



Annual Impact Report 2015

The Value of Impact



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Front cover images:

Top-Left: The Gym Group, Sustainable Growth Fund II

Top-Right: The Hub Pharmacy, Sustainable Growth Fund III

Bottom-Left: The Old Vinyl Factory, Bridges Property Alternatives III

Bottom-Right: Springboard Education, Bridges U.S. Sustainable Growth Fund

Introduction

"It's impossible to stop an idea whose time has come."

In his opening remarks to the final plenary session of the G8 Social Impact Investment Taskforce this summer, Sir Ronald Cohen drew on the quote above – a variation on an old adage of French author Victor Hugo. It neatly sums up another momentous year for impact investing, during which several mainstream investment firms entered the market.

Four days after that Taskforce convened in London, Goldman Sachs announced its acquisition of Imprint Capital, an institutional impact investing firm. Earlier in the year, BlackRock, the world's largest fund manager, had revealed its intent to develop an impact investing practice; while a month later, former Massachusetts Governor Deval Patrick joined Bain Capital to launch a new social impact fund, with the aim of delivering attractive financial returns while also improving quality of life.

These heavyweight investment groups are alert to the opportunity presented by the growing number of successful businesses whose social agenda is creating a competitive advantage. The entrepreneurs leading these businesses see the social and environmental challenges we collectively face as opportunities to build scalable solutions.

Take Warby Parker, a fast-growing U.S.-based affordable designer glasses company whose 'buy a pair, give a pair' (to people in developing countries) model has been a real hit with customers. Its approach is proving to be a useful recruitment tool too: the Dean of Wharton Business School noted recently that Warby Parker "embodies the businesses that I think everyone in the millennial generation aspires to be part of... [They do] it cheaper, they do it better, and they do it with purpose".

At Bridges, we have been learning how to spot, support and scale these kinds of business models since 2002. Through our Sustainable Growth Funds and our Property Funds, we have seen first-hand that, by using impact as an investment lens, we can identify rapid growth opportunities that generate significant value for both investors and society.

It's with this conviction that we have continued to expand our platform. The most significant addition in the last year has been our Property Alternatives Fund III, which held a final close at £212m. We've also been expanding our model into different geographies. In April, we announced our first investment (Springboard Education) from the Bridges U.S. Sustainable

Growth Fund. In November, we announced our first investment in Spain, in Viva Gym, from the Sustainable Growth Fund III.

While the notion of fully aligning commercial success and societal impact is compellingly simple, we know from experience that the underlying analysis required to build business models that deliver on this promise is not. In order to choose the right investment in the first place, we have learned that we must understand the underlying drivers of a societal issue and consider return and risk from both a financial and impact perspective.

As our analysis of societal issues has grown more sophisticated over the last 13 years, we have developed a deeper understanding of where alignment between impact and competitive investor returns is and is not possible. This has led us to pioneer additional impact investment products, such as our Social Impact Bond Fund, where early successes are starting to emerge: this year, two of our social impact bonds over-delivered against their social objectives, repaid all capital plus interest to investors and have since been re-commissioned – a world-first on all fronts.

“ They do it cheaper, they do it better and they do it with purpose ”

Across this platform of funds, building value means working closely with our entrepreneurs, management teams and joint venture partners to measure and manage performance against our original thesis, and to exploit any new value opportunities that arise. This year's report uses live examples from our portfolio to illustrate how using an impact lens can drive value creation, in the sense of maximising both commercial success and societal impact. We are thankful to our portfolio companies for their continued partnership, and are delighted to share their voices in the case studies that follow.

The Bridges Ventures team

2015 Selected Highlights



Sale of two care homes for **£20.5m** – the fourth and fifth exits from the CarePlaces Fund, a partnership between Bridges Ventures and CastleOak.

MARCH



Sale of Elmbridge Court business park for **£6m**. Photovoltaic roof panels installed across the site reduced carbon emissions by **60%**, while also cutting tenants' energy bills by 50%.

MARCH

10 top business schools

across the U.S. and Europe participated in the MBA Impact Investing Network & Training Programme (MIINT) that Bridges Impact+ runs with the Wharton Social Impact Initiative. More than double this number have signed up for 2015-16.

APRIL

MARCH

Invested in Ways to Wellness, the **world's first health social impact bond**.



APRIL

First investment from the U.S. Sustainable Growth Fund

, in Springboard Education, a provider of affordable before- and after-school educational programming.



JUNE

£212m close of the Property Alternatives Fund III, our largest fund to date.





Wholebake launched its **new brand identity**, with improved recipes containing less fat and sugar and a partnership with the charity SolarAid.

JULY

We were awarded the top UN PRI assessment score of **A+** for our overall approach to responsible investment.

JULY



Bridges was the **first UK fund manager** to become a **B Corp**

as the movement launched in the UK, reflecting our commitment to create returns for investors and have a positive impact on society.

SEPTEMBER

JULY

Two Social Impact Bond investments (of 14 made to date) have successfully completed, fully repaying investors. Both have been recommissioned for a second round of programmes, **a world-first**.



NOVEMBER

The Gym Group, which Bridges co-founded alongside John Treharne in 2007 (after incubating the concept in-house), **listed on the London Stock Exchange at a £250m valuation**. The experience informs our 8th investment from Sustainable Growth Fund III and our first in Europe: **Viva Gym**, a chain of low-cost gyms in Spain.



Headline Results

Highlights from across Bridges' funds, focussing on our four key themes¹



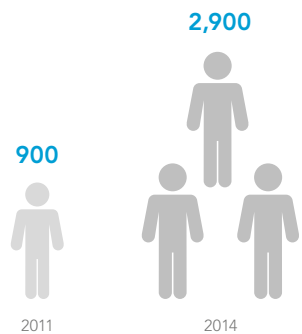
Health & Well-being

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

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



People receiving access to high-quality at-home care



2.2m

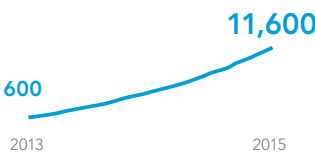
Hours of quality at-home care delivered

363k

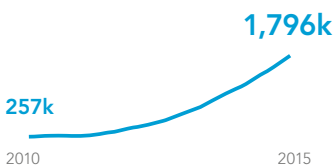
Gym users, of which 33% were first-time users

TO DATE

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



Passenger trips for disadvantaged individuals



Education & Skills

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

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



Behavioural improvements among at-risk children still in school



11,600

Qualifications gained by students and trainees as a result of training and support offered by Bridges' portfolio companies

3,400

Qualifications gained by at-risk young people

TO DATE

4,140

Qualifications gained as a result of training and support offered by Bridges' portfolio companies

822

School attendance improvements for at-risk children

¹ These figures reflect the latest available year end data as of 31 March 2015. Some Bridges' portfolio companies report to a June or December year end.

