Bridges
Fund Management

Annual Impact Report 2017

Capital that makes a difference

Contents

About Bridges

Bridges Fund Management is a specialist sustainable and impact investor, based in the UK and the US. We work with businesses, properties and social sector organisations to drive growth, deliver financial returns to our investors and create positive social and environmental impact, focusing on four themes: Education & Skills, Health & Well-being, Sustainable Living and Underserved Markets. Across our platform of funds, we are committed to providing **capital that makes a difference** – to our partners and to the wider world.

Our Funds

Sustainable Growth

Our UK and US Sustainable Growth Funds invest in ambitious growth companies that have identified a compelling commercial opportunity by responding to some of our most pressing social and environmental challenges.

Property

Our Property Alternatives and UrbanView funds invest in real estate opportunities where creating social or environmental value also allows us to unlock significant financial value.

Social Sector

Bridges Social Impact Bond Fund and Bridges Evergreen Holdings provide financial and operational support to mission-led organisations with high societal impact.

Bridges Impact+

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

Bridges Impact Foundation

Our Foundation makes strategic grants or investments to tackle challenges where investable solutions do not exist – for instance, by addressing gaps in market knowledge. It is funded by the Bridges team, who donate the equivalent of 10% of their profits from our funds.

Introduction

2017 has been a year of notable change and progress for Bridges, for other sustainable and impact investors, and for the development of the field more broadly.

For Bridges, 2017 marked our 15th birthday. During those 15 years, Bridges has gone from being a single fund investing in small early-stage businesses to become a multi-fund, multi-strategy, multi-regional manager. To reflect that progress, we decided to change our name: from Bridges Ventures to Bridges Fund Management. We think the new name is a better reflection of the breadth of the Bridges platform today, and the type of assets in which we're now investing.

The Bridges platform expanded again in June with the final close of Property Alternatives Fund IV, our latest specialist property investment fund. At £220m, the largest Bridges fund to date, and coming just two years after the close of Fund III, it underlines the growing investor interest in sustainable and impact-driven property investment. We're also seeing that in the US with Bridges UrbanView, our new real estate strategy, fostering healthy, vibrant urban communities.

Elsewhere, Bridges Evergreen Holdings, our pioneering permanent capital vehicle – which is designed to help mission-led businesses access patient capital from a values-aligned investor – made its first two investments, backing specialist care providers New Reflexions (p. 11) and Shaw healthcare. The Bridges Social Impact Bond Fund saw unprecedented activity levels, as Government commissioners increasingly recognise the value of outcomes-based contracting. Our Sustainable Growth Funds also enjoyed a strong year: portfolio company revenues grew at a record rate, while the team is seeing more businesses focused on impact in the belief that it will drive stronger and more sustainable growth (our recent investment Just Ask, p. 6, being a prime example).

The potential of businesses like these continues to attract others into sustainable and impact investing. TPG and Bain Capital made their first investments from their new impact-focused funds, while Palatine Private Equity launched its debut impact fund in the UK. Barclays announced its first impact investing fund of funds; UBS reported that over a third of its assets are now in sustainable investments; and a group of European institutional investors with combined assets of $2.8tn committed to investing in line with the UN Sustainable Development Goals.

It is great to see all these new entrants. It can only accelerate impact investing's move into the financial mainstream, and it underlines a point that we have long been making: that social and environmental impact is an important driver of performance and long-term value.

However, there is still so much to do. We cannot hope to tackle some of the enormous challenges facing people and the planet unless we unlock even more private capital, expertise and entrepreneurial flair, working in tandem with governments and civil society.

To this end, Bridges has been involved in two notable collaborations between different players in the impact universe during 2017.

In the UK, the National Advisory Board for Impact Investing brought together some key players in the field – plus other leading figures from finance, business and civil society – to think about how the UK can build a more inclusive and sustainable society. The NAB, which is Chaired by Bridges co-founder Michele Giddens – and supported financially by the Bridges Impact Foundation – put forward its initial recommendations in October (you can find them at *uknabimpactinvesting.org*).

Another important initiative this year has been the Impact Management Project, an industry-wide effort to develop a common convention for talking about and managing impact. Facilitated by Bridges Impact+, our in-house impact team, it has drawn on the expertise and insight of over 700 industry stakeholders over the last year. We're hugely excited about its potential to support the continued growth of the sustainable and impact investing field – by helping existing impact investors collaborate more effectively, and by enticing new investors into the field.

This year's report highlights some of the direct and systemic impact we've achieved across the Bridges funds (p. 4), Bridges Impact+ (p. 12) and the Foundation (p. 20) in 2017. There is also a special focus on the Impact Management Project (p. 13), in which we introduce some of the concepts that are emerging from this unique collaboration – and explain how they're helping to inform Bridges' own investment approach.

Thank you for all your support in 2017. We look forward to building on all these successes in the year to come!

– The Bridges Team

"There is still so much to do. We cannot hope to tackle some of the enormous challenges facing people and the planet unless we unlock even more private capital, expertise and entrepreneurial flair, working in tandem with government and civil society.

This Year's Highlights

What's been happening across the Bridges platform in 2017

35%
Annual revenue growth across the UK Sustainable Growth Funds' active portfolio

>£500 million
Capital now committed to our Property Funds in the UK and US

£55 million
Value now delivered to UK Government via outcomes contracts (as of September 2017)

Launch of **Bridges UrbanView**, our new US real estate strategy; it will take a similar approach to that employed by Bridges' UK property funds.

We change our name from Bridges Ventures to **Bridges Fund Management**, to better reflect the breadth of the Bridges platform.

Bridges
Fund Management

INSEAD Singapore becomes the first Asian campus to win the MIINT impact investing competition for business schools (which is run by Bridges Impact+).

Bridges Property Alternatives Fund IV closes at **£220m**, our **largest fund to date.**

JAN — APR — JUN

The Bridges Social Impact Bond Fund backs an innovative **Travel Training** programme for children with special needs in London, delivered by HCT Group.

Bridges Evergreen Holdings makes its first investment, in **New Reflexions**, a specialist care provider for children with complex needs (*see p. 11*).

The Bridges US Sustainable Growth Funds team backs **Impact Fitness**, a low-cost, high-quality gym group operating in Indiana and Michigan (*p. 7*).

Launch of **Birchgrove**, a new Property Alternatives Fund IV venture that will provide high-quality assisted living rental accommodation and care for the elderly (*p. 8*).

