Financial review and Risk

Joulz
Page 28

Financial review

The Company achieved robust growth in its NAV and increased its dividend per share.

Key financial measures (year to 31 March)	2024	2023
Total return[1]	**£347m**	£394m
NAV	**£3,342m**	£3,101m
NAV per share	**362.3p**	336.2p
Total income[2]	**£194m**	£158m
Total income and non-income cash	**£208m**	£202m
Portfolio asset value	**£3,842m**	£3,641m
Cash balances	**£5m**	£5m
Total liquidity[3]	**£395m**	£404m

1 IFRS Total comprehensive income for the year.
2 Total income comprises Investment income and Interest receivable.
3 Includes cash balances of £5 million (2023: £5 million) and £390 million (2023: £399 million) undrawn balances available under the Company's £900 million RCF.

> We delivered another year of outperformance and an increased dividend.

James Dawes
CFO, 3i Infrastructure

Financial review continued

The Company delivered another year of outperformance, with the portfolio generating robust capital growth. The dividend was fully covered by net income. The target dividend for FY25 of 12.65 pence per share is an increase of 6.3% over FY24.

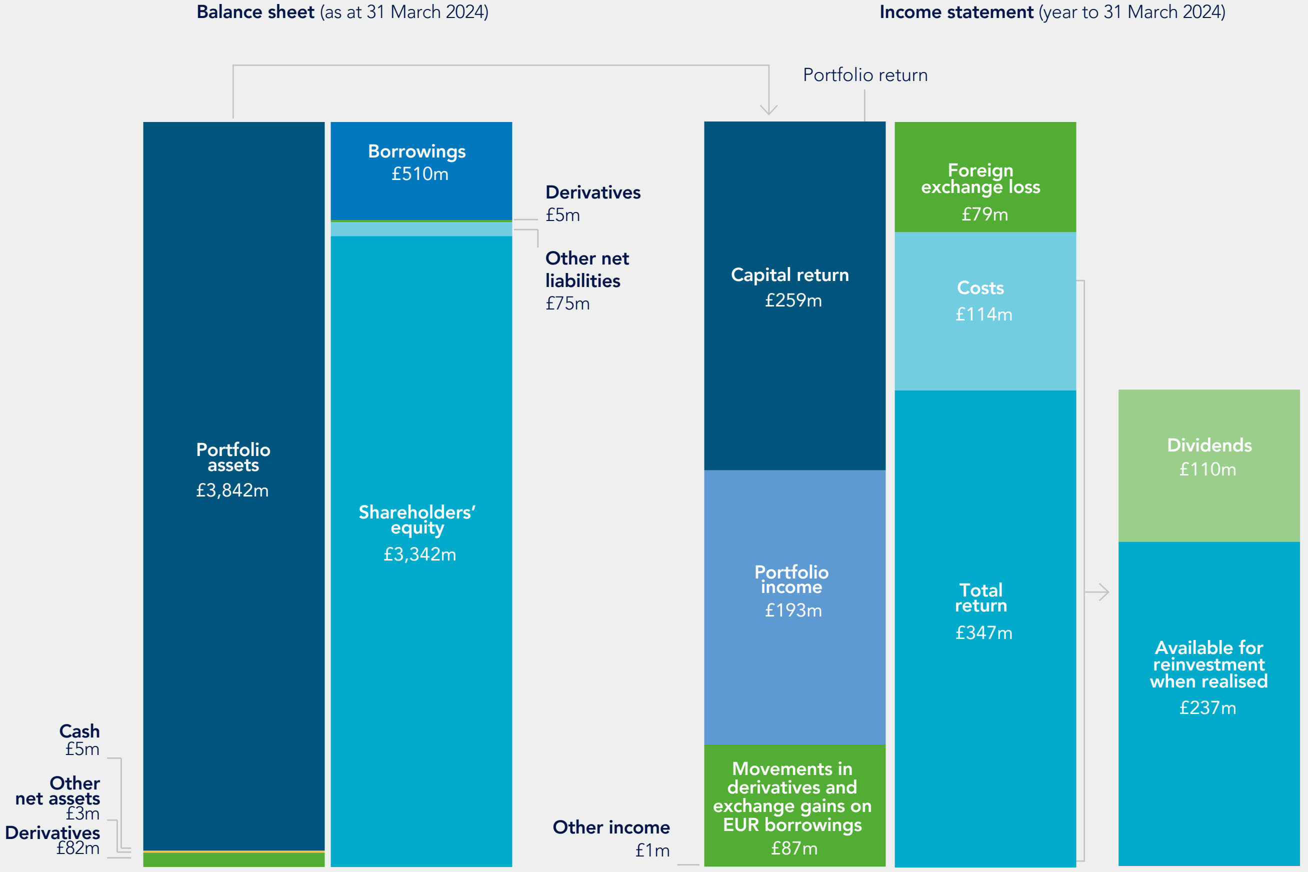
Total net investment in the year was £104 million, comprising two further investments in both DNS:NET and Future Biogas and one further investment in Ionisos; these are described on page 8. The Company maintained low levels of uninvested cash throughout the year and actively managed its liquidity position through drawing on its £900 million RCF. Amounts drawn under the RCF at 31 March 2024 were £510 million (2023: £501 million).

Returns

Total return

The Company generated a total return for the year of £347 million, representing an 11.4% return on opening NAV net of the prior year final dividend (2023: £394 million, 14.7%, time-weighted for equity issued in the year). This performance is again ahead of the target return of 8% to 10% per annum, to be achieved over the medium term.

Composition of balance sheet and income statement (year to 31 March 2024)



This outperformance was driven by strong performance across the portfolio, particularly from TCR, Tampnet and Valorem, and the strong return generated from the sale of Attero, partially offset by underperformance from DNS:NET. Changes in the valuation of the Company's portfolio assets are described in the Movements in portfolio value section of the Portfolio review. Our portfolio companies continue to generate discretionary growth opportunities that are accretive to our investment cases.

Total income and non-income cash of £208 million in the year was higher than last year, due to a full year of income from new investments made last year in GCX, TCR and Future Biogas, and strong income levels from Tampnet (2023: £202 million).

Non-income cash receipts reflect distributions from underlying portfolio companies, which would usually be income to the Company, but which are distributed as a repayment of investment for a variety of reasons. Whilst non-income cash does not form part of the total return shown in Table 3, it is included when considering dividend coverage.

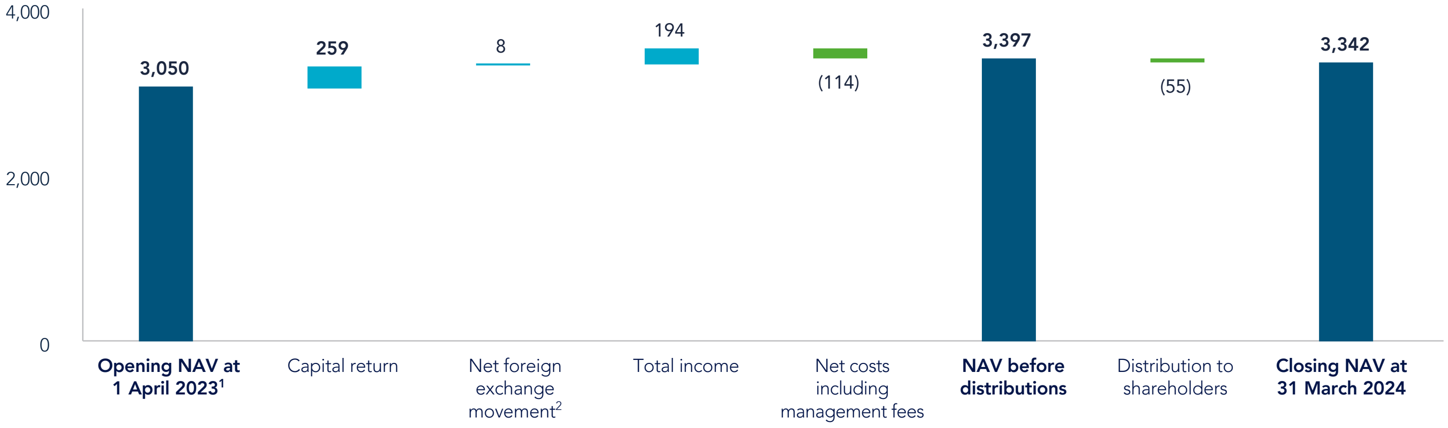
An analysis of the elements of the total return for the year is shown in Table 3.

