

Glossary

Arbitrage: The technique of profiting from differences in price between related financial instruments

Absolute Return: Investment returns with a degree of independence from movements in financial markets

Broker: A person paid a fee or commission for executing buy or sell orders for a customer. In commodity futures trading, the term may refer to: (1) Floor Broker — a person who actually executes orders on the trading floor of an exchange; (2) Account Executive or Associated Person — the person who deals with customers in the offices of Futures Commission Merchants; or (3) the Futures Commission Merchant.

Commodity: A commodity, as defined in the Commodity Exchange Act, includes the agricultural commodities enumerated in Section 1a(4) of the Commodity Exchange Act and all other goods and articles, except onions as provided in Public Law 85-839 (7 U.S.C. § 13-1), a 1958 law that banned futures trading in onions, and all services, rights, and interests in which contracts for future delivery are presently or in the future dealt in.

Correlation: A measure of the performance relationship between two variables

Commodity Trading Advisor (CTA): A person who, for pay, regularly engages in the business of advising others as to the value of commodity futures or options or the advisability of trading in commodity futures or options, or issues analyses or reports concerning commodity futures or options.

Drawdown: Jargon for fall in the fund price. From peak to trough

Fund of funds: Investment partnership that invests in a series of other funds. Portfolio will typically diversify across a variety of investment managers, investment strategies, and subcategories

Futures Contract: An agreement to purchase or sell a commodity for delivery in the future: (1) at a price that is determined at initiation of the contract; (2) that obligates each party to the contract to fulfill the contract at the specified price; (3) that is used to assume or shift price risk; and (4) that may be satisfied by delivery or offset.

Global macro: Investment strategy that seeks to profit by making leveraged bets on anticipated price movements of global stock markets, interest rates, foreign exchange rates, and physical commodities

Hedge Fund: A fund that may take short positions, use leverage and has few investment restrictions

Hedge: A strategy used to offset investment risk

High Water Mark: An incentive fee is paid only on the portion of a fund's gains which have exceeded the historical peak of the fund's net asset value.

Initial Margin: Customers' funds put up as security for a guarantee of contract fulfillment at the time a futures market position is established

Investment manager: Individual who is responsible for the selection and allocation of investment securities

Investment adviser: Individual or entity who provides investment advice for a fee. For the US Investment Advisers must register with the SEC and abide by the rules of the Investment Advisers Act

Leverage: Money borrowed to increase the amount of money invested to more than 100 % of the fund net asset value

Margin: The amount of money or collateral deposited by a customer with his broker, by a broker with a clearing member, or by a clearing member with a clearing organization. The margin is not partial payment on a purchase. Also called Performance Bond. (1) Initial margin is the amount of margin required by the broker when a futures position is opened; (2) Maintenance margin is an amount that must be maintained on deposit at all times. If the equity in a customer's account drops to or below the level of maintenance margin because of adverse price movement, the broker must issue a margin call to restore the customer's equity to the initial level. See Variation Margin. Exchanges specify levels of initial margin and maintenance margin for each futures contract, but Futures Commission Merchants may require their customers to post margin at higher levels than those specified by the exchange. Futures margin is determined by the SPAN margining system, which takes into account all positions in a customer's portfolio.

Market neutral investing: Invests in financial markets through a strategy that will result in an investment portfolio not correlated to overall market movements and insulated from systematic market risk

Net rate of return:(NROR) Percentage appreciation from the prior period, after accounting for all fees and expenses

NAV Net Asset Value per share - the market value of a fund share. Equals the closing market value of all securities within a portfolio plus all other assets such as cash, subtracting all liabilities (including fees and expenses), then dividing the result by the total number of shares outstanding

Option: A contract that gives the buyer the right, but not the obligation, to buy or sell a specified quantity of a commodity or other instrument at a specific price within a specified period of time, regardless of the market price of that instrument. Also see [Put](#) and [Call](#).

Prime broker The principal brokerage firm an investment fund does business with

Risk Commonly synonymous with volatility

Rate of return Percentage appreciation in market value for an investment security or security portfolio

Standard deviation Statistical measure of the scatter or dispersion of a set of measurements. Used to measure price volatility

Soft commodities Tropical commodities such as coffee, sugar and cocoa. In a broader sense may also include grains, oilseeds, cotton and orange juice. This category usually excludes metals, financial futures and livestock

Sharpe ratio A ratio of fund performance to standard deviation. The higher the number the better