

2016

Annual Impact Report

Tackling society's
biggest challenges

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A Bridges Impact+ Report

Bridges is committed to maximising the impact of our funds and to growing the wider industry in which we operate. We therefore established Bridges Impact+, to equip our internal teams with best practice and to leverage that practitioner experience to support a wide range of external clients – from investors to governments to corporations to charities. Our approach combines research and development of frameworks and products with hands-on advisory services, all rooted in practical experience.



Introduction

These are turbulent political times. The rancorous UK referendum debate and the contentious US presidential election have exposed some clear divisions in their respective countries. For some, there is a real sense that the benefits of economic progress are not being shared equally; and this seems to have created a widespread sense of disillusionment and disenfranchisement.

The positive news is that politicians seem to be waking up to the scale of this problem. In the UK, for example, the new administration of Prime Minister Theresa May has spoken of the need to build a “country that works for everyone”, and to “deal with the downsides” of liberalism and globalisation.

This will be easier said than done, however. Addressing the root causes of this disenchantment is a huge undertaking: it means promoting greater equality of opportunity; supporting underserved regions; improving educational outcomes for young people; building a more sustainable health and social care system; reducing our environmental impact; and more.

At Bridges, we’ve been finding investable solutions to some of these problems since 2002. We have long believed that Government cannot be expected to resolve these challenges by itself; nor can the social sector be expected to pick up the pieces. The private sector must play a key role too.

For this year’s Impact Report, we wanted to explain how we think about some of the big social and environmental challenges within our four impact themes, and how this drives our investment decision-making (with a particular focus on the four new investments we made this year). We are looking for investments that address these unmet needs in a scalable way – and have clear growth potential as a result.

So in the following pages, we focus on a critical part of the impact analysis we carry out on every potential investment: the ‘Target Outcomes’ we hope to achieve. In other words: what is the challenge we are trying to tackle through our investment, and what would success look like?

A good example of how this can work is Babington Group, an apprenticeship and skills training business, and one of five exits Bridges completed during the year. Bridges invested in Babington in 2009 because we believed that apprenticeships had an important role to play

in addressing the UK’s growing skills shortage and persistent youth unemployment problem (and had strong support at policy level). By the time we sold the business this year, Babington’s revenues had grown eight-fold; it had also supported more than 32,000 learners (see p. 16 for more detail).

There are many other businesses like Babington that are rejecting the old notion that the sole purpose of business is to maximise profits for shareholders. The rise of these ‘profit-with-purpose’ companies can help the private sector become part of the solution to these big societal challenges, rather than part of the problem.



We have long believed Government cannot be expected to resolve these challenges by itself; nor can the social sector be expected to pick up the pieces. The private sector must play a key role too.

The task for the impact investing sector is to replicate this progress on a bigger scale. To that end, another notable development this year has been the launch of the UK National Advisory Board on Impact Investing (NAB), part of the Global Steering Group on Impact Investing (the successor to the G8 Social Investment Taskforce). Chaired by Bridges’ co-founder Michele Giddens, the NAB has brought together an impressive group of leading practitioners and other influencers from across the political and financial spectrum to try and advance the cause in the UK. We look forward to reporting back on its progress in next year’s Impact Report.

Earlier this year, the United Nations estimated that the cost of achieving its new Sustainable Development Goals in developing countries would be about \$3.9 trillion per year. With current resources, we can barely cover one-third of that total. These are hugely ambitious Target Outcomes, requiring ambitious solutions. By thinking carefully about how investment can address these challenges, and by sharing lessons learned with peers around the world, impact investors can be part of the answer. When the political stakes are this high, we cannot afford to fail.

The Year in Review

A selection of highlights from across the Bridges platform

MAR

Alina Homecare acquires The Care Division

Alina, a SGF III investment, makes its fourth acquisition: The Care Division, which provides supported living services for people with learning and other disabilities in the South of England



APR

Bridges exits Babington Group

Bridges Sustainable Growth Fund II completed the successful sale of Babington Group to RJD Partners for £22m (see p.24)



MAY

CASA begins new chapter

After enjoying rapid growth in the last few years, domiciliary care provider CASA raises a second round of social investment, providing an exit for the Bridges Social Entrepreneurs Fund



MAY

Successful exit of Airedale House, Leeds

Airedale House is sold to GM Legato Property for £6.6m after an environmentally-led refurbishment that substantially boosted occupancy



Double win for Bridges at the 2016 Cabinet Office Awards

Bridges wins two (out of five) Cabinet Office Social Investment Awards, prevailing in the 'Institutional Social Investment' and 'Public Service Transformation' categories



Bridges property fund invests in Croydon

Bridges Property Alternatives Fund IV acquires Taberner House in Croydon, to develop hundreds of lower-cost and affordable homes – our fourth joint venture with specialist developer HUB (see p. 18-19)

AUG

Largest ever MIINT competition

Over 600 students from around the world took part in our experiential impact investing training programme, which is run by Bridges Impact+ in partnership with the Wharton School of Business



'Better Outcomes, Better Value' is published

Bridges Impact+ publishes its second research paper on social impact bonds. Based on our first-hand experience of investing in 13 outcomes contracts, it looks at the future of SIBs



APR

APR

AUG

Bridges named 'Best in the World' B Corp

B Lab names Bridges as a 'Best in the World' B Corporation, based on its positive impact on the community, workers and the environment



OCT

Investment in Vegetarian Express

Bridges invests in Vegetarian Express, a specialist supplier of plant-based food ingredients that is helping consumers develop a taste for no-meat dishes



