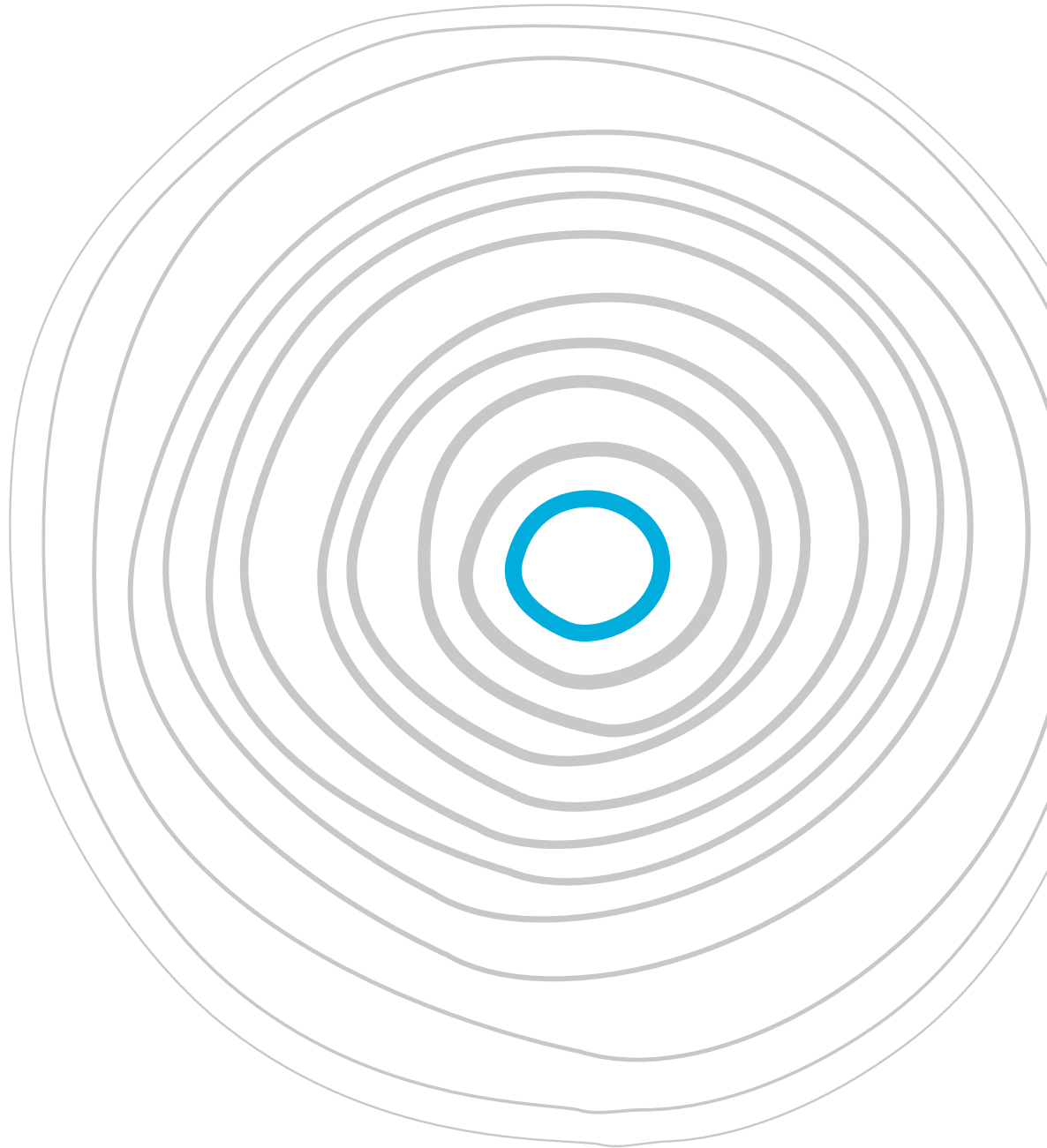


Bridges IMPACT Report

A Spotlight on
our Methodology



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Dear friends,

We are delighted to share this year's Impact Report, which focuses on our IMPACT methodology: our guide for integrating impact into investment decisions, illustrated by case studies from our portfolio.

At Bridges, we believe that an impact-driven approach is core to our success in building great businesses and delivering superior financial returns. It motivates us as a team and provides a sharp focus on opportunities that have significant growth potential, precisely because they address widespread societal issues.

Successful exits across our various funds continue to reinforce this thesis. Since 2012, our Sustainable Growth Funds have been delighted to announce the sale of our investment in Whelan, the UK's first oil re-refinery in Stoke-on-Trent, an investment which has offset more than 300 tonnes of greenhouse gas emissions, created 31 jobs in a deprived area and delivered a strong financial return to our investors. The sale of our majority stake in The Gym is another such example, generating a significant return for our investors, while creating affordable access for over 200,000 customers to exercise in inner city areas, a third of whom have never visited a gym before. Most recently, with successful exits beginning in our Sustainable Property Fund and the exciting launch of the Bridges Social Impact Bond Fund – the first of its kind globally – we are more convinced than ever of the power of an impact-driven investment approach to generate superior returns for investors and for society at-large.

At the G8 Summit in the Spring of 2013, UK Prime Minister David Cameron described the power of social investment to 'tackle the world's most difficult problems', putting its growth squarely on the global agenda and establishing the G8 Taskforce for Social Investment. Underpinning all agreed actions emerging from the G8 Summit was a call for collaboration: the need to build a global community, the need to standardise and the need to share best practice. What role can Bridges play in this?

In addition to the direct impact of our investment work, we have recognised the opportunity to share our practitioner experience to help build the wider sustainable and impact investment

“By integrating impact into all our investment decisions, we have built high growth businesses that are excelling commercially as they drive positive change for society. Our recent successful exits show how hands-on investment and entrepreneurial talent can provide solutions to some of society's biggest challenges.”

Philip Newborough

Managing Partner and Co-Founder

market. It is with a view to global collaboration that we have developed Bridges IMPACT+, a practitioner-led advisory function within Bridges, which advises a wide range of clients on all practitioner aspects of combining financial and social returns.

It is also in this spirit that we have chosen to focus this year's report on sharing our IMPACT methodology. Rooted in our day-to-day experience and based on over a decade of learning, we hope it combines idealism with realism and can serve as a useful contribution to this important conversation.

We hope you enjoy reading the report and welcome your feedback.

The Bridges Ventures team

About Us

Bridges Ventures is a specialist fund manager, dedicated to using an impact-driven investment approach to create superior returns for both investors and society at-large.

Bridges is majority owned by its senior management team, with the Bridges Charitable Trust having a substantial minority ownership interest and control over any change to the firm's founding commitment to raise only funds with both financial and social goals. The Bridges team also donates the equivalent of 10% of their own profits to the Trust's philanthropic activities.

Our investment strategy is to focus on opportunities where investments can generate investor returns through helping meet pressing social or environmental challenges – be it backing businesses that generate jobs in underserved markets, or building environmentally friendly care homes for the elderly to sustain an ageing population, or providing flexible financing for innovative community transport models.

In pursuing this strategy over the last eleven years, we have innovated a range of investment vehicles across three main fund types – Sustainable Growth Funds, Property Funds and Social Sector Funds – and are building a strong track record of financial and societal returns.

2002

Bridges Ventures is founded. It raises Bridges Ventures Fund I, its first Sustainable Growth Fund, with investments from both government and private sectors.

2003

Bridges Ventures wins the Investor Allstars New Venture Capital Fund of the Year award. Launch of The Office Group.

2004

Bridges Ventures publishes a report arguing for the provision of equity-like capital for social enterprises.

2005

Bridges Ventures successfully completes its first exit – from Harlands of Hull, achieving a strong return to investors and saving more than 50 jobs in a deprived community.

