



Investment Strategy

Financial Year
2025/26

The
Scottish
National
Investment
Bank





Our purpose

The Scottish National Investment Bank is a publicly owned impact investment and national development bank. It was established to provide mission-led patient capital to businesses and projects connected to Scotland to grow a more innovative, sustainable and inclusive economy.

Bank vision

To be a perpetual investment fund for Scotland that has a greater than £2 billion mission aligned investment portfolio demonstrating economic, societal and environmental returns. An established, regulated financial institution that is leveraging third party capital having demonstrated a path to new markets and technologies.



The Bank's investment strategy forms part of the core strategic framework in which the Bank is governed, operates and reports.

To meet the terms of the Shareholder Relationship Framework, the Bank's investment strategy is reviewed and approved by the Bank Board on an annual basis, and otherwise as necessary, to take account of any additional or amended obligations or responsibilities assumed by the Bank and its Group which are material in nature.



Introduction from our Chief Investment Officer

This investment strategy reflects the development we've made as an organisation over our lifetime and builds on the approach we have taken in previous years, with some noteworthy additions.

Our strategy is designed to meet both short and long-term goals; we are aligned in identifying key investment themes and sectors that will support our impact ambitions, while also building a portfolio with financial returns that will enable the Bank to achieve its aspiration to become the perpetual investment fund for Scotland.

In this document we have set out our priority sectors for the coming period, under each of our three missions. These are outlined to give guidance on our focus for the year. We have identified these sectors as having high potential for achieving impact that will make a difference for Scotland, as well as commercial returns. Our investments won't be limited to these sectors, and we will consider all opportunities.

In line with our continued commitment to ScotWind, and with the additional capital committed by the Scottish Government, we have detailed the ScotWind related sectors that we are looking to invest in. We have also detailed our criteria for project finance for the first time. These project finance deals are not limited to ScotWind-related projects and we expect to be able to deploy capital to other critical infrastructure projects.

Our commerciality is important as we continue to build a strong portfolio. The criteria in this document are detailed to allow us to focus our efforts on making investments with clear opportunities for commercial returns. Our aim is to build a perpetual fund for Scotland that aligns with our commercial goals and stretching impact ambitions.

In refining this strategy and our focus, I'm pleased that we can clearly communicate our ambition for the coming period and give direction to the organisations considering investment. It reflects the maturity and knowledge we are building as a team and organisation. However, we still have much more to do and I am excited to continue building on our work.

Mark Munro
Chief Investment Officer





Executive summary: Investment key principles

Our investment activity is shaped by four key principles:

Key principles



Mission impact

The Bank is a mission impact investor, seeking commercial, societal and environmental impacts from its investments.



Patient capital investor

Where needed the Bank can be a patient capital investor, investing on longer timeframes to realise the impact of the investment.



Crowding in

The Bank seeks to catalyse economic activity by investing alongside private sector investment, or 'crowding in'.



Commercial terms

The Bank invests £1 million up to £50 million in businesses and projects across Scotland on commercial terms.



Executive summary: Investment criteria

Priority sectors

The boxes below show the key sectors we have identified for active origination over the coming period. These are outlined in more detail on page nine. We are open and reactive to investing in other sectors so far as they align with our missions and portfolio.

 Net Zero	 Innovation	 Place
<ul style="list-style-type: none">◆ Alt fuels and climate technology◆ Transition technology◆ Resource efficiency◆ ScotWind*: Offshore wind supply chain and technologies	<ul style="list-style-type: none">◆ Data and digital technologies◆ Advanced manufacturing◆ Health	<ul style="list-style-type: none">◆ Housing◆ Regeneration◆ Social inclusion

*We have additional capital to make investments that are focused on the ScotWind supply chain. We are focusing on investment into infrastructure such as ports, manufacturing businesses and services that will support the sector to establish in Scotland.

Our investment criteria

Key criteria that apply to all investments are;

1. **Proven management team** – proven delivery in a relevant sector.
2. **Technology Readiness Levels (TRLs)** – in most cases TRL 8 or higher.
3. **Additional investment** – we will look to bring other investors alongside us.
4. **Revenue generating** – for equity or corporate debt investments, considerations will be made for project finance.

Additionally, each of our investment instruments also has focused criteria. See pages 10 to 14 for details.



