Impact Report 2014

Learning from a Multi-Fund Approach

Bridges Ventures

bridgesventures.com

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Bridges Impact Report 2014

Introduction

We are delighted to share our 2014 Annual Impact Report, which this year focuses on what we have learned from using a multi-fund platform for sustainable and impact investment.

Over this past year, the notion of applying an impact lens to investment decisions has gathered great momentum across a wide variety of actors.

This autumn, the Social Impact Investment Taskforce, established under the UK's presidency of the G8, published its findings, bringing governments together with a shared understanding of the powerful role that impact investment can play in delivering their public agendas, as well as the key policy levers that can fuel its growth.

The Taskforce report highlighted the growing number of social sector organisations that are now tapping the markets for finance, rather than only seeking grants from donors. In the corporate world, we are seeing a number of multinationals re-define their societal purpose, bringing sustainability and impact to the heart of their corporate strategy. At the same time, the B Corp model – where for-profits commit to a societal purpose and publicly share their impact performance – is capturing the imagination of a new generation of entrepreneurs who seek both profit and purpose.

We're also seeing an increasing appetite among investors (including institutions) to allocate for impact. In Europe alone, the European Sustainable Investment Forum (Eurosif) recently revealed that sustainable investment grew by almost 23% between 2011 and 2013, while impact investment went up by 132% – both well ahead of the market as a whole.[1]

This expansion of the market is exciting for two reasons. First, it aligns private, public and civil society organisations toward common goals like never before. Second, it fosters a greater diversity of approaches to tackling societal issues – which should help us better understand the most cost-effective solutions.

At Bridges, we have spent the last 12 years building a platform of distinct and diverse fund types. For all our funds, we start by identifying areas where a societal or environmental challenge creates an investable opportunity, across four common impact 'themes': health & well-being, education & skills, sustainable living and underserved markets. But all the funds differ in the types of business model they back and the level of risk-adjusted financial return they generate. Bridges Sustainable Growth Funds and Property Funds back for-profit business models with the potential to generate competitive financial returns alongside positive social or environmental impact. One of our Social Sector Funds is dedicated exclusively to social impact bonds; another supports mission-locked organisations whose approach may sometimes entail a below-market financial return for investors. And the Bridges Charitable Trust (which receives 10% of the team's profits from all our funds) focuses on issues that require strategic grant funding or programme-related investment.

> **“With this diverse fund platform, we are seeking not only to employ as many tools as possible to deliver societal change, but also to invest as effectively as possible”**

With this diverse platform, we are seeking not only to employ as many tools as possible to deliver societal change, but also to invest as effectively as possible. By consistently focusing on the same impact themes, we have developed a deep understanding of the structural issues behind a range of pressing problems. That gives us a better sense of which business models will be most effective in addressing them – and therefore which investment strategy will deliver the best results in each case.
In this year's report, we bring together some of the lessons we have learned, with the help of a series of case studies.

We hope that you enjoy reading the report, and welcome your feedback as we continue to develop the breadth of our platform.

The Bridges Ventures team

[1] Eurosif European SRI Study 2014

Bridges' Platform of Funds

Bridges Ventures is a specialist sustainable and impact fund manager. We use an impact-driven approach to create superior returns for both investors and society as a whole. We manage almost £500m across our Sustainable Growth Funds, Property Funds and Social Sector Funds.

Our strategy is to focus on growth opportunities where our investments can generate attractive financial returns through helping meet pressing social or environmental challenges – be it backing businesses that generate jobs in areas of high unemployment, building environmentally-friendly care homes for the elderly to sustain an ageing population, or providing flexible financing for innovative youth employment programmes.

Since 2002, we've been creating (and measuring) impact across four key themes: **education & skills, sustainable living, health & well-being,** and **underserved markets.** To facilitate this, we have pioneered a range of investment vehicles, allowing us to support different business models and attract a broad spectrum of investors.

Our funds fall into three main categories:

Bridges Sustainable Growth Funds

Bridges Sustainable Growth Funds provide capital for high-growth businesses that are creating impact through their **products or services**, the **places** in which they are located, or their **practices**.

Through these funds, we have been able to prove to commercial and institutional investors in the UK that impact can be an engine of value – and we are now looking to do the same in the US, after recently opening an office in New York.

Bridges Property Funds

Bridges Property Alternatives Fund III and Sustainable Property Fund take an entrepreneurial approach to property investment, focusing on niche sectors, emerging locations and buildings showing environmental leadership.

The CarePlaces Fund, raised in conjunction with our joint venture partner Castleoak, focuses exclusively on building best-in-class care homes for the elderly. Given our ageing population and the growing demand for energy-efficient buildings, these investments offer steady, sustainable long-term returns for commercial investors.

Bridges Social Sector Funds

Bridges manages two social sector funds, providing finance and support to social sector organisations delivering services with high societal impact.

Seeded by the Bridges Charitable Trust in 2008, the Bridges Social Entrepreneurs Fund aims to address the funding gap often faced by fast-growing social enterprises looking to scale. The Bridges Social Impact Bond Fund, launched in 2013, is the first fund of its type. It provides up-front capital for projects commissioned on a payment-by-results basis where investors receive returns if specific social outcomes are achieved.