2006

Bridges Ventures launches its Impact Scorecard. Sale of Simply Switch to the Daily Mail and General Trust for a highly attractive return on investment.

2007

Launch of Bridges Ventures Fund II, its second Sustainable Growth Fund. It raises £75m solely from private sector investors – substantially more than its £50 million target. Launch of The Gym Group.

Bridges wins a fundraising award at Unquote's Private Equity Awards.

2008

Bridges Ventures sets up its Advisory Board and launches its first public IMPACT Report. Bridges wins the BVCA/Real Deals Private Equity Award for Fund of the Year.

2009

Bridges Ventures launches its Social Entrepreneurs Fund and its Sustainable Property Fund.

2010

Bridges Ventures sells The Office Group in a deal worth £43.3 million.

2011

Bridges Ventures completes first close of its CarePlaces Fund, a partnership with Castleoak Group to provide sustainable care homes. It also completes first close of Bridges Ventures Fund III, its third Sustainable Growth Fund, at £72m.

2012

Bridges celebrates its 10th anniversary and is awarded the FT/IFC Excellence in Sustainable Investment Award. The firm completes two exits, The Hoxton and Coventry-based Pure Washrooms.

2013

Launch of Bridges Social Impact Bond Fund. The firm completes two successful exits – Whelan Refining and the sale of its majority stake in The Gym – and it achieves the final close of its third Sustainable Growth Fund at £125m.



Our Funds

Bridges Sustainable Growth Funds

Our Sustainable Growth Funds take a Thematic approach, providing growth capital for SMEs which create impact through the products they sell (health and well-being, education and skills or sustainable living) or the economic growth they generate in underserved markets (80% of our investments are located in the most deprived 25% of the UK, with over a third in the most deprived 10%). Through these funds, we have been able to show our commercial investors, including pension funds and banks, that impact can be an engine of value.

Bridges Property Funds

Our Sustainable Property Fund takes a thematic approach to property, investing entrepreneurially in buildings that promote regeneration, as well as those showing environmental leadership.

The CarePlaces Fund focuses exclusively on building high-quality care homes for the elderly. Given our ageing population and growing demand for energy-efficient buildings, these niche investment vehicles offer commercial investors growth opportunities in an otherwise saturated market.

Bridges Social Sector Funds

Bridges manages two social sector funds, providing finance and support to charities and social enterprises delivering services with high social 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 Fund brings together social investors wanting to support social impact with social enterprises seeking to grow.

The Bridges Social Impact Bond Fund is the first of its kind and provides investment and support to charities and social enterprises delivering programmes designed to improve social outcomes in areas such as education, therapy, adoption and care for vulnerable young people.

“Since we founded Bridges in 2002 we have been committed to innovating investment vehicles that match capital with the high-impact ventures that need it. In 2013, with the support of new and existing investors, we launched the first fund investing in social impact bonds and also closed our third sustainable growth fund.”

Michele Giddens

Partner and Co-Founder

“As our portfolio matures, our impact-driven approach, including a focus on environmental leadership, is proving an important driver in attracting occupiers, with tenants seeking to reduce operating costs and demonstrate environmental responsibility towards their stakeholders.”

Simon Ringer

Partner and Head of Property Funds

“By providing charities and social enterprises with a sustainable and outcomes-based source of capital and support, our new Social Impact Bond fund aims to play a catalytic role in the way social sector organisations are financed in the future.”

Antony Ross

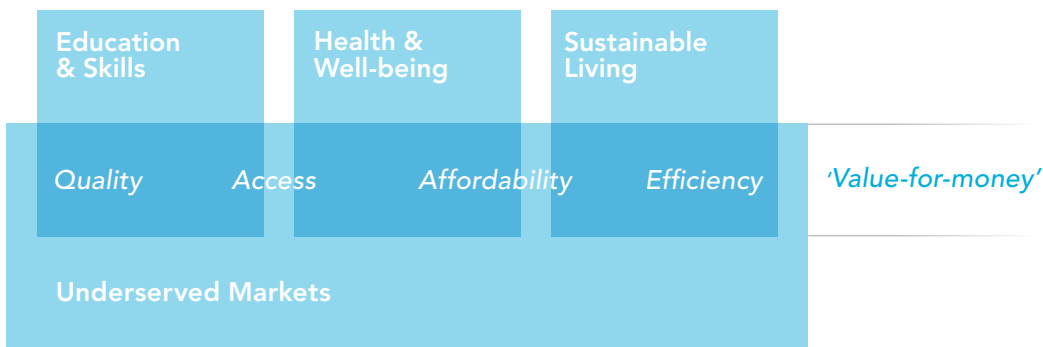
Partner and Head of Social Sector Funds

A Thematic Approach

While our investments range from fast-growth SMEs to property to social enterprises, we have a thematic focus that cross-cuts all fund types. Each theme represents a cluster of societal outcomes that we are learning can be efficiently delivered through investable models. For example, in Education & Skills, we have focused on driving employability through vocational training, backing a range of models that target different beneficiary groups (from commercial companies to trading charities to payment-by-results models).

In Health & Well-being, we have focused on improving access to high-quality care, investing in a domiciliary care co-operative, a model that improves life outcomes for children in the care system and the UK's most environmentally-friendly care homes.

Many of our investments over the last ten years have been in 'consumer champion' companies – businesses seeking to provide value-for-money for underserved consumers. Getting this right means a laser focus on what makes a product most valuable to customers, and a trimming of what does not. For example, through our investment in The Gym Group, we have learned to focus on figuring out how affordable we can make exercise in inner city areas, while maintaining high quality and profitability.



Over time, we have developed an investment 'sweet spot' where our themes overlap: high-impact products or services that combine quality, access, affordability and efficiency, making them ideally suited to address the needs of underserved markets.

1. Members enjoying the facilities at The Gym
2. Teen mentoring toddler as part of Teens & Toddlers programme
3. Sustainable care homes providing high quality care for the elderly
4. Featuring innovative design, sustainable practices and community initiatives, Qbic Hotels' strategy is to retrofit existing underutilised buildings
5. Elmbridge Court is a 44,000 sq ft business park comprising 25 office buildings, all of which now have solar photovoltaic panels across their roofs
6. Staff members at HCT which operates bus contracts and uses its profits to fund transport services for community groups





A Thematic Approach

Continued

Underserved Markets

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

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.

Our investments: We focus on business opportunities that offer real potential for catalysing economic growth in the most deprived 25% of locations in the UK.

The Vet

Bridges Sustainable Growth Funds

The Vet opened its first site in Bristol in the summer of 2013 and plans to roll out to other locations across the UK in 2014. Any future sites will be mainly located in previously vacant premises in need of renovation in underserved markets, driving local regeneration and job creation.



Health & Well-being

Challenges: Increasing sophistication of care, lifestyle changes, rising levels of obesity and ageing population are current trends driving a fundamental transformation in the provision of support for health and well-being.

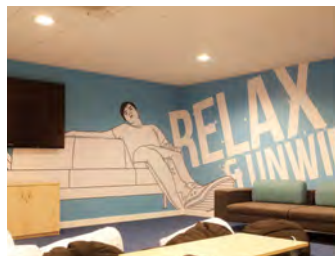
Opportunities: Increased outsourcing of services from the public sector as well as higher demand for quality care homes, domiciliary provision and services promoting health and well-being including gyms and fitness facilities.

Our investments: We identify entrepreneurs providing specialist services to the healthcare sector, as well as those offering health & well-being-related services to a broad range of communities, including quality care homes for the elderly.

Care & Share Associates (CASA)

Bridges Social Entrepreneurs Fund

CASA builds and develops employee-owned franchise companies to provide domiciliary care to older, disabled and vulnerable people. Typically domiciliary care providers operate a low-paid, high churn employee model resulting in lower quality care for service users. CASA's innovative employee-ownership model results in a more rewarding role for employees, leading to higher consistency and quality of care.



