



Glasgow City Council

Strathclyde Pension Fund Committee

Report by Richard McIndoe, Director of Strathclyde Pension Fund

Item 3(a)

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**Direct Impact Portfolio (DIP)
Investment Proposal – Clean Growth Fund II**

Purpose of Report:

To set out a proposal for an investment of £30m within DIP.

Recommendations:

The Committee is asked to **APPROVE** an investment of £30m in Clean Growth Fund II by DIP.

Ward No(s):

Citywide: ✓

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

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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. The most recent review was concluded in November 2021. This made no change to the objectives, structure, overall size parameters, risk and return parameters, or governance structure, but did result in an increase in the individual investment size parameters and a further name change to the Direct Impact Portfolio (DIP).

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.

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	Clean Growth Fund II
Investment vehicle	English Limited Partnership
Manager	Clean Growth Investment Management (CGIM)
Sector	Venture Capital (clean technology sector)
Investment objective	To provide venture capital to accelerate the commercial development of innovative, climate related clean technologies
Term	10 years (subject to 2 x 1-year extensions)
Target size	£150m (Hard Cap £200m)
Proposed DIP investment	£30m
Target return	Internal Rate of Return (IRR) of 20% (Net) / Multiple of Invested Capital of 2.5x

2.2 Investment Summary

Clean Growth Fund II (CGF2) is a venture capital (VC) fund focused on identifying early stage, sustainable technologies in the clean technology (“cleantech”) sector.

CGF2 is the successor fund to CGIM’s first fund (CGF) in which DIP made a £20m commitment. CGF is a £101m fund which has created a portfolio of 19 investee companies which are performing strongly to date.

As with CGF, the companies targeted for investment by CGF2 will be capable of reducing greenhouse gas (GHG) emissions and accelerating the energy transition, reducing pollution or other adverse environmental effects and/or of promoting positive climate benefits through innovative new technologies. The fund’s aim is to provide capital to accelerate the commercial development of innovative cleantech technologies, while at the same time generating attractive financial returns for investors.

A commitment to CGF2 by DIP of £30m is proposed. This is subject to the fund securing a minimum total (including SPF’s commitment) of £75m across a single or multiple closes. This would be restricted to £20m if total commitments are less than £75m but more than £50m.

2.3 Investment Rationale

Transformative, innovative and/or disruptive technologies are critical to the achievement of a low carbon economy and for promoting improved resource efficiencies, than are available from existing products and processes.

The demand for innovative solutions in the sector has grown rapidly with greater public awareness of climate risk. Consumers are increasingly

demanding that the goods and services they buy are from sustainable sources, while there is a simultaneous regulatory drive from government in support of a Net Zero strategy and towards greater levels of investment in innovative early-stage technology, and particularly cleantech.

There is currently a significant shortfall of scale-up funding available, particularly at the early/pre-revenue stage to allow these technologies to achieve commercial scale. While the amount of VC investment in digital and/or Software as a Service (SaaS) technology has grown in recent years, this has not been replicated to an equivalent extent in respect of the cleantech sector.

CGF2 will be managed by CGIM, a firm established in 2019 by Beverley Gower-Jones, a high profile and established leader in the commercialisation of innovative, UK cleantech solutions, with close links developed over many years with the UK Government, mainly via the Department for Energy Security and Net Zero (DESNZ), previously the Department for Business, Energy and Industrial Strategy (BEIS) which invested in the initial CG fund. More information on the investment manager is included in **Schedule 1**.

2.4 Risks

The main risks of the proposed investment in the CGF2 fund are considered to be as follows:

- Product Risk;
- Market Risk;
- Management Risk.

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

2.5 Projected Return

The fund is targeting an Internal Rate of Return (IRR) of 20% (Net) and a Multiple of Invested Capital of 2.5x.

This is considered an appropriate target return given the relatively higher risk nature of the fund's early-stage VC investment strategy.

2.6 Exit

CGF2 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 or refinance of the portfolio companies by later stage investment or corporate entities.

2.7 Fees

The **Management Fee** is typical of the managers in DIP's equity/VC portfolio. The fee will be calculated on fund commitments during the investment period (5 years in this case) and will benefit from an annual reduction from year 6.. Overall, the level of the anticipated blended fee is slightly lower than average in 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 Clean Growth, as manager will require to perform strongly before it benefits under these provisions.