Table 3: Summary total return (year to 31 March, £m)

	2024	2023
Capital return (excluding exchange)	259	320
Foreign exchange movement in portfolio	(79)	19
Capital return (including exchange)	**180**	**339**
Movement in fair value of derivatives and exchange on EUR borrowings	87	6
Net capital return	**267**	**345**
Total income	194	158
Costs[1]	(114)	(109)
Total return	**347**	**394**

1 Includes non-portfolio related exchange movement of nil (2023: gain of £2 million).

Chart 6: Reconciliation of the movement in NAV (year to 31 March 2024, £m)



1 Opening NAV of £3,101 million net of final dividend of £51 million for the prior year.
2 Foreign exchange movements are described in Chart 8.

Capital return

The capital return is the largest element of the total return. The portfolio generated a value gain of £259 million in the year to 31 March 2024 (2023: £320 million), as shown in Chart 6. There was a positive contribution across the majority of the portfolio and the largest contributors were TCR (£92 million), Tampnet (£54 million) and Valorem (£47 million). The only negative contribution was from DNS:NET (£55 million). These value movements are described in the Portfolio review section.

Income

The portfolio generated income of £193 million in the year (2023: £156 million). Of this amount, £9 million was through dividends (2023: £1 million) and £184 million through interest on shareholder loans (2023: £155 million). In addition, the Company earned £0.5 million of interest receivable on deposits (2023: £0.1 million).

Total income and non-income cash is shown in Table 4.

Table 4: Total income and non-income cash (year to 31 March, £m)

	2024	2023
Total income	194	158
Non-income	14	44
Total	208	202

A strong income contribution from Tampnet and a full year of income from the new investment made in GCX in FY23 offset the reduction in income from the sale of Attero. A breakdown of portfolio income is provided in Chart 9 on page 57, together with an explanation of the change from prior year.

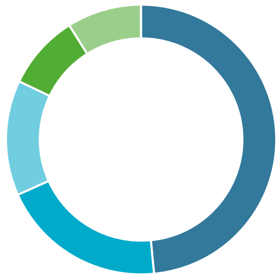
Interest income from the portfolio was higher than prior year due to a full year of income from the new investments made in FY23 in GCX, TCR and Future Biogas. Dividend income was higher than prior year due to dividend income from Tampnet.

Foreign exchange impact

The portfolio is diversified by currency as shown in Chart 7. We aim to deliver steady NAV growth for shareholders, and the foreign exchange hedging programme helps us to do this by reducing our exposure to fluctuations in the foreign exchange markets.

Portfolio foreign exchange movements, after accounting for the hedging programme, increased the net capital return by £8 million (2023: £25 million).

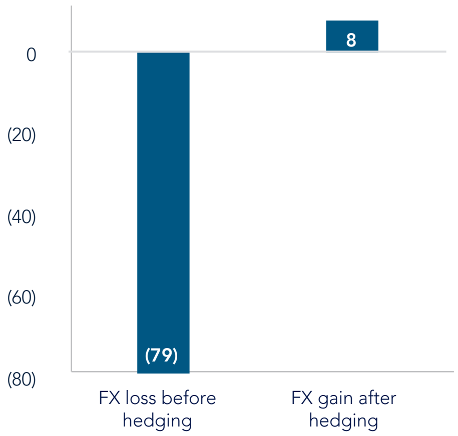
Chart 7: Portfolio value by currency (as at 31 March 2024)



EUR	48%
GBP	20%
DKK	14%
USD	9%
NOK	9%

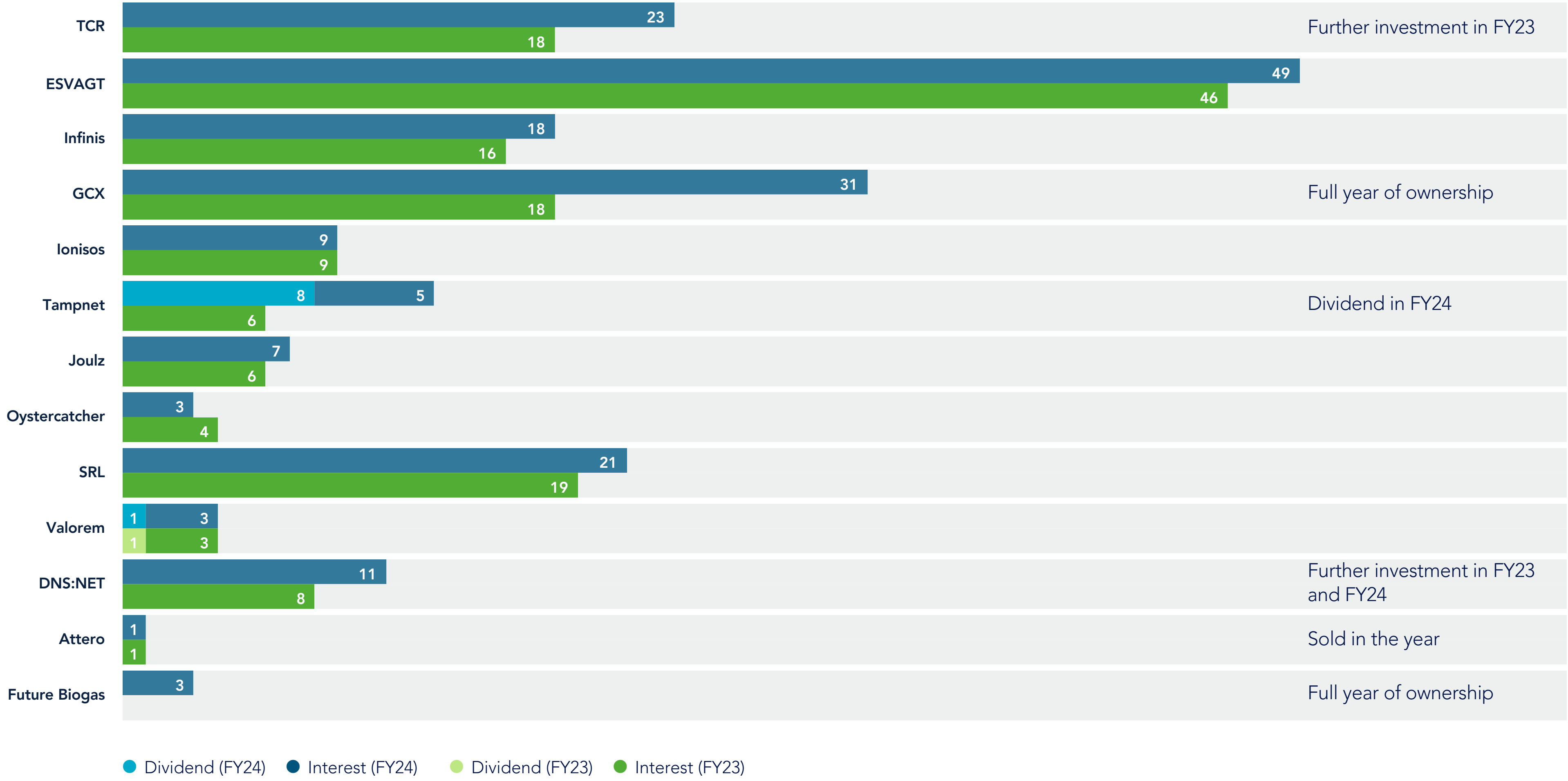
As shown in Chart 8, the reported foreign exchange loss on investments was £(79) million (2023: gain of £19 million). This was fully offset by an £87 million gain on the hedging programme (2023: £6 million). The positive hedge benefit resulted from favourable interest rate differentials on the hedging programme.