Sustainable Living

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

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



Reduction in CO₂-equivalent emissions



1.6m

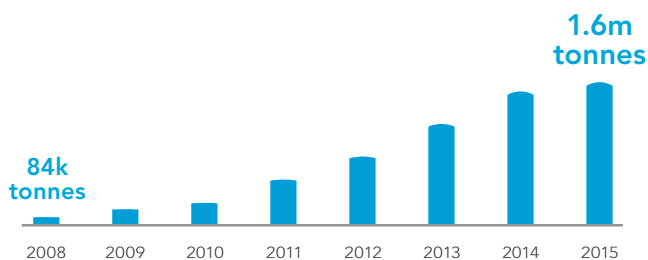
Tonnes of waste diverted from landfill

307k

Car journeys saved through the use of community group transport

TO DATE

Waste diverted from landfill to date



Underserved Markets

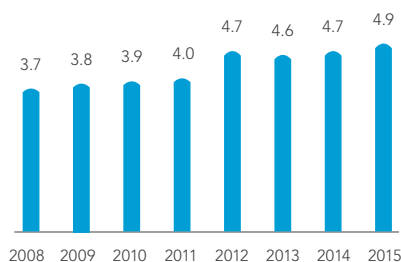
Challenges: The poorest communities are the most disadvantaged in terms of access to quality services and economic opportunities.

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



Economic dynamism in underserved markets

For every £1 invested, an additional **£4.90** was spent via local wages and supply chain



4,700

Previously unemployed people moved back into work

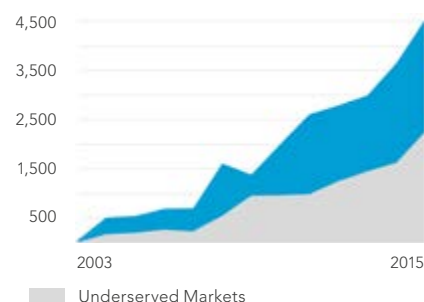
4,500

Direct jobs supported across Bridges' funds

TO DATE

88% Growth Fund portfolio companies operating in underserved locations, with a quarter located in the most deprived **10%** in the U.K.

Total direct jobs supported



Bridges and the Value of Impact

We believe our focus on sustainability and impact throughout the investment process helps us build higher-value businesses and thus deliver attractive investor returns

Bridges Ventures is a specialist sustainable and impact fund manager. Based in the U.K. and the U.S., we now manage almost £600m across our Sustainable Growth, Property and Social Sector funds.

We call our investment approach 'impact-driven', because we use impact as a lens to identify and create value at every stage of the investment cycle. The diagram below illustrates how we have learned to do this to best effect.

First, we look to **select** investments where we think impact and high-growth can go hand-in-hand; so where creating societal value can also drive financial value (1). Our impact focus helps to **secure** investments, by identifying opportunities where others are not looking. Also, it helps open the door to management teams in thematic areas like health and education, where they tend to have a strong sense of purpose.

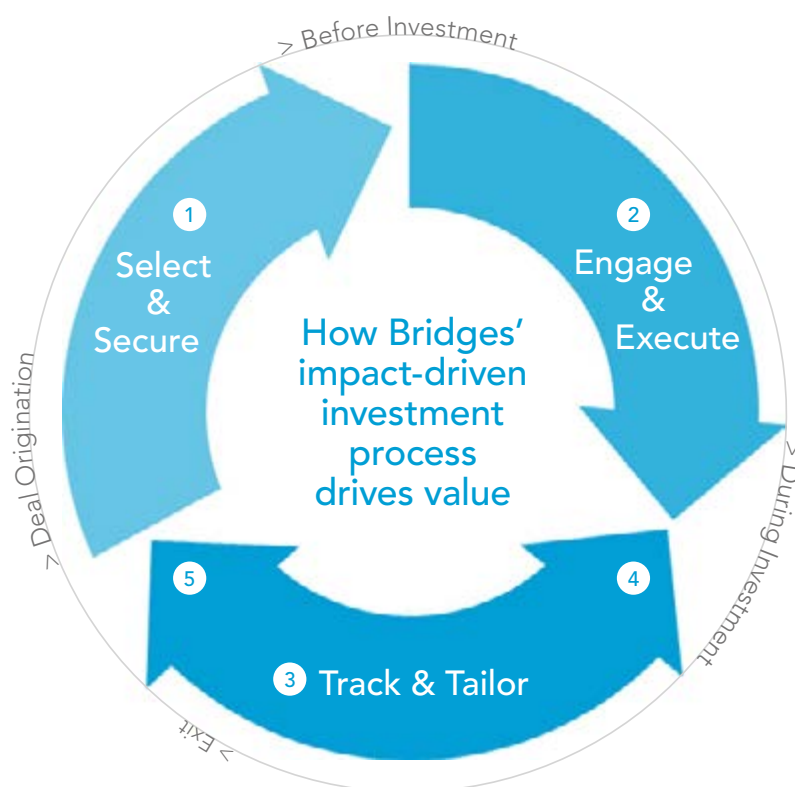
As part of our due diligence, we conduct a thorough assessment of the potential impact risks and rewards – using them as clues to identify where value may need protection as well as where untapped growth may lie. We use this analysis as the basis for how we **engage** with entrepreneurs, management teams and joint venture partners to **execute** the identified strategy (2). We've found that applying impact as a lens in this execution phase can serve to energise management teams and staff.

This engagement with our partners is informed by the work we do to **track** the performance of our investments against a set of pre-agreed indicators (3). This data can help to drive timely management decisions (4) – and to help us invest more effectively in the future, by giving us a deeper understanding of the challenges involved (5). It also helps our portfolio companies communicate the societal value being created to other stakeholders, such as customers, employees and suppliers. This builds a strong and sustainable stakeholder base, helping **tailor** the business for exit.

Our ambition is that Bridges' track record encourages greater flows of capital towards sustainable businesses. We are transparent in our approach in the hope that it might also encourage others to use an impact and sustainability lens as a driver of value.

Today, we invest across a variety of different funds and strategies, allowing us to support a range of different impactful business models (see opposite). This approach of using our impact focus and hands-on investment style to drive value creation is consistent across them all.

In the following pages, we illustrate this approach using a series of case studies from across our portfolio.



Sustainable Growth Funds

Bridges U.K. and U.S. Sustainable Growth Funds provide capital for high-growth businesses that are creating impact through what they do, how they do it or where they're located. Through these funds, we have been able to prove to a range of investors that impact really can be an engine of value.



The Vet, Bridges Sustainable Growth Fund III

Property Funds

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



The Old Vinyl Factory, Bridges Property Alternatives Fund III

Social Sector Funds

These funds provide financial and operational support to social sector organisations delivering services with high societal impact. The Social Entrepreneurs Fund helps fast-growing enterprises to scale, while the Social Impact Bond Fund, the first of its type in the world, provides up-front capital and support for those delivering outcomes-based contracts.



Community Links, Bridges Social Impact Bond Fund

Bridges Charitable Trust

The Bridges Charitable Trust makes strategic grants or social investments to address aspects of our impact themes where the Bridges funds are not able to invest – such as crisis support, or gaps in market knowledge or infrastructure. It is funded by the Bridges team, who donate 10% of their profits from our other funds.



Unforgettable, Bridges Charitable Trust

Using an Impact Lens to Drive Value

A closer look at how our impact focus creates commercial and societal value throughout the investment cycle

Understanding the challenge

What do we mean when we talk about ‘investing for impact’?