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

2.8 ESG and Impact

By its nature, CGF2 is strongly aligned to the decarbonisation of the climate and the reduction of GHG emissions, and CGIM is highly committed to operating as a business on strong sustainability principles. The businesses in which it will invest will be well positioned to make a positive contribution to a sustainable future. CGIM believe companies that recognise and manage ESG issues are better placed to avoid risk and deliver sustainable long-term growth.

CGIM became a signatory to the UN Principles of Responsible Investment in January 2021 and also achieved Certified B Corp status in May 2024.

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

2.9 Investment Size and Cash Requirements

SPF Fund value at 31 st December 2024	£31,206m
DIP allocation (target 7.5% of main fund) NAV	£ 2,340m
Current DIP NAV	£ 1,607m
NAV Range (Lower) 5%	£ 1,560m
NAV Range (Upper) 10%	£ 3,121m

2.10 Investment Strategy

The proposed investment falls within the Venture Capital sector and therefore the Fund's Equity allocation. Venture Capital is a key area of investment focus for DIP.

Allocations following this investment based on SPF values at 31st December 2024 and total DIP commitments to Equity would be as follows: -

Equity, £ in DIP	£361m
Equity, % in DIP	16%
Equity (DIP), % of Total Fund	1.2%

3 Policy and Resource Implications

Resource Implications:

Financial: Investment of £30m 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: Yes – Clean Growth has been a signatory to the PRI (UN supported Principles for Responsible Investment) since 2021 and is a certified carbon neutral organisation which has recently become accredited as a B Corp Certified organisation. CGIM applied to obtain B Corp certification on 29th August 2023 identifying them as the top performing venture capital fund in the UK
This is consistent with 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? No specific contribution from this proposal, although there are anticipated to be a number of investments in the sustainability space and which will result in the reduction or displacement of carbon emissions.

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 £30m in Clean Growth Fund II by DIP.

Schedule 1	Investment Manager: Clean Growth Fund II
Schedule 2	Investment Specific Risks
Schedule 3	Impact and ESG

Investment Manager: Clean Growth Investment Management

Clean Growth Investment Management (CGIM) is one of the UK's leading specialist climate tech investment firms, investing VC into the UK's most promising companies in the sector with the strongest commercial potential. Its key personnel have strong credentials and experience in the targeted sectors, specifically in the investment and commercialisation of new, innovative/sustainable technology.

Beverley Gower-Jones (BGJ), Managing Partner of CGIM, is also CEO (and owner) of Carbon Limiting Technologies Ltd (CLT), a consultancy business she founded in 2006. From 2012 until 2022, CLT was the delivery partner for BEIS's £72m Energy Entrepreneur Fund (EEF), a grant award scheme targeting the most promising innovations in the cleantech sector. BGJ has 30+ years' experience in this sector having co-founded Shell Technology Ventures, developing a £500m technology transfer program there before becoming Performance Director, Ventures Section of QinetiQ (the MoD's former R&D business, where she worked with Jonathan Tudor).

CLT is comprised of c.40 highly experienced technology specialists with over 600 years of combined experience in the power, transport, industry, buildings and waste sectors. They have the expertise and will undertake the appraisal of the technical & commercial feasibility of new technologies as part of the fund's due diligence, as well as providing incubation (i.e. commercialisation) support to investee companies. Since 2006 CLT has provided incubator services to over 500 businesses.

Dr Jonathan Tudor (JT), Investment Partner of CGIM, has 20+ years' experience creating, building, investing in and managing technology-based start-up businesses, both within corporate and VC structures. Most recently JT was Technology and Strategy Director at Centrica where he managed its £100m energy transition fund, prior to which he led BP Ventures and was Venture Director at QinetiQ.

CGIM has an impressive Advisory Board selected for their subject matter expertise, experience in investing in early-stage tech businesses and spheres of influence: -

- **Professor Chris Rapley** is Professor of Climate Science at Imperial College London, a Distinguished Visiting Scientist at NASA's Jet Propulsion Lab and Chairman of the London Climate Change Partnership.
- **Vicki Bakhshi**, is Director of the Governance & Sustainable Investment Team at BMO Global Asset Mgt, specialising in climate change and impact investing. She was previously the Prime Minister's Policy Advisor on Climate Change and is on the board of the Institutional Investors Group on Climate Change (IIGCC).
- **George Whitehead** has worked in the VC industry for c.20 years including at Octopus Ventures & was Chairman of the Venture Capital Trust Association.
- **Robert Bahns**, also has c.20 years of VC experience, including as Venture Partner at IP Group, one of the UK's most active early-stage technology investment companies and as Director of Technology Ventures at Touchstone
- **Gershon Cohen** was formerly Global Head of Infrastructure Investments at ABRDN and Global Head of Project Finance at Lloyds Banking Group.
- **Robert Branagh** is a senior pensions professional, most recently ex-CEO of the London Pensions Fund Authority.