Chart 8: Impact of foreign exchange ('FX') movements on portfolio value (year to 31 March 2024, £m)



Financial review continued

Chart 9: Breakdown of portfolio income (year to 31 March, £m)



Financial review continued

Costs

Management and performance fees

During the year to 31 March 2024, the Company incurred management fees of £49 million (2023: £47 million), including transaction fees of £1 million (2023: £3 million). The fees, payable to 3i plc, consist of a tiered management fee, and a one-off transaction fee of 1.2% payable in respect of new investments. The management fee tiers range from 1.4%, reducing to 1.2% for any proportion of gross investment value above £2.25 billion.

An annual performance fee is also payable by the Company, amounting to 20% of returns above a hurdle of 8% of the total return. This performance fee is payable in three equal annual instalments, with the second and third instalments only payable if certain future performance conditions are met. This hurdle was exceeded for the year ended 31 March 2024, resulting in a performance fee payable to 3i plc in respect of the year ended 31 March 2024 of £26 million (2023: £45 million).

The first instalment of £9 million will be paid in May 2024, along with the second instalment of £15 million relating to the previous year's performance fee, and the third instalment of £18 million relating to the FY22 performance fee.

For a more detailed explanation of how management and performance fees are calculated, please refer to Note 18 of the accounts.

Other operating and finance costs

Operating expenses, comprising Directors' fees, service provider costs and other professional fees, totalled £4 million in the year (2023: £3 million).

Finance costs of £35 million (2023: £16 million) in the year comprised arrangement and commitment fees for the Company's £900 million RCF and interest on drawings. Finance costs were higher than in FY23 due to an increase in interest rates and a greater average drawn balance.

Ongoing charges ratio

The ongoing charges ratio measures annual operating costs, as disclosed in Table 5 below, against the average NAV over the reporting period.

The Company's ongoing charges ratio is calculated in accordance with the Association of Investment Companies ('AIC') recommended methodology and was 1.65% for the year to 31 March 2024 (2023: 1.64%). The ongoing charges ratio is higher in periods where new investment levels are high, the Company is drawn into its RCF and new equity is raised or capital is returned to shareholders. Realisation of assets reduces the ongoing charges ratio. The cost items that contributed to the ongoing charges ratio are shown below.

The AIC methodology does not include transaction fees, performance fees or finance costs. However, the AIC recommends that the impact of performance fees on the ongoing charges ratio is noted, where performance fees are payable. The ratio including the performance fee was 2.44% (2023: 3.19%). The total return of 11.4% for the year is after deducting this performance fee and ongoing charges.

Table 5: Ongoing charges (year to 31 March, £m)

	2024	2023
Investment Manager's fee	49.3	44.6
Auditor's fee	0.8	0.8
Directors' fees and expenses	0.6	0.5
Other ongoing costs	2.3	1.9
Total ongoing charges	53.0	47.7
Ongoing charges ratio	1.65%	1.64%

Financial review continued

Balance sheet

The NAV at 31 March 2024 was £3,342 million (2023: £3,101 million). The principal components of the NAV are the portfolio assets, cash holdings, the fair value of derivative financial instruments, borrowings under the RCF and other net assets and liabilities. A summary balance sheet is shown in Table 6.

At 31 March 2024, the Company's net assets after the deduction of the proposed final dividend were £3,287 million (2023: £3,050 million).

Cash and other assets

Cash balances at 31 March 2024 totalled £5 million (2023: £5 million).

Cash on deposit was managed actively by the Investment Manager and there are regular reviews of counterparties and their limits. Cash is principally held in AAA-rated money market funds.

Other net assets and liabilities predominantly comprise a performance fee accrual of £74 million (2023: £83 million), including amounts relating to prior year fees.

The movement from March 2023 is due to a decrease in the performance fee payable of £26 million. £35 million of prior year performance fees were paid during the year.

Borrowings

The Company has a £900 million RCF in order to maintain a good level and maturity of liquidity for further investment whilst minimising returns dilution from holding excessive cash balances. This is a three-year facility, with a maturity date of November 2026. At 31 March 2024, the total amount drawn was £510 million (2023: £501 million).

During the year, the Company predominantly drew on the RCF in euros, which reduced the cost of finance compared to borrowing in sterling and acted as a natural currency hedge against our euro investments, reducing the size of the FX hedging programme. Over the year, the average cost of RCF debt drawn was 6.1% (2023: 3.9%), considerably below the expected return from the portfolio indicated by the weighted average discount rate of 11.3% at 31 March 2024 (2023: 11.3%).

NAV per share

The total NAV per share at 31 March 2024 was 362.3 pence (2023: 336.2 pence). This reduces to 356.4 pence (2023: 330.6 pence) after the payment of the final dividend of 5.95 pence (2023: 5.575 pence). There are no dilutive securities in issue.

Dividend and dividend cover

The Board has proposed a dividend for the year of 11.90 pence per share, or £110 million in aggregate (2023: 11.15 pence; £101 million). This is in line with the Company's target announced in May last year.

Table 6: Summary balance sheet (as at 31 March, £m)

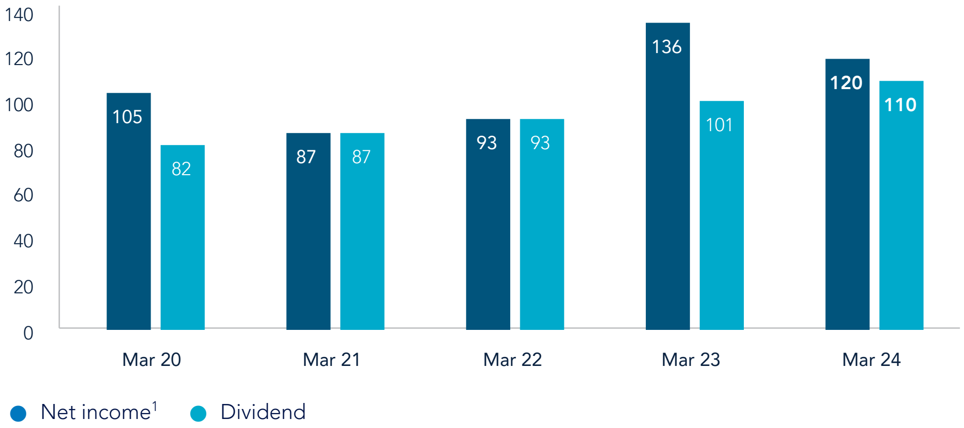
	2024	2023
Portfolio assets	3,842	3,641
Cash balances	5	5
Derivative financial instruments	77	39
Borrowings	(510)	(501)
Other net liabilities	(72)	(83)
NAV	3,342	3,101

Financial review continued

Table 7: Dividend cover (year to 31 March, £m)

	2024	2023
Total income, other income and non-income cash	**208**	202
Operating costs, including management fees	**(88)**	(66)
Dividends paid and proposed	**(110)**	(101)
Dividend surplus for the year	**10**	35
Dividend reserves brought forward from prior year	**814**	794
Realised gain over cost on disposed assets	**82**	30
Performance fees	**(26)**	(45)
Dividend reserves carried forward	**880**	814

Chart 10: Dividend cover (five years to 31 March 2024, £m)



1 Net income is Total income, other income and non-income cash less operating costs.

When considering the coverage of the proposed dividend, the Board assesses the income earned from the portfolio, interest received on cash balances and any additional non-income cash distributions from portfolio assets which do not follow from a disposal of the underlying assets, as well as the level of ongoing operational costs incurred in the year. The Board also takes into account any surpluses retained from previous years, and net capital profits generated through asset realisations, which it considers available as dividend reserves for distribution.

