Early Stage Financing
A term used in the private equity industry. It is also referred to as Start-up Capital. A company in early stage of its life cycle is likely to have completed product development stage but require further funds to initiate commercial manufacturing and sales. They may not yet be generating profits.

EBITDA
This is Earnings Before Interest, Taxes, Depreciation and Amortisation. This is an accounting measure of operational earnings that provides a more accurate view of the performance of a company's core business versus the net earnings of a company. It is often used to compare firms with different levels of indebtedness.

Eligible termination payment (ETP)
A payment made to an employee upon retirement, resignation, retrenchment or disablement, and capable of being "rolled over" into investments such as Approved Deposit Funds in order to minimise taxation liability.

Emerging Markets
A term used to define less developed economies. Characteristics which define emerging markets include, GNP (gross national product) per capita is substantially below the average for developed economies (as benchmarked by the World Bank), markets are highly regulated, there are restrictions on foreign investments and investment risk is perceived to be higher than for developed markets. Emerging markets are attractive due to the potentially high growth rates resulting from economic reform. Examples of some emerging market countries are Brazil, Argentina, Chile, Venezuela, Poland, Czechoslovakia, Russia, Hungary, Greece, South Africa, Turkey, Egypt, Israel, Indonesia, Korea, Malaysia, Taiwan, China and Philippines.

Enterprise Value (EV)
A measure of a company's value, calculated by: market capitalisation plus debt & preferred shares minus cash and cash equivalents. It is the theoretical takeover price that a buyer would pay for a company less the cash.

Enterprise Multiple (EV/EBITDA)
A ratio used to determine the value of a company. The enterprise-multiple takes debt into account, something which other multiples like the P/E ratio do not include. Enterprise Multiple = Enterprise Value/EBITDA A company with a low enterprise multiple can be viewed as undervalued and therefore a good takeover candidate.

Equities
See shares.

Equity Carve-out
A carve-out is when a company sells a minority (normally 20% or less) stake in a subsidiary for an IPO (initial public offer) or rights offering.

Equity Kicker
A transaction in which a small number of shares or warrants are added to what is primarily a debt financing.

Equity Ownership Structure
A schedule of who owns what type of equity of a specific investment. There are a variety of equity instruments available to owners of a company. These include preferred stock, common equity, equity options, equity warrants and convertible debt (that can be converted into equity).

Escrow
A temporary holding place for earnings of a private equity fund. Typically, the fund will require a private equity manager to place all, or a portion of its carried interest in escrow until certain performance milestones are met or the fund is terminated.

Expansion Capital
In the private equity market this is referred to as capital required by an established company to fund the expansion of the business. This term is often used interchangeably with development capital. Funds may be used to finance increased production capacity, product development, provide additional working capital or for marketing. Capital provided for rescue/turnaround situations is also included in this category.

F

Fair Value
The latest stated value of an investment. This could be based on the market value of the publicly traded securities or, if the investment has already sold, the sale price of the investment.

Financial Engineering
An investment strategy executed by private equity groups. Implementation of the strategy usually involves purchasing a company using a significant amount of leverage. Over time, the private equity manager seeks to reduce the leverage, causing profits and equity value to accelerate rapidly as debt is eliminated and interest payments are eliminated.

Financial Leverage
Use of debt to increase the expected return on equity. Financial leverage is measured by the ratio of debt to debt plus equity.

Fixed interest
Interest paid on investments such as bonds and debentures, paid at a predetermined and unchanging rate for a specified period.

Float
A float is to take a company public by issuing shares to investors outside the company. Once a company is floated its price is quoted on a recognised stock exchange, where ownership can be traded. (Also see “Initial Public Offer”).

Floating rate
An interest rate set so many basis points above an agreed market-related benchmark (such as the UBS Warburg Bank Bill Index in Australia).

Floating rate note
A security whose yield is periodically reset to a reference index rate to reflect changes in interest rates.

Fragmented Industry
A fragmented industry is an industry which contains many small or relatively small competitors and no, or few, leaders in each relevant geographic and/or product market.