The UK Sustainable Growth Funds team achieves two successful exits, from **Qbic Hotel** and **Halo Insurance.**

The Bridges Social Impact Bond Fund backs a new programme to combat homelessness in Northamptonshire, delivered by the **Mayday Trust**...

Via the Sustainable Growth Funds, Bridges backs **Just Ask** (*p. 6*), a facilities management business that works exclusively with housing associations.

The Bridges Social Impact Bond Fund supports a new £1.8m programme intended to reduce **rough sleeping in Greater Manchester.**

JUL — SEP — DEC

The **Impact Management Project** publishes its consensus findings, agreed by over 700 practitioners globally.

...and the **Single Homeless Prevention Service**, designed to prevent single people in Brent becoming homeless.

The **UK National Advisory Board on Impact Investing** publishes its five recommendations on how to build a more inclusive and sustainable economy.

Bridges Evergreen Holdings invests in **Shaw healthcare**, an employee-owned care provider for the elderly.

Read more about our latest investments on pages 6-11
Find out more about the Impact Management Project on pages 13-19

Our Impact Themes

At Bridges, we seek out investable solutions to pressing societal challenges within four impact themes. We employ a variety of different strategies to deliver impact, and measure our impact performance across multiple criteria using our Impact Radar (*p. 12*). Below are a few headline numbers from the last year.

Challenge

Health & Well-being

3 GOOD HEALTH AND WELL-BEING

An ageing population and rising levels of obesity are putting unsustainable pressure on public health services

1 in 8 elderly people are not receiving the care they need, up 48% since 2010

More than 1/3 of US adults are obese

Education & Skills

4 QUALITY EDUCATION

There are young people in the UK and the US who are failing to achieve the qualifications needed to help them into employment.

40% of care leavers in the UK are NEET (not in education, employment or training)

41% of all low-income US students are not currently enrolled in after-school care

Strategy

Headline Numbers*

39,398 individuals provided with high-quality health and social care services

1.3 million hours of care delivered

59,955 first-time gym users across our portfolio

2,672 vulnerable young people achieved improved educational outcomes

1,347 young children received day care

4,200 US students enrolled in after school programmes

* These figures reflect the latest available impact data for our individual investments; some portfolio companies report to a March year-end, others to a December year-end. All results are global unless specified otherwise.

Alignment to the Sustainable Development Goals

Our themes are well aligned to the Sustainable Development Goals (SDGs). This year we have incorporated the SDGs into our sourcing process, using them to identify the goal and then the specific target within that goal we want to address. This allows us to focus in on a particular aspect of these global challenges and identify the impactful business models that are contributing to solving them.

Sustainable Living

11 SUSTAINABLE CITIES AND COMMUNITIES

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

The effects of climate change are becoming apparent. A huge reduction in greenhouse gas emissions is urgently required.

The UK needs to cut greenhouse gas emissions by 57% by 2030 to achieve its carbon target

Only 34% of US waste is currently recycled and composted

Underserved Markets

8 DECENT WORK AND ECONOMIC GROWTH

10 REDUCED INEQUALITIES

Income equality is a major issue within the UK and the US. The UK is now the 7th most unequal of the world's most developed nations.

30% of children in the UK are classified as living in poverty

44% of Americans don't have $400 on hand to manage an unexpected emergency

30,029 tonnes of CO_2 equivalent averted

>10,000 MWh of green energy supplied to our current portfolio

85% of waste produced during construction is diverted from landfill

50% of property investments located within the 25% most deprived areas in the UK**

>2,600 direct jobs supported across our UK portfolio companies, 33% of which are held by people in underserved areas

194 young homeless people placed into accommodation

** 90% of our property investments are located within the most deprived 50% of areas in the UK, or in European Assisted Areas.

Just Ask

Just Ask is a facilities management business that works exclusively with housing associations. Its longstanding focus on improving the lives of residents is helping it to win new contracts, driving annual growth of over 40%.

CHALLENGE

Housing association residents are more likely to have physical or emotional well-being issues than the UK average, and are less likely to be in employment or training.

STRATEGY

Just Ask provides facilities management services that help create better environments for housing association residents – which has a well-attested link to improved community and individual well-being. It also engages with residents via community projects and by offering direct employment and training opportunities. By doing so, it makes a tangible difference to residents' quality of life.

Operating mainly in South-East England, Just Ask employs around 450 people and serves over 50,000 homes (at investment). It has grown at an average rate of 40% per annum over the last three years, as more housing associations have been attracted to its social value focus.

Bridges is helping Just Ask further develop its social value focus, supporting its impact reporting and helping management to better articulate the social mission to staff, residents and customers. To this end, we have introduced a new incentivisation scheme that rewards social value alongside commercial performance.

JustAsk... For Service Excellence

Theme
Underserved Markets

Sector
Facilities Management

Fund
Bridges Sustainable Growth Funds

Location
South East England, UK

SDG Alignment

3 GOOD HEALTH AND WELL-BEING
8 DECENT WORK AND ECONOMIC GROWTH

8%
Percentage of UK population living in housing association homes

37%
Percentage of housing association residents in employment

40%
Average annual growth rate of Just Ask in the last three years

Impact Fitness

A high-growth gym operator in Michigan and Indiana, whose low-cost offering is opening up gym membership to a whole new demographic.

CHALLENGE

Physical inactivity causes an estimated 3.2 million deaths globally every year. Obesity, incidence of diabetes and high levels of chronic conditions remain a problem in the United States, particularly in underserved communities.

STRATEGY

Impact Fitness is a high-quality, low-cost gym group with 13 locations across Michigan and Indiana. It is one of the largest franchisee businesses in the fitness sector. With low monthly fees and flexible contracts, it already has more than 150,000 members – about 45% of whom have never been a member of a gym before. A franchisee of Planet Fitness, one of the leading gym chains in the US, it was named as the Planet Fitness 'Franchisee of the Year' in 2014, while its Southgate site was the first certified training center for the entire group.

Alongside our co-investors Bain Capital Double Impact, we are working with the Impact Fitness team to boost usage in underserved areas. We're also thinking about how to improve the long-term health of members, pioneering a set of health & wellness programmes that link gym usage with improvements in health outcomes. Our hope is that any successes we have will also have a systemic effect by influencing the rest of the Planet Fitness group.

