Impact Investing Key Terms

Accredited Investor (Qualified Investor): An accredited investor is an investor that is permitted to make investments that are not regulated by financial authorities. In the United States, this is determined by the investor's income, wealth, or experience. Requiring investor accreditation was conceived as a strategy to protect individuals from risky investments.

Anchor Institution: Anchor institutions are nonprofit or public institutions that are firmly rooted in their locales, including hospitals, universities, local governments, and utilities. These institutions often have a social or charitable purpose and, unlike for-profit corporations that can relocate, are place-based and tend to stay put. As such, they have a vested self interest in helping to ensure that the communities in which they are based are safe, vibrant, healthy, and stable.

Affordable Housing: Housing that is available to those at 80% or less of the area medium income. A dwelling may be considered "affordable" when it can be obtained for 30% or less of their income.

Angel Investor: An angel investor (also known as a private investor, "seed" investor or angel funder) is typically a wealthy individual who provides financial backing for very early-stage businesses or entrepreneurs, typically in exchange for an ownership stake in the company. Often, angel investors have personal relationships with an entrepreneur. They can be family and friends. The funds that angel investors provide may be a one-time investment to help the business get off the ground or an ongoing injection to support and carry the company through its difficult early stages.

Asset Classes: Asset classes refer to groups of securities or financial instruments that have similar risk and return characteristics and behave similarly in the marketplace. The most common asset classes are:

- Cash and cash equivalents – short-term, highly liquid investments. Place-based investment strategies in this asset class include deposits in local community development banks and credit unions.
- Fixed income – investments that generate income at an established, fixed rate. Place-based investing strategies for fixed income include geographically targeted private and public debt investments.
- Private equity – illiquid equity investments in existing, private companies with growth potential; venture capital is private equity focused specifically on new and start-up businesses. Place-based investing strategies in these asset classes include equity investments in local private enterprises with positive community benefits.
- Real assets – debt and equity investments in physical assets—primarily infrastructure, land, real estate, and commodities. Place-based investment strategies for real assets include investing in local affordable housing, sustainable farmland, and renewable energy assets.

B Corp: A designation for a business which has a social mission and is responsible to all stakeholders, shareholders.

Below Market-Rate of Return: An investment earning less than the market average is below-market rate. Many place-based impact investments typically aim for low to moderate financial returns alongside social impact.

Bridge Loan: A bridge loan is a type of short-term loan, typically taken out for a period of two weeks to three years pending the arrangement of larger or longer-term financing or sometimes a government grant. Money from the new financing is generally used to "take out" (i.e., to pay back) the bridge loan, as well as other capitalization needs.

Capital Stack: Capital Stack refers to all types of funding which are invested in a project. These are made up of equity, with a financial interest in an asset, and debt, often collateralized in the asset, or some combination of the two. This highlights the level of risk of an investment to different parties involved.

Catalytic Capital: Invest Appalachia and its partners describe Catalytic Capital as flexible, creative, and high-risk capital, usually grant-like, that plugs common gaps between grant-funded projects and investment-ready projects. It includes project-specific credit enhancements like loan guarantees that enable repayable investment into shovel-worthy projects, as well as targeted technical assistance and industry cluster development that builds an inclusive pipeline and increases investment-readiness overall. MacArthur Foundation describes Catalytic Capital as debt, equity, guarantees, and other investments that accept disproportionate risk and/or concessionary returns relative to conventional investment in order to generate positive impact and enable third-party investment.

Community Development Financial Institutions (CDFIs): CDFIs are mission-driven financial institutions, certified by the Treasury Department, that leverage funding from private and public sources to finance businesses and projects—including small businesses, microenterprises, nonprofit organizations, commercial real estate, and affordable housing—in financially underserved communities. There are four primary kinds of CDFIs: community development banks, credit unions, loan funds, and venture capital funds.

Community Housing Development Organization (CHDO): A CHDO is a private nonprofit, community-based organization that has staff with the capacity to develop affordable housing for the community it serves. In order to qualify for designation as a CHDO, the organization must meet certain requirements pertaining to their legal status, organizational structure, and capacity and experience.

Community Investment Ecosystem: A community investment ecosystem refers to the resources, structures, capacities, and relationships that facilitate or constrain the flow of investment capital that supports community priorities. This ecosystem includes the people and organizations that help to shape projects and get them ready for investment, the intermediaries (e.g., banks, community development financial institutions, foundations) that channel various forms of capital into regional investments, as well as the cultural and regulatory environment that limits or encourages investment.

Community Reinvestment Act (CRA): The Community Reinvestment Act is a law that requires banks to make loans where they have deposits. Banks are evaluated based on their lending history and given ratings. CRA was designed as a tool to drive lending into communities that are underserved by banks. In some cases, banks lend to CDFIs which in turn lend in underserved communities.

