Item 2

25th November 2026

Glasgow City Council

Strathclyde Pension Fund Committee Sounding Board

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Direct Impact Portfolio (DIP)
Investment Proposal – Dalmore UK Infrastructure 5 (DUKIF5)

Purpose of Report:

To set out a proposal for an investment of £60m within DIP.

Recommendations:

The Committee is asked to **APPROVE** an investment of £60m in DUKIF5 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 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	Three 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 the 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	Dalmore UK Infrastructure 5 (DUKIF5)
Investment vehicle	English Limited Partnership
Manager	Dalmore Capital Limited (Dalmore)
Sector	UK Core and Core-Plus Infrastructure
Investment objective	To build a diversified portfolio of essential UK infrastructure assets with resilient, visible and inflation-linked cash flows, combining downside protection with measured value enhancement.
Term	10 years from first close, plus a one-year extension at the Manager's discretion and a further one-year extension with investor consent.
Target size	£400m minimum; £1.0bn target; and, £1.5bn hard cap.
Proposed DIP investment	£60m
Target return	10-12% Net IRR over the life of the fund.

2.2 Investment Summary

Dalmore Capital Limited (Dalmore) is raising Dalmore UK Infrastructure 5 (DUKIF5), a UK-focused core and core-plus infrastructure fund targeting resilient, inflation-linked returns from hard-to-replicate, essential infrastructure assets with established operating histories, prudent leverage, and regulated, contracted, or availability-based revenues.

Established in 2009, Dalmore's track record dates to the launch of its first discretionary managed fund, *DCF*. Since then, Dalmore has raised and deployed four subsequent flagship funds, representing approximately £2.3bn of committed capital alongside an additional £3.4bn of co-investment and single-account mandates, resulting in Dalmore managing £5.7bn across 128 infrastructure assets. Dalmore was acquired by Royal London Asset Management (RLAM) in November 2025 but is expected to continue operating as a standalone specialist infrastructure business within the wider Royal London group.

DUKIF5's investment strategy builds on the successful approach implemented across previous Dalmore funds. Specifically, DUKIF5 will seek to invest in six to twelve mid-market (transactions of £50 - £500m+) infrastructure assets across six sectors, including: decarbonisation; energy networks and connections; project finance and social infrastructure; transport and logistics; waste management; and water. Additionally, Dalmore takes an active ownership approach through board representation, meaningful governance rights, and operational optimisation to generate incremental value creation prior to exit at an optimal point in the cycle.

DUKIF5 is targeting £1.0bn of commitments, with a minimum fund size of £400m and a hard cap, or maximum fund size, of £1.5bn. Following Dalmore's acquisition by Royal London, Royal London has committed a minimum of £500m to future Dalmore funds, including £200m to DUKIF5 at first close and Royal London may make further commitments or co-investments throughout the life of DUKIF5. Dalmore expects DUKIF5 to benefit from significant co-investment capacity, with priority access for Fund investors.

A £60m commitment by the Direct Impact Portfolio to DUKIF5 is now proposed.

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

2.3 Investment Rationale

The UK infrastructure market presents a substantial investment opportunity, supported by the Government's 10-year infrastructure strategy, decarbonisation commitments, requirements to renew and expand essential infrastructure, and transparent regulatory regimes. Dalmore believes its infrastructure expertise as well as the team's long-standing relationship across the industry, which support proprietary deal flow sourcing, will enable Dalmore to add value to its investments whilst committing significant capital to the UK infrastructure market.

Dalmore believes the UK infrastructure market presents a great opportunity for disciplined core and core-plus infrastructure investments. Accordingly, DUKIF5 will combine core infrastructure characteristics – assets that are fundamental or essential for the daily functioning of society – with selective core-plus infrastructure investments – essential assets that are slightly more correlated to GDP demand and often include additional investment (i.e. expanding an existing asset, bolt-on acquisitions, etc.).

Dalmore's active ownership model results in the manager seeking at least co-control or otherwise meaningful governance rights for DUKIF5 investments so that value-enhancement plans can be implemented within the shorter DUKIF5 fund term. Dalmore's active ownership model includes board representation, regular operational and financial reviews, and the use of specialist operating partners where appropriate. Dalmore's senior investment team members remain involved after completion, providing continuity between underwriting and delivery of each asset's investment plan.