OCT

BVCA honours Bridges at its 2016 Responsible Investment Awards

Bridges receives the BVCA Responsible Investment Award for Overall ESG Framework (for firms with under £1bn in management)



NOV

Bridges launches new Evergreen Holdings vehicle

Bridges' new permanent capital vehicle is launched to provide long-term funding and support to mission-led businesses



Partial sell-down of our remaining stake in The Gym Group

Bridges Sustainable Growth Fund II sell an additional 12% stake in The Gym Group, which was listed on the London Stock Exchange in November 2015



'More than Measurement' is published and The Impact Management Project is launched

Bridges Impact+ and Skopos Impact Fund publish 'More than Measurement: A Practitioner's Journey to Impact Management' – the first stage of a new project to establish a shared convention for articulating and managing against impact goals

OCT



Two award wins in one week

Bridges is named 'Best Social Impact Investor' at the Investment Week Sustainable Investment Awards 2016, and 'Investor of the Year' at the 2016 EducationInvestor Awards

NOV



Bridges backs World of Books

Bridges Sustainable Growth Fund III invests in World of Books, a technology-led pioneer in the reuse and recycling of unwanted books

NOV

SEP

About Bridges

Bridges is a specialist investment and advisory firm. We work with businesses, properties and social sector organisations to drive growth and deliver positive social and environmental impact.

Sustainable Growth Funds

The Bridges UK and US Sustainable Growth Funds provide growth capital and support to businesses that are creating positive impact through what they do or how they do it. We look to invest in businesses that have this impact at the heart of their business model.

Property Funds

Our property funds invest in opportunities where creating social or environmental value – by unlocking the potential of emerging locations, improving the energy footprints of buildings or building high-quality care homes – also allows us to unlock significant financial value for investors.

Social Sector Funds

These funds provide financial and operational support to mission-led social sector organisations with high societal impact – either as a long-term growth partner (Bridges Evergreen Capital) or to help them deliver public sector outcomes contracts (Social Impact Bond Fund).

Bridges Impact+

Bridges Impact+ is our in-house, practitioner-led advisory function. It has a dual purpose: to help our fund teams invest for impact more effectively, and to support the growth of the sustainable and impact investment market more broadly.

Bridges Charitable Trust

The Bridges Charitable Trust makes strategic grants or social investments to tackle aspects of our impact themes where investable solutions do not exist – for instance, by addressing gaps in market knowledge. It is funded by the Bridges team, who donate 10% of their profits from our funds.

All of our fund teams share a focus on four broad impact themes, working closely together – with essential support from Bridges Impact+ – to build up our expertise in a way that makes us more effective investors.

Health & Well-being

Education & Skills

Sustainable Living

Underserved Markets

The Bridges Impact Radar

To ensure that impact is at the heart of all our investment decisions, we score every potential investment in four areas.

These four areas help us to assess an investment's potential for positive impact, as well as the risk of not achieving the impact results that we want.

Taken together, this 'Impact Radar' provides us with a risk/return profile that helps us understand whether an investment's potential impact performance is in line with our expectations for that particular fund. It also helps us make more consistent decisions across different teams and different sectors.

However, it is more than just a screening tool: it also informs our engagement with our investees. The Radar helps us to think about and monitor our performance against our impact targets over time, just as we monitor our performance against our financial targets over time; this allows us to make strategic or operational changes where necessary.

Crucially, it is also a portfolio management tool: by aggregating these scores, we can get an idea of the overall impact performance of the Fund – and, where necessary, make future investment and management support decisions accordingly.

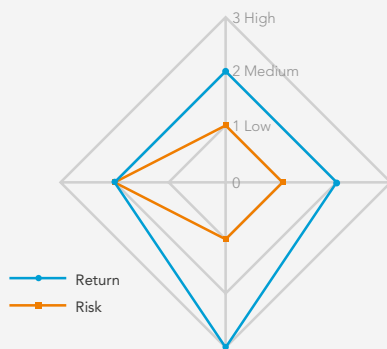
Target Outcomes

In this report, we will focus on one area of our impact analysis: the Target Outcomes we hope to achieve.

Over 14 years of investing for impact we have developed a rigorous framework to help us select investments that have the greatest potential to deliver what end users want and need, along with a process for assessing the risk of not achieving our intended result.

Industry Leadership (ESG)

In our experience, the term 'ESG' (or 'Environment, Social & Governance') often fails to resonate with our business partners. So we now talk about 'Industry leadership', to emphasise the potential for value creation by maximising positive externalities for all stakeholders. But what does industry leadership look like? We have always used our own bespoke framework to assess and manage ESG factors; but we felt that this relied too heavily on our own subjective judgement of what 'good enough' looks like. To this end, we have been actively supporting the efforts of the nonprofit B Lab to develop an objective set of standard questions and benchmarks. We now use this 'B Impact Assessment' for ESG due diligence on every potential new investment.



Alignment

We look for investments where all business success factors are impact success factors. We call this a 'lock-step' business model. When we invest in for-profit businesses, this lock-step is vital to ensure that there is no risk of the company losing its impact focus as it grows, or that its impact focus acts as a barrier to growth. When we invest in social sector organisations, we also want to see impact at the heart of their operating model; but that impact may be 'locked in' slightly differently, perhaps through a legally-binding mission-lock, or an asset-lock to ensure re-investment of profits.

