



Ireland Strategic Investment Fund (ISIF)

Investment Strategy

Executive Summary

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Gníomhaireacht Bainistíochta an Chisteáin Náisiúnta
National Treasury Management Agency

Ciste Infheistíochta Straitéisí d'Éirinn
Ireland Strategic Investment Fund



The NTMA, as manager of the Ireland Strategic Investment Fund (ISIF) will:

- Invest on a commercial basis to support economic activity and employment in Ireland.

- Develop a broad based portfolio;
 - Across sectors including but not limited to infrastructure, energy, water, real estate, housing, tourism, food & agriculture, technology, healthcare and finance.
 - By types of investment including SME, venture and partnerships with public entities.
 - By regional location of its investments.
 - By asset class including debt, mezzanine, equity and project investments.
 - That seeks to achieve some transformative impact by investment in one or more “big ideas”.

- Utilise its key differentiating features of flexibility, long-term timeframe and being a sovereign investment partner to fill investment gaps and enable transactions which would not otherwise easily be completed.

- Seek co-investors where possible to ensure the commerciality of its investments and leverage the economic impact that can be obtained from ISIF resources.

- Look to earn a portfolio return over the medium term in excess of the average cost of Government debt.

- Seek to achieve individual transaction returns that are appropriate relative to the risk involved.

- Target 80% allocation to “High Economic Impact” investment opportunities which will generate economic additionality over time and have low levels of displacement and deadweight.

- Pursue economic additionality in many forms including output (turnover), profits (operating surplus), net exports, capital expenditure and employment - an increase in any of these would be expected to increase economic activity in the economy.

- Report regularly on the economic impact (including employment, turnover, exports, profits etc.) and regional spread of its investments.

- Deploy its capital over a 3-5 year period, subject to commercial investment opportunities being available.

The ISIF Mandate

“Double Bottom Line”

The overarching purpose of the Ireland Strategic Investment Fund (“ISIF” or “the Fund”) is to invest on a commercial basis in a manner designed to support economic activity and employment in the State. This mandate reflects a shift from being a sovereign wealth fund focused solely on wealth creation to a sovereign development fund with a “Double Bottom Line” objective – in other words, the ISIF’s success will be measured by both investment returns and economic impact achieved.

Other key elements of the mandate as set out in the *NTMA (Amendment) Act, 2014* are:

- The NTMA will be the controller and manager of the ISIF.
- Investment performance goal is to exceed the average cost of Government debt.
- Long-term timeframe: no withdrawals before 2025, after that dividend-type payment of up to 4% p.a. to the Exchequer.
- Investments must not have a negative impact on the net borrowing of the general Government of the State for any year.

1. A Unique Challenge

There is little precedent globally for sovereign funds investing all of their assets with such a “double bottom line”, so there is no well-worn path to follow and there is no guarantee that it will be possible to deliver on such a challenging mandate.

The ISIF at over €7 billion is a large investment fund in the context of the Irish economy. Given its strategy of co-investing where possible with other parties, it is not unreasonable to expect that the ISIF’s investment programme could amount over time to up to 10% of GDP. In such circumstances it will be important to ensure that the ISIF does not dominate pricing and/or become the investment market in any particular sector. Conversely, scale does present a great opportunity to deliver significant impact.

Therefore, given the unique nature of the ISIF mandate it is vital not to be too prescribed or rigid at the outset. As the sovereign development fund concept is quite new, and because the full nature and size of the investment opportunity set in Ireland are both not known and constantly changing, it has been agreed that a formal review of the ISIF strategy, including further consultation with the Minister for Finance and the Minister for Public Expenditure & Reform, will take place after 18 months in the second half of 2016.

The nature of the market opportunity in Ireland for a large fund with such a specific mandate is highly uncertain. Therefore the only certainty is that the initial ISIF strategy and portfolio design will change over time and should be regarded as no more than illustrative. Adaptability will be a critical element.

