

Ireland Strategic Investment Fund

Investment Strategy 2.0

Towards 2040 - investing commercially and with substantial impact

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Thinking in decades & making a difference



Gníomhaireacht Bainistíochta an Chisteáin Náisiúnta
National Treasury Management Agency

Ciste Infheistíochta Straitéisí d'Éirinn
Ireland Strategic Investment Fund

Executive Summary



ISIF's mandate is to invest on a commercial basis in a manner designed to support economic activity and employment in Ireland

- ISIF's "double bottom line" mandate remains unchanged - Commercial Return and Economic Impact
- Leveraging co-investment
- Flexible, long term, sovereign investment partner
- ISIF is a commercial investor expected to return the initial investment plus a return, this is entirely different from Government spending which depletes Government resources



ISIF 2.0¹ as a strategic investor

- "Thinking in decades and making a difference"
- Focus on Priority Themes (Regional development, Housing, Indigenous Businesses², Climate Change, Brexit)³
- Plus Connectivity Fund sub-portfolio and some flexibility for occasional other compelling national level opportunities
- Strategy to have regard to Government policies



ISIF 2.0 - Focused Investment Programme

- €3bn invested over 5 years
 - Regional: enabling regions, regional businesses, food & agri focus
 - Housing: delivering mass market housing through unlocking land, building for sale and long term rental
 - Indigenous businesses: patient capital to scale to international levels
 - Climate change: investment in renewable electricity and heat, food & agri and transport, subject to State market support regimes
 - Brexit: supporting long-term diversification

¹Note: ISIF 1.0 refers to the initial strategy of the Fund from establishment in December 2014 to end 2018. ISIF 2.0 refers to this strategy from 2019 onwards.

²Indigenous businesses are defined as businesses where core activities and expertise are located and centred in Ireland.

³ISIF will continue to have flexibility to hold and invest assets in other areas under Section 39 (3) of the NTMA (Amendment) Act 2014.

ISIF 1.0 – achievements at a glance



Commitments to date

€4.1 billion

100 investments across multiple sectors



Jobs supported

30,000



Total Project Size in Ireland

€11.6 billion

ISIF's €4.1bn unlocks €7.5bn of additional third party capital



Regional Employment

54%

of jobs supported are outside Dublin



Investment Returns since Dec 2014

€0.6 billion

+1.8% p.a. since inception (2018 -1.1%)



Responding to the housing crisis

>2,000 units

completed by December 2018

ISIF 1.0 Investment Programme Overview 2015 - 2018

€4.1bn committed across a range of sectors unlocking total projects in Ireland of €11.6bn

Real Estate - €842m committed



- Housing – 2,000 units completed by Dec 2018 with funding committed/sites acquired for a further 10,000 units
- Commercial Real Estate – Dublin & Regional
- Kilkenny Urban Regeneration Project

Energy - €240m committed



- Enabling 1,500MW which is expected to generate renewable electricity for over 600,000 homes by 2030

Infrastructure - €396m committed



- Invested in critical regional infrastructure such as Port of Cork and Shannon Airport Authority as part of the Connectivity Fund
- Supported DCU Campus Development Programme

Water - €450m committed



- Provided Irish Water with a loan facility that supported the development of water infrastructure

SME - €789m committed



- Backed 11 SME platforms to address equity, debt and working capital finance gaps in the SME market in Ireland

Direct Equity - €238m committed



- Provided long term, patient capital to back export-led growth companies in Ireland including waste software, cybersecurity and medical devices companies

Food & Agri - €206m committed



- Worked with Food & Agri sector to create unique solutions to investment and finance needs, such as the Milkflex financing product for dairy sector
- Range of investments across Forestry, Food companies and Ag Tech

Venture Capital - €622m committed



- Invested in VC funds that support companies in Ireland in life sciences and technology sectors that have international scaling capabilities

Innovation - €136m committed



- Number of investments focused on building Irish leadership position in personalised medicine and genomics
- Environmentally friendly water-cooling technology for data centres to reduce sector carbon footprint

Other - €192m committed



- Investments in education, financial services and aviation sectors

Every investment – Commercial Return and Economic Impact

ISIF Investment Strategy Review – Minister for Finance

Double Bottom Line Mandate & Priority Themes

“The impact of ISIF on the Irish economy is evident in both the ISIF’s own review and my Department’s review. ISIF’s achievements are particularly impressive given its double bottom line mandate of generating a commercial return and economic impact.

I particularly want to acknowledge that the achievement of a commercial return has been complicated by the prevailing low interest rate environment. Nevertheless, the returns on the Irish investments in the Discretionary Portfolio have been significant with the additional benefit of above forecast co-investment rates of 1.7 times ISIF’s initial investment.”

“I see a vital future role for an ISIF which is focused on supporting Ireland 2040, and particularly investments in: (i) indigenous industry; (ii) regional development; (iii) sectors that are impacted by Brexit; (iv) projects to address climate change, and (v) the continuation of housing investments, primarily those focused on mass market residential units.

The reviews of ISIF clearly demonstrate its ability to meet challenging objectives.”

ISIF 2.0 Strategic Objective

ISIF's double bottom line mandate remains unchanged....

...to invest on a commercial basis in a manner designed to support economic activity and employment in Ireland.

*More specifically ISIF will seek to generate a commercial return for the State over the long term while investing in areas that have a substantial and lasting economic impact in Ireland, thereby **driving balance, resilience, quality and sustainability in the Irish economy.***

*ISIF investments are guided by the objectives of Project Ireland 2040 focusing on **5 Priority Themes:***

*Regional Development to encourage
balanced economic growth*



Housing



Indigenous Businesses



Climate Change



*Sectors adversely
affected by Brexit*



ISIF adjusting investment volumes in line with economic conditions

ISIF 1.0 (2015) Investment Strategy

ISIF 2.0 (2019) Investment Strategy

↑ ISIF grew investment to €700m p.a. from inception to 2018...

