Glasgow City Council

Strathclyde Pension Fund Committee

Item 3

27th November 2024

Report by Richard McIndoe, Director of Strathclyde Pension Fund

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Direct Impact Portfolio: Review of Investment Strategy

Purpose of Report:
To conclude a review of the Direct Impact Portfolio (DIP) investment strategy.

Recommendations:
The Committee is asked to **NOTE** the contents of this report and to **APPROVE** the following recommendations in respect of DIP:

- no change to objectives, structure or governance;
- an increase in DIP's target allocation from 5% to **7.5%** of total Fund within a range of **5%** to **10%** (calculated by Net Asset Value);
- an increase in the minimum targeted return (Net IRR) for individual fund proposals to **6.5%** (currently 5%);
- appropriate target returns to continue to be assessed on a fund-by-fund basis with regard to the perceived risk;
- one change to the individual investment guidelines:
  - Target investment size: **£30m** to **£100m**;
  - Minimum investment: **£20m;**
  - Maximum investment: **£250m** (currently - greater of **£250m** or **1%** of Total Fund Value);
- an increase in the total amount of the co-investment programme to **£300m** (currently £200m) and an increase to the maximum individual co-investment ticket size to **£25m** (currently £15m).

Ward No(s): Citywide: ✓

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

1 Background

1.1 Current Review

The SPF business plan for 2024/25 was approved by the Committee in March 2024. Amongst the priorities for the year, it includes a review of DIP, including objectives, strategy, structure and capacity. This is consistent with previous practice of reviewing every 3 years, after the actuarial valuation and review of overall SPF investment strategy.

1.2 Previous Reviews

In December 2009, the 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.

The NOP strategy has been reviewed every 3 years. It was re-branded twice, firstly as the Direct Investment Portfolio in 2015 and then as the Direct Impact Portfolio (DIP) in 2021, to better reflect the broader impact aspect of DIP investments.

The most recent review of the DIP strategy and operating arrangements was concluded in November 2021.

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 2021 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.
Capacity	Target allocation of **5%** of total Fund (based on Net Asset Values). Range of **2.5%** to **7.5%** of total Fund.
Investment Size	Target: **£30m** to **£100m;** Minimum: **£20m;** Maximum: greater of **£250m** or **1%** of Total Fund Value.
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	Existing co-investment programme should be extended in order to maximise its effectiveness, subject to development of a detailed proposal.

2 Portfolio Summary

The portfolio as at 30th June 2024 can be summarised as follows:

	Since Inception (£m)	**Current Portfolio (£m)**
Total Commitments Agreed	**2,239**	**2,141**
Amounts Drawn Down by Managers	**1,753**	**1,677**
+ Increase in Value	**560**	**514**
- Received Back in Distributions	**663**	**663**
- Realisations	**122**	**-**
= Total Net Asset Value (NAV)	**1,528**	**1,528**

Based on the current total Fund value, DIP's target allocation and range are as follows:

SPF Fund value at 30th June 2024	£30,585m
DIP allocation (target 5% of main fund) NAV	£ 1,529m
Current DIP NAV	**£ 1,528m**
NAV Range (Lower) 2.5%	£ 765m
NAV Range (Upper) 7.5%	£ 2,294m

The portfolio comprised **63** separate investments.
A current schedule of investments is included at **Appendix A**.

<u>Notes:</u>

1. In addition, a co-investment program of **£200m** was approved at the March 2022 Committee meeting. To date 2 co-investments (each for £15m / included above) have been invested, with a third approved but not yet drawn. The remaining **£155m** remains to be allocated and is not included above.

2. The portfolio comprised **63** separate investments at the above period end date, but is now 65 including 2 more recently approved investments, namely i) a £60m commitment to Quinbrook's QRIF2 fund; and ii) a £15m co-investment to a Temporis battery storage project. Both of these are currently in the legal review process, however neither is reflected in the above tables.

3 Performance

3.1 Portfolio Performance

Portfolio performance to 30th June 2024 is as follows:

	Q2 2024 (%)	1 year (%)	3-year (% p.a.)	5-year (% p.a.)	Since Inception (% p.a.)
DIP	**-0.7**	**0.6**	**8.6**	**5.9**	**7.4**
DIP Benchmark*	**1.3**	**7.1**	**9.5**	**7.4**	**3.2**
SPF	**1.1**	**9.7**	**3.9**	**6.5**	**11.0**

Source: Northern Trust
* CPI +3% pa from 2019; previously LIBOR

Performance continues to be positive over the longer-term periods (3 years+) but with a marked softening over the past 12 months.

Sectoral performance is as follows:

	3-year		5-year		10-year	
	DIP (% p.a.)	*SPF (% p.a.)*	DIP (% p.a.)	*SPF (% p.a.)*	DIP (% p.a.)	*SPF (% p.a.)*
Equity	11.1	*5.0*	18.4	*9.1*	15.6	*10.3*
STEY	7.7	*2.7*	6.9	*3.4*	4.7	*n/a*
LTEY	8.5	*5.2*	4.9	*3.6*	5.6	*n/a*
Total	8.6	3.9	5.9	6.5	6.5	8.4

On a sectoral basis, DIP has outperformed the main SPF returns over all periods. However, DIP lags SPF's aggregate return due to its relatively low equity weighting.

The main drivers for DIP's performance have been:

Positive Drivers (longer term periods):-
- strong returns from the inflation-linked revenues underpinning the majority of LTEY investments which form the bulk of DIP;
- DIP returns exhibited a close correlation with inflation as it increased and then reverted to more historical levels;
- strong performance from the private equity and private debt funds.

Detractors (shorter term periods):-
- increased discount rates, resulting from higher interest rates and returns on "risk free" assets, have led to investors seeking higher returns and

additional margins for risk and illiquidity, resulting in a weakening of valuations and therefore also fund returns;

- stronger power prices over the past couple of years were initially positive for Renewable Energy asset valuations and fund returns, however power prices have now decreased (although remain higher than historical averages) and asset valuations and fund returns have consequently softened;
- Private Equity managers are reporting lower valuation multiples applying to their portfolio companies, despite the generally satisfactory financial performance of most. This is primarily a result of fundraising markets being tighter, resulting in companies becoming more focused on cashflow and profitability at the expense of growth, on which company valuations are often reliant.

3.2 Individual Investment Performance

Overall, the portfolio has performed well as have a majority of its individual investments. On a RAG analysis:

- **56** investments are rated **green**
- **7** are rated **amber**
- **None red**
- **2** (QRIF2 & Temporis) are unrated pending completion of legals.

