Glasgow City Council

Strathclyde Pension Fund Committee

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Item 3

26th November 2025

Direct Impact Portfolio (DIP)
Investment Proposal – Epidarex Capital IV LP

Purpose of Report:

To set out a proposal for an investment of £25m within DIP.

Recommendations:

The Committee is asked to **APPROVE** an investment of £25m in Epidarex Capital IV LP by DIP.

Ward No(s): Citywide: ✓

Local member(s) advised: Yes ☐ No ☐ consulted: Yes ☐ No ☐

1 Background

1.1 Portfolio Establishment

In December 2009, the Strathclyde Pension Fund Committee agreed to establish a New Opportunities Portfolio (NOP) with a broad remit to invest in assets for which there was an attractive investment case but to which the then current structure did not provide access.

1.2 Reviews

The NOP strategy has been subject to 3-yearly reviews with the name changing to the Direct Investment Portfolio in 2015 and again in 2021 to the Direct Impact Portfolio. The most recent review was concluded in November 2024. This made no change to the objectives, structure, risk parameters or governance structure, but did result in increases to the DIP's overall allocation and minimum required investment return and a minor amendment to the definition of the maximum investment size. The Co-Investment Programme was also extended, in conjunction with an increase in the maximum co-investment size.

1.3 Implementation Framework

DIP investment proposals are assessed on their own merits within an agreed implementation framework based on SPF's overall risk-return objectives and specific DIP parameters.

The framework agreed at the 2024 review is summarised below.

Direct Impact Portfolio	
Objectives	Primary objective identical to overall SPF investment objective. Secondary objective of adding value through investments with a positive local, economic or ESG (environmental, social, governance) impact.
Strategy & Structure	In line with SPF risk-return framework but focused on the UK and the Equity, Long Term Enhanced Yield and Short-Term Enhanced Yield asset categories.
Risk and Return	Portfolio benchmark return of **CPI +3% p.a.** Individual risk and return objectives for each investment. Minimum Investment Return (Net IRR) of **6.5%**.
Capacity	Target allocation of **7.5%** of total Fund (based on Net Asset Values). Range of **5%** to **10%** of total Fund.
Investment Size	Target: **£30m** to **£100m** Minimum: **£20m** Maximum: **£250m**
Decision Making	3 stage process with review and satisfactory due diligence by officers, followed by a presentation to the Sounding Board before a proposal is taken to Committee for approval subject to completion of legal documentation.
Monitoring	Includes individual investment reports, participation in advisory boards and a quarterly DIP monitoring report which is reviewed by the Fund's Investment Advisory Panel.
Co-Investment Programme	Co-Investment Programme (CIP) of £300m with maximum investment per asset of £25m, subject to agreed CIP investment parameters.

The following proposal has been assessed using this framework and has been reviewed by the SPF Committee Sounding Board.

2 New Investment Proposal

2.1 Key Terms

Name	**Epidarex Capital IV LP**
Investment vehicle	Scottish Limited Partnership
Manager	Epidarex Management Limited
Sector	Venture Capital (life sciences sector)
Investment objective	To invest in early stage life sciences (new therapeutics) technology
Term	10 years (plus up to 2x1 year extensions)
Target size	£200m (Hard Cap £300m)
Proposed DIP investment	£25m
Target return	Internal Rate of Return (IRR) of 20% (Net) / Multiple of Invested Capital (MOIC) of 3x

2.2 Investment Summary

Epidarex is an Edinburgh based, specialised venture capital (VC) firm which invests in early-stage, best in class life sciences, biotech, therapeutics and healthcare technologies emerging from top research universities in "under-ventured" markets, particularly in Scotland and the North of England.

These innovative technologies predominantly take the form of spin-outs from leading research universities and other organisations in the life sciences sector. The fund will focus mainly on UK geographies outwith the London, Oxford and Cambridge area where life science VC is considerably more concentrated.

DIP has committed £20m across 2 of Epidarex's prior funds (£5m & £15m in Funds II & III respectively). While the number of investment exits to date from Fund II has been lower than originally envisaged at this stage due to Covid and other factors, the underlying portfolio investments in both funds are progressing well through their respective development programmes. Overall, the performance of both funds is considered satisfactory.

Fund IV is the successor fund which will follow the same model of investing in leading early-stage life science, biotech, therapeutics, medical devices and digital health technologies.

An investment of £25m by DIP in Epidarex Capital IV LP is now proposed.

2.3 Investment Rationale

The life sciences industry in the UK is heavily concentrated in the Oxford / Cambridge / London area (the "Golden Triangle"). There are similar life sciences hubs in Massachusetts and Northern California in the US. Fund IV however will be focused on the UK.