2014 Selected Highlights

The **£25.2m** sale of three high-quality care homes from the CarePlaces Fund to L&G, representing a net initial yield of **5.5%**

Invested in Wholebake, a manufacturer of gluten-free snack bars based in one of the most under-served areas of North Wales – the **6th deal** from Bridges' Sustainable Growth Fund III

Final close of the Bridges Social Impact Bond Fund at its hard cap of **£22.5m**. Bridges has now supported **10** different SIBs in the UK, funding interventions in areas like homelessness among young people and help for troubled families

The **£60.3m** sale of The Curve, a student accommodation development in London's Whitechapel, by the Bridges Sustainable Property Fund

The Gym Group, a Bridges-backed company, opened **15** new sites across the UK, taking its total number of sites to **55**

Launch of '**Shifting the Lens**: A De-risking Toolkit for Impact Investment', looking at how to broaden capital flows into impact investing, one of five reports released by Bridges Impact+ this year

The **£11.65m** sale of a Birmingham office building by the Bridges Sustainable Property Fund to F&C UK Property Fund, representing a yield of **5.75%**

The opening of our new **US office** in New York

Bridges portfolio companies avoided **85,000** tonnes of carbon emissions, supported people to gain over **4,500** qualifications and helped more than **1,000** unemployed people find jobs in 2013/14

Bridges Ventures' funds are only available to persons who can be categorised as professional clients. Bridges Ventures acts only for the funds it manages and does not act for or offer advice to, any other persons, nor provide them with the protection it offers its client funds. Past performance is not indicative of future performance.

Our Impact

Highlights from across Bridges' funds, which focus on four key impact themes[1]:

Health & Well-being

Challenges: Lifestyle changes, rising levels of obesity and an ageing population are driving a fundamental transformation in the provision of services in support of health & well-being.

Opportunities: Increased outsourcing of services from the public sector as well as higher demand for quality care homes, domiciliary provision and services promoting health & well-being (including gyms and fitness facilities).

1,207
individuals receiving domiciliary care at home

638
days of residential care averted as a result of therapeutic family intervention supporting at-risk children

TO DATE[2]

1.23m
hours of quality at-home care delivered

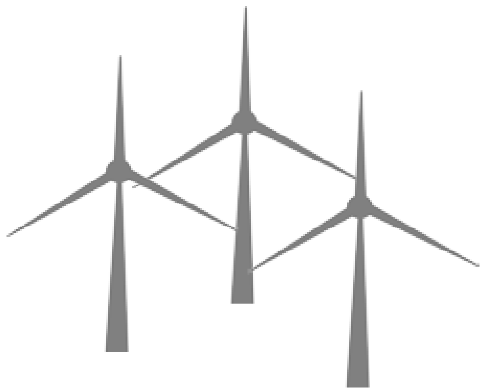
100k
First-time gym users, primarily in underserved communities

473,400
passenger trips for disadvantaged individuals giving increased community access

Sustainable Living

Challenges: Climate change, resource constraints and energy security are some of the most pressing challenges facing society.

Opportunities: Attractive investment opportunities exist in key areas including decentralised renewable energy generation, waste recycling, smart buildings and waste water treatment and recycling.



85k
tonnes of CO_2-equivalent emissions averted

74,184
car journeys saved through the use of community group transport

35%
average reduction in emissions projected across our environmental buildings

TO DATE

1.5m
tonnes of waste diverted from landfill

840k
cumulative tonnes of CO_2-equivalent emissions averted

Education & Skills

Challenges: A shortage of skills and stagnating school performance, alongside increasing Government budget constraints, are having a negative effect on employability levels.

Opportunities: There are a growing number of companies offering vocational training, widening access to employment or upskilling people already in work.

4,045
qualifications gained as a result of training and support offered by Bridges' portfolio companies

TO DATE

7,483
qualifications gained by students and trainees as a result of training and support offered by Bridges' portfolio companies

1,034
behavioural improvements among at-risk children still in school

1,385
qualifications gained by at-risk children and young people

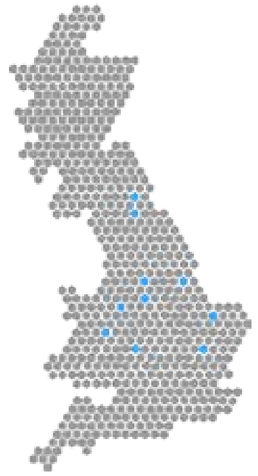
777
school attendance improvements for at-risk children

109
young people continuing in education or training who were at risk of dropping out

Underserved Markets

Challenges: The poorest communities are the most disadvantaged in terms of access to quality services and economic opportunities.

Opportunities: Underutilised and affordable property, unmet local demand, underutilised talent and low competition for deals means we can identify pockets of growth in underserved markets.



1,068
previously unemployed people moved into jobs

80%
portfolio companies operating in underserved UK locations, with over a third located in the most deprived 10%

TO DATE

3,271
direct jobs supported across funds

4.7x
economic multiplier (for every £1 invested, an additional £4.70 was spent)

£505m
catalysed spend in underserved markets

[1] These figures reflect the latest available year end data as of 31 March 2014. Some Bridges' portfolio companies report to a June or December year end.
[2] All 'to date' figures are cumulative, and include data from portfolio companies that Bridges has now exited.

The Development of our Multi-Fund Approach

How Bridges has developed a multi-fund platform that matches the supply of investor capital with demand from impactful business models

Since Bridges' inception in 2002, our overriding goal has always been the same: to stimulate entrepreneurial solutions to societal challenges.

Over time, we found that opportunities clustered around four impact themes: **education & skills, health & well-being, sustainable living** and **underserved markets**. But within these themes, there's a wide range of different business models – offering a wide range of risk-adjusted financial returns. This has been reflected in the development of our fund platform.

We began our journey wanting to show that we could use commercial investment strategies to deliver impact as well as competitive financial returns – thereby attracting institutional capital holders to invest for impact. This is the thesis of the **Bridges Sustainable Growth Funds**, launched in 2002, which invest risk capital in for-profit business models with impact embedded in their product, location or practices.

Our first two Sustainable Growth Funds invested in a number of property-backed operating businesses – and this helped us to recognise the important role that property could play in addressing our impact themes. For example, 40-50% of the UK's carbon footprint is caused by its building stock. So in line with our sustainable living theme, we saw the potential for an investment strategy that uses environmental features to reduce carbon emissions, while increasing property value over time. We also saw first-hand the powerful effect that a regenerated building can have in an underserved area.