Fund-of-Funds
A fund whose principal activity consists of investing in other investment funds managed by several different investment managers. Capital is allocated among a number of funds which may utilise a variety of investment styles, creating a diverse vehicle for investors and providing them with access to managers that they might not be able to discover or evaluate on their own. It serves as a “one stop” research, access, selection, portfolio construction and administration solution for investors.

Futures
A derivative, an obligation to make or take delivery of a specified quantity and quality of an underlying asset at a particular time in the future and at a price agreed when the contract was executed.

FX, FOREX
An abbreviation for “Foreign Exchange”.

G

G3
Group of Three. The three largest western industrialised economies – the USA, Germany and Japan.

G7
Group of Seven. The seven leading industrial nations outside the communist block – USA, Japan, Germany, France, UK, Italy and Canada.

Gatekeepers
Specialist advisers that assist institutional investors in their investment allocation decisions. Most manage funds of funds.

GDP
Gross Domestic Product. A measurement in dollar terms of aggregate goods and services produced within a particular economy over a year excluding income earned outside the country. Considered one of the main yardsticks of the health and vitality of the particular economy.

GNP
Gross National Product. The GDP with the addition of interests, profit and dividends received from abroad. The GNP better reflects the welfare of the population in monetary terms, although it is not as accurate as a guide to the productive performance of the economy as the GDP.

Gross IRR (also see IRR)
The internal rate of return inclusive of management expenses and fees. It is the annual percentage pre-tax return from an investment (or fund's) cash outflows (including the cost of investment and costs of formation and management) and cash inflows (including sale proceeds from investments over a period of time (adjusting for the fact that money received later is worth less than money received now).

Growth investments
These investments generally include Australian and international shares, direct resources and property investments. These assets are expected to experience capital growth and a degree of risk is involved. See also interest bearing investments.

H

Hedging
Taking steps to protect against, or at least reduce, a risk; a form of insurance. The term is common in futures and foreign exchange markets where traders use facilities available to protect themselves against future price or exchange rate variations.

Hurdle rate
The expected rate of return on a potential investment that an investment manager demands before committing his money. It is an arrangement that caps the downside risk for investors.
Hybrid security – A term used to describe a complex security consisting of virtually any combination of two or more risk management building blocks bond or note, swap, forward or future, or option. A hybrid listed on a stock exchange is generally one that pays a fixed return similar to a bond while containing the option of being converted into shares in the issuing company.

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Term used to describe a complex security consisting of virtually any combination of two or more risk management building blocks bond or note, swap, forward or future, or option. A hybrid listed on a stock exchange is generally one that pays a fixed return similar to a bond while containing the option of being converted into shares in the issuing company.

I

Indexing
A low-risk investment management strategy in which, the investor trades according to the performance of a market as a whole, rather than particular stocks or assets.

Industry superannuation
Superannuation resulting from an award or productivity agreement, or a superannuation scheme which covers an entire industry rather than one employer or company.

Inflation
An increase in the volume of money and credit relative to available goods and services resulting in a continuing rise in the general price level.

Inflation indexed securities
Those securities where either part of all of the return is adjusted by an indexation factor reflecting changes in a price or wage series at the economy-wide level. The most common index used is the CPI, although there has been one securities issue based on the AWE Index.

Infrastructure
A term use to define projects or businesses that support the community. These include transport links (eg. toll roads, railways, bridges), transport nodes (eg. airports, shipping ports, bus terminals), essential service delivery (eg. electricity, gas, water, telecommunications) and community amenities (eg. hospitals, housing, education, prisons).

Initial Public Offer (IPO)
The first fund-raising from the general public. It generally results in a listing on a stock exchange.

Interest bearing investments
These investments generally include Australian, international and short dated (or "cash") fixed interest investments.

Internal rate of return (IRR)
The return from an investment, calculated to show the rate at which the present value of future cashflows from an investment is equal to the cost of the investment. Effectively it is the compound rate of return over the life of the investment and combines capital gains with income earned.

