£ Fossil Free Jargon Buster! $

You don't need to be a financial expert to be part of a Fossil Free campaign. But if you want to build your confidence in speaking about investments, here are some terms you might want to understand!

Corporation

A corporation is a legal entity which takes money from investors and uses it to build a network of productive assets around the world. For example, BP takes investor money and uses it to develop oil fields, oil refineries and pipeline systems. In return, those investors get a financial return. BP is thus a conduit for investors to obtain returns from

Investor

Investor – an investor is a person or an institution that has surplus money that they want to put to use. For example, Richard Branson might have a large amount of money that he's not currently using for his own activities, so he invests it by, for example, buying shares or lending it to another company.

Investment

Investment is the act of putting money into buying assets, or into companies that own assets, with the expectation of making a 'return', or profit over time. Thus, an investor might put £20 million into BP, with the expectation that over time they will make £25 million back from the activities of BP around the world.

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Divestment

Divestment is the opposite of investment. It means withdrawing invested money from particular companies, usually due to ethical concerns about the companys' activities.

GETTING MORE TECHNICAL

Equity investment vs. Debt Investment

There are two main ways of investing in a company like BP. You can either buy their shares (see equity below), or you can lend them money (see bonds below). Those who engage in the former are called equity investors, and those who engage in the latter are called debt investors. Equity investors are also called 'shareholders'. Bondholders and banks are the two main types of debt investors.

* **Equity:** Holding equity just means 'holding an ownership stake in a business'. Thus, if you own 35% of a business, you have 35% of the equity, and hold 35% of the shares.

* **Share:** A Share is thus a little slice of ownership – or equity – in a business. All businesses have shares, but we normally talk about them in the context of large, multinational corporations that are list their shares on stock exchanges. Holding a share of equity entitles you to a slice of whatever profits the corporation makes (see dividends). Investors who invest in shares are also called shareholders, or equity investors, and they are engaging in equity investment.

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* **Dividends:** Dividends are the returns paid to those who hold the shares of a company. For example, BP may take shareholder money, use it to develop a new oil field, sell the oil to make more money, and then pass some of that back to shareholders as dividends.

* **Voting rights:** As a part-owner of a corporation, a shareholder gets the right to vote on certain company matters at meetings, such as who should be in the board of directors (See also shareholder activism below).

* **Bonds:** Bonds are just large loans. If a company like BP 'issues a bond', it is seeking to raise money from investors. If an investor 'buys a BP bond', they are lending to the company. These debt investors or bondholders lend to, and thereby indirectly invest in, BP via the bond, and in turn claim interest back from the company.

* **Interest:** Interest is money paid to debt investors for the use of their loaned money. It is 'the price paid for renting money'. Thus, BP may receive money from debt investors via a bond, use that money to build a new refinery, use that refinery to make more money, and then pass some of that money as interest back to the bondholders.

To reiterate: Some investors invest in a company like BP by buying shares. They thereby hold equity - part ownership - in BP, which entitles them to dividends. Other investors invest in BP by lending them money through bonds. They are thereby are entitled to interest payments. The money that BP uses to pay both dividends to shareholders and interest to bondholders comes from the oil it extracts and sells.

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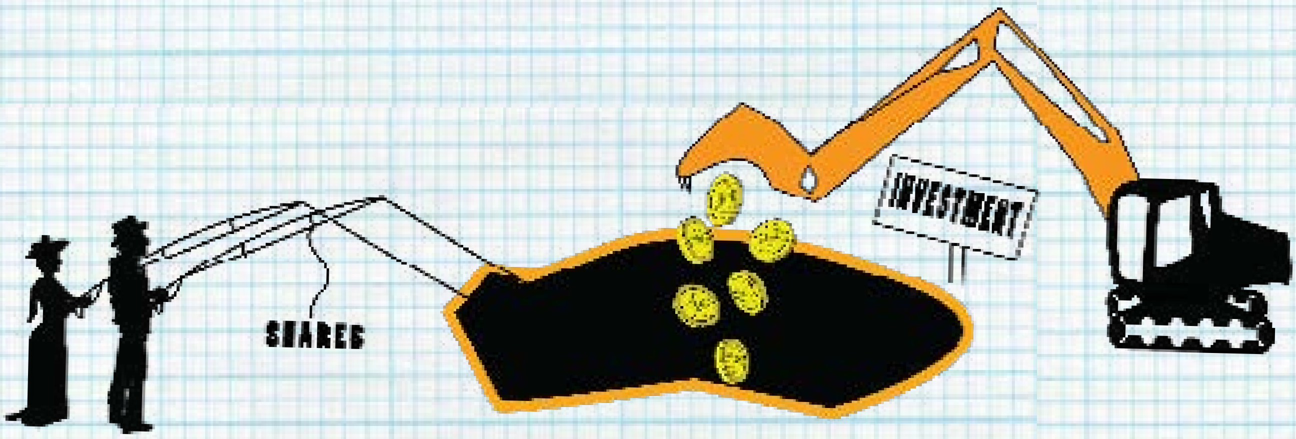
TYPES OF INVESTORS