Bridges Value-Added

How likely is it that these Target Outcomes would happen without Bridges' involvement? We want our capital and expertise to be as additional as possible across all our funds. Rather than trying to prove attribution (i.e. the extent to which outcomes can definitively be attributed to the investor's capital) we have learned to focus on the monetary and non-monetary value Bridges is adding; typically, the more value we add, the more successful the investment will be (both in impact and financial terms). However, we are careful to consider whether the underlying asset we are investing in – and therefore our investment – might displace might somehow displace other comparable societal benefits such that the net result would be neutral or even.

In Focus: Target Outcomes

Our aim as an investor is to use our capital to tackle pressing social and environmental challenges. We start by defining who is affected by challenges and what outcomes they want and need.

CHALLENGE

At Bridges, we begin this process by thinking about the big social, political and economic trends that are affecting us all, and trying to identify the specific challenges and opportunities they will create within our four impact themes. We do this through regular internal trendspotting sessions to identify gaps in value-chains of emerging niches, and we share ideas and insights gleaned from our day-to-day experience of the current portfolio. We also tap into the network we've developed over the years to get external input on where we should be looking.

OUTCOME

Once we have identified a particular challenge, we think about the outcomes the end user needs that will help combat that challenge – our Target Outcomes. Although we do not believe one outcome is more important than another, we have learned that some investments deliver more change for an individual, or greater 'depth' of impact, than others. Some investments are able to generate impact for a greater number of people, or achieve greater 'scale' than others. Some business models are able to achieve both scale and depth – this is our sweet spot.

For every potential investment, however it is sourced, we first consider its potential to generate scale or depth.

STRATEGY

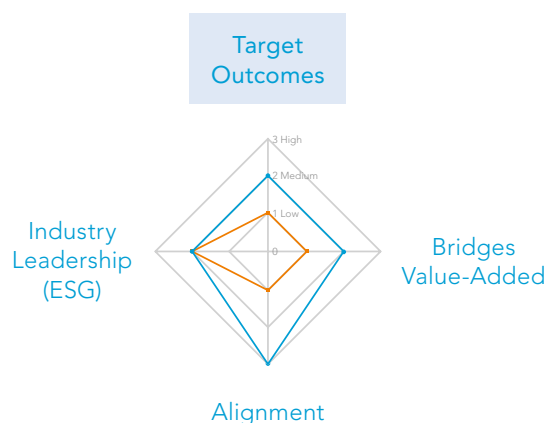
As a natural corollary of this thought process, we start looking around for the most efficient strategies we can employ to achieve our Target Outcomes. Does an investable solution already exist? If so, we will go on to examine that market in more detail.

If we find a strategy that we think is particularly promising, but no investable solution exists, we may choose to develop our own solution. Examples include The Gym, which we co-founded with John Treharne in 2008; Alina Homecare, a domiciliary care provider we launched in 2012; The Vet, a low-cost veterinary services provider we founded in 2012; and our CarePlaces Fund, which built a £100m portfolio of high-quality care homes.

As an investor, one advantage of this 'top-down' approach is that we are not bound to particular sectors or sub-sectors. Because we focus primarily on the societal outcomes we want to achieve, we are flexible as to how we achieve them. In practice, this means we are able to employ a range of different strategies across a number of different sectors, depending on the commercial skill-sets of our various fund teams.

RESULT

If we get our impact thesis right, we should make better investment decisions that deliver significant depth and/or scale of impact for our target end users – but also drive better commercial or financial performance at the same time.



Target Outcomes is one of four areas that collectively comprise how we think about and measure our **impact goals** as an investor.

A broader focus on outcomes

In recent years, we have seen an ever-greater focus on framing our biggest social and environmental challenges in terms of the outcomes for end-users.

In 2016, one particularly encouraging event in this regard was the launch of the 17 Sustainable Development Goals (see below) – many of which overlap or are closely aligned with our own Target Outcomes.

This is significant, and not only because it underlines our long-held view that there is an opportunity to use capital and investment to tackle pressing societal issues. It should also trigger a broader debate about how to deliver some of these hugely ambitious aims, and therefore what business models and investment instruments must be scaled up to deliver this. That's exactly what we hope to achieve through our own challenge-driven, outcomes-focused approach.

In conjunction with the important work done by the likes of Big Society Capital, UN IFAD and ODI, the launch of the SDGs is another sign that the industry is starting to build a framework for articulating outcomes, and to set indicators against these outcomes to signal whether progress is being achieved. Over time, this should make it much easier to coordinate efforts and share knowledge.

In the following pages, we show how our focus on outcomes within our four impact themes has helped us to identify investable strategies that are creating measurable impact – and we show how these outcomes align with the SDGs. It is our hope that this focus will enable us to build up even more issue-specific expertise within Bridges – and that this, in turn, will help us find new ways to invest for impact across our platform of funds.

About the Sustainable Development Goals

- On 1 January 2016, the 17 Sustainable Development Goals of the 2030 Agenda for Sustainable Development officially came into force
- A United Nations-led initiative, the SDGs build on the Millennium Development Goals but are intended to be broader and more ambitious, applying to both developed and developing countries
- Sustainable development has been defined as: “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”
- Progress towards the 17 SDGs will be monitored through 169 targets, and over 300 indicators have been identified to determine whether the targets have been hit



Tackling challenges in:

Health & Well-being

Two pressing challenges have dominated our thinking in this area: our ageing population, and the rise in chronic illness. As this combination places an ever-greater strain on the increasingly limited resources of national health systems, we have been exploring different strategies to ensure we reach different groups in need of better health outcomes. In particular, we have examined a number of business models that deliver quality care within the community.