Sustainable living

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

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

Our investments: We identify companies offering entrepreneurial solutions to both mitigate and manage environmental change.

Elmbridge Court

Bridges Sustainable Property Fund

A 44,000 sq ft business park comprising 25 office buildings, all of which have solar photovoltaic panels across their roofs, providing tenants with a significant percentage of free electricity.



Education & Skills

Challenges: Skills shortage and stagnating school performance, alongside increasing Budget constraints, are having a negative effect on employability levels.

Opportunities: Companies offering vocational training or whose activities focus on broadening accessibility or increasing quality for greater employability are a growing sector.

Our investments: We focus on companies offering vocational training, e-learning and training for NEETs (young people Not in Education, Employment or Training).

T&T Innovation Programme

Bridges Social Impact Bond Fund

Delivered by charity Teens & Toddlers, this Social Impact Bond (SIB) finances a programme to support disadvantaged 14-19 year olds by partnering them with toddlers in a local nursery, offering an opportunity for responsibility and empathy and allowing the young person to act as a role model. It has the potential to create transformational change in the young person's life which can result in improved school attendance and attainment.



Investment snapshots (from far left to right): a team member at The Vet; student accommodation at The Curve; solar panels on the roof of Elmbridge Court; participants in the Teen and Toddlers programme; inside a Bridges care home

Headline Results

Highlights from across Bridges' funds for the year ending 31st March 2013

Underserved Markets

Bridges' Outcome	Individuals	Society
Quality paid employment in underserved markets	2,900+ direct jobs supported across all funds	-
Job opportunities for the unemployed	546 people moved from unemployment	-
Economic dynamism in underserved markets	-	£435m catalysed spend in underserved markets 4.6x multiplier spend 80% of portfolio companies in Sustainable Growth Funds in underserved markets

£435m

catalysed spend in underserved markets

546

people moved from unemployment

Health & Well-being

Bridges' Outcome	Individuals	Society
Improved physical fitness and well-being in underserved, particularly inner city, communities	60,000 first time gym users	Pioneering role in growing widespread low-cost gym market
Access to high quality at-home care	1,246 individuals receiving quality care at home 447,437 hours of care delivered	Reducing bed capacity constraints in the NHS through efficient care delivery
Increased community access for disadvantaged individuals	364,437 passenger trips for disadvantaged individuals	-
Improved life outcomes for children in the care system	31 disadvantaged children supported with therapy	-
Improved quality of care homes for the elderly	600+ high quality care home beds for the elderly including dementia patients	7 care homes built in areas with ageing population and high demand

60,000

first time gym users

1,246

individuals receiving domiciliary care

7

care homes built in areas with ageing population and high demand

Sustainable Living

Bridges' Outcome	Individuals	Society
Reduced CO ₂ -equivalent emissions	-	194k tonnes CO ₂ -equivalent emissions avoided
Waste diverted from landfill	-	370k tonnes of waste diverted from landfills
Reduced emissions through building environmentally sustainable property	-	First BREEAM Excellent care home in the UK, as well as first Passivhaus care home in the UK

194k
tonnes CO₂-equivalent emissions avoided

370k
tonnes of waste diverted from landfills

Education & Skills

Bridges' Outcome	Individuals	Society
Improved skills and employability levels for students	4,452 students enrolled in skills-training courses 333 previously unemployed students now in full-time employment	-
Functional skills for disadvantaged individuals	572 individuals provided with on-the-job training	-
Improved life outcomes for children at risk of becoming 'NEET'	1,807 programme recruits 701 behavioural and educational improvements/qualifications 34 individuals entering Employment, Education or Training	-

4,452
students enrolled on skills training courses

333
previously unemployed students moving onto full-time employment

701
children showing behavioural and educational improvements

Our IMPACT Methodology

An Overview

We call our investment approach ‘impact-driven’ because we use impact as a lens to select and engage with our investments. By doing so, we seek to generate superior returns – both for investors and for society. What does this mean in practice? On the following pages, we describe our impact approach, breaking down the various dimensions of our analysis and providing illustrative case studies from our portfolio. We hope that these real life examples will bring our approach to life and prove useful to others.

Our philosophy

Over the last decade, we have developed a methodology and tools that, whilst not perfect, help us to make informed decisions within the bounds of what is practical (both proportional and affordable) and useful (allowing us to select and manage investments to create social value on a day-to-day basis). Our approach has 3 key elements: a specialist focus (‘Thematic’), a consistent process (**Bridges ‘SET’**), clear criteria (**Bridges IMPACT Radar**) and a collaborative attitude (**Bridges’ IMPACT+**).

In this report, we provide an overview of our approach today but our intention is to improve continuously – to keep learning from our work, as well as through collaboration with others.

Bridges ‘SET’ process

Across our funds, we consistently follow a three-stage ‘SET’ process, which integrates impact analysis into the full investment cycle. As an impact investor, we select for impact: identifying investments whose product, location or business model will deliver our thematic outcomes. In addition to generating our specific target outcomes, we also support our portfolio companies to optimise their

wider environmental, social and governance practices (ESG). We view this as a commercial-social ‘win-win’: businesses that operate in a more sustainable way not only generate incremental impact but can also protect and enhance their commercial performance – be it through better energy management, progressive employee or customer engagement, or improved governance practices.

Bridges IMPACT Radar

Over the last decade, we have learned to focus on four key criteria. While we tailor our approach to each type of fund, certain criteria are common to all Bridges’ investments and provide a holistic view of an investment’s ability to generate positive societal change.

We consider it as important to understand the impact risk of

an investment as 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.



Our team looks at investments in a fully integrated way – analysing the interplay of social 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.



Risk and Return

As with financial analysis, understanding the impact risk of an investment is as important as understanding its potential for impact return. Impact risks can take various forms. For example, there may be a lack of evidence that an intervention will lead to the desired outcome. Even if the intervention is successful, the investment could cause displacement, leading to reduced or no net benefit. Or, the investment may create positive change for its target beneficiary but a negative change for other stakeholders, which reduces or undermines its impact.

How do we use the IMPACT Radar?

On the following pages, we lay out our risk/return questions for each of the key criteria, along with our Scoring Guide for mapping a potential investment. Our scoring approach is subjective and indicative, rather than categorical. Pre-investment, we have found that it usefully summarises our investment

team’s recommendation, in order to provide a basis for discussion. Post-investment, it acts as a portfolio management tool, so that we can monitor the impact risk/return profile of each investment (and therefore of each fund) on an ongoing basis.

Target Outcomes

Effective solutions to pressing societal needs represent significant growth opportunities

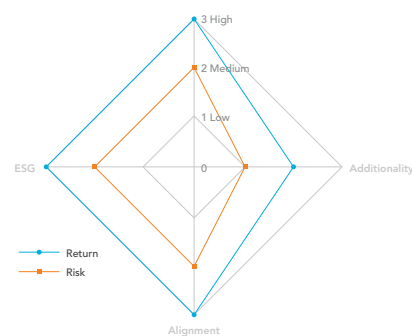
From an impact perspective, we view each investment as a strategy to address a societal challenge. Our 'Target Outcomes' analysis therefore begins with identifying who is being affected by the problem (target beneficiary), what they need, the barrier to improvement and what the current response is.

From this background analysis, we can plot a Theory of Change: the series of theoretical stages necessary to address the challenge. To understand how an investment will convert theory into action, we then lay out the investment's specific steps (the Logic Model) to deliver each stage of the Theory of Change. This process enables us to analyse the investment's potential impact in terms of scale, depth and systemic change (which signals potential 'impact returns'). It also allows us to pressure test the causal links in the investment's logic model – in other words, to question to what extent the 'recipe' is understood and the causality is evidenced (which signals the level of 'impact risk').

Target Outcomes?