IMPACT FITNESS

Theme
Health & Well-being

Sector
Fitness

Fund
Bridges Sustainable Growth Funds

Location
Michigan & Indiana, USA

SDG Alignment

3 GOOD HEALTH AND WELL-BEING

3.2 million
Number of deaths globally each year linked to physical inactivity

75%
Of US healthcare spend now goes on chronic disease

45%
Of Impact Fitness members have never been members of a gym before

Birchgrove

High-quality purpose-built 'assisted living' apartments for the elderly to rent

CHALLENGE

By 2039, there will be 9.9m people aged 75 and over in the UK, while one in 12 of the population will be over 80. Currently, there is a limited supply of supported accommodation available to older people who are looking to downsize; the availability of retirement living options relative to the over-80 population is substantially lower than in other developed countries. This is having a detrimental effect on housing market liquidity and is likely to increase the demands on primary and social care.

STRATEGY

Birchgrove is a new initiative launched by Bridges, with our long-time collaborator Castleoak as the exclusive development partner. The idea is to build brand new high-quality assisted living apartments for the elderly (typically 80+) as part of developments that will also include on-site care support as well as community and leisure facilities.

Unlike most assisted living developments in the UK, Birchgrove will work on a rental model, which we believe offers all the benefits of independence with none of the complications of home ownership. Construction is now under way at our first site in Sidcup, and there are several other sites in the pipeline across the South-east.

Loneliness and isolation are thought to increase the likelihood of mortality by over 25% in older people. By providing purpose-built assisted living units for rent in attractive developments, we believe we can help to address this challenge – while also alleviating some of the pressures on the National Health Service and the care home sector.

Birchgrove

Theme
Health & Well-being

Sector
Healthcare, Assisted Living

Fund
Bridges Property Funds

Location
Sidcup, Kent, UK (first site)

SDG Alignment
3 Good health and well-being; 11 Sustainable cities and communities

1 in 12
of the UK population will be aged 80 or over by 2039

33%
Of over-60s want to downsize (that's 4.6 million people in the UK)

35%
Carbon emissions savings over a standard new development

Spoke

A mixed-use development in Edgewood, Atlanta, which is transforming an under-used parking lot near the local MARTA station into a vibrant, sustainable neighbourhood

CHALLENGE

Atlanta has seen substantial economic growth in recent years, resulting in an influx of young workers and a gradual shift away from suburban living to dense, walkable urban environments with suitable public transit. But low and moderate-income neighbourhoods like Edgewood, which have historically been underserved, either remain underinvested and left out of economic growth or become rapidly gentrified.

STRATEGY

Spoke is a real estate project involving the construction of 224 new units of housing on the east side of Atlanta. It will form part of a larger 6.3 acre 'transit-oriented development' that aims to transform an underutilised parking lot adjacent to the Edgewood/Candler Park MARTA train station into a vibrant, sustainable neighbourhood – providing affordable and market-rate housing, community green space, and space for a local community organisation that serves disadvantaged populations.

Bridges UrbanView has committed c. $11m to finance Spoke, investing as part of a joint venture alongside experienced local sponsor Columbia Ventures. Phase 1 will include 10% affordable housing units, while the development will comprise a number of sustainability features such as low-flow plumbing, LED lights, fresh air ducting, storm water run-off reduction, and more.

spoke

Theme
Underserved Markets

Sector
Residential

Fund
Bridges UrbanView

Location
Atlanta, GA, USA

SDG Alignment
10 Reduced inequalities; 11 Sustainable cities and communities

224
Units of multi-family housing on vacant parking lot

6.3 acre
Mixed-use, multi-phase development to benefit tenants across range of incomes

9th
Largest metropolitan area; rapid in-migration is driving up housing costs

West London Zone

A pioneering programme that brings together Government, schools, social investors, philanthropists and local charities to support young people struggling at school

CHALLENGE

Around 800,000 16-24 year olds in the UK are now classified as 'NEET' – not in education, employment, or training. A period of being NEET can lead to negative long-term outcomes, including increased chances of subsequent unemployment and poorer health outcomes. The cost to society is also huge – potentially as much as £28bn over the next decade.

STRATEGY

West London Zone ('WLZ') is a registered charity running an innovative programme in the London boroughs of Kensington and Hammersmith. It works with schools to identify children who are struggling in school, then buys and manages services from local organisations to provide the personalised support these children need to thrive.

The programme is funded via a social impact bond, with Government, local schools and local philanthropists committing to pay for successful outcomes achieved, and Bridges providing up-front funding and support to help WLZ deliver the service.

The aim of the programme is to work with 600 children over a five-year period, helping them to improve their school attendance, behaviour and attainment – ultimately with a view to them getting better qualifications and moving on to further education, training or employment.

The Bridges Social Impact Bond Fund played a key role in bringing this project to life (impressed by the results of a small-scale pilot scheme WLZ had run locally, in which the students involved saw an average increase in their reading score of 28%). We worked closely with the WLZ team to develop their outcomes metrics and put the relevant contracts in place, and we continue to be actively involved in supporting them to deliver and improve the programme.

Theme
Education & Skills

Sector
Children's Services

Fund
Bridges Social Impact Bond Fund

Location
London, UK

SDG Alignment

4 QUALITY EDUCATION

17
Schools now working with WLZ (up from four on investment)

28%
Average uplift in reading score of children in WLZ pilot

600
Children to be supported over the 5-year programme

New Reflexions

A high-quality residential care provider for 'looked after' young people with acute behavioural, emotional and social difficulties

CHALLENGE

There are over 80,000 children in the UK who are currently 'looked after' by their local authority, and this number is steadily increasing, with a 6% rise since 2011. Around 10% of these children live in residential care – often because it's the most appropriate option for those with the highest levels of need.

STRATEGY

New Reflexions is a specialist residential childcare business providing accommodation, education and therapy for around 40 children with acute behavioural, emotional and social difficulties. The business has a strong reputation for quality and its ability to accept the most challenging placements. It has consistently demonstrated a commitment to and achievement of positive outcomes for children, in line with its mantra: 'never give up on a child'. New Reflexions aims to provide a safe and stable placement where others have failed and, in the longer term, prepare the child for adulthood and independent living.

This approach has helped New Reflexions become a market leader: the specialist school it operates is rated 'Outstanding' by Ofsted, as are more than 40% of its care homes (against a market average of 12%). It also makes New Reflexions very attractive to local authorities looking for quality residential care providers, creating a strong foundation for growth.

The investment from Evergreen will allow management to expand organically and via M&A into new areas of the UK, whilst maintaining New Reflexions' strong culture and focus on improving the lives of the young people in its care. We will also help management to strengthen their outcomes measurement, management and communication.