CHALLENGE

More looked-after children

The number of children 'looked after' by the state now stands at 70,400 - the highest total on record, and 20,000 more than two decades ago. The majority (61%) are looked after due to abuse or neglect, though the percentage looked after due to family dysfunction is increasing (16% in 2015, compared with 14% in 2011). In recent years, the increase has been particularly marked among older children – including unaccompanied asylum seekers.

OUTCOME



STRATEGY

Providing a safe home environment



Social impact bond financing Multi-Systemic Therapy support for troubled families across Essex, working to help improve parenting and rebuild positive relationships



Outcomes for Children
Part of the Core Assets Group

Social impact bond financing a service that finds stable family foster placements for young people currently in residential care in the Birmingham area.

RESULT

23,500

days of care averted



6

young people successfully 'stepped down' into a family environment

We have come a very long way. We were very engaged in the therapy even though we were dubious, and there have been huge changes over the last 3 months.

– Parent undergoing Multi-Systemic Therapy



Rising obesity and chronic disease

The World Health Organization believes that 74% of men and 64% of women in the UK are likely to be overweight by 2030. Being overweight makes people more susceptible to a number of serious illnesses, including type 2 diabetes, high blood pressure, heart disease, stroke and cancer. It can also affect people's mental health, their self-esteem, and their ability to hold down work.

According to the Government, 15 million NHS patients in England have obesity-related health problems, while long-term conditions such as diabetes, arthritis and asthma already account for 50% of all GP appointments and 70% of all NHS spending in England. And the burden is growing: the number of people with three or more long-term conditions is predicted to rise from 1.9 million in 2008 to 2.9 million in 2018, with deprived areas likely to be disproportionately affected.

SDG 3: GOOD HEALTH & WELL-BEING

Helping people manage or recover from illness



New Pharmacy group delivering accessible healthcare services within local communities



Social impact bond financing 'social prescribing' among people with long-term health conditions



Providing high-quality homecare to the elderly and disabled



Employee-owned social enterprise providing high-quality domiciliary and complex health and social care

CarePlaces Fund

A portfolio of high-quality environmentally-friendly care homes for the elderly



Consultant-led team of care professionals delivering acute medical treatment and nursing care in the patients' homes

Helping people stay active



A social enterprise bus operator, HCT Group uses its profits to provide community transport services and training



Low-cost gym chain providing high-quality fitness facilities to underserved UK communities



Low-cost gym chain providing high-quality fitness facilities to underserved communities in Spain

>789,000

prescriptions issued in underserved markets

930

patients receiving social prescribing

3.3m

care hours delivered



19,000

hospital bed days created

884

new care beds created



>2m

passenger trips for disadvantaged individuals and communities



98,000

first-time gym users



I do believe that knowing the Ways to Wellness team is like winning a lottery ticket in life.

– Participant of Ways to Wellness social prescribing programme

Before this I was very lonely and sometimes very sad, I would say a depressive state. If this service did not exist we would be all back to square one – it's a lifeline for everyone.

– HCT transport user

Tackling challenges in:

Education & Skills

Investing in education and skills can have enormous short- and long-term benefits, both for the individuals concerned and society as a whole. In this area, we have focused primarily on tackling the skills gap, which remains a major constraint on productivity, and broadening access to high-quality education – particularly in the early years, which are so formative to children’s development, and when increasing ‘time on task’, can make a huge difference to attainment.



CHALLENGE

Lack of supportive educational environments

The home learning environment is the single biggest influence on a child’s development – more important than family income, parental education or school environment. However, socio-economic disadvantage increases the likelihood of poor performance – which directly impacts a young person’s educational attainment and increases the risk of them becoming NEET (Not in Education, Employment or Training). In the UK today, around 10% of 16-24 year-olds become NEET.

OUTCOME



STRATEGY

Providing early years education



A social enterprise that provides day care for children and parenting support to a diverse mix of families in community, workplace and Children’s Centre nurseries



Springboard provides affordable before- and after-school educational programming in the U.S., with a mission to bridge the attainment gap between children who attend public and private schools

RESULT

3,922 children received high-quality day care in the UK last year, of which **43%** were on funded placements

4,345 students enrolled in high-quality after-school education enrichment programs in the US across **11 states**



The staff are amazing. They care for each child as if they were their own. My son developed as I would only dream of

– Parent of a student at LEYF

Skills gap

Official estimates suggest that as many as one in four available jobs in the UK go unfilled because of skill shortages (UKCES). A recent survey conducted by the OECD of its 23 countries found that England's teenagers were the most likely to have low levels of literacy, and the second most likely to have low numeracy. This is leading to reduced life chances for school and university leavers, who may lack the key skills that employers need. This, in turn, has damaging knock-on effects for the broader economy, since rising recruitment costs and stagnant productivity is making UK companies less competitive.

