Item 5

23rd September 2026

Glasgow City Council

Strathclyde Pension Fund Committee

Report by Richard McIndoe, Director of Strathclyde Pension Fund

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Direct Impact Portfolio (DIP)
Investment Proposal – SEP FUND VII

Purpose of Report:

To set out a proposal for an investment of £35m within DIP.

Recommendations:

The Committee is asked to **APPROVE** an investment of £35m in Scottish Equity Partners 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 current structure did not provide access.

1.2 Review

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.

2 New Investment Proposal

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

2.1 Key Terms

Name	**SEP VII GP LLP**
Investment vehicle	Scottish Limited Partnership
Manager	Scottish Equity Partners LLP
Sector	Growth Capital/Equity
Investment objective	To target growth equity investment opportunities predominantly in enterprise and technology-enabled companies operating in the United Kingdom, Ireland and other European countries.
Term	10 years plus 2 x 1-year extension(s) with consent of the Advisory Committee.
Target size	£350m / £400m Hardcap
Proposed DIP investment	£35m
Target return	Net IRR of 22% / MOIC 3.0x

2.2 Investment Summary

Scottish Equity Partners ("SEP") is raising SEP VII, a new growth equity fund focused on backing ambitious, founder-led technology companies across the UK, Ireland and Europe.

SEP is a specialist lower mid-market investor focused on enterprise technology companies, working with founders to support long-term growth. Since 2017, the current Investment Team, now led by Managing Partners Angus Conroy and Keith Davidson, has completed fourteen investments across Europe, including ten in the United Kingdom. These investments have generated three exits to date, delivering a gross MoIC of 4.3x and a gross IRR of 55%, with further near-term realisations expected. Overall, SEP expects the fourteen investments to deliver approximately 3.9x gross MoIC and over 40% gross IRR, with potential for additional upside.

The Fund's investment strategy will remain consistent with earlier SEP funds, seeking long-term capital growth through disciplined selection of a balanced portfolio of high-quality technology growth equity investments.

SEP is targeting £350 million for SEP Fund VII in the second half of 2026 and, with expected equity deployment of around £27.5 million per company, anticipates investing in 10 to 12 opportunities. Fund VII's pipeline is supported by founder relationships built over many years, reflecting SEP's thematic origination model and long-term sourcing approach.

A commitment by the Direct Investment Portfolio of £35m to SEP Fund VII is now proposed.

More information on the Manager is detailed in **Schedule 1.**

2.3 Investment Rationale

The UK and European technology sector present a significant and increasingly attractive growth equity opportunity. SEP believes its business-building expertise and network access can add value to high-growth companies, helping them scale and expand internationally.

Today, the firm targets companies delivering critical enterprise technology solutions that support core operational and technology infrastructure, particularly within sectors characterised by low risk tolerance such as financial services, life sciences, and advanced manufacturing. These businesses typically benefit from strong intellectual property, high switching costs, and scarcity value. SEP's approach is defined by early, proactive engagement and close partnership with management teams, often building relationships with founders over an extended period prior to investment. The average length of this engagement is approximately 2.5 years. SEP is frequently the first institutional investor, investing alongside founders who retain significant ownership and share a long-term growth ambition. The firm does not rely on financial leverage; instead, it focuses on scaling high-quality businesses organically alongside management teams.

By the time SEP invests, the firm has formed a clear view on the key drivers of future value creation, informed by extensive origination periods and pattern recognition across a portfolio of highly similar businesses.

In summary, SEP has become a highly specialised investor in a clearly defined segment of the European enterprise technology market. Its sector expertise, relationship-led sourcing model and repeatable value creation framework have created a differentiated position in the lower mid-market. SEP's track record of delivering attractive outcomes has further enhanced its reputation and network, strengthening its ability to originate and secure high-quality opportunities in a relationship-driven, non-intermediated market.

2.4 Risks

The main risks of the proposed investment in the fund are considered to be:

- Sourcing Opportunities
- Portfolio Concentration
- Key Personnel

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

2.5 Projected Return

SEP VII targets portfolio investment returns of more than 3.0x gross MoIC over an approximate four- to five-year holding period per company, generating around a 20% net IRR. This is consistent with the Investment Team's recent exits and the current trajectory of the unrealised portfolio.

2.6 Exit

Exit planning is central to SEP's investment approach. Founders typically partner with SEP on the expectation of achieving a full exit within four to five years, with value maximisation at that point a key priority. SEP therefore undertakes detailed diligence on potential exit routes before investing and only backs businesses where it has clear visibility of a broad and credible buyer universe. Following investment, SEP actively executes this strategy by positioning portfolio companies to attract suitable acquirers.

2.7 Fees

During the Investment Period (IP / 5 years) a **Management Fee** will apply calculated on the funds commitments.

In the post-IP period, the **Management Fee** will continue at the same rate and will be calculated on invested capital.

Overall, the fee during the IP and post IP period is typical of Growth Capital market.

A **Carried Interest** or performance **Fee** will also apply. The structure requires SEP, as manager, to deliver strong performance before benefiting from these provisions.

The Management Fee is broadly consistent with DIP's experience in the growth capital market, and the Carried Interest structure is also broadly typical. Overall, the fee levels are considered acceptable.

2.8 ESG and Impact

Responsible investment has been integral to SEP since inception. The team has supported businesses that create quality jobs, generate long-term value and make a positive contribution to their communities and stakeholders.

SEP is a signatory to the UN Principles of Responsible Investment and The Investing in Women Code.

Fund VII is defined as an Article 8 fund. Article 8 funds fall under the EU Sustainable Finance Disclosure Regulation (SFDR) and are often referred to as "light green" funds. They promote environmental or social characteristics in their investment strategy, provided that the companies in which they invest follow good governance practices.