4 Progress Since Last Review

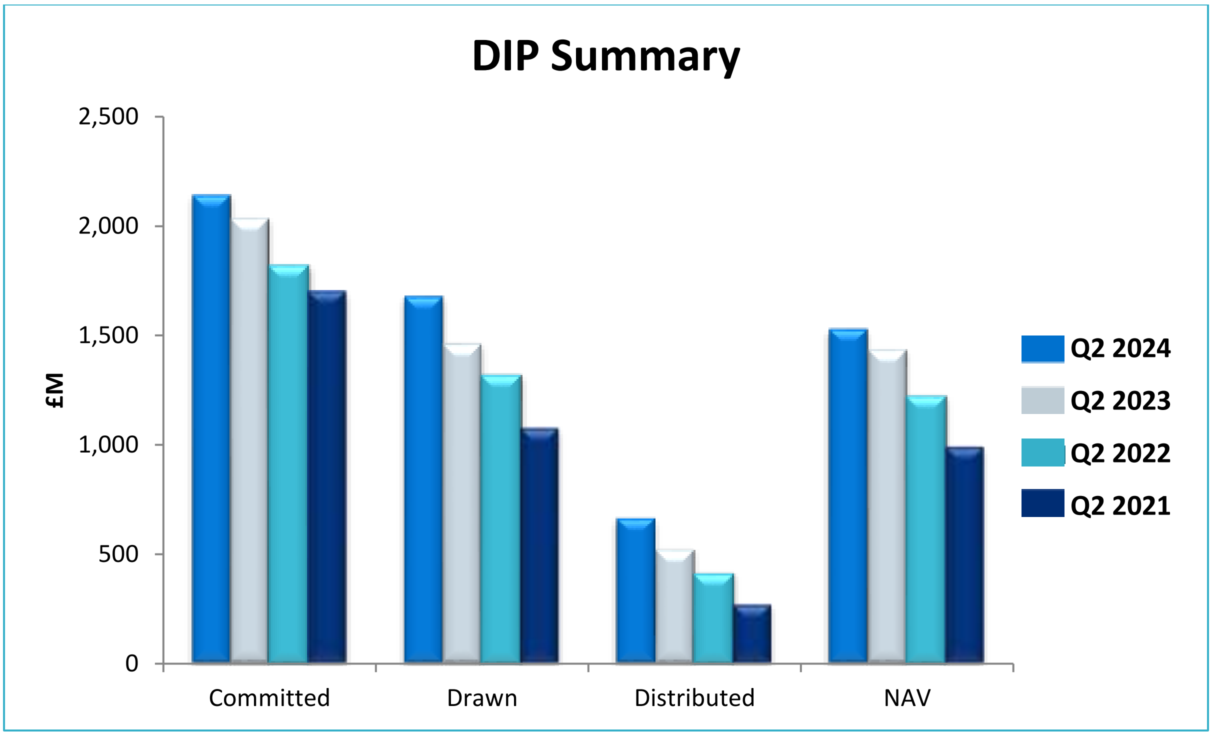
The Committee agreed 4 separate recommendations at the conclusion of the 2021 review including:

- no change to the objectives, structure, overall size parameters, risk and return parameters or governance structure;
- amendments to the individual investment guidelines including increases to i) the lower level of the target investment range (£30m); the minimum investment size (£20m); and to the maximum investment size (greater of £250m or 1% of the Total Fund Value);
- an extension of the co-investment programme to maximise its effectiveness; and
- a refresh of the DIP's profile by renaming it the Direct Impact Portfolio; redesigning the DIP website page to highlight the portfolio's achievements; and remarketing DIP with a brief campaign to increase awareness of the portfolio and its objectives.

All have since been implemented.

Total of individual investments has increased from 53 to 63 (now 65).

The chart below shows how the portfolio financials have developed since 2021.



5 2024 Review

5.1 Background

- The 2024 DIP review follows on from the 2023 actuarial valuation of SPF and the 2023/24 review of SPF investment strategy. Key developments from those exercise which form the context for the DIP review are:
- Significantly improved SPF funding level – **147%** at 31st March 2023 (previously 106%).
- Increase in discount rate (expected future investment return – now **5.0% p.a.** (previously 3.0%).
- Liabilities continue to mature – active member liabilities now **43%** of total (previously 45.3%).
- Ongoing trend of increasing cash-flow requirements to pay pensions.
- Outcomes of SPF investment strategy review included risk reduction (equity allocation reduced to **47%** - previously 52.5%), and increased focus on climate transition.
- SPF strategy review created capacity for increase in DIP allocation to **7.5%** of total SPF, subject to detailed review.

Main features of the economic background to the 2024 review are a less predictable inflationary outlook and higher interest rates in comparison to 2021.

5.2 Scope of Review

The following aspects of DIP have been reviewed:

- Objectives
- Strategy and Structure
- Size
- Diversification
- Risk and Return

- Measuring Impact
- Cost
- Governance
- Profile

Conclusions and recommendations in each of these areas are set out in the sections below.

6 Objectives

6.1 Primary Objective

The primary objective of the DIP is identical to the Fund's overall investment objective. That is to support the funding strategy by adopting an investment strategy and structure which incorporate an appropriate balance between risk and return with the aim of achieving:

- a greater than **80%** probability of being **100%** funded over the average future working lifetime of the active membership (the target funding period); and
- a less than **10%** probability of falling below **80%** funded over the next three years.

The DIP risk and return objectives are also broadly similar to those of the Fund overall. Further details are set out in the Risk and Return section at 10 below.

6.2 Secondary Objective

The Direct Impact Portfolio has a secondary objective of adding value through investments with a positive local, economic or ESG (environmental, social, governance) impact. Further details are set out in the Measuring Impact section at 11 below.

No change to the objectives is currently proposed.

7 Strategy & Structure

7.1 Strategy

A summary of the current DIP investment strategy is included at **Appendix B**. Just as the objective for DIP is the same as that of the Fund overall, the risk-return framework is also the same. No change to the overall strategy is proposed, though some implementation changes are considered below.

7.2 Structure

A summary of the current DIP structure is included at **Appendix C**.

At a very high level, DIP's allocation is dominated by long term enhanced yield investments primarily in the infrastructure, renewable energy and housing sectors. This has been a result of consistent availability of attractive LTEY opportunities, rather than a top-down allocation decision. Beneath that, there is more than adequate diversification by sector, manager, vintage year and individual asset. No change to the structure is proposed.

8 Size

8.1 Background

DIP was established in 2009 with a maximum capacity of £300m, which was subsequently increased to a maximum DIP Net Asset Value (NAV) of **3%** of total Fund **NAV**, and then again in 2015 to **5%** of total Fund **NAV**. At the 2018 review, it was agreed that DIP should have a target size of **5%** of total Fund **value** together with a range of **2.5%** to **7.5%** of total Fund value. No changes were made at the 2021 review.

8.2 Current Position

The table below provides a summary of DIP actual allocation compared to target allocation as at 30th September 2021 and 30th June 2024.

	2021 (£m)	**2024 (£m)**
Total Fund NAV	*27,907*	30,585
DIP NAV	***1,053***	**1,528**
DIP Target NAV (5%)	***1,395***	**1,529**
DIP NAV Range (Lower) 2.5%	*698*	765
DIP NAV Range (Upper) 7.5%	*2,093*	2,294
Undrawn Commitments	***591***	**465**

DIP has made excellent progress in reaching the current target allocation during the past 3 years through a combination of new commitments, ongoing drawdowns in respect of existing commitments, and the "denominator effect", when the overall Fund value (i.e. the denominator) reduced for a period in 2022/23.

The actual NAV of **£1,528m** is at the 5% target and comfortably within the target range. The actual NAV plus undrawn commitments would exceed the 5% target but still be within the target range. Any new commitments would push the allocation above target and introduce the risk of breaching the upper range.

8.3 Projected Position

As part of the review, portfolio modelling was carried out to provide projections of portfolio growth under a variety of economic scenarios. Three examples are included at **Appendix D**.

No absolute conclusions can be drawn from the modelling as there are too many variables involved, however the projections would suggest the following:

- The current DIP strategy, shown as **Scenario 1**, severely limits DIP's capacity to make new commitments.
- Increasing the target allocation to **7.5%**, within a range from 5% to 10%, as shown in **Scenario 2** would create capacity for new commitments. DIP would again be below its target allocation initially but the modelling suggests that the target of 5% could be achieved within around 6 years if the current pace of new commitments (c.10% or £200m p.a. was maintained). The allocation would then remain at or around target for the remainder of the projection period.

- One of many potential variables is a market downturn. This is illustrated as **Scenario 3**. This would result in target being achieved much earlier. Allocation would then exceed target but remain well within the upper range.

Clearly, many other scenarios are possible.

8.4 DIP Capacity: Proposal to Increase

It is now proposed to increase the target allocation to **7.5%** of total Fund value, and operating within a range of **5%** to **10%**. This increased figure is viewed as a longer-term target to be achieved over 2 or more DIP review periods, to ensure a sustainable and balanced pace of new investments, to maintain diversification by vintage and also to be achievable within current DIP resourcing.

8.5 Individual Investments

The size of individual DIP investments has grown broadly in line with the overall size of DIP and the Fund. Early investments were typically in a range of £5m to £10m while recent investments have more typically been in a range of £30m to £60m. The existing guidelines for investment size allow scope for this trend to continue for individual new DIP investments.

