



ISIF 2019

Ireland Strategic Investment Fund

Pillar 1: Legal

Legal framework, objectives, and coordination with macroeconomic policies

Principle 1

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.

The National Treasury Management Agency (NTMA or the Agency) is a public agency 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) 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 Public Expenditure and Reform and have regard to any views expressed by him 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>

Principle 2

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

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.

Following ISIF's establishment, its initial 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 July 2015. The investment strategy was reviewed in 2017-2018, in compliance with the 2014 Act, which requires a periodic review of the strategy and the strategy was amended to reflect the rapidly improving economic situation of Ireland and changing opportunity set for the ISIF.

In July 2018, the Minister for Finance and Public Expenditure and Reform announced a refocusing of the ISIF within its overall policy mandate centred on five key economic priorities: (i) regional development; (ii) housing supply; (iii) indigenous industry; (iv) projects to address climate change; and (v) sectors adversely affected by Brexit.

To align with this new strategy, an updated ISIF business plan was developed (ISIF Investment Strategy 2.0) and ISIF's current investment strategy is available at <https://isif.ie/uploads/publications/ISIF-Investment-Strategy-For-publication.pdf>

Principle 3

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.

As mentioned above in the response to Question 2, in July 2018, the Minister for Finance and Public Expenditure and Reform announced a refocusing of the ISIF within its overall policy mandate centred on five key economic priorities: (i) indigenous industry; (ii) regional development; (iii) sectors adversely affected by Brexit; (iv) projects to address climate change; and (v) housing supply.

The change in focus of the mandate reflects the strong growth in the Irish economy and abundant capital flows to the country over the previous years, but also new challenges such as Brexit, the nominal level of public debt, the risk of economic overheating, national competitiveness, global economic uncertainties and geopolitical risk. Further details of ISIF's refocused strategy are presented below:

<https://www.gov.ie/en/news/a0cc86-minister-donohoe-to-refocus-the-ireland-strategic-investment-fund-to/>

[http://budget.gov.ie/Budgets/2019/Documents/20.%20Ireland%20Strategic%20Investment%20Fund%20\(ISIF%20R](http://budget.gov.ie/Budgets/2019/Documents/20.%20Ireland%20Strategic%20Investment%20Fund%20(ISIF%20R)

Additionally, as was the case in the ISIF's original strategy, investments must not have a negative impact on the net borrowing of the general Government of the State for any year.

Principle 4

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.

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 a global, 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.

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 ISIF received a €335m contribution from the Exchequer in November 2015, following the sale by the 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 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 (as provided for in section 47(3) of the 2014 Act).

In July 2018 it was announced by the Minister for Finance that €1.5 billion of ISIF funds would be re-allocated to a new Rainy Day Fund with an additional €750 million to be allocated to the Home Building Finance initiative. Consequently, €750 million has been advanced to Home Building Finance Ireland and €1.5 billion of ISIF capital will, subject to the commencement of requisite legislation, be allocated to the Rainy Day Fund and, subject to requisite legislation, €1.25 billion to the Land Development Agency, reducing ISIF's size to €5.3 billion. This reallocation will occur over the medium term, with the expectation that approximately 50% of it will occur in 2019.

ISIF's Discretionary Portfolio was valued at €8.8 billion as of 31 December 2018.

Principle 5

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.

The NTMA is committed to ensuring that ISIF reporting is of a high standard of quality and transparency, subject always to third party commercial sensitivities and disclosure constraints.

Reports on ISIF economic impact are published on a 6-monthly basis. The most recent Economic Impact Report is available at <https://isif.ie/news/publications>

All ISIF publications and reports are available at <https://isif.ie/news/publications/> The ISIF's balance sheet, financial statements, assets lists and performance are published annually as part of the NTMA Annual Report. ISIF's most recent Annual Report is available at <https://www.ntma.ie/uploads/publication-articles/NTMA-Annual-Report-2018.pdf>

Pillar 2: Institutional

Institutional Framework and Governance Structure.

Principle 6

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.

As noted in the responses to Question 1, the NTMA is a public agency which provides a range of asset and liability management services to the Irish Government. The NTMA was manager of the National Pensions Reserve Fund and is now the manager and controller of the Ireland Strategic Investment Fund (see responses to Question 1 for further detail regarding the legal framework and mandate for the ISIF). 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 Audit and Risk Committee and Remuneration Committee's remits 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 NTMA. Two members are selected from Agency members other than the ex officio Agency members (i.e. the Chief Executive and the Secretary Generals 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>

Principle 7

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.

