

## Sustainable Investment Policy

Bridges Fund Management Limited and the members of its group (together, “Bridges” or “we”) seek to promote responsible and sustainable standards in the businesses, buildings, and social sector organisations in which we invest. Through careful analysis of the social and environmental outcomes that are important where we operate, we identify investment solutions that support the transition to a more inclusive and sustainable economy. We are driven by a clear conviction: that building a better future for people and the planet is also a unique opportunity to create lasting economic value.

Founded as a specialist in sustainable and impact investment, Bridges was one of the first fund managers in the world to launch an impact-driven investment fund. Since then, we have pioneered multiple investment products to channel private capital into impactful businesses, property, and social outcomes partnerships. Our platform of strategies enables us to share what we learn about each of our priority outcomes between our different investment teams, which helps us identify the best investable solutions in each case.

As a result of over 20 years of experience considering both purpose and profit, our team has a deep understanding of the relationship between an investment’s profitability, and its impacts on sustainability and inclusivity. We are proactive partners who use our role as hands-on investors to share expertise with our partners so that, together, we make informed decisions. We believe this integrated approach builds more resilient, future-proofed companies, buildings, and social sector organisations.

Our mission has instilled a culture of learning and transparency that is critical to our ability to execute on our strategy. This document outlines the fundamentals of our investment philosophy and shares its practical application throughout our investment process. As pioneers of impact management, we work to encourage our partners, and peers in the industry to adopt this way of thinking and to challenge us to keep improving.

### **Bridges’ investment philosophy**

Bridges’ investment philosophy is founded on the recognition that the sustainability of a business directly affects its long-term profitability and value. We define a sustainable business as one that neither borrows from its future earnings nor future generations. Through the resources it uses, the products or services it sells, its labour practices and interactions with the local community, a business is creating or eroding value for stakeholders. Many of these impacts, in turn, affect the business’ ability to generate value for shareholders. Bridges has been pleased to see the increasing awareness of the inherent connection between these forms of value, with the growth of ‘sustainable’ or ‘ESG’ investing.

But at Bridges, our ambition goes one step further. We believe that treating stakeholders fairly creates long-term financial value and resilience, but we also select investments whose practices, products and services have the potential to scale solutions to social or environmental challenges in lockstep with their revenue:

- In our Growth Funds and Evergreen strategies, we scale high-quality, sustainable businesses run by mission-aligned, long-term orientated management teams
- Through incorporating sustainability into the design and development of buildings in our Property strategy, we create future-proofed assets that respond to local needs and regenerate underserved locations
- As pioneers of Social Impact Bonds (now Outcomes Partnerships), we have built a replicable approach to designing, performance managing, and scaling delivery of critical public services in partnership with both governmental and non-profit outcomes payers.

With this integrated lens, we spot both opportunities and risks that others may not, and we have built up a successful track record of transferring this expertise and culture to the management and delivery teams we work with.

## Bridges' investment approach in practice

Our policy describes our four goals in detail, and how our integrated processes enable achievement of these goals for each of our investment strategies.

### Our goals

As an investor we aim to make the biggest possible contribution to delivering important, positive social and environmental outcomes at scale. Our strategy is founded on four goals:

#### 1. Deliver important outcomes across four themes

As a specialist fund manager dedicated to delivering sustainable impact, we create value for both investors and society by investing in opportunities that help meet pressing social or environmental challenges. Across all our strategies, we are guided in our sourcing by four broad themes which group outcomes that we believe are central to building a more inclusive and sustainable economy, and thereby also represent compelling investment opportunities. Closely aligned with the Sustainable Development Goals, these four themes reflect social and environmental mega-trends that are re-shaping our world: Healthier Lives, Future Skills, Sustainable Planet and Stronger Communities.

Within each theme and target geography, we aim to target the most important outcomes that are also addressable through a range of investable models. For example, in the UK, within Healthier Lives, we have assessed the availability of opportunities to improve nutritional value of school meals, reduce the NHS burden through social prescribing interventions, and widen access to affordable fitness facilities to tackle rising obesity.

If a business has the potential to deliver one or more of our target outcomes hand-in-hand with revenues, this becomes the investment's core impact thesis. For our Outcomes Partnerships, this takes the form of working to structure well-aligned outcomes payment mechanisms. We work closely with management/delivery teams throughout each investment's lifetime to optimise this impact.