Executive summary: Investment strategy principles

We invest for impact:

- ◆ We align all investment against our missions and wider social and environmental impact objectives.
- ◆ We are an ethical and responsible investor. We use our [Responsible & Ethical Investment Policy](#) and ESG standards to guide our investment decisions.
- ◆ We are a Signatory to the Operating Principles of Impact Management (OPIM) and have integrated impact considerations throughout our investment lifecycle.
- ◆ We work with other impact investors, including other development banks, to develop the field of impact measurement, and work to support the growth of impact investment in Scotland.

We invest on commercial terms:

- ◆ We invest on commercial terms with appropriate returns set at the individual investment and portfolio level. Investments will include covenants and protections for our capital in line with market norms and the risk profile of each investment.
- ◆ We are a patient investor, investing patient capital in businesses and projects across Scotland.
- ◆ We invest between £1 million and £50 million with a focus on debt and equity investments that support our missions. From time to time, we will also invest in funds aligned to the Bank missions and portfolio requirements. By exception, we may invest outside of these financial parameters where a business or project has particularly strong mission alignment or specific locational benefit to smaller and more remote communities.[†]
- ◆ We understand that the higher risk appetite in our role as Scotland's development bank will inevitably lead to individual investment losses, however, positive net returns across the whole portfolio will demonstrate our stewardship of public capital.
- ◆ We aim to generate sufficient income from our investments and investment related activity to cover our operating costs by the end of the first five financial years and become financially self-sustaining.

- ◆ We will, subject to Shareholder approval, reinvest repaid capital investment and any profits we make back into mission impact investments, creating a perpetual investment fund for Scotland.

We invest to leverage private capital:

- ◆ We comply with subsidy control requirements. We apply measures to ensure we are not crowding out private sector finance and actively seek to 'crowd-in' other investors alongside our public capital to help catalyse critical economic activity in pursuit of our missions.

What we don't do:

- ☒ We don't provide grant or sub-commercial funding.
- ☒ We don't provide government guarantees.
- ☒ We don't consider new investment into distressed businesses or projects, or those in need of emergency financial support.
- ☒ We don't provide retail banking or deposits to individuals or micro businesses.



[†]The Scottish Government Urban Rural Classification defines 'Remote' areas as those that are more than a 30 minute drive time, or areas that have a drive time between 30–60 minutes from a Settlement with a population of 10,000 or more. Additionally, 'Very Remote' is defined as areas that are more than a 60 minute drive time from a Settlement with a population of 10,000 or more. (Scottish Government Urban Rural Classification 2020 (www.gov.scot))

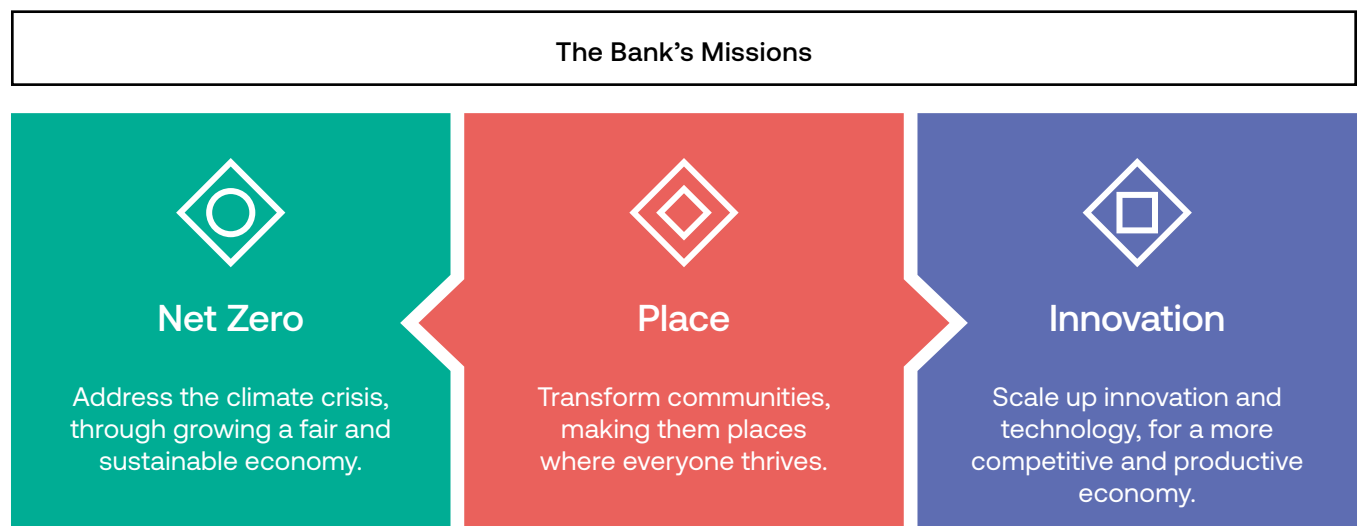


1. Mission-led impact investing

The Bank is a mission-led impact investor. Our investments are structured to generate positive, measurable social and environmental impact alongside a commercial return.

