



Santiago Principles Self-Assessment

Ireland Strategic Investment Fund

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— 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 the Agency) is a State body that provides a range of asset and liability management services to the Irish Government. The Ireland Strategic Investment Fund (ISIF or the Fund) was established pursuant to an act of parliament specifically the National Treasury Management (Amendment) Act 2014 (2014 Act) ^[4] 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 31(1) of the 2014 Act provides that the NTMA is the controller and manager of the ISIF. Section 40 of the 2014 Act provides that the Agency shall determine an investment strategy for the assets of the Fund and shall consult the Minister for Finance and the Minister for Public Expenditure and Reform and have regard to any views expressed by them with regard to the investment strategy. Section 41(5) of the 2014 Act provides that the NTMA Investment Committee shall oversee the implementation of that 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 NTMA has a statutory mandate as set out in section 39(1) of the 2014 Act to hold or invest the assets of the ISIF 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 annual cost of general Government debt, averaged over five years.

The investment strategy was most recently reviewed in 2022, in compliance with the 2014 Act, which requires a periodic review of the strategy. The investment strategy was approved by the NTMA after consultation with the Minister for Finance and the Minister for Public Expenditure and Reform and published in June 2022.

ISIF's current investment strategy focuses on long-term transformational commercial investments addressing key strategic challenges facing the country. These include climate action, housing and enabling infrastructure, scaling indigenous businesses, and food and agriculture. In addition, ISIF has flexibility to invest on a commercial basis in national and compelling investments in response to future events.

ISIF's current investment strategy is available at:

<https://isif.ie/uploads/publications/Investment-Strategy-16062022-1.pdf> ^[6]

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:

As a general comment, it should be noted that investments must not have a negative impact on the net borrowing of the general Government of the State for any year.

In response to the COVID-19 pandemic and its impact on the Irish economy, ISIF's economic impact focus was, for a period of time, strategically shifted more towards near-term economic stimulation and employment, with a view to support stabilisation and recovery of the Irish economy. In May 2020, it was announced by the Minister for Finance that €2 billion of ISIF funds would be re-allocated to a new sub portfolio, the Pandemic Stabilisation and Recovery Fund (PSRF), dedicated to investing in enterprises in Ireland employing more than 250 employees or with annual turnover in excess of €50 million which had been negatively and materially impacted by the COVID-19 pandemic.

The launch of the PSRF was just one of the Irish Government's coordinated fiscal and monetary responses to the economic implications of the pandemic. ISIF's investment approach was designed to be complementary to other Government policy initiatives via agencies such as Strategic Banking Corporation of Ireland (SBCI) and Enterprise Ireland, aimed at addressing the needs of different types of businesses.

In June 2022, the PSRF officially came to an end and ISIF refocused its strategy once again, including on scaling indigenous businesses and regional development in five key cities outside of Dublin in line with its current investment strategy referred to above.

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:

Funding: Established in December 2014

Upon its establishment in December 2014, the assets and liabilities of the National Pensions Reserve Fund (NPRF), including the NPRF's global portfolio and its directed investments were transferred to the ISIF. The total Fund size as at the date of transfer (22 December 2014) was €22.1 billion, €15 billion of which was investments in the "Directed Portfolio" (which are subject to the direction of the Minister for Finance and oversight by the Department of Finance) and €7.1 billion in the "Discretionary Portfolio" (the term used to refer to the balance of remaining pool of capital) which was available for investment in accordance with ISIF's mandate.

Within the Discretionary Portfolio, the "Global Portfolio" comprises an international , predominantly listed securities portfolio and the "Irish Portfolio" is comprised of investments that reflect the double bottom-line mandate set out in the 2014 Act. Upon the establishment of the ISIF, €1.4 billion had already been committed to the investments in the Irish Portfolio, while the remainder of the Discretionary Portfolio was invested globally. Currently, the Directed Portfolio primarily includes public policy investments in AIB, Bank of Ireland. During the financial crisis, a total of €20.7bn was invested by the NPRF in AIB and Bank of Ireland at the direction of the Minister for Finance for public policy reasons. These assets transferred to the ISIF on the establishment of the ISIF. Additionally, commitments to each of the Strategic Banking Corporation of Ireland (SBCI), Home Building Finance Ireland (HBFI) and the Land Development Agency (LDA) are also included in the Directed Portfolio.

Withdrawals:

The 2014 Act 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 2014 Act further provides that the Minister for Finance is empowered to give directions to the Agency in relation to, inter alia, the making, holding, management and disposal of a

directed investment and the disposal of a directed investment.

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 (as provided for in section 47(3) of the 2014 Act).