As noted in the responses to Question 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 Public Expenditure and Reform and has regard to any views expressed by them.

See response to Question 6 for details on the appointment of members to the Agency and ISIF's Investment Committee.

Principle 8

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.

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/>

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

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

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

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

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

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.

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:

1. the investment strategy pursued;
2. the investment return achieved by the Fund;
3. a valuation of the net assets of the Fund;
4. a detailed list of the assets of the Fund at the end of the year concerned;
5. the investment management and custodianship arrangements;
6. an assessment on a regional basis of the impact of the Fund's investments on economic activity and employment; and
7. 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 accounts. 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

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.

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).

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.

Principle 13

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.

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/>

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

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.

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. Procurement rules are outlined on the NTMA website: <http://www.ntma.ie/about-the-ntma/procurement/>

Principle 15

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.

This is the basis on which ISIF operates.

Principle 16

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.

All as outlined on NTMA Governance webpage: <http://www.ntma.ie/about-the-ntma/governance/>

Principle 17

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.

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 Query 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 (2018) financial statements are disclosed as part of NTMA's annual report and are available here: <https://www.ntma.ie/uploads/publication-articles/NTMA-Annual-Report-2018.pdf>

Pillar 3: Investment

Principle 18

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.

Investment Strategy - Global Portfolio

The Global Portfolio Transition Strategy (GPTS) is designed to position the ISIF to transition from a largely global portfolio into an Irish Portfolio as investment opportunities in Ireland are executed and drawn over a period of years. The GPTS is a relatively low-risk multi-asset class and multi-strategy investment approach, managed by external global asset managers. The GPTS is 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 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 more detailed assessment of the opportunity and receipt and review of a business plan, financial accounts/projections, economic impact, risk/return etc., a Preliminary Investment Proposal should be prepared and presented to the ISIF Portfolio Management Committee for review and decision.

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

External Milestone D: Deal Execution / Contract Signing A series of internal and external requirements must be followed and completed prior to deal execution/contract signing, including detailed legal review by internal and/or external legal teams and 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, infrastructure, IT and real estate. 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. The revised investment strategy published on 1 February 2019 is expected to result in a somewhat increased concentration (as a percentage of the overall fund) in particular sectors (such as real estate) and in investments with a higher risk score. These concentrations will be driven by the refocus of the ISIF's investment activities on the five economic priorities (regional development, housing, indigenous businesses, climate change and sectors adversely affected by Brexit).

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 cash flows of individual investments are impacted by growth and inflation and subsequently aggregating figures at the portfolio level.

At the 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 analyzes 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 (1 February 2019) is published on the ISIF's website:
<https://isif.ie/news/publications>

Monitoring

ISIF has an increasing focus 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. The ISIF has recently appointed a Head of Monitoring responsible for monitoring all Irish investments.

Principle 19

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.

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 strict 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 maybe 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 Global Sovereign Asset Management Study and a Stanford based project on SDFs 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 Policy which is available at https://isif.ie/uploads/publications/SRIS_Dec2017.pdf

In ISIF's Sustainability and Responsible Investment Policy, ISIF has identified key environmental, social and governance (ESG) risks and opportunities and the policy outlines the primary implementation strategies and tools. 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 the 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 similar to the DFIs are also applied. In addition, 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.

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 the implementation of the principles – in July 2018 ISIF's UNPRI results were scored well above median. ISIF is also a signatory 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 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), 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 an initial list of 148 companies in which it will not invest, and this list which is published on ISIF's website will be actively monitored and reviewed.

Further to the initial divestment, the NTMA recently took the decision to extend its list of restricted companies by a further 33 names and instruct its managers to divest from 15 of those names. This was implemented in July 2019 as part of part on going compliance with the FFD Act. See link below for more information and exclusion list and the Act: <https://isif.ie/how-we-invest/responsible-investment/overview/>

Investment Policy - Climate Change Pillar

A key part of ISIF's Sustainability and Responsible Investment Policy is climate change and ISIF is currently in the process of understanding its own carbon exposure by measuring ISIF's carbon footprint. Climate is also one of the five pillars of ISIF 2.0 Investment Strategy and ISIF is seeking to contribute to Ireland's future 2030 EU Renewable Energy targets by making investments which will deliver substantial carbon reduction.

Principle 20

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

Refer to Code of Conduct

Principle 21

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.

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/>

Principle 22

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 23

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.

At the Discretionary Portfolio level, ISIF aims for returns over the "long term" in excess of a rolling 5-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 3.6% at end December 2018. 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

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

As required. This is our second submission to the IFSWF.