Theme
Health & Well-being

Sector
Children's Services

Fund
Bridges Evergreen Holdings

Location
Shropshire, Staffordshire, Powys and Gwynedd, UK

SDG Alignment

3 GOOD HEALTH AND WELL-BEING

>80,000
Number of looked-after children in the UK

10-15 years
Age of the majority of looked-after children

c. 40%
Of looked-after children have a behavioural disorder

Enhancing our Impact

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

A crucial part of our investment process is the work of Bridges Impact+, our in-house impact team.

In the first instance, Impact+ works with our investment teams to identify attractive sub-sectors within our four impact themes where investable solutions can be found. In the last few years, this has been instrumental to our work in lower-cost housing, the circular economy and social care, to name just a few.

When we identify a potential investment opportunity, Impact+ will then work intensively with management and our investment teams to identify potential impact opportunities (i.e. areas where a focus on enhancing social and environmental benefits can also drive better performance) and also potential impact risks (i.e. the likelihood of not achieving the desired impact).

This work ultimately feeds into our investment decision: each opportunity is evaluated against an 'Impact Radar', where we score these risks and opportunities in four separate areas (see diagram below). This helps us put together an individual scorecard for each potential investment.

Once an investment is made, Impact+ will continue to work with management to implement any new impact-related initiatives, track progress against the various agreed impact metrics, and analyse the results to inform our future investment strategy.

Building the wider market

Over the last 15 years, we've applied our impact-driven approach to over 120 different Bridges investments – using the lessons learned to continually adapt and improve our tools and methodologies. Impact+ looks to share some of this accumulated knowledge where we think it might be useful to the market, via third-party work and publications.

In the last few years, the sustainable and impact investing field has seen an unprecedented number of new entrants, attracted by the opportunity it represents. This is a hugely exciting trend, which is creating a much greater demand for that kind of knowledge. However, it presents some challenges, too. Notably: as these new entrants join the field, all with their own goals, metrics and methodologies, how do we maintain some degree of consistency? How do we make sure that everyone thinks and talks about 'impact' in a broadly similar way?

In our view, this is critical to the future success of the field. If we fail to get it right, there's a real risk that expectations may become misaligned and different actors along the impact value chain may end up disappointed.

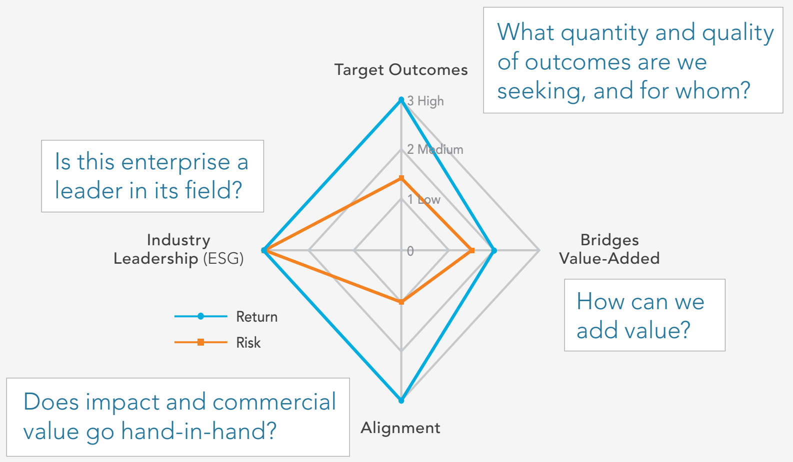
That's why in 2017 the key focus of Impact+'s external work has been facilitating the Impact Management Project: an industry-wide effort to agree on some common fundamentals for how we talk about and manage impact (p. 13).

The Bridges Impact Radar

We have learned to focus on four key criteria when we consider an enterprise's ability to generate positive societal change.

We consider it as important to understand the impact risk of an investment as it is to understand its potential for impact 'return'; so we score impact returns and impact risks in each of these four areas.

We also aggregate these scores at the fund level, so we can take a total portfolio approach to managing our overall risk/return profile.



The Impact Management Project

A collaborative, open-source effort by over 700 organisations, facilitated by Impact+, to agree a common convention for understanding and managing impact

The capital markets work, in part, because there is a widely-shared understanding of the dimensions we use to articulate our financial goals: risk, return, liquidity, and so on. This ensures that throughout the investment value chain – from customers or beneficiaries to businesses to investment managers to asset owners – there is no confusion about what each party is trying to achieve.

However, there has been no similar consensus about the dimensions required to articulate impact goals. This has led to an undue focus on impact measurement (the practice of understanding what impact is delivered) rather than impact management – the ongoing practice of understanding each other's impact goals, trying to meet them and then improving performance/ adjusting our goals as we learn what impact we're having.

The Impact Management Project aims to change this. Facilitated by Bridges Impact+, it is an unprecedented collaboration between some of the most prominent investors, funders and thought-leaders in this field – including Omidyar Network, Ford Foundation and BlackRock (see below).

Together, we set out to try and understand what impact means to different players in the impact value chain.

The first phase involved an extensive consultation process, soliciting the views of over 700 organisations across multiple sectors and geographies – from asset owners, to intermediaries, to entrepreneurs, to end-users.

Our aim was to build consensus around the core concepts of impact management. To this end, a group of 14 advisors met monthly; 20 contributing authors provided expertise, facilitation and content; and hundreds of partners offered input on existing frameworks and measurement techniques.

We're now into Phase 2, which will run through to September 2018 and focus on moving from conceptual agreement to practical application.

We're already starting to see some important practical applications emerge from the likes of UBS, Root Capital, Acumen Fund, Barclays and PGGM. We hope these tools will make it easier for asset owners to achieve their impact goals – and by doing so, attract more capital into sustainable and impact investing.

In the following pages, we introduce some of the key concepts and language emerging from the Impact Management Project, and show how this is informing our own approach.