...continued growth and strong economic conditions in the economy over the intervening period...

↓ ...ISIF under its revised and focused mandate expects to reduce its rate of investment somewhat



NPRF transitions to ISIF
22 Dec 2014

ISIF added €0.6bn in investment returns since 2014

Fund Size €7.2bn¹

€8.8bn¹

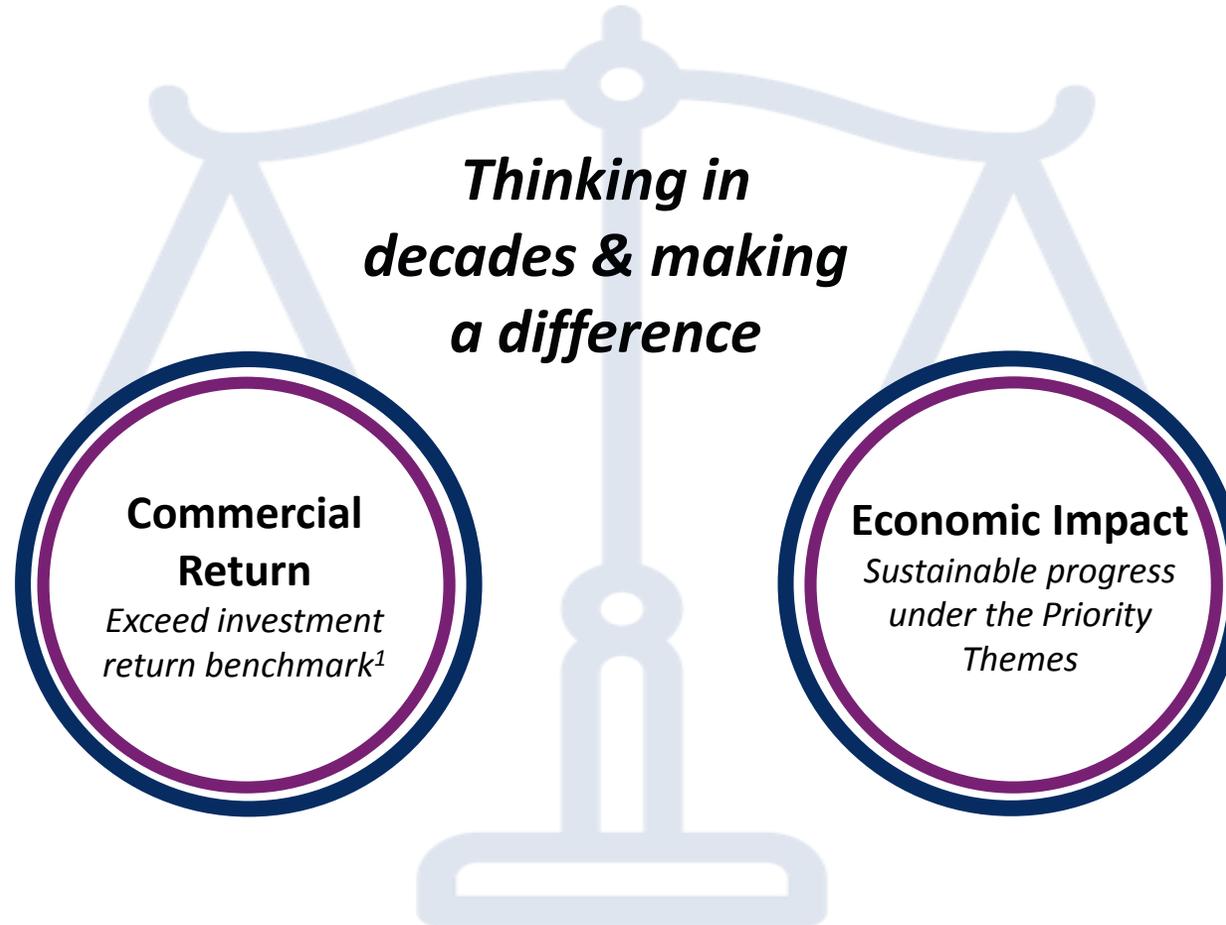
€5.3bn¹

€3.5bn reserved for other Government Priorities (as announced)

- Rainy Day Fund €1.5bn
- Home Building Finance Ireland (HBFI) €750m
- Land Development Agency €1.25bn

¹Preliminary and unaudited at 31 December 2018. See **Appendix 1** for further details on Fund size and investment programme. Total injections of €1.1bn since inception (Aer Lingus proceeds and bank dividends).

2025 Ambition



ISIF's ambition is to exceed its investment return benchmark by 2025 and have the capacity to begin paying dividends to the Exchequer, as contemplated by the Fund's legislation (NTMA Acts).

¹Over the long term a rate of return greater than the annual interest cost of general government debt averaged over 5 years. See **Appendix 2** for more detail on the ISIF Benchmark.

ISIF's Operating Model is unchanged

ISIF's Operating Model

Market Differentiators

- ✓ Long term timeframe
- ✓ Flexible, Innovative & Creative
- ✓ Trusted Sovereign Partner to businesses and co-investors