2. Key ISIF Characteristics: Flexible, Long-Term, Sovereign Public Investment Partner

The ISIF will seek to invest in transactions where it can make a difference, where its characteristics can enable commercial investment transactions with positive economic impact and can make it an attractive “investor of choice” for company and project sponsors and advisors.

The ISIF is not constrained by regulations, prospectuses or liquidity requirements. It can invest anywhere up and down the capital structure – from safe first security debt all the way along the risk spectrum to start-up venture capital. In other words the ISIF can provide, on a commercial basis, inter alia loans (rated or unrated), mezzanine, equity, contingent commitments, first loss absorption, underwriting or standby facilities, or indeed any combination of such facilities as may be required by a particular transaction. Flexibility along the capital structure will be one of the ISIF’s key attributes.

The ISIF is designed to be a long-term fund and beyond dividend type payments after 2025, there are no provisions for amounts to be withdrawn from the Fund. This design enables the ISIF, where necessary, to take a very long-term view when evaluating investment opportunities. In particular the ISIF can be a source of “permanent” or “patient” capital that can work to a longer-term horizon than most participants in the market.

Opportunities will be originated from a wide variety of sources. In addition to proactive targeting of investment in priority areas by the ISIF team, the NTMA’s door is open for stakeholders to approach the ISIF at any stage. Investment ideas need not be at a fully-formed stage since the investment process is designed to be adaptable and to allow for customisable solutions – it allows for an iterative approach. A proactive market engagement and origination style of investment is required which also marks a transition for the NTMA from its traditional NPRF role of “gathering” assets to one of “hunting” for investment ideas.

To many investee and investor entities, a sovereign public fund such as the ISIF will be a very attractive long-term investment partner. In this regard, NTMA/ISIF can bring together an unparalleled network of investees, investors and Government entities to source transactions across Ireland and to develop optimum transaction structures. The ISIF is particularly likely to be able to add greater value in more complex transactions because of its greater flexibility and because of this powerful network of relationships.

3. Consistent with Government Policy

As a public fund it is important to the ISIF’s success that the commercial investment decisions taken under its mandate are consistent with Government policy and that the investment related policy making by Government agencies and departments be coherent, consistent and co-ordinated. Successful development and investment of the ISIF will therefore be dependent on maintaining strong two-way working relationships with relevant State departments, bodies and NTMA divisions.

Strong ongoing working relationships at all levels within a number of agencies such as Enterprise Ireland and IDA will be of vital importance particularly in respect of supporting indigenous high-growth and exporting companies, identifying financing gaps and attracting foreign direct investment (FDI). Bilateral engagements are ongoing with, amongst others, the Department of Finance, Department of Public Expenditure and Reform, Department of Agriculture, Food & the Marine (on initiatives such as *Food Harvest 2020* and the new 2025 agri-food strategy), Teagasc, Department of Communications Energy & Natural Resources (on issues such as renewable energy and broadband), Department of Environment, Community and Local Government (on key government strategies such as *Construction 2020* and *Social Housing 2020*), Department of Jobs Enterprise & Innovation (DJEI), Science Foundation Ireland (SFI) and various Irish ambassadors overseas.

Potential sources of investment also include NTMA and related businesses, particularly NewERA, Strategic Banking Corporation of Ireland (SBCI), NDA and NAMA. Investment opportunities from NewERA and its portfolio of commercial semi-state companies for example may include projects in sectors such as water, telecoms, broadband, energy (wind/other renewables/energy efficiency) and forestry. The ISIF Business Unit¹ will work closely with the SBCI on the SME agenda, with the NDA to ensure effective and consistent engagement on Irish Public Private Partnerships (PPPs) pipeline and with NAMA in relation to real estate based investment projects, particularly in the housing sector.