IMPACT MANAGEMENT PROJECT
www.impactmanagementproject.com

The Impact Management Project is enabled by a diverse group of thoughtful funders, authors and other stakeholders:

Funders

Omidyar Network, Ford Foundation, UKaid, MacArthur Foundation, Anthos, Investment Managers, Big Society Capital, BlackRock, generation foundation, Heron, Leapfrog Investments, Mars, Neuberger Berman, PGGM, PIMCO, UBS, W.K. Kellogg Foundation, Hermes, The Case Foundation

Contributing Authors

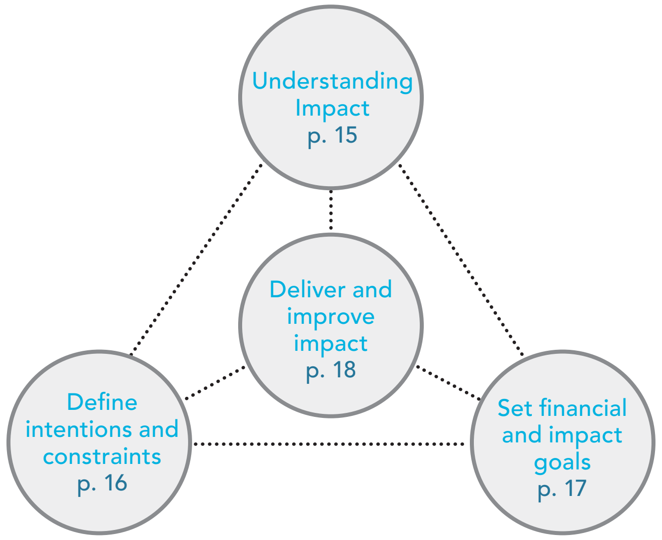
Acumen, Barclays, B Lab, CASE, Future-Fit Foundation, GIIN, Global Partnerships, Impact Investing Australia, impactt, nesta, NPC, Oxfam, root capital, Social Value International, Thomson Reuters Foundation, Tideline, tonic, VOX Capital

The Impact Management Cycle

The impact management process can be broken down into an iterative four-stage cycle, which different actors can enter at different stages.

Every enterprise, and therefore every investment, has an effect on people and the planet – sometimes in a positive way, sometimes in a negative way. Impact management means figuring out which effects are material – then trying to prevent the negative and increase the positive.

Impact management is an ongoing cycle of learning and improving. Guided by our understanding of the experience of people and planet, and by our intentions and constraints, we set impact goals and financial goals; then we put in place the governance and processes to deliver consistently on those goals. But we also continue to learn about the experience of people and planet, and use that information to adapt our goals and improve the material effects we can have.



An investor's perspective

It's important to emphasise that impact management is an *iterative* process. So the four parts of the cycle don't have to happen in a set order; in practice, different actors within the impact value chain may begin the cycle at different points.

In the case of Bridges, for example, our original starting point was effectively to define our intentions (to support entrepreneurial businesses in underserved markets) and constraints (e.g. the size and type of enterprise we were able to invest in, and the financial return we were seeking) – and set goals accordingly. We then worked hard to understand the impact of our investment activity, and used this insight to refine our delivery. Hence, for example, our impact focus broadened from Underserved Markets to incorporate Health & Well-being, Sustainable Living and Education & Skills.

This is likely to be true for many investors: they begin with an intention, which they translate into initial impact goals, and then seek to understand the impact they have so they can improve their approach and refine their goals. Or they might start with an intention to address a particular challenge, analyse all the available information about that challenge and set goals on the basis of that understanding,

For an enterprise, on the other hand, the first step might be to get a better understanding of the impact it's currently having, and then use that – in conjunction with its intentions and constraints – to set more specific impact goals.

This section is just a brief introduction to some of the key insights to emerge from the Impact Management Project*. For more detail, please visit *www.impactmanagementproject.com*

Understanding Impact

All impact can be articulated in terms of five dimensions. Collecting and then reflecting on this data informs our intentions and goals, and helps us deliver more impact.

Understanding how people and the planet directly experience impact is at the heart of impact management.

The Impact Management Project defines impact as "material effects experienced by people and planet, both positive and negative". The consensus to emerge from Phase One was that all effects can be understood across five dimensions (see diagram below); and that we need information across all five to understand fully and compare effects.

To understand which effects are material, we look at whether they relate to important positive or negative outcomes for people or the planet (**What**), how significant they are (**How Much**) and whether they occur for groups of people and/or the planet who are in need of the outcome (**Who**).

We then consider whether the expected effect – even if it is material and positive – represents an improvement on what would have happened anyway (across any of the What/ How Much/ Who dimensions). This helps us to estimate the **Contribution** of the enterprise or investor. Then the final dimension is about assessing the likelihood that the impact (as described across the other dimensions) will be materially different from our expectation (**Risk**). For instance, there might be a lack of evidence to support the strategy, or there might be a risk around execution, or there might be other external factors at work.

Together, these five dimensions of impact guide what data we need to collect about our performance – which in turn enables us to make decisions to improve our impact, adapt our strategy, or re-set our goals. The specific data that we use as evidence will vary, depending on what is most appropriate for the enterprise. But the Impact Management Project highlights the need to collect and learn from this information continuously – since the experience of people and planet may not reflect our intentions and goals (either because they don't experience the intended impact, or end up worse off).

	WHAT	HOW MUCH	WHO	CONTRIBUTION	RISK
Analysis	What outcomes does the effect relate to, and how important are they to people (or the planet) experiencing it?	How much of the effect occurs in the time period?	Who experiences the effect, and how underserved are they in relation to the outcome?	How does the effect compare and contribute to what is likely to occur anyway?	Which risk factors are material, and how likely is the effect different from the expectation?
Data	• Type of outcome(s) • Importance of outcome(s)	• Depth of effect in time period • Number of people affected in time period • Time period effect lasts for • Time taken for effect to occur	• Demographic data • Environmental data • Geographic data	Benchmarked performance across WHO, WHAT, and HOW MUCH	Risk factors, e.g. evidence risk

What we're learning

These five dimensions can be seen in the criteria Bridges uses to assess whether an enterprise is likely to deliver the impact we expect, which we score using the **Bridges Impact Radar** (to enable comparison across different themes; see p. 12). The Who, What and How Much align with our Target Outcomes and Industry Leadership categories; Contribution maps closely to our 'Bridges Value-Added' category, and Risk reflects the 'impact risks' we consider across the Radar (the remaining category on the Radar, Alignment, relates to considering financial goals alongside impact goals, which is also captured as part of the Impact Management cycle).

However, we are looking to see whether we can update the Radar to capture more of the nuance in the dimensions – for instance by incorporating more of the risk factors identified, or by taking a broader approach to understanding how a group of people is underserved in relation to a specific outcome.