Investment grade
Debt securities that have a credit rating high enough for them to be purchased by most institutional investors. Debts rated by Standard & Poor's at BBB and above and by Moody's to Baa3 are considered to be investment grade securities that provide adequate financial protection to meet their obligations.

Investment linked fund
Funds directly link the value of the plan's investments in the fund to the market value of the underlying assets.

ITAA
Income Tax Assessment Act

J

J-Curve
The j-curve illustrates the internal rate of return (IRR) of a fund (or an investment) over time. It is typical in a private equity fund that during its first one or two years, the fund will show a negative return. This is due to the impact of the start-up costs. The fund's returns will start to rise as soon as the first realisations are made. After approximately three to six years, the fund's interim IRR will approach its final IRR.

K

Kangaroo bond
Bond issued by a foreign company or body (such as the Asian Development Bank) in Australian dollars.

L

Later Stage Financing
Private equity financing for the expansion of a company which is producing, shipping or increasing its sales volume.

Leveraged Build-Ups (LBUs)
In an LBU a private equity investor consolidates several companies in a fragmented industry into a single company that has the potential to become a regional or national leader. LBUs are known as “roll-ups” or “platform investing”. As one large entity, a roll-up of several companies can theoretically achieve higher earnings than the sum of the separate companies due to economies of scale and greater access to financing.

Leveraged buy-out – See Buyouts

LLC (Limited Liability Company)
A limited liability company is an alternative structure to a limited partnership (the structure most commonly used by private equity funds). It is often described as a hybrid between a corporation and a partnership because it offers limited liability (like a corporation) and single taxation on income (like a partnership).

Limited Partnership (LP)
Most private equity firms structure their funds as limited partnerships. Investors represent the limited partners and private equity managers the general partners. Australian private equity funds are often structured as unit trusts.

Listed Asset
A company that is publicly owned and listed on a recognised exchange.

Listed debt
Debt traded on an active exchange. Listed debt can include corporate bonds and hybrids.

Liquidity
The ease with which any investment can be converted into cash.

Liquidity Premium
This is the additional return for investing in a security that cannot easily be turned into cash.

Liquidity support vehicle
Mechanism that allows investors in illiquid assets to quickly convert their holdings into cash if they wish.

Listed property
Constitutes shares in property companies or units in property trusts listed on the Australian Stock Exchange. Examples are Centro Properties Limited and the Westfield Trust.

Lock-up
A provision in the underwriting agreement between an investment bank and existing shareholders that prohibits corporate insiders and private equity investors from selling at the time of the offering.

Long term investment
An investment which generally matures in more than five years.

M

"Macro"
Usually in reference to economics. The study of economic aggregates and their relationships to, for example, money, employment, interest rates, government spending, investment and consumption.

Managed fund
Arrangement which usually involves the pooling of the contributions of a plan in a particular fund. This is managed by an external manager and management charges, insurance premiums and benefits are paid. Income earned is credited to the fund.

Management Buy-Out (MBO)
See Buyouts.

Management Buy-In (MBI)
See Buyins.

Master trust
A superannuation vehicle which enables a number of companies or individuals to combine their superannuation business under a common trust deed.

Medium term investment
An investment which generally matures between two and five years.

Mezzanine Finance
A form of finance that combines debt and equity components to provide flexibility to the investor and the company. Mezzanine investing is riskier than traditional senior debt since the debt portion is in the form of subordinated debt (the level of financing senior to equity but below senior debt). Thus, if a company goes into liquidation subordinated debt financiers will rank below senior debt financiers in the credit chain.

MSCI Accumulation Index ($A)
The Morgan Stanley Capital International Index in Australian dollars. It measures the way international shares values have changed ($A) and includes reinvestment of dividends. This index is a market proxy for international share portfolios.

MTF
Managed Treasury Fund. One of the ranges of wholesale trusts offered by AMP Asset Management.

N

Net Asset Value (NAV)
The value of a fund's holdings, which may be calculated using a variety of valuation rules.