Finally, in the context of a Fund with a new mandate, execution will require the ISIF Business Unit, with the support as necessary of the NTMA Chief Executive, to constantly engage with Government and wider stakeholders including our European counterparts, such as European Investment Bank (EIB), European Investment Fund (EIF) and the European Fund for Strategic Innovation (EFSI) in order to ensure insofar as possible that commercial investment resources are available to deliver on Government policy but without duplicating the roles of Government departments or other state agencies.

¹ ISIF Business Unit: the team within the NTMA charged with management of the ISIF

4. Illustrative ISIF Portfolio

In line with its mandate and the current investment landscape in Ireland, the ISIF's ultimate investment portfolio will include investments across a range of sectors including infrastructure (such as water, energy and PPPs), housing, the SME sector (including equity, mezzanine and credit investments), food and agriculture, real estate based investments, venture capital, and private equity. Looking to the longer term, the ISIF's mandate also offers the possibility for investment in new areas of potential competitive advantage for the Irish economy and to have a material positive impact over time.

The size and nature of the market opportunity for the ISIF in Ireland is highly uncertain. While initial estimates based on best available information have been made of the investment gap in each of the main sectors under consideration, these estimates will be subject to constant revision. The investment opportunities we expect may not materialise and alternative routes to deploying investment will need to be devised and implemented.

Furthermore, as the ISIF should not crowd out willing private sector investment, its strategy will focus on where its specific characteristics can make a difference. In this regard, the investment marketplace is constantly changing and the ISIF's strategy will undoubtedly need to evolve and adapt over time in light of experience, Government policy and in response to the prevailing transaction opportunity set.

The illustrative ISIF portfolio is based on an assumed participation by the ISIF in 25% on average of the estimated available and suitable investment opportunities and it is anticipated that it will take 3-5 years to deploy.

The most important point in relation to the illustrative ISIF portfolio is that the bucket sizes should be regarded as purely indicative and that they will inevitably change in light of the transaction opportunity set that can be developed.

The illustrative ISIF portfolio discussed below is after full deployment.

ISIF Illustrative Allocation			
Bucket	Theme	€m	+/- range
1	Water	700	+/- 100m
2	Infrastructure	850	+/- 150m
3	Energy	800	+/- 100m
4	SMEs	900	+/- 200m
5	Food & Agriculture	500	+/- 50m
6	Real Estate Based Businesses	1,000	+/- 200m
7	Venture	500	+/- 50m
8	Direct Private Equity	400	+/- 40m
9	Innovation/Big Idea	1000	+/- 200m
10	Other	750	+/- 50m
Total Fund size:		7,400	
2x multiple		14,800	

Specific comments are as follows:

1. Investment in water and waste sectors, including in Irish Water, will be required over the medium and long term to support economic development.
2. Infrastructure may include facilities in respect of technology, transport, education and to enable business investment and housing development. The initial expectation that the ISIF would allocate significantly to PPP projects is unlikely to materialise on account of the significant renewed private sector interest in funding PPP projects.
3. Energy will include a significant element of renewables investment.
4. A key need in the SME sector is to build a greater culture of equity investment in companies, and the ISIF expects to make equity and mezzanine investments to support SMEs. Its investment in debt facilities is more likely to be in product areas not well serviced by existing market participants.
5. Ireland has a natural competitive advantage in the food and agriculture sector, and the lifting of EU dairy quotas offers specific opportunity for growth.

6. Housing is a key area of focus – including commercial housing development, social housing and student accommodation. Real estate based businesses more generally may include investment in larger scale facilities for use by foreign and domestic companies, research facilities and tourism initiatives.
7. Venture capital investment is expected to support the indigenous technology and healthcare/life sciences sectors, where Irish companies are seeking to develop products that can become successful in global markets.
8. Investment in private equity may be focused on larger scale investment to support the development over a longer time frame of “national champions” as they seek to become international businesses, driven by a concept of “permanent capital” that is appropriate for the ISIF’s long-term time horizons.
9. Education is a key enabler of future national competitiveness and across its investment programme the ISIF expects to collaborate with educational institutions and providers of education services in sourcing research facilities and student accommodation related opportunities.