Our missions were set in 2020 by our Shareholder, Scottish Government Ministers, to address three grand challenges facing Scotland:

- ◆ The climate emergency
- ◆ Place-based inequality
- ◆ Demographic change and productivity deficit.



Our missions provide clear strategic direction and focus for our investment activity. They are outcome orientated and set out the impact that our investments are designed to enable over the longer term. Information about our approach to impact investment, including the impact we aim to deliver beyond our missions, can be found in our [Impact Report](#) and our [Impact Management Framework](#).

To support the delivery of our missions, and reflecting industry best practice, we have introduced a set of quantitative impact targets against which we'll be able to track progress. For each mission we have set two clear Ambitions for the Bank to achieve by 2030. These have been designed to drive focus and intent in our investment decisions and ensure that we are able to meet the mission objectives by 2040 and 2045.

The targets we have set are based on data and insight received to date from our portfolio, however, we recognise that they are subject to real-world volatilities, including companies' commercial performance, changes to the construction and profile of our portfolio, and external market factors beyond our control. To support our commitment to continuous learning, we may look to re-baseline the targets as necessary between now and 2030 as our database expands and we refine our impact measurement practices.

2. Our investment criteria

Over the last year we have built on our experience, adding new assets to our portfolio and widening our impact. Our investment approach is based on generating a commercial return and delivering our missions and wider strategic objectives, as set out in our [Equality Outcomes](#), [Carbon Management Plan](#), and [Responsible & Ethical Investment Policy](#). As we look ahead to the next financial year, we have refined the areas of focus for active origination that reflect the greatest opportunity to reach our impact ambitions and meet our commercial obligations.

We identify investment opportunities through inbound enquires and active origination. We may also look to make follow-on investments in businesses and projects within our existing portfolio and at the appropriate time seek to responsibly exit investments to ensure our portfolio balances commercial returns against delivery of impact.

Our active origination activity seeks to target the growth sectors and developing markets where our investment capital will maximise the economic, social and environmental impact. To support the

development of a mission orientated investment pipeline and ultimately portfolio that will deliver our TRR objectives and a perpetual fund for Scotland.

Alongside active origination we also undertake market creation activity, building knowledge and connections that in the longer term will deliver impact in Place and Net Zero sectors.

