

PROFILES OF INVESTOR SYSTEMS AND RELATED APPROACHES

BRIDGES FUND MANAGEMENT (BRIDGES)

Asset manager: Responsible/impact investment specialist * Headquarters: United Kingdom * AUM: US\$900 million (2015)

AT A GLANCE

Bridges is an impact investment firm with a strong emphasis on assessing the impact of its investments on environmental and societal systems and issues. Its approach is based on its proprietary Impact Radar system, which scores prospective and ongoing investments along four dimensions: target outcomes; additionality; environmental, social, and governance (ESG) factors; and alignment. It uses a theory of change to identify key performance indicators relevant to each investment and tracks performance according to these indicators each year using its Impact Scorecard.

TOOLS OF INTENTIONALITY

- | | |
|--|---|
| <input checked="" type="checkbox"/> Additionality | <input type="checkbox"/> Polity |
| <input type="checkbox"/> Diversity of Approach | <input checked="" type="checkbox"/> Self-Organization |
| <input type="checkbox"/> Evaluations | <input type="checkbox"/> Solutions |
| <input checked="" type="checkbox"/> Interconnectedness | <input type="checkbox"/> Standards Setting |
| <input type="checkbox"/> Locality | <input type="checkbox"/> Utility |

ON-RAMPS

- | | |
|--|--|
| <input checked="" type="checkbox"/> ESG integration | <input checked="" type="checkbox"/> Long-term value creation |
| <input checked="" type="checkbox"/> Impact investment | <input type="checkbox"/> Universal ownership |
| <input checked="" type="checkbox"/> Investment stewardship | |

ASSET CLASSES INTEGRATED INTO

- | | |
|---|---|
| <input type="checkbox"/> Fixed income | <input type="checkbox"/> Public equities |
| <input type="checkbox"/> Infrastructure and real assets | <input checked="" type="checkbox"/> Real estate |
| <input checked="" type="checkbox"/> Private equity | <input type="checkbox"/> Venture capital |
| <input type="checkbox"/> Other | |

YEARS INTEGRATING

Bridges Fund Management has been integrating environmental and societal system considerations into its investment activities for **15 years**, since it launched in 2002.

SYSTEMS & THEMES FOCUSED ON

- | |
|---|
| <input checked="" type="checkbox"/> Environmental |
| <input type="checkbox"/> Biodiversity |
| <input type="checkbox"/> Climate change |
| <input type="checkbox"/> Natural resources |
| <input type="checkbox"/> Oceans |
| <input checked="" type="checkbox"/> Renewable energy |
| <input type="checkbox"/> Sustainable land use |
| <input type="checkbox"/> Waste management and pollution |
| <input type="checkbox"/> Water |
| <input type="checkbox"/> Other |
| <input checked="" type="checkbox"/> Societal |
| <input checked="" type="checkbox"/> Consumer health and safety |
| <input type="checkbox"/> Corporate governance |
| <input type="checkbox"/> Corruption |
| <input checked="" type="checkbox"/> Employment, labor rights and working conditions |
| <input type="checkbox"/> Food production and security |
| <input type="checkbox"/> Human rights |
| <input checked="" type="checkbox"/> Income inequality and financial inclusion |
| <input type="checkbox"/> Infrastructure |
| <input type="checkbox"/> Social equality and diversity |
| <input checked="" type="checkbox"/> Education |
| <input type="checkbox"/> Financial |
| <input type="checkbox"/> Shareholder rights |
| <input type="checkbox"/> Stability |
| <input type="checkbox"/> Transparency |
| <input type="checkbox"/> Other |

TOOLS OF INTENTIONALITY: THE BRIDGES "TIIPING" POINT

Bridges uses the tool of **Additionality, Interconnectedness, Self-Organization** and **Standards Setting** to address the system-level challenges of consumer health and safety, income inequality, access to health care and renewable energy.