In April 2019, the Minister for Finance directed the NTMA to execute a loan facility agreement with HBFI Lending DAC (HBFIL) and to make available a loan facility of up to €730 million from the ISIF to HBFIL.

Separately, in November 2019 the Minister for Finance directed the NTMA to transfer €1.5 billion of ISIF funds a new Rainy Day Fund, The National Surplus (Exceptional Contingencies) Reserve Fund, which commenced by Order of the Minister for Finance on 31 October 2019. In October 2020, in response to the effects of the COVID-19 pandemic, the Minister for Finance directed the NTMA to convert the assets of the Rainy Day Fund into cash and to transfer the balance to the Exchequer. The drawdown of the Rainy Day Fund was considered to be in order to remedy or mitigate the exceptional circumstances arising from COVID-19.

On 23 June 2021 and 4 November 2021 respectively, the Minister for Finance directed the NTMA to facilitate the sale of part of the State's shareholding in Bank of Ireland, which is held as a directed investment within the Directed Portfolio, and to subsequently transfer the net cash proceeds of sale to the Exchequer. Net proceeds of €249 million were transferred to the Exchequer on 10 November 2021 and the ISIF's directed shareholding in Bank of Ireland had been reduced from c.14% as at 23 June 2021 to 8% by 31 December 2021.

Similarly, on 21 December 2021, the Minister for Finance directed the NTMA to facilitate the sale of part of the State's shareholding in AIB, which is also held as a directed investment within the Directed Portfolio, over a period of up to six months, and to subsequently transfer the net cash proceeds of sale to the Exchequer. The sale of shares commenced in early 2022.

Furthermore, as at 31 December 2021, ISIF had allocated, at the direction of the Minister for Finance, just under €2 billion for certain Government initiatives, including €1.25 billion to the LDA and €730 million to HBFI as mentioned above. Since the establishment of HBFI, €144 million in total has been drawn down. Taking into account repayments of €10 million by HBFIL, the outstanding loan as at end-2021 amounted to €134 million.

Most recently in March 2022, pursuant to the terms of a Ministerial Direction, €100 million was withdrawn from the Discretionary Fund to provide initial equity capital funding for the LDA.

ISIF's Discretionary Portfolio was valued at €9.6 billion as of 31 December 2021.

Spending operations:

The Agency is responsible for approving the NTMA expenditure budget (which includes the ISIF budget) and corporate strategy, including Business Unit goals. Emerging out-turns against budget and goals are reviewed by the Agency during the year and at year-end. Furthermore, the Agency's Corporate Information team publishes quarterly information on invoices and expenditure. Value for money is also addressed through procurement rules to which the NTMA is subject.

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 to high standards of quality and transparency, subject always to third party commercial sensitivities and disclosure constraints.

Reports on ISIF economic impact are currently published on an annual basis. The most recent Economic Impact Report is available at:

<https://isif.ie/uploads/publications/070921H120201-Performance-and-FY2020-update-published.pdf> ^[7]

All ISIF publications and reports are available at: <https://isif.ie/news/publications/> ^[8]

The ISIF's balance sheet, financial statements, assets lists and performance are published annually as part of the NTMA Annual Report. The NTMA's most recent Annual Report and ISIF's highlights from the Annual Report are available at:

<https://isif.ie/uploads/reports/NTMA-Annual-Report-2021.pdf> ^[9]

In November 2021, ISIF published its first Climate Report, reflecting the growing importance of climate action to ISIF. This report contains key metrics on carbon emissions from ISIF investments, building on ISIF's existing environmental disclosures, as well as details of ISIF's climate goals. By enhancing its climate-related disclosures, ISIF is committing to disclosing its progress in meeting its climate targets and providing the public with detailed information on the climate impact of its investments. ISIF's Climate Report is available at: <https://isif.ie/uploads/publications/ISIF-Climate-Report-25112021.pdf> ^[10]

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:

As noted in the responses to GAPP 1, the NTMA is a State body which provides a range of asset and liability management services to the Irish Government. The NTMA was manager of the NPRF and is now the manager and controller of the Ireland Strategic Investment Fund. As discussed further in GAPP 1, ISIF was established on a statutory basis under the NTMA (Amendment) Act 2014 (2014 Act). The 2014 Act defined the governance structures by which ISIF operates to this day under the NTMA's remit. 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.

Overarching responsibility for all of the NTMA's functions, including managing ISIF, rests with the Agency, which comprises a Chairperson and eight other members. Six of the Agency members, including the Chairperson, are appointed by the Minister for Finance and the three other members (the Chief Executive of the NTMA and the Secretaries General of the Departments of Finance and Public Expenditure and Reform) are ex officio members of the Agency. The Agency is responsible for setting the ISIF strategy.