Put simply: we look for opportunities where our funds can support investable solutions to pressing social and environmental problems.

Over time, we’ve learned to focus on four impact ‘themes’: underserved markets, health & well-being, education & skills and sustainable living. Within these themes, we start by identifying what the specific challenges are; we look at who is being affected; and we establish what kind of support they need that they are not currently getting.

Then we ask:

- Can we find an investment that addresses this challenge, either through its product, its location, or its business model?
- Can we identify a suitable partner, entrepreneur or management team to help us deliver this impact?
- Can we build something together that will ultimately deliver better outcomes within our four impact themes?

This approach helps us spot high-impact opportunities, whose growth potential is driven by societal need – often where others are not looking.

Identifying the response

For every potential investment, we start by analysing the potential impact opportunity – and the potential risks – using a tool we’ve developed called the Impact Radar. This assesses the possible deal against four criteria: target outcomes (how likely is it that this investment will help the intended beneficiaries?); environmental, social and governance factors (how sustainably does the business treat its other stakeholders?); additionality (does the investment help bring about something that wouldn’t have happened otherwise?); and alignment (how well is the business’s impact aligned with its commercial success?). Together, this helps us to decide whether that particular investment is a good use of our funds’ equity.

This pre-deal analysis also forms the bedrock of our subsequent relationship with our portfolio companies. It sets expectations, helps us to agree key performance indicators (KPIs) and, crucially, allows us to identify areas of focus – whether that means trying to mitigate downside risk, or looking to exploit potential upside.

Once this understanding is in place, our investment teams – with the support of the broader Bridges network – will then work closely with our entrepreneurs, management teams and joint venture partners to deliver against our impact thesis. This close engagement also allows us to use the data emerging from the KPIs to adapt and optimise our approach.

“Once we started talking to Bridges, it was a real fit with how we were trying to run our business. They’ve challenged us to be better than we were – could we improve the nutrition of the product, could we improve the consumer engagement in the product”

Mark Gould,
CEO, Wholebake

Driving commercial and societal impact

The most tangible evidence of our efforts can be found in the Impact Scorecard, which is compiled annually by each of our investees based on the KPIs we have individually agreed with them.

This is not intended merely as a historical tracking tool (although it provides a useful means of tracking our cumulative impact over time). It acts as a portfolio management tool, helping to inform Bridges about where we can most usefully support our partners. It also helps to communicate the societal value being created to other stakeholders in our portfolio companies, such as customers and employees, helping attract and retain them. And finally, the data we glean from these scorecards helps to inform our future selection process: by helping us to get a better understanding of which approaches work best in a given situation, we can target our resources more efficiently in the future.

Ultimately, we hope that our investments will not only be impactful at an asset level – but can also have a broader impact by helping to change behaviours across the sector.



How we use our Impact Radar

The Radar helps us to assess risks and opportunities in four key areas:

ESG return

Can the organisation's environmental, social or corporate governance (ESG) factors be improved?

ESG risk

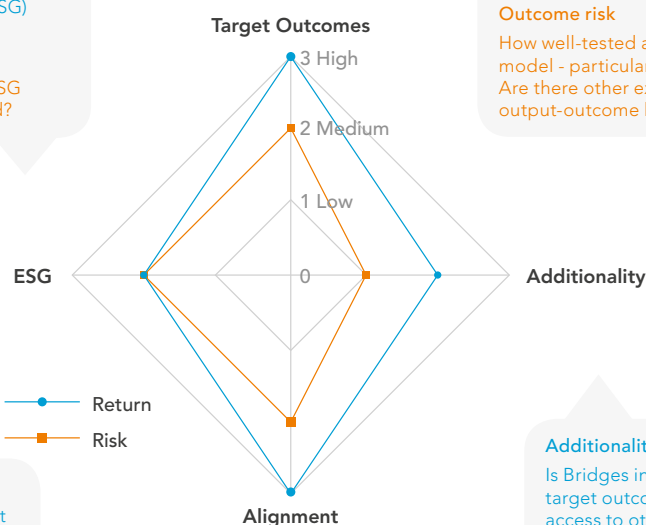
Does the organisation carry any ESG risks? Can these risks be mitigated?

Outcome return

What societal issue is being targeted? What are the projected outcomes and who are the beneficiaries? Is there the potential for wider systemic change?

Outcome risk

How well-tested are the links in the impact logic model - particularly between output and outcome? Are there other external factors that threaten the output-outcome link in the logic model?



Alignment return

Will the investment create impact as it generates competitive investor returns?

Alignment risk

How fundamentally aligned is the business model and its impact? Is there potential for perverse incentives?

Additionality return

Is Bridges integral to the investment and to the target outcomes? Does the organisation have access to other sources of finance?

Additionality risk

Does the investment lead to outcomes which would not otherwise occur? Are we confident that the investment does not 'displace' other societal benefits?

Case Studies: Sustainable Growth Funds

Bridges looks to provide not only capital but also expertise – recognising that in order to flourish, impact-driven entrepreneurs need more than just money. As all of our investment teams focus on the same four themed areas and their related outcomes, we have developed a deep understanding of which business models thrive in which context. We have built a team with considerable operational expertise to support business growth.

We are finding that our impact focus helps to open the door with mission-driven businesses like **Springboard Education**, the first investment from our U.S. Sustainable Growth Fund. Springboard provides affordable before- and after-school programming and currently serves over 6,000 students across eight states.

Once we have identified talented partners who share our philosophy, the Growth Funds team engages closely with them throughout the investment process in order to maximise financial and societal impact (seeking alignment between the two wherever possible) and also to minimise risk – using data as a feedback loop to drive improvements. By maintaining this focus throughout the investment cycle, we are able to work with our portfolio company teams to create tangible commercial value.

Wholebake

Challenge

Sustained employment offers individuals greater well-being, with better opportunities for their families in the long run. Currently almost two million people in the U.K. are unemployed; the longer they remain so, the less likely they are ever to return to work. And while the overall rate of unemployment has been decreasing steadily across the U.K., it has remained static in Wales, in part due to the lack of businesses able to create quality employment opportunities.

"Corwen is a poor area; people have to travel a number of miles for employment. We take people from the community, we train them, we give them skills and they become a huge asset to our business."

Mark Gould,
CEO, Wholebake



Deal Origination

2014

Identifying Wholebake as a successful growth company with opportunities for job creation in North Wales



Response

Wholebake is a manufacturer of healthy snack bars, under its own brand 9BAR and on behalf of other third-party brands. Since the bars are hand-made in Wholebake's craft bakery in Corwen, North Wales, expanding the business offers the opportunity to employ more local people.

"I just couldn't find anything, I was really struggling. [Now] I can provide for my family, meet different people, socialise a bit more, as well as learning new skills."

Gwennan Roberts,
Craft bakery line leader, Wholebake

Wholebake works closely with the agencies through which it sources employees to engage with local job centres, while also offering training and development opportunities to enable staff to progress within the business.

Impact

The bakery is located in the top 15% of underserved areas in the U.K., with 90% of employees drawn from the local area. Since Bridges' investment in 2014, Wholebake's workforce has increased by 30% – providing jobs for 30 people, over half of whom were previously unemployed. And this has only been possible because top-line revenues have grown by 36%.