- **Target investment size: £30m** to **£100m**
- **Minimum investment: £20m**
- **Maximum investment: £250m** (currently greater of **£250m** or **1%** of Total Fund Value)

As is currently the case, each investment will be considered on its own merits and the recommended ticket size will be determined by the specific characteristics of the proposal. It is proposed to restate the Maximum amount to the absolute figure of £250m, deleting the linkage to Total Fund Value. This is because 1% of Total Fund Value is now an unrealistic figure in the context of a single DIP commitment.

9 Diversification

9.1 Background

Appendix C demonstrates that DIP is well diversified by sector, manager, asset class and vintage year. While it is important that the underlying diversification should be maintained, it is also important that the portfolio should not become over-diversified as this would tend to increase costs and resource requirements and dilute returns. This is partly addressed through the increasing average lot sizes described above.

For similar reasons DIP has also invested in subsequent funds with individual managers after a successful first investment. This will continue where appropriate.

Another means to manage over-diversification is through co-investment.

9.2 Co-Investment Proposal

A co-investment is an additional investment in a specific asset made by an investor in a fund, alongside an investment by that fund in the same asset and managed by the same fund manager. This allows the investor to increase exposure to individual assets held within the portfolio. Typically, co-investments are offered at a management fee significantly lower than the fund's fee. SPF has successful co-investment programmes within its private equity portfolios.

The 2021 review led to the extension of DIP's co-investment strategy in the form of the Co-Investment Programme (CIP) which was approved by the Committee in March 2022. Further details of the CIP are set out in **Appendix E.**

Given the proposed increase in the overall DIP allocation, it is now proposed to increase the overall size of the CIP program to **£300m** (currently £200m) and the individual maximum co-investment ticket size to **£25m** (currently £15m). The total amount of co-investments with a particular manager will remain restricted to the amount committed to the associated main fund with that manager.

10 Risk and Return

10.1 Return Parameters

DIP's current return parameters are:

- a benchmark return of **CPI +3% p.a.** for DIP as a whole;
- a minimum expected IRR of **5%** for individual investments; and
- indicative return expectations for each of the sectors covered by DIP.

Market return expectations have changed since the last review, driven by increases in inflation, interest rates, and bond yields. This is reflected in the increased discount rate used in SPF's 2023 actuarial valuation.

As a result, an increase in the minimum expected return for individual investments to **6.5%** is now proposed. This is not anticipated to materially restrict the flexibility of DIP to consider new investment opportunities.

Further details of expected sector returns are set out in **Appendix F.**

10.2 Risk Register

At the 2018 review a new risk template was introduced and has subsequently been applied to each investment.

Appendix G shows the current summary risk register in respect of the DIP portfolio as a whole. This aggregates the individual risk ratings for each DIP investment. Overall, as at 30th September 2024, DIP had a relatively low risk rating of 6.0 across all 65 approved funds.

11 Measuring Impact

Risk and return remain the primary considerations for DIP investments, but local and ESG impacts are an important secondary consideration. These impacts were quantified for the first time in the 2018 review.

The following table summarises headline impacts achieved by DIP to date.

Impact	
Environmental (figures reflect DIP's weighted stake in funds' assets and therefore DIP's direct impact):	For 2023:-
Clean Energy Generated (GWh p.a.)	**610**
Carbon Reduction (tonnes p.a.)	**173,432**
Sufficient to Power (homes p.a.)	**311,575**
Social (Infrastructure funds) – stakes in:	Total / (in Scotland)
Schools/Educational Facilities	**220 / (102)**
Hospitals/Healthcare Facilities	**46 / (13)**
Govt/Police/Fire/Legal/Military offices/accomodation	**109 / (0)**
Renewable Energy Assets (or "farms")	**476 / (74)**
	Projects / (Units)
Social Housing Projects	**62 / (15,042)**
Student Accommodation Assets	**32 / (14,041)**
Governance	
PRI signatories	**31/(35)**
Local (funds' stakes - value or no. of assets in):	
Local/Scottish Investments (infrastructure funds)	**>£690m**
Local/Scottish Investments (housing units)	**>£350m**
Scottish Affordable Housing units	**1,129**
Scottish Build to Rent housing units	**670**
Scottish wind farms (no. of turbines)	**54 (495)**
Scottish hydro assets	**10**
Other Scottish renewable energy assets	**10**

DIP has other positive impacts including job creation and support, economic regeneration, and development of new technologies. However, these are less measurable in terms of additionality of impact than the headline figures above.

Further details of DIP's positive impacts are included at **Appendix H**.

12 Cost

DIP operates in private rather than listed markets. As a consequence, DIP investment management costs are materially higher than management costs for SPF overall, although at similar levels to other private markets portfolios in the Fund. This is reduced as far as possible by fee negotiation and investment selection which will continue.

The CIP to date has, and is expected to continue to achieve lower fees than existing infrastructure and/or renewable energy investments. The increasing portfolio size and size of individual investments should also achieve some economy, though this may be limited.

13 Governance

DIP's governance process is summarised as follows.

DIP Strategy	▪ Strategy and guidelines agreed by SPF Committee.
Investment Sourcing	▪ Led by SPFO officers. ▪ DIP has an established profile in the UK investment market and this creates a steady pipeline of opportunities for review and analysis.
Investment Analysis	▪ Officers review and filter investment opportunities and carry out initial diligence. ▪ Further external diligence as appropriate including by investment and legal consultants (Hymans Robertson and Pinsent Masons).
Decision-Making	▪ Review by Committee Sounding Board. ▪ Final investment decision by SPF Committee with assistance from the SPF Board.
Monitoring and Reporting	▪ Monitoring of individual investments by officers. ▪ Quarterly report on DIP progress reviewed by Investment Advisory Panel. ▪ Summary report reviewed by committee and included in Annual Report.

The governance structure and process are further illustrated in **Appendix I**.

External consultancy and legal support are provided by Hymans Robertson and Pinsent Masons respectively, since their appointments were both renewed in July 2021. The existing structure and process work well and no further change is considered necessary at this time.

As the portfolio continues to grow, additional resource may be required within SPFO to ensure that investment sourcing, analysis, monitoring and reporting can continue to be undertaken with the necessary level of rigour and diligence. Ongoing resource requirements will be kept under review.

14 Profile

DIP has been established for 15 years, has built a significant portfolio of investments and has been open for business throughout that period - i.e. DIP has received and reviewed new proposals, has had a pipeline of investments under review, and has always had capacity for new investments through a variety of market circumstances and investment cycles.

DIP therefore has a distinct and well developed profile in the institutional investment marketplace both locally and across the UK. It has been a founder or cornerstone investor in a number of funds which may otherwise not have become established and is regularly a first-close investor in new or follow-on funds. The DIP investment team are confident that they are offered all, or at least the vast majority of (particularly local) opportunities which fit the agreed criteria, including importantly the required impact aspect. This view has been tested with consultants and other contacts, and is well supported, with no evidence to the contrary. No changes are therefore proposed to DIP's profile.

15 Policy and Resource Implications

Resource Implications:

Financial:	None at this time
Legal:	None at this time
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***. A review of the Direct Impact Portfolio is included as a priority in the SFP 2024/25 Business Plan.
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?	No specific impact from this proposal.
Please highlight if the policy/proposal will help address socio-economic disadvantage.	The investments undertaken by DIP contribute to supporting a significant number of high quality jobs across the UK, both in terms of the construction and thereafter the management of the underlying portfolio assets.
Climate Impacts:	
Does the proposal support any Climate Plan actions? Please specify:	Yes. DIP is an important element of Strathclyde Pension Fund's Climate Change strategy, which is being developed in line with Item 34 of the Council's Climate Action Plan.