SDG 4: QUALITY EDUCATION

Providing training and vocational skills



High-quality apprenticeship and education provider, and a pioneer of apprenticeships in the UK



A social enterprise bus operator, HCT Group uses its profits to provide community transport services and training

12,000

learners receiving vocational training during the year



>3,700

previously unemployed students known to be in employment

The Learning Centre has been the first step in getting there and now I'm building the experience I need to succeed

– Graduate of the HCT Learning Centre

Improving engagement with education



Social impact bond backing Teens & Toddlers: it partners vulnerable young people with a toddler to mentor, creating transformational change in the young person's life



Social impact bond backing Career Connect, a charity that provides career-focused support to disadvantaged 14-19 year olds across Greater Merseyside

6,900

at-risk-of-NEET young people improving attitude, attendance or behaviour at school

>19,000

qualifications achieved by at-risk-of-NEET students



Before [the project] I wouldn't have known I would be here doing an A-level. So it's made me think about where I want to be in the future

– Participant of the Career Connect programme

Tackling challenges in:

Sustainable Living

Business and property investment has a vital role to play if Western economies are to meet their ambitious carbon reduction targets over the next 30 years. In particular, we have learned that incremental changes to improve the efficiency of existing buildings can both save money in the short term (through lower operating costs) and also reduce emissions.

CHALLENGE

Resource depletion

The Earth's current population is 7.2 billion and growing; but at current levels of demand, we only have the resources to support a population of 2 billion. Effectively, we are already using 2 to 3 times more of the Earth's natural resources than we can sustain. Two key issues are waste and water: only 2.5% of the world's total water volume is fresh water - and more than two-thirds of that freshwater is frozen.

OUTCOME



SDG 12: RESPONSIBLE CONSUMPTION

STRATEGY

Facilitating re-use of resources



A 'circular economy' technology business that pioneered the re-use and recycling of unwanted books (which historically went to landfill)

RESULT

(Results at point of investment in Nov 2016)

>35%

of the UK's charity shops currently sell to World of Books

**>7,000 tonnes
CO₂ averted
this year**

through World of Books operations



Airedale House, Leeds

Spotlight on: the circular economy

In Europe, material recycling and waste-based energy recovery captures only 5 percent of the original raw material value. This represents a potential cost-saving opportunity of up to \$630 billion (with even greater potential in FMCG). In the UK, for example, keeping organic waste out of landfill could save \$1.1 billion a year – while also providing 2 GWh worth of electricity, speciality chemicals and much-needed soil restoration.

Climate destabilisation

At the Paris climate conference (COP21) in December 2015, 195 countries adopted the first-ever universal, legally-binding global climate deal. The agreement sets out a global action plan to help us avert dangerous climate change by limiting global warming to less than 2°C. The UK has a target to reduce emissions by at least 80% (relative to the 1990 figure) by 2050. Emissions from buildings are a big barrier to achieving this goal: they account for 37% of total UK greenhouse gas emissions.



SDG 11: SUSTAINABLE CITIES AND COMMUNITIES

Building sustainable properties

Qbic Hotels

Boutique hotel enabling the re-use of redundant buildings by retrofitting pre-fabricated bedrooms, allowing old office buildings to be converted into hotels quickly, efficiently and with minimal environmental impact

Bridges Property Funds

We look to implement sustainable practices and features in all our properties whenever it is economically viable to do so, and then engage with our partners and managers to ensure that the environmental performance of each project is optimised. This reduces both carbon emissions and operating costs – which benefits tenants and ultimately enhances the value of the building.

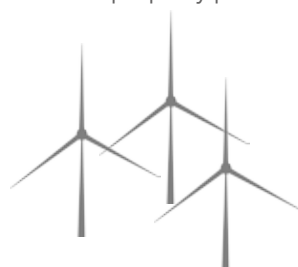


>85%
of waste produced during
construction diverted from landfill

**2,500
tonnes CO₂**

saved through renewable and green energy
usage across our property portfolio in 2016

35%
average reduction in annual CO₂
emissions against baseline for all
new construction projects



“It’s not just good from an environmental point of view; it’s also good for reducing the service charge. So it’s doing good for the environment, doing good for back-pocket, it’s a win-win really.”

– Tenant, 158-170 Edmund Street

Tackling challenges in:

Underserved Markets

When Bridges was founded in 2002, our initial focus was on investing in underserved markets with a view to creating jobs, regenerating communities, and helping those on lower incomes access higher-quality goods and services. Today, we think about impact more broadly – but this underlying notion of helping everyone access decent accommodation, work and services remains central to our approach. We treat this as a theme in its own right; but we try to make sure that wherever possible (and no matter what our Target Outcome), we try to be inclusive to the vulnerable, the marginalised and those on low incomes.



The Old Vinyl Factory, Hayes

CHALLENGE

Rising cost of living

The cost of living in Britain looks likely to increase markedly over the next 12 months; some economists think the rate of inflation will soon be back at 3% (or even higher). In the UK, a couple with children would now need to earn over £40,000 between them to maintain a minimum standard of living; whereas in 2008 the equivalent figure was just under £28,000. That's a 46% rise - during a period when earnings have only risen in real terms by about 9%.

OUTCOME



SDG 10: REDUCED INEQUALITIES

STRATEGY

Delivering affordable services



Full-suite veterinary service at low prices for domestic pet owners based in underserved communities



Community-focused pharmacy group offering extended hours medical services

RESULT

>300,000

consumers from underserved markets in the year

I came here for the cost, but I stay for the service

– The Vet customer



Regional disparity of wealth

Disparity of wealth between different regions of the UK (particularly London and the South-East versus everywhere else) has long been a problem. But the recession only served to make it worse. Overall GDP per capita fell across the UK from 2008-2011; but some regions were more vulnerable than others, and experienced a disproportionate amount of pain as a result. Five years on, there is clearly still much more work to do in addressing the fundamental, deep-seated inequalities underpinning this regional divide. For the three months ending August 2016, the South-East had the highest employment rate (78%) and the lowest unemployment rate (3.7%); while the lowest employment rate was in Northern Ireland (70.1%) and the highest unemployment rate was in the North East (6.8%).



