



## Santiago Principles Self-Assessment

### Ireland Strategic Investment Fund

Fund Details <sup>[1]</sup> Fund Website <sup>[2]</sup> Search Assessments <sup>[3]</sup>

#### Pillar 1

#### Legal framework, objectives, and coordination with macroeconomic policies

##### Principle 1 Description:

1. The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).

1.1. The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.

1.2. The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.

##### Principle 1 Implementation:

The National Treasury Management Agency (NTMA or Agency) is a Government agency with a commercial remit. The Ireland Strategic Investment Fund (ISIF or the Fund) was provided under the terms of Part 6 of the National Treasury Management Agency (Amendment) Act 2014 <sup>[4]</sup> (2014 Act), which was commenced on 22 December 2014.

As set out in section 38(3) of the 2014 Act, the Minister for Finance is the owner of the Fund. Section 41(1) of the 2014 Act provides that the NTMA is the controller and manager of the ISIF. Section 40(1) of the 2014 Act provides that the Agency shall determine an investment strategy for the assets of the Fund, whilst section 41(5) of the 2014 Act provides that the Investment Committee of the Agency shall oversee the implementation of the investment strategy.

Further details on the NTMA governance structure are available at <http://www.ntma.ie/about-the-ntma/governance> [5]

### **Principle 2 Description:**

The policy purpose of the SWF should be clearly defined and publicly disclosed.

### **Principle 2 Implementation:**

The ISIF has a statutory mandate as set out in section 39(1) of the 2014 Act to invest on a commercial basis in a manner designed to support economic activity and employment in the State.

ISIF's success will be measured by both investment returns and economic impact achieved. The investment performance goal is to exceed the average cost of Government debt.

### **Principle 3 Description:**

3. Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.

### **Principle 3 Implementation:**

Investments must not have a negative impact on the net borrowing of the general Government of the State for any year.

In accordance with legislation, the Minister of Finance and the Minister for Public Expenditure and Reform were consulted as part of the Investment Strategy development. It has also been agreed that a formal review of the ISIF strategy, including further consultation with the Minister of Finance and the Minister for Public Expenditure & Reform, will take place after 18 months [from the establishment of the Fund] in the second half of 2016.

The Secretary General of each of the Department of Finance and Department of Public Expenditure & Reform serve as ex-officio members on the Board of the Agency (which is responsible for setting the ISIF strategy).

### **Principle 4 Description:**

4. There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations.

4.1. The source of SWF funding should be publicly disclosed.

4.2. The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.

### **Principle 4 Implementation:**

The assets and liabilities of the National Pensions Reserve Fund (NPRF), including the NPRF's global portfolio and directed investments have become assets and liabilities of the Fund. The total Fund size at the transition date (22 December 2014) was €20.5 billion with €13.4 billion in directed investments and €7.1 billion in the discretionary portfolio. The "directed investments" will continue to be managed at the direction of the Minister of Finance, while the remaining "discretionary portfolio" is available for investment in accordance with the ISIF's objectives.

The legislation provides that the Agency shall make payments from the ISIF to the Exchequer as the Minister for Finance shall direct, following consultation with the Agency. The ISIF received a €335m contribution from the Exchequer in November 2015, following the sale by Government of its minority shareholding in Aer Lingus. The funds have been earmarked for a connectivity fund within the ISIF discretionary portfolio in line with the ISIF's mandate.

There will be no payments to the Exchequer before 2025 (except in relation to proceeds from the disposal of directed investments as set out in section 47(4) of the 2014 Act. Other than in the case of the proceeds of directed investments, the payment, or the aggregate of payments, that the Minister for Finance directs to be made in any year (following consultation with the Agency) shall not exceed 4% of the value of the assets of the Fund at the end of the immediately preceding year (section 47(3) of the 2014 Act).

#### **Principle 5 Description:**

5. The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.

#### **Principle 5 Implementation:**

The NTMA is committed to ensuring that ISIF reporting will be transparent and of high quality, subject always to third party commercial sensitivities and disclosure constraints.

The ISIF's balance sheet, financial statements, assets listing and performance are published annually as part of the NTMA Annual Report.

It is anticipated that reports on ISIF economic impact will be published on a 6-monthly basis. The first Baseline Economic Impact Report is available at <http://www.ntma.ie/business-areas/ireland-strategic-investment-fund>. [6]

The ISIF publishes quarterly unaudited summary financial information on the ISIF website ([www.isif.ie](http://www.isif.ie) [2]).

## **Pillar 2 Institutional Framework and Governance Structure**

#### **Principle 6 Description:**

6. The governance framework for the SWF should be sound and establish a clear and

effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.