	Key questions	Score	Scoring guide
Return analysis	Does the investment create depth of impact or scale of impact, or both? A	3 High	Scale and/or depth, plus: a focus on an underserved beneficiary group and/or potential for systemic change
	Does the investment benefit an underserved beneficiary group or society at-large? B	2 Medium	Scale and/or depth for society at-large
	What systemic/wider impact will occur from the investment? C	1 Low	Neither scale nor depth
Risk analysis		3 High	Credible secondary research evidences causality (in a different but comparable context)
		2 Medium	Credible secondary research evidences causality (in a different but comparable context), plus primary research supports causality (i.e. the organisation's own quantitative and qualitative assessment)
	How well tested are the causal links in the logic model?	1 Low	A scientific study (e.g. control trial or longitudinal study) evidences causality, demonstrating that the investment is generating impact

Target Outcomes



A Depth

While scale can typically be measured, depth is more subjective: what is fundamental to one person may be less important to another. In the absence of an objective definition, we find that duration and leverage can be useful 'proxies' for depth: Is the outcome long-lasting (duration)? Does the outcome catalyse many positive changes in a person's life (leverage)? For example, one

could argue that a successful adoption creates positive change for the rest of a child's life (as does, for example, a life-saving operation), while it has also been shown to generate a wide range of other positive benefits for a child, such as improved physical and mental health and reduced likelihood of becoming Not in Education, Employment or Training (NEET).

B Inclusivity

Within Health & Well-being and Education & Skills, we apply an additional 'inclusive' lens to ensure that the investments we make are, at a minimum, creating positive change for the population at-large, rather than only the wealthiest segments of society. Our Social Sector Funds go further, typically backing models that focus on underserved beneficiary groups.

C Systematic/wider impact

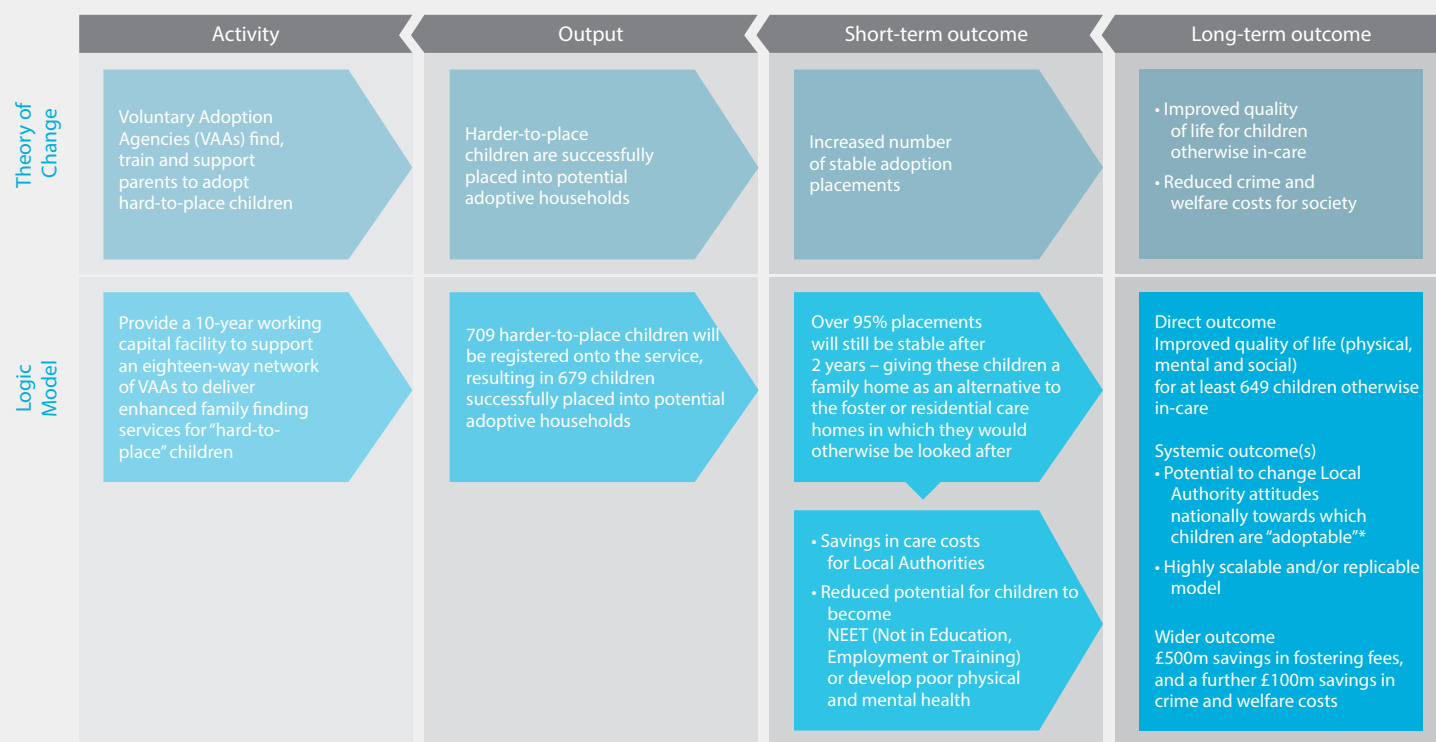
In addition to the direct outcomes of an investment – the graduates who go on to enjoy sustainable livelihoods or the elderly receiving improved quality of care – we also look to create wider or systemic positive change through our portfolio, such as additional cost-savings to society, a positive influence on policy or a 'ripple effect' in the broader market (including price disruption and copy-cat models).

Target Outcomes – Case Study

Bridges Social Impact Bond Fund

It's All About Me

It's All About Me (IAAM) is a new service for the adoption sector. Structured as a Social Impact Bond, and developed by an 18-way network of Voluntary Adoption Agencies, Bridges' investment in IAAM seeks to find, train and support adoptive families for children who are recognised as harder-to-place, and who otherwise would probably remain in care.



As our scoring guide shows, the risk that our investment will achieve its target outcomes depends largely on the extent to which the efficacy of the investment's logic model has been evidenced (in the same, or at least comparable, conditions). To help us gauge the impact risk we are taking, we rank an investment's demonstrated efficacy at a Level 1, 2 or 3 (see scoring guide on opposite page). During the investment period, we aim to help each investee improve its level of demonstrated

efficacy (proportionate to its own goals as an organisation), thereby reducing the risk of the model not achieving its target outcomes.

During Bridges' investment in IAAM, a longitudinal study will be conducted by SLaM and Cass Business School to track the improved positive life outcomes of children registered onto the service (versus those remaining in the care system) over the 10-year life of the programme.

Notes:

*For example, attitudes towards cut-off ages, ethnic matching and placement with siblings.

Additionality

Understanding our true value-add is key to both social and commercial performance

Our additionality analysis asks whether our target outcomes will occur anyway, without our investment. In this sense, additionality defines our impact, allowing us to tell our investors whether their funds are creating societal value.

While our ‘return’ analysis challenges investor-level additionality – whether our target outcomes will happen anyway, without our capital – our risk analysis considers enterprise-level additionality: *whether or not the investee will be delivering a greater quantity or higher quality of outcome than would otherwise occur.*

Investor-level additionality

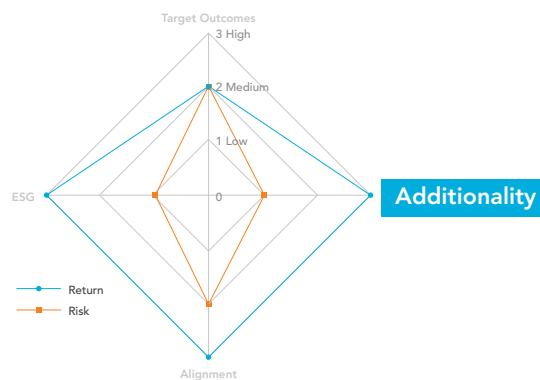
For our funds seeking market-rate returns, our investor-level analysis considers the extent to which Bridges is integral to the investment’s development and growth. For our Underserved Markets theme, our additionality lies in directing capital to investments in the most deprived 25% of the UK – to businesses which demonstrate strong links to their community through significant local job creation or supply-chain spend, or by serving local consumers as a target market. Today, over a third of our Underserved Markets investments are in the most deprived 10% of the country. Our decision to focus investment on these regions was rooted in the belief that there was insufficient growth capital readily available to support businesses in these markets. In other words, investor additionality was the driving force for developing Underserved Markets as a theme in the first place. For our other themes, our investor additionality considers whether, at a minimum, Bridges’ alignment with the investee’s social or environmental agenda will create non-monetary benefits that generate additional social value. More often, our additionality is due to our integral role in structuring or even creating an investment from scratch: in each of our funds, we look to incubate a number of businesses in-house (in which case, our investor- and investment-level additionality become one and the same).