The Agency has established four committees to assist in discharging responsibilities, each committee with its own formal terms of reference: (i) Investment Committee; (ii) Audit and Risk Committee; (iii) Remuneration Committee; and (iv) the State Claims Agency Strategy Committee. The remit of the Investment Committee relates only to the management of ISIF. The State Claims Agency Strategy Committee is specific to the State Claims Agency. The remit of each of the Audit and Risk Committee and Remuneration Committee cover the NTMA as a whole.

The Agency's Investment Committee makes decisions about the acquisition and disposal of assets of the Fund in accordance with the investment strategy and within any such parameters as may be set by the Agency. The Investment Committee also advises the Agency on the investment strategy and oversees the implementation of the investment strategy.

The Investment Committee has five members, appointed by the NTMA. Two members are selected from Agency members other than the ex officio Agency members (i.e. the Chief Executive and the Secretary General of the Departments of Finance and Public Expenditure and Reform). The other three members of the Investment Committee are not Agency members or NTMA staff and are appointed based on their substantial business and finance expertise; they are appointed by the Agency subject to the consent of the Minister for Finance. Investment Committee members are appointed for a period of up to three years, extendable by two additional three-year periods. NTMA appoints the Chairperson of the Investment Committee, choosing from one of the two Agency members on the Committee.

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

More information on the governance of NTMA and established four committees is available at:

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

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:

As noted in the responses to GAPP 2, the NTMA has a statutory mandate to hold or invest the assets of the ISIF on a commercial basis in a manner designed to support economic activity and employment in the State.

The Agency is responsible for determining, monitoring and keeping under review the investment strategy for the assets of the ISIF (other than directed investments). In determining and reviewing the investment strategy, the NTMA consults the Minister for Finance and the Minister for Public Expenditure and Reform and has regard to any views expressed by them.

See response to GAPP 6 for details on the appointment of members to the Agency and ISIF's 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:

Section 41 of the 2014 Act sets out the relevant provisions for the management of the ISIF, including the functions of the Investment Committee which are set out in section 41(5) of the 2014 Act (as summarised in section 7 above).

Terms of reference of the Agency's Committees, including the Investment Committee, are available on the NTMA website:

<https://www.ntma.ie/about-the-ntma/governance/agency-committees/> ^[12]

NTMA's governance seeks to ensure that investment decisions are independent. Under the NTMA Code of Conduct for Members of the NTMA and its Committees, Investment Committee members are required to act objectively and independently. The quorum for a valid meeting is three, including one Agency representative. Once a meeting is valid, decisions are taken on a majority basis, each member having one vote. The Chairperson of the Investment Committee (appointed by NTMA) has the casting vote if no majority is reached.

The Agency does not decide on individual investments, except for investments exceeding €150 million, which require Agency approval. An investment will only be referred to the Agency for approval if it has first been approved by the Investment Committee.

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 (PMC) has authority to: (1) consider and make investment recommendations to the 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 PMC is the principal forum for senior members of the ISIF Unit to discuss all investment matters related to the ISIF. The PMC meets weekly.

The National Treasury Management Agency 1990 Act (1990 Act) (as amended by the 2014 Act) provides that the Chief Executive shall manage and control generally the administration and business of the NTMA (including ISIF). The Chief Executive has delegated certain functions to be performed by the NTMA (in its capacity as controller and manager of the ISIF) to specific positions of responsibility within the NTMA.

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 subject to, and is accountable in accordance with, the provisions of the 1990 Act, the National Treasury Management Agency (Amendment) Act 2000 and the 2014 Act, for example, the accountability of the NTMA Chief Executive to the Public Accounts Committee is set out in section 12 of the 2014 Act.

The NTMA is also subject to the Code of Practice for the Governance of State Bodies and is also party to an Oversight Agreement with the Minister for Finance, as required under section 8.4 of the Code of Practice for the Governance of State Bodies.

Furthermore, as a State body, the accounts of the NTMA are audited by the Comptroller and Auditor General. ISIF's activities are also subject to audit by the NTMA Internal Audit function.

Parliamentary Queries are asked by Deputies (members of Dáil Éireann) and provide Ministers with regular opportunities to report publicly on matters for which they are responsible (which includes the NTMA).

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:

- the investment strategy pursued;
- the investment return achieved by the Fund;
- a valuation of the net assets of the Fund;
- a detailed list of the assets of the Fund at the end of the year concerned;
- the investment management and custodianship arrangements;
- an assessment on a regional basis of the impact of the Fund's investments on economic activity and employment; and
- an assessment on a regional basis of the distribution of the investments made by the Fund.