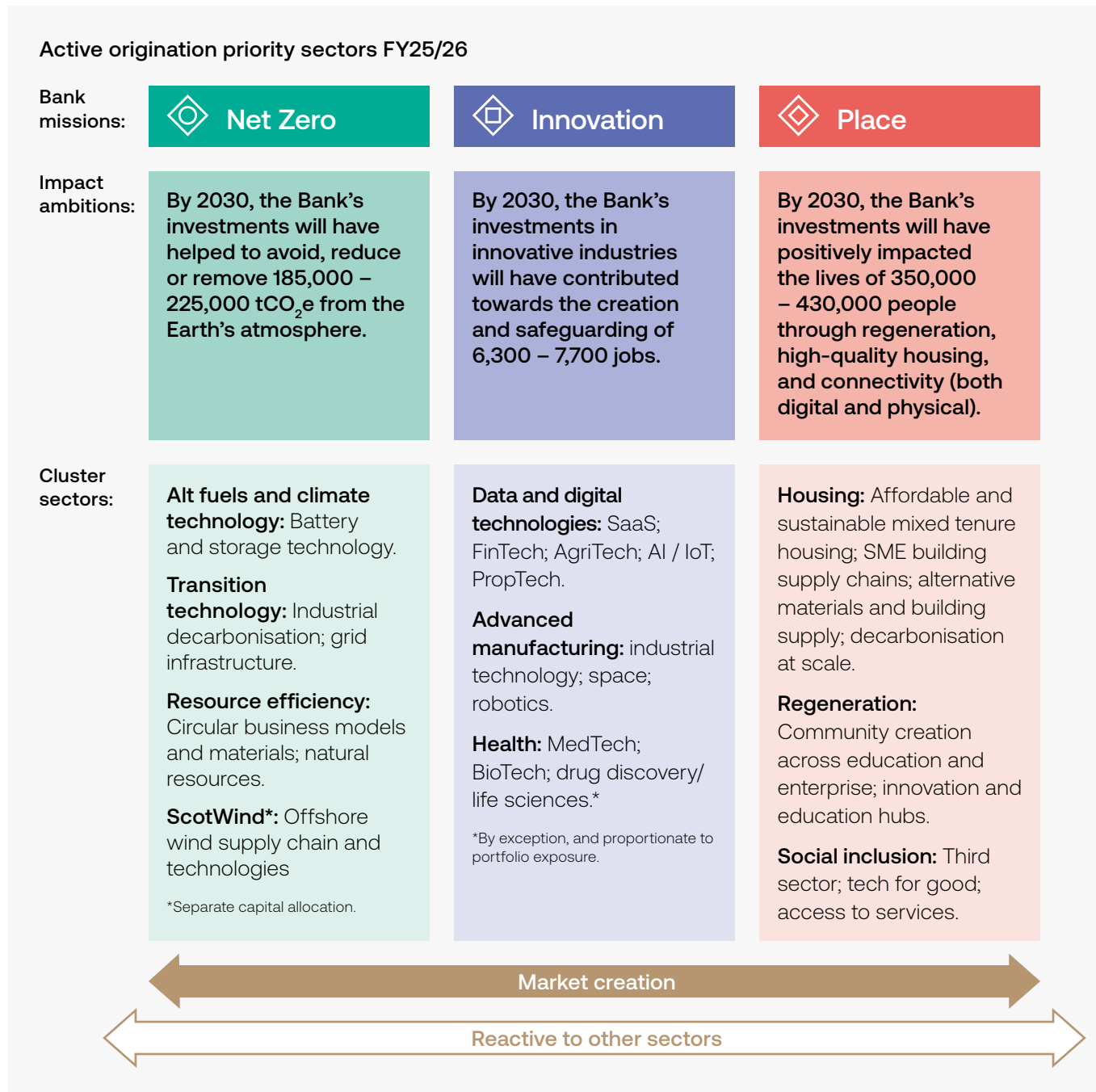
Active origination

We use our insights developed through our portfolio, relationships, and understanding of the policy and investment landscape to review our active origination strategy regularly to identify our investment themes and priority sectors for the following financial years.

Sectors included in our active origination strategy are those that we believe have significant investment opportunities, have strong co-investment potential, can contribute strongly to our missions and target rate of return, and are consistent with our 2030 Impact Ambitions. We are open and reactive to considering other sectors so far as they align with our missions and portfolio.



2. Our investment criteria continued





2. Our investment criteria continued

Investment criteria

In order for us to build a balanced and impact centric portfolio we will continue to evaluate investments based on core criteria. These criteria are broadly consistent with the previous years, but as we have matured as an organisation we wish to reflect these learnings in our approach to investments.

All new and follow-on investment opportunities will need to satisfy the following conditions prior to being actively considered for investment*.

- ◆ **Proven management teams** – executive and/or board-level experience of proven delivery in relevant sector.
- ◆ **Technology Readiness Levels (TRLs)** – innovation-led investment opportunities should be at TRL 8 or higher.
- ◆ **Attracting additional investment** – for every £1 we invest, there should be at least an additional £1 from private sector investors when aggregated across the portfolio.

Equity investment

We will invest in equity and equity-like instruments and convertible loan notes from £1 million – £50 million. The nature of the equity investment we make will depend on the type of business or project we are investing in.

We may make follow-on investments where continuing to invest supports the delivery of the Bank's missions and is consistent with our investment criteria.

It is expected that we could invest equity in:

- ◆ Growing businesses.
- ◆ Businesses seeking capital investment to scale up operations.
- ◆ Businesses seeking capital to support a permanent relocation to Scotland for commercial reasons or Scotland based projects.
- ◆ Business seeking capital to support continued research and development where sufficient market diligence underpins the value of this investment.
- ◆ Businesses or projects seeking capital investment to support the transition to net zero.
- ◆ Equity stake acquisitions from other investors, where doing so supports our missions and supports continued connection to Scotland of a particular business or project.
- ◆ Commercial community assets which support our missions and impact ambitions.

As a patient capital investor, we typically view our equity investments for the longer term.

It is expected that most of our investment in businesses will be focused on investing in small and medium sized enterprises (SMEs). We focus our investment activity on those businesses that are in their scale-up phase, demonstrating commercial progress and who are seeking investment to support their growth.