We therefore began to develop a pipeline of properties located in regeneration areas and showing environmental leadership. In 2009, we launched the **Bridges Sustainable Property Fund**, aimed at attracting property investors to back impactful models. We work alongside skilled joint venture partners, allowing us to identify off-market opportunities in niche sectors. And we've continued to pursue this approach with our **Bridges Property Alternatives Fund III**, launched this year. As with our Sustainable Growth Funds, we've found that by being creative and investing in areas that are growing precisely because there is an underlying societal need, we've been able to spot growth opportunities in an otherwise saturated market.

We also saw the potential to use property to address our health & well-being theme. So in 2012, we closed the **CarePlaces Fund**, a joint venture with Castleoak, a leading developer in the care sector. This specialist fund is focused exclusively on creating more high-quality care homes for the elderly, which would be attractive to investors looking for a structured, pre-let, income-driven product with very long leases.

As our understanding of the sub-sectors within our impact themes deepened, we were able to identify some societal issues where investors needed to take a more flexible approach to financial returns – because the business models involved required a prioritisation of impact. We recognised that backing these business models would be another powerful way to invest for impact, while also deepening Bridges' understanding of our target sectors. So in 2009, we launched the **Bridges Social Entrepreneurs Fund**. It's backed by a handful of progressive foundations, individuals and the government, all of whom were willing to forgo some financial return on investment in order to support this critical part of the landscape.

Although our Social Entrepreneurs Fund initially backed trading social enterprise models, we were also aware that a number of high-performing charities delivering impact across our themes do not trade; the societal issues that they address require either public sector funding or donations. Excitingly, the emergence of social impact bonds (SIBs) allows us to use investment as a tool to support these organisations too. By its very nature, a SIB sparks charities to behave entrepreneurially – backed by the private-equity-style management support that is a hallmark of Bridges' approach.

So this year, we launched the **Bridges Social Impact Bond Fund**, which is dedicated exclusively to this kind of investing. As an innovative product without an established track record, our Social Impact Bond Fund has been kick-started by investors willing and able to support an unproven but potentially high-impact model. Over time, it is possible that SIBs will prove to be an investment opportunity capable of delivering competitive risk-adjusted financial returns – which may be relatively uncorrelated to the economic cycle.

As a complement to our range of investment funds, the **Bridges Charitable Trust** is our vehicle for making strategic grants to address aspects of our impact themes where investable solutions do not present themselves – such as crisis support, or gaps in market knowledge or infrastructure. The Trust is funded by the Bridges team, who donate the equivalent of 10% of their own profits from our other funds to the Trust's philanthropic activities. This further emphasises our thesis that sustainable and impact investment is not about replacing philanthropy; it's about introducing a broader array of tools to solve societal challenges, freeing up grant funding for where it is most needed.

2002 Bridges Ventures is founded. It raises Bridges Ventures Fund I, the first Bridges Sustainable Growth Fund

2006 The Bridges Charitable Trust is founded

2007 Launch of Bridges Ventures Fund II, its second Bridges Sustainable Growth Fund

2009 Bridges Social Entrepreneurs Fund and the Bridges Sustainable Property Fund are launched

2011 Bridges completes its first close of its CarePlaces Fund, the first close of Bridges Ventures Fund III, its third Sustainable Growth Fund, and achieves the final close of Bridges Social Entrepreneurs Fund

2012 Final close of Bridges Sustainable Growth Fund III at £125m

2013 First close of Bridges Social Impact Bond Fund

2014 Bridges Social Impact Bond Fund achieves final close at £22.5m

> **“We began our journey wanting to show that we could use commercial investment strategies to deliver impact as well as competitive financial returns – thereby attracting institutional capital holders to invest for impact”**

A Multi-Fund Approach: What We've Learned

The development of our fund platform has been based on three key convictions

1 A variety of business models can create positive social impact

Bridges' starting point for any investment is to identify where a societal or environmental challenge creates an investable opportunity – and we've learned that this could involve a number of different business models (see rows, Figure 1).

A wide array of societal issues may be addressed by for-profit business models improving their practices: an increasing number are seeking to enhance value for both shareholders and stakeholders through progressive environmental, social and governance practices (such as environmental management or community engagement). Equally, for-profit businesses that gear their core product or use the place in which they are located to address a societal or environmental issue – recognising that these also represent significant growth opportunities – can also be a powerful solution. For some of these for-profit business models, the generation of impact is inextricably linked to their commercial success.

For other businesses, there may be a balancing act between profit and purpose, with the social purpose protected by the organisation's governance. There are also societal issues that can best be solved by business models that re-invest some or all their financial surpluses, such as trading charities, mission-driven co-operatives or cross-subsidy models. Finally, there are societal challenges that require addressing by charities that do not trade.

2 It is possible to attract investment for all these different impact models - by tailoring products to meet the needs of different investors

An increasing number of investors are now integrating environmental, social and governance (ESG) factors into their analysis, favouring business models that have the potential to outperform the market because they operate in a more sustainable way. Whereas 'responsible' investment focuses on protecting value against risk, this 'sustainable' investment is focused on creating additional value, for both shareholders and society.

Impact investors go beyond this to focus on solutions to pressing societal or environmental issues. Some want to focus on societal or environmental solutions that can generate market-rate (or market-beating) financial returns. Others are willing to make investments whose impact thesis may (but may not) deliver a below-market financial return. Others still are willing to make investments whose impact approach requires a below-market financial return. Finally, there are funders with an impact-only motivation, who continue to play a critical role in capital provision for some societal issues.

By understanding this spectrum of capital (see columns, Figure 1), it is possible to design investment strategies that promote entrepreneurial solutions to societal challenges. Each one of Bridges' funds has been designed to 'align' with the financial and impact expectations of different investors – ensuring that we draw in a wide array of asset-holders to invest for impact.

