INVESTMENT TERMINOLOGY GLOSSARY

Key Fund Investments Limited

A guide to terms and language used in the investment process.

Key Fund Investments
Glossary of Terms

Like many technical areas, the world of investment has its own vocabulary. When talking about investment, looking through terms and conditions or comparing options, it is really important that you understand what is being discussed.

This glossary aims to explain, in simple terms, some of the language you may encounter and what it means. This work has been funded by The Connect Fund.

APR Annual Percentage Rate
APR is the amount of interest you'll pay annually on any money borrowed expressed as a percentage of the full cost of borrowing over the full term of your borrowing. When calculating APR, any fees or other chargeable costs are also taken into account.

There is a real difference between APR and flat rate interest. For example if you borrow £5000 for 5 years at an APR of 6%, interest is calculated on outstanding debt and therefore reduces annually as capital is repaid. If you borrow £5000 at a flat rate of 6% per annum, you will pay 6% of £5000 per annum, as the interest is calculated on the full loan amount each year, no matter how much is outstanding.

Ensure you understand the interest rates, charges and fees that apply to any offer, particularly when comparing offers from different lenders. The table below gives an example.

	£1,000 Borrowed Over 12 Months		£10,000 Borrowed Over 12 Months	
	6% APR	6% Flat Rate	6% APR	6% Flat Rate
Total Repayable	£1032	£1060	£10327	£10600
Monthly Sum	£86.07	£88.33	£860.66	£883.33

Authorised Signatories
Every organisation will have rules on which managers and directors and sign agreements on behalf of the organisation and the combination of managers or directors required for different levels of expenditure or contract value.

When agreeing a loan, investors will ask that care is taken to ensure the right people sign loan agreements.

Balance Sheet
A balance sheet is a snapshot of the assets, liabilities and capital in a business and summarises the financial position at a specified date.

Bank Decline
A bank decline is pre-requisite for some social investors. It is evidence that a mainstream bank will not fund your proposal. Normally this would be required to be evidenced in writing via either letter or e-mail.

Blended Finance
A mix of grant and loan in a single investment. For example, suppliers financed through the Growth Fund contracted by Access: The Foundation for Social Investment can offer 80% loan and 20% grant

mixes. From time to time lenders and grant makers also collaborate to offer a blend of funding. Power to Change has worked closely with different lenders to do this.

Board Resolution
This is a way of formally recording a decision made by the board, it can be a fairly simple record. The formal power to borrow often sits with the directors/trustees, so investors will usually ask for a Board Resolution, formally recording the decision to borrow money.

Capital
The terms refers to funds available to be employed in the business, for example, profit on sales or funds raised from community share issues.

Capital Expenditure
Expenditure relating to acquire, upgrade and maintain of physical fixed assets such as land, buildings or equipment, including major repairs or renovations.

Cash Flow Forecast
Usually set out over 1-3 years, a cash flow forecast will include estimates how money will flow in and out of a business. It will include projected sales, loans and grants, fixed and variable costs.

Capital Repayment Holiday
A period of time, usually at the start of a loan, where the lender agrees to receive only interest payments, so the borrower won't pay back any of the original capital lent during this period. This is usually used to allow new trading activities time to generate revenue before the full cost of borrowing kicks in, or to help improve cash flow during tough periods of trading.

Community Shares
Community Shares are a way to enable individuals and organisations to invest in a business which has been established to benefit their community. Community shares can only be issued by Community Benefit Societies (charitable and non-charitable) and cooperative societies.

The shares do not accrue in value, but can attract interest payments. Community shares can be redeemed by the investor, but not sold to anyone other than the society by which the shares were issued.

Conditions precedent
Conditions that must be met prior to funds being released by an investor – for example, receipt of a valuation, completion of the appropriate legal works or perhaps receipt of other funds.

Conditions subsequent
Conditions that must be met following the release of funds to continue to meet the terms of a funding agreement.

Contribution
Contribution is the profit made on individual products or services and is calculated by deducting the variable costs from the gross income derived from that product.

Covenants

A covenant is a promise that binds the parties involved to undertake or refrain from particular activities during the period of the agreement. For example, a covenant might limit the uses of a building to community benefit or ensure that alcohol cannot be served on the premises.

Creditors
People or companies who you owe money to.

Debenture
A debenture is a legal arrangement and form of security taken on the general assets of a company.

Debt Service Cover/Ratio
This is an estimate of the ability to meet upcoming business costs through cashflow. It is normally calculated by looking at the level of profit generated versus the loan repayment commitments.

Debtors
People or companies who owe money to you

Deed of Priority
A deed of priority sets out the order in which creditors will get repaid when an organisation has more than one lender supporting it.

Deed of Postponement
A deed of postponement is an agreement between lenders, where one lender agrees to give priority to another. It is used where a new lender requires precedence over existing lenders.