SDG 8: DECENT WORK AND ECONOMIC GROWTH

Providing decent accommodation



ABBEY WOOD

CHESTERFIELD HOUSE

Low-cost and affordable residential developments with mixed-use commercial space, developed in partnership with HUB Group

Helping people access employment



Three social impact bond contracts commissioned by the Fair Chance Fund that provide critical housing and support services to help vulnerable young people out of homelessness



Social enterprise bus operator that provides community transport services and training



Innovative peer-based housing and support services



Manufacturer of healthier snacks, creating employment for unemployed people in the top 15% and 22% most underserved markets in the UK

Bridges Sustainable Growth Funds

As part of our outcomes analysis, we look to ensure that we are reaching vulnerable and underserved people through all our investments. Therefore, where possible, we always look to invest in businesses that are located in the 20% most deprived areas of the UK. This way, not only our consumers, but our investee's employees and supply chain companies benefit from Bridges' investment.

>700 new residential units providing affordable and relatively affordable accommodation for around **2,400 people**



354 formerly homeless persons entering employment or training

1,578

previously unemployed back in work



If it wasn't for Fair Chance I could still be homeless, but now I have a flat that I share with another person, I'm working towards going back to work and eventually moving into a flat that isn't shared.

– Participant of the Fair Chance, Rewriting Futures programme via St. Basils

1/3 of all employees across the portfolio are from underserved markets

81% of all investments are located in the most deprived areas of the UK



Case Study

Babington Group

High-quality apprenticeship and education provider, supporting people to achieve their career goals

Theme

Education & Skills

Stage

Growth

Dates of Investment

September 2009 – April 2016

Fund

Bridges Sustainable Growth
Fund II

Bridges invested in Babington Group in 2009 because we believed that apprenticeships had a huge role to play in tackling the UK skills gap and the stubbornly high number of young people not in education, employment and education (NEET).

The investment proved to be a good illustration of how investing behind a pressing societal challenge can lead to both commercial success and powerful social impact. During our ownership, Babington's revenues increased from under £2m to more than £15m, thanks to strong organic growth and two strategic acquisitions. It also supported over 32,000 learners and helped over 3,700 formerly unemployed people to find jobs (see p. 17).

In April 2016, Babington Group was sold for £22m to RJD Partners.



Target Outcomes

CHALLENGE

The skills gap continues to hamper economic growth in the UK. According to one estimate, as many as one in five job vacancies may be going unfilled because of this gap (perhaps even more in some areas of the UK). And while employment levels have been rising in the last few years, there is a growing recognition that employers need to provide staff with more training and development to avoid future skills shortages. Youth employment continues to be a challenge. The number of young people classified as NEET has fallen in recent years, but it remains worryingly high: more than 720,000 16-24 year-olds are currently NEET, according to Government's most recent figures, equating to about one in every ten young people in this age bracket.

OUTCOME

We wanted to tackle this skills gap across a variety of sectors, by helping unemployed young people access vocational qualifications, and enabling staff to develop specialist skills through on-the-job training.

STRATEGY

Founded in 1974, Babington Group provides high-quality apprenticeships and training courses – from accountancy and financial services, to sales and marketing, and health and social care. The company has long been a pioneer, having trained the first accountancy apprentice in the country and the first insurance apprentice in the North of England.

RESULT

>32,000

learners supported

1,600

16-18 year old NEETs trained last year alone

93%

of students reported high satisfaction levels (against a national benchmark of 85%)

2,400

employers working with Babington to source and support talent

>3,700

formerly unemployed people helped back into work

2/3

students came from underserved communities

92%

of employers reported high satisfaction levels (against a national benchmark of 75%)



Recent Investments

Vegetarian Express

The UK's leading supplier of plant-based ingredients to the food service industry