3 We believe that pursuing a multi-fund strategy makes us a better investor

All of our investment teams focus on the same four themed areas and their related outcomes, but each analyses the market opportunity through the prism of their respective fund. This enables us to build a deep understanding of which business models will thrive in which context – and therefore which investment strategies will yield the best results for our investors, from both a financial and impact perspective.

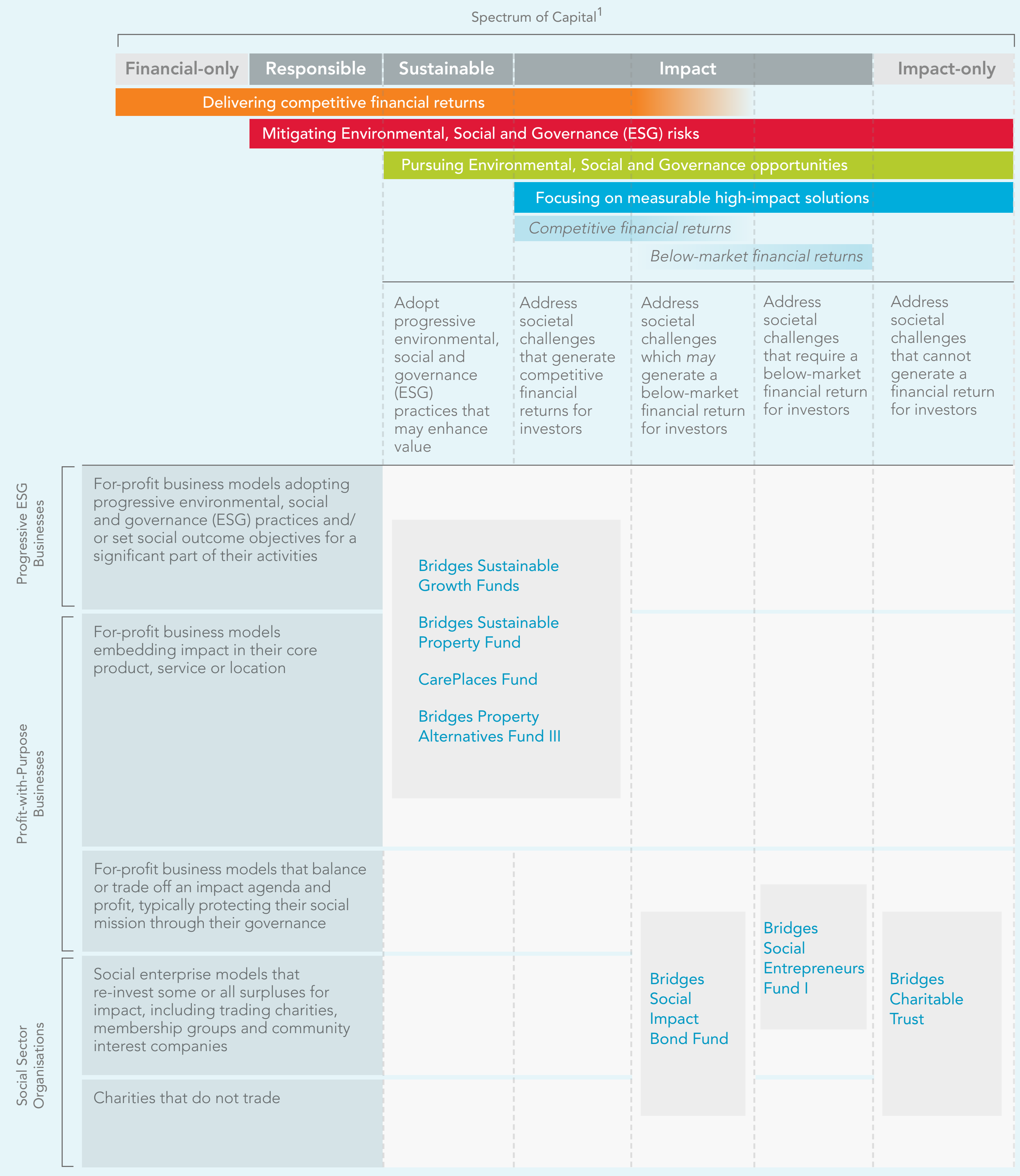
This year, our advisory function Impact+ (see p.20) was delighted to co-author the report of the Asset Allocation Working Group of the Social Impact Investment Taskforce, established under the UK's presidency of the G8. In that paper, we painted a picture of the evolving landscape, showing the powerful role that private capital can play in financing a wider range of impact-driven organisations to address societal problems. Figure 1 builds on that picture, showing how Bridges' own funds fit into that framework.

We hope that, by describing our own experience in creating investment products across this landscape, we will encourage other to explore the full range of sustainable and impact investment strategies.

On the following pages, we illustrate through a series of case studies how lessons from one fund have informed another, across all four of our impact themes.

Figure 1. Bridges' Multi-Fund Platform

How Bridges' funds look to support entrepreneurial solutions across the capital spectrum



[1] *We use dotted lines in the spectrum of capital to distinguish between investor motivations, as some approaches (such as mitigating ESG risks) sit across categories.*

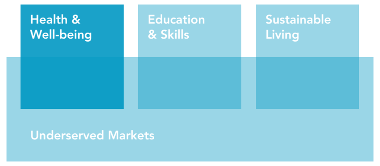
Case Studies

By consistently focusing on four impact themes and their related sectors, we have been able to develop a deep understanding of the structural issues in each one. And while each investment team analyses the market opportunity through the lens of their particular fund, we also share the lessons we have learned across funds – allowing us to better recognise which business models will have the most impact in which context.

The following case studies illustrate how each fund contributes to what we have learned overall as a fund manager in terms of the **products** (or services) that we back, the **places** in which we invest and the **practices** that we support – across four impact themes.