- As described in the "About" section of the profile, Bridges has developed a sophisticated set of tools for assessing not only outcomes, but areas of need and high-impact opportunity that provide context for these outcomes in order to tackle the challenge of impact measurement. These include not simply creating jobs, increasing spending in the local economy, or improving access to health care, but doing so intentionally in historically underserved communities while promoting sustainable living. In undertaking these investments, it assesses upfront the potential for its investments to add value to local systems in this way. It calls this consideration “**additionality**” when, if not for Bridges’ particular initiative, these investments would not have been undertaken and this value would not have accrued to the community.
- As described in the "Other activities" section of the profile, Bridges completes research projects that further the pool of system-related resources (**Interconnectedness**) and thereby builds a foundation for impact investing through its educational role.
- As described in the "Other activities" section of the profile, Bridges contributes to an impact assessment and measurement infrastructure (**Self-Organization**) that serves to strengthen the financial community's ability to address system-related challenges.
- As described in the "Security selection and portfolio construction" section of the profile, through Bridges' investment **standards**, it avoids investments in tobacco producers or other controversial and harmful sectors.

Through the use of these tools and Bridge's exceptional contribution to impact monitoring and assessment, Bridges has demonstrated its commitment to addressing system-related challenges by seeking investment opportunities that add value in markets and communities—as it pertains to financial inclusion, access to healthcare, renewable energy and education—that would otherwise not be accrued (Additionality), through its contribution to system-related research and knowledge building (Interconnectedness) and its creation of capacity-building impact monitoring infrastructure (Self-Organization), and its avoidance of certain sectors that pose harm to human health (Standards Setting).

ABOUT BRIDGES

Bridges Fund Management (formerly Bridges Ventures) was established in 2002 with the explicit purpose of “rais[ing] only funds with both financial and social goals” (Bridges Ventures 2016). All of the approximately US\$900 million in assets managed by the firm are invested in one of three fund types—sustainable growth, property, and social sector funds—and across one or more of four impact themes:

- **Underserved markets.** Investments in small and medium-sized enterprises (SMEs) whose products and services support **employment and economic growth (income inequality and financial inclusion)** in the United Kingdom’s (U.K.’s) poorest and most disadvantaged communities “in terms of access to quality services and economic opportunities” (Bridges Ventures (2016)).
- **Health and well-being.** Investments in quality care facilities and at-home programs for the U.K.’s elderly and vulnerable and in companies that support healthy lifestyle changes and **obesity reduction (consumer health and safety)**. In the United States (U.S.), Bridges seeks to address the challenges of an aging population, the obesity epidemic and the rise of chronic illnesses, and links between mental and physical health.
- **Education and skills.** Investments in organizations and programs that provide **education and skills** training to improve the employability of “those most at-risk” (Bridges Ventures (2016)) in the U.K. (e.g. disadvantaged youth). In the U.S., Bridges is investing in businesses that address the widening achievement gap and the need for relevant skills and career paths.
- **Sustainable living.** Investments to improve the environmental sustainability of, and decrease **carbon emissions (renewable energy)** from, buildings in the U.K. In the U.S., Bridges seeks investments in energy and environmental services, especially in

low- and middle-income communities.

Bridges executes all of its systems-related activities (called the firm’s “sustainable and impact investing” or “impact-driven” approach) using its proprietary S.E.T. approach (summarized in Box 1 below and detailed throughout the remainder of this profile). The firm identifies existing businesses operating toward goals that align with its business needs and also will “occasionally” incubate new businesses when none exist to address an identified societal problem.

In 2015, Bridges expanded its reach beyond the U.K. and invested in its first American company. In June 2016, Bridges closed its first U.S. fund, the U.S. Sustainable Growth Fund.

BOX 1. Bridges Fund Management’s SET Approach

1. **Select and secure.** Uses its Impact Radar to identify and select investments with high impact and growth potential, those that will simultaneously make money and do good, and those that exist “where others aren’t looking.”
2. **Engage and execute.** Identifies investment performance indicators (financial and non-financial) and works closely with company leaders to execute an agreed-upon strategy and meet performance goals.
3. **Track and tailor.** Tracks progress along specific indicators and, using the Impact Scorecard, modifies strategies as necessary.