Governance

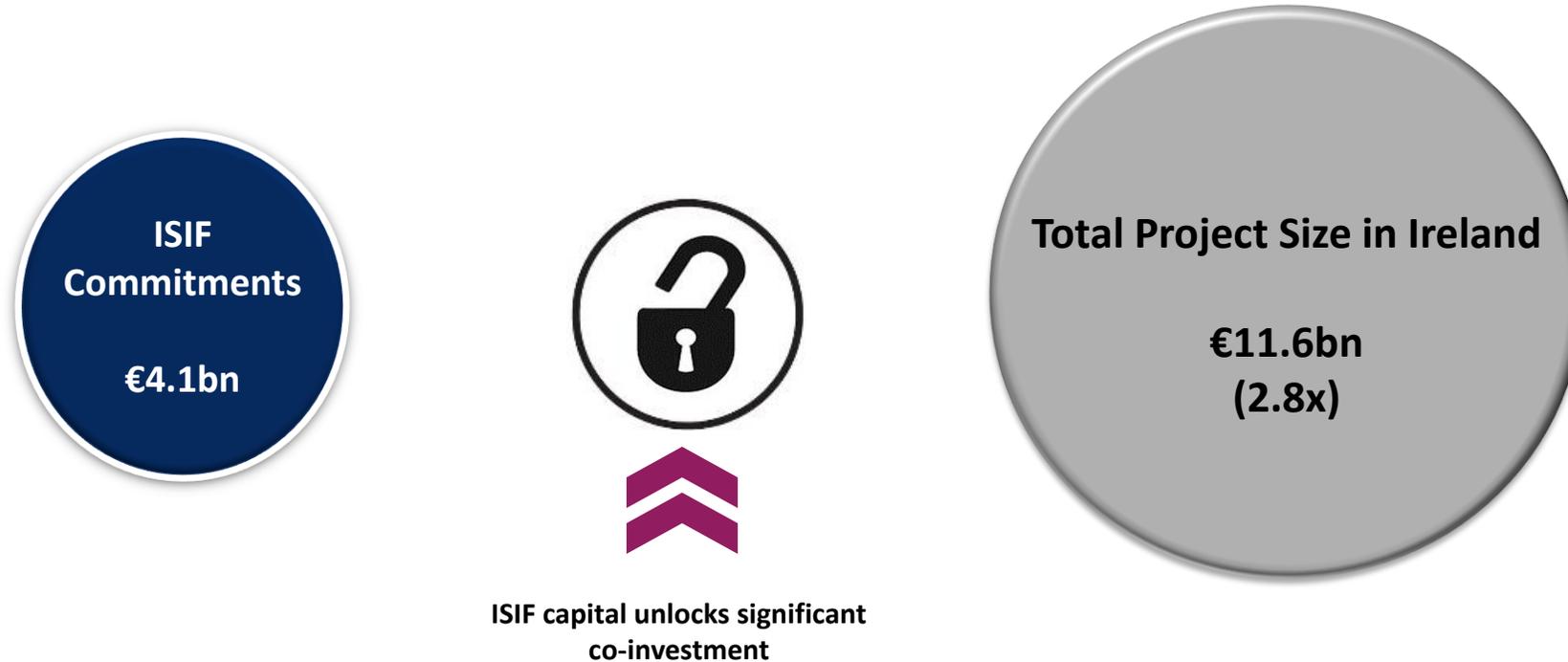
- ✓ NTMA Governance & Management
- ✓ Independent

Portfolio Management

- ✓ Diversification
- ✓ Capital recycling to maximise impact
- ✓ Responsible Investor

Continue to leverage ISIF capital with third party co-investment

ISIF 1.0:



ISIF 2.0:

ISIF's original target was **2.0x** and **ISIF will seek to maintain similar levels of third party co-investment** going forward. The 2.8x achieved to date is not expected to be maintained, given narrowing of ISIF's focus.

ISIF's €3bn 5 Year Investment Programme – Focused on Priority Themes



Regional Development

€500m - €750m of commercial investment into the Regions

Investment case: Dublin has an overconcentration of population, homes and jobs. Cities like Cork, Limerick, Galway and Waterford are growing but not at the pace or scale required to function as realistic alternatives to Dublin (source: National Planning Framework).

Housing

25,000 homes by 2025

Investment case: Despite increased activity levels, significant capital gaps persist in the housing market. ISIF to focus on parts of the capital structure where there are funding gaps.

Indigenous Businesses

Support and scale >100 businesses over 5 years

Investment case: There has been a lack of scaling of indigenous businesses over the last 10 years. ISIF can assist in developing the next wave of large scale businesses in Ireland that compete internationally.

Climate

Investments to deliver substantial carbon reduction

Investment case: Significant progress required in this arena in order for Ireland to meet future 2030 EU renewable energy targets.

Brexit

Commercial investment to enable long term product and market diversification

Investment case: Enhance the long term resilience of businesses in Ireland principally through market and product diversification as they prepare for a post-Brexit era.

National Initiatives

High impact substantial investments

Investment case: Flexibility for (I) high impact substantial investments that are compelling at a national level and do not fit under the Priority Themes, and (II) investment of the remaining portion of ISIF's existing Connectivity Portfolio.