Retail investors

Retail investors are ordinary individual people who buy shares in companies. For example, your grandparents might directly own shares in companies.

Institutional investors

Institutional investors are not individual people. They are big, professionally managed, funds that pool money together and then invest it. They include:



* **Pension funds:** Big funds that pool together pensioners' money, and then invest it on their behalf. They are often established by an employer to pay a pension to employees after they retire. For example, USS (Universities Superannuation Scheme), is a major pension fund for academic staff of universities.

* **Mutual funds:** Funds run by companies like BlackRock and Fidelity that pool individual investors' money together and invest it in specific things. For example, the BlackRock Commodities Income Investment Trust plc invests in major oil companies.

* **Insurance funds:** Big funds that pool together money from insurance premiums and then invest it. Major companies that run these include AXA and Legal & General.

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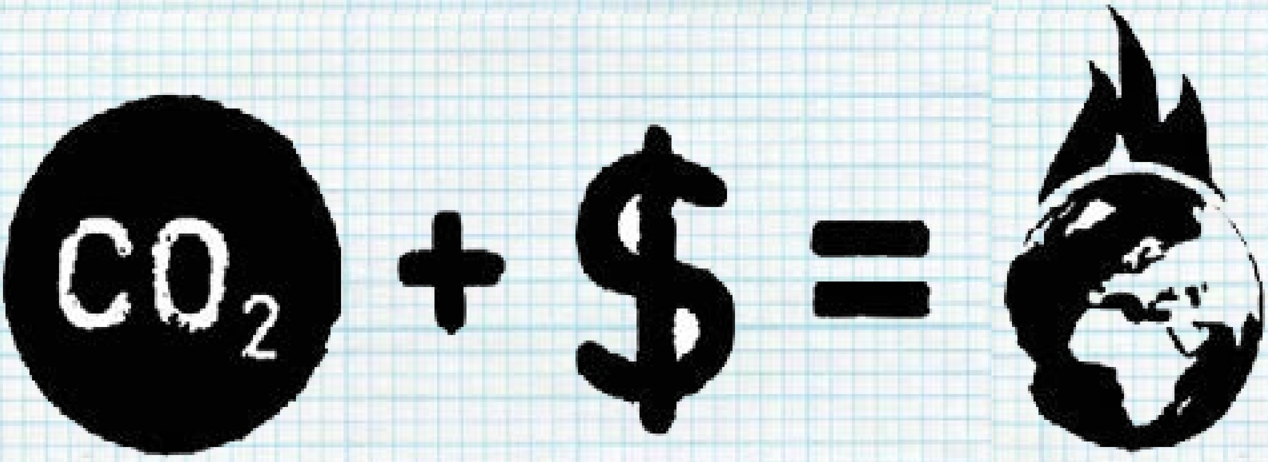
*** Sovereign wealth funds:** Funds that take the surplus money of sovereign states and invest it. Notable examples include GIC (the Singapore sovereign wealth fund), the Abu Dhabi Investment Authority, and the China Investment Corporation.

*** Hedge funds:** Funds that take money from really rich people and also from other institutional investors and invest it, often in high-risk ways.



*** Endowments and foundations:** An endowment fund is money held by universities, usually obtained from donors, where the investment returns are used to fund the university's work. Endowments may be invested in stocks and shares as well as other financial products. Foundations – like the Wellcome Trust – are similar, except they are normally focused on investing to fund charitable activities rather than education.