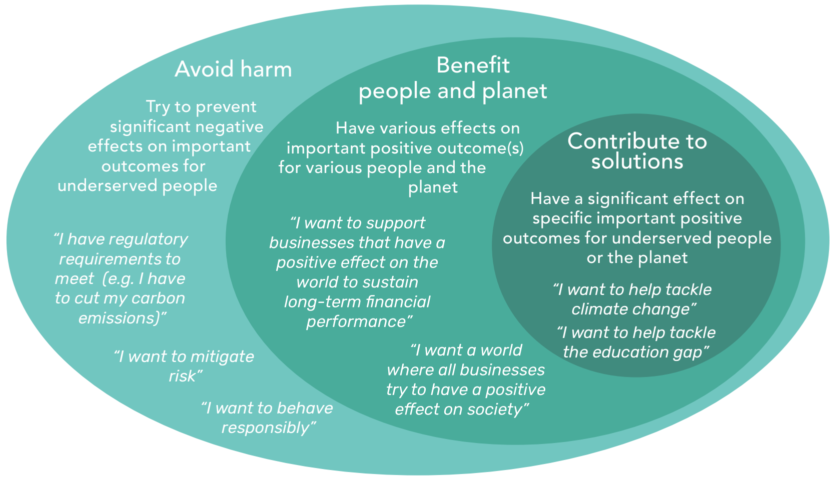
Another strong message that came out of the Impact Management Project was the importance of gathering direct feedback from the people who are experiencing impact, and then trying to involve all these stakeholders in decision-making where possible. As an investor, we always engage actively with our investees to understand their effects on all stakeholders, so we can try to improve the positive and reduce the negative. But in the future, we are keen to build more direct feedback loops into our impact management systems, to ensure that our analysis is rooted in the direct experience of beneficiaries or end-users.

Define Intentions and Constraints

Different investors come to investing with different ideas about what they want to achieve. These intentions will typically underpin their impact goals.

About 80% of the $100tn invested globally involves *no consideration* of impact* (or at least, no deliberate effort to minimise negative impact). Here, the investor's 'intention' is primarily to maximise financial returns.

However, an increasing number of investors these days aspire to more. They can be grouped into three broad categories: those who try to avoid harm to people and planet; those who want to avoid harm but also benefit stakeholders where possible; and those who, in addition to the above, also want to have a significant effect on specific important outcomes for underserved people or the planet. Where an investor sits on this spectrum will depend largely on their personal values and motivations, and their understanding of the challenges faced by people and planet.



At the same time, regardless of our intentions, the choices we make are often limited by certain constraints. For an enterprise, the constraint might be a legal or regulatory requirement, or the type of organisation it is, or its level of profitability, or where it's based. For an investor, the constraint might be the level of financial performance they are willing to accept, or the degree of liquidity they are willing to forego, or the level of engagement they are willing to undertake. This can result in a range of different investor 'contributions' , which typically reflect some combination of four investment 'strategies':

Investment Strategies

Signal that impact matters: choose not to invest in or to favour certain investments such that, if all investors took the same approach, it would lead to a 'pricing-in' effect by the capital markets.

Engage actively: use expertise and networks to improve the environmental/societal performance of enterprises.

Grow new or undersupplied capital markets: anchor or participate in new or previously overlooked opportunities that offer an attractive impact and financial opportunity. This may involve taking on additional complexity, illiquidity or (perceived) disproportionate risk.

Provide flexible capital: recognise that investing in certain types of enterprises will require acceptance of disproportionate risk-adjusted returns in order to generate certain kinds of impact.

INVESTOR'S CONTRIBUTION
Signal that impact matters + Engage actively + Grow new or undersupplied capital markets + Provide flexible capital
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What we're learning

As an investor, thinking about our intentions and constraints helps us identify new opportunities to expand our platform. At Bridges, our intention has always been to invest in solutions to pressing social and environmental challenges. But in the past, we have found that our existing strategies were constraining our ability to invest in a particular solution, or at the level of depth or scale required by the people in need.

For instance, our growth equity funds couldn't invest in social enterprises that had no shares to sell, or preferred not to exit by selling to a third party. Most recently, we also realised that using standard fund structures was constraining our ability to invest in (or remain invested in) mission-led businesses or social enterprises that were trying to tackle a societal problem over a longer-time horizon – because the fund term would necessarily force us to seek an exit. So we created **Bridges Evergreen Holdings**, a permanent capital vehicle that produces yield for investors via dividends and loan interest. With no requirement to seek exits, it can support businesses like New Reflexions (*p. 11*) over a much longer period.

* Source: The Global Sustainable Investment Alliance, 2014

Setting Goals

Using these shared fundamental principles, we can map and compare different investment products with different impact goals.

We set our financial and impact goals based on our intentions and constraints, informed by our understanding of the impact likely to be experienced by people and planet. The diagram below shows what this means for investors. An investor's impact goals are a function of the impact goals of the underlying business (framed here on the x-axis in terms of the five dimensions, and rooted in our intentions) plus the contribution that the investor makes to enable the enterprise to achieve those goals (on the y-axis). What this means is that we can map the landscape of available impact investment options, differentiating their impact based on the effects they have. This ought to make the various investment theses clearer, more realistic and more compelling; and it ought to enable more specific measurement of impact performance, rooted in the experience of people and planet. If adopted broadly, this shouldw facilitate better matching of capital supply and demand.

		Avoid Harm Try to prevent significant negative effects on important outcomes for underserved people	Benefit Stakeholders Have various effects on important positive outcome(s) for various people and the planet	Contribute to Solutions Have a significant effect on specific important positive outcomes for underserved people or the planet
IMPACT GOALS	WHAT	Important negative outcomes	Important positive outcomes	Specific important positive outcome(s)
	HOW MUCH	Marginal and for few	Various	Deep, and/or for many and/or long-term
	WHO	Underserved	Various	Underserved
	CONTRIBUTION	Likely same or better	Likely same or better	Likely better
	RISK	Various	Various	Various
INVESTOR'S CONTRIBUTION	Signal that impact matters + Engage actively + Grow new and undersupplied capital markets + Provide flexible capital	E.g. Ethical bond fund	E.g. Positively-screened/best-in-class ESG fund	E.g. Sovereign-backed bonds (secondary market) funding vaccine delivery to underserved people or renewable energy projects
	Signal that impact matters + Engage actively + Grow new and undersupplied capital markets + Provide flexible capital	E.g. Shareholder activist fund	E.g. Positively-screened/best-in-class ESG fund using shareholder engagement to drive performance	E.g. Public/private equity fund selecting and engaging with businesses that have a significant effect on health outcomes for underserved people
	Signal that impact matters + Engage actively + Grow new and undersupplied capital markets + Provide flexible capital	E.g. Anchor investment in negatively-screened real estate fund in a frontier market	E.g. Positively-screened infrastructure fund in a frontier market	E.g. Bond fund anchoring primary issuances by businesses that have a significant effect on environmental sustainability
	Signal that impact matters + Engage actively + Grow new and undersupplied capital markets + Provide flexible capital		**Bridges Property Alternatives Funds** **Bridges UrbanView**	**Bridges Sustainable Growth Funds**
	Signal that impact matters + Engage actively + Grow new and undersupplied capital markets + Provide flexible capital			E.g. Below-market charity bonds, or an unsecured debt fund focused on businesses that have a significant effect on underserved people
	Signal that impact matters + Engage actively + Grow new and undersupplied capital markets + Provide flexible capital			**Bridges Social Entrepreneurs Fund** **Bridges Social Impact Bond Fund** **Bridges Evergreen Holdings**