Net IRR (also see IRR)
The internal rate of return net of management expenses and fees.

Net Present Value (NPV)
A project's net contribution to wealth. It is the present value minus the initial investment. It computes the expected value of one or more future cash flows and discounts them at a rate that reflects the cost of capital.

Nominal Interest Rate
The interest rate expressed in money terms.

Non-contributory superannuation
Type of superannuation in which the member does not personally contribute.

Non complying fund
Type of superannuation which does not comply with the old section 23F of the ITAA and/or the SIS Act.

O

OECD
Organisation for Economic Cooperation and Development. Formed in 1961 to promote cooperation among industrialised member countries on economic and social policies. The 25 members are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, UK and USA.

Option
A type of derivative. It is a contract giving the holder the right but not the obligation to buy or sell an underlying asset at a specified price during a given period of time.

P

Portfolio
The list of holdings in securities owned by an investor or institution.

Payback Period
Time taken for a project to recover its initial investment.

Payout Ratio
Dividend as a proportion of earnings per share.

PIPES (Private Investment in a Public Entity)
A privately negotiated injection of equity into a publicly listed company, usually in the form of converting preference shares.

Pooled Superannuation Trust (PST)
A unit trust which can only invest in assets of superannuation funds, approved deposit funds (ADFs), PSTs and certain other tax advantaged entities. It is regulated by the SIS Act. They must satisfy set operational standards set out in the SIS Act.

Preferred Stock
Stock that has preference over common stock with respect to dividends or other forms of payments in association with the liquidation of a company. Preferred stock holders may also have other rights such as the ability to block mergers or sack current management.

Preserved benefit
Amount of members' benefits required to be preserved in a fund until a member satisfies a condition of release as set out in the SIS Act or Regulations (eg. retirement, death, permanent departure from Australia, permanent incapacity, attaining 65 years).

Private Equity
Sometimes referred to as alternative assets or loosely as venture capital. Includes the different forms of financing that can be provided over the various business cycles of a private company (i.e. unlisted company). The finance is provided by one or more private investors to help develop, resurrect or grow a business. Private equity financing can be broken down into the follow stages of a company's development. These

include seed capital, start-ups, venture capital (early stage), expansion capital, buyouts (management buyouts and management buy-ins) and restructuring or turnaround investment.

Private Finance Initiative (PFI)
Utilises private sector capital and skills to fund the development of public sector services, e.g. schools, hospitals, roads, but it is only the fixed assets and provision of services in relation to those assets (e.g. building maintenance) that fall within the PFI. The operation of the services, such as education provision in a school, remains the obligation of the Government.

Private Placement
The sale of securities not registered with a recognised exchange to institutional investors or wealthy individuals. These transactions are frequently facilitated by an investment bank.

Privatisation
Involves a private enterprise or syndicate purchasing a government asset or service.

Proper authority
An instrument under the Corporations Law which signifies the responsibility of a securities dealer or investment adviser for acts of an employee or agent. Proper authorities are required to be provided to certain categories of employees of fund managers, stockbrokers and investment advisers.

Property
Refers to direct property investment, which covers a wide range of real assets including office (commercial), retail (shopping centres), industrial, hotel and leisure as well as residential properties.

Public to Private
A transaction where an under-analysed, “ignored” publicly listed company is de-listed and managed as a private company.

Purchase Multiple
A valuation parameter associated with the purchase price of a specific investment. It is analogous to the P/E ratio using in public listed companies.

Put option
The right, but not the obligation, to buy a financial instrument or a commodity within a specified period.

Q

Quant
A specialist usually working in portfolio management or bond research who develops systems that map past movements in financial markets with a view to predicting future equity, commodity and currency values.

Quartile
Investment surveys rank investment managers according to the investment performance of their products. Managers in the top quarter of those participating in the survey are said to be “top quartile performers”. Similarly, an investment manger’s performance may fall in the second, third or fourth quartile, or be simply “above average” (quarters one and two combined).