Health & Well-being

Improving quality of care by recognising, rewarding and training care workers



Societal challenge	The UK population of over-60s is due to increase by 20% between now and 2027, with the fastest growth among the over-85s. Demand for quality care homes is rising rapidly as a result. With over 70% of current stock older than 15 years, provision risks becoming out of date. There's also increasing demand for quality at-home care, as most people want to stay in their homes for as long as practically possible.
Structural issue	Typically domiciliary care providers operate a low-pay, high-churn employee model, which often results in lower-quality care for service users. The average turnover rate of domiciliary care workers in the adult social care sector is 28%. This contributes to a lack of consistency of care, staff knowledge and skill, identified by the Care Quality Commission as reasons for poor quality of care.
Our approach	How could we increase the quality of care received, in a sector with tight margins? Personnel are key in the home-care sector. So we started looking at new and better ways to reward and engage staff. This led us to CASA, an employee-owned social enterprise in which employees can financially benefit from providing quality care. Staff can acquire shares, which are broadly allocated on the basis of length of service rather than seniority. They also play a controlling role in shaping the direction of the organisation, since employee representatives make up the majority of trustees at the local level. Ownership can help not only in attracting staff, but also in enhancing the pride they feel in their work and their commitment to improving quality of care. Those receiving care are more likely to see a familiar face, with four out of five service-user visits undertaken by the same prime or secondary carer.
Transferable learnings	Learning from our investment in CASA, we focused heavily on staff morale when we began to think about whether commercial strategies could play a powerful role in scaling up provision of domiciliary care (which is vital to meet the rapidly growing need). As a result, when we invested in Alina – a domiciliary care business backed by the Sustainable Growth Funds – there was a strong emphasis on establishing a comprehensive staff recognition, reward and training programme. Staff receive refresher training, group and individual supervisions, as well as tailored specialist training, all with set minimum hours. These go well beyond the industry norm, where the tendency is to provide refresher training only to the extent that is required by regulation. Our understanding of the importance of staff training extends to our CarePlaces fund practices, where our preference is to work with operators who take staff training seriously: for instance, design specifications for the care homes require appropriately-sized dedicated staff training areas.

CASA
CARE AND SHARE ASSOCIATES

Bridges Social Entrepreneurs Fund

CASA is an employee-owned social enterprise aiming to provide more rewarding roles for employees and better care for elderly, disabled and vulnerable people. CASA aims to raise care quality standards by ensuring that its 640 staff, over 90% of whom live in the most deprived quartile of locations in the UK, receive specialist training and are able to influence decision-making as well as benefit from the success of the company.

alina homecare

Bridges Sustainable Growth Fund

Alina is a domiciliary care provider aiming to deliver better care through greater and more specialised training for its staff. Alina is working closely with service users, local authorities and the NHS to be a catalyst for the much-needed integration between health and social care. Alina is also launching innovative forms of care, including specialist dementia care, the launch of day centres to encourage social inclusion, and nurse-led models for critical and complex care.

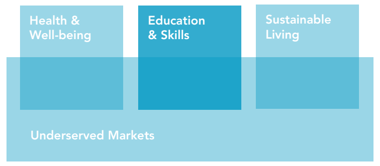
CarePlaces Fund

Bridges CarePlaces Fund

In conjunction with our joint venture partners, Bridges has now built 14 care homes, 11 via our specialist CarePlaces Fund. Each care home provides first-class care facilities, with a focus on sustainable design and construction. Reflecting our emphasis on improving the quality of care in the sector, the developer Castleoak (our partner in the fund) was instrumental in developing the 'Your Care Rating' initiative. Launched in 2011, this annual independently-conducted survey enables care home residents to confidentially air their views on the service they receive. The results are benchmarked, with the intention of helping providers of care homes drive service improvements.

Education & Skills

Improving employability for those most at-risk



Societal challenge

Youth unemployment has risen sharply in the UK since 2005, exacerbated by the economic downturn. Nearly one million 16-24 year olds are now classified as 'NEET' – not in education, employment or training. A period of being 'NEET' can lead to negative long-term outcomes, including a reduction in lifetime earnings, increased chances of subsequent unemployment and poorer health outcomes. The cost to society is huge: welfare payments, offending and poor physical and mental health are just some of the contributors to a bill that could total £28bn over the next decade, according to some estimates.

Structural issue

Reducing these negative outcomes relies not only on education, training and job skills provision. It also needs a range of innovative interventions that can inspire vulnerable young people and help them gain the interpersonal skills, positive role models, sense of responsibility, aspirations and self-belief they need to succeed in school, work and life.

Our approach

Combining skills training, employment and ongoing personalised support, apprenticeships offer young people the opportunity to earn a wage while receiving training and working towards qualifications. Babington Business Group's innovative training methods have placed it at the forefront of skills development: for instance, it developed the first accountancy apprenticeship in the country and the first insurance apprenticeship in the North of England. Its offering has since expanded to include financial services, business administration, IT, retail, care and management. In 2013/14, Babington supported over 6,000 learners, including 1,200 16-18 year olds.

Transferable learnings

The valuable contributions that apprentices can make has informed the approach of other companies within Bridges' portfolio. At Clothingsites, a recent investment by our third Sustainable Growth Fund, over 60% of its fulfilment centre and customer service employees were previously unemployed. As the business grows, it anticipates supporting further young people into employment, while also providing on-the-job training and development.

Tackling the rising number of young people not in education, employment and training requires starting at a very young age, which is why our Social Sector Funds are backing three innovative programmes engaging at-risk 14-19 year olds. The New Horizons programme is working across Greater Merseyside where, with seven unemployed people for every job vacancy, the barriers to entry for young people are particularly high. Its targeted programme is helping young people turn their lives around, getting them back on track for long-term success.