ISIF's financial statements are published annually as part of the NTMA Annual Report and Financial Statements. The financial statements show the breakdown of ISIF assets, at year-end market value, between the Directed Portfolio and the Discretionary Portfolio and, for the latter, between the Irish Portfolio and Global Portfolio. The Global Portfolio is designed, at the time of writing, to meet effectively the requirement to ensure that capital is available as investment opportunities in Ireland are executed and drawn down. The income statement shows the capital gains (or losses) generated by the portfolio, dividend and interest income and ISIF's operating expenses. Additionally, the accounts detail a line-by-

line list of all securities and are compliant with FRS 102.

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 financial statements for ISIF pursuant to Section 12 of the National Treasury Management Agency Act 1990 (as amended) in a format approved by the Minister for Finance. Additionally, the financial statements are prepared in compliance with applicable legislation, and with FRS 102 (the Finance Reporting Standard applicable in the United Kingdom and Republic of Ireland issued by the Financial Reporting Council in the UK as promulgated by Chartered Accountants Ireland).

As a State body, the financial statements of the NTMA are audited by the Comptroller and Auditor General. ISIF's activities are also subject to audit by the NTMA Internal Audit function.

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 NTMA 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 assigned to work in the ISIF Unit 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/> ^[13]

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

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:

ISIF investments are made in accordance with the investment policy set out in section 39

of the 2014 Act.

A critical success factor is that the ISIF investment process is as transparent as possible subject to commercial sensitivity constraints. 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.

The approval of the NTMA Investment Committee is required in respect of investments up to €150 million and Agency approval is required in respect of investments which exceed €150 million.

The NTMA is also subject to EU and Irish public procurement rules and has a procurement policy and procedures in place. To the extent that it needs to engage with third party service providers, a key criterion in the selection of such service providers by the NTMA is value for money.

In November 2021, the Irish Government published its Climate Action Plan 2021, which, amongst other commitments, mandates the inclusion of green criteria in all procurements using public funds by 2023.

Procurement rules are outlined on the NTMA website:

<http://www.ntma.ie/about-the-ntma/procurement/> ^[14]

The Climate Action Plan 2021 is available at:

<https://www.gov.ie/en/publication/6223e-climate-action-plan-2021/> ^[15]

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:

This is the basis on which ISIF operates.

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:

The NTMA comprises nine members. Six members, including the Chairperson, are appointed by the Minister for Finance. The Chief Executive of the NTMA and the

Secretaries General of the Departments of Finance and Public Expenditure and Reform are ex-officio members of the Agency. The Agency reports to the Minister for Finance.

The term of office of an appointed member is five years, other than the initial appointed members of whom two members are appointed for three years and two members are appointed for four years.

All as outlined on NTMA Governance webpage:

<http://www.ntma.ie/about-the-ntma/governance/> ^[16]

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 NTMA is required to prepare annual financial statements and an annual report, including in respect of the financial performance of ISIF. These are laid before the Irish Parliament. The NTMA is also accountable to the Public Accounts Committee in accordance with the provisions of the 1990 Act.

See responses to GAPP 11 above for further information in respect of ISIF-related reporting to the Minister for Finance and ISIF's financial accounts.

ISIF's most recent (2021) financial statements are disclosed as part of NTMA's Annual Report and Financial Statements and are available here:

<https://isif.ie/uploads/reports/NTMA-Annual-Report-2021.pdf> ^[9]

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:

Investment Strategy - Global Portfolio

The primary objective of the Global Portfolio Strategy (GPS 2.0) design is to provide cash or liquidity to (i) the Irish Portfolio to fund proposed investments and (ii) a number of initiatives as communicated, or directed by, the Minister for Finance with a secondary objective to grow that capital over time. The GPS 2.0 is a relatively low risk multi-asset class and multi-strategy investment approach managed by external global asset managers. The GPS 2.0 was approved by the Agency, with its implementation delegated to management.

Investment Strategy – Irish Portfolio

Consistent with its mandate, ISIF pursues commercial, risk-adjusted expected returns, varying according to the layer of the capital structure invested and the risk of the underlying investment.

ISIF is designed to be a long-term fund, is not subject to liquidity requirements, and aims to be a source of permanent or patient capital. The Minister for Finance may, after consultation with the NTMA, direct payments (essentially dividend-like payments) from ISIF to the Exchequer of up to 4% per annum of the ISIF's value. No direction to make such a payment can be made before 2025. This right is separate from and in addition to the right of the Minister for Finance to direct that the ISIF be invested in certain investments in specified circumstances, according to Sections 42 and 42A of the 2014 Act.