What are the potential climate impacts as a result of this proposal?	Continued investment in renewable energy infrastructure and clean technology private equity funds.
Will the proposal contribute to Glasgow's net zero carbon target?	DIP contributes to SPF's net zero carbon target in the form of renewable energy infrastructure and clean technology private equity funds.
Privacy and Data Protection Impacts:	None
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

16 Recommendations

The Committee is asked **to NOTE** the contents of this report and **to APPROVE** the following recommendations:

- no change proposed to the DIP's objectives, structure or governance;
- an increase to DIP's target allocation from 5% to **7.5%** of the Fund within a range of **5%** and **10%** (calculated by Net Asset Value);
- an increase to the minimum targeted return (Net IRR) for individual fund proposals to **6.5%** (currently 5%);
- appropriate target returns to continue to be assessed on a fund-by-fund basis with regard to the perceived risk;
- one change proposed to the individual investment guidelines:
  - Target investment size: **£30m** to **£100m**;
  - Minimum investment: **£20m**;
  - Maximum investment: **£250m** (currently greater of **£250m** or **1%** of Total Fund Value);
- An increase in the total amount of the existing co-investment programme to **£300m** (currently £200m) and an increase to the maximum individual co-investment to **£25m** (currently £15m).

<u>Appendices</u>

A Schedule of DIP Investments
B Summary of DIP Investment Strategy
C Summary of DIP Investment Structure
D Example Portfolio Modelling
E DIP Co-Investment Programme (CIP)
F Indicative Returns
G Risk Template
H Measuring Impact
I DIP Governance Structure

Appendix A

Schedule of DIP Investments at 30th June 2024

Fund	Vintage Year of Fund	Sector	Asset Category	SPF Commitment (£m)	Cumulative Drawdowns (£m)	Undrawn Commitment (£m)	Cumulative Distributions (£m)	Net Asset Value (£m)
SEP II	2000	VC	Equity	5	5	0	4	0
SEP III	2006	GC	Equity	5	5	0	18	0
Panoramic Enterprise Capital Fund 1 LP	2010	GC	Equity	3	3	0	9	1
Iona Environmental Infrastructure LP	2011	RE	LTEY	10	10	0	4	6
Scottish Loans Fund	2011	CR	STEY	6	6	0	7	0
SEP IV LP	2011	GC	Equity	5	5	0	7	4
Epidarex Fund II	2013	VC	Equity	5	5	0	3	5
Healthcare Royalties Partners III LP	2013	CR	STEY	20	19	0	19	7
Resonance British Wind Energy Income Ltd	2013	RE	LTEY	10	10	0	7	9
Clydebuilt Fund LP	2014	PR	LTEY	75	75	0	72	17
Dalmore PPP Equity PiP Fund	2014	INF	LTEY	50	50	0	36	43
Albion Community Power LP	2015	RE	LTEY	40	40	0	14	42
Alpha Social Long Income Fund	2015	SL	LTEY	15	15	0	5	19
Equitix Fund IV LP	2015	INF	LTEY	30	30	0	13	29
Funding Affordable Homes	2015	PR	LTEY	30	30	0	0	31

Appendix A

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Macquarie GIG Renewable Energy Fund I	2015	RE	LTEY	80	80	0	63	64
Muzinich UK Private Debt Fund	2015	CR	STEY	15	15	0	15	0
NTR Wind I LP	2015	RE	LTEY	39	35	4	41	34
Panoramic Growth Fund 2 LP	2015	GC	Equity	13	12	1	16	5
Temporis Operational Renewable Energy Strategy (TORES II) (prev. TREF)	2015	RE	LTEY	30	30	0	8	39
Beechbrook UK SME Credit II Fund	2016	CR	STEY	30	29	1	21	19
Legal & General UK Build to Rent Fund	2016	PR	LTEY	75	75	0	4	76
Pemberton UK Mid-Market Direct Lending Fund	2016	CR	STEY	40	37	3	40	21
PIP Multi-Strategy Infrastructure LP(Foresight)	2016	INF	LTEY	130	120	10	58	84
SEP V LP	2016	GC	Equity	20	20	0	11	28
Dalmore Capital Fund 3 LP	2017	INF	LTEY	50	50	0	14	53
Greencoat Solar Fund II LP	2017	RE	LTEY	50	50	0	15	45
Hermes Infrastructure Fund II	2017	INF	LTEY	50	42	8	12	46
Iona Renewable Infrastructure LP	2017	RE	LTEY	14	14	0	1	15
Maven Regional Buyout Fund	2017	GC	Equity	20	18	2	17	8
Pentech Fund III	2017	VC	Equity	10	7	3	0	8
TDC II (prev Tosca Debt Capital Fund II LP)	2017	CR	STEY	30	24	6	17	13

Appendix A

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Temporis Operational Renewable Energy Strategy (TORES)	2017	RE	LTEY	30	28	2	7	51
Equitix Fund V LP	2018	INF	LTEY	50	50	0	13	52
Invesco Real Estate Finance Fund II (formerly GAM REFF II)	2018	CR	STEY	20	14	6	14	10
Capital Dynamics Clean Energy Infrastructure VIII	2019	RE	LTEY	40	36	4	4	36
Epidarex Fund III	2019	VC	Equity	15	11	4	0	11
Palatine Private Equity Fund IV	2019	GC	Equity	25	15	10	13	14
Places for People Scottish Mid-Market Rental (SMMR) Fund	2019	PR	LTEY	45	35	10	2	39
TDC III (prev Tosca Debt Capital Fund III LP)	2019	CR	STEY	30	21	9	10	24
Clean Growth Fund	2020	VC	Equity	20	14	6	0	14
Equitix Fund VI LP	2020	INF	LTEY	50	50	0	4	52
Equitix MA 19 LP (Co-investment Fund)	2020	INF	LTEY	50	50	0	7	54
Quinbrook Renewables Impact Fund	2020	RE	LTEY	50	48	2	0	52
Beechbrook UK SME Credit III Fund	2021	CR	STEY	40	30	10	3	30
Clydebuilt Fund II LP	2021	PR	LTEY	100	68	32	1	68
Dalmore Capital Fund 4 LP	2021	INF	LTEY	50	50	0	4	51
Dalmore II 39 LP	2021	INF	LTEY	50	30	20	3	31

Appendix A

Schedule of DIP Investments at 30th June 2024

Fund	Vintage Year of Fund	Sector	Asset Category	SPF Commitment (£m)	Cumulative Drawdowns (£m)	Undrawn Commitment (£m)	Cumulative Distributions (£m)	Net Asset Value (£m)
Iona Resource and Energy Efficiency (Strathclyde) LP	2021	RE	LTEY	6	6	0	0	7
Man GPM RI Community Housing Fund	2021	PR	LTEY	30	24	6	0	25
SEP VI LP	2021	GC	Equity	30	10	20	0	9
Temporis Impact Strategy V LP (TISV)	2021	RE	LTEY	50	36	14	3	41
NextPower UK ESG Fund	2022	RE	LTEY	60	26	34	1	27
Palatine Impact Fund II	2022	GC	Equity	25	8	17	0	8
Panoramic SME Fund 3 LP	2022	GC	Equity	25	5	20	0	4
Capital Dynamics Clean Energy UK Fund	2023	RE	LTEY	60	1	59	0	0
Foresight Regional Investment V LP	2023	GC	Equity	30	4	26	0	3
Par Equity Northern Scale-Up Fund	2023	VC	Equity	25	6	19	0	5
Schroders Greencoat Glasgow Terrace	2023	RE	LTEY	15	15	0	0	15
Corran Environmental Fund II	2024	GC	Equity	20	9	11	0	9
Equitix Fund VII LP	2024	INF	LTEY	50	0	50	0	0
Palatine Private Equity Fund V	2024	GC	Equity	30	0	30	0	0
Temporis (TISV Co-invest1 LP)	2024	RE	LTEY	15	15	0	0	15
Total as at 30/06/2024				**2,141**	**1,677**	**465**	**663**	**1,528**
Total as at previous quarter 31/03/2024				**2,046**	**1,602**	**444**	**625**	**1,490**

Appendix A

Schedule of DIP Investments at 30th June 2024

Realised Investments								
Fund	**Vintage Year of Fund**	**Sector**	**Asset Category**	**SPF Commitment (£m)**	**Cumulative Drawdowns (£m)**	**Undrawn Commitment (£m)**	**Cumulative Distributions (£m)**	**Net Asset Value (£m)**
Aberdeen UK Infrastructure Partners LP	2012	INF	LTEY	28	28	0	57	0
Aviva Investors PIP Solar PV LP	2015	RE	LTEY	20	3	0	4	0
City Legacy (Athletes Village)	2013	CR	STEY	35	33	2	39	0
Foresight Infra Holdco Ltd (prev PIP Ltd)	2013	INF	LTEY	1	1	0	1	0
GAM REFF I (formerly Renshaw Bay)	2012	CR	STEY	10	7	3	10	0
Markham Rae	2016	CR	STEY	0	1	0	0	0
SEP Environmental Capital Fund LP	2014	RE	LTEY	4	4	0	11	0
Total as at 30/06/2024				**98**	**77**	**5**	**122**	**0**

Appendix B

Summary of DIP Investment Strategy

In November 2015 the Committee agreed that the portfolio should adopt the risk-return asset framework that had been agreed for development of Strathclyde Pension Fund's (SPF) investment strategy. The framework is illustrated below.