> **"Welfare payments, offending and poor physical and mental health are just some of the contributors to a bill that could total £28bn over the next decade"**

ClothingSites

Bridges Sustainable Growth Fund

Clothingsites is a leading menswear e-commerce business, made up of three brands: Woodhouse Clothing, a premium menswear e-commerce retailer; Brown Bag, which sells out-of-season stock at discounted prices; and Trainerstation, which sells trainers and shoes. Its new fulfilment centre is expected to create dozens of new jobs in partnership with Job Centre Plus in Wythenshawe, an area rated within the top 1% of deprived areas in England.

Babington Group

Bridges Sustainable Growth Fund

Babington was set up to help address the skills gap in the UK. It provides classroom-based business courses in the Midlands and North of England, alongside distance-learning courses. 750 of Babington's formerly unemployed students found jobs this year as a result of its skills training. Babington is working with over 1,600 employers, helping them source and support talent. As a growing, successful company, Babington is also providing employment opportunities itself: a quarter of its workforce were former students with the company, with half of those former students having previously been unemployed.[1]

new horizons

Bridges Social Entrepreneurs Fund

The New Horizons programme is delivered by Career Connect. Its 'Mental Toughness' programme develops resilience among young people, with the support of parents and carers, accompanied by intensive careers information and vocational advice and guidance. Since the programme began, it has successfully engaged 2,900 young people, targeting 14-16 year olds at risk of dropping out of school and 16-19 year olds who have already disengaged – including ex-offenders, those in or leaving care, and individuals with learning difficulties. To date, 1,000 qualifications have been achieved by these young people, with 95 individuals securing employment.[2]

[1] Figures as of 31 July 2014
[2] Figures as of 31 March 2014

Sustainable Living

Reducing the environmental footprint of buildings

Societal challenge

Energy from fossil fuels consumed in the construction and operation of buildings accounts for nearly half of the UK's CO_2 emissions. Sustainable buildings are key to meeting the UK's target of reducing emissions by 80% by 2050.

Structural issue

A key challenge of investing in properties that demonstrate environmental leadership is to ensure that sustainable construction methods are followed by energy-efficient operating practices by the tenant.

Our approach

One way to break through this challenge is to partner closely with both the developer and operator, agreeing upfront on the 'win-win' strategy of creating commercial and societal value. For example, by partnering closely with Castleoak and Barchester through our Property funds, we have established that an increased spend on environmental features can translate into lower energy costs over time. As a result, we have developed some of the UK's most environmentally-friendly care homes.

Transferable learnings

Repurposing existing building stock further reduces emissions by avoiding those associated with demolition and construction. Our Sustainable Property Funds investment at Edmund Street, Birmingham refurbished two dilapidated buildings to provide SME office space. By incorporating a number of sustainability features, it aims to run the core areas of the building at zero energy cost. Overall, the redevelopment is estimated to save 44% of CO_2 emissions relative to the baseline scheme – which results in direct cost savings to tenants.

A similar approach was taken with Qbic, where we repurposed an existing empty office building into a stylish hotel. When we are the investor-operator, as is the case with many of our Sustainable Growth Funds deals, we can ensure that sustainability is embedded from the start. The myriad environmental features incorporated in both Qbic's build and ongoing operations saw it achieve London's first Platinum status in TripAdvisor's GreenLeaders Programme in 2014.

“Sustainable buildings are key to meeting the UK's target of reducing emissions by 80% by 2050”

CarePlaces Fund

Bridges Sustainable Property Fund

Juniper House care home is the first Passivhaus-accredited care home in the UK, with high standards of energy efficiency, efficient heating systems and water-saving technologies. The building has used A-rated sustainable construction materials, achieving high levels of thermal efficiency. It achieved a 30% reduction in its carbon footprint relative to the baseline scheme in its first year, saving 72 tonnes of CO_2.

onefiveight

Bridges Sustainable Property Fund

At Edmund Street, Birmingham, Bridges has refurbished two vacant office buildings to create 30,000 square feet of SME office space. Working within the confines of an existing build, we were able to move the buildings' Energy Performance Certificate rating up two grades by introducing solar panels, LED lighting and infra-red lighting sensors, and energy efficient heating systems. These features are anticipated to save 89 tonnes of CO_2 emissions, a reduction of 44% when compared with previous usage.

Qbic Hotel

Bridges Sustainable Growth Fund

Qbic is an affordable and innovative design hotel concept, retro-fitting vacant office buildings to create stylish and environmentally-sustainable hotels. Its first UK hotel, which is located in the Whitechapel area of London, is generating a proportion of its energy from solar panels installed on the roof; other energy-efficient measures include LED sensor lighting. All rooms include water-saving devices, such as air flow in the showers.

Underserved Markets

Increasing economic and societal dynamism through purpose-built environments

Societal challenge

Although unemployment has been falling as the UK economy recovers, employment opportunities are not evenly distributed across the UK. SMEs are key to economic growth, driving competition and stimulating innovation. They contribute disproportionately to job creation, accounting for 60% of private-sector employment and nearly half of private-sector turnover. Small companies struggle to innovate and grow without access to skills and support.

Structural issue

The built environment influences a variety of societal factors including community health and productivity. Working in proximity to others – in 'hubs' of enterprises – encourages ideas sharing, collaboration and competition, all of which promote productivity. This place-based sharing of knowledge, or 'agglomeration economics', is facilitated by purpose-built environments.

Our approach

Bridges has long supported such hubs. The Office Group was one of Bridges' first investments, incubated within the Sustainable Growth Funds. A specialist provider of flexible office space, the Office Group has a strong regeneration and local community focus. Each site is carefully designed to encourage tenants to connect as little or as much as they want, with networking, workshops and social events helping businesses showcase what they offer and encouraging collaboration.

Transferable learnings

The experience of refurbishing existing building stock to a high standard, particularly when geared towards SMEs that create a buzz, has since informed our Sustainable Property Fund investments. St Paul's Square in Birmingham was only 40% occupied at acquisition in 2013, under short-term leases. Following a high-specification fit-out, it is bringing 25 units of SME workspace back into use in a location rated within the top 3% of deprived areas in England.