Table 7 shows the calculation of dividend coverage and dividend reserves. The dividend was fully covered for the year with a surplus of £10 million (2023: £35 million).

The retained amount available for distribution, following the payment of the final dividend, the realised gain over cost relating to the sale of Attero, the realised loss from the sale of the final investments in the India Fund and the performance fee will be £880 million (2023: £814 million). This is a substantial surplus, which is available to support the Company's progressive dividend policy, particularly should dividends not be fully covered by income in a future year.

A shortfall could arise, for example, due to holding substantial uninvested cash or through lower distributions being received from portfolio companies in order to invest in accretive growth opportunities or to preserve liquidity.

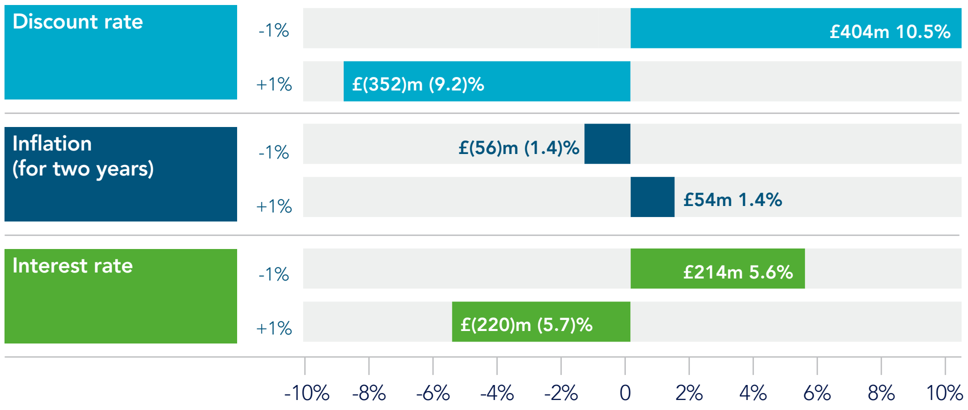
Chart 10 shows that the Company has consistently covered the dividend over the last five years.

Sensitivities

The sensitivity of the portfolio to key inputs to our valuations is shown in Chart 11 and described in more detail in Note 7 to the accounts. The portfolio valuations are positively correlated to inflation. The longer-term inflation assumptions beyond two years remain consistent with central bank targets, eg. UK CPI at 2%.

The sensitivities shown in Chart 11 are indicative and are considered in isolation, holding all other assumptions constant. Timing and quantum of price increases will vary across the portfolio and the sensitivity may differ from that modelled. Changing the inflation rate assumption may necessitate consequential changes to other assumptions used in the valuation of each asset.

Chart 11: Portfolio sensitivities (year to 31 March 2024)



Alternative Performance Measures ('APMs')

We assess our performance using a variety of measures that are not specifically defined under IFRS and are therefore termed APMs. The APMs that we use may not be directly comparable with those used by other companies. These APMs provide additional information on how the Company has performed over the year, and are all financial measures of historical performance.

The APMs are consistent with those disclosed in prior years.

- Total return on opening NAV reflects the performance of the capital deployed by the Company during the year. This measure is not influenced by movements in share price or ordinary dividends to shareholders. This is a common APM used by investment companies
- The NAV per share is a measure of the underlying asset base attributable to each ordinary share of the Company and is a useful comparator to the share price. This is a common APM used by investment companies
- Total income and non-income cash is used to assess dividend coverage based on distributions received and accrued from the investment portfolio
- Investment value including commitments measures the total value of shareholders' capital deployed by the Company
- Total portfolio return percentage reflects the performance of the portfolio assets during the year
- Total liquidity is a measure of the Company's ability to make further investments and meet its short-term obligations
- Portfolio debt to enterprise value is a measure of underlying indebtedness of the portfolio companies

Financial review continued

The definition and reconciliation to IFRS of the APMs is shown below.

APM	Purpose	Calculation	Reconciliation to IFRS
Total return on opening NAV	A measure of the overall financial performance of the Company. For further information see the KPI section.	It is calculated as the total return of £347 million, as shown in the Statement of comprehensive income, as a percentage of the opening NAV of £3,101 million net of the final dividend for the previous year of £51 million.	The calculation uses IFRS measures.
NAV per share	A measure of the NAV per share in the Company.	It is calculated as the NAV divided by the total number of shares in issue at the balance sheet date.	The calculation uses IFRS measures and is set out in Note 14 to the accounts.
Total income and non-income cash	A measure of the income and other cash receipts by the Company which support the payment of expenses and dividends.	It is calculated as the total income from the underlying portfolio and other assets plus non-income cash, being the repayment of shareholder loans not resulting from the disposal of an underlying portfolio asset.	Total income uses the IFRS measures; Investment income and Interest receivable. The non-income cash, being the proceeds from partial realisations of investments, is shown in the Cash flow statement. The realisation proceeds which result from a partial sale of an underlying portfolio asset are not included within non-income cash.
Investment value including commitments	A measure of the size of the investment portfolio including the value of further contracted future investments committed by the Company.	It is calculated as the portfolio asset value plus the amount of the contracted commitment. At 31 March 2024, the Company had no investment commitments.	The portfolio asset value is the Investments at fair value through profit or loss reported under IFRS. The value of future commitments is set out in Note 16 to the accounts.
Total portfolio return percentage	A measure of the financial performance of the portfolio.	It is calculated as the total portfolio return in the year of £460 million, as shown in Table 1, as a percentage of the sum of the opening value of the portfolio and investments (excluding capitalised interest) of £3,745 million.	The calculation uses capital return (including exchange), movement in fair value of derivatives, underlying portfolio income, opening portfolio value and investment in the year. The reconciliation of all these items to IFRS is shown in Table 1, including in the footnotes.
Total liquidity	A measure of the Company's ability to make further investments and meet its short-term obligations.	It is calculated as the cash balance of £5 million plus the undrawn balance available under the Company's RCF of £390 million.	The calculation uses the cash balance, which is an IFRS measure, and undrawn balances available under the Company's RCF as described in Note 11 to the accounts.
Portfolio debt to enterprise value	A measure of underlying indebtedness of the portfolio companies.	It is calculated as total debt, as a percentage of the enterprise value of the portfolio companies, and does not include indebtedness of the Company.	The calculation is a portfolio company measure and therefore cannot be reconciled to the Company's accounts under IFRS.

Overview
Our portfolio
Sustainability
Financial review and Risk
Governance
Accounts and other information

Risk report

Our consistent risk governance framework supports decision making during periods of economic uncertainty.

Wendy Dorman
Chair, Audit and Risk Committee

We saw continued economic uncertainty during the year, with rising interest rates on the back of high levels of inflation adversely affecting share prices in the infrastructure investment trust market.

In this macroeconomic environment, effective risk management is essential for the sustainable, long-term execution of the Company's strategy. The Audit and Risk Committee (the 'Committee') operates a robust risk management framework, which systematically evaluates the principal, key and emerging risks facing the Company. This framework provides an objective context for Board decisions related to performance, liquidity, capital structure and the overall business model. Despite the challenges posed by the geopolitical and macroeconomic landscape, the Company has maintained strong performance, supported by dynamic and responsive decision-making facilitated by our risk management process. We believe that the consistent application of this robust framework is an important element in the continued superior performance of the Company.