What we're learning

At Bridges, we have started to 'plot' both our goals and the contribution we make as an investor across each of our fund strategies (building on our previous work with the **Bridges Spectrum of Capital**).

Our overriding goal is to contribute to solutions for people and the planet, whilst also trying to reduce our negative effects. But our multi-fund platform gives us the flexibility to combine our financial and impact goals in different ways. Across all our fund strategies, we always signal that impact matters and engage actively with our investees, providing expertise and support to the management teams. With our Growth Funds, we contribute to solutions by supporting small and medium-sized businesses to deliver attractive financial returns alongside impact – sometimes by identifying opportunities that have been overlooked or where there is an under-supply of capital. With our Property Funds, it is more difficult to contribute to solutions at significant scale given their financial constraints; but they can still drive important positive outcomes for people and planet. With our pioneering Social Sector Funds, we combine our engaged approach with flexible capital provision – allowing us to support organisations that are helping underserved groups and might otherwise struggle to access the capital they need to scale.

Deliver and Improve Impact

By understanding the material effects we are having on people and planet, we can deliver impact more effectively.

Once we have set our goals – based on our understanding of the material positive and negative effects that will likely result – we then 'deliver', by putting in place systems that will enable us to act consistently on both our financial and impact goals.

Equally, contexts change; there may be other or more material effects we can contribute to or prevent. So we also 'manage' for impact by making an ongoing effort to learn about the experience of people and planet. That means engaging with an enterprise (or portfolio of enterprises, and using that information to adapt our goals and improve the material effects we have.

Widespread impact management in an organisation relies on a culture of data analysis, learning and decision-making. It is driven by everyone working in an organisation – from the sales teams engaging with customers, to human resource teams working with employees, to management teams making big decisions.

Improving impact in practice: Springboard Education

Springboard Education is a provider of high-quality after-school programs at public, charter and private schools in the US, administered by credentialled teachers. During the investment process, we looked to understand the potential impact of the business, we identified that in order to make the program accessible to families of all income levels, we needed to find alternative payment models.

After researching payment options, Bridges discovered an innovative opportunity to access funding for low-income families through local voucher programs. These individually-operated programs subsidise tuition for qualified families through funding from the Department of Health and Human Services. With Bridges' guidance, Springboard obtained a license to accept vouchers, and worked with its schools to achieve certification. Bridges also worked with Springboard to set up a process for identifying qualified families during registration and providing guidance to parents enrolling in voucher programs.

Today, 12% of Springboard families receive financial support through these voucher programs, with monthly tuition subsidies of up to 100% of the cost. During the 2016-2017 school year, while 75% of all Springboard students regularly attended the program, 100% of voucher students demonstrated regular attendance.

What we're learning

At Bridges we take a data-driven approach to the delivery and improvement of impact. We create the systems that allow us to collect data on positive and negative effects of the enterprise, and then use this information to pro-actively engage and inform strategy.

We have learned that good governance, data-collection systems and a culture of learning are critical success factors to improving impact performance. We work closely with the management teams of our investments, first to identify which operational indicators will best reduce impact risk and paint a picture of impact performance, and then to ensure this data is used to drive decision-making.

We are now revisiting how well the data we collect enables us to understand ongoing performance against *all five* dimensions of impact; both to drive better decision-making, and to ensure that we can communicate our progress towards these goals in a clear way to our investors.

We also collect data on the effects our investments are having on people and planet, outside of the core business model. We use B Lab's B Impact Assessment of Environmental, Social and Governance factors to help us identify what positive and negative effects are occurring for which material stakeholders. The output of this data collection process is quarterly reporting, which includes key impact performance indicators against targets, and then an annual impact scorecard, which captures a wider set of indicators that show impact on all material stakeholders.

This data also helps us identify where we need to mitigate material negative effects, and where there is potential for improvement. The Impact Management Project has underlined the importance of trying to minimise these negative effects. We are now reassessing how we engage with our companies on ESG factors, to see whether we can improve some aspects across our portfolio.

The Impact Management cycle in action

The Old Vinyl Factory, Hayes, UK

The Bridges Property Alternatives Funds have now backed four lower-cost housing developments in Greater London, in partnership with specialist developer HUB. Here we show how the different stages of the impact management cycle apply to these investments, with a focus on the first of the four schemes: the building of 243 lower-cost sustainable residential units at The Old Vinyl Factory, a regeneration site in Hayes situated near the new Crossrail Line into central London.

Intentions and Constraints

The Bridges Property Alternatives Funds invest in properties and property-backed operating businesses that are helping to address pressing social and environmental challenges within the Bridges impact themes – but can also generate attractive financial returns for our investors. Given this financial imperative (i.e. constraint), it is challenging to deliver lower-cost housing to the most underserved populations at significant scale – though we are constantly trying to innovate with materials and design to make housing more affordable.