These hubs share common characteristics including the existence of numerous innovation-rich research universities, pools of talented scientists, engineers and business executives that are experienced in the commercialisation of new biotechnology. Most life sciences VC funds also concentrate their resources on these regions.

The combined effect of these factors has been to increase the operational costs of doing business in these hubs, while the volume of available VC capital requiring to be deployed in the sector also drives up the cost of investment opportunities.

Epidarex's strategy with Fund IV is to focus on what they describe as the "under-ventured" regions of the UK (i.e. outwith the Golden Triangle) where the university research is strong but the availability of VC much less so. These regions have many outstanding research universities and other institutions in terms of scientific discovery, invention and innovation but are fundamentally lacking in access to risk capital, which results in a wider selection and materially less competition for the best opportunities.

Fund IV will therefore primarily focus on Scotland and the North of England, as well as other regions of the UK. Epidarex has particularly strong relationships and identified pipelines of opportunities with the universities of Glasgow, Strathclyde, Edinburgh, Dundee and Aberdeen in Scotland.

2.4 Investment Management

Epidarex has led or co-led more than 25 early-stage investments, the majority of which were created at a very early, often pre-spinout stage, when the science was still in the laboratory, in markets where no other early-stage investors are actively deploying capital.

Many of these portfolio companies would not exist without Epidarex sourcing, shaping and then leading or co-leading the initial financing round by crowding in selected national and international life science investors.

More information on the investment manager is included in **Schedule 1.**

2.5 Investment Approach

Epidarex works closely with leading universities and medical research institutions to identify early-stage investment opportunities in emerging areas of scientific interest which offer novel approaches to unmet needs in major diseases, or that improve the delivery of healthcare products, thereby generating the potential to deliver attractive financial returns to investors.

The firm creates company vehicles into which the applicable intellectual property rights (IPR) are transferred and patent protected as part of an integrated development and funding strategy. In this way, Epidarex facilitates the development of the IPR from the laboratory to a proof of concept / clinical trial stage and is typically the first institutional investor in such companies.

The Fund will focus its investments on companies with exceptional scientific founders who are developing unique technology platforms or products which have the potential to address major unmet medical needs and have the potential to generate strong financial returns for investors.

2.6 Investment Characteristics

The critical characteristics that Epidarex look for in their investments include:-

- disruptive and proprietary platform technology, or products that will radically transform current (or enable new) markets by offering a sustainable competitive advantage;
- the ability to attract exceptional management teams which is critical to the ultimate success of early-stage life science companies (Epidarex plays a key role in recruiting individuals with appropriate skill-sets); and
- highly defensible IPR (patents, licensing agreements etc).

2.7 Investments

As with Funds II and III, around 50% of Fund IV commitments will be held in reserve for participation in later funding rounds for the most promising investments. This is intended to reduce the equity dilution effect of external funding from third parties in subsequent funding rounds. Such funding however has the benefit of sharing the burden of the typically higher, later stage development costs, as well as providing independent assurance of Epidarex's appraisal of the commercial potential of the IPR concerned.

Each of the portfolio investments in the 2 prior funds has at least a couple of distinct biotech opportunities capable of independent development, so there is additional diversification within each portfolio company. The remaining investments in both prior fund portfolios continue to exhibit at least satisfactory promise, with a number particularly so.

2.8 Realisation of Investments

The manager will determine the appropriate time, stage and value, at which to sell the assets, often in response to offers resulting from the publication of clinical trial results or the achievement of development milestones.

Fund II has secured 3 investment exits to date (2 full and 1 partial) with 5.5 other investments currently well into the clinical trials process. Fund III has created a portfolio of 12 investments, in addition to a seeding sub-portfolio (Epidarex Exeed) which invests relatively small amounts to de-risk very early-stage opportunities before considering them for larger amounts.

Several portfolio companies have entered into strategic partnerships with global pharma companies. One Fund III company has already been acquired by a mid-sized European pharma company at a satisfactory return.

2.9 Other Investors

Fund IV has secured an indicative (i.e. formally approved but subject to legals) first close commitment of £50m from British Patient Capital (part of the British Business Bank / BBB – this is subject to an equivalent figure being raised from other investors).

Other investors with indicative first close commitments comprise the Scottish National Investment Bank (SNIB / £15m), a global clinical research organisation (and previous investor with Epidarex - £10m), Old College Capital (University of Edinburgh Endowment Fund - £5m) and a Scottish family office (£2m).

If approval is obtained for the proposed DIP commitment (£25m), total indicative first close commitments would therefore amount to £107m.

The Epidarex model has attracted an impressive and diverse range of investors across its previous funds, including leading US and UK research institutions, BBB, the European Investment Fund, Scottish Enterprise, several corporate investors including Eli Lilly and Canon, alongside several major family office investors from Europe, Asia and the US.