Our risk review process follows a three-year cycle. Initially, each Director independently assesses the risks facing the Company, a process we refer to as the 'blank sheet of paper exercise'. Subsequently, we conduct two annual updates.

In the current year, we completed the final stage of that three-year cycle of risk reviews. The Committee, alongside the Investment Manager, conducted a comprehensive assessment to identify and evaluate the impact and likelihood of the key, principal and emerging risks facing the Company.

The following sections explain how we identify and address risks to the Company. We outline the key risks, assess their potential impact on both the Company and our portfolio, and discuss our mitigation strategies.

Risk report continued

Risk framework

Risk-related reporting

Internal

- Monthly management accounts
- Internal and external audit reports
- Service provider control reports
- Risk logs
- Compliance reports
- Risk-related reporting

External

- Risk appetite
- Viability statement
- Resilience statement
- Internal controls
- Going concern
- Statutory/accounting disclosures

As we conclude this three-year cycle, we have re-evaluated several risks to account for developments in the year. Additionally, we refreshed the list of emerging risks. The Committee updated the risk register and risk matrix based on the analysis conducted, ensuring alignment with the Company's strategic objectives.

Risk governance approach

The Board is ultimately responsible for the Company's risk management. It aims to strike a suitable balance between risk mitigation and generating long-term risk-adjusted returns for shareholders. Our approach to risk management is underpinned by our Board values of integrity, objectivity, accountability and legacy.

The Committee oversees the risk framework, methodology and process. This risk framework ensures a structured and consistent approach to identifying, assessing, and addressing risks. Consistency in risk management across the Company's strategy, business objectives, policies and procedures is a key objective of the Committee.

The Company is also reliant on the risk management frameworks of the Investment Manager and other key service providers, as well as on the risk management practices of each portfolio company.

Risk management reports are received from the Investment Manager and other service providers. The Investment Manager's team members represent the Company on all portfolio companies' boards which informs the risk-related reporting.

Risk appetite

The Committee reviews the Company's risk appetite annually, and this year confirmed that it remained broadly stable. As an investment company, the Company seeks to take investment risk. Our appetite for investment risk is detailed in the Our business model section and the Investment policy later in this document. All investments adhere to the Investment Manager's Responsible Investment policy, a critical component of our risk approach. In a competitive market for new investments, maintaining investment discipline remains paramount. That investment discipline is equally important when considering realisations, such as that of Attero during the year. Our investment procedures are rigorous and comprehensive.

The target risk-adjusted objective of delivering 8% to 10% return per annum over the medium term remains consistent with our current portfolio investment cases.

Should our portfolio expand, the range of expected returns in individual investment cases may widen.

This expansion could include both higher risk/return 'value add' cases and lower risk/return 'core' investments. We acknowledge that this may introduce greater volatility in returns on an individual asset basis. However, diversification across sectors, countries and underlying economic risks mitigates this volatility. Reflecting the Company's current liquidity position, the current focus is on investing through the existing portfolio, which we believe should generate better risk-adjusted returns than adding new platform investments, and on repayment of drawings on the Company's RCF.

We have intentionally built a diverse portfolio while carefully assessing the risks faced by our portfolio companies. The Committee reaffirmed that the Company's risk appetite for core-plus infrastructure investments remains unchanged and aligns with our investment mandate and target returns. The recent macroeconomic uncertainty has tested the appropriateness of our business model and risk appetite, and overall, our portfolio has demonstrated resilience, benefitting from diversification across infrastructure subsectors and underlying risk types.

The Company operates a flexible funding model and has been a relatively infrequent issuer of new shares in the infrastructure investment trust market.

Risk report continued

The Company's shares have traded at a discount to published net asset value throughout the year. This restricted access to new equity issuance and increased the importance of the RCF to bridge the cycle between investment and realisation, as well as cash generation by underlying portfolio companies.

Risk review process

The key tools used by the Committee to assess the appetite for key risks are the risk register and the risk matrix.

The process of creating and reviewing the risk register and risk matrix is described below, together with a discussion of the Company's appetite for each of the key risks.

In addition to investment risk, which is discussed above, the Company actively manages and limits exposure to other risks to maintain acceptable levels.

The Company's risk review process includes the monitoring of key strategic and financial metrics considered to be indicators of potential changes in its risk profile.

The review takes place three times a year, with the last review in April 2024, and includes, but is not limited to, the following:

- infrastructure and broader market overviews;
- key macroeconomic indicators and their impact on the performance and valuation of portfolio companies;
- regular updates on the operational and financial performance of portfolio companies;
- experience of investment and divestment processes;
- compliance with regulatory obligations, including climate-related regulations;
- analysis of new and emerging regulatory initiatives;
- liquidity management;
- assessment of climate risks to the portfolio, including physical, transition and litigation risks;
- consideration of scenarios that may impact the viability of the Company;
- assessment of emerging risks; and
- review of the Company's risk log.

The Committee uses the risk framework to identify both emerging and key risks, assessing changes in risks over time. This framework is designed to manage, rather than eliminate, the risk of failing to achieve objectives or breaching our risk appetite. Throughout the year, we closely monitor significant key risks or 'principal risks', which have the potential to materially impact the achievement of our strategic objectives.

The Committee evaluates the likelihood of each identified risk materialising and the potential impact it may have, with reference to the Company's strategy and business model. We assess risks over two timeframes: within three years; and beyond three years. The results are presented on a risk matrix.

For each risk, we develop mitigating controls and assess their adequacy. If necessary, additional controls are implemented and reviewed during subsequent Committee meetings.

Risk categorisation

The Committee uses the following categorisation to describe risks that are identified during the risk review process.

Emerging risks → **Key risks** → **Principal risks**

Emerging risks

An emerging risk is one that may in future be likely to have a material impact on the performance of the Company and the achievement of our long-term objectives, but that is not yet considered to be a key risk and is subject to uncertainty as to nature, impact and timing.

Key risks

A key risk is considered currently to pose the risk of a material impact on the Company. Risks may be identified as emerging risks and subsequently become key risks. Identified key risks may cease to be considered key risks over time.

Principal risks

The Committee maintains a risk matrix, onto which the key risks are mapped by impact and likelihood. The principal risks are identified on the risk matrix as those with the highest combination of impact and likelihood scores.

Risk report continued

The Committee considers the identified principal risks in greater detail in the assessment of the Company's viability. This assessment considers a number of plausible scenarios that could arise if these risks materialise, including stressed scenarios that might jeopardise the Company's viability. As the Company is an investment company, the stressed scenarios primarily focus on reduced cash flows from our investment portfolio. These scenarios could lead to debt covenant breaches and liabilities not met.

The Investment Manager models the impact of these scenarios on the Company and reports the results to the Committee. The resulting viability assessment is included in this Risk report.

Review during the year

In October 2023, the Committee conducted a comprehensive reassessment of the identified key risks and considered any updates to the list of emerging risks facing the Company. The Directors and several members of the Investment Manager's team identified the top emerging risks, considered whether there were any new key risks, and discussed changes to the impact and likelihood of the principal risks.

In December 2023, the Investment Manager analysed the collected data and identified both emerging and principal risks. The principal risks were scored for impact and likelihood over both a three-year and beyond three-year period, building upon the scoring of those risks in the prior year's assessment.

In January 2024, the Committee assessed the results of the principal risk scoring and made additional adjustments.

In April 2024, the Committee reviewed the updated risk register and risk matrix, along with the Company's appetite for each key risk.

We have a relatively diverse spread of assets in the portfolio and it is important that risk diversity is maintained as we evolve the portfolio through new investments, realisations and syndications.

Future realisations and syndications will continue to shape the portfolio's risk profile in line with our strategy. This flexibility allows us to manage exposure to more sensitive assets and adapt to changes in risk profiles over time.