Example: Bridges's Investment in Wholebake

Select. Bridges invested in Wholebake—a healthy snack bar manufacturer—in 2014 as part of its Sustainable Growth Funds. Wholebake produces its 9BAR snack bar brand in Corwen, a particularly poor area of North Wales (“the bakery is in the top 15% of underserved areas in the UK, with 90% of employees drawn from the local area”). Expanding the bakery would create local jobs, in direct alignment with the firm’s underserved populations impact theme.

Engage. Engagement activities have included:

- Providing “strategic input” to “fuel business growth, add operational, finance and sales and marketing expertise to the senior management team and Board, while also scrutinizing business practices to identify win-win opportunities.”
- A marketing review and subsequent relaunch of Wholebake’s 9BAR brand “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).”

Track. Bridges has identified the following outcomes of its investment to date:

- “Top-line revenues have grown by 36%.”
- “Wholebake’s workforce has increased by 30% – providing jobs for 30 people, over half of whom were previously unemployed.”
- Complete dependence on renewable energy to power the bakery.

Source: Bridges Ventures 2015.

APPROACHES IN PRACTICE

➤ INVESTMENT ACTIVITIES

Investment beliefs statements

Bridges believes that its investments should have both a social and financial return.

Security selection & portfolio construction

Bridges only invests in organizations that score well on its **Impact Radar** assessment of: (a) targeted outcomes, (b) additionality, (c) ESG and (d) alignment between commercial and impact returns and risks, and between investors and funds and the investment.

Bridges excludes from investing in organizations 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; 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.

Corporate engagements

Bridges engages with all investees on an ongoing basis throughout the investment period, but at two junctures in particular:

- At investment launch to establish performance goals, strategize initial ways that the organization can increase its value and grow its impact, and establish a “100-day plan.”
- Annually to address Impact Radar assessment outcomes. The firm conducts annual assessments of each investment to track investment progress toward established commercial and impact risk-adjusted performance goals.

Targeted investment programs

Bridges exclusively invests in organizations seeking to generate impact in four target areas: underserved markets, health and well-being, education and skills, and sustainable living. It exclusively manages investments in three types of funds: (a) Sustainable Growth Funds that support “entrepreneurs and building businesses that can excel both commercially as well as create positive impact”; (b) Property Funds that “invest in properties in regeneration areas and those showing environmental leadership” and; (c) Social Sector Funds that “provide finance and support to charities and social enterprises delivering services with high social impact.”

Manager selection, directives & monitoring

N/A

➤ OTHER ACTIVITIES

Provides investment advisory services through its Bridges Impact+ division

Bridges Impact+ provides these services both to the Bridges' investment team and to external clients. The division's core functions include:

- Developing frameworks and tools: designing impact assessment and performance measurement systems and investment products for Bridges' funds across the platform;
- Sharing intellectual capital: completing research projects that contribute to field building such as the Impact Management

Project, which convened hundreds of practitioners across the value chain to create consensus on a framework for how Bridges communicates and set impact goals.

- Delivering technical assistance (support and learning): providing training to aspiring impact investors through the Master of Business Administration Impact Investing Network and Training (MIINT) in partnership with the Wharton School Social Impact Initiative at the University of Pennsylvania.
- Providing customized advisory services: identifying investment-goals performance indicators; helping clients to determine their impact goals and to invest accordingly; analyzing market trends and making commensurate recommendations; and, advising on impact-driven portfolio development and impact management.

➤ STAFFING

Arguably all Bridges staff—and, in particular, the approximately 50 non-administrative staff (e.g. partners, associates and investment directors)—are involved in the systems-related approach, given that the firm exclusively engages in sustainable and impact investment activities. The firm’s work is overseen and guided by a nine-person board of directors and twelve-person advisory board.