In the past year, Bridges' investment and strategic input has fuelled business growth, adding operational, finance and sales and marketing expertise to the senior management team and Board, while also scrutinising business practices to identify win-win opportunities.

In July 2015, as a result of a marketing review initiated and directed by Bridges, 9BAR relaunched with a new brand identity and its snack bar recipes reformulated to further reduce fat and sugar content (by an average of 23% and 17% respectively across the product range).

In addition, as part of this re-branding, 9BAR has partnered with SolarAid, a U.K.-based charity seeking to eradicate the dangerous kerosene lamp in Africa by 2020. 9BAR's relationship with SolarAid ensures that every 9BAR sold will provide not only 'good energy' from the seeds in its snack bar, but also a night of light to a family in need in Africa. Over 18,000 solar lamps have been distributed, benefitting some 115,000 people. It calls this campaign 'Good Energy, Twice'. As a further example of this new focus, 100% of the bakery's energy is now sourced from renewables.

During Investment

2015

Strengthening of
management team

Reducing sugar and fat
contents of 9BAR

Rebranding of 9BAR and securing
charitable partnership with SolarAid



Babington Group

Challenge

The skills gap in many sectors of the U.K. economy is hampering full economic recovery. One in five job vacancies remains unfilled because of this gap; in some areas of the U.K., the ratio is even higher. And while employment levels are rising, there is a growing recognition that employers need to provide staff with more training and development to avoid future skills shortages. Employment among 16-24 year olds is inching up, but it still lags behind pre-economic crisis levels. Over 940,000 young people are currently classified as 'NEET' (not in education, employment, or training), which equates to 1 in 7 of all 16-24 year-olds.



Response

Apprenticeship schemes are helping to fill this skills gap across a number of sectors in England, by allowing businesses to harness fresh talent while enabling staff to develop specialist skills through on-the-job training.

Babington Group, founded in 1974, 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.

Theorising that expanding provision of quality skills training could be a high-growth, high-impact opportunity, Bridges first invested in Babington in 2009 through our Sustainable Growth Fund II.

The Bridges team, which has extensive experience of buy-and-build strategies, started by working with management to strengthen the senior team and the board. It then helped management to identify and execute two bolt-on acquisitions and supported them during the integration process. At the same time, Bridges initiated the development of the company's e-commerce strategy.

Throughout this process, we worked with the management team to identify and capture key impact performance indicators, including the proportion of students from underserved areas, the number of benefit claimants trained, and the number of previously unemployed students moved into employment.

Impact

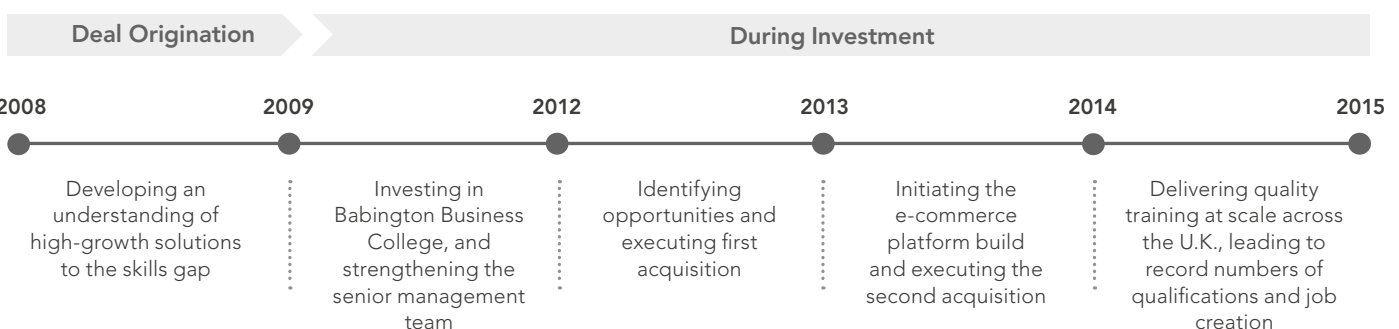
Since investment, Babington has supported over 32,000 learners, helping over 3,700 formerly unemployed people to find jobs. Babington now works with over 2,100 employers to source and support talent, and in the past year trained over 1,600 16-18 year-olds at risk of becoming NEET; nearly two-third of all students have come from underserved areas of the U.K.

Although Babington has grown substantially since our initial investment – revenues have increased eight-fold – it has been able to maintain a high-quality service: student satisfaction levels have remained consistently high, with 93% citing overall satisfaction (against a national benchmark of 85%), and employer satisfaction at 92% (against a national benchmark of 74%).

As the business has grown, it has also been able to provide employment opportunities directly: it has hired 66 of its own ex-students, while 13% of its total workforce was previously registered unemployed.

"The support from Bridges has enabled us to grow our brand and reach more learners, supporting them through key government programmes of either apprenticeships or traineeships. The investment and expertise from Bridges has enabled us to reach more individuals by utilising the e-commerce platform."

Carole Carson,
CEO, Babington Group



The Gym Group



Challenge

Inactivity leads to weight gain, which is linked to a vast range of health problems. In the U.K., a quarter of all adults are obese, placing increasing strain on the NHS. Regular exercise is one preventative solution, yet many exercise facilities are inaccessible or unaffordable to people on low incomes.



Response

The Gym Group was one of Bridges' first health and well-being thematic investments. Having explored the nascent low-cost gym sector in Germany and the U.S., we saw an opportunity to open low-cost gyms that could enable a much wider cross-section of people to exercise regularly. Finding nothing comparable in the U.K., in partnership with the successful entrepreneur John Treharne, who had had a similar idea, we incubated The Gym Group in 2007.

Fuelling both first-time users and increased usage, The Gym Group has been hugely successful – featuring for the third time this year on the Sunday Times FastTrack100. There are now over 60 gyms open in the U.K., offering membership at a quarter of the London average monthly rate. 24 hours 7 days a week, no-contract membership has enabled a greater cross-section of the U.K.'s population to exercise, with first-time gym users consistently making up one third of The Gym's membership since it opened its first site.

"Bridges has been a fantastic partner for The Gym Group, obviously partly financially but it's much more than that. They've enabled me to focus on managing and developing and finding great sites and rolling out fast by taking away a lot of the background pressures, right down to providing payroll support and producing management accounts."