Asset Category	Main Objectives
Equity	To generate return
Hedging / Insurance	To reduce the exposure of the funding level to variations in interest rates and inflation
Credit	To ensure additional yield, provide income and reduce funding volatility
Short term enhanced yield	To provide an income stream above the expected return on investment grade corporate bonds
Long term enhanced yield	To provide a long-term income stream and a degree of inflation protection

In practice, only 3 of the 5 asset categories in the risk-return framework are represented in DIP. 2 categories, Hedging/Insurance and Credit are not represented. This is unlikely to change in the near future.

In addition the following principles are applied to potential DIP investments.

- Risk, size, sector, cash-flow and exit factors each need to be considered on a deal-by-deal basis and in the context of the Fund as a whole.
- Investments should:
  - complement the Fund's existing investment strategy with respect to its risk and return objectives;
  - not overburden the current resources of the Fund;
  - have clear and well developed legal and governance provisions;
  - be structured appropriately. Preference is for multi-asset, multi-investor portfolios in order to mitigate risk.
  - be FCA regulated;
  - be Sterling denominated;
  - be predominately UK;
  - have a stable team with a good business plan and a proven track record in their field;
  - have other, suitable key investors;
- Due diligence will be completed before any formal commitment is made. This will include detailed review of:
  - risk and return characteristics
  - the industry and/or sector
  - legal documentation

Appendix B

Summary of DIP Investment Strategy

- local and ESG impact and
- fair working practices.

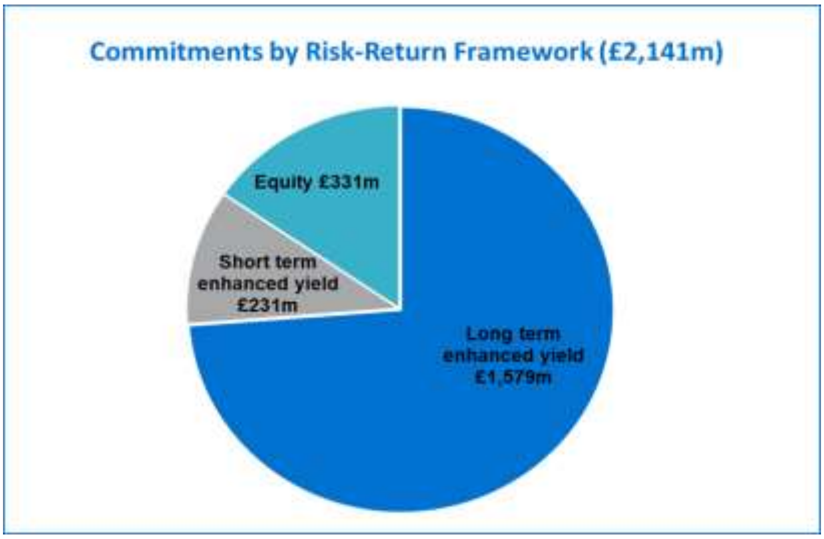
▪ All managers must be prepared to treat SPF as a professional client (MiFID II)

Key characteristics of DIP investments which differentiate them from the main SPF investment structure are summarized as follows.

	Main Structure	**Direct Investment Portfolio**
Investment Characteristics	▪ Liquid, evergreen, strategic. ▪ Global. ▪ Lot size >1% of Fund.	▪ Illiquid, self-liquidating, opportunistic. Local, economic or ESG (Environmental, Social, Governance) impact. ▪ Sterling and UK based. ▪ Lot size <1% of Fund.

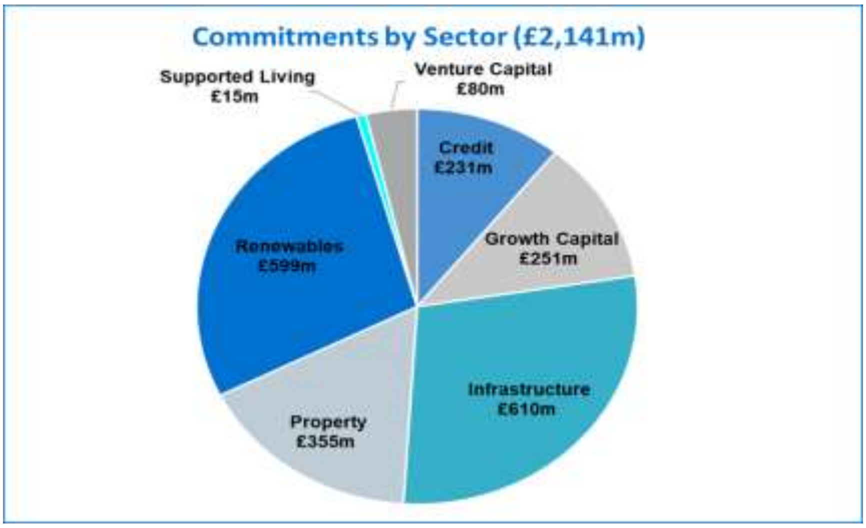
Summary of DIP Investment Structure

Asset Category Allocation
The current structure in relation to the Fund's risk-return framework is illustrated in the chart below which shows total DIP commitments as at 30th June 2024.



Long term enhanced yield investments – infrastructure, renewables, and local property – continue to dominate the current DIP allocation profile. The 2018 review considered whether it would be preferable to achieve a more balanced allocation for DIP but concluded that, so long as a balanced strategy was maintained across the Fund as a whole, it was not important for DIP to reflect a similar balance. It is more important that DIP maintains its opportunistic approach, though this will inevitably lead to some bias towards the areas which demonstrate the most opportunities or best investment value over any particular period. LTEY investments typically have a much longer fund life than other categories and this compounds their dominance. For the foreseeable future it is therefore likely that DIP will retain a bias towards long term enhanced yield.

Sector Allocation
Below the asset category level, DIP is further diversified across individual sectors. Allocation as at 30th June 2024 is illustrated in the chart below.

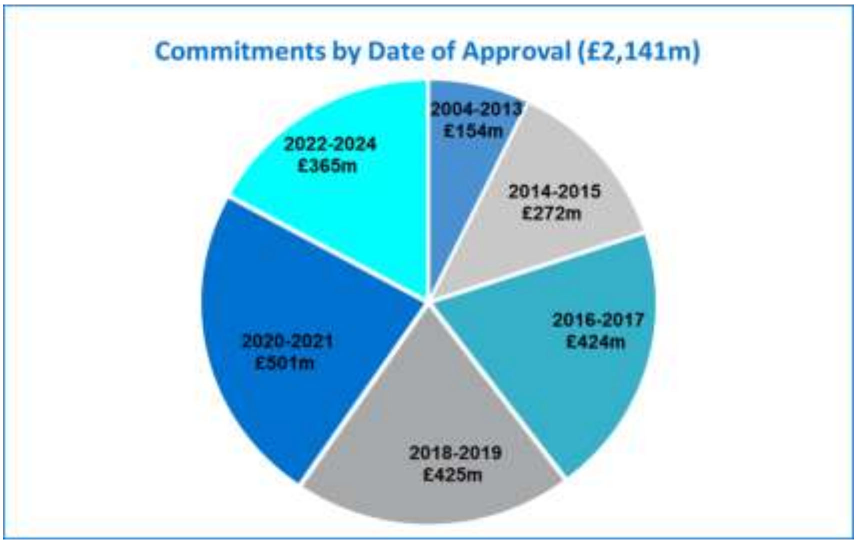


Summary of DIP Investment Structure

Within each sector there is further diversification by fund manager and individual investment asset, particularly within renewable energy and infrastructure.