Our Social Sector Funds provide flexible capital to sustainable, often profitable, business models that cannot attract commercial capital due to their structure or target market, or both. In this sense, investor additionality is more readily assumed, since such investees could not rely on the mainstream capital markets to support their growth. However, in co-investment situations, we still consider the extent to which Bridges leads the development of the investment (and therefore the leverage of additional capital), which signals an even higher level of investor-level additionality.

Notes:
 *For Underserved Markets, a high additionality return is if Bridges’ investment is the driver for the launch of a business in (or relocation to) an area of very high deprivation
 ** An investment could be creating new positive outcomes or it could be preventing negative outcomes from otherwise occurring (e.g. saving jobs).

Additionality?

	Key questions	Score	Scoring guide
Return analysis	Is Bridges integral to the development/performance of the investment?	3 High	Bridges is incubating the business
		2 Medium	Bridges is the sole or lead investor in an opportunity overlooked by mainstream investors*
		1 Low	The business is already well-established with other (competing) investors but Bridges’ non-monetary support can drive increased impact
Risk analysis	Does the investment lead to outcomes which would not otherwise occur?***	3 High	Likely displacement of comparable societal benefits (e.g. simply stealing market share with no impact value-add)
		2 Medium	Unlikely displacement of other comparable societal benefits due to increased quantity or quality addressing current market failure
		1 Low	Very unlikely displacement of comparable societal benefits due to increased quantity or quality addressing current market failure



Enterprise-level additionality

At the enterprise level, our analysis assesses whether the social outcomes generated by the underlying investment will create a positive net benefit for society (typically through improved quality or quantity of outcome, or both) or if, instead, the investment’s outcomes risk displacing comparable benefits.

Additionality – Case Studies

Bridges Sustainable Property Fund

Juniper House

Bridges Sustainable Property Fund has completed three highly sustainable care home developments in partnership with Castleoak, one of the UK's leading healthcare developers. The properties have been developed to provide first class environmentally-friendly facilities to the elderly, with specialist provision for dementia patients.

Enterprise-level: From a sustainable living perspective, care homes typically have a significant energy footprint, as high levels of heating are required to ensure consistent comfort levels for residents, and a plentiful supply of hot water is needed at all times for washing and bathing. From a health and well-being perspective, residents of care homes often remain inside for long periods of time, meaning that excellent air quality can make an important contribution to good health. Bridges' investment in Juniper House, Northamptonshire, has created the UK's first Passivhaus care home providing residents with excellent air quality,

while reducing CO₂ emissions by over 35%. We hope this higher quality development will set an exciting precedent for the industry.

Investor-level: 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. Through the Bridges Property Funds, we have learned that one way for an investor 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, we have agreed that an increased spend on environmental features will translate into lower energy costs over time (we expect a 6% uplift in design and building costs to be recouped by energy savings in just 8 years). As a result, we have incubated some of the UK's most environmentally-friendly care homes.



Bridges Social Entrepreneurs Fund

Care and Share Associates (CASA)

CASA builds and develops employee-owned franchise companies to provide domiciliary care to older, disabled and vulnerable people. Typically domiciliary care providers operate a low-paid, high churn employee model resulting in lower quality care for service users. CASA's innovative employee-ownership model results in more rewarding roles for employees, leading to higher consistency and quality of care. The Bridges Social Entrepreneurs Fund initially invested in CASA in 2011.

Enterprise-level: CASA aims to be a positive ethical force in everything it does and its social impact is far-reaching. As well as improving the quality of life for its service users by enabling them to live independently at home, CASA recruits and trains long-term unemployed people in low-income communities. CASA currently employs over 500 people, of whom 91% are from underserved areas, and is implementing a wide encompassing training approach that plans to deliver high quality training above industry standards to all its employees. Co-ownership is at the heart of CASA's business,

underpinned by the belief that engaged employee owners will both provide the highest quality and continuity of care, and support the reinvestment of profits into staff and growth to make the business successful.

Investor-level: Domiciliary care delivery is a competitive tight margin business. A strategic approach to business development and operational excellence in delivery of care are key success factors that drive strong growth and enable providers to deliver high quality care. Since the Bridges Social Entrepreneurs Fund's initial investment, we have been an active investor, taking both a non-Executive Director role on the board, as well as providing strategic and operational support from our team. This includes helping CASA redesign its financial reporting processes as well as delivering a six month internal operational process and systems improvement programme. This support and guidance helped CASA achieve sustained revenue growth, over 170% from 2011 to 2013, and it now delivers over 12,500 hours of care a week across six offices.



ESG

Active management of our impact on key stakeholders both protects and enhances value

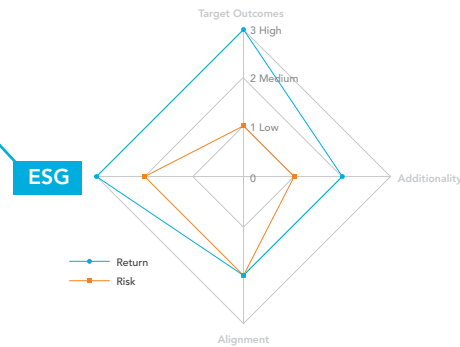
While we select companies that will generate our intended outcomes (through the high-impact products or services that they provide, or the economic growth that they generate in underserved communities), we also recognise that every investment has the potential to generate other societal outcomes, both positive and negative. We take these outcomes – which we call environment, society and governance factors (ESG) – into account in order to understand an investment's total (or 'net') impact.

Managing risk

Prior to making an investment, our investment team works with the management team of the prospective portfolio company to identify ESG risks. To guide this discussion, we have developed an in-house risk assessment screen based on global best practices but adapted to fit the needs of investees operating in our areas of thematic focus. Our emphasis is on making this ESG risk screen as practical as possible – on making it a conversation about operational excellence. We use a materiality lens (see opposite page) to grade each risk as a high, medium or low priority and record the results on a risk register. For each material risk, we propose a mitigation plan in the Investment Committee paper, so that our investment decision is made with a holistic view of projected impact and a 100-day plan can be developed for immediately post-investment. Thereafter, ESG issues are reviewed regularly at Board meetings with investee companies, as well as at our own firm-level portfolio review meetings. Once a year, each investee provides a snapshot of any new or outstanding ESG issues, as well as progress against targets, through our IMPACT Scorecard (see page 23).

ESG Outcomes?