In summary, Dalmore is a highly specialised investor in a clearly defined segment of the UK mid-market infrastructure sector. Dalmore's sector expertise, relationship-led sourcing, and repeatable value creation framework has resulted in Dalmore occupying a differentiated position in the UK mid-market infrastructure sector, as evidenced by Royal London's acquisition of the business in November 2025.

2.4 Risks

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

- not achieving the target return, which is above the historic returns of predecessor funds;

- key-person, succession, and integration risk following the Royal London acquisition; and,
- exit timing within the 10-year fund term.

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

2.5 Projected Return

DUKIF5 targets a Net Internal Rate of Return (IRR) of 10-12% over the life of the Fund. Dalmore presents this as a premium of approximately 5-7% over the current 10-year UK gilt yield (which is currently ~5.4%). Dalmore believes it can achieve the target returnbecause the higher UK gilt yield will enable DUKIF5 to acquire assets at a relatively lower price (as investors will demand a discount given the higher interest rate environment), which will result in a relatively higher yield.

Accordingly, investing in DUKIF5 in the current high interest rate environment presents a unique opportunity to SPF to achieve financial returns consistent with the Investment Team's recent exits and current trajectory of the unrealised portfolio, whilst investing in key infrastructure projects in the UK.

2.6 Exit

Dalmore intends to develop exit plans during its initial investment into its assets and to monitor realisation prospects during annual asset reviews to coincide with DUKIF5's 10-year term. Although DUKIF5's 10-year term is shorter than Dalmore's predecessor funds, Dalmore is confident in its ability to deliver timely value-enhancement and disciplined exit at or before the maturity of the fund. The Fund's 10-year term is shorter than earlier Dalmore vehicles, increasing the importance of timely value-enhancement activity and disciplined exit preparation.

2.7 Fees

Throughout the life of the fund, a management fee will be charged on drawn capital, with no management fees charged on undrawn capital. A carried interest (or performance) fee will also apply. The structure requires Dalmore, as manager, to deliver strong performance before benefitting from these provisions.

Overall, the management fee and carried interest are consistent with DIP's experience in the infrastructure market, and the fee levels are considered typical.

2.8 ESG and Impact

Sustainability is integrated through sourcing, due diligence, investment approval, ownership, and reporting. DUKIF5 will commit at least 30% of invested capital to sustainable investments as defined by Article 2(17) of the EU's Sustainable Finance Disclosure Regulation (SFDR).

More information on the Manager's approach to ESG and impact is provided in **Schedule 3.**

2.9 Investment Size and Cash Requirements

SPF Fund value at 30th September 2026	£35,300m
DIP allocation (target 7.5% of main fund) NAV	£2,648m
Current DIP NAV	£1,721m
NAV Range (Lower) 5%	£1,765m
NAV Range (Higher) 10%	£3,530m
Headroom v NAV	**£927m**

2.10 Investment Strategy

The proposed investment falls within the infrastructure sector and therefore the Fund's Long Term Enhanced Yield (LTEY) allocation. Allocations following this investment, based on Fund values as of 30th September 2026 and total DIP commitments to LTEY, would be as follows:

LTEY, £ in DIP	£1,826
LTEY, % in DIP	73.4%
LTEY in DIP as % of Total Fund	5.2%
LTEY, % Total Fund (target 21.0%)	18.4%

3 Policy and Resource Implications

Resource Implications:

Financial:	Investment of £60m 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 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 Recommendation

The Committee is asked to **APPROVE** an investment of £60m in DUKIF5 by DIP.

Schedule 1

Investment Manager: Dalmore Capital Limited

Dalmore was established in 2009 and is one of the few specialist mid-market UK-focused infrastructure investment managers. The firm manages approximately £5.7bn across 128 assets with every Dalmore asset delivering a positive return. Dalmore's previous flagship funds (of which, Strathclyde Pension Fund has invested in three alongside a co-investment vehicle), are performing well and are expected to deliver good returns over the fund life.