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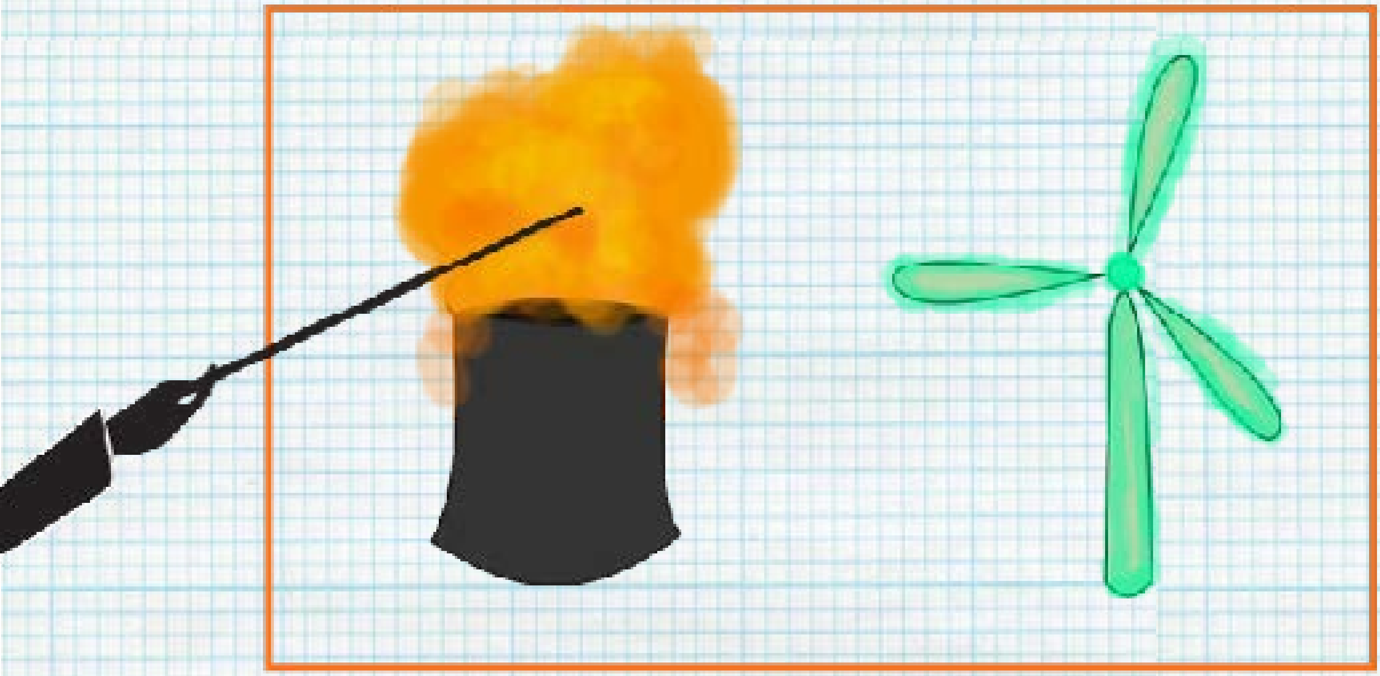
TERMS YOU'LL HEAR INSTITUTIONAL INVESTORS USE:

Fund manager: The person in charge of making decision on where to invest the fund's money. They will often be supported by a team of analysts. A fund can be run 'in-house', meaning it hires its own fund manager, or it may outsource the fund management to an external fund management company.



Investment Portfolio: An investment portfolio is the collection of different investments held by a fund. A portfolio is normally designed to try obtain a profitable return whilst preserving the initial amount of money invested. These investments are chosen generally on the basis of different risk-return combinations: from 'low risk, low return' to 'high risk, high return' ones.

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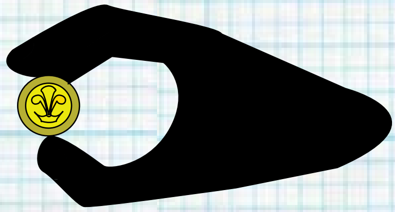
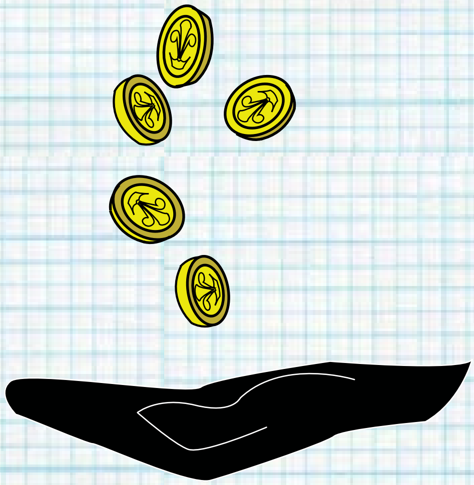
Investment analysis: The process of deciding how and where to invest money. There are generally three elements taken into consideration:



1) How much does it cost to invest? ('BP shares currently cost £4')



2) How much can we expect to make in return? ('We expect to make up to a 10% return by buying them')

3) What is the risk of this not working? ('But we remain concerned by BP's past oil disasters and potential future climate regulations')

If you ever want to destabilise an investment case, therefore, it helps to 1) show that it will be more expensive than expected 2) that returns will be lower than expected and 3) that the risk is higher than anticipated.