Many other VC funds now recognise Epidarex as a highly credible source of compelling new biotech investment opportunities. As a result, an array of top-tier VC funds have co-invested in later stage funding rounds alongside Epidarex, while a host of major international pharmaceutical companies view the firm as a source of high-quality acquisition opportunities.

Epidarex will be committing 1% of the total commitments raised, which is considered a satisfactory level of alignment with investors.

2.10 Risks

The main risks of the proposed investment into the fund are considered to be as follows:

- Asset Class Risk;
- Financing Risk;
- Regulatory Risk.

A summary of risks and key mitigants is contained in **Schedule 2**.

2.11 Projected Return

The fund is targeting an Internal Rate of Return (IRR) of 20% (Net) and a Multiple of Invested Capital of 3x. This is considered an appropriate target return given the relatively higher risk nature of the fund's early-stage VC investment strategy.

2.12 Exit

Fund IV will have a 10-year term, which may be extended by up to a maximum of 2 years. It is envisaged that DIP's investment in the fund will be repaid from the sale of the portfolio investments to large pharmaceutical companies.

Each investment exit is likely to incorporate an upfront cash payment followed by a number of deferred / milestone payments typically linked to successful clinical trial outcomes. For those assets well into the clinical trials process, the upfront elements are likely to be greater (compared with pre-clinical stage assets) as the risks for the acquiror are relatively lower.

2.13 Fees

The **Management Fee** will be calculated on fund commitments during the fund's term, at a level (during the Investment Period) which is typical of the managers in DIP's equity/VC portfolio. The fee, however, will reduce from year 6 onwards which is beneficial to investors.

Overall, the level of the blended fee is considered attractive in the context of DIP's experience of the VC/private equity market.

Carried Interest (or performance related) provisions also apply to the fund. These will be structured such that Epidarex, as manager will require to perform strongly before it benefits under these provisions.

The Management Fee is broadly in line with DIP's experience in the VC market, while the Carried Interest structure is also relatively typical. Overall, the fee levels are considered acceptable.

2.14 ESG and Impact

Epidarex believe their early-stage biotech / life sciences investment strategy can deliver sustainable growth and strong financial returns for investors while achieving a strongly positive societal impact: on patients, communities and the ecosystems of the regional universities concerned.

A summary of the fund's ESG and Impact factors is contained in **Schedule 3.**

3 Policy and Resource Implications

Resource Implications:

Financial:	Investment of £25m to be drawn as required. Fee structure is considered to be in line with the market.
Legal:	The investment will be subject to satisfactory completion of due diligence, including review and execution of appropriate legal documentation.
Personnel:	None
Procurement:	None
Council Strategic Plan:	SPF supports the mission: ***to enable staff to deliver essential services in a sustainable, innovative and efficient way for our communities***. The LGPS is one of the key benefits which enables the Council to recruit and retain staff.

Equality and Socio-Economic Impacts:

Does the proposal support the Council's Equality Outcomes 2021-25? Please specify.	Equalities issues are addressed in the Fund's responsible investment policy.
What are the potential equality impacts as a result of this report?	None
Please highlight if the policy/proposal will help address socio-economic disadvantage.	None

Climate Impacts:

Does the proposal support any Climate Plan actions? Please specify:	No specific contribution from this proposal.
What are the potential climate impacts as a result of this proposal?	No specific contribution from this proposal.
Will the proposal contribute to Glasgow's net zero carbon target?	No specific contribution from this proposal.

Privacy and Data Protection Impacts:	To be fully provided for in the legal documentation for the proposed investment.
Are there any potential data protection impacts as a result of this report Y/N	N
If Yes, please confirm that a Data Protection Impact Assessment (DPIA) has been carried out	n/a

4 Recommendations

The Committee is asked to **APPROVE** an investment of £25m in Epidarex Capital IV LP by DIP.

Schedules

1. **Investment Manager: Epidarex Management Limited**
2. **Risk Summary**
3. **Impact and ESG**

Schedule 1

Investment Manager: Epidarex Management Limited

Epidarex is a specialist VC firm established in 2010 and HQ'd in Edinburgh, which seeks to invest in the best early-stage healthcare, biotechnology, life sciences and related healthcare technologies emerging from top research universities in "under-ventured" markets in both the UK and USA. Fund IV however, is focused on the UK.

The firm works with many of the most prestigious universities and established biotech and life science research centers, primarily located outwith each of the major life science hubs in the UK and US. The majority of other early-stage life science VC funds do not appear to have any particular inclination to actively target the opportunities that exist outwith these hubs.