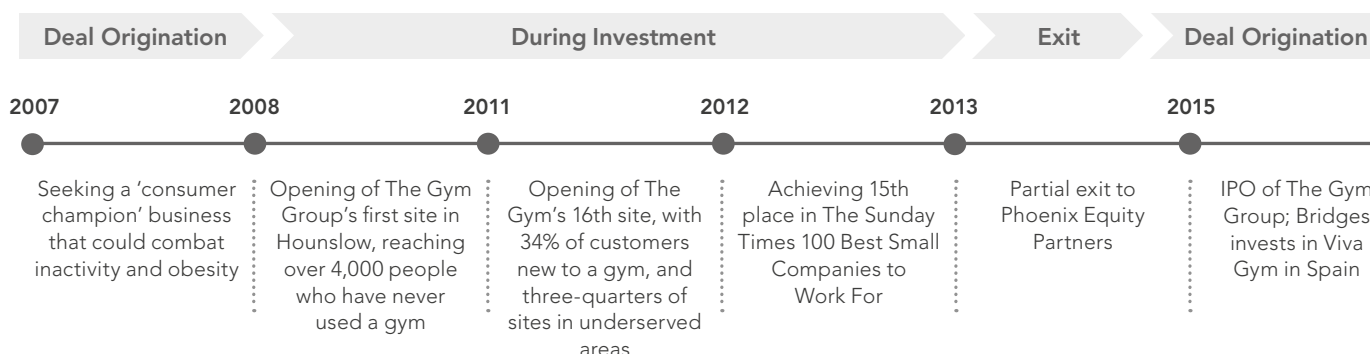
John Treharne,
Founder and CEO, The Gym Group

Impact

In 2013, Bridges sold its majority stake in The Gym Group to Phoenix Equity Partners. The test of our lock-step approach – seeking businesses in which commercial success is aligned with social outcomes – was whether the business would continue to serve a wide cross-section of society. And it has, with prices remaining at under half that of competitive health clubs as the group has expanded.

The low-cost gym concept has proven highly disruptive to the marketplace, enabling many more to exercise at low cost as a result of the competition that it has spawned; this potential for 'systemic impact' was a key part of Bridges' original impact thesis. The Gym Group's trajectory illustrates how societal needs can drive high growth, with the business listing on the London Stock Exchange in November 2015 at a £250m valuation.

Building on this experience, Bridges recently invested in Viva Gym, a low-cost gym operator in Spain with 16 sites. Pre-investment, we commissioned and pored over demographic data on existing and potential members, identifying an equivalent methodology to the Index of Multiple Deprivation we use in the U.K., enabling us to identify that the membership is reflective of the general population. Over one-third of joiners are from the bottom three socio-demographic bands in Spain. Similarly to The Gym Group, first-time gym users have made up one-third of new joiners since inception.



Case Studies: Property Funds

The Bridges Property Funds make investments in property and property-backed operating businesses that help to drive better social and environmental outcomes across our four impact themes – in a way that also creates attractive commercial returns for investors.

Thanks to our thematic focus, extensive regional networks and strong relationships with specialist joint venture partners, we have been able to identify off-market opportunities in emerging locations and niche but growing property sectors like healthcare, education and SME workspace.

In addition, our team’s asset management and sustainability expertise has allowed us to drive value within our portfolio through physical, environmental and operational improvements.

Edmund Street, Birmingham

Challenge

One of the biggest difficulties in reducing the U.K.’s carbon footprint is dealing with our existing building stock, the construction and operation of which (according to some estimates) currently accounts for almost half of all carbon emissions. By introducing sustainable features during a redevelopment, it is possible to benefit the environment, reduce energy costs and enhance the well-being of those working at the property.



2009

2010

2011

Developing regional relationships to source opportunities in niche, impactful sectors



Response

Evenacre, a specialist in the refurbishment and redesign of office buildings, approached Bridges in 2011 with the opportunity to significantly transform an underutilised but beautiful building located in the prime office core of Birmingham city centre. The area is in the top 3% of deprived areas in the U.K. We jointly acquired adjacent buildings at 158 and 170 Edmund Street, comprising 30,000 sq ft.

Through discussions with Evenacre, we identified a number of opportunities to enhance the building, including installing motion-sensitive lighting and solar photovoltaic panels. This would reduce the building's energy usage in order to minimise both the building's environmental footprint and the ongoing service charge for tenants.

"We're very design- and detail-orientated, but Bridges brought a new thought process about how to incorporate sustainability into buildings. They helped us open our eyes to the ways that sustainability can transform occupiers' thoughts and aspirations, together with the financial benefits that go with that."

Paul Jones,
Managing Director, Evenacre

Impact

The building works took twelve months, and once complete, the property was fully let within six weeks to a range of SME tenants.

The sustainability features improved the property's EPC rating from D to B, making it the highest-rated office unit in central Birmingham. This allowed us to deliver a forecast 44% carbon saving against baseline while significantly reducing occupational costs.

The property was sold in December 2014 to F&C U.K. Property Fund for £11.65m. It has since been named 'Best Refurbished/ Recycled Workplace' in the Midlands and East Anglia section of the British Council Offices' annual awards.

This positive experience of 'win-win' environmental refurbishment has encouraged Evenacre to look at sustainability in other properties, including another joint venture with Bridges – [6 East Parade](#) – a similarly vacant building currently being refurbished to a high sustainability specification for SME office space.

"The environmental features were very attractive. They're not just good from an environmental point of view but also for reducing the service charge. Doing good for the environment, doing good for the back pocket... It's a win-win."

Dan Smyth,
Tenant

Before Investment

2012

Engaging with joint venture partners to identify risk mitigation and value creation opportunities

2013

During Investment

2014

Executing win-win opportunities that align interests of tenants and investors

Exit

2015



Evans Easyspace, Nationwide

Challenge

Bridges has always been a big supporter of SMEs, across all our funds. SMEs are key to economic growth: they contribute disproportionately to job creation, drive local economic dynamism and stimulate innovation.

In the poorest communities, SMEs in particular struggle to access affordable office space. Bridges’ Property team identified an opportunity to re-configure underutilised properties in order to support this unmet demand.



Response

Acquiring the £84m Evans Easyspace portfolio in February 2015 was an opportunity to combine our previous experience in one investment. This was a group of 50 business centres offering a range of serviced office, light industrial and self-storage units, spread right across the U.K. (though with a concentration in the Midlands, North and Scotland, including 78% in underserved areas). There are nearly 22,000 workstations in the business centre elements, along with 1,420,000 sq. ft. of light industrial and workshop units.

We saw the opportunity to provide additional, higher-quality accommodation, supporting local business growth and employment. In addition, the flexi-lease arrangement enables the 2,000 SME tenants – ranging from sole traders to larger local businesses – to expand within the centres as their businesses grow.



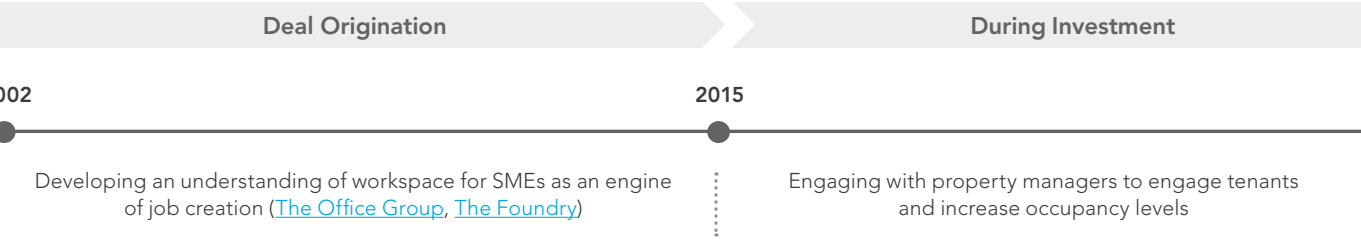
Impact

The primary impact goal is to support local job creation among SMEs by providing quality work space in underserved areas. By increasing office occupation from 77% to 85%, we could potentially support an estimated additional 400 office jobs, while increasing occupancy from 83% to 95% in the workshops could support another 200 warehousing jobs.