R

Recapitalisation
The restructuring of a company’s balance sheet by either increasing or decreasing the amount of corporate debt. The aim is to alter the capital structure of a company in order to improve its profitability. This strategy is considered to be a form of financial engineering.

RBL
Reasonable Benefit Limit. Maximum benefit provided directly by employers and by complying superannuation funds. The purpose is to limit the amount concessionally taxed contributions which can be made to a fund. Any amount of benefit in excess of this limit is said to be an excessive benefit.

Real return
The rate of return on an investment in excess of inflation. For example, if the rate of return is 10% but the inflation rate is 3% the real return is 7% (= 10-3%).

Resource
Any physical item produced for trade purposes. Australia’s resources include coal, gold, aluminium and oil.

Return Multiple
A common measurement used in the private equity market is the amount realised for the investment divided by the original cost of the investment, otherwise known as realisation ratio or return multiple. The measurement does not take into consideration the time value of money.

Risk
In investment terms risk is a measure of volatility. Volatility is a measure of the variability of returns and is the standard deviation of investment returns over a specific period of time. The higher the standard deviation, the higher the level of risk associated with that investment.

Running yield
The interest rate on an investment expressed as a percentage of the capital invested, thus showing the actual cashflow of the amount paid for the investment.

S

Secured Debt
Debt which, in the event of default, has first claim on specified assets.

Securities
Written undertakings securing repayment of money. They are typically negotiable instruments such as bonds, bills of exchange, promissory notes or share certificates which establish ownership and payment rights between parties.

Securitisation
Substituting tradeable securities for privately negotiated instruments.

Seed Capital
See Start-up Capital.

Senior Debt
Debt which, in the event of bankruptcy, must be repaid before subordinated debt receives any payment.

Shadow credit rating
An internal rating applied by AMP Capital to debt that has not been rated by one of the well-known ratings companies such as Standard & Poor's.

Shares
Also known as equities. A person who buys a portion of a company's capital becomes a shareholder in that company's assets and as such receives a share of the company's profits in the form of an annual dividend. There are different types of shares, for example ordinary, preference, cumulative preference and participating preference shares.

Short term investment
An investment which generally matures in less than two years.

SMP
Separately managed portfolio.

Socially Responsible Investment (SRI)
An innovative form of investing because it focuses on investing in companies that will form part of a socially and environmentally sustainable world. SRI aims to achieve more than financial returns. Its non-financial aims include issues such as attempting to boost working conditions and helping the environment.

Superannuation guarantee charge (SGC)
This is the penalty imposed on an employer if they do not pay the required superannuation guaranteed contributions.

SIS
Superannuation Industry (Supervision) Act 1993. This is now the governing legislation for superannuation funds, approved deposit funds (ADFs) and pooled superannuation trusts. The trustees of these entities must comply with SIS in order for the funds to be concessionally taxed.

Specialised option
An option which generally invests in less than three asset sectors.

Split funding
Where investment of the monies of a plan are split between two or more investment managers.

Start-up Capital
Financing provided to companies which have not yet fully established commercial operations and may also involve continued research and product development. Essentially it is money provided to companies to develop a concept.

Subordinated Debt
A loan which ranks behind other debts if a company is wound up. For this reason subordinated loans are more risky that debt classed as senior or insubordinated debt. Subordinated debt usually commands a higher interest rate than higher-ranked debt.

Subordinated loan
A loan that ranks behind other debts if a company is wound up. For this reason subordinated loans are more risky that debt classed as senior or insubordinated debt. The subordinated debt usually carries a higher interest rate than higher-ranked debt.

Superannuation
A pension or payment to a person retiring from full-time work on reaching a legislated age. The term also refers to the accumulating contributions by employers and employees to a superannuation fund.

Superannuation trust
Commonly refers to tax-free investment trusts open only to trustees of superannuation funds and not private investors.

Swap
On debt markets, when one party pays a fixed interest rate to another in return for a floating rate.

Swap rates
The fixed interest rates traders will pay to receive a floating money-market rate. The gap between those rates and government bond yields are know as swap spreads and gauge risk appetite.