Understanding Our Impact & Setting Goals

Over half of the capital invested by the Bridges Property Funds to date has been in developments that are helping to revitalise the most underserved areas of the country. In reviewing these investments, and analysing some of the challenges within our Underserved Markets theme, we identified the acute shortage of housing in London as a challenge we could address through the fund strategy. The population of London is currently increasing by about 100,000 people per year, and there are not enough new homes being built to house even half that number. At the same time, a number of areas of Greater London have suffered from the decline of local industry in the 1970s and 1980s, and are now in need of significant redevelopment and regeneration. In Hayes, we are working with an expert joint venture partner (HUB) who not only brings specialist knowledge, but is also aligned with our goals, which helps to ensure we deliver affordable solutions post-development. We employ a third party specialist to plan and monitor data collection as well as reporting on social and environmental effects. Below we show the expected impact of this investment – i.e. how we expect to benefit people and the planet – framed via the five dimensions:

		Property 'target outcome' goals*	THE OLD VINYL FACTORY		
			Community	Residents	The planet
WHAT	What outcomes does the effect relate to, and how important are they?	Regeneration, Remediation, Decarbonisation	Regeneration of a site derelict for 40 years with focus on providing long-term quality jobs	Access to lower-cost housing	Decarbonisation
HOW MUCH	How significant is the effect?	Depth and/or scale is sufficient; duration long-term, at varying rate	Effects are *deep* and *at scale*, providing over 4,000 new jobs on site and 1,200 temporary jobs in construction as part of the overall masterplan	Effects are *deep* but *not at scale*, providing reasonably affordable homes to c.800 people for a long period of time (43% of annual new dwelling target for the Borough)	CO_2 savings through passive and energy efficiency features are *marginal* but long-lasting (due to significant impact from embodied carbon in construction)
WHO	Who experiences the effect & how underserved are they in relation to the outcome?	Focus on 'more underserved' ** populations	*Underserved:* community with high levels of unemployment in comparison to the national average	*Served and underserved:* lower and middle income people in London; all dwellings for sale qualify for the Government's Help to Buy scheme	*Underserved:* planet is in urgent need of decarbonisation
CONTRIBUTION	How does the effect compare and contribute to what is currently available?	Better than what is likely to occur anyway	*Likely better:* Investors in phase I acting as a catalyst for the regeneration of the area with 2,000 weeks of paid local employment and apprenticeship	*Likely better:* land derelict for last 40 years; Bridges also managed to increase the number of units provided beyond original plans	*Likely better* than other development projects: beyond passive and energy efficiency features we have deployed new technology using cross-laminated timber to increase CO_2 savings
RISK	How likely that the outcome is different from what is expected?	Low to medium impact risk: site might not be used as exactly intended	*Low overall risk:* High levels of unemployment in the area in comparison to the national average	*Low to medium overall risk:* price point remains proxy for delivering depth of impact, as Bridges cannot control long-term management	*Low overall risk:* driven by building design, continuous project monitoring, experienced team, and external BREEAM/CSH assessments

Improving our Impact

We wanted to develop these units in a highly sustainable way, incorporating features that would save money for residents and reduce carbon emissions over time. Along with HUB, we identified an opportunity to use cross-laminated timber in the construction: this approach reduces building time and material wastage, ultimately offsetting our carbon footprint by over 1,600 tonnes per annum (we hope to promote its use more widely in the construction industry in the coming years). A key challenge of investing in properties that demonstrate environmental leadership in the construction phase is to try and ensure that the future residents (or tenants) will utilise the sustainable features to the fullest extent possible. To mitigate against this 'stakeholder participation risk' (to use the Impact Management Project risk factor), we are engaging actively with our service providers and the local community to facilitate more effective usage of these features beyond our exit.

* Bridges recognises that the enterprise has multiple material effects (positive and negative) on people and planet beyond the direct customer. Some of these effects are not covered above, but we are actively working to better measure and manage all of them.
** Bridges uses the UK Government's 'Index of Multiple Deprivation' (IMD) to measure and track how underserved the areas or communities are in which we invest.

The Bridges Impact Foundation

The Foundation was instrumental to the launch of Bridges Evergreen Holdings, the progress of the UK National Advisory Board, and the ongoing success of Unforgettable

Bridges was founded with a clear mission: to raise investment vehicles that target both societal and financial returns. The Bridges Impact Foundation (previously the Bridges Charitable Trust) has two key roles: to protect the mission of Bridges (via its 'golden share' in the management company) and to support social investment or philanthropic projects that fall outside the scope of our normal investment activity.

The Foundation – which is funded primarily by the Bridges senior team donating the equivalent of 10% of their profits from all our other investment vehicles – had a number of causes for celebration this year.

The first was the successful launch of Bridges Evergreen Holdings, a pioneering investment vehicle designed by the Bridges team to provide patient capital to mission-driven businesses and social sector organisations. The Foundation was a seed investor in Evergreen – just as it was in the Bridges Social Entrepreneurs Fund, another pioneering vehicle that has gone on to have substantial direct and systemic impact.

The Foundation has also been an active supporter of the UK National Advisory Board on Impact Investing, a non-governmental body featuring leading figures from the worlds of finance, business, Government and civil society that set out to answer a critical question: how do we build a more inclusive and sustainable economy in the UK? The Foundation helped to fund a full-time secretariat to support the Chair (Bridges co-founder Michele Giddens) as the NAB worked towards its initial recommendations. When these were published in October, over 200 people attended the launch event at London's Guildhall – underlining the huge amount of interest in this field, across the City of London and beyond.

Another highlight for the Foundation in 2017 was the latest success of Unforgettable, an award-winning business that provides products and support for people struggling with dementia. The Foundation provided seed funding to Unforgettable in 2014, enabling founder James Ashwell to incubate his start-up idea (in the Bridges office). The business went on to raise capital from Impact Ventures UK in 2015, and this year, it raised a further £2.25m in a funding round led by McKesson Ventures, the VC arm of the largest healthcare company in the US. That means the Foundation's initial seed funding has effectively crowded in nearly £4m of additional investment.

We also have an equivalent foundation supporting our work in the US (this year re-launched as the Bridges Impact Foundation US), which channels philanthropic funding to a number of projects closely aligned with Bridges' mission. That includes the Impact Management Project and also MIINT (MBA Impact Investing Networking & Training), a distance-learning course designed to give MBA students a hands-on education in impact investing. This year's MIINT programme attracted a record number of students, drawn from some of the world's leading business schools. It culminated in a pitch competition at the Wharton Business School in April, which was won by a team from INSEAD Singapore (the first ever non-US winners).

As more of the Bridges funds enter the realisation phase, the Foundation's resources are likely to increase. So the Trustees are actively exploring how they can use this additional firepower to support the causes that they and the broader Bridges team care most about.

Launch of the UK National Advisory Board on Impact Investing report

James Ashwell, Founder of Unforgettable

LEYF, a childcare social enterprise, backed by the Bridges Social Entrepreneurs Fund

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