It is anticipated that larger-value but potentially low-volume transactions will generally be undertaken on a direct investment basis by the Fund. A direct investment would ideally be of a minimum size of €10 million. However, the approach applied in the early stages of the Fund is to consider each opportunity on a case by case basis. Smaller-value (<€10m) but higher-volume transactions will ideally be invested through third-party platforms. In other words the ISIF will not directly invest in such transactions. Instead it will act as a cornerstone investor in a platform or fund which is managed by a third party who will have discretion over the investments made. The minimum size for these investments will be different for each fund and platform.

While no regional constraints have been set as part of the mandate, the ISIF is required to report on its investments on a regional basis. More importantly, the ISIF in its origination efforts intends to seek out transactions across the country. It is recognised that economic conditions are different between the Dublin area and the rest of Ireland and that superior investment returns and greater economic impact can potentially be achieved in areas where costs are lower and current economic activity is more subdued. In originating transactions the ISIF Business Unit will conduct meetings with potential investment companies and project sponsors on a nationwide basis. In addition the ISIF Business Unit intends to use the forum of regional roadshows and other SME and business events to market the Fund to potential co-investors.

The ISIF is committed to addressing financing gaps in the marketplace and working with a variety of parties to ensure that long-term financing options are available to a wide range of market participants. As niche opportunities are identified that are not overtly met in the marketplace, the ISIF will also endeavour to attract capital and suitable managers into these areas. In this regard, the ISIF encourages all approaches from companies or project sponsors seeking finance. However, given the statutory requirement for both commercial and economic impact it is expected that a significant proportion of investment proposals may not meet these criteria.

Once full deployment is achieved the ISIF will continue to achieve ongoing investment and economic impact by recycling and reinvesting its capital.

5. Innovation

Innovation is widely accepted as a crucial element in generating economic growth. Ireland has a cluster of successful innovative companies but targeted investment to support ongoing innovation is needed. Continuous digital innovation in Ireland has attracted and allowed technology based industries to grow at a higher rate.

A core objective of the ISIF investment programme will be to achieve some 'transformative' impact in Ireland. The scale and scope of the Fund will enable the ISIF to invest in a range of 'Big Ideas' – investments that go above and beyond the reach and scope of other investors operating in the Irish market. These investments will aim to create entirely new platforms for economic development in Ireland, leveraging the essential features of the Irish economy to bring significant, positive and lasting impact. The ISIF will explore sectors where Ireland already has or maintains the ability to develop a sustainable competitive advantage.

The ISIF Business Unit is developing an innovation strategy outlining the approach to identify and develop major initiatives in line with this goal and is open to all ideas, engagement and discussions in this regard.

6. Investing on a Commercial Basis

Investing on a commercial basis means that, in respect of each and every investment, there is an expected return for the ISIF from the investment and this expected return is commensurate with the risk involved. This is the concept of "risk adjusted expected return".

What this means is that some very safe and secure investments will be commercial even at a low yield (say 1%), while other investments would require a much higher expected return (such as equity investment in early stage companies which may target a 20% prospective return) so as to compensate for the much greater degree of risk involved. So each investment opportunity will be assessed on its own merits as to risk and return.

The corollary is that there is no "minimum rate of return" required on individual transactions. As discussed later in this document, it will be important to blend investments so that the overall portfolio generates an acceptable overall return.

Co-investment alongside the ISIF by private sector investors will be prima facie evidence that the ISIF's investment is on a commercial basis. In exceptional cases where the ISIF may be the only investor, it will need to benchmark proposed transaction pricing against market indicators to establish that the investment is on a commercial basis.

If any ISIF investment is deemed to be non-commercial, it may result in part or all of the investment being deemed by Eurostat, in its control of Government accounting across the EU, to be Government expenditure, thereby increasing the Exchequer deficit. The ISIF legislation prohibits any such non-commercial investment. Furthermore, any investment deemed to be non-commercial may raise concerns that state aid is being provided and may open such investments to legal challenge. Therefore state aid considerations will be assessed on every potential transaction.