The alignment of the core impact thesis with the business model, or payment mechanism, is stress-tested through diligence by assessing available information across our diligence framework. This framework takes the form of specific fund-level goals set across each of the five dimensions of impact. This analysis helps us assess whether the investment is a good fit with the goals of the fund and what information we need to collect to reduce impact risk (see Table 1).

#### 2. Build sustainability leaders

In addition to considering the core impact thesis, we recognise that every investment has the potential to generate many other positive and negative outcomes for society and the environment. We take each of these potential outcomes – sometimes framed as environmental, social and governance (ESG) factors – into account to understand an investment's total impact.

We assess the sustainability of all investments both in terms of meeting a minimum bar against some foundational environmental, social and governance requirements, and we look for opportunities to enhance the sustainability – and financial - performance of investments through delivering further positive outcomes for society and the planet.

Across all our strategies, we will not invest in businesses that:

- do not respect human rights;
- do not comply with current environmental and social legislation;
- have no proposals to address defined future legislation;
- do not seek to comply with their industry standards; or
- have core business activities involving the production of and trade in tobacco and alcohol,

weapons and ammunition of any kind, casinos and equivalent enterprises, or pornography (“Excluded Activities”).

Through diligence, we also seek out management/delivery teams that share our vision and code of conduct (as outlined in our Ethical Charter). Further details of how we incorporate sustainability impact management into our investment process are set out under “How we deliver against our goals” below.

### 3. Deliver attractive financial returns

We look to generate attractive financial returns for all of our investment strategies. We are able to achieve these returns alongside our impact goals, as we have a deep understanding of the relationship between commercial and impact performance. We believe our investments succeed because of our impact lens, not in spite of it.

### 4. Pioneer and share what we learn

We seek to promote the benefits of integrating sustainability into how businesses operate. We have been a UN PRI signatory since 2009 and a Certified B Corp since 2015 and we are a founding member of the B Corp movement in the UK. In 2022, we signed up to the Net Zero Asset Managers Initiative (NZAM) to collaborate with our peers on climate action plans.

We also play an important role in the growth of the sustainable and impact investing sector more broadly. Two previous examples include our participation in the G7 Taskforce and facilitation of the Impact Management Project. Our team also provides pro-bono training through industry associations and business schools.

We also recognise that we are all on a journey to learn how to make the capital markets work for everyone, while protecting our planet. We commit to regularly updating this policy to reflect what we have learned and welcome feedback on how Bridges can continue to shape the future of investment.

In this spirit, below we have summarised our goals and outlined our approach below in more detail.

## How we deliver against our goals

*The actions below – based on the consensus agreed between standard-setters through the [Impact Management Platform](#) – represent the core features of our integrated impact management process, which is based on internationally agreed principles and standards (e.g. OECD Responsible Business Conduct for Institutional Investors).*



#### 1. Source and select

Our impact-driven sourcing approach guides us to opportunities that are likely to meet our impact and commercial objectives. We do this by building a deep understanding of the social and environmental outcomes needed in our markets and identifying sectors that are critical to the delivery of these solutions. We then identify investible opportunities in these target sectors.

To ensure that we select mission-aligned partners who share the ambition to manage both impact and financial performance, we carry out a thorough due diligence process against all aspects of our investment thesis.

## 2. Assess impact performance

To ensure that we are supporting our partners to deliver outcomes in line with our goals, we incorporate rigorous impact measurement at every stage of our investment process.

Core impact: At diligence, and then subsequently at regular intervals, we collect performance information against the goals set for our core impact thesis (against the 5 dimensions of impact). The set of key performance indicators (KPIs) tracked are therefore tailored to each investment, with a focus on ensuring the information collected is decision-useful for all parties. This information is analysed alongside financial performance indicators to inform integrated decision-making, and targets are set for the forthcoming period. Once a year, we re-visit and review our impact value creation priorities with each company.

Where possible we use existing corporate disclosure standards (ISSB, GRI) to ensure the business is collecting comparable data, and to prepare them for their next stage of growth preparing integrated sustainability reporting to a wider set of stakeholders. Where disclosure standards do not yet exist for a specific impact (e.g. for specific educational outcomes), we work with each investee to determine the most appropriate KPIs. We may change these KPIs as we learn more about the business model and the drivers of performance.