In the Irish Portfolio, ISIF generally takes minority equity stakes and invests on equal terms with private investors to: (i) generate a multiplier effect; and (ii) ensure compliance with the Market Economy Investor Principle for the purposes of EU State aid rules.

When ISIF is a cornerstone investor, it may seek preferential terms relative to non-cornerstone investors. In addition, while it may be the sole or largest debt provider to a company, ISIF generally seeks to represent less than 50% of the overall capital structure of its investee companies (counting debt and equity). The State aid aspect is critical. As a Government agency, ISIF must ensure that its investments do not breach EU rules preventing unfair financial support for private sector enterprises. Every ISIF investment is subject to a strict vetting and cost-based analysis process in this respect.

In the Irish Portfolio, ISIF invests both directly and indirectly through third-party managers, with a target ticket size for direct investments of generally above €10 million.

When it invests directly, ISIF has the flexibility to invest across the capital structure – from secured debt (rated or unrated) to venture equity.

Irish Portfolio Investment Process - External Milestones

External Milestone A: "Confirmation of Interest"

At the appropriate time during the Initial/Active Engagement stage, a Summary Investment Paper (SIP) is to be prepared and presented to an “Assessment of Interest Meeting”. The SIP is to be recommended by the Proposer and supported by the Proposing PMC Member.

External Milestone B: PMC Support

Following a more detailed assessment of the opportunity and receipt and review of the business plan, financial accounts/projections, economic impact, risk/return etc., a Preliminary Investment Proposal should be prepared and presented to the ISIF PMC for review and decision.

External Milestone C: Clearing Committee

All proposed transactions and sector strategies are presented to, and considered by, an internal management Clearing Committee, prior to the presentation to the Investment Committee for approval. This adds a further level of governance by assessing the opportunity across various areas of the NTMA, including representatives from legal and risk, in addition to the Chief Executive.

External Milestone D: Investment Committee Approval

Following completion of all material due diligence, a detailed “Investment Committee Paper” is presented to the Agency Investment Committee.

External Milestone E: Deal Execution / Contract Signing

A series of internal and external requirements must be followed and completed prior to deal execution / contract signing, including a detailed legal review by internal and/or external legal teams and a range of due diligence reviews and sign offs.

Risk Policies

ISIF has adopted a Portfolio Diversification Framework for the Irish Portfolio that sets investment limits based on maximum exposures by sector and by risk category. Compliance with the double-bottom line mandate is the overarching principle of ISIF’s strategy. Sectors include food & agriculture, energy, financials, healthcare, transport, tourism, industrial, IT, real estate and consumer discretion. Risk is scored on a scale of 1 to 5 based on the type of instrument and layer of the capital structure.

Furthermore, maturity, competitiveness, leverage and downside protection (e.g. through contractual clauses or seniority in the capital structure) of the respective investments are also considered. Investment limits are based on the market value of the investments. In addition, ISIF’s total exposure measured as market value plus undrawn commitments is monitored as it provides an indication of the portfolio’s future evolution.

Limits are normally reset on an annual basis. As noted above, ISIF’s current investment strategy focuses on four main impact themes (Climate, Housing and Enabling Infrastructure, Indigenous Businesses and Food and Agriculture). Where possible, ISIF will target regional development across all of these impact themes. ISIF also has the flexibility

to invest outside these themes if necessary, using a pool of capital under a National and Compelling theme which will be dedicated to unforeseen macroeconomic events such as the shock triggered by the Covid pandemic.

ISIF can diversify its portfolio outside of Ireland, in particular by investing in global funds that will deploy part of their capital to Ireland. Investments in global funds that invest in Ireland can enable ISIF to reduce its Irish exposure and gain a more globally diverse exposure, while still generating an economic impact in Ireland.

ISIF also performs an “all-weather” analysis to test how the Irish Portfolio performs under various scenarios of GDP growth and inflation. This is done by examining how the discounted cashflows of individual investments are impacted by growth and inflation and subsequently aggregating figures at portfolio level.

At transactional level the ISIF applies a disciplined approach to designing capital structures and investment analysis.

ISIF’s risk team is responsible for producing a risk assessment, for each investment and the Irish Portfolio as a whole. The investment proposal is passed to the NTMA Risk function, which analyses the risks and passes its feedback to the Investment Committee (and, for deals exceeding €150 million, to the Agency) prior to investment approval.