#### **Principle 6 Implementation:**

The NTMA is a Government agency with a commercial remit. Its mission is to manage public assets and liabilities commercially and prudently. The NTMA was the manager of the National Pensions Reserve Fund and is now the manager and controller of the Ireland Strategic Investment Fund. Since its establishment in 1990, the NTMA has evolved from a single function agency managing the National Debt to a manager of a complex portfolio of public assets and liabilities.

The Agency Board is responsible for setting the ISIF strategy.

The Agency's Investment Committee is responsible for making decisions about the acquisition and disposal of assets by the Fund in accordance with the investment strategy.

The ISIF Business Unit is the team within the NTMA charged with the day-to-day management of the ISIF.

#### **Principle 7 Description:**

7. The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.

#### **Principle 7 Implementation:**

The Agency's Investment Committee comprises five members of which two are members of the Agency and three are external members.

Three external members who have acquired substantial relevant expertise and experience are appointed by the Agency with the consent of the Minister. No members of staff of the Agency may be appointed as members of the Investment Committee.

#### **Principle 8 Description:**

8. The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.

#### **Principle 8 Implementation:**

The functions of the Agency's Investment Committee as set out in section 41(5) of the 2014 Act are: to make decisions about the acquisition and disposal of assets of the Fund in accordance with the provisions of the 2014 Act and the investment strategy and within any such parameters as may be set by the Agency; to advise the Agency on the investment strategy; and to oversee the implementation of the investment strategy.

Terms of reference of the Agency and its Committees including the Investment Committee are available on the ISIF website: <http://www.ntma.ie/about-the-ntma/governance/agency-committees/> [7]

### **Principle 9 Description:**

9. The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.

### **Principle 9 Implementation:**

Within the ISIF Business Unit, the ISIF Portfolio Management Committee (the "Committee" or "PMC") has authority to: (1) consider and make investment recommendations to the NTMA's Investment Committee; (2) manage all aspects of the investment policy/ strategy delegated to the NTMA as manager; and (3) provide oversight of the management of the underlying investments.

The Committee is the principle forum for senior members of the ISIF Unit to discuss all investment matters related to the ISIF.

The NTMA Risk function is a "second line of defence" independent of the ISIF Business Unit and provides a Risk Review Note to the Agency's Investment Committee in respect of proposed transactions.

### **Principle 10 Description:**

10. The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.

### **Principle 10 Implementation:**

The NTMA is accountable to the Public Accounts Committee and to other Oireachtas Committees (Irish Parliament). The accountability of the NTMA Chief Executive to the Public Accounts Committee is set out in section 12 of the 2014 Act.

<http://www.irishstatutebook.ie/eli/2014/act/23/enacted/en/pdf> [4]

### **Principle 11 Description:**

11. An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognized international or national accounting standards in a consistent manner.

### **Principle 11 Implementation:**

In accordance with section 49 of the 2014 Act, subject to preserving confidentiality in regard to commercially sensitive information, the Agency will include the following information in relation to ISIF for the year to which the annual report relates:

- i. the investment strategy pursued;
- ii. the investment return achieved by the Fund;

- iii. a valuation of the net assets of the Fund;
- iv. a detailed list of the assets of the Fund at the end of the year concerned;
- v. the investment management and custodianship arrangements;
- vi. a regional assessment of the impact of the Fund's investments have on economic activity and employment
- vii. an assessment on a regional basis of the distribution of the investments made by the Fund

**Principle 12 Description:**

12. The SWF's operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.

**Principle 12 Implementation:**

The NTMA prepares statutory accounts for the ISIF in line with the relevant accounting conventions. The ISIF will need to consider the adoption of Irish Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS).

The ISIF will be subject to audit by the Comptroller and Auditor General (C&AG), supported by NTMA's internal auditors - KPMG.

**Principle 13 Description:**

13. Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management, and staff.

**Principle 13 Implementation:**

Codes of business conduct are in place for Agency and Investment Committee members and employees. The codes underscore the NTMA's commitment to the highest standards of conduct. While it is not possible for a set of rules or guidelines to provide for all situations that may arise, employees are expected to ensure that all their activities are governed by the ethical standards reflected in the relevant code.

<http://www.ntma.ie/about-the-ntma/governance/codes-of-conduct/> [8]

All staff of the NTMA are subject to the Ethics in Public Office Acts 1995 and the Standards in Public Office Act 2001

<http://www.irishstatutebook.ie/eli/1995/act/22/enacted/en/html> [9]

**Principle 14 Description:**

14. Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.