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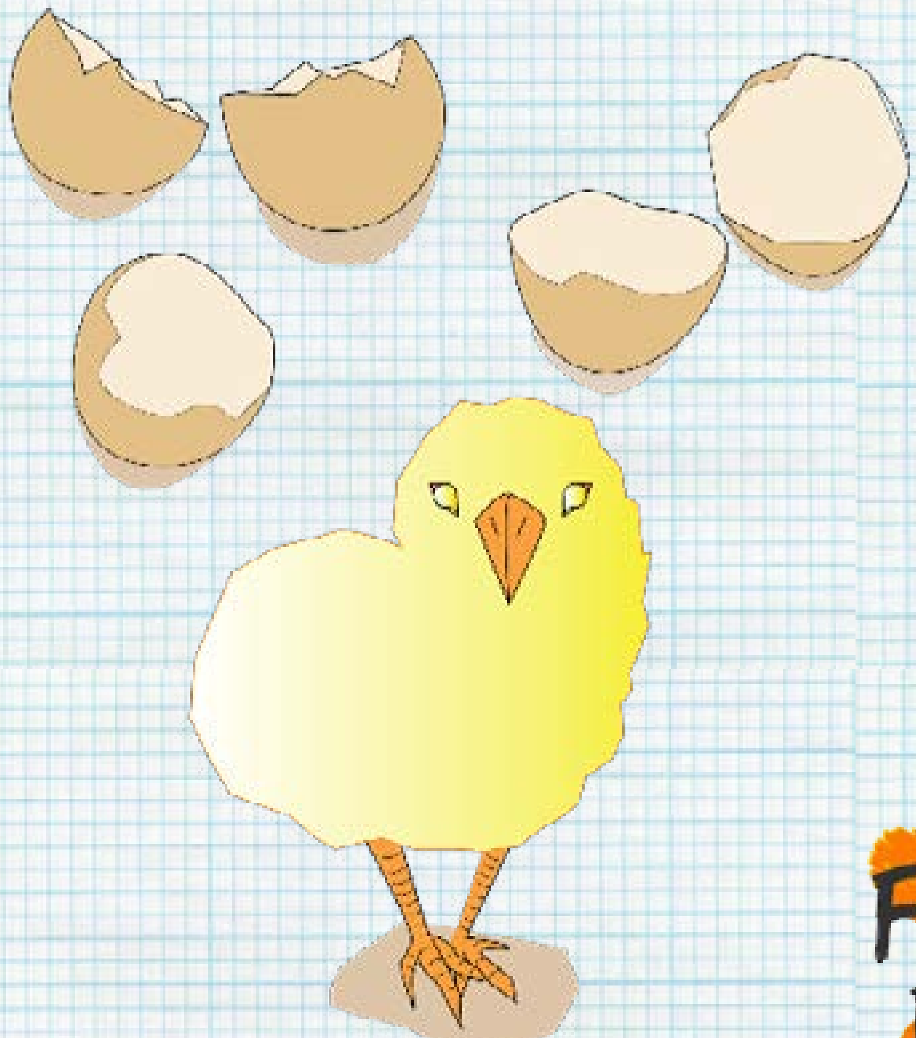
Portfolio risk: Portfolio risk is the chance that investments within an investment portfolio do badly. In theory, portfolio risk can be reduced by successful diversification (see below).