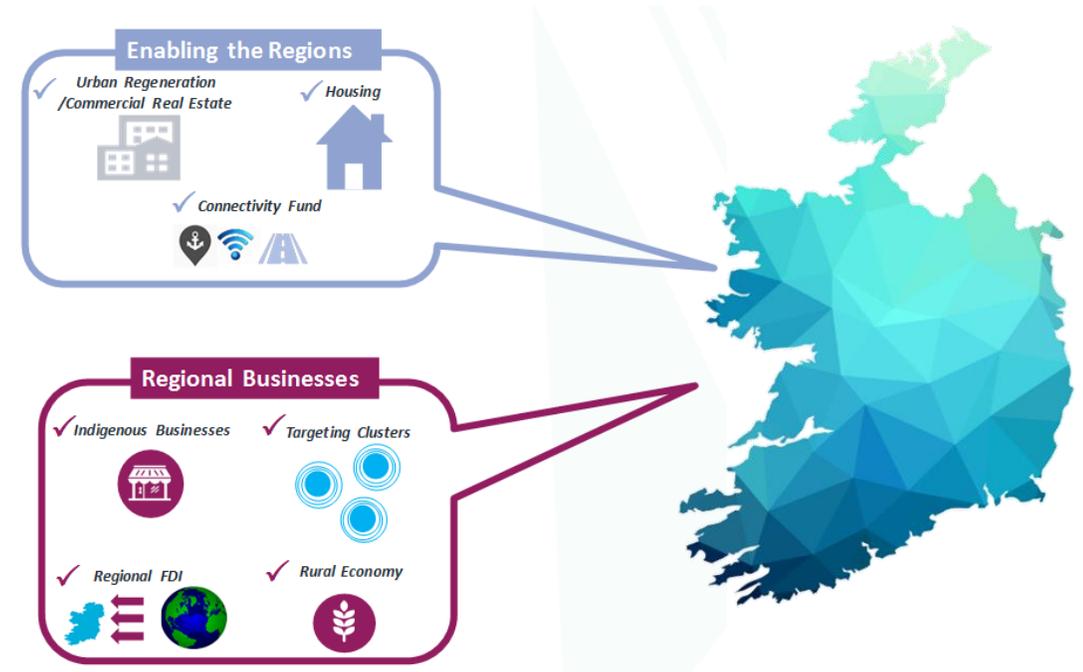


Regional Development

€500m - €750m regional, commercial investment programme

- ✓ ISIF's strategy will focus on delivering investments which will enable the regions ensuring people live and work in the right places and embedding resilience in businesses located in the regions.
- ✓ Aligned with Project Ireland 2040
3 regions (North and West, East and Midlands, Southern)
4 cities (Cork, Galway, Limerick, Waterford)
- ✓ Enabling via urban regeneration, housing, commercial real estate, and connectivity infrastructure (e.g. transport infrastructure).
- ✓ Potential to further strengthen collaboration and clustering activities in the regions between foreign and Irish owned enterprises – ISIF will seek to attract and drive Foreign Direct Investment (FDI) into the regions.
- ✓ ISIF will invest in the rural economy primarily through food & agriculture investments.

ISIF's Regional Strategy



Partnerships will be vital in the regions - ISIF has established regional partnerships through investments such as Port of Cork and Kilkenny Urban Regeneration and will seek to replicate this model across the regions. ISIF will engage with regional bodies and authorities and have regard to existing regional strategies.



Housing

25,000 houses by 2025

- ✓ A capital gap persists despite increased activity levels in recent times. ISIF is focused on parts of capital structure where there are funding gaps, in particular development equity.
- ✓ **ISIF leverages and leads commercial capital into residential investments** – residential co-investment multiple is 3.1x to date, **ISIF's €776m commitments have unlocked €2.4bn** in total housing commitments (conservative estimate at 31 December 2018).
- ✓ **ISIF is focused on delivering starter homes and mass market units** – vast majority of ISIF housing completed to date is in these segments.
- ✓ ISIF will seek to invest in social and affordable housing where consistent with double bottom line mandate.
- ✓ **Strategy: apply ISIF capital to fill gaps**
 1. Unlocking land
 2. Build for sale
 3. Long term rental

ISIF's Housing Strategy





Indigenous Businesses

Support scaling of 100 indigenous businesses

- ✓ ISIF will invest €1bn, both directly and via funds, in scaling up to 100 indigenous businesses over 5 years that will assist in developing the **next wave of larger scale indigenous businesses that will compete internationally.**
- ✓ ISIF will utilise platforms (equity & alternative debt providers) to access smaller scale investments and investments where specialist sector/product expertise is necessary – backing a mix of traditional and innovative sectors.
- ✓ ISIF’s venture and early stage investments will be aimed at developing a candidate pool of companies into which scaling capital can be invested.
- ✓ ISIF will **increase direct investment** in indigenous businesses (debt & equity) and will have a particular direct equity focus to counter lack of scaling of indigenous businesses that has been evident over the last 10 years.
- ✓ ISIF will invest across a broad range of sectors – Food & Agriculture, Technology and Health in particular.

ISIF’s Indigenous Businesses Strategy

Competing internationally

→
ISIF will invest directly for larger amounts
(typically medium scale growth companies)

&

→
Use platforms to maximise impact for SMEs based in Ireland
(typically smaller scale)