Theme

Sustainable Living

Stage

Growth

Date of Investment

September 2016

Fund

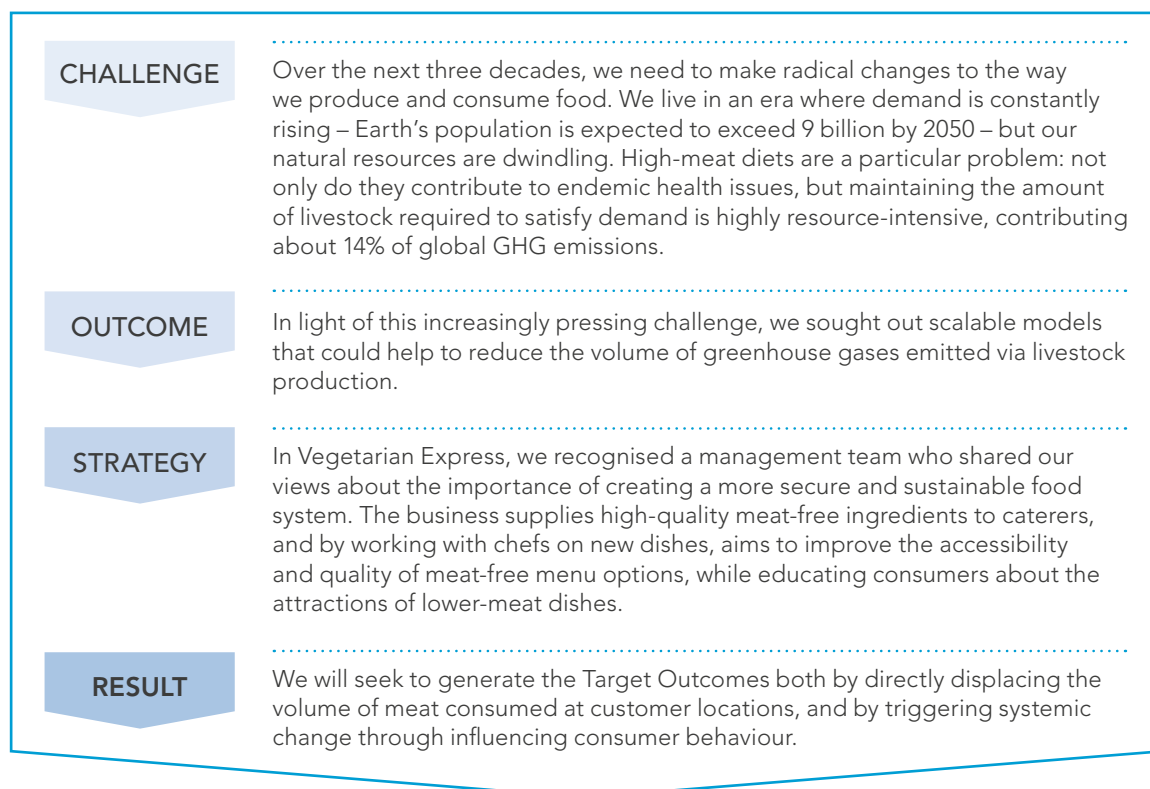
Bridges Sustainable Growth Fund III

High-meat diets pose serious environmental challenges: livestock production now accounts for over 14% of all global greenhouse gas (GHG) emissions. More and more people are actively choosing to reduce their meat consumption, both for environmental and health reasons. We felt the food service industry offered a great opportunity to try and accelerate that trend, which over time could substantially reduce carbon emissions.

Vegetarian Express is the leading supplier of specialist plant-based ingredients to the UK food service industry. It offers an unmatched range of over 1000 ingredients, boasts unrivalled sourcing capabilities and works closely with chefs to develop new menu ideas. Its ingredients are already consumed across 2,500 catering locations in the UK, collectively serving over 1 million diners – and yet it still has huge growth potential.



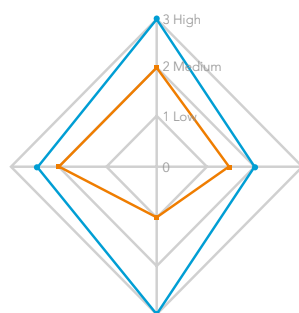
Target Outcomes



Target Outcomes

Industry Leadership (ESG)

Vegetarian Express is already focused on creating value for all stakeholders. But with Bridges’ help, it is increasing its focus on ‘win-win’ value-creation opportunities in terms of its logistics and the environmental footprint of its logistics network, as well as a greater emphasis on impact reporting throughout its supply chain.



Alignment

There is a clear lock-step between generation of impact and ability to generate competitive financial returns.

Bridges Value-Added

Vegetarian Express specifically chose to work with Bridges, after a competitive process, due to our strong mission alignment and because the management team recognised the value of our impact-driven approach.

Bridges will work closely with management to develop and execute an ambitious, impact-aligned commercial strategy.

Recent Investments

Taberner House, Croydon

Developing affordable housing and mixed-use commercial space in Croydon

Theme

Underserved Markets

Stage

Development

Date of Investment

August 2016

Fund

Bridges Property Alternatives
Fund IV

Housing in Greater London is in short supply, and Croydon is one of its most populous boroughs. That's why Bridges has acquired Taberner House, the old Croydon Council offices, in partnership with specialist mid-market property developer HUB, with a view to developing accessible housing and commercial space.

Our aim is to build around 500 new lower-cost and affordable homes, as well as 13,000 sq. ft. of commercial and retail space on the ground floor. Using sustainable features wherever possible – to minimise environmental impact and increase the well-being of residents – the development will contribute to local regeneration efforts and provide employment and housing for local residents.



Target Outcomes

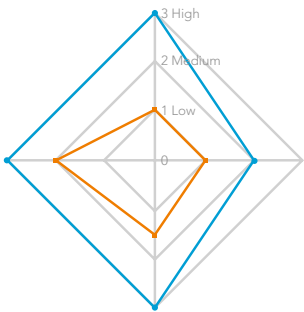
CHALLENGE	London is facing a housing crisis with a deficit of over 350,000 new homes required to meet current needs – especially in underserved Local Authorities. This gap could extend to one million new homes in 20 years without coordinated planning and action. This makes redevelopment and regeneration of these underserved areas crucial.
OUTCOME	Bridges is looking to combat this deficit by investing in residential developments in densely populated areas.
STRATEGY	Croydon Council is supporting the development of 500 residential units (including 30% affordable) on a vacant and cleared site in Croydon town centre that was previously the council offices. Bridges is investing alongside long-standing joint venture partner HUB, following the success of our three previous collaborations: the Old Vinyl Factory site in Hayes, Chesterfield House in Wembley and Abbey Wood (also in South East London).
RESULT	There is a clear need here: in the 2011 census, Croydon reported one of the highest populations of all London boroughs. The development will create lower-cost and affordable housing, support around 100 jobs, and bring an important piece of land back into economic use.

Target Outcomes

Industry Leadership (ESG)

The team will work to deliver a high performance building, above Part L Regulations, aiming for a 35% CO₂ emissions reduction.