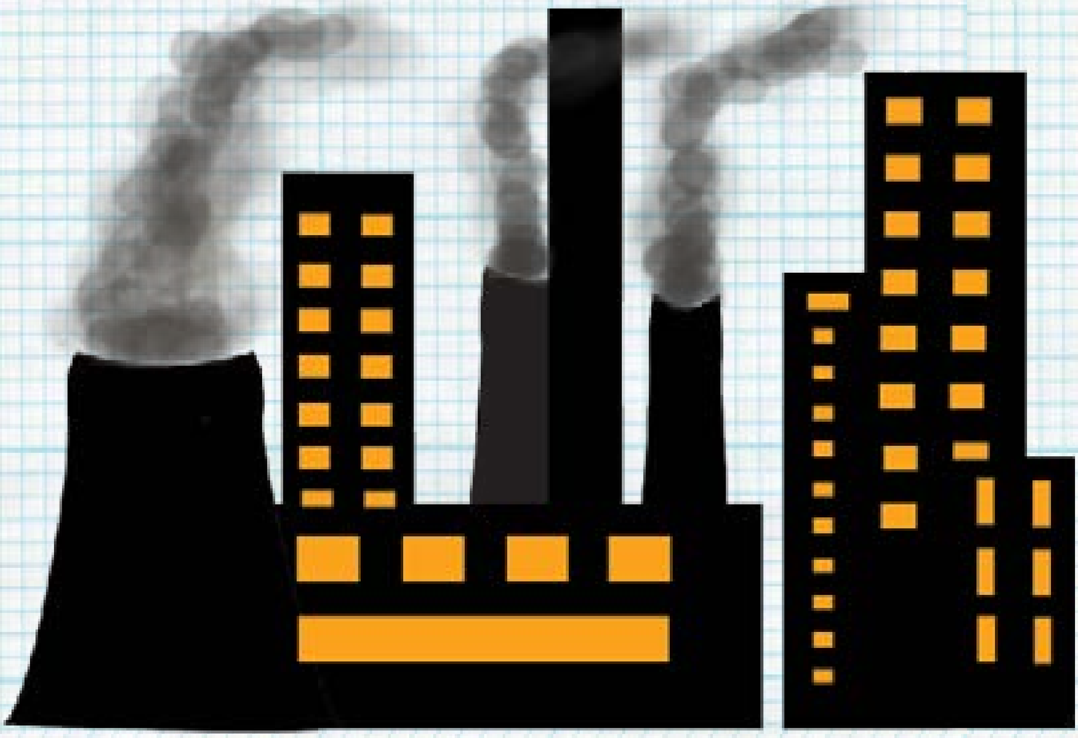
Portfolio diversification: Risk-averse investors generally try to spread their money around a range of different investments so that they 'don't have all their eggs in one basket'. We call this diversification. A diversified portfolio might suffer a loss in one of its investments, but have gains in other investments, thus becoming less volatile on average.



Asset classes

An asset class is a broad investment category. For example, if you say 'I want to invest in shares', you are referring to the general asset class of shares, rather than to a specific share of a specific company. Large investors that have billions to invest will often refer to these more general categories rather than specific investments. Major 'asset classes' include:

***Shares:** Normally the shares listed on stock exchanges. The asset class can be further split into sub-categorieslike 'US shares', 'emerging markets shares', 'small company shares', and so on.



*** Bonds: Debt:** Securities issued by governments and corporations. The buyer of a bond is normally lending to governments or corporations. The 'securitised' finre

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* **Physical property:** Many large investors buy actual physical property as an investment. For example, they might buy a London office block, a large retail mall, or an industrial warehousing site.

* **'Alternative' investments:** This is a term that institutional investors use to refer to slightly unorthodox investments. It includes money they might outsource to hedge funds or private equity funds. It can also include structured products, which are composite financial instruments, often designed by investment banks to be sold to investors. For example, Goldman Sachs might design a commodity structured product that allows a pension fund to 'gain exposure' to changes in wheat, soya, corn, gold and oil prices.

* **Cash:** Having money on deposit at a bank. This is not so much an 'investment', but large investors need to have cash on hand.

Asset allocation

This is the art of deciding on how much of a portfolio will be dedicated to the different asset classes. For example, an asset allocation might be: 'we will put 40% of our money in shares, 30% into bonds, 10% into property, 5% into hedge funds, 5% into commodity products, and keep the remaining 10% as cash in the bank'

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TERMS FROM THE DIVESTMENT CAMPAIGN FRONTLINES:

Finance Manager

A finance manager is responsible for providing financial advice and support to universities to enable them to make sound business and financial decisions.

Fiduciary Duty/ Responsibility

Fiduciary duty or responsibility is the duty to properly manage and protect a sum of money in the interests of another. In a university Investment Committee's case, this usually means managing the university's endowment and other assets in a way that generates the income needed to financially support the university's activities, and keep the remaining 10% as cash in the bank'

Ethical Investment Policy

A centrally agreed document held by an institution which sets out industries or types of investments to be avoided or emphasised in its investment portfolio for ethical reasons.

