Terms used in this Report

Absolute return vehicles: types of investment strategies targeting a positive return in absolute terms rather than relative to an index or other benchmark.

Active management: a style of investment management where the aim is to outperform a chosen index (e.g. the Financial Times – FTSE All Share Index).

Actuary: an adviser on financial questions involving probabilities relating to mortality and other contingencies.

Additional Voluntary Contributions (AVCs): members pay these to increase their retirement benefits in the context of The Pensions Trust, normally to the Growth Plan, Unitised Ethical Plan or Flexible Retirement Plan.

Alternative assets: include real estate, hedge funds, private equity and commodities. They are bought in order to enhance expected return and diversify a portfolio. Alternative assets are usually unquoted and therefore less liquid than equities and bonds.

Annuity: a series of payments, which may be subject to increases, made at stated intervals until a particular event occurs. This event is most commonly the end of a specified period or the death of the person receiving the annuity.

Asset allocation: how assets are distributed between various investment classes: equities; bonds; cash; property, etc.

Assets: the items such as investments, cash and debtors, to which people, companies, the trustees of a pension scheme, etc have title.

Audited accounts regulations: the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995, as amended.

Benchmark: a base against which performance results can be measured.

Bonds: a form of loan. A certificate of debt issued by a Government or company, promising regular payments on a specified date or range of dates, usually with final capital payment at redemption.

Buy-in: the purchase by the trustees of an occupational pension scheme of a policy to transfer to an insurance company all of the risk of meeting an agreed quantum of pensions when due. In return for a one-off premium paid the insurer promises that the benefits that will be provided under the policy will replicate those under the rules of the scheme. The insurer therefore takes on the future interest rate, inflation and longevity risks for those pensions now 'bought-in'.

CARE: The Pensions Trust's Career Average Revalued Earnings Scheme, introduced from October 2001. The pension is defined by members' earnings revalued throughout their career by price inflation (RPI).

Contracted-out: a pension scheme is contracted-out where it provides benefits in place of State Second Pension and holds a contracting-out certificate or appropriate scheme certificate granted by the HMRC National Insurance Contributions Office. Members or employees are contracted-out if they are in employment which is contracted-out by reference to an occupational pension scheme, or have elected to contract-out via an appropriate personal pension scheme or Stakeholder pension scheme.

Currency hedging: currency hedging negates the impact of fluctuations in foreign exchange rates when converting the value of overseas investments to Sterling.

Custodian: an organisation that holds and accounts for share certificates and other assets in an investment portfolio, on behalf of the beneficial owner.

Defined benefit (DB): a scheme where the scheme rules define the benefits.

Defined contribution (DC): a scheme providing benefits on a basis calculated only by reference to the contributions paid and the investment return on those contributions.

Derivatives: financial instruments used by investment managers based on the price movement of an underlying asset – they are not investments themselves but reflect the investment's value.

Distressed opportunities: corporate bonds of companies that have either filed for bankruptcy or appear likely to do so in the near future. Distressed opportunities firms become a major creditor of the target company by purchasing the company's bonds at a low price.

This gives them the leverage they need to be involved during either the reorganisation or the liquidation of the company. In the event of a liquidation, distressed opportunities firms stand ahead of equity holders in line to be repaid and often recover all of their money, if not a healthy return on their investment.

Dividend: the part of a company's profit or reserves which is distributed to the shareholders in the form of cash or shares. The Directors of the company decide how much dividend is to be paid and when.

Employer Debt on Withdrawal: the statutory debt due from the employer to a defined benefit scheme (subject to exceptions) where the assets are insufficient to meet the actuarial liabilities calculated on a prescribed basis.

The debt can be triggered on winding up the scheme, on liquidation of the employer and on an employer ceasing to employ any scheme members. In many circumstances the debt is calculated by reference to full annuity buy-out costs.

Equities: shares representing the risk capital of a business. Usually publicly quoted on a stock exchange but there is also private equity where the shares are not quoted on a stock exchange.

Final salary scheme: a scheme where the pension is calculated by reference to pensionable service and final earnings at or close to retirement age.

FRS17: the financial reporting standard for showing pension costs in employers' accounts.

Fund Actuary: the Scheme Actuary appointed by the Trustee under section 47 of the Pensions Act 1995.

Hedge fund: a fund that has the ability to take both long and short positions with the aim of achieving an absolute return. A long position means that the investor actually holds the security or derivative. A short position exists when an investor has sold stock that they do not own in anticipation of being able to buy it later at a lower price. In order to do this, the investor first borrows, for a fee, the stock from another investor who does own it.

A large variety of hedge fund strategies exists and the level of risk taken will vary.

Investors looking for a diversified exposure to hedge funds will normally opt for a fund of hedge funds, which is a fund with underlying investments in several hedge funds covering different strategies and geographical areas.

Index-tracking: a type of investment management where the aim is to match the performance of a chosen index (e.g. the Financial Times – FTSE All Share Index).

Leverage: the use of borrowed money to increase the investment in a portfolio, which increases risk by magnifying both gains and losses.

Liabilities: amounts which an individual, company, a pension scheme, etc has an obligation to pay now or in the future.

Limited Price Indexation (LPI): increases in line with RPI up to a set maximum. The maximum was 5% per annum compound but was reduced to 2.5% for pensions in payment earned from April 2005.

Minimum Funding Requirement (MFR): introduced by the Pensions Act 1995, replaced by the SFO under the Pensions Act 2004.

Option: the right, but not the obligation, to buy or sell a particular asset at an agreed price in the future.

Passive management: see Index-tracking.

Past service liabilities: liabilities in respect of benefits for service up to a given point in time.

Pension Protection Fund (PPF): a statutory fund to pay compensation to members of eligible defined benefit schemes when there is a qualifying insolvency event in relation to the employer and where there are insufficient assets in the pension scheme to cover PPF compensation levels.

Pooled investment vehicle: a fund in which a number of investors pool their assets, which are managed on a collective basis. The assets of a pooled investment vehicle are denominated in units that are revalued regularly to reflect the values of the underlying assets.

Retail Prices Index (RPI): a measure of price inflation.

Schedule of Contributions: a schedule specifying the contribution rates and payment dates, agreed between the employer(s) and the Trustee and certified by the Scheme Actuary as being adequate to satisfy the MFR or SFO for the period concerned.

Statement of Investment Principles (SIP): a written statement of the principles setting out the way in which the assets of an occupational pension scheme are to be invested, which trustees are required to prepare and maintain. Trustees must have regard to advice from a suitably qualified person and consult with the employer.

Statement of Recommended Practice (SORP): Financial Reports of Pension Schemes, issued by the Pensions Research Accountants Group (PRAG). A statement of compliance with SORP is a requirement under the Audited Accounts Regulations.

Statutory Funding Objective (SFO): introduced by the Pensions Act 2004, replacing MFR.

Socially Responsible Investment (SRI): Investment in companies that meet prescribed social, ethical and environmental criteria. The Trust's SRI fund invests in companies that are working towards environmental sustainability, developing positive relationships with stakeholders and upholding and supporting universal human rights.

Technical provisions: the amount required to make provision for a defined benefit scheme's accrued or 'past service liabilities.' The Technical Provisions are calculated as part of an actuarial valuation by the Scheme Actuary, who certifies that they have been calculated in accordance with the statutory funding objective requirements.