Identifying risks of harm: During diligence, we check whether all expected policies and procedures are in place to ensure good governance and where there are gaps, we work to install best practices once invested.

During diligence, and on a yearly basis, we identify all significant potential or existing negative impacts of each company – defined as those outcomes caused by the company, where performance is outside the boundary that is considered 'sustainable' by best-available science, widely accepted research, or the affected parties themselves. For our Article 9 funds, these impacts also include adverse impacts on the 'sustainability factors' defined by the European Union Sustainable Finance Disclosure Regulation (SFDR) regulatory technical standards.

Identifying positive outcomes: During diligence, and on a yearly basis, we also identify all potential or existing positive impacts that each company has on its stakeholders – defined as those outcomes caused by a company where performance is within the boundary that is considered 'sustainable' by best-available science, widely accepted research, or the affected parties themselves. We are experts in understanding how improving outcomes can also drive enterprise value-creation.

We constantly review our measurement approach to ensure we stay ahead of the market and use emerging global standards; this also helps us ensure our investors can meet their own regulatory requirements with the information we provide.

## 3. Set targets

Having identified all significant positive and negative impacts, we create an action plan in partnership with management/delivery teams for ongoing management and track progress at regular intervals. We aim to set meaningful targets to guide progress towards better outcomes, aiming to achieve truly 'sustainable' performance on each KPI by exit, where possible.

Performance against targets is reviewed quarterly at board meetings with investee companies and at our own portfolio review meetings. We make sure to review these targets regularly, taking into account available societal and ecological thresholds to ensure the level of performance we are aiming for is as ambitious as possible.

Investment-level performance also informs the targets we set at portfolio-level. Across our strategies, we aim for a certain level of performance for common impacts, such as carbon intensity, diversity, living wage, and attrition rate. Taking a portfolio view enables us to identify underperformers, and allocate resource as needed.

#### **4. Act to enhance value and manage impact risks**

From pre-investment through to exit, our dedicated impact and value-creation teams provide hands-on support to management teams. These teams bring deep expertise across a range of areas, including: experience building strong management/delivery teams, expertise on measuring and delivering outcomes across our four themes, and expertise managing commercial and impact goals in an integrated way. This approach gives us a proven ability to support our investments to meet all commercial and impact goals.

Prioritising activities correctly is a critical part of performance management. To help us with this, we routinely assess the level of impact risk we are taking for each investment and across each portfolio. Our impact risk assessment is a critical tool for establishing the completeness and accuracy of the information we have about a company's impact performance and helps us identify priorities to fill information gaps.

Over the course of an investment, we look to increase our confidence in the data we have, to reduce the risk that impact is not occurring as expected. Our first step is always to embed an integrated impact management process for each investment and to continue to improve it. We expect to achieve low levels of impact risk for each investment by exit, except in specific circumstances (for example, where we are driving innovation).

We work closely with companies with the aim of ensuring that any significant negative impacts on customers, employees, suppliers, communities, or the natural environment are being identified, mitigated and managed. Where a company has directly caused or contributed to any actual significant adverse impacts, we work with the company on remediation and future prevention. We monitor these efforts through regular communication with companies and collecting KPIs on any identified significant adverse impacts. Progress is reported and reviewed regularly at company board meetings and at our own portfolio review meetings.

#### **5. Disclose and stay accountable**

All sustainability performance information is provided to investors alongside financial performance information, and our processes are also shared publicly to illustrate alignment with best practice standards and principles. We also regularly submit to UN PRI's investor reporting and assessment platform to benchmark ourselves against our peers.

Through regular performance reviews, all Bridges professionals are assessed on how far they exhibit the firms' values, implement the firm's investment philosophy, and deliver performance on impact objectives. Employees are responsible for carrying out their work in accordance with this policy and fund-specific processes and have access to training to continue their education on sustainability and impact investment as the field evolves. Every professional is responsible for ensuring the investment management services are executed with integrity, adhering to firm, sector, and regulatory policies, standards, and disclosure requirements.

The Bridges Fund Management Board is responsible for this Sustainable Investment Policy, alongside our Sustainable Property Policy and Ethical Charter, and for seeking external expertise to inform these policies and the Ethical Charter as required. The Directors on the Board are responsible for ensuring that we do all in our power to conform to the letter and spirit of these policies and the Ethical Charter.