A full review of the site, and potential environmental and community impacts is underway.



Bridges Value-Added

Bridges is lead investor and will drive to create more affordable housing units, ensuring that they are at an appropriate price point for the need of the local area.

Alignment

There is a clear lock-step between generation of impact and ability to generate competitive financial returns.

Recent Investments

World of Books

A circular economy technology business that has pioneered the reuse and recycling of unwanted books and media

Theme

Sustainable Living

Stage

Growth

Date of Investment

November 2016

Fund

Bridges Sustainable Growth
Fund III

World of Books has developed a proprietary technology platform that allows it to collect and sort unwanted books from charity shops and direct from consumers via its app Ziffit. It re-sells as many as possible (through its own website and others such as Amazon and eBay) and recycles the rest to make other paper products.

This innovative model has made it the market leader in the fast-growing UK second-hand books market (now worth £200m p.a.) – while also reducing carbon emissions and creating an £11m economic benefit for charities.



Target Outcomes

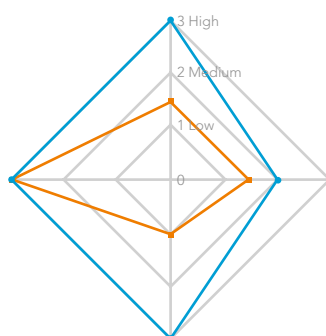
CHALLENGE	The dangers from climate change are very real – and part of the problem in addressing it is that the Earth’s growing population continues to consume more of its natural resources. We urgently need to find more sustainable ways of using our resources. Recycling rates have increased over the past decade, but the UK alone produces 200m tonnes of waste per year – around 25% of which still goes to landfill.
OUTCOME	By supporting the recycling and re-use of resources (a process sometimes called ‘the circular economy’), we can achieve measurable reductions in CO ₂ e emissions.
STRATEGY	Charity shops have to dispose of about 50,000 tonnes of unsold books each year – a large proportion of which has traditionally ended up in landfill. World of Books now buys or collects more than half of that total (creating a revenue source or saving for charities), processes them through its unique technology platform, and re-sells as many as possible online; those it can’t sell are recycled to make corrugated cardboard or newsprint. It also buys books directly from consumers through its proprietary app Ziffit.
RESULT	World of Books’ innovative circular economy model already generates significant CO ₂ e emissions savings. But through its consumer-facing business Ziffit, it is also working to influence consumer behaviour around the re-use of unwanted books – which could bring about more systemic change over time.

Target Outcomes

Industry Leadership (ESG)

There is significant potential for creation of positive externalities for employees, and risk-reduction through a focus on the company’s governance and environmental footprint.

Bridges will enable World of Books to become an industry leader through setting a standard on impact measurement and reporting.



Alignment

There is a clear lock-step between generation of impact and ability to generate competitive financial returns.

Bridges Value-Added

Bridges seeks to add significant operational and strategic input.

There is a low risk of displacing other comparable benefits, as most other disposal routes from charity shops and direct customers will result in the book being recycled or sent to landfill, rather than being reused.

Theme

Health & Well-being,
Education & Skills

Date of Investment

December 2016

Fund

Bridges Social Impact Bond Fund

HCT, the social enterprise bus operator, will deliver 'Travel Training' – funded by an outcomes contract – that helps children with special educational needs (SEN) travel to school via public transport. This has a huge impact on their lives, boosting independence and self-confidence, while also helping to mitigate an open-ended cost for Local Authorities.

CHALLENGE

Local Authorities have a statutory duty to provide transport to school for children with SEN or disabilities, at a cost of about £6,000 per year per child. Since the children rarely use public transport, they become less independent – which tends to lead to poorer education, employment and well-being outcomes in the longer term.

OUTCOME

More SEN children able to travel independently, boosting their confidence and helping them access education, after school clubs and social events, while also reducing council costs.

STRATEGY

HCT Group, a social enterprise bus operator, has developed a Travel Training scheme – initially in Lambeth – that helps children with SEN travel to school via public transport. HCT will be paid according to its success in helping these children travel independently.

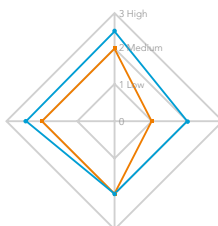
RESULT

HCT is aiming to work with up to 200 young people aged 11-25. This will deliver cost savings to the Local Authority, increase beneficiary participation in broader social and educational activities and have lifelong impact in terms of increased independence – while also creating a simple and scalable SIB that can be replicated nationwide.

Target Outcomes

Industry Leadership (ESG)

Ensuring good community engagement to prevent conflicts with local transport providers; paying the Living Wage to all employees.



Bridges Value-Added

Bridges has helped HCT move this programme from being a fee-for-service pilot to a payment-by-results contract.

Alignment

The payment mechanism only follows progress for one year, but we are working to track and evidence longer-term independence outcomes.

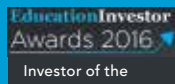


Awards

Bridges has enjoyed an award-winning year



BVCA – Responsible Investment Award for Overall ESG Framework



EducationInvestor – Investor of the Year 2016



HealthInvestor – Private Equity Investor of the Year 2016



Investment Week – Best Social Impact Investor 2016



Cabinet Office – Institutional Social Investment Award



Cabinet Office – Public Service Transformation Award



UNPRI – A+ for overall approach to responsible investment



Finance for the Future Awards 2016 – Investing and Financing

Acknowledgements

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

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Bridges Ventures, December 2016