



The
Scottish
National
Investment
Bank

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Daniel Johnson MSP

Convener, Economy and Fair Work Committee
The Scottish Parliament
Edinburgh
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Dear Convener,

Thank you for the opportunity to meet with the Committee last week. I trust it was a helpful session as the Committee undertakes its pre-Budget scrutiny.

In the discussion I undertook to write to you with further detail on ratios of crowd in third party capital by other development banks. I have set this out below.

I also thought it would be helpful if I took the opportunity to further clarify the Bank's approach to investment in the defence sector.

As we have discussed with the Committee previously, the Bank is operationally independent, sets its own investment policies and makes its own investment decisions.

Any investment case considered by the Bank is subject to rigorous due diligence throughout our multi-stage investment process. That due diligence will consider a range of micro and macro factors as appropriate to the opportunity. For defence-linked businesses, as an example, this would particularly include their overseas customers and connections

This has been our approach to date when the Bank has considered potential investments in 'dual use' technologies - technologies with both civilian and military potential applications. To date, the Bank has several 'dual use' companies within its portfolio.

Greater attention to dual use opportunities, and now increasingly to defence-focussed opportunities, has been a notable investment sector-level shift in recent years, in response to geopolitical developments.

The Bank keeps its investment policies under continuous review, taking into account evolutions in investment best practice as well as the opportunities we see within the economy.

As I stated to the Committee, that will include review of the Responsible and Ethical Investment policy. We will keep the Committee updated should the Bank determine that any changes to the policy are required.



With the recent Scottish Government statement made regarding support for defence, the Bank considers its implementation consistent with the Bank's existing Investment Strategy and Responsible and Ethical Investment Policy.

It may be helpful to add that the Bank's Shareholder Relationship Framework, as agreed between the Scottish Government and the Bank, gives the Bank the right to raise reservations regarding any position taken by the shareholder.

The Bank has not invested in munitions to date. We have also received relatively few approaches in this area to date but remain open to considering relevant opportunities, in line with our missions and our remit to invest commercially where there is a shortage of available private capital.

The Bank's operational independence, and the perception of that independence, is key to its success. Transparency in how the Bank determines its policies is important to that and so I hope this additional context is helpful.

Crowd In Ratios

As we discussed with the Committee, our current crowd in ratio is around 1:1.75. We do anticipate that ratio improving over time. This is both a function of our increased focus on working closely with institutional investors, including local government pension schemes, and that as a development bank our investments will frequently anticipate private investor appetite.

For example, by investing in scaling businesses - usually still alongside private venture capital investors - we intend to support those businesses to develop and grow to the stage that they can raise significantly larger funds from private investors.

For context the National Wealth Fund has a target crowd in ratio of 1:3. They will similarly seek to achieve this over time rather than in every investment made.

The Development Bank of Wales has a 'co-investment' target of 1:1 on its business funds - these are most equivalent to early stage business investment.

To date the Scottish National Investment Bank has committed nearly £790 million of investment, and crowded in £1.4 billion from third parties.

Best regards,

Willie Watt

Chair

Scottish National Investment Bank