Confluence Philanthropy
Impact Investing 101

Glossary Impact Investing Terms

Accredited Investor: A term used by the Securities and Exchange Commission (SEC) under Regulation D to refer to investors who are financially sophisticated and have a reduced need for the protection provided by certain government filings. Accredited investors include individuals, banks, insurance companies, employee benefit plans, and trusts. In order for an individual to qualify as an accredited investor, he or she must accomplish at least one of the following:

1) earn an individual income of more than $200,000 per year, or a joint income of $300,000, in each of the last two years and expect to reasonably maintain the same level of income. 2) have a net worth exceeding $1 million, either individually or jointly with his or her spouse. 3) be a general partner, executive officer, director or a related combination thereof for the issuer of a security being offered.

Assets: An asset, as defined within the investment community, is a monetary investment that is purchased for a client with the intent that it will appreciate in value and eventually be sold at a higher price.

Asset Allocation: Asset allocation is an investment strategy determined by an investment advisor that works to balance a client's tolerance for risk with their investment goals. An asset allocation strategy usually involves diversification between different asset classes and is periodically rebalanced to ensure investment goals are met.

Asset Class: Within traditional investing, "asset class" refers to the different categories of investment options such as equities (stocks), fixed-income (bonds), cash (money market funds) and real estate. Within impact investing, it can also refer to private equity or venture capital.

Asset Fund Manager: An individual who is involved in overseeing the management and investment strategy of an investment fund (such as a mutual, pension, trust or hedge fund). Fund managers are paid a percentage of the fund's average assets under management as a fee.

Assets Under Management (AUM): Assets under management (AUM) is the market value of the total financial assets that an investment company manages on behalf of its clients and is often looked at as a measure of success against competition.

Below Market-Rate of Return: An investment earning less than the market average is below-market rate. Program Related Investments (PRIs), whose main aim is social impact, typically aim only for low to moderate returns.

B Corporation: B Corps are certified by the nonprofit B Lab to meet rigorous standards of social and environmental performance, accountability, and transparency. B Corps Website

Benefit Corporation: A benefit corporation is a new class of corporation that voluntarily meets higher standards of corporate purpose, accountability, and transparency. Benefit corporations do not have to become certified. Not by B Lab; not by anyone. Benefit corporations and Certified B Corps are different.

Benefit Corporations: 1) have a corporate purpose to create a material positive impact on society and the environment; 2) are required to consider the impact of their decisions not only on shareholders but also on workers, community, and the environment; and 3) are required to make available to the public an annual benefit report that assesses their overall social and environmental performance against a third party standard. Benefit Corporation Website

Capacity Building and Catalytic Investing: Grants and Investments that drive innovation and change the field to grow the sector. Funds can be grant support, first dollar, or early dollar investments to achieve impact and/or catalyze the market.

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.

Community Development Finance Institution (CDFI): A community development financial institution is a financial institution which provides credit and financial services to underserved markets and populations. A CDFI may be a community development bank, a community development credit union (CDCU), a community development loan fund (CDLF), a community development venture capital fund (CDVC), a microenterprise development loan fund, or a community development corporation.[1]

CDFIs are certified by the Community Development Financial Institutions Fund (CDFI Fund) at the U.S. Department of the Treasury, which provides funds to CDFIs through a variety of programs. Broadly speaking, a CDFI is defined as a financial institution that: has a primary mission of community development, serves a target market, is a financing entity, provides development services, remains accountable to its community, and is a non-governmental entity.

Community Investing: The provision of financial services that works with underserved communities including banks, credit unions, loan funds and venture capital funds.

Corporate Social Responsibility (CSR): Corporate initiative to assess and take responsibility for the company's effects on the environment and impact on social welfare. The term generally applies to company efforts that go beyond what may be required by regulators or environmental protection groups.

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.

Direct Investment (Direct Deal): An investment, typically an equity investment, made directly into a singular company.

Due Diligence: Due diligence is investigation of a business or person prior to signing a contract, or general standards of care. It may be legally required, but commonly refers to an independent evaluation of a company one seeks to acquire. Investment brokers must be able to demonstrate due diligence in investigating a company whose equity they sell.

ESG: Environmental, Social, Governance: ESG refers to three common areas of concern that SRI investors focus on when looking at the ethical impact of a company. These can include:

- Environmental: Climate change, Hazardous waste, Nuclear energy, Sustainability

- Social: Diversity, Human Rights, Consumer Protection, Sin stocks (alcohol, tobacco, pornography, gambling, nuclear weapons, arms), 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.

Guarantee: A guarantee is an enforceable assurance making one party responsible for the payment or debt of another. Guarantees are binding, however, only if made on top of legally valid contracts.