Swap curve
A visual representation showing the fixed interest rates at which the bonds of the best-rated companies can be swapped for floating money-market rates.

SWB Index ($A)
The Salomon Brothers World Bond Index in Australian dollars. It is a market proxy for international bond portfolios. All income is reinvested.

Strategic range
The minimum and maximum weighting allowed within each asset sector. These ranges vary accordingly to the type of discretionary option and are changed infrequently.

Syndicate
A collection of investors will pool their financial resources to simultaneously purchase securities from a corporation.

T

Terminal Value
The expected value of an asset at the end of an investment period. If the investment is not publicly traded, then the terminal value is subject to the valuation and appraisal procedures of the valuer. These procedures can have a high degree of subjectivity.

Trust
An arrangement whereby an asset is held by a person or persons (the trustees) for the benefit of some other person or persons (the beneficiaries).

Trust deed
The formal legal document which sets out the rules governing how a fund operates.

Trustee
An individual or company with the duty to ensure that the rules of the trust deed are adhered to. Trustees are normally responsible for the running of superannuation plans and are bound by the trust deed, the relevant trust law and the SIS Act.

Trustees' discretion
Decisions which, under the trust deed and/or rules for a plan, are specified to be exercisable in any manner, solely at the discretion of the trustees. E.g. death payments.

U

Underwriter
A firm which buys an issue of securities from a company and resells it to investors.

Unit Price
The unit price is a measurement that reflects the value of a Fund at a point in time. Prices are either allocation or issue (buy in at) or release or redemption (sell at). The total investment of a unit holder can be measured by the number of units held multiplied by the unit price.

Unit linked investment
See investment linked fund.

Under/outperformance
The measure of performance against an index, competitor or any other benchmark.

Under/overweight
Underweight is less than the benchmark holding in an asset class; overweight is greater than the benchmark holding.

Unlisted Asset
A company that is privately owned and not listed on the stock exchange. Unlike a listed company that is publicly owned and listed on a recognised exchange.

Unlisted debt
Debt that is not traded in an active market such as the stock or bond market. Typically the term unlisted debt

market refers to the private structured debt market. This type of debt implies complex legal arrangements between share holders, borrowers and lenders.

V

Vested benefit
The amount of vested benefit is the minimum sum which must be paid to a member of a superannuation fund when the member becomes entitled to a benefit on withdrawal. (e.g. on resignation.)

Volatility
A measure of the variability of returns. It is often taken as a proxy for investment risk.

Venture Capital
A term used interchangeably with private equity. AMP Capital defines Venture Capital as finance provided by one or more private investors to help the development of a relatively young business. American venture capital houses tend to refer to venture capital as investment in technology related businesses.

Vintage Year
The year a fund was formed.

W

WDR 90 Day Bank Bill Index
Measures the way Australian bank bill rates change over time. It is the industry accepted proxy for bank bill rates. All income is reinvested.

WDR Composite Bond Index
Fixed interest market index. It measures the change in market price of a pool of fixed interest securities (50% Government bonds, 38% semi-Government securities, 10% corporate bonds and 2% mortgage backed securities.) All income is reinvested.

WDR Inflation Linked Bond Index
An index representing the change in prices of the major securities issued in the inflation indexed bond market. All income is reinvested.

Weighting
Percentage or proportion of the portfolio invested in each asset class.

Wholesale fund
AMP Capital's range of wholesale trusts are pre-tax pooled investment vehicles that allow individuals to invest collectively, benefiting from the expertise of a professional investment manager and better diversification than may be available to the them as an individual investor. Income distributions to investors are normally before tax and so investors are able to manage their investments within the constraints of their overall tax position. Where investors have a marginal tax rate lower than the company tax rate, the investor may also benefit from paying a lower rate of tax.

Withholding Tax
Tax levied on dividends paid abroad.

Write downs
A decrease in the market value of an investment established by a valuation.

X

Y

Yield
A measure of return on an investment expressed as a percentage (calculated by dividing the income from an asset by its current capital value).

Z