Social license

A phrase use in the extractives and PR industries to refer to the need of companies to have public support for their operations.

Bubble

A "bubble" is created when the price of shares in particular sector rise above their fundamental value. The term is used because, like a bubble, the prices will reach a point at which they pop and collapse violently. Examples include the "housing bubble" and the "carbon bubble".

Carbon Bubble

The "Carbon Bubble" is a theory that shares in fossil fuel companies will turn out to be overvalued because the bulk of their oil, coal and gas reserves cannot be burnt without further destabilising the climate. Currently the price of fossil fuel companies shares is calculated under the assumption that all fossil fuel reserves will be consumed, but doing so will lead to catastrophic global warming. As such, the price of fossil fuel shares is an inflated "bubble".

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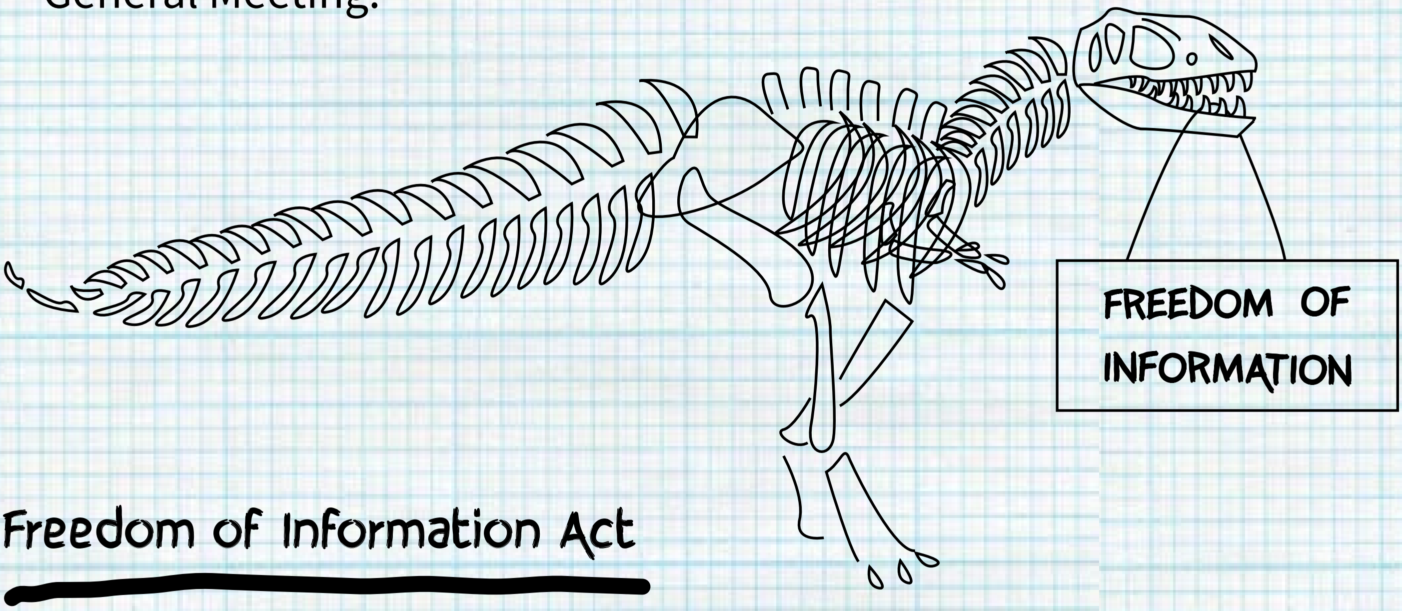
Stranded Asset

An asset that is worth less on the market than it is on a company balance sheet due to the fact that it has become obsolete and lost its original value. The bursting of the aforementioned carbon bubble could lead to many stranded fossil fuel assets.

Shareholder Engagement or Shareholder Activism

Shareholder activism occurs when company shareholders use their ownership of shares as a means to influence the actions of that company. The goals of shareholder activists may include changing company policy to achieve social goals such as environmental reform, or altering management structures in order to improve company performance. You can become a shareholder activist by buying a single share in a company and attending their Annual General Meeting.



Freedom of Information Act

UK and Scottish parliament law regulating rights to information held by public bodies, including universities.

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