➤ IMPACT MONITORING & REPORTING

Bridges Fund Management uses its proprietary Impact Radar to select new investments and monitor or track ongoing investments. The tool represents a “holistic” assessment of investment risks and returns along both impact and commercial metrics. Assessments of ongoing investments are conducted annually at both the investment and portfolio levels (see Box 2). Bridges Fund Management scores each investment along the following four dimensions:

1. **Target outcomes.** An analysis of whether, how and how much the investment might impact an identified social problem in terms of (a) depth and scale (*How many people will be impacted? How deeply will they be impacted (e.g. for how long)?*), (b) inclusivity (*Will the investment help underserved populations and not just wealthy people?*) and (c) systematic impact (*Will the investment create wider systemic change beyond the identified target outcomes?*). Bridges starts by defining who is affected by challenges and what outcomes they want and need, a process that leads to an Investable Solution. Bridges has made progress on connecting its investments to the 17 U.N. Sustainable Development Goals.
2. **Additionality.** A determination of the extent to which Bridges’ involvement in a project would be vital to its success and whether the project will generate a net benefit to society.
3. **Environmental, social and governance (ESG) factors.** The identification of potential ESG or externality risks and risk mitigation opportunities, and development of an ESG/externality matrix to assess whether improved business practices might generate environmental and social benefit and vice versa (“win-win” opportunities).
4. **Alignment.** An assessment of (a) an investment’s ability to create value and to generate sustainable and competitive risk-adjusted financial returns alongside non-financial social impact, and (b) an investment ability to optimize performance against its impact and financial goals and to be cost-effective for the investor.

For ongoing investments, and together with the organization invested in, Bridges determines the key performance indicators (KPIs) that it will measure over time using a theory-of-change analysis and its Impact Radar. It summarizes these KPIs for each investment each year in an **Impact Scorecard**. The purpose of the Impact Scorecard is three-fold. It helps Bridges Ventures to: (a) communicate the “societal value” of the investment to stakeholders and the public, (b) monitor the investment and identify ways it can better support the investee and (c) better understand which types of investments and approaches might be most successful in which settings to inform future decision-making.

BOX 2. Bridges Fund Management's Outcomes Measurement

Selected, reported, collective **impact outcomes** of systems-related activities across fund and by target investment area to date include:

Underserved markets

- For every £1 invested, £4.9 spent via local wages and supply chain
- 4,500 direct jobs supported across funds

Health and well-being

- Increased number of people receiving access to quality at-home care (from 900 in 2011 to 2,900 in 2014)
- 363,000 gym users, 33% of which were first-time users

Education and skills

- 4,140 certifications earned by training provided by firm-supported companies
- 3,400 qualifications earned by at-risk youth

Sustainable living

- 50% reduction of carbon emissions across construction and refurbishment projects
- 1.6 million tons of waste diverted from landfills

Selected reported commercial outcomes include:

- 10 Sustainable Growth Fund exits to date
- The Gym Group (health and well-being investee) listed on London Stock Exchange in 2015

Source: Bridges Ventures 2015.

POLICY DEVELOPMENT AND MONITORING

All firm activities are governed by Bridges' Responsible Investment Policy, Sustainable Property Policy, and Ethical Charter. Among other things, these one-to-two page documents establish the firm's investment mission and goals, which types of companies the firm will and will not invest in, measurement and accountability standards, guidelines for the sustainability of Bridges' properties and those invested in, and ethical conduct.

SUCCESSSES AND CHALLENGES

➤ SUCCESSES:

Systems-related approaches are "truly integral to firm mission, values and investment decision making."

➤ CHALLENGES:

- It is difficult to roll systems-related approach information “up to the portfolio level because each investment scorecard is customized.”
- “Need full buy-in to integrate [systems-related approaches];” once the approaches are integrated, then it is “easier to maintain and more difficult to omit/drop.”

SOURCES

Bridges Ventures (2014). *Annual Impact Report 2015: The Value of Impact*. London, England: December 2015. Accessed from <http://bridgesventures.com/wp-content/uploads/2015/12/Bridges-Ventures-Annual-Impact-Report-2015-UK-Screen.pdf> on May 22, 2016.

Bridges Ventures (2015). *Impact Report: A Spotlight on Our Methodology*. London, England: February 2014. Accessed from <http://bridgesventures.com/bridges-impact-report-a-spotlight-on-our-methodology/> on May 22, 2016.