More information on the investment manager's approach to ESG and Impact is included in **Schedule 3.**

2.9 Investment Size and Cash Requirements

SPF Fund value at 30th June 2026	£35,290m
DIP allocation (target 7.5% of main fund) NAV	£2,647m
Current DIP NAV	£1,698m
NAV Range (Lower) 5%	£1,765m

NAV Range (Higher) 10%	£3,529m
Headroom v NAV	**£949m**

2.10 Investment Strategy

The proposed investment falls within the Growth Capital sector and therefore the Fund's Equity allocation.

Allocations following this investment, based on Fund values at 30th June 2026 and total DIP commitments to credit, would be as follows:

Equity, £ in DIP	£446m
Equity, % in DIP	17.9%
Equity in DIP as % of Total Fund	1.3%
Equity, % Total Fund (target 47.0%)	52.5%

3 Policy and Resource Implications

Resource Implications:

Financial: Investment of £35m 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 2025-29? Please specify. Equalities issues are addressed in the Fund's responsible investment policy.

What are the potential equality None

impacts as a result of this report?	
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 £35m in SEP Fund VII by DIP.

Schedules

1. **Investment Manager: Scottish Equity Partners (SEP)**
2. **Risk Summary**
3. **Impact and ESG**

SEP was established in 2000 and has offices in London and Glasgow. Founded by Calum Paterson 26 years ago, the firm is partner-owned, professionally structured and appropriately resourced. Following a long-term succession planning process, Calum Paterson has stepped down as Managing Partner but has moved to the role of Chairman and Senior Partner at SEP and remains very committed to the firm. Calum is replaced by Angus Conroy and Keith Davidson as Managing Partners, both have played key roles in SEP's investment team over the last decade.

Most of the current Investment Team has been recruited since Angus and Keith joined SEP, primarily from larger technology investment banking and private equity firms. The Managing Partners have invested significant time in developing a recruitment approach focused on high-potential candidates who, early in their careers, demonstrate analytical strength, commercial judgement, founder empathy and long-term ambition. All new Investment Team hires must show the potential to become future Partners of the firm.

SEP's senior team is highly skilled, combining strong sector knowledge and business-building experience, and has a proven track record in technology growth investing. The success of SEP's investment strategy is underpinned by the team's understanding of the technology sector and the business requirements for sustainable growth. The team has developed an extensive network and established an excellent reputation, with significant market visibility and credibility. Each of SEP's partners and executives has a high level of personal expertise and knowledge and their own valuable network. A strong team culture across the firm means that SEP benefits from the aggregation of this expertise and knowledge, and from the collective value of these networks. SEP also benefits from an exceptionally strong business operations team covering finance, investor relations, legal and compliance, marketing and human resource management.

Investment Specific Risks

Sourcing Opportunities

SEP has experience partnering with software, tech-enabled services and consumer internet businesses and expects this to underpin its approach to SEP VII. It will typically invest around £27.5m in each company, without leverage, taking minority stakes in founder-led, high growth companies. This is entirely consistent with SEP's current investment model.

SEP has a relatively high profile in the market and consequently benefits from a steady flow of referrals from its network of contacts and traditional introducers. There is no reason to believe this will not continue.

Portfolio concentration

There is intended to be a common focus to the portfolio, utilising the team's expertise in technological investments but these investments require to exhibit clear commercial opportunities allied to proven and established management teams. Within that core focus there will be a broad diversity of differing types of underlying business, as has been the case in previous funds.

Key Personnel

There will be six Key Persons who will include Keith Davidson, Angus Conroy, Fraser McLatchie and three other partners of the Manager.

The risk of over-reliance on key personnel is pertinent to any manager however, SEP's success is underpinned by a strong core team, which has been retained in recent years apart from a small number of senior retirements. The team has sufficient depth and experience to deliver the fund's strategy.

Responsible investment has been integral to SEP since inception. The team has supported businesses that create quality jobs, generate long-term value and make a positive contribution to their communities and stakeholders. Strong governance, a healthy workplace culture and a clear sense of responsibility have consistently supported resilience and performance.

Sustainability is now widely recognised as central to value creation. Although public debate on climate and corporate responsibility has become more polarised, there remains clear evidence that companies with strong governance, inclusive cultures and sustainable business models are best positioned to manage uncertainty and grow with confidence. SEP remains committed to supporting portfolio companies to scale responsibly, focusing not only on what they achieve but also on how they achieve it.

- SEP supports technology companies to grow in ways that create jobs, generate value and deliver lasting impact. Over the past year, the team has continued to strengthen its sustainability approach. Key highlights include:

- PRI progress – In its second public transparency report, SEP maintained a 4-star rating while improving its underlying scores, reflecting stronger integration of sustainability into investment decision-making and portfolio management.

- Embedding sustainability early – Building on last year's launch of the ESG data platform, SEP strengthened early engagement by introducing a structured onboarding process for new investments, supported by tailored action plans.

- Responsible AI adoption – SEP supported portfolio companies in managing the risks and opportunities of AI by embedding responsible adoption practices into governance, product development and board-level discussions.

- Driving value creation – SEP's value creation framework is now fully embedded across the portfolio. The team co-develops tailored plans with management teams to strengthen governance, culture and societal outcomes in line with each company's business strategy.

- B Corp milestones – Two portfolio companies achieved standout B Corp recertification results, each scoring over 100 points, demonstrating that technology scale-ups can combine meaningful impact with commercial performance.

- Industry collaboration – Team members actively contributed to industry initiatives, including chairing the BVCA Vision 2025 Awards and leading the BVCA Performance Measurement Survey Review Board, helping promote best practice and strengthen representation for growth equity.