Dalmore is led by an Executive Committee comprising Michael Ryan (Chief Executive Officer), Alistair Ray (Chief Investment Officer), John Murphy (Chief Financial Officer), and Jennifer McKay (General Counsel). The overall Dalmore team is comprised of 35 professionals (40 including planned hires and operating partners) and has more than 500 years of combined infrastructure experience. Recent senior appointments, following the acquisition by Royal London, include Alastair Hall as Deputy Chief Investment Officer; Steve Deeley as Managing Director, Investments (both with 20+ years' experience); and, Jason Bermont-Penn as Head of Capital Formation.

As evidenced above, Dalmore's team is highly skilled, with a proven track record in infrastructure investing. The success of Dalmore's investment strategy is underpinned by the team's understanding of the sector, experience managing vital UK infrastructure assets, and the team's extensive network in the UK infrastructure sector, which provides proprietary deal flow and significant market intelligence to help inform Dalmore's bidding process for acquiring assets. Dalmore's expertise is further evidenced by the Royal London acquisition of Dalmore: RLAM manages £212bn and views its acquisition of Dalmore as its first move into the UK infrastructure sector. RLAM went through significant diligence before acquiring Dalmore to validate the team's investment capability.

Dalmore's success is also clear given the success of some of Dalmore's existing assets. For example, following its investment as part of the original consortium that was awarded a license from Ofwat in 2015 to bid for the Thames Tideway Tunnel (Tideway), Dalmore has played an active role in the project, including securing £3bn of long-term debt through an, at the time, innovative deferred drawdown structure. Construction began in 2015 and Tideway entered operational service in 2025 and is expected to capture and convey approximately 15.5m cubic metres of untreated wastewater each year. Similarly, Cory, an Energy from Waste (EfW) platform with one operational plant and one plant in construction, located in East London is one of Dalmore's most successful investments and will have the capacity to process and divert 15 million tonnes per annum of residual waste and will be the largest single site EfW project in the UK.

Schedule 2

Investment Specific Risks

Target Returns

DUKIF5's 10-12% target Net IRR is above the projected net returns of Dalmore's predecessor funds. However, Dalmore is confident in achieving this higher rate of return as Dalmore argues that its predecessor funds have consistently delivered a Net IRR that is 5-7% above the UK 10-year gilt rate at the time of inception of the fund. Dalmore is, thus, forecasting the same premium of 5-7% above the current UK 10-year gilt rate to arrive at 10-12% Net IRR for DUKIF5.

Key-Person, Succession, and Integration Risk

DUKIF5 has four named key people: Michael Ryan, Alistair Ray, Steve Deeley, and Alistair Hall. The risk of over-reliance on key personnel is pertinent to any manager; however, Dalmore's success is underpinned by a strong core team, which has been retained and expanded following the Royal London acquisition.

Integration Risk is minimal as Dalmore will continue to operate as a standalone business for the medium term. Ultimately, Dalmore will become more integrated with the larger Royal London group; however, Royal London is supportive of Dalmore operating as the infrastructure arm of Royal London, which should result in minimal impact to the team, operations, and culture of Dalmore.

Exit Timing

Although DUKIF5's fund term is shorter than Dalmore's predecessor funds, Dalmore is confident in delivering the target return and exiting within the life of the fund as the team has become increasingly more experienced in delivering value-add activities to its assets in a timely manner as evidenced by Dalmore's investment and value-add activities to its Cory, EfW asset. Moreover, Dalmore is building an exit plan into each asset it invests in from the initial investment and will be monitoring this annually.

Schedule 3

ESG and Impact

Dalmore integrates sustainability throughout the investment lifecycle, from origination and initial screening through detailed due diligence, Investment Committee approval, active ownership, and investor reporting. Sustainability considerations form part of each opportunity's assessment of strategic fit and risk and are reflected in the asset management plan prepared before completion.

Potential sustainability contributions include climate-change mitigation and adaptation, pollution prevention, resource efficiency, decarbonisation of essential services, and improved access to utilities, water, transport, healthcare and education. Dalmore assesses environmental, social and governance risks and opportunities through dedicated acquisition due diligence, incorporating findings into the investment case, governance arrangements and post-completion priorities. The Fund will seek board representation and meaningful governance rights to oversee initiatives and engage with management, with performance monitored through regular operational and detailed annual Investment Committee reviews.