Together with Regus (who previously owned the portfolio and will continue to manage the properties), we are also identifying improvements in the properties’ environmental performance, installing energy-efficient lighting. These are expected to reduce energy usage, thereby reducing operating costs for tenants over time.

“The Easyspace business centres present a significant opportunity to increase occupancy levels through letting vacant space and increasing workstation density, thereby generating employment in local SME businesses in the underserved markets where the portfolio is concentrated.”

Tom Tyler, Investment Director,
Bridges Ventures



Picture House Court, Bristol

Challenge

The U.K. housing shortage is set to worsen, as the supply of new homes has consistently failed to keep up with demand. Building new housing stock is imperative – but so is building them in a more sustainable fashion, as energy from fossil fuels consumed in the construction and operation of buildings currently accounts for almost half of the U.K.'s CO₂ emissions. To compound the challenge, these sustainability features have to be constructed at a reasonable cost, to ensure the buildings remain affordable to buyers.



Response

Bridges undertook a joint venture with local developer Urbis Developments to develop nine apartments, 17 townhouses and a retail unit on North Street in Bristol – which is currently designated as the 'Green Capital' of Europe. Previously a bingo hall, the site had lain empty for three years.

Urbis had already identified the potential to build the homes to a high environmental specification, but after discussion with Bridges, we jointly saw the opportunity to develop the scheme to 'Passivhaus' standards. These buildings are constructed using conventional building materials but are highly insulated, so very little energy is needed to heat in winter or cool in summer. This rigorous energy efficiency standard and assessment methodology, which originated in Germany, had already been implemented by Bridges in the Sustainable Property Fund's care home in Brackley.

Given the unusual nature of the build and the fact that it was to be delivered across a mixed-use scheme, the challenge was to find builders who would agree to the contract without incurring a significant premium – particularly since the construction market was picking up at the time. A considerable effort was made by the joint venture partners to ensure the build could be both efficient and cost-effective. The ground works are now complete, with construction due to commence in February 2016.

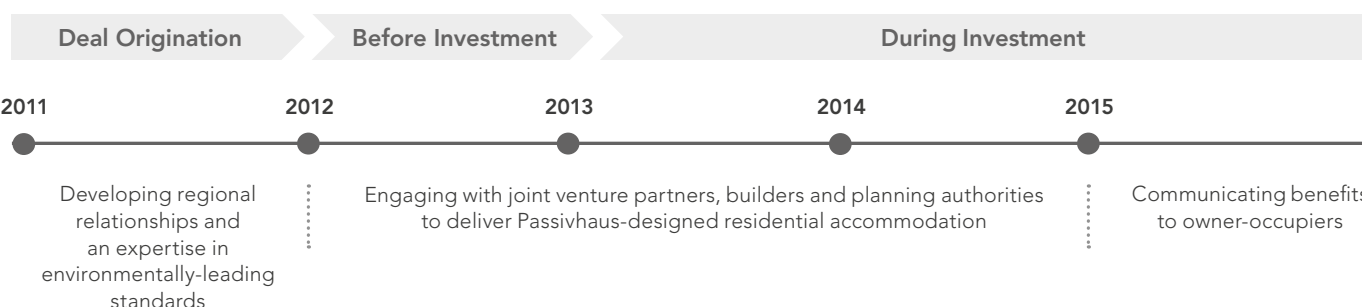
Impact

The scheme is intended to enable a 75% reduction in fuel costs, so the buildings will require just one-tenth of the energy normally needed to heat a conventional home. This will result in significant energy savings for the occupiers and a CO₂ reduction of at least 80% relative to the baseline.

The first phase of the development – the nine apartments – will be ready for occupation in October 2016. Demand is high, with all apartments pre-sold in one afternoon earlier this year. The houses are due to be delivered by early 2017. Collectively, the scheme is thought to be the largest low-energy development of its type across the South West of England.

.....
"Many people living in Bristol share an aspiration to live a sustainable life, not just because of the cost of energy, but also because they care about our environment. This development provides exactly the sort of homes people want. In European Green Capital year, this is the kind of legacy we want to leave."

Richard Clarke,
Managing Director, Urbis



Case Studies: Social Sector Funds

Our Sustainable Growth and Property Funds seek investment opportunities where the generation of impact is inextricably linked to commercial success.

However, a number of business models seek to 'lock-in' their impact in other ways, protecting their mission through their governance ('mission lock') or by balancing impact with a profit motivation by re-investing some or all surpluses for impact ('asset lock'). These locks, typically used by charities and social enterprises, can limit access to capital. Bridges' Social Entrepreneurs Fund was established in 2009 to address the funding gap faced by these impact-driven organisations as they looked to scale their trading activities.

But not all mission- or asset-locked organisations trade; sometimes the societal issues they address require either public sector funding or donations. Via social impact bonds, Bridges can support organisations like this that are delivering outcomes-based contracts for the Government on a 'payment by results' basis. Our experience has taught us that these investments – often made in partnership with others – require a considerable amount of the collaboration, hands-on engagement and managing for impact that has always been the hallmark of Bridges' approach.

HCT Group

Challenge

Disabled and elderly people lack access to public transport, which contributes to higher levels of social isolation. One in four disabled people cite difficulties in using public transport; 29% of working age disabled people cite it as a major barrier to employment.

The U.K. also continues to suffer from a lack of appropriate skills and training, with 22% of job vacancies going unfilled in 2014 as a result.



2009

2010

Identifying an opportunity to increase considerably the social impact of a leading social enterprise through investment in community services

Desi
instrum



Response

The HCT Group provides over 20 million passenger trips through its bus services every year. It operates commercial London red bus routes, yellow school bus routes and Park & Ride services, reinvesting its profits both to operate community transport services for those unable to use conventional public transport due to mobility difficulties, and to provide training opportunities for the long-term unemployed and people with few or no formal qualifications.

In 2010, HCT Group conducted a major fundraising round to fuel its growth, raising £4.2m from a consortium of investors led by Bridges Ventures. Our investment took the form of quasi-equity, with our return on investment set to increase (or decrease) in line with the organisation's turnover; this enables us to share risk and align incentives. Together, we set stretch targets over a five-year investment period to reflect both the societal impact and revenue growth sought, and worked with the senior team to support the group's rapid growth. Via our seat on the board, we helped the board to expand the executive team, secure funding for growth and develop their award-winning impact scorecard.

"Taken together with highly positive environmental metrics, we believe that our five-year performance shows what social enterprise and far-sighted social investment can achieve together for our communities."