We remain confident that the portfolio remains defensive and resilient, and it is well-positioned to benefit from accretive but discretionary growth opportunities, as highlighted in the Review from the Managing Partners. Our assessment indicates that the current risk appetite is appropriate.

Risk register review process

October 2023
Directors identify potential emerging or new key risks facing the Company

December 2023
Analysis and interpretation of responses

April 2024
Risk register and risk matrix updated

January 2024
Impact and likelihood of the identified risks considered

Emerging risks

As a long-term investor, the Company must carefully assess both identified key risks, as detailed below, and emerging or longer-term risks. Risk categorisation, including the definition of emerging risks, is outlined on page 65.

The Board and the Investment Manager take these factors into account when evaluating portfolio performance and assessing new investments. Their goal is to identify potential risks that can either be mitigated or transformed into opportunities.

As part of our ongoing risk management, the Committee evaluates whether emerging risks should be added to the Company's risk register. This register is a 'live' document, regularly reviewed and updated by the Committee as new risks emerge and existing risks evolve. Examples of emerging risks considered during the year include opportunities and challenges related to AI tools, potential tax changes resulting from UK political changes, geopolitical tensions (such as conflicts in the Middle East and Ukraine), emerging energy technologies, including nuclear fusion, and heightened regulatory reporting requirements (including climate-related disclosures). In some instances, emerging risks may already be encompassed within broader identified key risks, such as market and economic risk.

Key risks

The Committee assesses key risks by evaluating their impact and likelihood on a risk matrix. Throughout the year, the Committee examined all the key risks in detail. Within the category of key risks, the principal risks identified by the Committee are outlined in the Principal risks and mitigation table (pages 68 to 71). The disclosures in the Risk report do not encompass an exhaustive list of risks and uncertainties faced by the Company. Instead, they serve as a concise summary of significant key risks actively reviewed by the Board, their mitigating controls and developments in the year.

Our risk review demonstrated a high degree of consistency compared to the previous year, with minimal changes in the identified key risks. The assessment of likelihood and impact led to minor adjustments in the principal risks facing the Company, as compared to the prior financial year.

Market and economic risk was considered the top risk facing the Company and was considered to have increased during the year. This risk encompasses consequences such as high inflation and interest rates, elevated or volatile commodity and energy prices, supply chain constraints, and volatile capital markets affecting pricing, valuations and portfolio performance.

The portfolio is not currently materially impacted by the instability in the Middle East and Ukraine, but this was considered to have increased the overall level of market and economic risk, and security of assets risk.

It was noted that the greatest impact on the Company was the decline in the public valuation of listed companies in the infrastructure sector, which has limited access to the equity capital market. The management of liquidity risk is considered to have increased as a consequence.

While there were no significant changes in the remaining principal risks, adjustments are reflected in the Principal risks and mitigations table.

Fraud and cyber risk

We remain vigilant to cyber- and other IT-related threats that could disrupt the Company, compromise data, or harm our reputation. The Investment Manager has a robust fraud risk assessment and anti-fraud programme in place. This programme includes proactive fraud prevention work by their Internal Audit team, mandatory training to enhance vigilance and awareness, and an independent reporting service (accessible to all staff) known as the 'hotline'.

Additionally, the Investment Manager's cyber security programme focuses on identifying and mitigating risks related to third-party frauds, such as ransomware and phishing attacks. Regular staff training and the use of IT security tools contribute to this effort.

Furthermore, we have a detailed business continuity and disaster recovery plan in place to address significant events.

We also actively request our service providers to inform us promptly of any significant cyber events that they experience.

Climate risk

Climate risk includes the short- to medium-term impacts, including transitional changes (for example, regulation and financial) as well as the long-term emerging risk of climate change (for example, flooding events). Failing to identify and mitigate these risks could lead to reduced asset attractiveness, reputational harm, and a decline in portfolio value over time.

While uncertainties persist regarding the precise impact and timing of climate change, government actions, and future regulations, we recognise that climate-related risk is not only a key risk but also an essential investment theme for the Company. We categorise climate-related risk into two distinct but related risks.

Climate regulation risk addresses the regulatory risk linked to the transition toward a low-carbon economy. It encompasses the impact of evolving regulations on the Company and the portfolio. Climate risk considers both physical risks (direct impacts of climate change) and transition risks (changes arising from the transition to a low-carbon economy).

As highlighted in the Sustainability section, the climate-related risks – both physical and transition – are also viewed as opportunities across our portfolio.

There are no immediate acute physical or transition risks identified in the portfolio that would categorise climate risk as a principal risk. An example of transition risk is the risk of early decommissioning of oil and gas assets, which impacts certain customers of Tampnet and ESVAGT. A related transition opportunity is the potential for prolonged life of offshore platforms to facilitate sequestration of carbon dioxide in old oil or gas fields, which could benefit Tampnet and ESVAGT.

We believe that the mitigating controls implemented by both the Company and the Investment Manager effectively address climate regulation risk, preventing it from being a principal risk at this time.

Risk report continued
Principal risks and mitigations

Our strategic priorities

Maintain balanced portfolio · Disciplined approach · Manage portfolio intensively · Efficient balance sheet · Sustainability key driver

External

Principal risk	Risk description	Risk mitigation	Developments in the year
Market/economic **Risk exposure movement in the year** Increased **Link to Strategic priorities** Manage portfolio intensively	• Macroeconomic or market volatility impacts general market confidence and risk appetite which flows through to pricing, valuations and portfolio performance • Fiscal tightening impacts market environment • Risk of sovereign default lowers market sentiment and increases volatility • Misjudgement of inflation and/or interest rate outlook	• Resources and experience of the Investment Manager on deal-making, asset management and hedging solutions to market volatility • Periodic legal and regulatory updates on the Company's markets and in-depth market and sector research from the Investment Manager and other advisers • Portfolio diversification to mitigate the impact of a downturn in any geography or sector or portfolio company-specific effects • The permanent capital nature of an investment trust allows us to look through market volatility and the economic cycle	• Strong portfolio performance, demonstrating resilience, leading to an increase in portfolio value in the year • Foreign exchange exposures at the portfolio company level monitored and hedged where appropriate • The Company's share price traded below NAV during the year and this restricted the Company's ability to raise new capital • Private equity market valuations typically less affected than public equity market valuations during periods of significant public market volatility • Conflict in the Middle East has increased the risk exposure in the year
Competition **Risk exposure movement in the year** Decreased **Link to Strategic priorities** Disciplined approach	• Increased competition for the acquisition of assets in the Company's strategic focus areas • Deal processes become more competitive and prices increase • New entrants compete with a lower cost of capital	• Continual review of market data and review of Company return target compared to market returns • Ongoing analysis of the competitor landscape • Origination experience and disciplined approach of Investment Manager • Strong track record and strength of the 3i Infrastructure brand	• Realisation of Attero at a c.31% premium to the March 2023 valuation • No new platform investments added to the portfolio during the year, with investment of £104 million in the existing portfolio • Reduction in the number of private infrastructure market transactions compared to prior year

Risk report continued
Principal risks and mitigations continued

Our strategic priorities

Maintain balanced portfolio | Disciplined approach | Manage portfolio intensively | Efficient balance sheet | Sustainability key driver

External continued

Principal risk	Risk description	Risk mitigation	Developments in the year
Debt markets deteriorate **Risk exposure movement in the year** No significant change **Link to Strategic priorities** Manage portfolio intensively	• Debt becomes increasingly expensive, eroding returns • Debt availability is restricted • The Company's RCF or portfolio company debt cannot be refinanced due to lack of appetite from banks	• The Investment Manager maintains close relationships with a number of banks and monitors the market through transactions and advice • Regular reporting of Company liquidity and portfolio company refinancing requirements • Investment Manager has extensive experience in raising debt finance for portfolio companies, alongside an in-house treasury team to provide advice on treasury issues • Active management of portfolio company debt facilities, with fixed rates and long duration of debt	• The maturity of the Company's RCF was extended by a further year to November 2026 with the agreement of all lenders and no change in terms • There are no material refinancing requirements in the portfolio until 2027 and over 91% of long-term debt facilities are either hedged or fixed rate at 31 March 2024 • TCR, GCX, Ionisos, Valorem and Future Biogas all completed successful refinancings or new debt raises during the financial year