Investment Specific Risks

Product Risk

While the fund will only consider opportunities which have demonstrated their technological feasibility in a pilot test (rather than commercial) environment, there is still product and/or engineering risk in respect of the ability to successfully scale the product/service and its ability to operate successfully in a commercial scenario.

The specialist sectoral and technical expertise that will be committed by the CLT consultants on behalf of the fund represent the mitigation to this key risk. It should be stressed that their hands-on support for the commercialisation phase of the companies (rather than just the capital invested) is a key element of the fund's proposition.

Market Risk

Occasionally despite the technology being successfully engineered, scaled-up and tested in a commercial environment, the product fails to engage the market, or gains insufficient traction with the anticipated customer base. The market could also determine that the product offers insufficient benefits for the cost or alternatively a better technology emerges rendering the product/service obsolete.

Assessment of the addressable market, the value proposition of the technology, the route to market and the critical management skillsets required, are all key aspects of the commercialisation process undertaken as part of the post-investment incubator support services. This is CLT's key specialism, and each portfolio company will benefit from their consultancy services.

Management Risk

The early stage and dynamic nature of the businesses the fund seeks to invest in means that they are unlikely to have fully developed management teams. One of the CGIM's key tasks is therefore to ensure that the management teams are supported and supplemented as required to enable them to execute the agreed strategy.

Early-stage businesses often experience difficulties, complications, setbacks or delays. Such setbacks can be challenging even for experienced management.

It is for this reason that CGIM's key investment criteria include an appraisal of the management team's execution capabilities, although clearly this is still no guarantee of success. As with any VC fund, the Manager will support the management as far as possible, however in some instances there will be no alternative but to effect changes.

Impact and ESG

Clean growth technology enables economic activity to deliver goods and services whilst generating significantly lower emissions of greenhouse gases. Investments made by the Clean Growth Fund (CGF) are consistent with the objective of accelerating the deployment of innovative clean growth technologies and solutions.

The Fund will only make investments in companies seeking to commercialise promising innovative Clean Growth solutions. Achieving reductions in the emissions of greenhouse gases is a key performance indicator and differentiator of the Fund.

Principles

- The CGF will only invest in companies that satisfy its 'clean growth' criteria, which includes no detriment to the wider environment in pursuit of reduced GHG emissions;
- The CGF will integrate environmental assurance into its investment due diligence and monitoring and into its reporting to investors;
- The CGF will report environmental impact for each investee and in aggregate for the Fund.

B Corp

B Corp is a third-party standard given to for-profit organisations that reach a set ESG threshold. The assessment measures a company's entire social and environmental impact, considering factors such as impact on an organisation's people, community and environment, and customers, as well as a company's governance structure and accountability. The certification process is rigorous, with applicants required to provide evidence of responsible practices relating to energy supplies, waste and water use, worker compensation, diversity, corporate transparency, amongst others. CGIM applied to obtain B Corp certification in August 2023 and achieved a score of 133.8 (against a pass mark of 80) making them the top performing venture capital fund in the UK. There are only 11 other fund managers in the UK of similar employee size that are B Corp certified in equity investing and the average score is 100.

Through their work and investments in the cleantech sector, CGIM seek to foster sustainable, responsible and transparent practices and provide essential ongoing business support to investee companies via a close collaboration with sister-company Carbon Limiting Technologies, the long-established cleantech incubator. They believe that aligning to good ESG practices is essential to investing in and building strong, sustainable and prosperous businesses that have a positive impact on both people and the planet. The B Corp status shows the firm's commitment to greater accountability and transparency in the sector, and have legally embedded their commitment in the company's articles.

On an annual basis the Fund undertakes an ESG survey of all portfolio company employees for ESG performance data that forms part of LP quarterly reporting metrics. CGF works extremely diligently to ensure diversity of age, gender and ethnicity in the portfolio including measures such as ensuring all recruitment shortlists include 50% diversity candidates.