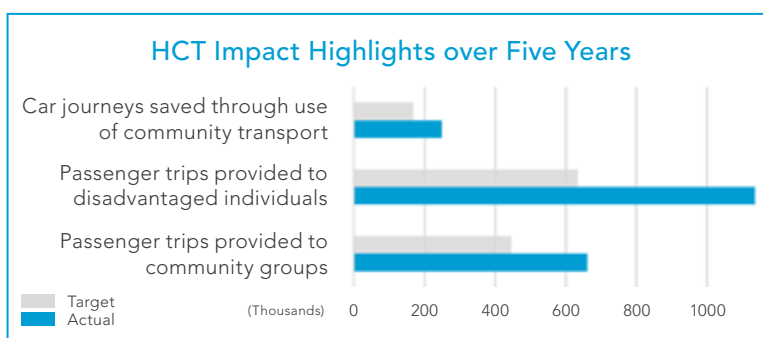
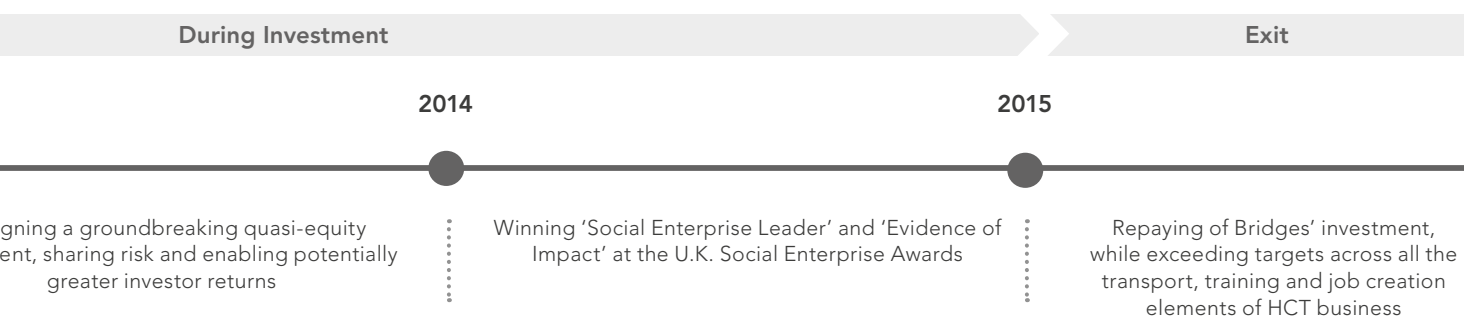
Dai Powell,
CEO, HCT Group

Impact

Over the past five years, HCT Group's revenues have grown by 83% – enabling it to deliver considerably more outcomes for its target groups. HCT delivers over 170,000 passenger trips per year to voluntary or community groups, which has saved over 245,000 car journeys since our investment. In 2014, HCT employed over 900 people, while 114 previously unemployed people obtained jobs as a result of the training or education it provided. Group transport trips have also exceeded target by 48%, and the number of trips for disadvantaged individuals has exceeded target by 79%. The Learning Centre has also exceeded expectations, beating its target for qualifications by 9.5%.

At the same time, HCT Group has been working to mitigate the environmental impact of its commercial contracts. Although its overall carbon footprint has increased in real terms due to the organisation's rapid growth, both CO₂-equivalent emissions (CO₂e) per passenger journey and CO₂e per kilometre driven were slightly lower year-on-year, thanks to various measures such as purchasing fuel-efficient vehicles, using ultra-low-sulphur fuels, a maintenance schedule that maximises fuel efficiency and better driver training.

HCT Group has now successfully raised a further round of social investment that will both provide capital for future growth and refinance our investment – which over the five years has exceeded all our original impact targets.



Children's Support Services

Challenge

Over half a million children are subjected to abuse in the U.K. each year. When a child is no longer able to live with a birth parent, they are put into the care of the Local Authority. On any one day across the U.K., 63,000 children are living with foster families. About 50% of these foster placements break down – and if a child's first placement breaks down, they are likely to enter a cycle of breakdowns that dramatically reduces their ability to form secure attachments.

It may also exacerbate existing behavioural and emotional difficulties – in which case, the child may end up being cared for in a secure children's home. These homes cost over £200k per year per place, and, research suggests, often lead to poor outcomes.



Response

Children's Support Services is a social impact bond (SIB) financed programme supporting troubled families, commissioned by Essex County Council. Backed by Bridges in late 2012, the programme (which is delivered by Action for Children, and performance-managed by Social Finance U.K.) delivers intensive support for vulnerable adolescents and their families through Multi-Systemic Therapy (MST), an evidence-based family therapy focused on improving parenting and rebuilding positive relationships.

If, following the therapy, the family can safely and positively stay together – as decided independently by Child and Family Courts – young people avoid going into care. If so, Essex County Council will provide payments to the programme for each day of care avoided, using the expected outcomes for this cohort as a control baseline.

MST is known to be particularly intensive work; therapists work in challenging situations and are accessible at all times – including weekends and overnight – by the young person and their families. The training and experience gained also means therapists are in demand, so may move on after a short period of time. In the first year of the SIB, high therapist turnover was proving disruptive to delivery – so Bridges' representative and fellow Board members of the MST SIB proposed and agreed to bolster therapist numbers, to ensure continuous coverage for the young people and their families.

A recent evaluation pointed to this development as evidence of the added value that the SIB structure offered, alongside the development of an Evolution Fund, a discretionary and flexible resource that will be used to sustain the positive outcomes of the MST intervention for families.

Impact

In its first year, 24 at-risk young people completed the programme, with 19 of those remaining with their families. To June 2015, 119 families have completed MST, avoiding thousands of days that children would otherwise have been placed in care – this currently represents a 65% improvement against the programme's baseline (the number of days a comparable cohort of children spent in care in Essex over a 30-month period prior to the SIB starting).

"The areas of added value to date [include] the continual engagement of SIB investors, beyond the initial investment [...] the added layer of support from the Board, including the flexible use of funding to achieve defined outcomes; pragmatic decision-making and a rigorous information and reporting system, focused on outcomes."

OPM's Evaluation of the Essex Multi-Systemic Therapy Social Impact Bond



Deal Origination

During Investment

2012

2013

2015

Understanding the potential, via a SIB, of improving life chances for young people on the edge of care

Backing Action for Children, an experienced provider of Multi-Systemic Therapy, to launch the programme, supporting 24 families in the first year

Increasing therapist retention, enabling more families to be supported

New Horizons



Challenge

Nearly one million 16-24 year olds are now classified as 'NEET' – not in education, employment, or training. For some, disengagement starts early on, while still in secondary school. Others fail to make the transition from secondary education to further education, training or jobs; this is a particular challenge for young people with learning difficulties or disabilities, and those in or leaving care. What's more, a period of being NEET has a high likelihood of leading to long-term unemployment as an adult.



Response

Career Connect is a charity providing career-focused guidance, advice and support across Greater Merseyside. Bridges worked with Career Connect in 2012 as it bid to deliver part of the Innovation Fund, a Department for Work and Pensions' (DWP) payment-by-results programme designed to prevent young people from becoming NEET. The bid was successful, with Bridges leading a consortium of investors funding Career Connect to engage with local schools, recruit young people to the programme, and work with them over a three-year period to improve behaviour and attendance, gain educational qualifications and enter employment.

