Translating for the Asset Management Industry: Fact Sheets

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What is a fact sheet?

In general, a fact sheet is a compilation of data on a given subject presented in a minimalist format that conveys the most relevant information in the least amount of space. In the asset management industry, fact sheets are a quick way to provide investors with a brief review of their investment portfolio from a given mutual fund house. Because of their widespread use, fact sheets also happen to be among the most common documents financial translators encounter. This is why it is imperative for translators in this field to have an understanding of the sometimes-obscure terminology to be found on such sheets. The following overview should give translators a better sense of the type of information that is presented on such sheets and how it is organized to help investors make sense of complex financial data.

Who Uses Fact Sheets?

Before we go on, it is important to understand how a fact sheet is organized and its usefulness as a tool in asset management. Let's start with a few basics. A mutual fund is a company that is established for the purpose of making investments. A mutual fund gets its capital stock from private individual investors, who, in effect, allow the mutual fund to decide where to invest their money. The mutual fund continually offers new shares and buys existing shares back at the request of investors, and uses its capital to invest in the diversified securities of other companies. Simply put, a mutual fund may be defined as a box into which fund managers place their merchandise from investors, such as stocks, bonds, and T-bills. Fund investors expect a return on their investments, and fund managers make their living from the fees that investors pay for the investing services provided. The fund is generally named after the type of goods the fund manager puts into the box. The money he or she manages comes from the savings of people who do not want their cash to lie in their checking accounts.

How are investors kept abreast of where their money is going? This is where the fact sheet comes in. The fact sheet normally tells investors what the fund manager is doing with their money and whether their cash was better off where it was before. It reveals the

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most important information about the fund, and provides a way for investors to evaluate their mutual fund investment quickly.

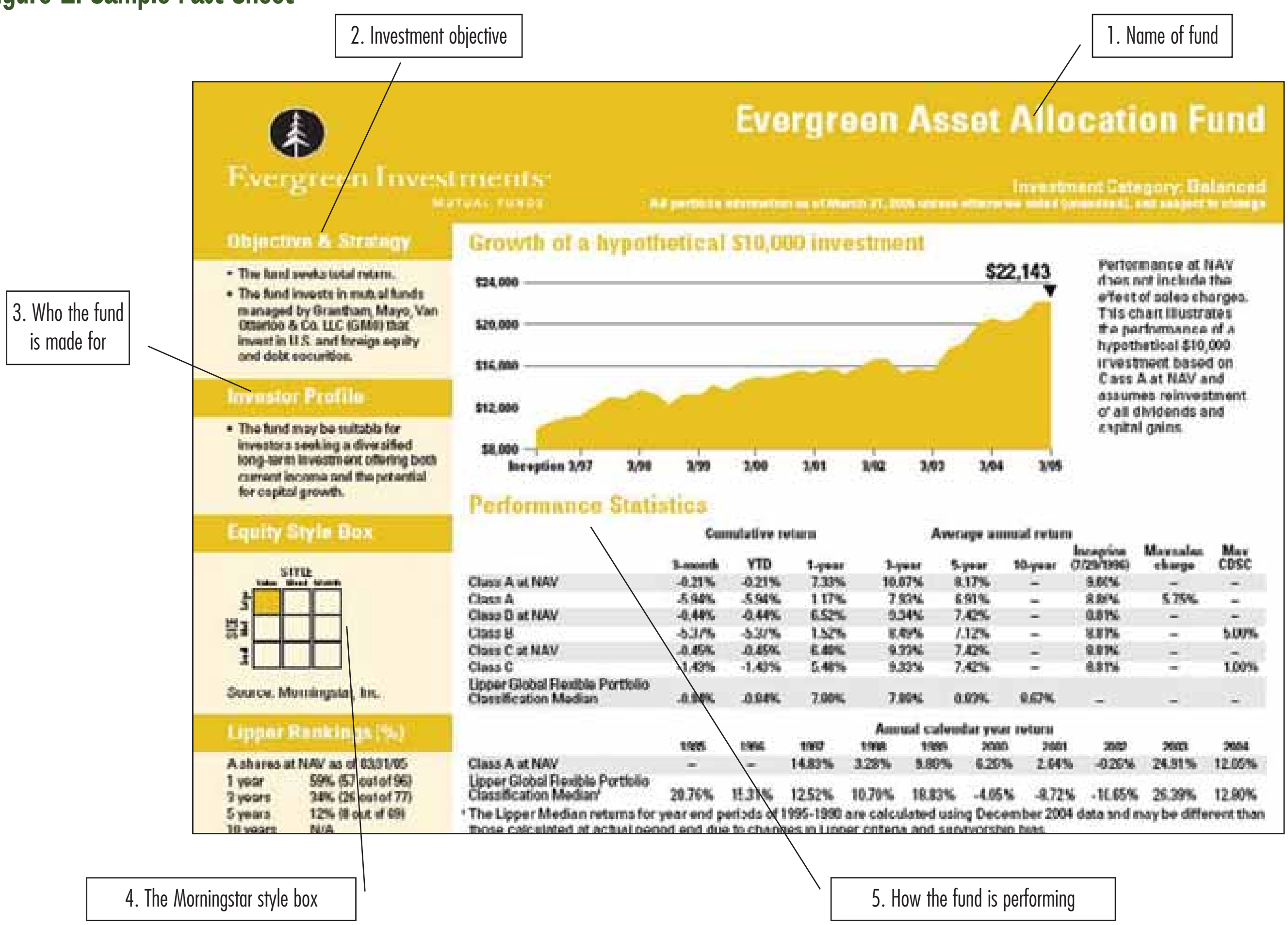
While the law requires fact sheets for the purpose of disclosing portfolios, the fact sheet often acts as a vehicle for the asset management company as well. The asset management company's view on the markets, its future course of action, and strategies are some of the points investors can expect to find in the fact sheet. From the investor's perspective, the key lies in being able to identify the most relevant bits and to read between the lines.