**Principle 14 Implementation:**

A critical success factor is that the ISIF investment process is as transparent as possible

given commercial sensitivity constraints and that it is also regarded by market participants as being fair. Opportunities will be developed from a wide variety of sources, inbound and outbound, both through the NTMA's own proactive efforts and via current and potential investment partners. NTMA operates an "open-door and open-mind" policy and actively encourages people to approach the ISIF team or its third-party investment managers with investment proposals.

From time to time, the NTMA requires the assistance of specialist service providers. A key criterion in the selection of service providers by the NTMA is the extent to which they can provide value for money for the taxpayer. Procurement rules are outlined on the NTMA website:

<http://www.ntma.ie/about-the-ntma/procurement/> <sup>[10]</sup>

#### **Principle 15 Description:**

15. SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.

#### **Principle 15 Implementation:**

It is envisaged that ISIF's activities will primarily be in Ireland and subject to Irish law. To the extent that ISIF's activities are outside of Ireland, the ISIF will ensure in so far as is possible that they shall be conducted in compliance with all applicable regulatory and disclosure requirements.

#### **Principle 16 Description:**

16. The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.

#### **Principle 16 Implementation:**

All as outlined on NTMA Governance web page:

<http://www.ntma.ie/about-the-ntma/governance/> <sup>[11]</sup>

#### **Principle 17 Description:**

17. Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.

#### **Principle 17 Implementation:**

The ISIF's first year of operation is in 2015 and will be disclosed as part the NTMA Annual Report. The initial commencement portfolio is disclosed in the NTMA's 2014 Annual Report which is available on the NTMA website:

## **Pillar 3**

### **Investment and Risk Management Framework**

#### **Principle 18 Description:**

18. The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles.

18.1. The investment policy should guide the SWF's financial risk exposures and the possible use of leverage.

18.2. The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.

18.3. A description of the investment policy of the SWF should be publicly disclosed.

#### **Principle 18 Implementation:**

The NTMA has identified a range of 10 provisional "investment buckets" using the Economic Impact Framework sector guidelines together with a general analysis of the Irish economy and Ireland's broad investment needs. The "bucket" sizes and broad allocation represent the best estimate at where the NTMA believes the Fund can best invest in a manner that is in line with its mandate objectives; to achieve a target portfolio return of 4% and also to achieve an allocation of 80% of the Fund to high economic impact sectors.

In the case of the ISIF, the investment opportunity set in Ireland is not fully visible, is illiquid and may change over time. It is therefore not possible or appropriate to create a target asset allocation portfolio as a particular percentage target allocation may not be investable or desirable. The illustrative portfolio is based on initial estimates of investment gaps across a range of sectors, and an ISIF participation rate of between 20% to 40% of suitable investment opportunities. The most important point is that the bucket sizes (as outlined in the strategy document) are indicative and that they will inevitably change in light of the transaction opportunity [set] that materialises. Even where there is clear visibility around investments in a particular asset class or market segment, often there will be time delays between the commitment of capital to that investment and the actual investment. These issues have a significant effect on the choice of an appropriate investment strategy model and mean that a flexible approach to portfolio design and construction is required for the ISIF.

The Fund can absorb normal price volatility but has a low tolerance for significant valuation drawdowns or for significant permanent losses on underlying investments. The investment strategy for the ISIF includes the ability to aggregate risks across the portfolio so that the probability of experiencing large losses over, say, any 12-month period can be measured.

The resulting ISIF investment strategy is multi-dimensional; in other words, that the risks in

the Fund's portfolio will be viewed in multiple ways in order to evaluate how the portfolio is exposed to different economic and market risks and scenarios.

It is anticipated given current projections that the ISIF mix of externally and internally managed assets will be approximately 50%/50% with a possible variance of +/-10%.

The ISIF Investment Strategy was published in July 2015 and is available on the NTMA website:

<http://www.ntma.ie/business-areas/ireland-strategic-investment-fund/> <sup>[13]</sup>

### **Principle 19 Description:**

19. The SWF's investment decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.

19.1. If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed.

19.2. The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.

### **Principle 19 Implementation:**

Investing on a commercial basis means that, in respect of each and every investment, there is an expected return for ISIF from the investment and this expected return should be commensurate with the risk involved. This is the concept of "risk-adjusted expected return". The corollary is that there is no "minimum rate of return" required on individual transactions. Investments are blended so that the overall portfolio generates an acceptable overall return.

To achieve a positive economic impact over time, ISIF will use three key economic concepts to assess how an investment or project will positively affect economic activity: Additionality, Displacement and Deadweight. Investments which are likely to result in high economic impact are those which deliver sustainable additional economic benefits and avoid displacement and deadweight.