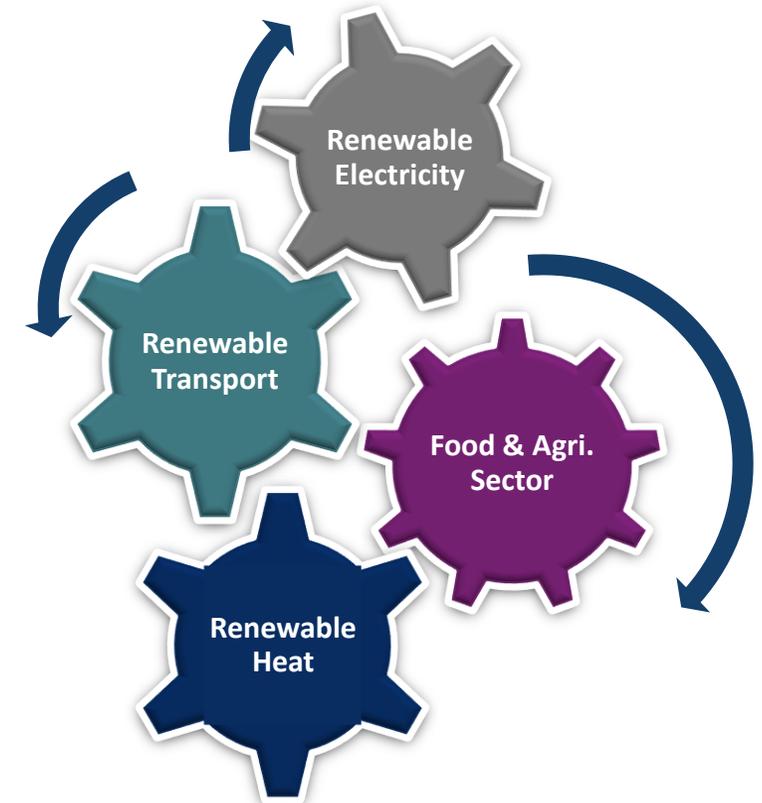


Climate

Decarbonisation – reduction, mitigation and efficiency

- ✓ ISIF will seek to contribute to Ireland's future 2030 EU Renewable Energy targets by making investments which will deliver substantial carbon reduction.
- ✓ ISIF has invested, where there have been State market support regimes or some visibility on State market support regimes. Access to new State support regimes has the potential to widen the investment universe significantly.
- ✓ In the short term ISIF will continue to actively invest in renewable electricity. Subject to the availability of commercial investment opportunities, ISIF will seek to invest in renewable electricity, renewable transport, renewable heat and the food & agri sector.
- ✓ Possible opportunities which may emerge:
 1. Renewable Electricity – transition from fossil fuel based power generation to renewable electricity (wind, solar, bioenergy and infrastructure to support increased renewables penetration)
 2. Renewable Transport – electric vehicles and electric vehicle infrastructure
 3. Food & Agri Sector – forestry, anaerobic digesters, ag tech and renewable energy for the food & agri sector
 4. Renewable Heat – biogas projects, district heating, energy efficiency and clean technology
- ✓ ISIF will measure and monitor carbon where possible across its entire portfolio.

ISIF's Climate Strategy





Brexit*

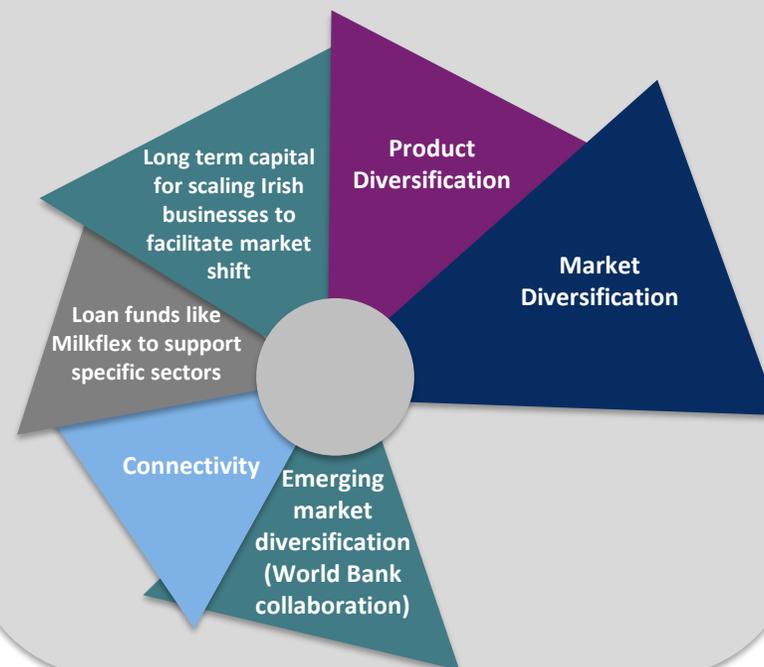
Commercial investment to enable the long-term diversification and resilience of businesses in Ireland with substantial UK exposures

- ✓ ● Brexit strategies for threatened businesses:
 - Exchequer/Agencies: Short term financial support.
 - **ISIF: Long term investment in market and product diversification.**
- ✓ ● ISIF's commercial investment will seek to support businesses' long term plans to invest in market diversification and product diversification through innovation as well as financing for businesses that are constrained from growing due to market exposures to the UK.
- ✓ ● Ireland could be a beneficiary from displaced FDI – ISIF will provide commercial investment to FDI that will be located in the regions.

ISIF's Brexit Strategy

1. ISIF will invest new capital (equity and debt) in businesses that want to invest away from a UK customer base into the development of new markets and new products.

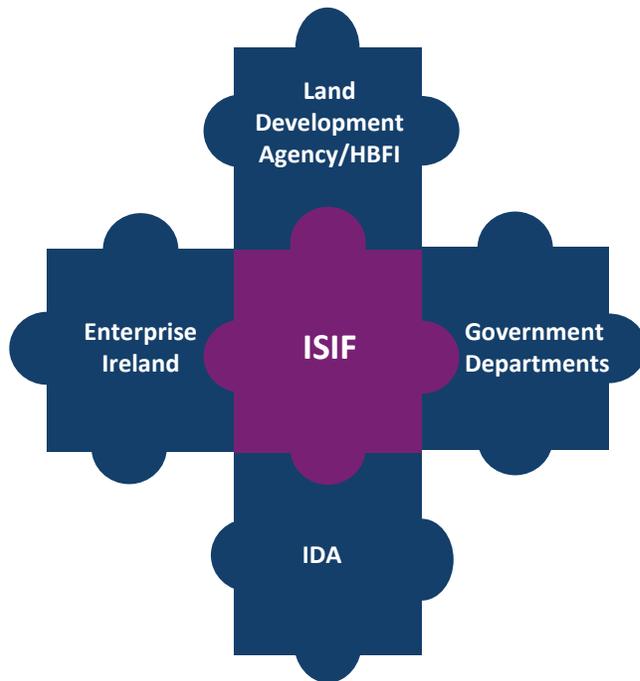
Investments will be underpinned by strong research and innovation plans.
2. ISIF will invest in physical connectivity which will support diversification away from UK based distribution routes.