As a growth capital investor, we seek to invest in Series A or later funding rounds. By exception, we may invest in earlier funding rounds at the discretion of our Investment Committee. It is expected that these businesses will have high growth potential that we can support, alongside co-investors, to provide the funding gap to reach Series A investment.

*All conditions are subject to the discretion of the Investment Committee.



2. Our investment criteria continued

We will seek to crowd in equity investment from private sector investors alongside our own investments. To enable this crowding in, we will only take a minority non-controlling equity stake in a business or project.

We will actively manage our equity investments in businesses to ensure we effectively steward the public capital we are investing. To support this, we will require an 'Investor Observer' Board attendee and may also require the appointment of an independent Non-Executive Director to the Board.

Additionally, across all equity investments we look for projects to meet certain criteria;

- ◆ **Revenue generating** – opportunities should be revenue generating at the point of investment.
- ◆ **Cash runways** – opportunities should be able to demonstrate a cash runway of a minimum of six months before engaging with the Bank and have a minimum two-year runway post investment.
- ◆ **Milestone creation** – we will look to agreed points of value and impact inflections markers, in line with cash runway position through the investment process.

Corporate debt

The Bank will seek to support established businesses through direct debt investments that support scale up and growth opportunities for those businesses. The uses of funds will seek to deliver additional opportunities in their sector and align with our impact criteria. We will seek to crowd private finance into these transactions, but there may be exceptions where the Bank is the sole investor.

When investing pari-passu we will seek to apply the same market level fees and margins as the other lenders or investors.

Where we are investing in a different type of instrument, at a different time to other investors, or are the sole investor or lender, we will benchmark our debt fees and margins with the market, in line with common market practices and our subsidy control requirements. In line with commercial lenders, we will seek security and financial covenants on the debt we invest that is proportionate to the ranking of debt within the business. We will also review the investment's ability to repay all or some through cash payments. As one of our objectives is to be financially self-sustaining means we will seek investments which will support this ambition where appropriate.

We will be a patient capital investor with debt tenor of up to a maximum of 15 years for corporate entities and up to 35 years in project finance structures. When determining the appropriate structure and capital investment we will consider the cash flow profile taking account of amortisation and refinance risk as part of our investment assessment and approval process.

Additional considerations of debt investments will be:

- ◆ **Capital stack** – the position the Bank takes in the capital stack will depend on the sector and level of risk and possible co-investor, we will consider a senior or mezzanine debt position.
- ◆ **Debt serviceability** – as a responsible lender we will always consider whether a business or project will be able to afford to repay the debt it is taking on, based on a set of reasonable assumptions of the business's performance.
- ◆ **Revenue** – the entity must be generating revenue.
- ◆ **Security** – we will always seek to take the appropriate security and enforcement rights for the type of debt instrument we are providing.



2. Our investment criteria continued

Spotlight on ScotWind

ScotWind will remain a priority for FY25/26 and beyond because of its strategic importance to Scotland, and to the Bank. The investment criteria set out in this strategy will apply equally to ScotWind assets.

There is an investment requirement of over £4 billion to develop the critical infrastructure needed to anchor a globally competitive floating offshore wind supply chain in Scotland. We believe that a public sector approach to investment which is strategic and commercially focused carries the greatest potential to crowd in significant levels of private sector capital. We are putting this into action, having invested over £200 million to date, alongside £700 million from third parties. £27 million of this has come from the Scottish Government's £500 million supply chain fund, with the rest coming from the Bank's core annual capital allocation. We will continue to build on this portfolio of investments, with the opportunity to access up to £150 million during FY25/26 through the Bank's participation in the Offshore Wind Investment Programme (OWIP) alongside enterprise agencies.

We continue to advocate for a commercial-first approach, sharing risk with the private sector, but recognise the need for and value in strategic sub-commercial capital to be deployed alongside the Bank's commercial capital as a route to enabling private sector investment.

The Bank has categorised investment requirements for successful delivery of offshore wind projects into those which are mission critical, those presenting an opportunity for import substitution, and investments that hasten the transition – as set out in the Bank's prioritisation pyramid (see page 7 of our paper [The Bank & Offshore Wind](#)). This will enable us to focus resources and investment opportunities to those which have the greatest strategic value, commercial credibility and potential for positive social, economic and environmental impact.