Bridges Ventures (2016). www.bridgesventures.com. Pages accessed include: “About Us,” “Our Approach,” “Our Funds,” “Impact+,” and “News & Knowledge.” Accessed between May 22, 2016 and July 2, 2016.

The Investment Integration Project (TIIP). *TIIP Survey of Asset Owner and Manager Systems-Level Investment Approaches (2016)*. Completed by Bridges Ventures. April 5, 2016.

NOTES

¹ The Investment Integration Project (TIIP).

Profile developed in: July 2016; **Updated in:** August 2017.

Profile developed by: The Investment Integration Project (TIIP). TIIP helps institutional investors understand the big picture, or “systems-level,” context of their portfolio-level decisions. “Systems-level” events, such as economic crises, ecosystems under stress, and societies in turmoil can disrupt the best-laid plans of investors and cost them dearly. Even seemingly “local” issues are now having much greater impact than they once did as the world becomes increasingly interconnected.

TERM DEFINITIONS

What are "Tools of Intentionality"?

Tools of intentionality are specific pathways through which investors can bridge the gap between daily portfolio management decision-making and systems-level investing. Investors use these tools intentionally because the portfolio-level discipline of efficiency alone does not naturally lead them to systems-level considerations. Investors can use these tools to manage risks and rewards at systems levels and facilitate impact in a variety of ways.

What are "On-Ramps"?

On-ramps are investment approaches that represent logical extensions of the concept that investment has impact on the world at large—and on its component environmental, societal and financial systems—and that that impact can be managed to maximize these systems' wealth-creating potential in society.

What are "Asset Classes Integrated Into"?

Into which asset classes does the investor incorporate a systems-related approach?

What are "Years Integrating"?

The number of years since investor initiated systems-related approaches.

What is the "Tipping Point"?

Description of investor's primary approaches to adopting/executing system-related considerations.

What is "About"?

General description of the investor and their approach to systems-related investing.

What are "Approaches in Practice"?

How does the investor's systems-related approach manifest itself? We examine five key investment activities as well as other intentional systems-related undertakings. We also look at staffing and impact monitoring and reporting.

What are "Investment Beliefs Statements"?

Inclusion of observations about environmental, societal or governance considerations in the investor's formal investment belief statements or in more general statements of beliefs about the relevance of these considerations at portfolio or systems levels.

What are "Security Selection & Portfolio Construction"?

The incorporation of environmental, social and governance factors into individual security valuation and portfolio construction.

What are "Targeted Investment Programs"?

Creation of specialized sector or theme-based funds with an explicit environmental or social focus and the stated purpose of serving sustainable or responsible investors.

What are "Corporate Engagements"?

Communication on environmental, social and governance issues with corporations indirectly through proxy voting, or directly through individual or collaborative dialogue, the filing of shareholder resolutions, or other means in order to promote improvements in practice.

What are "Manager Selection, Directives and Monitoring"?

Incorporation of systems-related or on-ramp themes into the selection and monitoring of external managers.

What are "Other Activities"?

Additional investment policies and practices beyond those captured in key investment activities. Those intentional policies and practices that seek to achieve systems-goals are highlighted. They vary considerably across investors.

What is "Staffing"?

When information is available, this section describes investor contracting with external entities to execute systems-related approaches; internal personnel whose responsibilities exclusively or primarily include developing, executing or overseeing investor systems-related approaches; committees/groups with systems-related responsibilities; training provided to staff.

What is "Policy Development and Monitoring"?

When information is available, describes the processes undertaken by the investor to develop systems-related approaches.

What is "Impact Monitoring and Reporting"?

Discusses whether and how the investor measures and reports on the non-financial outputs, outcomes or impacts (effectiveness) of its systems-related approaches, or has plans to do so. Also whether and how the investor reports on the content of its systems-related activities.

What are "Successes and Challenges"?

Discusses the main successes and challenges reported by the investor about its systems-related approaches. This includes successes and challenges reported on a TIIP survey or in an interview, or statements describing successes and challenges in publicly available materials.