Community Wealth Building: A systems approach to economic development that creates an inclusive, sustainable economy built on locally rooted and broadly held ownership. Community wealth building calls for developing place-based assets of many kinds, working collaboratively, tapping large sources of demand, and fostering economic institutions and ecosystems of support for enterprises rooted in community.

Concessionary Investments (sometimes Concessionary Returns): Concessionary investments refer to investments that sacrifice some financial return compared to market rates in order to achieve greater social or environmental returns.

Crowdfunding: Crowdfunding is the practice of funding a project or venture by raising monetary contributions from a large number of people, typically via the internet.

Credit Enhancement (see Guarantee): Any financial tool employed to reduce risk to third party investors, used to encourage or secure that investment. Tool used to get a financially motivated investor to do something that they would otherwise not do.

Direct Investment: An investment made directly into a singular company, project, or social enterprise.

Environmental, Social, and Governance (ESG): ESG refers to screens, tilts, and overlays that socially responsible investors focus on when looking at the ethical impact of a company that may create tangential impacts. These can include:

Environmental

- Climate change
- Hazardous waste
- Nuclear energy
- Sustainability

Social

- Diversity
- Human Rights
- Consumer Protection
- Sin stocks
- Consumer protection
- Animal welfare

(Corporate) Governance

- Management structure
- Employee relations
- Executive compensation

Financial First Investors: Seek to optimize financial returns with a floor for social/environmental impact. This group tends to consist of commercial investors who search for investment vehicles that offer market-rate returns while yielding some social/environmental good.

(To) Frame: To verify that an opportunity aligns with investor terms and offerings, offers a clear form of repayment and terms "pencil," and parties share general agreement on impact objectives.

Guarantee (see Credit Enhancement): A guarantee is an enforceable assurance making one party responsible for the payment or debt of another. Foundations may pledge a portion of an endowment or investment fund to offset the risk of loss in projects or investments. Guarantees are binding, however, only if made on top of legally valid contracts.

Impact First Investors: Seek to optimize social or environmental returns with a financial floor. These investors use social/environmental good as a primary objective and may accept a range of returns, from return of principal to market rate. This group of investors is willing to accept a lower than market rate of return in investments that may be perceived as higher risk in order to help reach social/environmental goals that cannot be achieved in combination with market rates of financial return.

Impact Investing: We define impact investing as an intentional strategy that works to leverage the power of capital to create positive change. The Global Impact Investing Network (GIIN) defines impact investing as "investments made with the intention to generate positive, measurable social and environmental impacts alongside financial return."

Integrated Capital Approach: An integrated capital approach is one that aligns investments, grant dollars, and technical assistance to create the conditions for health and well-being in all communities. In this "capital stack" approach, all institutional assets, including discretionary operating dollars, philanthropic resources, and human and social capital, are coordinated, and deployed to achieve community health and wellness goals

Investment Intermediary: An investment intermediary is an entity that acts as a go-between in a financial transaction between two parties. In the context of impact investing, it refers to a firm that takes larger sums of money and re-distributes it to multiple borrowers. An intermediary can be a nonprofit or for-profit institution that accepts grants or loans and regrants them to support impact investing projects or to underwrite below market rate investments.

Low Income Housing Tax Credits (LIHTC): A tax credit program that is used to finance affordable housing in the US.

Microfinance: The provision of financial services to micro-entrepreneurs and small business owners, who lack access to banking and related services due to the high transaction costs associated with serving these clients. The two main mechanisms for the delivery of financial services to such clients are (1) relationship- based banking for individual entrepreneurs and small businesses and (2) group-based models, where several entrepreneurs come together to apply for loans and other services as a group. Funds that specialize in microfinance are a popular investment vehicle for impact investors because they give low-income individuals or groups access to capital that they would otherwise be denied, which can support them in becoming more self-sufficient.

Mission-Related Investing (MRI): Mission-Related Investing is an IRS defined term that allows private foundations to consider mission in addition to financial return when determining if prudent investment standards have been met.

New Market Tax Credits (NMTC): A tax credit program used in underserved communities to finance large scale community projects and facilities.

Non-Dilutive Funding: Investments that do not require entrepreneurs or stakeholders to surrender ownership shares in a company.

Opportunity Funds (OZ Funds): Funds which take advantage of capital gain reduction for investments in designated Opportunity Zones.

(To) Package: To detail, diligence and agree that the investment's entities pass scrutiny, the terms "pen," agreements meet legal standards, and investee and investor review and formally approve.

Participation (Loan Participation): A loan participation is an arrangement under which a lender originates a loan to a borrower and then shares or sells a portion of that loan to one or more other investors. The lead or originating lender retains a partial interest in the loan, holds all loan documentation in its own name, services the loan, and deals directly with the borrower for the benefit of all participants.