ISIF is complementary to other Government Initiatives/Agencies & Policies

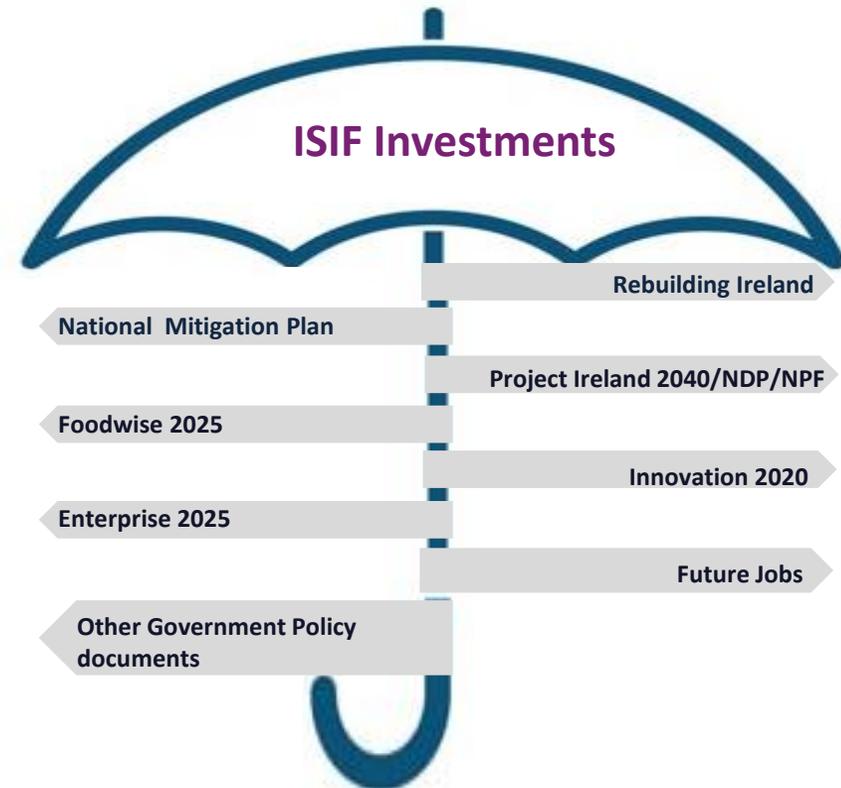
ISIF's overall strategy and sector strategies have regard to relevant Government policies. ISIF engages regularly with Enterprise Ireland, IDA and relevant Government Departments to ensure ISIF remains informed regarding market developments, and ISIF will develop similar relationships as necessary with other stakeholders including the Land Development Agency and HBFI.

Interaction with Agencies



&

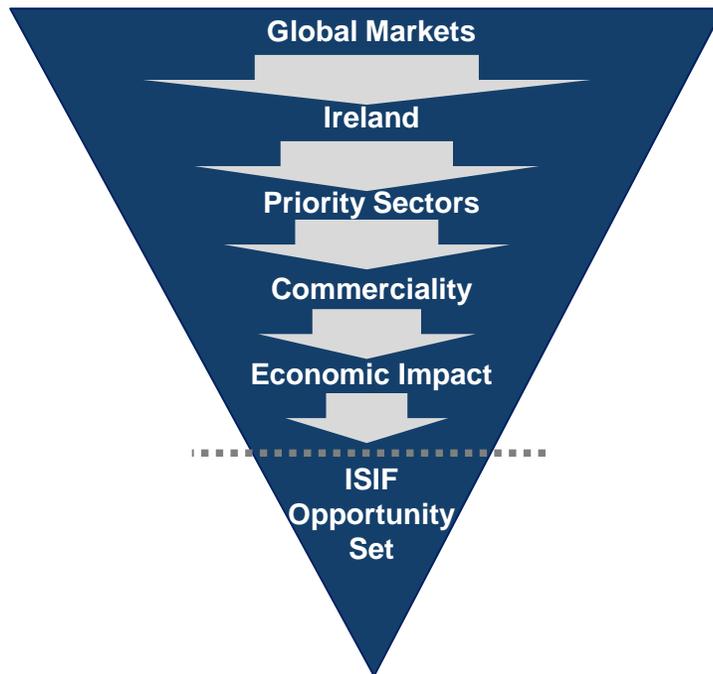
Aligned with Government Policies



ISIF will be conscious of the overall level of State involvement in each investment and in particular will consider the appropriateness of ISIF investment if alongside significant State subvention/grants.