The latest ISIF Investment Strategy (16 June 2022) is published on the ISIF’s website:

<https://isif.ie/uploads/publications/Investment-Strategy-16062022-1.pdf> ^[6]

Monitoring

ISIF is increasingly focused on monitoring investments in the Irish Portfolio as the Fund moves into a more mature phase. Currently ISIF monitors investments on an ongoing basis (for instance through quarterly calls and meetings) and this is formalized in quarterly reports to the Investment Committee and the Annual Control Report that is presented to the PMC. ISIF appointed a Head of Monitoring responsible for monitoring all Irish investments in 2019 and this team has continued to expand as the Irish Portfolio grows. More recently, ISIF has centralised the portfolio management of the Discretionary Portfolio into a new Portfolio Management Division, which the Irish Portfolio Monitoring team is part of. This division will measure, monitor and manage the portfolio bottom up and top down through various five lenses (Risk, Performance, Asset Allocation, ESG and Economic Impact).

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:

Policy Mandate

In order 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.

Economic Impact

The economic impact side of the mandate centres on three core economic impact criteria against which investment decisions are rigorously evaluated:

Additionality refers to the additional economic benefits to Gross Value Added (GVA) and Gross Domestic Product (GDP) which are likely to arise as a result of the investment under consideration, over and above what would have taken place anyway. ISIF defines additionality in a strictly economic, rather than social or environmental, sense. Features of economic additionality at portfolio company or investment level include: GVA, employment creation and qualitative aspects such as an investment's contribution to Ireland's enabling infrastructure, innovation capabilities and efficiency (e.g. through sectoral consolidation). ISIF investments may seek additionality in the medium to long term and may be directly into existing business entities or newly established ones.

Displacement refers to instances whereby the additionality created from an investment is reduced or made smaller at the overall economy level due to a reduction in such benefits elsewhere in the economy. An example would be an investee company of ISIF that competes with other Irish companies, reducing the overall impact of a successful investment on GVA of the whole economy.

Deadweight refers to instances whereby the economic benefits created from an investment would have been achieved in any event in the absence of intervention. ISIF is particularly focused on avoiding financial deadweight or, in other words, avoiding investing in opportunities that would have attracted private capital regardless of ISIF's involvement.

ISIF takes into account the three impact criteria holistically: investments must have high additionality and low displacement and deadweight. Additionality is a necessary condition. Tolerance for deadweight is minimal: ISIF seeks not to compete with other sources of private capital but rather to be complementary to market sources of capital; it also requires potential investees to do a thorough survey of commercial funding available to them, prior to any ISIF investment. Displacement is sometimes harder to assess, especially in

domestic sectors with a large number of SMEs, some of which may suffer as a result of ISIF's investment in their competitors. In practice, compliance with the displacement criteria tends to skew investments towards export-oriented sectors and new technologies for which the market opportunity is growing fast (IT, pharmaceuticals, and biotech) and away from domestic economy service and retail sectors.

The Fund regularly participates in comparative studies, including Invesco's Global Sovereign Asset Management Study and a World Bank study on Strategic Investment Funds to ensure that it keeps abreast of best practices in SWF asset management principles.

Sustainable and Responsible Investment

ISIF has also established a Sustainable and Responsible Investment Strategy (S&RIS) which is available at: <https://isif.ie/uploads/publications/SRIS-2020.pdf> ^[17]

ISIF's S&RIS builds on ISIF's longstanding commitment to be a responsible investor as stewards of public assets by protecting and enhancing both the long-term value of the Fund and the reputation of NTMA in how it delivers its mandate. The S&RIS is focused on ensuring that the whole portfolio, global and Irish, third party managers, and investee companies are considering potential ESG risks and opportunities, particularly climate, as appropriate and that it is appropriately captured as a part of ISIF's decision-making and portfolio management in multiple ways.

The key tools which ISIF uses to integrate a sustainable and responsible investment approach to the Fund's activities are divestment, integrated analysis, active ownership and capital allocation. These tools are used to different degrees across the Directed Portfolio and the Discretionary Portfolio.

ISIF has developed a comprehensive ESG assessment framework which focuses on identifying material ESG risks, guides due diligence, and monitors KPIs throughout the investment life cycle, within the Irish Portfolio. The framework uses guidance from both European Bank for Reconstruction and Development (EBRD) and the Sustainability Accounting Standards Board (SASB) to assist in the identification, management and mitigation of potential ESG risks, combined with a range of asset class-specific tools based on guidance provided by the UN Principles of Responsible Investment (UNPRI). Some exclusion criteria are also applied.