Several developments were made as part of the programme. Career Connect adapted its existing educational model to focus specifically on drop-out rates, developing a 'Mental Toughness' course for the ex-offenders, young people in or leaving care, and those with learning difficulties requiring extra support. Originally, the programme relied on subcontractors – but analysis of the data highlighted underperformance, so Career Connect took on all aspects of programme delivery. These 'course corrections' were enabled at board level as a result of real-time monitoring and evaluation systems. These were supported by a performance manager from Triodos.

"Principally what we've learnt from the experience is how to use data to best effect. Investors have encouraged and required us to provide data at an almost granular level. There's been a real process of learning in that, so we've been able to capture what's working, where it's working and why."

**David Howard - Operations Director
/ Head of Labour Market Services,
Career Connect**

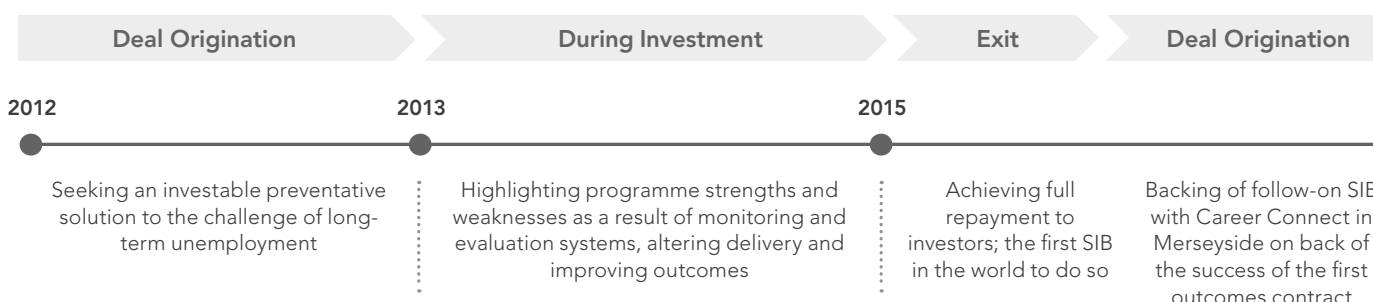
Impact

The contract completed in September 2015, having supported some 4,300 young people across Greater Merseyside to deliver 3,162 behavioural outcomes, over 3,000 attainment outcomes and 147 sustained employment outcomes. The positive results for this group greatly improve their future chances of success in life – they have a greater chance of continued employment, reduced offending and better health outcomes, both for them and their future families. This longer-term picture is being evaluated by the DWP, which will track whether any of the young people supported across the Innovation Fund receive future welfare payments, as an indicator of unemployment.

This SIB was one of two to repay investors in full, ahead of schedule, in March 2015 – the first in the world to do so. The programme has since been recommissioned – another global first for a SIB-funded programme – so it can support many thousands more vulnerable young people across 40 schools in the North West of England. Again, it will do so with backing from the Bridges Social Impact Bond Fund.

"It feels an entirely different programme to previous programmes. We focus on how many recruits are needed and the percentage conversion rate to outcomes, but in greater detail and depth and with a higher-quality evidence base. We now have a scaled, more impactful programme, with tools to forward forecast."

**Joe Linnane,
Programme Manager, New Horizons**



Awards

Our portfolio companies have enjoyed an award-winning year



The Foundry named 'London Building of the Year' at the Royal Institute of British Architects' annual awards



Edmund Street, Birmingham won 'Best Refurbished/Recycled Workplace' in the Midlands and East Anglia section of the British Council for Offices' annual awards



HCT won Social Enterprise of the Year at the EY Entrepreneur of the Year Awards



Babington Group won the 'Best Further or Vocational Education Provider' category at the EducationInvestor Awards 2015



The Gym Group and **Wholebake** were listed on Sunday Times Virgin Fast Track 100, The Gym Group for the third time



The Gym Group was voted as a 'National Champion' to represent the U.K. at the 2016 European Business Awards



Qbic Hotel won 'eMarketer of the Year' at the Adrian Awards and 'Outstanding Website' at the 2015 WebAwards



Wholebake won the 'Community & Environmental Action Award' for Wales in the BVCA Management Team Awards 2015



CloudIQ intern **Sakib Rahman** named 'Best Development Apprentice' at the JustIT Apprenticeship Awards 2015

B Corporations come to the U.K.

This September saw the official launch of the B Corporation movement in the U.K.

Certified B Corps are a group of for-profit companies that have explicitly committed to pursuing a social or environmental mission alongside their financial goals, and to taking into account the interests of all stakeholders when making decisions about the business.

There are now over 1,400 of these companies around the world, across a wide range of different industries and sectors. They include the likes of Warby Parker, the innovative glasses maker; Kickstarter, the crowdfunding platform; Natura, Brazil's biggest cosmetics group; and Patagonia, the ethical clothing brand.

We were delighted to be among the initial 'founder cohort' of around 60 U.K. companies this summer, after becoming the first U.K. fund manager to certify earlier in the year.

Although most B Corps are still based in the U.S., the proportion of non-U.S. B Corps is steadily increasing. This is partly thanks to the expanding footprint of B Lab, the not-for-profit organisation that oversees the certification process: founded in the U.S. in 2006, it now has six international offshoots, with B Lab U.K. and B Lab Portugal & Africa Lusophone becoming the latest additions this year.

We were pleased to support the B Corp movement by certifying because this is the approach to business we have taken ever since our foundation in 2002. Our hope is that the B Corp status can help to create greater awareness of the 'profit with purpose' approach – and help businesses of this kind to learn from each other.

In light of this, Bridges published a paper to coincide with the September launch. Entitled 'To B or Not To B', it is intended to provide an investor's perspective on the B Corp movement.

It begins by explaining exactly what certification involves, then goes on to examine whether B Corps represent an attractive investment proposition. It considers the extent to which B Corp certification can directly improve company performance and thus drive investor value – through competitive differentiation, improved resilience, best-in-class operating practices and stronger mission alignment, for instance. But it also looks at how the B Corp movement needs to develop in order for these benefits to be fully realised – particularly in terms of expanding the B Corp universe, taking the brand to a broader audience, and fostering collaboration within the community.

On the day of the U.K. launch, B Lab revealed that Anglo/Dutch consumer goods giant Unilever is to lead a working group that will explore how large listed multinationals (like Unilever) might be able to certify as B Corps; clearly the success (or otherwise) of this initiative will have a significant impact on where the B Corp movement goes from here. We will continue to watch this space with interest in the coming year.



Bridges Impact+

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.



The MBA Impact Investing Network & Training (MIINT) programme, run by Bridges Impact+ and the Wharton Social Impact Initiative.



Bridges
Impact+

Acknowledgements

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

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

Endowments, Trusts & Foundations: All Souls College, The Apax Foundation, Comic Relief, The Esmée Fairbairn Foundation, Golden Bottle Trust, John Lyon's Charity, Merton College, NESTA, The Green Room Charitable Trust, R&S Cohen Foundation, SHINE, The Highwood Foundation, Trust for London, Ceniarth Geraldine R. Dodge Foundation, Inc., Read Associates Employees Profit Sharing Trust

Corporate, Fund of Funds & Others:

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