How Does It Work?

As a brief illustration, I would like to present one example of a fact sheet and describe what is in it. Fact sheets may vary in structure and in how relevant information is provided, but the content does not change much. The fact sheet provided here is related to the Asset Allocation Fund by Evergreen Investments, a U.S.-based investment house in Boston, Massachusetts. The section numbers correspond to the boxes provided in Figure 1.

1. Name of fund: There is a saying in Latin, *nomen omen*, meaning "in the name there is a destiny." The fund name usually tells you what the fund manager intends to do with the money he or she manages. Therefore, you would typically see different asset classifications, such as stock funds, bond funds, cash funds, and balanced funds. The fund prospectus, which is another document that many financial translators often deal with, sets the rules for how the fund will be managed. For instance, a fund named U.S. Stock Fund will typically invest in U.S. stocks up to 75%-80% of the managed portfolio. According to the rules set forth in the prospectus, the amount invested cannot exceed that proportion, nor can it be invested elsewhere in the world.

Figure 1: Sample Fact Sheet



The name Evergreen Asset Allocation fund tells us that the fund manager is allowed to invest money in any asset class (meaning bonds, stocks, or cash) according to his or her own perception of how the markets will perform. Therefore, the fund manager is allowed to shift from equities to bonds without the constraints that are usually set on other types of funds. The words "asset allocation" in the name of the fund reflect this investment strategy.

2. Investment objective: The fund's investment objective lays out its area of operations, management style, and what the fund aims to achieve. The wording in the investment objective helps investors check to see if the fund managers have adhered to their mandate. Understanding this "philosophy" will help the translator focus on the terminology and choose the words that best reflect the fund's goals and strategy.

In our example, the objective of the investment is to search for a total return on the investment. What do we mean by total return? It usually means the highest return for the investment house. The total return objective is typical of asset allocation type funds. In these funds, fund managers are free to pick any stock or bond that maximizes yields in terms of capital gains or losses (from price appreciations or depreciations), dividends, or interests paid. The word "total" refers to the total income to be earned from stocks or bonds.

Asset allocation funds are classified as new-generation funds that should provide investors with higher return opportunities, given their specific nature. Traditional funds are normally split into investment sectors, such as equity funds, bond funds, money market or cash funds, and balanced funds (which are a blend of equity and bond funds). Traditional funds can also be invested in different geographic regions, in which case the fund names will typically also include the area in which the fund specializes.

A diversified equity fund is expected to invest across various sectors, thereby granting investors the benefits of diversification, implying lower risks but very often also lower returns. A concentrated portfolio spread across a few sectors enhances the fund's risk profile and makes it prone to volatility, which is a measure of how much money investors can lose or earn over a certain period of time. For instance, a 15% one-year volatility means that investors could lose or earn 15% of their savings in one year if the fund behaves as it did in the past. At times, funds tend to have allocations as high as 25% in a single sector.

Fact sheets present returns by the investment pattern across periods of time.

3. Who the fund is made for: Most fact sheets provide information to indicate who should invest in the mutual fund. This is because funds do not meet all specific investment needs. Investors who need income should probably turn to bonds or, even better, cash funds. Those who wish to increase their capital and have a long-term investment horizon (which is the amount of time that the money can remain invested in a specific financial instrument) can opt for stock funds, which in the long run happen to be the most profitable.

In our example, the Evergreen Asset Allocation Fund reads: "The fund may be suitable for investors seeking a diversified long-term investment offering both current income and the potential for capital growth." This means that the investment house thinks that the fund should be invested in by people who need regular cash flow and who may stay invested for long periods potentially to increase their capital.

4. The Morningstar style box: Morningstar is one of the most important mutual fund analysis firms in the world. Its goal is to provide unbiased information about mutual funds, including fund comparisons, risk assessments, and other analyses. Its analysts are quoted widely in the popular press, and their star system for rating funds is closely watched by investors, the fund industry, and the media. Morningstar's main competitor is Lipper, which also ranks mutual funds.

The Morningstar style box is used to identify quickly the type of equity fund investors are purchasing. The Evergreen fund is a large-value fund, meaning that the fund manager buys stocks and bonds from large corporations (like Citigroup, Merck, etc.) that also distribute strong dividends and/or coupons. The term "value" implies that the fund manager sees potential for price appreciation, and it usually refers to a certain level of the Price/Earnings Ratio.