Commitments by Year of Approval

The chart below shows the commitments made by DIP split out by the year of Committee approval as at 30th June 2024.

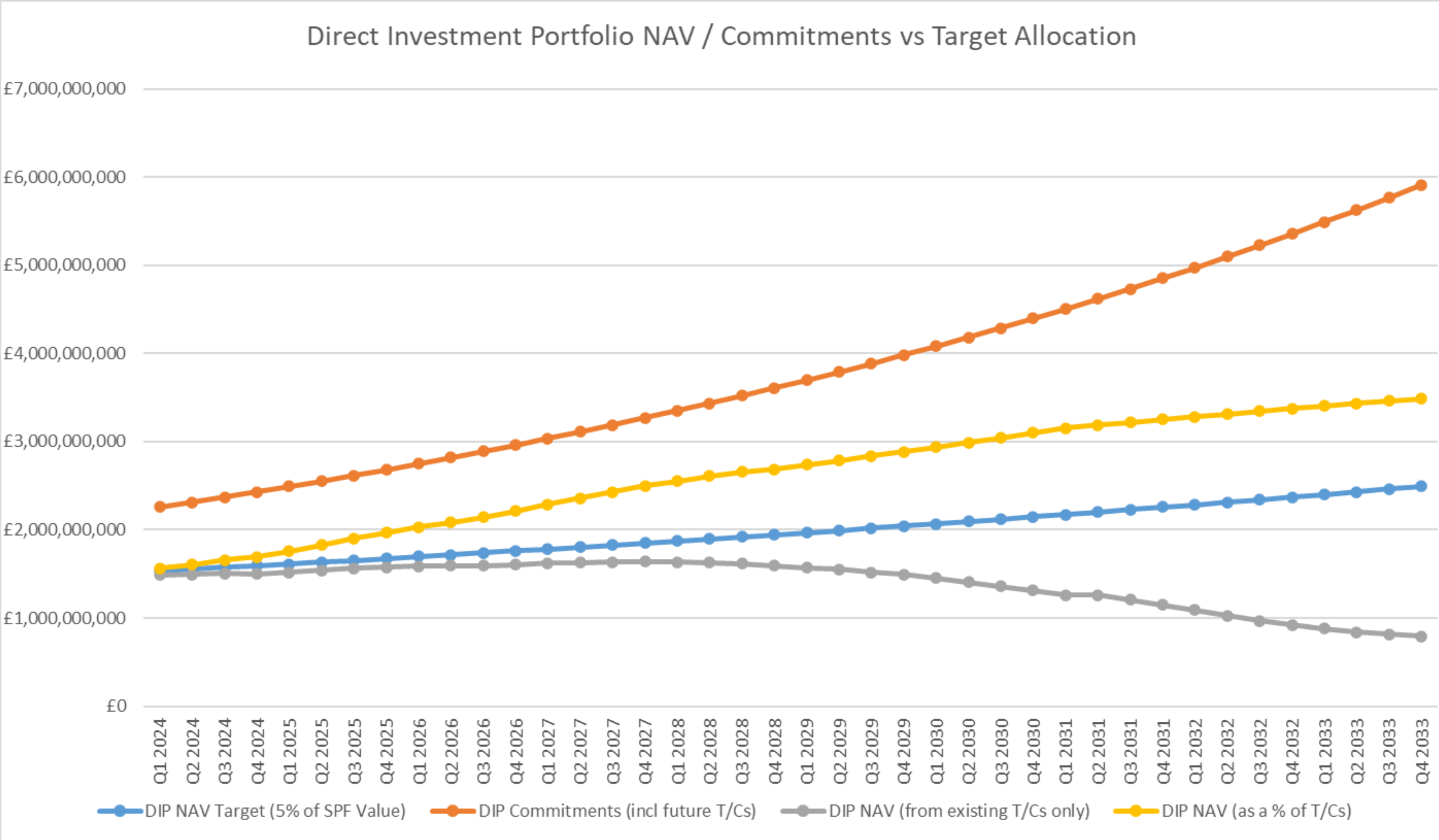


The chart shows a fairly even spread across vintage year. This is generally positive as it provides a further form of diversification which should reduce volatility of cash flow and performance.

Appendix D

Example Portfolio Modelling – Commitment Projections

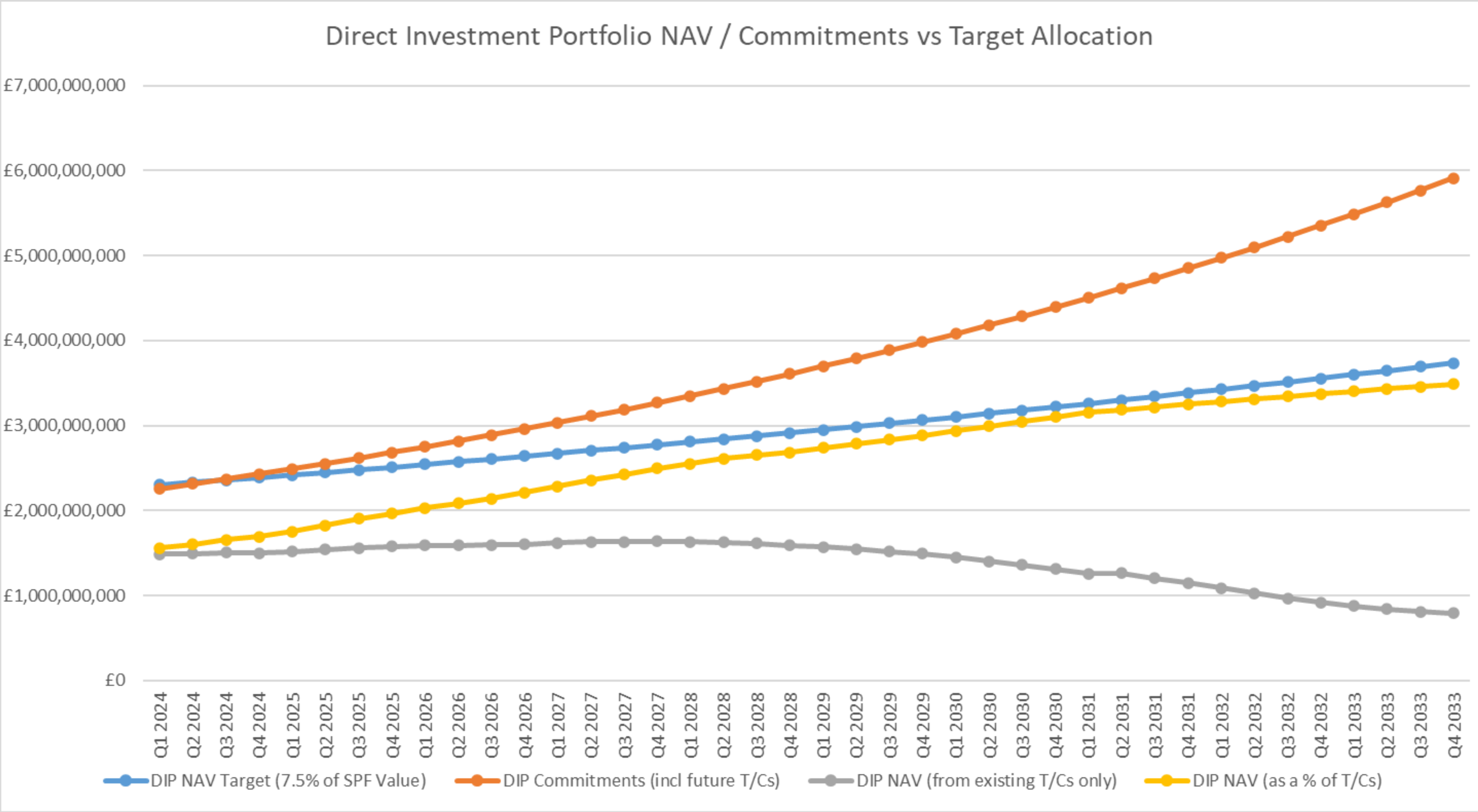
Scenario 1:- Current Strategy
(DIP Target 5.0% / SPF Growth 5% p.a. / New DIP commitments at +10% p.a.)