Economic Impact imperatives increase the financial risk profile of the Fund

Focus on higher risk assets to maximise Economic Impact

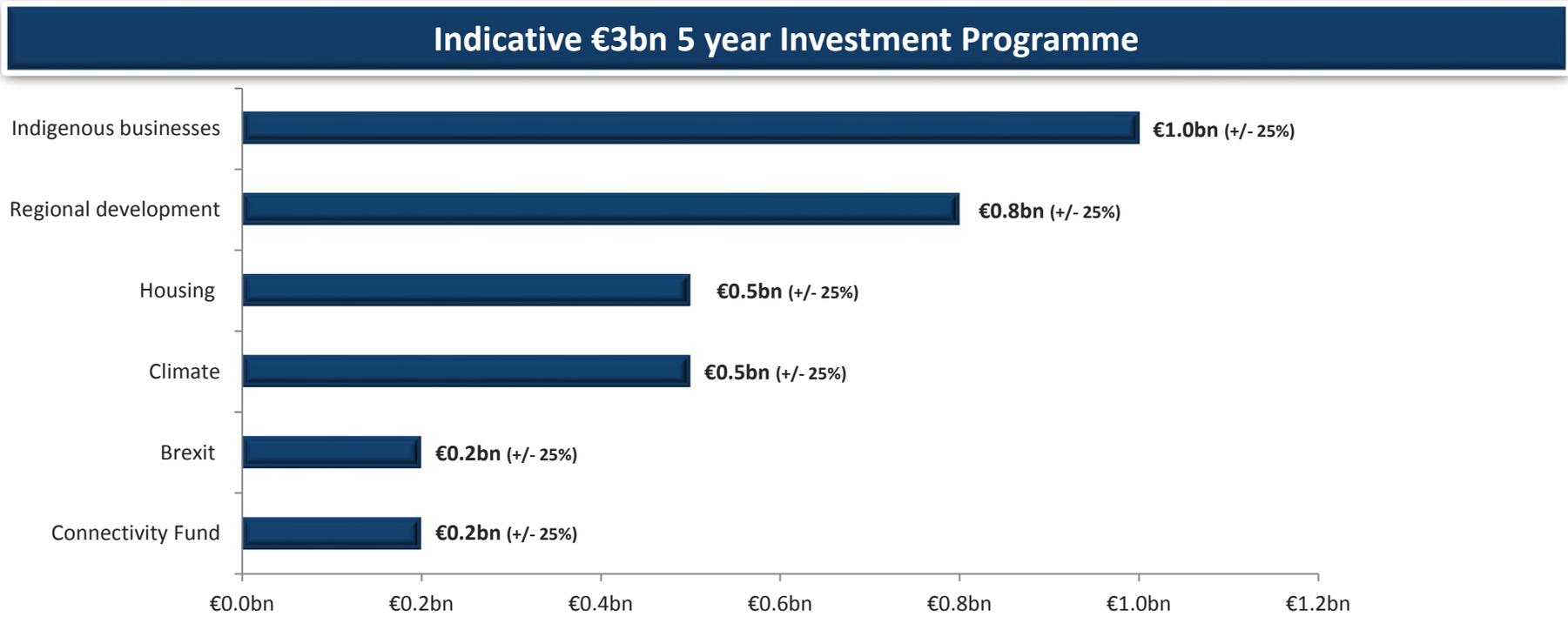


ISIF has Portfolio Management tools to manage risk...but ISIF investments are exposed to the Irish economy and high concentrations are expected in certain sectors and asset types

-  Portfolio Diversification Framework (sectors, risk scores and types of economic impact)
-  All Weather analysis/portfolio design strategy
-  Responsible Investment: integration of Environmental, Social and Governance (ES&G) Factors
-  Global Portfolio Design

€3bn Investment Programme over 5 years

ISIF continues to seek to maximise impact of the remaining smaller fund by leveraging impact via co-investment, while investing via strategic partnerships remains a core objective.



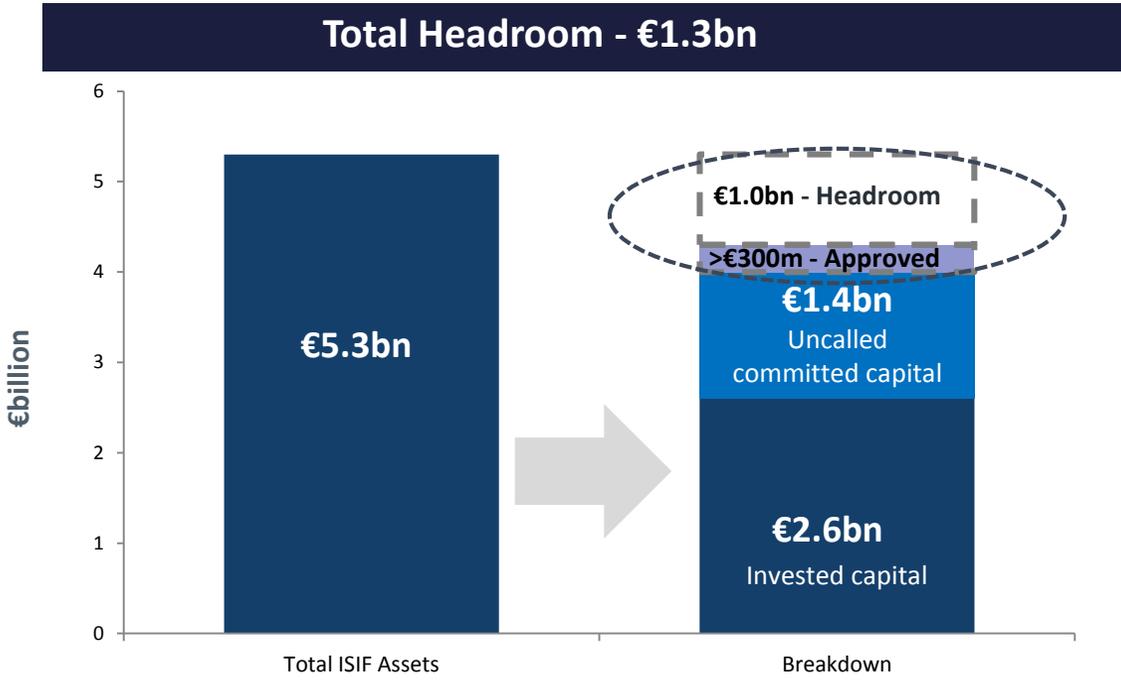
Notes:

- 1. The economic impact imperative to deliver additionality and avoid financial deadweight will help ensure the ISIF does not drive any overheating of the Irish economy.
- 2. The Regional Development programme is more likely to be executed over 7-10 years. However ISIF has significant ambition for the regions and therefore is building a larger regional number into central projections.
- 3. Some investments will overlap and satisfy two or more Priority Themes.



Appendices

Appendix 1: Fund Size/Headroom and Investment Programme



Note: As at 31 December 2018, preliminary and unaudited

Total Headroom - €1.3bn

+

Recycling of expected distributions - €2.0bn over 5 years



Resulting in €500m+ annual investment capacity reduced from current rate of €700m