	Key questions	Score	Scoring guide
Return analysis	Are there 'win-win' Environmental, Social or Governance (ESG) opportunities?	3 High	Significant ESG opportunities
		2 Medium	Some ESG opportunities
		1 Low	No/Minimal ESG opportunities
Risk analysis	Can any ESG risks be mitigated?	3 High	ESG risks cannot be mitigated
		2 Medium	ESG risks can be mitigated
		1 Low	Minimal ESG risks



Spotting opportunity

We call ESG opportunities 'win-wins' because they improve social or environmental performance in ways that also improve business performance. While each investment has its own range of relevant ESG opportunities, our specialist focus on themes (and sub-sectors within themes) has allowed us to develop 'rules of thumb' for recognising where opportunities might lie – for example, maximising quality of care for patients through independent clinical advisory boards in our healthcare companies, creating employment access through apprenticeship schemes in our businesses in underserved markets or minimising energy and water usage across our property (and property-backed) investments. While some ESG opportunities can be defined pre-investment, many emerge during the investment period, through a process of regular interaction and learning with the company and its stakeholders. We create an ESG matrix for each investment to capture how ESG factors and business success factors are going hand-in-hand.

ESG – Case Study

Bridges Sustainable Growth Fund

Qbic Hotels

Featuring innovative design, sustainable practices and community initiatives, Qbic Hotels' strategy is to retrofit existing unused buildings, providing a viable use for a site which would otherwise be largely empty and bringing economic dynamism to underserved locations.



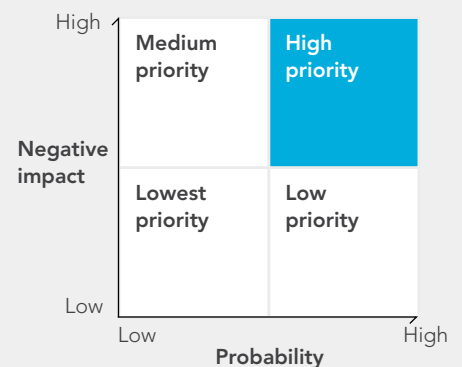
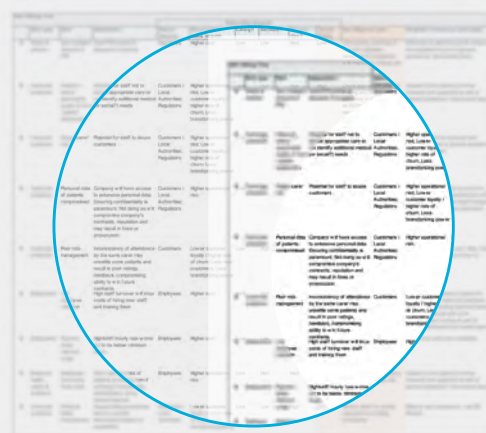
Opportunity Matrix

ESG Factors	E	S	G					
	CO ₂ emissions reduction	Apprentice-ship schemes	Consumer education initiatives	Community engagement	Health & Safety best practice	Expansion to underserved communities	Employee upskilling	Independent quality assessment
Revenue growth		Qbic's strategy of retro-fitting an existing old office building and actively pursuing sustainable construction and operations means that we can significantly reduce the new materials used, demolition waste going to landfill and energy consumption – as well as cost.						
Cost savings & productivity	●							
License to operate	●	A sustainable strategy for the first site that results in a projected reduction of 30%+ CO ₂ emissions over benchmarks for similar developments and faster planning permissions for site development.						
Talent attraction/retention				●	Qbic aims to create a legacy through engagement with the local community. Boosting employment in the area, the hotel is recruiting at least 50% of its staff locally and partnering with the charities Food Cycle and Bike Works, both of which help to train and assist people back to work. Qbic will recruit approximately 20% of its staff from these charities. This community approach will ensure that employees at Qbic Hotel London City are from diverse backgrounds, have a wide range of talents and, most importantly, know best how to share the highlights of their local area with Qbic guests.			
Brand value & reputation	●	Use of recyclable materials wherever commercially appropriate as part of the customer 'sell'.		●				

ESG Risk Register

Materiality analysis

Our materiality analysis considers each type of risk from the perspective of all relevant stakeholders (including ourselves as investors), asking: Who is affected? How are they affected? How negative are the outcomes? How likely are they to occur? This allows us to score each risk on a risk register and to develop risk mitigation strategies for any risks categorised as high or medium priority.



Alignment

A platform of distinct fund types allows us to match opportunities to the financial and impact expectations of a wide variety of investors

The various funds which Bridges has developed over the last ten years are shaped differently: while all deliver impact alongside financial return, the funds differ in terms of the types of business models they back and the level of risk-adjusted financial returns they generate. By developing this platform of distinct fund types, we have sought to ‘align’ each fund carefully with the financial and impact expectations of different investors, allowing us to draw a wide variety of asset owners to invest for impact. This approach also means that, increasingly, asset owner are allocating across our various funds, from different parts of their portfolio.

Over the last eleven years, we have learned that there are a wide variety of social or environmental needs that create commercial growth opportunities, with the potential to deliver positive impact alongside market-rate, or market-beating, financial returns. For example, in the face of rising unemployment, we have backed training colleges, like Babington Business College, which are equipping the next generation with the skills to compete globally – an increasingly attractive proposition for both government contractors and private-pay customers.

We also recognise, however, that there are many pressing social or environmental issues where commercial investment opportunities do not present themselves: the social mission requires a prioritisation of impact over competitive financial returns, whether because of the enterprise’s structure (for example, a trading charity), its business model (such as a cross-subsidy model where all profits are re-invested), its target market (perhaps it focuses exclusively on disadvantaged consumers that do not represent a commercial growth opportunity) or the founder’s goals (perhaps the founder does not wish to pursue a commercial exit that may compromise mission). To support these business models, we have developed our Social Sector Funds, which are able to offer flexible financing to suit the enterprise’s individual needs.

How do we assess alignment? From a return perspective, we analyse the alignment between an investment’s ability to generate impact and its ability to deliver competitive risk-adjusted financial returns. Both the Bridges Sustainable Growth Funds and the Bridges Property Funds look for an investment’s impact and its competitive financial returns to be in ‘lock-step’

Table below: To illustrate where our funds are positioned within the broader impact investing market, we have developed a ‘map’ of the capital spectrum below, which seeks to illustrate the new capital deployment paradigm and frames the increasing range of choices available to investors.

Spectrum of Capital

			Impact Investment			
Traditional	Responsible	Sustainable	Thematic	Impact-first	Philanthropy	
Competitive returns	ESG risk management					
	ESG opportunities					
			High-impact solutions			
Finance-only	The New Paradigm				Impact-only	
Focus	Limited or no focus on ESG factors of underlying investments	Focus on ESG risks ranging from a wide consideration of ESG factors to negative screening of harmful products	Focus on ESG opportunities, through investment selection, portfolio management and shareholder advocacy	Focus on one or a cluster of issue areas where social or environmental need creates a commercial growth opportunity for market-rate or market-beating returns	Focus on one or a cluster of issue areas where social or environmental need requires some financial trade-off	Focus on one or a cluster of issue areas where social or environmental need requires 100% financial trade-off
Examples	<ul style="list-style-type: none"> PE firm integrating ESG risks into investment analysis Ethically-screened investment fund 	<ul style="list-style-type: none"> ‘Best-in-class’ SRI fund Long-only public equity fund using deep integration of ESG to create additional value 	<ul style="list-style-type: none"> Clean energy mutual fund Emerging markets healthcare fund Microfinance structured debt fund 	<ul style="list-style-type: none"> Fund providing debt or equity to social enterprises and/or trading charities 		

Bridges Sustainable Growth Funds
Bridges Property Funds

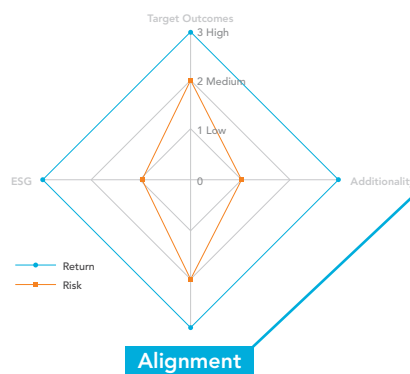
Bridges Social Entrepreneurs Fund
Bridges Social Impact Bond Fund

– in other words, that impact will automatically scale as investors make attractive financial returns. The Bridges Social Sector Funds look for investments that are capable of generating impact alongside a sustainable, rather than fully commercial, financial return – from early-stage social ventures seeking social equity (requiring high risk capital but offering a below market return) to established social enterprises whose business models (such as cross-subsidy schemes or co-operatives) need what we increasingly call ‘social mezzanine’ financing (lower risk/lower return financing with an innovative exit structure that will preserve mission).