Understanding the power of hubs of enterprises also led us to invest via our Social Entrepreneurs Fund this year in The Foundry, the latest shared and flexible workspace centre operated by Ethical Property. As well as offering office, meeting and conference space and the opportunity to share back office functions, Ethical Property is supporting its charity and social enterprise tenants with training in areas such as fundraising and legal advice. The building is designed and managed to encourage building users to share ideas, work together, enhance their public profile and improve their ability to engage with and educate the public. Its events and exhibition space intends to attract and inform the wider public on human rights and social justice issues.

"SMEs account for 60% of private-sector employment and nearly half of private-sector turnover"

THE OFFICE GROUP

Bridges Sustainable Growth Fund

Established in 2002, The Office Group was established to create a stylish work environment, with simple, flexible licence agreements so SMEs can increase or decrease rented space as needed. Bridges exited the investment in 2010 at a 2x multiple, at which point the business had grown to provide workspace for some 900 employees, including housing over 20 start-ups employing nearly 90 staff.

ethical PROPERTY

Bridges Social Entrepreneurs Fund

The Foundry provides affordable, shared workspace for social justice and human rights organisations in Vauxhall, London. Part-refurbishment and part-new build, the centre offers office space, meeting rooms, conference facilities and an exhibition space. In addition to encouraging the sharing of resources and knowledge among its tenants, the space is affordable and accessible for local groups and residents.

50-54 ST. PAUL'S SQ. BIRMINGHAM

Bridges Sustainable Property Fund

St Paul's Square is a listed building situated in Birmingham's Jewellery Quarter. Bridges is refurbishing the property to provide 20,000 square feet of office space for SMEs wishing to purchase their own space. At the time of writing, 30% of these offices have been sold to SMEs.

Impact Methodology

An impact-driven investment approach

We use impact as a lens to select and engage with our investments, because we think this approach will generate superior returns – both for investors and for society.

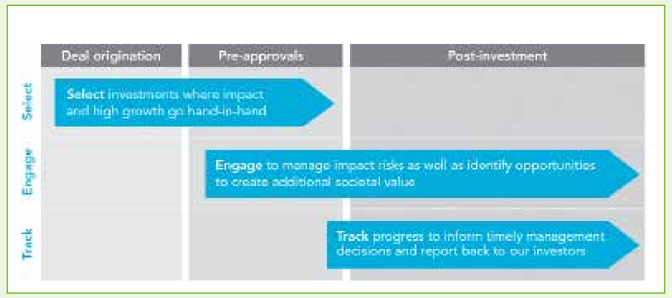
Over the last decade, we have developed a methodology and set of tools that help us to make informed decisions (within the bounds of what is proportional and affordable).

Our approach has three key elements: a specialist focus, using our four impact themes (as illustrated previously in this report); a consistent process, through our select, engage and track approach (SET); and clear investment criteria, via our Impact Radar. Our SET process and Impact radar are explained below.

These tools help our team to look at investments in a fully integrated way, analysing the interplay between societal and commercial factors. This enables us to spot opportunities where a societal challenge creates an investable opportunity – and to match the impact and financial return expectations of that opportunity to the appropriate Bridges fund.

Bridges 'SET' process

Across all of our funds, we use our three-stage 'SET' process to integrate impact analysis throughout the investment cycle. We select for impact, and then support our portfolio companies to optimise their positive footprint during the life of the investment. This includes analysis of their wider environmental, social and governance practices (ESG), because we think businesses that operate in a more sustainable way not only generate greater impact but can also protect and enhance their commercial performance.



Bridges Impact Radar

We have learned to focus on four key criteria when we consider a business's ability to generate positive societal change. This helps us put together an individual scorecard for each potential investment.

We consider it as important to understand the impact risk of an investment as it is to understand its potential for impact return. We therefore consider impact returns and impact risks as they relate to each of our key criteria, in order to generate a risk/return profile for each investment. We also do this at the portfolio level, in order to understand the overall impact risk/return profile of each fund.

Research Publications

Supporting the growth of impact investing

Bridges is committed to promoting sustainable and impact investment – not only through the financial and social returns of our own funds, but by sharing our experience as practitioners via publicly available research. Over 2014, we published a number of thought pieces in collaboration with others.

Shifting the Lens: A De-risking Toolkit for Impact Investment – January 2014

A collaboration between Bank of America Merrill Lynch and Bridges Ventures, this report focuses on how innovative investments can be de-risked to attract much broader flows of capital. It identifies seven de-risking features; from catalytic guarantees, which governments and foundations are well-placed to provide; to specialised brokering services and credible distribution platforms. The result is a de-risking toolkit for impact investment products, brought to life by a catalogue of 20 case studies highlighting de-risking features already at work.

Investing for Impact: A Strategy of Choice for African Policymakers – April 2014

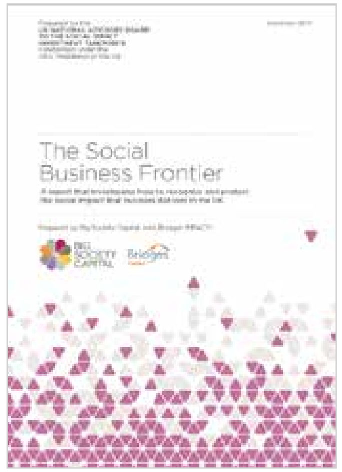
Synthesising the findings from research in five Sub-Saharan African countries funded by The Rockefeller Foundation, this report recommends national policies to encourage the growth of the industry. A collaboration with the African Private Equity and Venture Capital Association, it uses case studies drawn from across Africa to show how impact investing can be a powerful tool for tackling societal challenges, complementing more traditional tools of public funding and philanthropy.