ISIF has developed two carbon monitoring tools, one to estimate GHG emissions across the Irish Portfolio investments, and the other to calculate carbon savings associated with its renewable and alternative energy investments.

Additionally, ISIF seeks to engage with investors and organisations that share the Fund's ambition to deliver on ESG priorities.

UNPRI - Leading Proponent of Responsible Investment

One of ISIF's core investment principles is "to invest in accordance with global best

practice standards of corporate governance, active ownership and with the UN-sponsored Principles for Responsible Investment (PRI)". As a founding signatory to the PRI, the ISIF will continue to be guided by these six principles.

UNPRI requires signatories to report annually on implementation of the principles – ISIF has historically scored well above the median. ISIF's most recent public submission is linked [here](#) [18]

ISIF is also a supporter of the Carbon Disclosure Project (now known as CDP), a global mechanism whereby investors encourage companies to disclose their greenhouse gas emissions to investors. ISIF is also a supporter of Climate Action 100+ and is an endorser of the One Planet Sovereign Wealth Funds (OPSWF) initiative. The OPSWF initiative, launched in December 2017, establishes a framework for SWFs to systematically integrate climate change into their decision-making and how they can collectively support ambitious global climate action. The OPSWF initiative and its endorsers aim to advance alignment with the Paris climate goals and support the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) as a universal standard. ISIF endorsed OPSWF in 2020.

ISIF is actively involved in promoting and developing responsible investment in Ireland through a range of forums including CDP Ireland and the Sustainable Investment Forum Ireland.

ISIF also adheres to the Santiago Principles.

Fossil Fuel Divestment and other Exclusions

ISIF has an investment exclusionary strategy in respect of cluster munitions and anti-personnel mines (which are prohibited investments under the Cluster Munitions and Anti-Personnel Mines Act 2008), nuclear weapons, coal production and processing, and tobacco manufacturing.

In addition to this strategy, the Fossil Fuel Divestment Act 2018 (FFD Act) provides for the divestment by ISIF from fossil fuel undertakings (effectively, companies that derive more than 20% of their revenues from the exploration, extraction and/or refinement of fossil fuels) within a practicable timeframe.

Fossil fuels are defined under the FFD Act as meaning oil, natural gas, peat, coal or any derivative thereof intended for use in the production of energy by combustion.

In this context, ISIF has developed a list of 256 fossil fuel and high carbon companies in which it will not invest, and this list which is published on ISIF's website is actively monitored and reviewed.

See link below for more information, the exclusion list and the Act: <https://isif.ie/responsible-investment> [19]

Investment Policy - Climate Change Pillar

A key part of ISIF's Sustainability and Responsible Investment Policy is Climate. Climate was made a priority investment theme in ISIF's 2019 investment strategy and remains one of ISIF's impact themes in ISIF's current investment strategy. ISIF's Climate Strategy is to make investments that help position Ireland for the net zero carbon economy envisaged under the national Climate Action Plan 202110 and improve the resilience of the Irish economy as the global market increasingly pivots towards sustainable business practices.

ISIF published its first Climate Report in November 2021, committing to support the long-term transition to Net Zero in Ireland before 2050 by driving substantial emissions reductions within the ISIF Portfolio and increasing ISIF's climate impact by 2030. As of year-end 2020,

As of 31 December 2021, ISIF had committed over €400 million to investments in the renewable energy, climate tech and forestry spaces. ISIF announced in 2021 that it would be targeting €1 billion in climate action-related investments over the following five years.

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:

All NTMA employees are subject to codes of conduct, which prohibit seeking advantage of privileged information. For more information, refer to the following Codes of Conduct:

<https://www.ntma.ie/uploads/general/Code-of-Conduct-for-NTMA-Employees-ex-NAMA-21-Sept-2021-Approved.pdf> ^[20]

https://www.ntma.ie/uploads/general/Code-of-Conduct-for-Agency-Committees_-21-Sep-2021-Final.pdf ^[21]

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 actively votes (equity only) and engages across all its direct global holdings.

The Fund appoints Hermes Equity Ownership Services (HEOS) to act on its behalf in respect of its Global Portfolio holdings. HEOS' approach is based on the premise that companies with informed and involved shareholders are more likely to achieve superior

long-term performance than those without.

In addition, ISIF votes on all its Irish direct listed investments. All votes are disclosed on the website.