From a risk perspective, we analyse the underlying business model: the alignment between the model’s business success factors and the impact it seeks to create. While our funds differ in terms of the financial returns they generate for investors, all funds share a focus on spotting business models whose ability to generate impact creates a competitive advantage.

Alignment?

	Key questions	Score	Scoring guide
Return analysis	How aligned is the investment’s generation of impact with its ability to deliver competitive risk-adjusted financial returns?	3 High	‘Lock-step’ between generation of impact and competitive risk-adjusted financial returns
		2 Medium	Ability to generate sustainable risk-adjusted financial returns
		1 Low	Inability to re-pay capital
Risk analysis	How fundamentally aligned is the business model with its generation of impact?	3 High	Many business success factors are not aligned with impact success factors
		2 Medium	Some business success factors are not aligned with impact success factors
		1 Low	All/most business success factors are impact success factors



Alignment – Case Studies

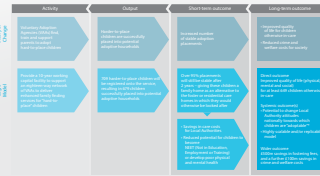
	Challenge	Investable opportunity	Example
	Skills shortage Stagnating school performance	Increasing demand for vocational and employment-related training creates a fast-growth commercial equity investment opportunity	Babington Business College provides Skills Fund Agency-funded apprenticeship training in accountancy, business administration, customer service and financial advice to learners.
	Need for rapid de-carbonisation Increasing pressure on natural resources	Increasing demand among tenants for improved energy & resource management creates a commercial ‘green refurbishment’ opportunity	Elmbridge Court is a 44,000 sq ft business park comprising 25 office buildings, all of which have solar photovoltaic panels across their roofs, providing tenants with a significant percentage of free electricity.
	Lack of affordable, accessible transport options for socially-excluded individuals	While it is not commercially-viable to serve only disadvantaged communities, a cross-subsidy model (running commercial bus routes and using trading surpluses to serve disadvantaged ‘pockets’ of society) offers a financially sustainable, investable solution.	Hackney Community Transport operates bus contracts, including London red buses, and invests its profits to fund transport services for not-for-profit community groups and those unable to use conventional public transport, as well as related job-training services.

Bringing it all together

An IMPACT Toolkit

Below, we summarise the key questions that make up the Bridges IMPACT Radar, along with the tools that support our judgement.

Logic Model



- Depth or scale?
- Underserved beneficiary group or society at-large?
- Systemic impact?

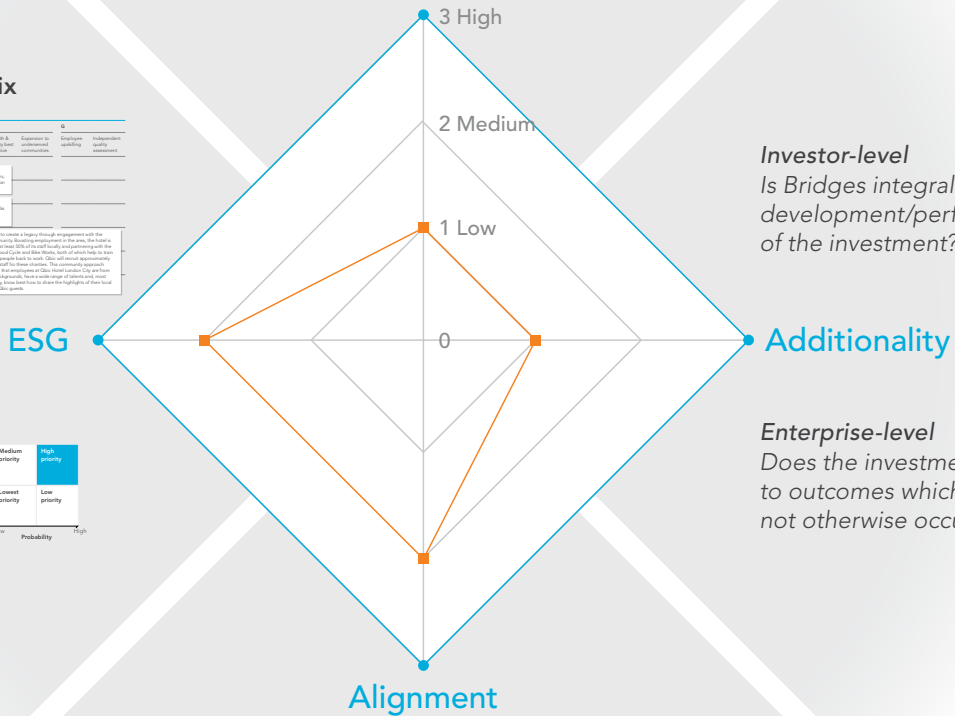
- How well-tested are the causal links in the logic model?

'Win-win' ESG opportunities?

Opportunity Matrix

ESG Factor	E	S	G
Climate Change	High	Medium	Low
Water	Medium	High	Low
Waste	Low	Medium	High
Human Rights	Low	Low	High
Community Relations	Low	Low	Low

Target Outcomes



Investor-level
Is Bridges integral to the development/performance of the investment?

Enterprise-level
Does the investment lead to outcomes which would not otherwise occur?

Risk Register



Can any ESG risks be mitigated?

Alignment of the investment's generation of impact with its ability to deliver appropriate financial returns?

Spectrum of Capital

Investment Type	ESG	Impact	Financial
Private Equity	High	Medium	High
Impact Investing	High	High	Medium
ESG Investing	High	Low	High
Microfinance	Medium	High	Low
Development Finance	Low	High	Low

Alignment of the business model with its generation of impact?

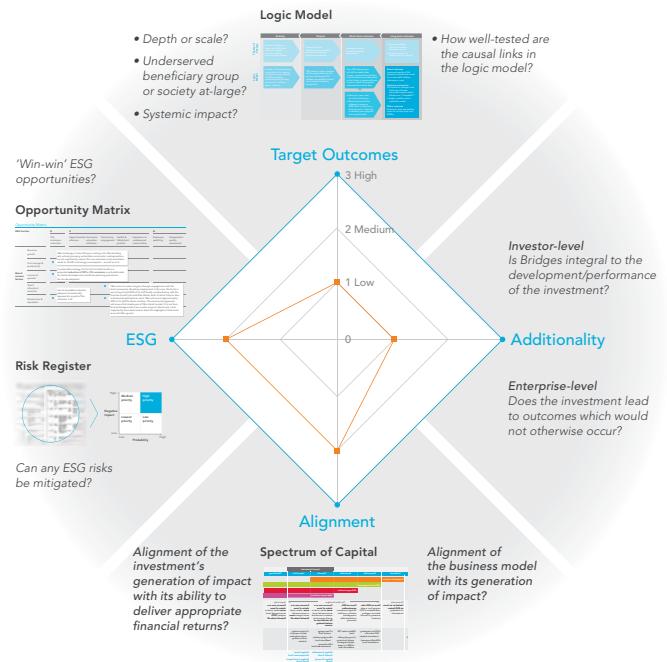
Bringing it all together

Our IMPACT Scorecard

Pre-investment, the IMPACT Radar informs our due diligence of an opportunity. Post investment, it acts as a portfolio management tool, so that we can monitor the impact risk/return profile of each investment (and therefore of each fund) on an ongoing basis. In order to track an investment's performance against the IMPACT Radar, we work with each investee to determine the most appropriate key performance indicators (KPIs), which we then record on our IMPACT Scorecard.

