Zwitserleven

Overview Investment Terms

Investment categories:

Shares (equity) and equity funds

A share is proof of participation in the capital of a company. Investing in shares can be realized through buying a share of an individual company or by investing in equity funds. An equity fund often invests in multiply different underlying shares. The advantage of equity funds is that the risk is spread over multiple companies and that the administration of the shares is executed by a fund manager.

Real estate (shares)

Investing in real estate can be done directly and indirectly. An example of a direct real estate investment is buying homes or shops. Indirect investment involves purchasing participations in investment funds that invest in real estate. Such investments are often referred to as real estate shares because the value of these investment funds often moves with general share prices.

Bonds

This is a negotiable debt certificate for a loan issued by a government, company or other institution. A bond is often issued by a government or company. The goal is to attract financial resources. There is usually an interest payment annually, also known as a coupon. In addition, the issuer of the bond repays the borrowed capital on the due date.

High-yield bonds

These are bonds issued by companies with a relatively low credit rating and therefore considered as having a higher risk. This form of bonds has a higher return, as investors want to be compensated for their higher risk with these investments.

Corporate bonds

A corporate bond is a negotiable debt certificate issued by companies.

Cash

These are immediately available funds, for example cash or short-term deposits.

Investment fund

An investment fund is a basket with a mix of different underlying investments. Investment funds offer a wide spread of investments across multiple different companies or sectors. Investing through an investment fund is an efficient way to achieve an appropriate spread in risk. Therefore, investing through an investment fund is often less risky than buying individual shares.

Benchmark (index)

Is a standard or point of reference against which the performance of an investment fund or asset manager can be assessed.
A benchmark is therefore used to indicate how well the asset manager is performing. If the investment manager's return is higher than the benchmark's return, then he has performed well. A benchmark index is often used as a benchmark for fund investments, this is a basket of, for example, a number of shares. The total value of all outstanding shares determines the value of an index; fluctuations in the value of the index are therefore caused by price fluctuations of the shares included in the index. Well-known examples of indices are AEX, Dow Jones and S&P 500.

Counterparty risk

The risk that a counterparty to a transaction cannot meet his contractual obligations (payment).

Custodian

A Custodian is a company that holds and administers securities (e.g. shares or bonds).

Credit rating

The credit rating reflects the creditworthiness of certain investments or companies. Credit ratings are determined by independent specialized credit rating agencies.

Currency risk and hedging

Currency risk is the risk that the value of investments will be (negatively) influenced by fluctuations in the exchange rates of foreign currencies (not Euro). Investors often have portfolio investments that are listed in a foreign currency (e.g. shares of US companies). When the value of this foreign currency falls relative to its own local currency (Euro for a Dutch investor) the investor loses a return on its investments due to exchange rate fluctuations.

Derivatives

Derivatives are financial products whose value is based on an underlying asset such as a share or an index (e.g. the AEX index).
A derivative gives the buyer the right or the obligation to buy or sell something at a specific price. That which may be bought or sold is the underlying asset. The value of a derivative is therefore related to that of the underlying value, such as the value of a share, commodity or foreign currency. The main forms of derivatives are options, futures and forward contracts.

Dividend

Is a profit distribution from a company to its shareholders. This payment can be made in cash (cash dividend) or in shares (stock dividend). The amount of this dividend payment is usually related to the amount of profit achieved.

Dividend reclaim

A Dutch investor in shares may be subject to taxation of dividends received (dividend tax). To prevent the dividend on foreign shares being taxed in both the Netherlands and abroad, the Netherlands has established tax treaties with many countries. On the basis of these tax treaties, a Dutch investor can, in certain circumstances, (partially) reclaim the withheld tax on foreign dividends.

Entry and exit fee

Is a payment that the entering / leaving party pays when buying / selling units of an investment fund. These costs can be charged to protect the existing participants of the investment fund, as they must be compensated for any transaction costs that the investment fund has to incur in the case of entrants and exits.

ESG criteria

Criteria in relation to the environment, society and governance of investments. When assessing an investment, these criteria are explicitly considered, in addition to the usual financial and economic matters. Examples of these criteria are, for example, the CO_2 emissions of a company, the protection of employee rights and governance aspects such as the presence of an independent board.

Fixed income securities

Collective name for investments on which in principle a fixed interest payment and a fixed term applies.
Examples of fixedin come securities are government bonds, corporate bonds, private loans and mortgages.

Inflation (protection)

Inflation is an increase in the general price level in the economy, it means that money loses its value. If inflation occurs, you can buy less with the same amount of money. Inflation is expressed as the percentage in annual price increase of a collection (basket) of commonly used consumer products. An investor runs the risk that inflation (and thus costs) will rise, while the value of the investments does not show the same development in value. An investor can hedge this inflation risk by investing in inflationrelated investment products (such as, for example, Inflation Linked Government Bonds that are included in the Matching funds).

Interest rate and inflation swaps

A swap stands for the exchange of values and risks between two parties. A swap is mainly used to hedge interest, inflation and other risks.
An interest rate swap is used to hedge interest rate risks. The variable interest and the fixed interest are exchanged between two parties. In this case, one party receives the variable interest while it pays the fixed interest to the counterparty. An interest rate swap can therefore offer protection against interest rate fluctuations. An inflation swap is used to transfer inflation risk from one party to another through an exchange of cash flows. In an inflation swap, one party pays a fixed interest on a capital, while the other party pays a variable interest that is linked to the development of the inflation.

Interest rate risk and sensitivity

Interest is the compensation that someone receives for lending his or her money and is paid by the person who borrows the money, it can be seen as the price for making capital available. Interest rate risk is the risk that the value of investments will fall if interest rates on the financial markets rise. Interest rate sensitivity refers to the change in the value of an investment as a result of a change in these interest rates. A longer term of an investment often means a higher sensitivity to a change in interest rates.

Leverage

Is increasing (or decreasing) the investment return by financing an investment with loan capital (borrowed money).

OCF (Ongoing Charges Figure)

These are the ongoing costs in investment funds, for example costs for asset management, the fund management, the accountant and distribution. These costs are often shown as a percentage of the total fund assets.

PRI

Principles for Responsible Investment. These principles have been drawn up by the United Nations and provide a standard for responsible investment in relation to the environment, society and corporate governance (ESG) factors. Organizations that want to take sustainability into account in the investment process follow these principles.

Return Assets

Collective term for investments in riskier investments such as shares and investments in real estate.

Securities Lending

The temporary lending of investments (for example shares or bonds) with the aim of generating extra returns or temporary liquidity, among other things.

Stewardship

An umbrella term for (actively) engaging with the companies in which is invested and exercising the right to vote at shareholders' meetings. By doing this, investors can encourage activities of companies / governments that focus on long-term value creation.