See ISIF's Voting Disclosures at the bottom of the Publications page:

<https://isif.ie/news/publications/> [22]

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:

NTMA

The Agency sets the Risk Management Policy and Framework and the Risk Appetite Framework. The Risk Management Policy and Framework defines mandatory standards and definitions for risk management that apply to all parts of the Agency across all risk categories. These standards are then implemented through the detailed policies and procedures that govern the management of individual risk categories and/or risk management processes. A number of Agency and management committees, including the Audit and Risk Committee (ARC) and the Enterprise Risk Management Committee (ERMC) and associated sub-committees; Counterparty Credit Risk Committee (CCRC), Market and Liquidity Risk Committee (MLRC) and Operational Risk and Control Committee (ORCC), are established to ensure clear accountability for risk oversight and governance.

The Audit and Risk Committee assists the Agency in the oversight of the risk management framework including setting risk appetite, monitoring adherence to risk governance and ensuring risks are properly identified, assessed, managed and reported.

The ERM C oversees the implementation of the NTMA's overall risk appetite and senior management's establishment of appropriate systems to ensure enterprise risks are effectively identified, measured, monitored, controlled and reported. The members of the ERM C are comprised of members of the NTMA executive management team. The ERM C performs a formal strategic risk assessment twice annually, the purpose of which is to identify the principal risks that could potentially impact the NTMA's corporate strategy and business objectives in the near- to mid-term. The principal risks are then reviewed by the ARC and the Agency.

The ERM C is responsible for setting the appropriate risk framework for the NTMA, for approval and endorsement by the Agency, on recommendation by the ARC. ISIF and the staff within ISIF has responsibility for identifying and assessing risks related to the ISIF and putting mitigants/controls in place to manage those risks.

The ERM C has established five expert sub-committees:

- Counterparty Credit Risk Committee, Procedures & Processes Committee,
- Operational Risk and Control Committee,
- Market and Liquidity Risk Committee, and
- IT Security Committee.
- ISIF

In line with the Agency's Risk Management Framework, 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 to the overall management of risk across the NTMA with members of the ISIF Unit participating in the ERM C, and its various sub-committees (the Counterparty Credit Risk Committee, the Procedures & Processes Committee, the Market & Liquidity Risk Committee, the Operational Risk and Control Committee and the IT Security 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.

Compliance and other control functions (the second line) provide independent oversight and objective challenge to the first line of defence, as well as monitoring and reporting of risk. Internal Audit (the third line) provides reasonable assurance on the effectiveness of the risk and control framework.

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:

At the Discretionary Portfolio level, ISIF aims for returns over the long term in excess of a rolling five-year average cost of Irish Government debt. When the investment strategy was

defined in 2015, the portfolio return threshold was set at 4% for the whole Discretionary Portfolio. With the subsequent improvement in Ireland's macroeconomic conditions, the cost of Irish sovereign debt decreased to approximately 2.9% at end December 2021. The required level of commercial return varies by transaction, depending on sector, opportunity, and positioning in the investee's capital structure.

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:

This is our third submission to the IFSWF. We self-assess our implementation of the Santiago Principles at least biennially.

Source URL (modified on 2023-02-27 18:51):<https://www.ifswf.org/assessment/isifs-2022-self-assessment-2022>

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] <https://isif.ie/uploads/publications/Investment-Strategy-16062022-1.pdf> [7] <https://isif.ie/uploads/publications/070921H120201-Performance-and-FY2020-update-published.pdf> [8] <https://isif.ie/news/publications/> [9] <https://isif.ie/uploads/reports/NTMA-Annual-Report-2021.pdf> [10] <https://isif.ie/uploads/publications/ISIF-Climate-Report-25112021.pdf> [11] <https://www.ntma.ie/about-the-ntma/governance> [12] <https://www.ntma.ie/about-the-ntma/governance/agency-committees/> [13] <http://www.ntma.ie/about-the-ntma/governance/codes-of-conduct/> [14] <http://www.ntma.ie/about-the-ntma/procurement/> [15] <https://www.gov.ie/en/publication/6223e-climate-action-plan-2021/> [16] <http://www.ntma.ie/about-the-ntma/governance/> [17] <https://isif.ie/uploads/publications/SRIS-2020.pdf> [18] <https://reporting.unpri.org/surveys/PRI-reporting-framework-2020/BB357F3F-CD56-482B-A9B1-740E4471145A/79894dbc337a40828d895f9402aa63de/html/2/?lang=en&a=1> [19] <https://isif.ie/responsible-investment> [20] <https://www.ntma.ie/uploads/general/Code-of-Conduct-for-NTMA-Employees-ex-NAMA-21-Sept-2021-Approved.pdf> [21] https://www.ntma.ie/uploads/general/Code-of-Conduct-for-Agency-Committees_-21-Sep-2021-Final.pdf [22] <https://isif.ie/news/publications/>