If we get this right, the impact KPIs we track as an investor are simply smart business KPIs for our investees, demonstrating their positive contribution to society and their protection and enhancement of value for investors.

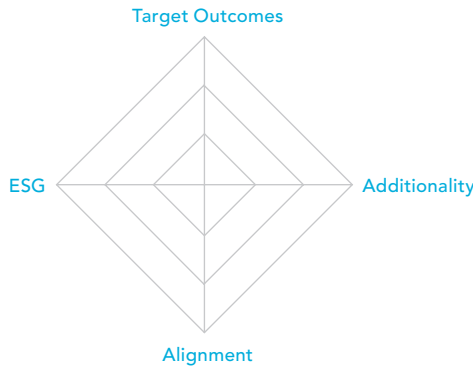
Below, we summarise the key questions that make up the Bridges IMPACT Radar, along with the tools that support our judgement.



IMPACT Scorecard		Deal team:	Bridges								
As of year end: 31st March		Board Representative:									
Target Outcomes Rating											
<table border="1"> <tr> <th>Investment</th> <th>Target</th> <th>Actual</th> <th>Weight</th> </tr> <tr> <td>PT15 (1)</td> <td>PT15 (2)</td> <td>PT15 (3)</td> <td>100%</td> </tr> </table>				Investment	Target	Actual	Weight	PT15 (1)	PT15 (2)	PT15 (3)	100%
Investment	Target	Actual	Weight								
PT15 (1)	PT15 (2)	PT15 (3)	100%								
Financial benefits for community benefit											
Community benefit	Target in FY13: None								
Profit reinvested back into activities for community benefit	Target in FY13: None								
% of your own funds									
Levelling investment for underserved areas											
Community benefit provided to underserved areas?	Target in combined: 10% o.g. growth								
Community benefit provided to underserved areas?	Target in combined: 10% o.g. growth								
Percentage of growth to underserved individuals?	Target in combined: 10% o.g. growth								
Employment impact											
Individuals who gained qualifications as a result of training/support?	Target in combined: 10% o.g. growth								
Individuals who obtained skills as a result of training and support?	Target in combined: 10% o.g. growth								
ESG Rating											
Environmental benefit											
Car mileage saved through the use of community good transport?	Target in combined: 10% o.g. growth								
Kilometres per litre per passenger	Target in combined: 10% o.g. growth								
Individuals trained to drive an environmentally friendly motor	Target in combined: 10% o.g. growth								
Average age of fleet (years)									
GHG emissions (tonnes of CO2)									
GHG emissions per passenger journey (kilograms)									
GHG emissions per kilometre (kilograms)									
Management diversity											
Proportion female	No targets but will monitor								
Proportion ethnic minority (non-white)									
Employee diversity											
Proportion female									
Proportion ethnic minority (non-white)									
Additionality											
Investment critical to the success of the investee?									
Employment within the investee?									
Employment diversity within the investee?									

Bringing it all together

A selection of our recent exits



The Gym

Target Outcome(s)?

Does the investment contribute to our target outcomes?

- 65,000 first-time gym users leading healthier lives in inner city areas
- £20m supplier spend in underserved markets
- Pioneered 24/7 low-cost, accessible model, spawning numerous low-cost competitors (industry now provides access and affordability to millions of customers)

Additional?

Positive change versus what would have happened anyway?

Enterprise additionality: Lower cost (first pay-as-you-go model, c.2-3x cheaper than joining the average mid-market UK gym) and greater accessibility (open 24/7 and majority of sites in underserved markets)

Investor additionality: Bridges incubated the investment in-house

ESG?

ESG risks or opportunities?

- Winner of Times 'Best 100 small companies to work for'
- Over 70% of equipment is energy-efficient and cleaning uses 70% less water than conventional machines. The sites also employ sensor-controlled lighting, showers, WCs and hand basins.

Alignment?

Alignment between impact and financial returns?

Lock-step between fast-growth consumer champion brand and the need for affordable sites in inner city areas that that create access to fitness in underserved inner city locations



Whelan



Business recycled waste oil to produce base oil, selling back to the lubricant industry

- Successfully diverted over 100,000 tonnes of waste oil from use as a low grade fuel
- Generated net savings of over 300,000 tonnes
- Supported 31 jobs and contributed over £11m in supplier spend in underserved markets

Enterprise additionality: The first and only waste oil refining plant in the UK

Investor additionality: Bridges was the sole investor, enabling the re-furbishment and re-commissioning of a redundant oil refinery in Stoke

- Strong focus on minimising the plant’s environmental impacts
- Commitment to employee development, with numerous employees achieving both the City & Guilds Certification and Certification in Process and Operations

Lock-step between ability of plant to refine waste oil into virgin-grade oil products and growth in reduction of greenhouse gas emissions



The Hoxton



• Build and operating a hotel on a disused, brownfield car-park site in Hackney led to significant dynamism, with The Hoxton becoming a well-known part of the regeneration of Shoreditch in Hackney

- Over £10m+ (85%) of supplier spend underserved markets
- 40 jobs supported, with 73% of wage bill in underserved markets

Enterprise additionality: A hotel built from scratch on a disused, brownfield car park site, bringing significant spend, job creation and regeneration to the area

Investor additionality: Bridges was involved from the beginning of the project, working with the entrepreneur to design and build the hotel and playing the lead role in financing

- Apprenticeship scheme offering placements to unemployed young local residents and sponsoring their education at a local college
- Support of local charitable initiatives, e.g. donating a day of revenue to Great Ormond Street Hospital and providing 20 beds for doctors and nurses

Lock-step between value-for-money concept (requiring affordable location) and the ability to bring regeneration and tourism spend to a previously underserved market



Bridges IMPACT+

A practitioner-led advisory function

Bridges is committed not only to promoting financial and societal returns through its own funds but also to supporting the growth of the wider sustainable and impact investment sector.

It is in this spirit that we have established Bridges IMPACT+, an advisory function within Bridges. Each year, Bridges IMPACT+ takes on a small number of projects where we believe that our expertise in combining financial and social returns can make a real contribution to the growth of the market.

In the past year Bridges IMPACT+ has engaged with a broad range of leading organisations, including The Rockefeller Foundation, Mars Inc., Bank of America Merrill Lynch, Oxfam, Comic Relief and the African Private Equity & Venture Capital Association.

While many of our projects are bespoke to clients, we also disseminate public research whenever we see an opportunity to support the sector's thinking. These range from market analysis to specific product development research.

Our research initiatives to-date include:

- Equity-like Capital for Social Ventures (2004)
- Investing for Impact: Case Studies Across Asset Classes (2010)
- The Power of Advice in the UK Sustainable and Impact Investment Market (2012)
- Spectrum of Capital – How we define the market (2013)
- Shifting the lens – A De-risking Toolkit for Impact Investment (2014)



View from Dadeldhura, Nepal, during a visit to a co-operative for the Bridges IMPACT+ review of Oxfam's Enterprise Development Programme, November 2013



Photograph: Aubrey Wade/Oxfam



Acknowledgements

We are very grateful for the ongoing support of our committed Board and Advisory Board, as well as our network of pro bono partners. We also thank our investors, without whom none of this would be possible and who 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, Universities Superannuation Scheme, Railways Pensions Trustee Company Ltd.

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

Endowments, Trusts and Foundations: All Souls College, The Apex 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.

Corporate, Fund of Funds and Others

3i Group, European Investment Fund, RLAM (CIS) Limited, AXA Investment Managers, Doughty Hanson, Community Development Venture Capital Alliance, DCD Group, Department for Business, Innovation & Skills, 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.

The red door: Bridges offices, Craven Hill, London



Bridges Ten Year Anniversary event, LSO St Luke's





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Bridges Ventures, February 2014.