Appendix D

Example Portfolio Modelling – Commitment Projections

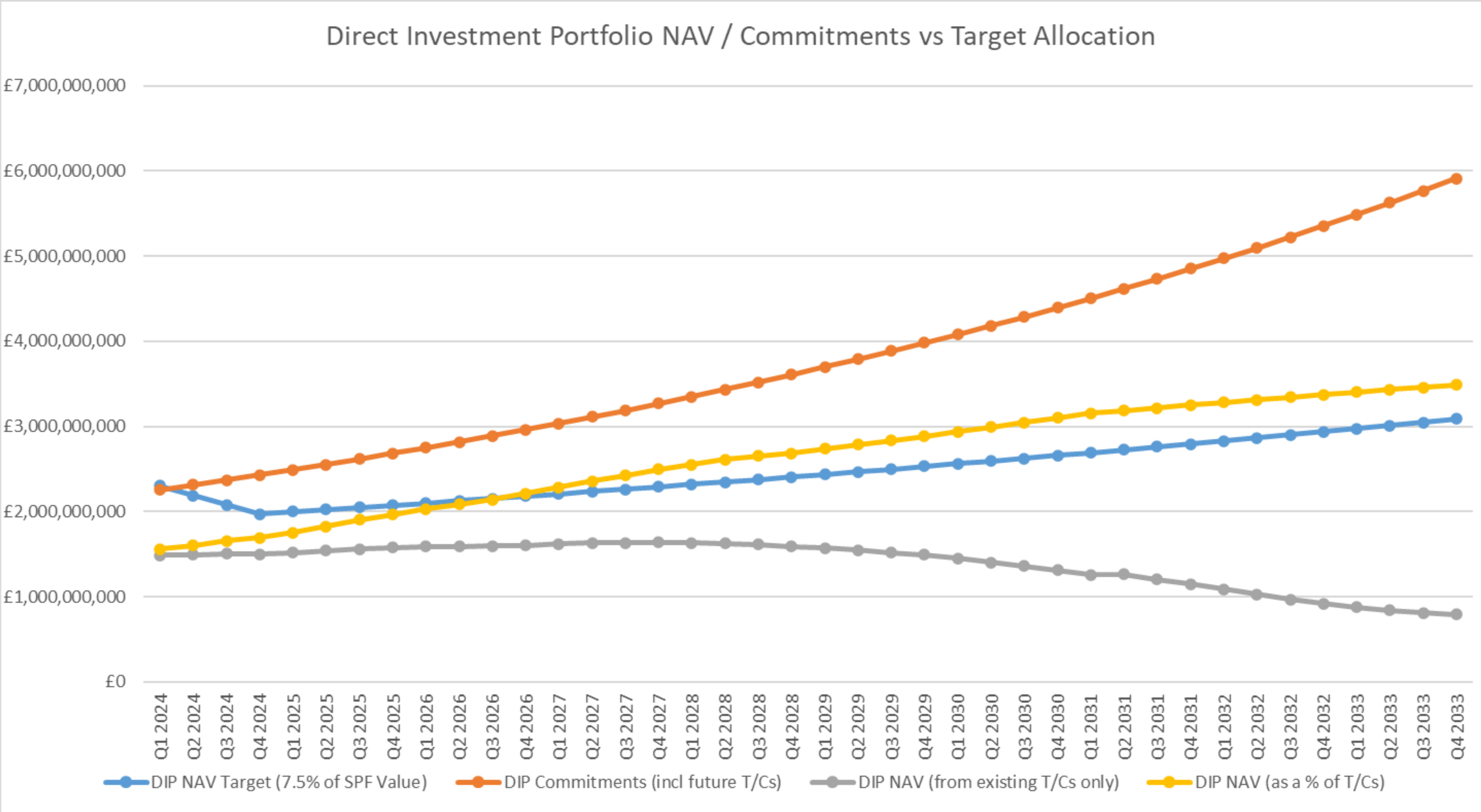
Scenario 2:- Increase Allocation
(DIP Target 7.5% / SPF Growth 5% p.a. / New DIP commitments at +10% p.a.)



Appendix D

Example Portfolio Modelling – Commitment Projections

Scenario 3:- Market Downturn
DIP Target 7.5% (currently 5%) / SPF Downturn -20% / New DIP commitments at +10% p.a.



Appendix E

DIP Co-Investment Programme (CIP)

This £200m programme facilitated the approval by SPF officers of individual UK co-investments of up to £15m each, subject to the following parameters:

- co-investments to be made only in UK assets;
- co-investments to be in assets where there is an existing fund investment;
- co-investments with any specific manager will never total more than the existing fund investment with that manager;
- co-investments to be a maximum of £15m in any single asset;
- a summary report of the proposed co-investment transaction to be provided to SPF prior to acquisition;
- SPF to have a right of veto of the proposed transaction.

The parameters ensure that the asset concerned is aligned with the investment strategy of an existing fund and should therefore be suitable for a co-investment.

The primary advantage of the CIP is the relative speed at which co-investments can be undertaken.

The transaction veto has been utilised on one occasion to date where the proposed funding structure for a co-investment opportunity was considered unattractive and could also be used, for example, where the performance of managers hasn't been as strong as anticipated. The right of veto, which will be exercised by SPF officers, provides an additional measure of control.

Two co-investments, each of £15m, have been drawn to date under the CIP. A third has been approved and is currently in legals.

The three co-investment transactions undertaken to date are:-

- Schroders Greencoat - to support the acquisition of a large operational portfolio of 53 UK solar farms (invested);
- Temporis Capital - for the acquisition of the 50% stake in a 23 turbine windfarm located in Dumfries and Galloway that the manager did not already own (invested); and
- Temporis Capital - to support the construction of 2 fully consented battery energy storage systems (BESS) in the highlands of Scotland (currently in legals).

The CIP built upon 2 previous DIP co-investments of £50m each, agreed alongside DIP commitments to specific Dalmore and Equitix infrastructure funds. The CIP provides more flexibility as it can be invested with any existing manager alongside a co-mingled fund in which DIP has an existing commitment, subject to the CIP parameters; the satisfactory performance by the manager concerned; as well as the proposal's attractiveness.

Appendix F

Indicative Returns

Asset Category	Sector	Indicative Return (Net IRR)	Sub sector returns (Net IRR)
Equity	Private Equity	**>12%**	▪ Buyout >12% ▪ Growth capital >15% ▪ Venture capital >20% ▪ Returns may vary by +/- 5% depending on target sector, investment stage, average investment size, etc.
Short Term Enhanced Yield	Private Debt (direct lending)	**>6%**	▪ Senior secured >6% ▪ Leveraged / unitranche >8% ▪ Subordinated/mezzanine >10% ▪ Funds may invest in more than one type of debt. Target return will reflect expected allocation between different types.
	Private Debt (real assets)	**>6%**	▪ Real estate debt >8% ▪ Infrastructure debt >6%
Long Term Enhanced Yield	Infrastructure	**7-12%**	▪ Social, transportation, energy, environmental, communications. ▪ Returns and yields dependent on sector, asset type, leverage and whether assets are operational or under construction, core or value add and whether returns are generated from availability based contractual revenue streams or are demand (i.e. usage) based.
	Renewable Energy	**7-12%**	▪ On/off shore wind, hydro, solar, battery storage, bioenergy. ▪ Returns and yields dependent on sector, asset type, leverage, whether assets are operational or under construction, or from the sale of the assets or the energy generated, whether subject to hedging (CfDs - contracts for difference), PPAs (power purchase agreements) or are exposed to merchant risk.
	Housing	**6.5-10%**	▪ Affordable, Build to Rent, private rental sector, shared ownership etc ▪ Returns and yields dependent on sector, asset type, geography, whether assets are operational or under construction and whether returns are generated from capital appreciation or from contractual or demand-based income stream.