Green Bonds: A green bond is a type of tax-exempt bond issued to promote environmental sustainability and the development of brownfield sites (areas of land that are unused and under-developed and may contain low levels of industrial pollution). Green bonds are generally issued by federal, state or local municipalities. Additionally, the World Bank has issued green bonds in order to support large scale projects that address climate change. The proceeds from the purchase of green bonds either fund 'green' projects directly or are earmarked for green projects. The bonds are generally backed by renewable energy assets and carry the same credit rating as normal municiple bonds. Examples: Hawaii State's utility-backed low cost green bond program, Northland Power's corporate bonds that support solar farms

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: Impact investing is a strategy that works to leverage the power of capital to create positive change. We define impact investing specifically as investing capital with the objective of achieving measurable positive social and/or environmental impact alongside financial returns.

Investment Consultant: A consultant assists clients in making financial decisions based on their financial and social/environmental goals. They should have experience in portfolio allocation, tax planning, retirement planning and estate planning. However, although many investment consultants are certified financial planners (a designation that they need to pass a national test to receive), there is no national certification requirement to be called an investment consultant. Services offered by an Investment Consultant are: Help determine financial and social/environmental goals, Implement asset allocation strategy that works to achieve goals, Tax planning, Retirement planning, Estate planning.

Investment Intermediary: An investment intermediary is an entity that acts as a middleman 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 PRI dollars and re-grants them to support impact investing projects or to underwrite below market rate investments.

Leverage: In finance, leverage is any technique to multiply gains and losses. Most often, it involves buying an asset with borrowed funds, with the belief that the asset’s income or appreciation will outweigh borrowing costs. The financial crisis in 2008 was in part blamed on “excessive leverage”, that is, high quantities of borrowed debt.

Market Rate of Return: Market rate of return is calculated as the average rate of return for a particular market. This is calculated by averaging a set of representative portfolios in an index, such as the Dow Jones Industrial Average or Standard and Poor's 500.

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 client categories. 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 it gives 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 the practice of aligning a philanthropic organization's management of assets with its charitable purposes while sustaining long-term financial return.

Multi-Family Office (MFO): MFOs are private wealth management advisory firms and provide their clients, typically families with a net worth in excess of $50 million, with services such as investment advice, estate planning, risk management, foundation management and tax services. A family office can also make arrangements for non-financial issues such as private schooling, travel arrangements and other miscellaneous household arrangements.

Negative Screens: Divesting and avoidance of sectors and organizations that do not align with mission. For example: guns, tobacco, predatory lenders

Place-Based Investing (Community Investing): Refers to a set of techniques for investing capital locally, through community ownership and access mechanisms, such as local banks, crowdfunding, municipal bonds, or participation. Place-based investing especially targets local business and anchor institutions, and outcomes for families and neighborhoods.

Pooled fund: A pooled fund is an investment vehicle that allows many individual investors to combine their assets for a specific purpose, such as in the case with a mutual fund or ETF (Exchange Traded Fund). There are several advantages to investing in pooled funds for investors, such as lower costs, greater ability to diversify a portfolio and the ability to access professional money management services for smaller accounts that may not meet a minimum account size.

Positive Screens: Pro-actively investing in organizations that align with mission. For example: diverse boards, women entrepreneurs.

Private Equities: 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.

Program Related Investing (PRI): The IRS defines program-related investments as those in which: 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. PRIs are counted as part of the annual distribution (at least 5% of its endowment) a private foundation is required to make.
http://www.irs.gov/Charities-&-Non-Profits/Private-Foundations/Program-Related-Investments

Proxy Statement: A document required by the Securities and Exchange Commission that companies must provide to all shareholders before their annual meeting. It includes proposals for new additions to the board of directors, information on directors' salaries, any declarations by company management as well as any shareholder resolutions filed by shareholders.

Proxy Voting: Any shareholder of a publicly traded company has the opportunity to vote their proxy statement, which is a document required by the SEC that companies must provide to all shareholders before their annual meeting and lists any shareholder resolutions filed with the company. Within the context of impact investing, it is important that shareholders of publicly traded companies understand and exercise their right to vote in favor of shareholder resolutions that align with their social mission. Shareholders are encouraged to ask their investment advisor or asset manager about how to vote their proxy statements.

Public Equities: Public equity investments (those traded on a public exchange) are typically made by mission driven investors into stocks or bonds with positive or negative screens (See "Screening"). Common negative industry screens may exclude tobacco, firearms, nuclear power, gambling, defense/ weaponry, and carbon emissions, coal production, etc. Common positive industry screens may include clean technologies, CSR reporting, etc.

Real Assets: Real assets are an asset class that derives its value from tangible assets such as precious metals, commodities, real estate, agricultural land and oil, can be made through either public or private equity markets and are often considered to be less liquid than other asset classes. Within the context of impact investing, real assets can include green buildings timberlands, sustainable agriculture etc. MRI investments into real assets can be made through public or private equity markets. REITS (real estate investment trusts) are a common structure for investing in real assets. In the field of impact investing real assets can be green buildings, timberlands, sustainable agriculture, etc.