Operational

Principal risk	Risk description	Risk mitigation	Developments in the year
Loss of senior Investment Manager staff **Risk exposure movement in the year** No significant change **Link to Strategic priorities** Maintain balanced portfolio Sustainability key driver	• Members of the deal team at the Investment Manager leave, and 'deal-doing' and portfolio management capability in the short to medium term is restricted	• Performance-linked compensation packages, including an element of deferred remuneration • Notice periods within employment contracts • Strength and depth of the senior team and strength of the 3i Group brand • Careful management and robust planning of senior management transition	• The Investment Manager team has strength and depth, and the transition in senior management that took place in the prior financial year continues to be effective

Risk report continued
Principal risks and mitigations continued

Our strategic priorities

Maintain balanced portfolio | Disciplined approach | Manage portfolio intensively | Efficient balance sheet | Sustainability key driver

Operational continued

Principal risk	Risk description	Risk mitigation	Developments in the year
Management of liquidity **Risk exposure movement in the year** Increased **Link to Strategic priorities** Disciplined approach Efficient balance sheet	• Failure to manage the Company's liquidity, including cash and available credit facilities • Insufficient liquidity to pay dividends and operating expenses or to make new investments • Hold excessive cash balances, introducing cash drag on the Company's returns	• Regular reporting of current and projected liquidity • Investment and planning processes consider sources of liquidity • Flexible funding model, where liquidity can be sought from available cash balances including reinvestment of proceeds from realisations, committed credit facilities which can be increased with approval from our lenders, and the issue of new share capital • Growth opportunities can be part or fully funded by portfolio company cash balances and/or available debt facilities	• The Company has access to a £900 million RCF that expires in November 2026. Total liquidity comprised cash and deposits of £5 million and undrawn facilities of £390 million at 31 March 2024, a decrease of £9 million during the financial year • No outstanding commitments at 31 March 2024 • Access to the equity capital markets was limited as a result of share price declines in the listed infrastructure investment trust sector and this restricted the Company's ability to raise new capital
Deliverability of return target **Risk exposure movement in the year** No significant change **Link to Strategic priorities** Maintain balanced portfolio Sustainability key driver	• Failure to ensure the investment strategy can deliver the return target and dividend policy of the Company • Failure to adapt the strategy of the Company to changing market conditions	• Market returns are reviewed regularly • The Investment Manager and other advisers to the Company report on market positioning • Investment process addresses expected return on new investments and the impact on the portfolio • Consideration of megatrends in the investment process • Consideration of risks, including ESG and climate risks, in the investment process	• Total return for the year of 11.4% outperforming target return of 8-10% per annum • FY24 dividend of 11.90 pence per share, 6.7% higher than the previous year

Risk report continued

Principal risks and mitigations continued

Our strategic priorities

Maintain balanced portfolio | Disciplined approach | Manage portfolio intensively | Efficient balance sheet | Sustainability key driver

Investment

Principal risk	Risk description	Risk mitigation	Developments in the year
Security of assets **Risk exposure movement in the year** Increased **Link to Strategic priorities** Maintain balanced portfolio Sustainability key driver	• An incident, such as a cyber or terrorist attack • Unauthorised access to information and operating systems • Regulatory and legal risks from failure to comply with cyber-related laws and regulations, including data protection	• Regular review of the Company and key service providers • Regular review and update of cyber due diligence for potential investments • Review of portfolio companies for cyber risk management and incident readiness	• Ongoing focus on IT security and staff training including utilisation of specialist advisers by the key service providers • Continued programme of phishing and penetration testing and reviewed disaster recovery plans in the year • Portfolio company boards continued to focus on cyber risk management. While some portfolio companies encounter fraud attempts (with occasional success), none have materially impacted our companies • Conflict in the Middle East has increased the risk exposure in the year
Poor investment performance **Risk exposure movement in the year** No significant change **Link to Strategic priorities** Maintain balanced portfolio Sustainability key driver	• Misjudgement of the risk and return attributes of a new investment • Material issues at a portfolio company • Poor judgement in the realisation of an asset	• Robust investment process with thorough challenge of the investment case supported by detailed due diligence • Investment Manager's active asset management approach, including proactive management of issues arising at portfolio company level • Monthly portfolio monitoring to identify and address portfolio issues promptly • Experience of the Investment Manager's team in preparing for and executing realisations of investments	• Resilient performance from the portfolio overall • Increase in portfolio valuation, and a realisation at a premium to last valuation • Active asset management including implementing changes in the leadership team and the reassessment of strategy at portfolio companies as and when appropriate • Progress by portfolio companies along their sustainability pathways

Risk report continued

Resilience

Our resilience comes from the effective implementation of our business model, described on pages 10 to 15. Key elements of our business model relating to resilience include the Investment Manager's disciplined approach to new investment and engaged asset management, the defensive characteristics of our portfolio of investments, high ESG standards, our flexible funding model and efficient balance sheet, and the capability of the Investment Manager's team.

This is underpinned by the strong institutional culture and values of our Investment Manager, high standards of corporate governance, and effective risk management.

Over the life of the Company, the Investment Manager has built a resilient and diversified portfolio with good growth potential and downside protection that delivers an attractive mix of income yield and capital appreciation for shareholders. This has been achieved through consistent delivery of our strategic priorities, described on page 18.

Short-term resilience

The Directors assess the Company's short-term resilience through monitoring portfolio, pipeline and finance reports. These are prepared monthly, and discussed at quarterly scheduled board meetings and board update calls held between scheduled meetings. Six-monthly detailed investment reviews are prepared by the Investment Manager and discussed with the Board, as part of the half-yearly and annual valuation and reporting processes. These reviews describe sources of risk at portfolio company level, and mitigating actions being taken or considered.

The resilience of key suppliers, including the Investment Manager, is considered annually, or more frequently if appropriate. The Audit and Risk Committee is provided with relevant extracts of reports from the Investment Manager's internal audit team, which includes an annual report on the Investment Manager's European infrastructure investment team. Further detail is included in the Governance section on page 102.

The Directors manage the Company's liquidity actively, reviewing reports on current and forecast liquidity from the Investment Manager, alongside recommendations for seeking additional liquidity when appropriate. During the year, the RCF was extended by one year to November 2026. Further discussion on the RCF can be found in the Financial review on page 59.

The identification of material uncertainties that could cast significant doubt over the ability of the Company to continue as a going concern forms the basis of the Going concern statement below.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report and in the Financial statements and related Notes to our Annual report and accounts to 31 March 2024. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are also described in the Financial statements and related Notes to the accounts.

In addition, Note 9 to the accounts includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

The Directors have made an assessment of going concern, taking into account the Company's cash and liquidity position, current performance and outlook, which considered the impact of the higher inflationary and interest rate environment, using the information available up to the date of issue of these Financial statements.

The Company has liquid financial resources and a strong investment portfolio, providing a predictable income yield and an expectation of medium-term capital growth.

The Company manages and monitors liquidity regularly, ensuring that it is sufficient.

At 31 March 2024, liquidity remained strong at £395 million (2023: £404 million). Liquidity comprised cash and deposits of £5 million (2023: £5 million) and undrawn facilities of £390 million (2023: £399 million). The £900 million RCF matures beyond 12 months of the date of this report.