As ISIF's mandate is to invest on a commercial basis it cannot make any investment that has an element of "soft money" or subsidy involved. Such "policy" expenditures should be considered by the relevant Government Department within its budgetary constraints and not by the ISIF. Nor can the ISIF consider potential wider Exchequer benefits if they are not in the form of returns for the investor (e.g. tax receipts).

7. A “Double-Bottom Line” – Achieving Economic Impact

In seeking to support economic activity and employment as well as generating commercial return, the ISIF has what is described as a “double bottom line” requirement for the Fund, necessitating that all of the Fund’s investments generate both investment returns and a positive economic impact in Ireland.

In order to achieve a positive economic impact over time, the ISIF will use three key economic concepts to assess how an investment or project will positively affect economic activity:

Additionality refers to the additional economic benefits to Gross Value Added (GVA)/Gross Domestic Product (GDP)² which are likely to arise as a result of the investment under consideration, over and above what would have taken place anyway.

Displacement refers to instances whereby the additionality created from an investment is reduced or made smaller at the overall economy level due a reduction in such benefits elsewhere in the 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.

Investment opportunities which lead to economic additionality and have low levels of displacement and deadweight are likely to result in a high economic impact at the overall economy level over the long-term.

Economic additionality can come in many forms, including increased output (turnover), profits (operating surplus), net exports and capital expenditure. The supply of enabling infrastructure also creates additionality in the future, by facilitating future competitiveness of the economy. Similarly innovation and investment in research and development (R&D) also have long-term additionality that may not be immediately evident but are necessary ingredients for long-term sustainable economic growth.

² GDP is a measure of the market value of goods and services produced by organisations in an economy. GVA is the micro enterprise level measure of the value of goods or services produced which, when aggregated across all enterprises and adjusted for taxes and subsidies, equals GDP.

Employment is one important measure of economic additionality. Employment arising from investment can be direct, indirect or induced employment due to the multiplier effect,³ but as noted above is not the only metric. All metrics mentioned above influence the overall level of economic activity in an economy. A further consideration for the ISIF Business Unit will be the length of time the additional benefits created by an investment are likely to last. Sustainable, long-term additionality will have a more prolonged effect on economic activity and will result in a greater impact than once off, short-term gains.

There is no data available on the expected contribution of commercial investment to economic activity and jobs. Therefore it is not possible to estimate in advance (ex-ante) how many jobs can or should materialise from the ISIF’s investments. It should be noted that the generation of a financial return implies that the accompanying economic impact benefits are, in a sense, free or a bonus - in that because there is an expected investment return, the cost to the Exchequer’s resources of making investments and achieving related economic impact is zero. Therefore it is not essential that economic impact targets be established at the outset. Over time and as experience is gained of the ISIF’s investments and the measures of economic impact arising, it may become more feasible to set ex-ante employment targets per, for example, €100 million of commercial investment.

Instead the ISIF will adopt a strategy of investing in areas where the economic impact of its investment, consistent with economic theory and with Ireland’s experience over many decades, is expected to be highest. It will target those areas for investment which have higher potential economic and employment impact, these will form the majority – approximately 80% - of the ISIF portfolio over time. Some of the sectors with the lowest levels of deadweight and displacement and highest levels of additionality would be those involved in exports, manufacturing, and internationally-traded services.

In parallel the ISIF will publish economic data semi-annually that, over time, will help develop robust expected relationships between investment amounts and economic impacts.