As a transatlantic VC investor, Epidarex brings significant 'value-add' to its portfolio companies via access to strategic partners and visibility in two of the leading global healthcare markets. Epidarex's broad networks on both sides of the Atlantic also provide access to experienced management, board members and advisors, key opinion leaders, regulatory experts and follow-on VC via syndication and co-investment with later stage funds.

The Epidarex team is composed of healthcare-specific investment professionals (the majority with PhD's and/or doctorates in life sciences subjects) with a unique blend of technical, operational, business and/or VC investing experience. This collective expertise underpins Epidarex's ability to spot emerging, transformative technologies and to create and shape competitive businesses around them.

Epidarex has a track record over several decades of successfully partnering with scientists and entrepreneurs in the development of innovative products targeted at the global healthcare market. It considers that it is the most active early-stage 'company builder' investor in its targeted under-ventured markets having invested in more than 25 companies sourced from leading universities with whom the firm enjoys longstanding relationships built upon mutual trust.

Schedule 2

Investment Specific Risks

Asset Class Risk

VC funding capital is considered higher risk than many other sectors, even within the private equity asset class itself, and this is compounded by the particular risks of investing into the life sciences sector. The latter includes the potential failure of the therapies at one or more of the clinical trials through which the new technologies are tested for safety and efficacy.

Epidarex mitigates this by constructing a portfolio that is diversified across the sub-sectors of the life sciences sector, the stage of development and across a range of major target disease fields. By diversifying portfolio commitments across subsectors of the therapeutics and medical devices market, as well as into companies with more than one independent investable option, Epidarex mitigates technical, regulatory, and financial risk that can be challenging in early-stage life science investing.

Financing Risk

The risk of portfolio companies requiring more capital than anticipated is mitigated by ensuring adequate reserves are held for follow-on commitments. The manager retains a significant follow-on budget of 50% of the fund (i.e. 100% of each initial investment) to ensure that the fund has sufficient reserves to fully support its portfolio companies, back the potential winners and avoid avoidable dilution in later funding rounds.

The active and early syndication with Epidarex's broad network of co-investors further mitigates this risk, while the implementation of the fund's seeding strategy provides a mechanism to de-risk very early projects. This allows significant funds to be deployed only to a sub-set of those seed investments that have been sufficiently de-risked for these opportunities to then "graduate" to the fund's portfolio with appropriate reserves being allocated thereafter.

Since Epidarex targets under-ventured markets, it historically has seen very little competition for opportunities. On the contrary, other like-minded VC funds are more likely to be potential co-investors in the deals that Epidarex leads, the firm therefore becoming the catalyst for other leading life sciences VC investors to follow into underserved geographies in which they would not normally be active.

Regulatory Risk

The life science industry is very heavily regulated. Epidarex's product and clinical development experience as well as its network of senior regulatory experts and consultants are fully utilised for each due diligence process undertaken.

The professional opinions of biotech sector specialists are central to the firm's diligence process as this expertise is often highly specific to particular diseases, target markets and individual regulatory bodies. Post investment, Epidarex supports its portfolio companies by ensuring early planning and dialogue with regulatory consultants and directly with regulatory agencies as and when appropriate.

Impact and ESG

Epidarex's mission is to invest in transformative healthcare innovations emerging from world class research teams, mainly within universities which are currently underserved by the VC industry, mainly because of their geographic locations.

The firm originates opportunities while the applicable research is still in university laboratories; creates the corporate vehicle; secures the appropriate patents to protect the IPR; recruits highly experienced life science commercialisation executives, before introducing national/international pharma investors to consider investing.

It is entirely reasonable to assert that the vast majority of the companies/therapeutic products supported by the firm to date wouldn't have emerged from the universities or have attracted significant funding from international investors without Epidarex originating the opportunities and having a credible relationship with these investors.

The fund will make investments in companies which have the potential to develop and commercialise new therapeutic products (and/or medical devices) and have a demonstrable positive impact on addressing currently unmet medical needs or illnesses affecting significant populations, whilst generating economic benefits to the regional universities concerned and fund investors alike.

In terms of individual portfolio investments, Epidarex undertake to assess key ESG risks prior to each investment and ensure that appropriate mitigation is in place for any identified matters as required.

ESG factors to be considered to include:-

- **Environment** - carbon emissions, corporate environmental policies, environmental footprint of future drug manufacturing and transportation;
- **Social** – diversity & equal opportunities in respect of founders, board, senior management and employees;
- **Governance** – robust and transparent structures around decision-making, shareholder rights, remuneration, performance management, internal controls, risk management, ethical policies & regulatory compliance;
- to encourage and support their portfolio companies to develop their own ESG policies in line with the risks and impacts most relevant to them.