Risk Template

In March 2019, the Committee approved a revised Risk Policy and Strategy Statement. The statement sets out a common basis for risk management across the Fund's strategies.

As a key part of the risk strategy, a detailed risk register has been established and is maintained for the Strathclyde Pension Fund (SPF). A separate register is maintained for DIP. This is summarised below as at 30th September 2024:

	MAJOR/CATASTROPHIC Significant concerns regarding the ability of the investment to meet its target	15+
	MODERATE Concern regarding either one or a combination of factors.	10-14
	MINOR No concerns at this time.	5-9
	INSIGNIFICANT Risk is easily mitigated by normal day to day process.	1-4

Probability				**Impact** 1 Insignificant	2 Minor	3 Moderate	4 Major	5 Critical	
	5	**Almost Certain**	**90%**	5	10	15	20	25	← significant risk zone
	4	**Likely**	**70%**	4	8	12	16	20	
	3	**Possible**	**50%**	3	6	9	12	15	
	2	**Unlikely**	**30%**	2	4	6	8	10	
	1	**Rare**	**10%**	1	2	3	4	5	

APPENDIX G

Risk Template

RISK Ref No.	RISK	RESIDUAL ASSESSMENT					
		Risk Title/Risk Description		Residual Probability	Residual Impact	Residual Risk	Movement
DIP01	Deployment Risk	**Risk**	Deployment	0.7	0.9	1.6	↓
		Cause	Failure to invest fund commitments				
		Effect	No return on investment				
DIP02	Operational Risk	**Risk**	Operational	2.6	2.9	7.7	↓
		Cause	Disruption due to poor functioning or damage to physical assets				
		Effect	Delay or inability to meet target returns				
DIP03	Counterparty/ Default Risk	**Risk**	Counterparty/Default	2.4	2.9	7.5	↓
		Cause	Failure to meet contractual requirement or payment(s)				
		Effect	Credit Losses				
DIP04	Management/ People/Key-person Risk	**Risk**	Key person event	2.3	2.6	6.3	↓
		Cause	Failure of management team				
		Effect	Pause in investment process				
DIP05	Valuation Risk	**Risk**	Valuation	2.4	2.9	7.0	↓
		Cause	Overpayment for assets at point of investment				
		Effect	Reduction in returns				
DIP06	Inflation Risk	**Risk**	Inflation	2.3	2.6	6.2	↑
		Cause	Macro economic				
		Effect	Increase in asset price volatility				
DIP07	Legislative/ Regulatory Risk	**Risk**	Legislative/Regulatory	2.2	2.6	6.0	↓
		Cause	Political or legislative				
		Effect	Adverse effect on assets				
DIP08	Concentration Risk	**Risk**	Concentration	2.0	2.7	5.7	↓
		Cause	Assets not diversified				
		Effect	Counterparty or asset exposure unprotected				
DIP09	Exit/Liquidity Risk	**Risk**	Exit/Liquidity	2.3	2.9	6.9	↔
		Cause	Changes in markets				
		Effect	Inability to realise investment value				
DIP10	Idiosyncratic Risk	**Risk**	Idiosyncratic Risk	2.0	2.5	5.2	↓
		Cause	Covid 19				
		Effect	Global				
			Average	**2.1**	**2.6**	**6.0**	
					Portfolio Rank		

Movement

Static	↔
Up	↑
Down	↓

Appendix H

Measuring Impact

Asset Category	Main ESG Impacts	Local Impacts
Equity	Provision of venture and growth capital to facilitate small company start-ups and expansion. Creates and supports employment. Also supports economic growth and technological development in a range of sectors including biotechnology, medical devices, pharmaceuticals, energy efficiency and IT.	DIP's equity managers have a very strong local presence: SEP, Panoramic and Maven are based in Glasgow; while Epidarex, Pentech, Par Equity, Foresight & Corran are located in Edinburgh, all with a strong Scottish focus and significant links to local business networks and universities within their respective sectors (life sciences, technology, engineering, IT and clean growth). All equity managers however are investing across the UK.
Short Term Enhanced Yield	Provision of loan capital to private sector companies, particularly micro, small and medium sized enterprises (SMEs). Supports employment. Provides economic stability.	One of DIP's first investments was the Scottish Loans Fund (SLF) managed by Maven Capital in Glasgow. DIP was a founder investor and agreed 2 separate commitments of £5m. SLF raised £113m in total commitments but only drew down £70m of those funds. There have been few subsequent local STEY opportunities for DIP and none which have been considered suitable.
Long Term Enhanced Yield	**Infrastructure:** construction and maintenance of physical assets; improved built environment; social value. Projects in which DIP has invested have built, refurbished or are maintaining: ▪ **220** schools / educational facilities; ▪ **46** hospitals / healthcare facilities; ▪ **109** public sector (i.e. Govt, police, legal, fire, military accommodation facilities; ▪ **62 / 15,042** social housing projects / units; ▪ **32 / 14,041** student accommodation projects / units.	Core infrastructure funds' investments include: ▪ **139** assets located in Scotland – total NAV c.**£780m** ▪ DIP's weighted share of total NAV c.**£80m**
	Renewable Energy: construction and/or operation of renewable energy infrastructure assets across a range of technologies including onshore and	Renewable Energy investments are distributed across the UK but include: **74** assets located in Scotland comprising stakes in:

	offshore wind, solar, battery storage, hydro, community power, and anaerobic digestion. During 2023, DIP's weighted stakes in renewable energy funds/assets (i.e. directly attributable to DIP) were responsible for: ▪ Generating **610 GWh** of renewable energy (sufficient to power over **310,000** homes); and ▪ Avoid the emission of **173,000** tonnes of CO2e.	▪ 54 windfarms (495 turbines); ▪ 10 hydro projects (9 run of river and 1 baseload hydro assets); ▪ 6 Anaerobic Digestions plants; & ▪ 4 synchronous condensers (to stabilise the grid). Many of these also provide additional community benefits in the form of agreed financial donations.
	Property: support for local property market; regeneration from development sites; provision of new housing; positive local economic impact.	DIP has committed **£45m** to the Places for People Scottish mid-market rental fund and **£75m** to the Legal & General UK Build to Rent fund. Together these have constructed (or are in the advance stages of building): ▪ **1,799** housing units across **12** sites in Scotland, of which ▪ **1,280** across **7** sites are in Strathclyde ▪ Total NAV of the Scottish units c.**£255m** ▪ DIP's share of total NAV is c.**£37m.** LTEY also includes the Clydebuilt property fund portfolios, with the first fund (£75m) originally created by DIP 2013 and fund 2 (£100m) created in 2021 as fund 1 progressed through the asset realisation phase. The Clydebuilt funds are a local SPF property initiative with a focus on development and regeneration and between the 2 funds have invested over £180m in 18 separate properties in the Strathclyde area. Notable projects include: the construction of retail parks in Port Glasgow (completed 2019) and in the Gorbals, Glasgow (completed 2020); and the ongoing redevelopment of a shopping centre in Shawlands, Glasgow to a (now consented) mixed-use retail and residential "village".

Measuring Impact

		Other place-based investments have included £30m working capital for construction of the Athletes Village in the East end of Glasgow.

Appendix I

DIP Governance Structure

The DIP Governance Structure is illustrated below, together with figures for the number of proposals considered in the 3 years to end June 2024.