In case of bond funds, the identifying parameters are duration and quality. Duration is different from maturity, and is used to provide an indication of risk. Unless translators have the exact translation in the other language, they should leave the term in English.

5. How the fund is performing: Fact sheets present returns by the investment pattern across periods of time, for example, one year, three years, and since inception. Investors should focus their attention on the fund's performance over a longer timeframe, such as three years or more. The fund's ability to register impressive returns consistently over a longer period is a true indicator of its worthiness. Impressive performance over shorter timeframes could be a "flash in the pan," and one should not draw conclusions or make investment decisions based on it.

Determining Performance

Fund returns reported in fact sheets do not necessarily imply that you will get the same returns if you invest money in the fund. It very much depends on when you purchased the fund. The Evergreen Fund in Figure 1 has three different types of shares that you can buy: Class A, Class B, and Class C, differentiated based on the fee structure. The net asset value is the value of a share at a certain point in time.

Most fund fact sheets also report the top 10 stock picks. The share of net assets accounted for by the top 10 stock holdings can reveal how well diversified the fund is. For example, a fund might hold a large number of stocks (say 50-60 stocks) in its portfolio; however, if the top 10 stock picks account for 60% of the net assets, the fund would qualify as a top-heavy and concentrated one. Such a fund could be a candidate for volatility thanks to the high concentration levels. Similarly, consistency in the top stock holdings can also reveal a lot about the fund's management style. For example, a high churn would be indicative of an aggressive fund with a high risk profile. "Churn" means high turnover, that is, buying and selling stocks in a relatively short timeframe to try and seize all market opportunities as they occur.

In determining fund returns, you cannot ignore how much you are paying in fees, because in some cases they take away a good amount of your overall return. Therefore, a responsive fund house will inform its investors of the fund's expense ratio and other factors, which have a vital bearing on the fund's performance. High expenses for the fund eat into investors' returns. Similarly, the "load structure," which is the fee structure that impacts the fund's returns and may differ considerably from one fund to the other, represents the price an investor pays to participate in the fund. For instance, most funds are "front-" and "back-loaded" (also called "entry-" and "exit-loaded"), which means that investors pay fees when they purchase fund shares and when they sell them. Like expenses, loads also have a direct bearing on the returns. Fund fact sheets usually also include a Total Expense Ratio, which provides a percentage indication of the overall amount of fees that the investor is paying.

Other Measures

Other measures, such as standard deviation and Sharpe Ratio, which are not required to be declared by law, can reveal a lot about the fund.

Standard Deviation: Measures the degree of volatility (i.e., risk) of a fund and is used to determine a percentage volatility.

Sharpe Ratio: Measures excess returns provided by the fund versus a totally risk-free investment—normally U.S. short-term T-bills—per unit of risk borne. For example, if Fund A and Fund B have Sharpe Ratios of 0.35 and 0.50 respectively, this indicates that Fund B has been better managed. This is because Fund B ensured 0.50 percentage points (usually over a certain period) more than a risk-free investment, while Fund A only provided 0.35 percentage points more than the risk-free investment with the same amount of risk bought by the fund manager.

Beta of a Fund: Indicates how well the fund manager was able to replicate the market. Traditional funds usually have benchmarks against which they mark their performance. This is because regulators require investment houses to declare in advance what they intend to do with the fund in terms of yields, geographic markets, investment style, etc. If the investment man-

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Internet Websites for Glossaries

American Century Investments
www.americancentury.com

Charles Schwab
www.charlesschwab.com

CIGNA
www.cigna.com

Financial Topics on Answers.com
www.answers.com/topic/list-of-finance-topics

Global Investor Glossary
www.finance-glossary.com

Glossarist
www.glossarist.com/glossaries/economy-finance

Investopedia
www.investopedia.com

InvestorWords
www.investorwords.com

Julius Baer Group
www.juliusbaer.com

New York Stock Exchange Euronext
www.euronext.com

Putnam Investments
www.putnam.com

Wachovia
www.wachovia.com

ager chooses the Dow Jones Industrial Average as a benchmark, and has a beta of 1.00, the manager is telling investors that he or she is replicating the index exactly.

Alpha of a Fund: Why could investors not purchase an exchange-traded fund, which is a collection or "basket" of assets such as stocks, bonds, or futures that trades on a securities exchange at prices closely related to its net asset value? Would this not enable investors to replicate the index performance without paying the high fees? To help answers these questions, it is important to remember that fund managers also provide investors with another indicator, called Alpha. (Incidentally, Alpha is almost never translated into other languages except for using the Greek or Latin notation.) The Alpha tells investors how well the fund manager replicated the benchmark (i.e., in this case, the Dow Jones Industrial Average), but also if there was an extra yield stemming from the fund manager's ability to pick the right stocks at the right time.

Want to Learn More?

The websites listed above provide glossaries and fairly good translations of fact sheets. In particular, the Julius Baer website, a Swiss investment firm, produces all its literature, including fact sheets, in four languages: French, Italian, German, and English.