Registered Investment Advisor (RIA): An investment advisor is hired to guide a client's investment decision process. A RIA has a fiduciary duty to their client and must act in their best interest, rather than their firms. They will take the important step of figuring out a client's financial and social/environmental goals and translate that into an investment strategy that allocates their assets appropriately. Depending on a client's level of commitment to impact and risk tolerance, an investment advisor will tailor a portfolio allocation strategy to reflect the overall financial and social mission. Services provided by an investment advisor: Portfolio allocation strategy that balances tolerance for risk with financial and social/environmental goals.

Return on Investment (ROI): The efficiency of an investment, measured as investment (gain minus cost) divided by cost.

Screening: Screening is a term used by the SRI (Socially Responsible Investing) community to refer to the practice of removing publically 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.

Shareholder Advocacy / Engagement: Shareholder engagement is a term used to describe the efforts made by a company's management to communicate with their shareholders on a wide range of topics. Within the context of SRI, this often refers to engagement around the filing (or threat of filing) of a shareholder resolution by registered shareholders. Please see "shareholder resolution" definition for more information.

Shareholder Resolution: A shareholder resolution is a proposal submitted by a shareholder of a publiclytraded company for a vote at the company's annual meeting or in the company's proxy statement. Any shareholder owning over $2000 in a company's stock for over a year can file a shareholder resolution. Typically corporate management opposes resolutions. They are non-binding, but have been used as an effective tool to gain the attention of management, which can often lead to a dialogue resulting in a change in corporate practices. Some of the common issues addressed by shareholder resolutions are: corporate governance, executive compensation, global warming, labor relations, tobacco smoking, human rights and animal welfare. The Securities and Exchange Commission regulates shareholder resolutions.

Single Family Office: A family office or single family office is a private company that manages investments and trusts for a single family. The company's financial capital is the family's own wealth, often accumulated over many family generations. More recently the term "family office" or multi family office is used to refer primarily to financial services for relatively wealthy families.

Social Business: A term coined by Nobel prize winner Mohammad Yunus, social business refers to a company that, unlike a traditional business, focuses on addressing a social problem rather than maximizing profit. A social business is financially self-sustaining and reinvests all its profits either into the business itself or to start other social businesses.

Social Entrepreneurship: The pursuit of sustainable solutions to problems in society. Social entrepreneurship is a process that can take place in different organizational contexts: a charity, a commercial organization, a government organization, a community organization, or through a new social venture. It is characterized by a set of principles that are typically present: focus on value creation not capture, focus on innovation not the status quo, focus on sustainable solution not sustainable organizations, and focus on empowerment of participants not control.

Social Enterprise: A social enterprise is an organization that applies commercial strategies to maximize improvements in human and environmental well-being, rather than maximizing 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. Many commercial enterprises would consider themselves to have social objectives, but commitment to these objectives is motivated by the perception that such commitment will ultimately make the enterprise more financially valuable. Social enterprises differ in that, inversely, they do not aim to offer any benefit to their investors, except where they believe that doing so will ultimately further their capacity to realize their social and environmental goals.

Social Impact Bond (SIB): A Social Impact Bond, also known as a Pay for Success Bond or a Social Benefit Bond, is a contract 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 is an approach to understanding and managing the social impacts of a project, organization or policy. 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. SROI provides a specific measure of the effectiveness in allocating resources in the social sector and allows for comparability of performance across similar sets of activities.

Socially Responsible Investing (SRI): Socially responsible investing typically refers to a subset of the field of investing where publically 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 the environment sustainability may choose to “screen” oil companies out of their portfolio that they feel are actively contributing to climate change. The client may also want to seek out clean energy stocks to include in their portfolio to help further their environmental mission. Clients can practice a SRI strategy within their own individually managed portfolio, or participate in a SRI mutual fund that has a predefined social screen.

Triple Bottom Line: An accounting framework for sustainability, attributed to John Elkington, which takes into account social, ecological, and financial dimensions. There is no single method for measuring Triple Bottom Line. The Genuine Progress Indicator is one often cited example of comprehensive empirical measurement. More often Triple Bottom Line is a guiding concept.

Wealth Manager: A wealth manager provides the same services as an investment advisor, acting in the best interest of clients to design a portfolio allocation plan that will meet both their financial and social/environmental goals. However, a wealth manager also offers a wide-range of additional services. They will create, coordinate and implement a strategy to effectively plan for all parts of a client’s financial life. Services offered by a wealth manager: Portfolio allocation strategy similar to a registered investment advisor, Retirement planning, Compensation, Expense management (bill-paying), Estate planning (drawing documents), Tax planning (tax compliance and filing), Philanthropy (foundation management), Risk management (placing insurance).

Sources:

Annie E. Casey Foundation
Aspiriant
B Lab
Global Impact Forum
Investopedia
IRS
Re Capital Partners
Threshold Group
Wikipedia