Appendix 2: ISIF Benchmark

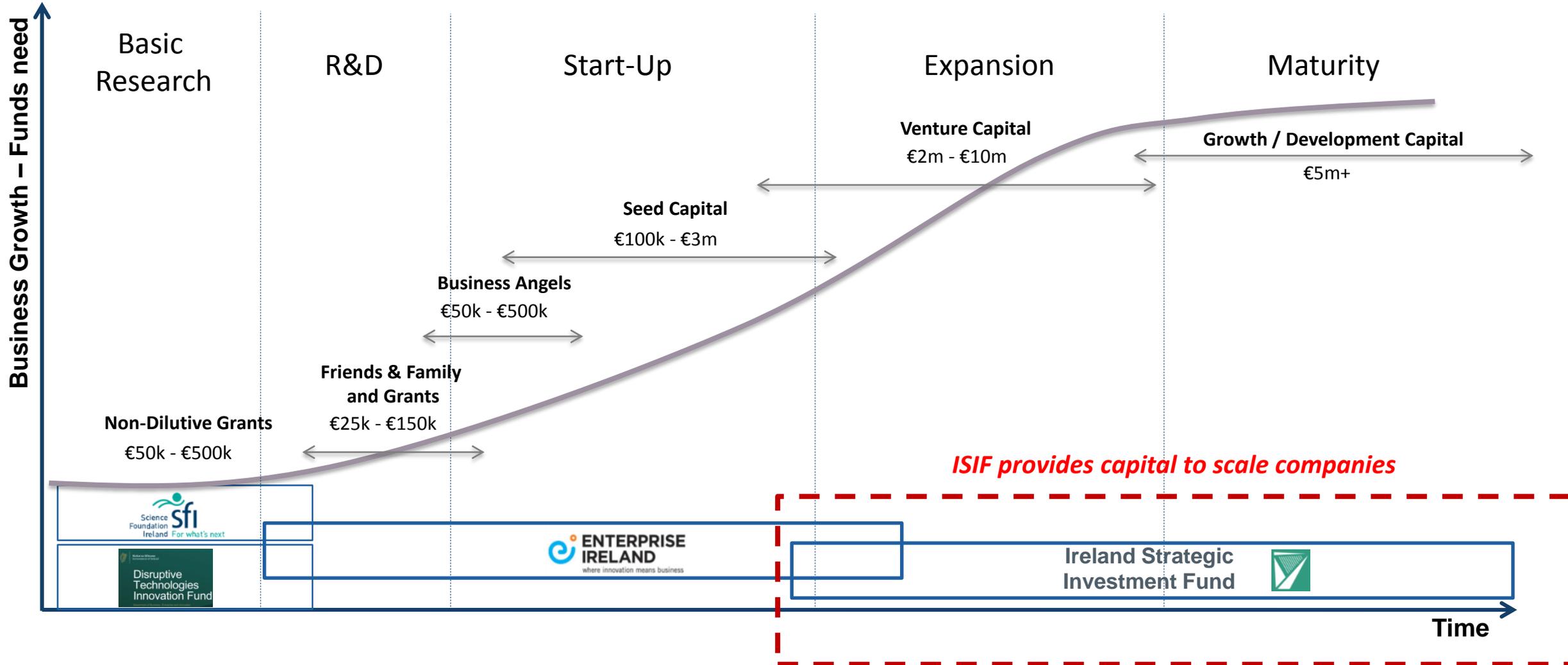
- As outlined in the NTMA (Amendment) Act 2014, the Fund (taken as a whole) is required to seek to secure **over the long term** a rate of return greater than the annual interest cost of general government debt averaged over 5 years.
- The ISIF is building up to a 5-year rolling average cost of debt. As outlined in the 2015 ISIF Investment Strategy the ISIF will calculate the annual cost of debt from inception until 2019 at which point the ISIF will move to a 5-year rolling average.
- The margin of 40bps is unchanged from the 2015 Investment Strategy.

	Cost of Debt ¹			ISIF Benchmark
	Annual	Avg. since inception	margin	
2015 (A)	3.37%	3.37%	0.40%	3.77%
2016 (A)	3.06%	3.21%	0.40%	3.61%
2017 (A)	2.89%	3.11%	0.40%	3.51%
2018 (F)	2.63%	2.99%	0.40%	3.39%
Annualised Since Inception(F)				<u>3.57%</u>

Note: As at 31 December 2018, preliminary and unaudited

¹The Cost of Debt provided by the NTMA Economics Unit informed by data from the CSO, additionally the 2018 forecast is informed by projections provided by the Department of Finance.

Appendix 3: ISIF will be additional to existing market sources, backing companies through their lifecycle



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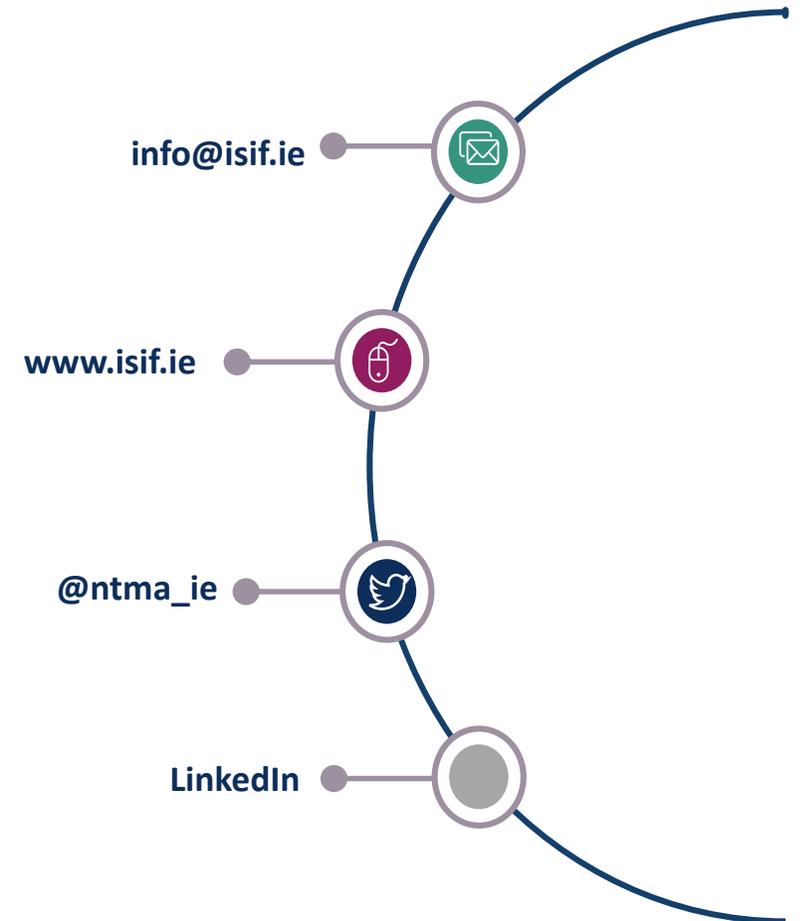
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