**Additionality** refers to the additional economic benefits to the Irish economy which are likely to arise as a result of the investment, over and above what would have taken place anyway. All investments must anticipate some form of additional economic benefits in Ireland. We focus on two primary measures of additionality: Gross Value Added (GVA) and employment. The greater the GVA that results from an investment, the greater its economic impact.

**Displacement** refers to instances where the additionality from an investment diminishes at the overall economy level as a result of a reduction in activity elsewhere in the economy. It will often arise in domestic-focused sectors where there is a finite demand for a product or service.

**Deadweight** refers to instances whereby the economic benefits from an investment would have been achieved in the absence of intervention and therefore should not be considered as additionality. A key consideration for ISIF will be financial deadweight.

The Fund regularly participates in comparative studies including Global Sovereign Asset Management Study and a Stanford-based project on SDF's to ensure that it keeps abreast of best practices in SWF asset management principles.

**Principle 20 Description:**

20. The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.

**Principle 20 Implementation:**

Refer to Code of Conduct

**Principle 21 Description:**

21. SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.

**Principle 21 Implementation:**

The Fund is a signatory to the UN Principles for Responsible Investment (PRI) and actively votes and engages across all its global equity holdings (legacy NPRF investments). The Fund appoints Hermes Equity Ownership Services (HEOS) to act on its behalf. HEOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

The ISIF standalone website is currently being developed and this information will all be included once operational in early 2016, together with disclosure of votes cast.

**Principle 22 Description:**

22. The SWF should have a framework that identifies, assesses, and manages the risks of its operations.

22.1. The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.

22.2. The general approach to the SWF's risk management framework should be publicly disclosed.

**Principle 22 Implementation:**

An NTMA Enterprise Risk Management Committee (ERMC) has been established to oversee, monitor and guide risk management activity across the NTMA, which comprises a number of business divisions including ISIF. The ERMC is responsible for setting the appropriate risk framework for the NTMA, for approval and endorsement by the Agency, on a recommendation from the Agency Risk Committee. Each Business Unit/Corporate Function and the staff within that Business Unit/Corporate Function has responsibility for identifying and assessing risks and putting mitigants/controls in place to manage those risks. The ERMC has established a number of sub-committees.

The ISIF Unit maintains a comprehensive risk register and implements appropriate controls to mitigate such risks, a third party risk management regime and semi-annual control attestation.

The ISIF's risk management function is fully linked into the overall management of risk across the NTMA with members of the ISIF Unit participating in the Agency Management Group, the Enterprise Risk Management Committee. In addition, the ISIF Risk Register is maintained within the NTMA's Corporate Risk database, which better facilitates the management of risks at an aggregate NTMA level and the identification of common risks.

The Agency's risk management framework is predicated on the three-lines-of-defence model. Within this model, functional ISIF Business Unit staff and management (the first line) incur and own the risks, while NTMA Risk Management, compliance and other control functions (the second line) provide independent oversight and objective challenge to the first line of defence, as well as monitoring, reporting and control of risk. Internal Audit (the third line) provides assurance that control objectives are achieved by the first and second lines of defence.

Risk Management is discussed in the ISIF Investment Strategy document and the Terms of Reference for the Agency Risk Committee has been published on the NTMA website

<http://www.ntma.ie/download/governance/RiskCommitteeTermsofReference.pdf> <sup>[14]</sup>

### **Principle 23 Description:**

23. The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.

### **Principle 23 Implementation:**

The discretionary portfolio Investment performance goal is on an absolute basis - to exceed the average cost of Government debt (currently the target is 4% per annum).

The performance of the ISIF will need to be measured and evaluated under both its investment return and economic objectives at an aggregate portfolio level.

The NTMA is committed to ensuring that ISIF reporting on its investment holdings will reflect high standards of quality and transparency.

### **Principle 24 Description:**

24. A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.

**Principle 24 Implementation:**

As required.

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**Links**

[1] <https://www.ifswf.org/node/463>

[2] <http://www.isif.ie>

[3] <https://www.ifswf.org/assessments>

[4] <http://www.irishstatutebook.ie/eli/2014/act/23/enacted/en/pdf>

[5] <http://www.ntma.ie/about-the-ntma/governance>

[6] <http://www.ntma.ie/business-areas/ireland-strategic-investment-fund>.

[7] <http://www.ntma.ie/about-the-ntma/governance/agency-committees/>

[8] <http://www.ntma.ie/about-the-ntma/governance/codes-of-conduct/>

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[13] <http://www.ntma.ie/business-areas/ireland-strategic-investment-fund/>

[14] <http://www.ntma.ie/download/governance/RiskCommitteeTermsofReference.pdf>