Bridges
Fund Management

The Bridges Spectrum of Capital

How we define the sustainable and impact investment market

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How we define the market

The idea that investment can be a positive force for societal change is hardly a new one.

Ethical or values-based investing arguably dates back centuries, driven primarily by religion. More recently, the changing mores of the 1960s – including the push to eliminate the apartheid regime in South Africa – brought socially-conscious investing to the fore. By the 1980s, Socially Responsible Investing (SRI), which focuses on systematically 'screening out' harmful products and practices (such as tobacco or firearms), had a dedicated investor base.

Over time, many investors have also recognised that factoring social, environmental and governance risks (ESG) into their investment decisions helps to protect value, particularly in a world of increasing transparency.

This has given rise to a broad universe of 'responsible investors', ranging from those who 'negatively screen' for ESG risks, to those who actively work to mitigate them during ownership.

Taking this further, and building upon 'best-in class' SRI, some investors have deeply integrated social and environmental factors into their investment analysis and started proactively looking for ESG opportunities, selecting companies that they believe will outperform the market because they operate (or have the potential to operate) in a more sustainable way than their peers over time – be it through their environmental management, stakeholder engagement or governance practices.

We call this 'Sustainable Investing', because it centres on backing businesses that can flourish in a changing landscape – and we distinguish it from Responsible Investing because it focuses not just on protecting value against risk but on creating additional value, through both investment selection and portfolio management.

Impact Investing goes beyond this to focus on solutions to pressing societal or environmental issues. Impact investors focus on one or a cluster of issues, with a deliberate intention to make a positive social or environmental impact.

Some want to focus on societal or environmental solutions that can generate market-rate (or market-beating) financial returns. For these investors, there are a growing number of for-profit businesses that help to address a societal or environmental issue through their core product or the place in which they are located. Other impact investors are willing to make investments whose impact thesis may or may not deliver a market-rate financial return – social impact bonds, for example, may produce attractive returns but the product is not yet proven. A third category includes those who are willing to make investments whose impact approach requires a trade-off of financial return and therefore deliver a below-market financial return. This could, for example, involve backing social business models that re-invest some or all their financial surpluses, such as trading charities, mission-driven cooperatives or cross-subsidy models.

All three types of investor intend to create positive change in response to social or environmental issues, and so all are impact investors.[1]

Finally, there are funders with an impact-only motivation, who are willing to forgo principal, through philanthropy. These funders continue to play a critical role in in tackling pressing social or environmental issues where commercially viable solutions are not available.

By understanding this spectrum of capital (right), it is possible to design different investment strategies to promote entrepreneurial solutions to societal challenges. As the dotted lines along the spectrum reflect, these categories are not mutually exclusive; often they are inter-dependent, with many investors operating between or across categories.

Bridges Fund Management has specialised in sustainable and impact investing ever since our inception in 2002. Over this period, we have learned that a variety of business models can create positive impact; so each of Bridges' funds has been designed to 'align' with the needs of a different set of impact-driven business models, and with the financial and impact expectations of different investors. This multi-fund approach is mapped against this spectrum of capital, by way of example. We hope that by illustrating how we have created investment products across this landscape, we might encourage others to explore the growing range of sustainable and impact investment strategies.

[1] This is consistent with the Global Impact Investing Network (GIIN) definition of impact investment as "investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return".

Spectrum of Capital

	Financial-only	Responsible	Sustainable	Impact			Impact-only
	Delivering competitive financial returns						
		Mitigating Environmental, Social and Governance (ESG) risks					
			Pursuing Environmental, Social and Governance opportunities				
				Focusing on measurable high-impact solutions			
Focus:	Limited or no regard for environmental, social or governance (ESG) practices	Mitigate risky ESG practices in order to protect value	Adopt progressive ESG practices that may enhance value	Address societal challenges that generate competitive financial returns for investors	Address societal challenges where returns are as yet unproven	Address societal challenges that require a below-market financial return for investors	Address societal challenges that cannot generate a financial return for investors
Examples:		• PE firm integrating ESG risks into investment analysis • Ethically-screened investment fund	•"Best-in-class" SRI fund • Long-only public equity fund using deep integration of ESG to create additional value	• Publicly-listed fund dedicated to renewable energy projects (e.g. a wind farm) • Microfinance structured debt fund (e.g. loans to microfinance banks)	• Social Impact Bonds / Development Impact Bonds	• Fund providing quasi equity or unsecured debt to social enterprises or charities	
For-profit business models adopting progressive ESG practices and/or set social outcome objectives for a significant part of their activities			Bridges Sustainable Growth Funds Bridges Sustainable Property Fund CarePlaces Fund Bridges Property Alternatives Fund III				
For-profit business models embedding impact in their core product, service or location							
For-profit business models that balance or trade off an impact agenda and profit, typically protecting their social mission through their governance					Bridges Social Impact Bond Fund	Bridges Social Entrepreneurs Fund I	Bridges Charitable Trust
Social enterprise models that re-invest some or all surpluses for impact, including trading charities, membership groups and community interest companies							
Charities that do not earn revenue by selling products or services							

N.B. In 2014, Bridges' advisory function, Bridges Impact+, co-authored the report of the Asset Allocation Working Group of the Social Impact Investment Taskforce, established under the UK's presidency of the G8. The above diagram builds on the picture illustrated in that report, showing how Bridges' own funds fit on the spectrum.

About Bridges Fund Management

Bridges Fund Management is a specialist fund manager dedicated to sustainable and impact investment. We use an impact-driven approach to create returns for both investors and society at-large.

Founded in 2002, Bridges is majority owned by its management team with the Bridges Charitable Trust having a 30% interest and control over any change to the firm's founding commitment to raise only funds with social goals; while the Bridges team also donates 10% of their own profits to the Trust's philanthropic activities.

Bridges' investment strategy is to focus exclusively on using investment to address pressing social or environmental challenges – be it backing businesses that create economic dynamism in low income areas, or building environmentally friendly care homes for the elderly to sustain an ageing population, or rolling out skills-training colleges to equip the next generation with the skills to compete globally. In pursuing this strategy over the last decade, we have innovated a range of investment vehicles and now have almost £600m in assets under management across three main fund types.

Sustainable Growth Funds

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

Wholebake, Bridges Sustainable Growth Fund III

Property Funds

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

The Old Vinyl Factory, Bridges Property Alternatives Fund III

Social Sector Funds

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

Community Links, Bridges Social Impact Bond Fund

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Bridges Fund Management, November 2015.