The Company had no contracted investment commitment at 31 March 2024. However, the Company expects to make follow-on investments in portfolio companies to fund growth opportunities.

The Company had ongoing charges of £53 million in the year to 31 March 2024, detailed in Table 5 in the Financial review, which are indicative of the ongoing run rate in the short term. In addition, the FY24 performance fee of £26 million (2023: £45 million) is due in three equal instalments, with the first instalment payable in the next 12 months along with the second instalment of FY23's performance fee and the third instalment of FY22's performance fee, and a proposed final dividend for FY24 of £55 million which is expected to be paid in July 2024.

Although not a commitment, the Company has announced a dividend target for FY25 of 12.65 pence per share. Income and non-income cash is expected to be received from the portfolio investments during the coming year, some of which will be required to support the payment of this dividend target and the Company's other financial commitments.

The Directors have acknowledged their responsibilities in relation to the Financial statements for the year to 31 March 2024. After making the assessment on going concern, the Directors considered it appropriate to prepare the Financial statements of the Company on a going concern basis.

The Company has sufficient financial resources and liquidity and is well-positioned to manage business risks in the current economic environment and can continue operations for a period of at least 12 months from the date of this report. This is supported by the scenario analysis and stress testing described in the medium-term resilience section and the Viability statement. Accordingly, the Directors continue to adopt the going concern basis in preparing the Annual report and accounts.

Medium-term resilience

The assessment of medium-term resilience, which includes modelling of stressed scenarios and reverse stress tests, considers the viability and performance of the Company in the event of specific stressed scenarios, which are assumed to occur over a three-year horizon. This stress testing forms the basis of the Viability statement.

The Directors consider that a three-year period to March 2027 is an appropriate period to review for assessing the Company's viability. This reflects greater predictability of the Company's cash flows over that time period and increased uncertainty surrounding economic, political and regulatory changes over the longer term.

The stress testing focuses on the principal risks, but also reflects those new and emerging risks that are considered to be of sufficient importance to require active monitoring by the Audit and Risk Committee. The scenarios used are described in the Viability statement. The medium-term resilience of the Company is assessed through analysing the impact of these scenarios on key metrics such as total return, income yield, net asset value, covenants on the RCF and available liquidity.

Viability statement

The Directors consider the medium-term prospects of the Company to be favourable. The Company has a diverse portfolio of infrastructure investments, producing good and reasonably predictable levels of income which cover the dividend and costs. The defensive nature of the portfolio and of the essential services that the businesses in which we invest provide to their customers are being demonstrated in the current climate. The Investment Manager has a strong track record of investing in carefully selected businesses and projects and of driving value through an engaged asset management approach. The Directors consider that this portfolio can continue to meet the Company's objectives.

The Directors have assessed the viability of the Company over a three-year period to March 2027. The Directors have taken account of the current position of the Company, including its liquidity position, with £5 million of cash and £390 million of undrawn credit facilities, and the principal risks it faces, which are documented in this Risk report on pages 68 to 71.

Risk report continued

The Directors have considered the potential impact on the Company of a number of scenarios in addition to the Company's business plan and recent forecasts, which quantify the financial impact of the principal risks occurring. These scenarios represent severe yet plausible circumstances that the Company could experience, including a significant impairment in the value of the portfolio and a reduction in the cash flows available from portfolio companies from a variety of causes.

The assessment was conducted over several months, during which the proposed scenarios were evaluated by the Board, the assumptions set, and the analysis produced and reviewed. Analysis included the impact of an escalation of the conflict in Ukraine or in the Middle East on our portfolio companies, and the impact of a resulting economic downturn. Other considerations included the possible impact of climate-related events and transition risks, widespread economic turmoil, a reduction in cash distributions from portfolio companies to the Company, a tightening of debt markets and the failure of a large investment.

The assumptions used to model these scenarios included: a fall in value of some or all of the portfolio companies; a reduction in cash flows from portfolio companies; a reduction in the level of new investment and/or realisations; the imposition of additional taxes on distributions from or transactions in the portfolio companies; an increase in the cost of debt and restriction in debt availability; and an inability for the Company to raise equity. The implications of changes in the inflation, interest rate and foreign exchange environment were also considered, separately and in combination.

The results of this assessment showed that the Company would be able to withstand the impact of these scenarios occurring over the three-year period. The Directors also considered scenarios that would represent a serious threat to its liquidity and viability in that time period. These scenarios were considered to be remote, such as a fall in equity value of the portfolio of materially more than 50% whilst being fully drawn on the RCF, or an equivalent fall in income.

Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period to March 2027.

Long-term resilience

As described above, the long-term resilience of the Company, beyond the Viability statement period, comes from the effective implementation of our business model and consistent delivery of our strategic objectives.

Our approach to origination and portfolio construction, focus on price discipline, and engaged asset management approach enable us to adapt in response to new and emerging risks and challenges, including climate change and developments in megatrends.

The characteristics that are commonly found across our portfolio, described on page 11, support the long-term resilience of the Company.

The underlying megatrends supporting the longer-term resilience of each portfolio company are identified in the Megatrends section on page 16.

We have a long-term investment time horizon made possible by our permanent capital base that is unconstrained by the fixed investment period and fundraising cycle seen in private limited partnership funds.

Although the scenarios and stress testing to support the Viability statement are modelled over a three-year time horizon, the resilience shown by the Company, and its ability to recover from these stressed situations, supports the assessment of our resilience over a longer term than three years.

Directors' duties
Section 172 statement

The Company adheres to the AIC Code of Corporate Governance (the 'AIC Code'), and it is the intention of the AIC Code that the matters set out in section 172 of the Companies Act 2006 ('s172') are reported to the extent they do not conflict with Jersey law.

We recognise that our business can only grow and prosper by acting in the long-term interests of our key stakeholders, and that a good understanding of the issues affecting stakeholders should be an integral part of the Board's decision-making process. The insights that the Board gains through the stakeholder engagement mechanisms it has in place form an important part of the overall context for all the Board's discussions and decision-making processes.

As an externally managed investment trust, the Company has no employees or customers and its key stakeholders are its shareholders, third-party professional advisers and service providers (most notably the Investment Manager), portfolio companies, lenders, and government and regulatory bodies.

Day-to-day engagement with our stakeholders is principally managed by the Investment Manager, although, where appropriate, the Directors have direct touchpoints with stakeholders during the year.

Pursuant to s172 a director of a company must act in a way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard to the following factors:

The likely consequences of any decision in the long term	Our purpose and strategy, combined with the responsible investment approach of the Investment Manager focus on achieving long-term success.	**Read more** Pages 4, 18 and 44
The interests of the company's employees	Whilst we do not have any employees, our purpose includes the intention to have a positive influence on our portfolio companies and their stakeholders, which includes the employees of those portfolio companies.	**Read more** Page 46
The need to foster the company's business relationships with suppliers, customers and others	We engage with all our stakeholders, whether directly or through the Investment Manager, in an open and transparent way to foster strong business relationships.	**Read more** Pages 89 to 92
The impact of the company's operations on the community and the environment	As owners of infrastructure businesses with majority or significant minority holdings and representation on their boards, we recognise our ability to influence our portfolio companies to ensure they act responsibly.	**Read more** Pages 44 to 51
The desirability of maintaining a reputation for high standards of business conduct	Our success relies on maintaining a positive reputation, and our values and ethics are aligned to our purpose, our strategy and our ways of working.	**Read more** Page 14
The need to act fairly towards members of the company	The Board actively engages with its shareholders and considers their interests when implementing our strategy.	**Read more** Pages 89 to 92

Pages 89 to 92 set out how stakeholder interests have influenced decision making.

This Strategic report, on pages 1 to 75, is approved by order of the Board.

Authorised signatory 3i plc
Company Secretary
7 May 2024