Defrayment/Disbursement
The release of funds by investor to investee – when the money is transferred to the borrower.

Deprecation
The reduction in the value of an asset over time, usually due to wear and tear or obsolescence.

Due Diligence
The work undertaken by a funder to ensure your proposal is investable and your organisation is eligible for investment. This may include legal, financial or technical due diligence as well as valuations of property and other assets.

Equity
Equity is the ownership stock in a business which is held by shareholders.

Fixed Charge
Security taken over a specific asset such as a building or vehicle. A fixed charge gives the lender the ability to dispose of that asset in the event of insolvency or breaching the terms of the loan agreement, in order to pay off the balance of the loan.

Fixed Costs
Business costs that do not change from month to month e.g. rent or mortgage. Fixed costs are expenses that have to be paid by a company, independent of any business activity.

Flat rate
A rate of interest that does not vary from period to period regardless of sum outstanding on the loan or stage of repayment. Sometimes a flat rate of interest is expressed as a percentage above Bank of

England Base Rate. For example 3% per annum above Bank of England Base Rate. This means the cost of borrowing would fluctuate with Bank of England Base Rate.

Floating Charge
Security taken over the general assets of an organisation rather than a specific item such as in a fixed charge. Unlike a fixed charge, which is created over ascertained and definite property, a floating charge is created over property of an ambulatory and shifting nature – like stock, cash at the bank and other variable assets.

Gearing
Gearing refers to the level of a company's debt related to its equity capital, usually expressed in percentage form. It is a measure of a company's financial leverage and shows the extent to which its operations are funded by lenders versus shareholders.

Governing Document
A governing document is a legal document which represents the rule book for the way in which your charity will operate. This is normally captured in your constitution, or memorandum and articles of association.

ID & VA (Identification and Address Verification)
Investors must adhere to "Know Your Customer" regulations, part of which requires them to hold specific forms of ID for company directors to ensure they know who they are lending to.

Income and Expenditure
The money coming into and going out of your business.

Interest Cover
A calculation used to show how easily business income will enable interest payments on outstanding debt.

Investment Committee/Panel or Credit Committee
The group responsible for making funding decisions within an investment organisation

Investment Readiness
Industry jargon, rather than a technical term, meaning a business is ready to receive and effectively use investment.

Junior Debt
Where one lender recognises that another lender has priority for repayment.

Know Your Customer (KYC)
Central government regulations which requires investors to collect proof of their clients identities, in an effort to reduce fraud and money laundering.

Liquidity
The ease by which cash is available or assets can be turned to cash should the business need to.

Loan to Value Ratio
A term which compares the ratio of a loan to the overall value of an asset. It is often used in mortgage considerations. For example if a building is valued at £100,000 and has a mortgage of £25,000 outstanding, the loan to value ratio is 25%.

Monitoring
The reporting required of an investee by an investor. This will include financial information like management accounts and impact information relating to specific social value targets like health improvements or job creation.

Net Assets/Net Worth
The total assets of a business minus the total liabilities of a business.

Operating Cashflow
A measure of how much cash a business generates, indicating the ability to continue trading and/or grow.

Outputs
Specific, measurable targets identified as the desired results of any investment, for example sales values, people engaged, qualifications achieved.

Pari Passu
Literally side by side, a term meaning that organisations, loans or assets are treated equally in the context of an organisation. For example, if two lenders are treated pari passu, they will be paid under the same terms and to the same timescale.

Profit and Loss
The Profit and Loss statement or P&L, provides a summary of income and expenditure for a defined period, such as a quarter end or financial year.

Security
A legal claim over an asset used by an investor to protect their investment in the event of non0-payment or the failure of the business.

Senior Debt
An investment which takes precedence for repayment over other investments in an organisation.

Social Impact
The value created to your stakeholders or society at large because of the activity undertaken by an organisation. For instance, health improvements, reduction in homelessness levels or increased employment.

Social Impact Bonds
A social impact bond is a way of attracting external finance to cash flow a payment by results contract. For this to work, the contract must hit specific outputs and service improvements, each triggering pre agreed payments, within a defined timeframe. Investors are only repaid when and if targets are hit.

Social Investment
Finance made available to fund trading which creates social as well as economic value.

Tangible Assets
Literally things you can touch, both capital assets like equipment and current assets like stock.

Theory of Change

A methodology by which you plan and communicate the issue you wish to address, the course of action you will take and what will change because of the action you have taken.

Turnover
The amount of income generated by a business in a given period, usually expressed in relation to annual figures.

Variable Costs
Business costs that vary dependent upon the level of activity, which might include stock, marketing, raw materials.

Working Capital
Shorter term funds required for the operation of the business – this may include cash, short term loans and access to overdrafts.