Place-Based Investing: Place-based investing is an investment approach that targets positive social and environmental impacts in specific communities and geographies. Place-based investing is similar to and often used interchangeably with "community investment," "impact investing," or "mission related investing."

Private Equity Investment: A private equity investment is a direct investment into a private company, often used as a tool to give a company access to greater capital to expand or strengthen a business. Most private equity is done by institutional or accredited investors and is generally considered a long-term investment. Within impact investing, most private equity investments are typically made by mission-driven angel investors, venture capital funds, high net worth individuals, etc. Private equity funds typically target a very specific investment opportunity – clean tech, for example.

Pro Forma: A pro forma is a method of calculating financial results using certain projections or presumptions. They are used to help communicate prospective financial scenarios to potential investors. They may also be used internally by management for aiding in business decisions.

Program Related Investing (PRI): Program related investing is a term the IRS defines for private foundations that allows foundations to make loans and investments that further their mission and are allowed to be recorded as grants as a part of their 5% distribution requirement. IRS guidelines stipulate:

- The primary purpose is to accomplish one or more of the foundation's exempt purposes,
- Production of income or appreciation of property is not a significant purpose, and
- Influencing legislation or taking part in political campaigns on behalf of candidates is not a purpose.

Real Assets: Within the context of impact investing, real assets can include real estate, timberlands, agricultural lands that are considered less liquid than other asset classes, etc.

Return of Investment (Return of Capital): Return of capital occurs when an investor receives a portion of his original investment, and these payments are not considered income or capital gains from the investment.

Return on Investment (ROI): ROI measures the amount of return on an investment relative to the investment's cost. To calculate ROI, the benefit (or return) of an investment is divided by the cost of the investment, and the result is expressed as a percentage or a ratio.

Screening: Screening is a term used by the Socially Responsible Investing (SRI) community to refer to the practice of removing publicly traded stocks from an individual or fund's portfolio when the stock does not meet the environmental, social or governance (ESG) goals of the client or fund. For example, an investor may choose to have their account screened for gun manufacturing companies, and therefore would have any company that derives income from the manufacturing of guns removed from their portfolio.

Social Enterprise: A social enterprise is an organization that applies business strategies to maximize improvements in social outcomes, rather than to maximize profits for external shareholders. Social enterprises can be structured as a for-profit or non-profit, and may take the form of a co-operative, mutual organization, a social business, or a charity organization.

Social Impact Bond (SIB): A Social Impact Bond, also known as a Pay for Success Bond or a Social Benefit Bond, is a contract, or investment, with the public sector in which a commitment is made to pay for improved social outcomes that result in public sector savings.

Social Return on Investment (SROI): SROI seeks to provide a fuller picture of how value is created or diminished through incorporating social, environmental, and economic costs and benefits into the decision-making process.

Socially Responsible Investing (SRI): Socially responsible investing typically refers to a subset of the field of investing where publicly traded stocks are removed from a portfolio (see "screening") when they do not meet environmental, social or governance (ESG) goals of the client. Conversely, equities can be sought out for inclusion in the portfolio that supports the client's social or environmental mission. For example, a client that feels strongly about environmental sustainability may choose to "screen" oil companies out of their portfolio and seek out clean energy stocks to include in their portfolio to help further their environmental mission.

Tax Credits: Vehicle to attract investors willing to provide up-front capital in return for credits (state or federal) that can be used to offset profits. Examples include Low-Income Housing Tax Credits and New Market Tax Credits.

Technical Assistance: In an investment or lending context, technical assistance typically means business development services and non-financial resources provided to support new small businesses, micro enterprises, or projects. Examples of common technical assistance include business plan review and development, lending and grant application assistance, mentoring, credit counseling, coaching, incubation, technology services, team member recruitment, financial literacy, and business training. Sometimes technical assistance is provided with a cultural lens to overcome barriers experienced by a specific population. For instance, some technical assistance providers offer programming in different languages, at special hours for working parents, or for specific racial or ethnic groups.

(To) Spot: To identify potential investment opportunities with investment need, which appear mission aligned, and with community momentum and energy.

Total Portfolio Approach: A total portfolio approach is one that integrates place-based investment opportunities across asset classes – including private equity, venture capital, private debt, real assets, and public fixed income – allowing an institution to maximize positive community impact.

Venture Capital: Equity investments in start-up businesses.

Workforce Housing: Housing affordable to households earning between 60 and 120% of the area median income.

Adapted from Appalachian Health Investment Design Forum. Sources include Annie E. Casey Foundation, Aspiriant, B Lab, Candid, Global Impact Forum, Investopedia, IRS, Re Capital Partners, The Democracy Collaborative, Stakeholder Health, Threshold Group, Wikipedia.