Allocating for Impact: Subject Paper of the Asset Allocation Working Group – September 2014

This paper summarises the findings of the Asset Allocation Working Group, established as part of the Social Impact Investment Taskforce under the UK's Presidency of the G8. It provides a framework for including impact investments across a balanced investment portfolio, without compromising the financial goals and fiduciary responsibilities of Chief Investment Officers and investment managers.

The Social Business Frontier: A report that investigates how to recognise and protect the social impact that business delivers in the UK – September 2014

In the UK, a 'social business frontier' is emerging between pure social and pure business, containing organisations that combine and align both financial and social goals. This report, prepared for the UK National Advisory Board to the Social Impact Investment Taskforce, provides a new framework for understanding the range of businesses delivering social impact and the approaches to protecting that impact. It makes recommendations for supporting and strengthening this emerging social business frontier in order to enhance impact.



Social Impact Bonds: A Practitioner's Guide – October 2014

Our second report published with the support of Bank of America Merrill Lynch, this practitioner's guide is the first to look globally across the initial wave of social impact bonds. It captures insights from early movers and reflects on the lessons learnt so far, concluding with a set of practical recommendations for the three parties key to social impact bonds: commissioners, service providers and investors.

Bridges Impact+

About Bridges Impact+

A practitioner-led advisory function

In addition to our work aimed at supporting the growth of the sustainable and impact investing sector more broadly, we saw a need for a practitioner-led advisory function that could combine strategic thinking with very practical recommendations based on real experience of investing for impact.

It is in this spirit that we established Bridges Impact+, an advisory service within Bridges.

Through Impact+ we are able to share our knowledge and expertise, rooted in the day-to-day realities of investing for impact, in order to grow the range of investors and businesses targeting both financial and societal returns.

Bridges Impact+ has engaged with a broad range of leading organisations, including Mars Inc., Comic Relief and Oxfam.

Our advisory services are bespoke to every project, but typically revolve around the following:

Strategy	Frameworks for how investors can include impact investments across a balanced investment portfolio
Market Assessment	Understanding the landscape of investors and advisors active in impact and sustainable investment
Product Design	Impact investment fund design and how to construct an impact portfolio
Investment Selection Investee Engagement	The development and application of impact methodologies, including analysis of the societal or environmental need that can be tackled by impact-driven businesses and best practices in identifying and managing environmental, social and governance risks and opportunities
Performance Management and Tracking	Building a team in which impact analysis is integrated, tracking and reporting of impact
Market Influence/ Building	Providing policy analysis and recommendations

Bridges Impact+

Acknowledgements

We are grateful for the continued support of our Board, Advisory Board and the trustees of the Bridges Charitable Trust. We also thank our investors, without whom none of this would be possible. They include:

Pension Funds: West Midlands Pension Fund, South Yorkshire Pensions Authority, Merseyside Pension Fund, London Pensions Fund Authority, East Riding Pension Fund, Clwyd Pension Fund, Greater Manchester Pension Fund, Universities Superannuation Scheme, Railways Pensions Trustee Company Ltd, West Yorkshire Pension Fund

Banks: HSBC, Barclays Business Banking, JP Morgan, Deutsche Bank, Lloyds TSB Scotland, RBS Investments Ltd, Citigroup

Endowments, Trusts and Foundations: All Souls College, The Apax Foundation, Comic Relief, The Esmée Fairbairn Foundation, Golden Bottle Trust, John Lyon's Charity, Merton College, NESTA, The Green Room Charitable Trust, R&S Cohen Foundation, SHINE, The Highwood Foundation, Trust for London

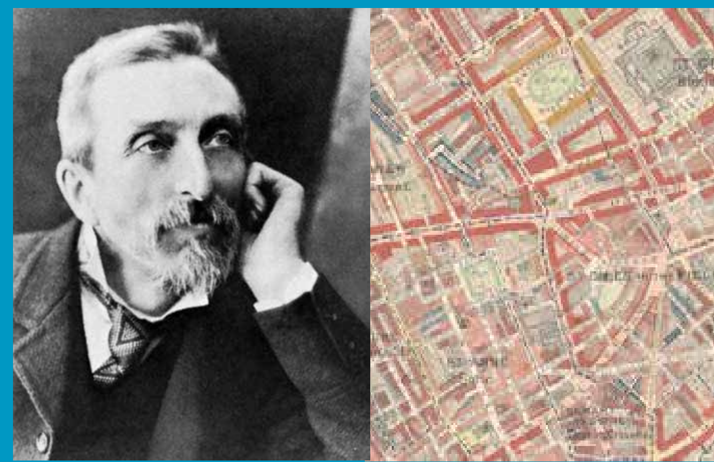
Corporate, Fund of Funds and Others: 3i Group, Big Society Capital, European Investment Fund, RLAM (CIS) Limited, AXA Investment Managers, Doughty Hanson, Community Development Venture Capital Alliance, DCD Group, Department for Business, Innovation & Skills, Omidyar Network, Panahpur, The Office for Civil Society, Thomson Reuters, Wittington Investments

Families & Individuals: Lloyd Dorfman CBE, Richard Wilson, Chris Mathias, Sir Vernon Ellis, GW Lawson, Dr Mike Lynch OBE, Harvey McGrath, Jon Moulton, Richard Oldfield, Sir Harry Solomon

This year, we moved to a new office to accommodate our expanding team.

Our new location at 38 Seymour Street is a fitting one: the site was once home to Charles Booth (1840-1916), a British businessman, philanthropist and sociologist famous for his research on working-class life in London. The 'Poverty Map of London' he created was an early predecessor of the modern Index of Multiple Deprivation, which is used by our team to identify areas of emerging opportunity in line with our Underserved Markets theme.

Bridges Ventures' new offices at 38 Seymour Street



Charles Booth and a section of his Poverty Map of London

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