The dilemma faced by the industry is that there is a timing misalignment between the need for investment



ScotWind will remain a priority for FY25/26 and beyond due to its strategic importance to Scotland.

in critical infrastructure and the degree of certainty from floating offshore wind projects needed to attract funding. For investors this brings with it market-risk. With a mandate to address market gaps, the Bank can act as a catalyst by taking an informed view of the market dynamics to structure investment – enabling build-out of critical infrastructure and manufacturing capability.

We are working with industry and with private sector investors to enable investment now through sharing risk and to secure the significant opportunities for the future.

Our paper – [The Bank & Offshore Wind](#) – gives more detail on the Bank's approach to the offshore wind opportunity and case studies of our existing investments to date.



2. Our investment criteria continued

Investment in projects – project finance

Project investment is distinct from direct investment as it typically involves investment in a structure that brings together several parties to deliver a 'project'. Project finance is typically associated with infrastructure and energy investment but can also involve the delivery of a wide variety of outcomes, including housing developments.

We seek to invest in commercially viable projects that support our missions. We expect to invest in viable projects requiring debt and/or equity investment up to £50 million. We will invest in the construction stage (development projects) as well as the operational stage (operational projects), depending on the specific investment need. Appetite for project finance will vary across years depending on our capital allocation.

It is noted that in investing equity in a project, equity returns tend to be paid out by dividend gradually over the period of the project, which may be up to a maximum of 35 years, rather than as a capital gain at the end of the investment period. In some instances, where the underlying assets have a remaining residual value or project life, an additional capital gain may be made on disposal of the assets at the end of the life of the project.

We may consider engaging in joint ventures as a minority party, in areas that strongly align with our impact mandate. We will review the suitable opportunities and exit points over the asset's lifetime through pre-agreed milestones.



Key criteria we will look for in potential projects is:

- ◆ **Equity or Debt** – we will look at equity or debt for projects which are infrastructure aligned, considering devex, capex and opex.
- ◆ **Stage of investment** – we anticipate that the stage of investment most suitable for Bank finance is Pre-FID for equity and post-FID for debt.
- ◆ **Equity ratio** – we will consider the appropriate equity to loan ratio and benchmark it against industry standard.
- ◆ **Capital position** – the Bank will consider any debt strip in a project finance transaction, in line with our requirements under subsidy control and risk appetites.



2. Our investment criteria continued

Fund investment

The Bank's focus is on direct investment but where, by exception, we invest via a fund it will be to allow us to leverage our capital through a larger investment vehicle, which has aligned interests in terms of impact or investment in sectors/businesses that may otherwise be inaccessible to us through a direct investment route due to the size of investments at individual asset level. It also allows us to leverage technical and expert knowledge on investments that the Fund has in-house in their area of specialism. In line with the market, we may be offered co-investment opportunities to invest alongside the fund in a specific project or business.

We will invest in both debt and equity funds and, if acting as a cornerstone investor as part of a first close, will seek commercial equalisation fees and a position on the Limited Partner Advisory Committee.

Investment in communities and the third sector

The Bank will seek to support the ambitions of local communities and the third sector to create local sustainable and inclusive economies through investing in commercially viable local and/or charitable:

- ◆ Businesses
- ◆ Clean energy projects
- ◆ Circular economy waste reduction and recycling initiatives
- ◆ Local affordable or social housing developments
- ◆ Local housing sustainability projects
- ◆ Local regeneration projects.

We expect to invest in commercially viable mission impact community and charitable investment opportunities requiring debt or equity or through Fund investment in excess of £1 million. This threshold will be considered carefully when reviewing opportunities to invest in smaller and more remote communities in Scotland, with the potential for us to make smaller investments where this is appropriate given the individual project circumstances.

Investment in university spinouts and innovation clusters

Scotland has an enduring reputation as a leading provider of tertiary education and has a strong record in attracting investment in its university spinouts. We expect to build relationships and work with Scottish universities and colleges to ensure they maintain their reputations as internationally leading tertiary education and research providers. Our investment in this sector will focus on delivering innovation and place-based benefits through supporting the growth of spinouts and the development of knowledge hubs and innovation clusters that nurture university developed and incubated innovative businesses and projects.





Document version history

Document title	Investment Strategy (FY25/26)
Delivery team	Investment – CIO Office
Approved by	Mark Munro
Date	24/07/2025
Version	Three



The Scottish National Investment Bank

Scottish National
Investment Bank plc
Waverley Gate,
2-4 Waterloo Place,
Edinburgh,
United Kingdom
EH1 3EG

www.thebank.scot
enquiries@thebank.scot

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Registered in Scotland with Company number SC677431

SNIB111.0625