³ Multiplier effects arise in the first instance from the indirect impacts of a given investment, arising from demand for intermediate inputs in the supply chain (Type I multiplier). It is also possible to derive multipliers for value-added, employment and incomes, to enable the economy-wide (direct plus indirect) impacts to be assessed for such investments (Type II multiplier)

The balance of the portfolio, approximately 20%, will be invested in those sectors with a lower economic impact in terms of overall levels of additionality but with short-term employment benefits and where it is expected the ISIF investment will accelerate normalisation of capital markets. It is anticipated that the Fund will initially have close to an equally balanced allocation towards high economic impact and lower economic impact investments, with the balance shifting towards the target 80/20 allocation over a 4-5 year time frame as post-financial crisis capital markets issues normalise.

Displacement occurs largely in domestic service related sectors (including retail) where, because customer demand is at the level it is, the success of one enterprise is largely at the expense of another. Therefore investment in sectors where displacement is a feature does not necessarily add to aggregate demand or aggregate economic activity. Other than where near-term accelerator benefits can be obtained, the ISIF will seek to avoid investing longer term in sectors where displacement is an important feature.

Deadweight occurs when the economic impact benefits would have been achieved in the absence of an ISIF investment and therefore there is no increase to GVA attributable to the ISIF investment i.e. instances where the capital for the investment/project would have been raised without the involvement of the ISIF and ISIF involvement is 'crowding out' private investment. Just because an investment is commercial does not mean there is automatically going to be deadweight. On the one hand there is little value in the ISIF competing in market segments or products where there is already a considerable private sector presence. On the other hand, the existence of private sector capital should drive the ISIF towards opportunities where its unique characteristics can make a difference. Deadweight and crowding out are factors that will require constant reassessment.

It should also be noted that supporting economic activity and employment in the State does not necessarily mean that 100% of the ISIF's investment will be in Ireland. There will be instances where investing in funds outside of Ireland in a manner *consistent with the ISIF's mandate* will both diversify exposure and generate positive economic impact within the country. Current portfolio examples of this include venture capital investments with Silicon Valley Bank and the China Ireland Technology Growth Capital Fund where the investment by the ISIF is outside Ireland but there is a corresponding or greater investment by a third-party in Ireland as part of a wider transaction. Finally, it should be noted that the ISIF may also be able to obtain positive economic impact via its presence, if it encourages, for competitive reasons or otherwise, increased levels of private sector investment in the Irish economy.

8. Portfolio Construction Approach: Achieving a Target Return

The ISIF's return objective is over the medium term to exceed the cost of Government debt (currently 3.5% p.a.). The investment strategy is the means by which financial risk and return and economic impact objectives and constraints are applied to the wider mandate in order to achieve the target portfolio return while minimising risk.

The ISIF's investment strategy will be significantly influenced by the characteristics of the investment opportunity set that are available and that can be originated in Ireland and every transaction will be assessed commercially on the basis of risk adjusted expected return. The proposed target portfolio return is 4% p.a. on a rolling 5-year basis. This target incorporates both fund management costs and an excess margin in addition to the cost of Government debt.

It is, however, relevant to note that both currently and prospectively we face a world where the risk-free rate (RFR) is close to zero and there are dangers that in targeting a 4% return the portfolio becomes tilted too aggressively towards risky assets. Historically, earning 4% above the risk-free rate would have required a large proportion of equity assets. In the ISIF's case it will be important that target portfolio return is not set so high that lower yielding debt investments with strong economic impact might be declined.

Initial modelling has suggested a portfolio comprising approximately 50% debt (senior and mezzanine) and 50% equity (preferred and ordinary) may be capable of generating a 4% return over the medium term.

Diversification is a key principle. While the mandate requires the ISIF portfolio be concentrated in Ireland, it will be important to seek to maximise diversification within Ireland in regard to sources of financial return and to generation of economic impact.

The ISIF investment strategy is multi-dimensional; in other words, the risks in the Fund's portfolio will be viewed in multiple ways in order to evaluate how exposed the portfolio is to different economic and market risks and scenarios. The portfolio will need to be designed and constructed in a manner that is resilient to macro-economic and market scenarios (e.g. base case, bear case and bull case) and also to high/low economic growth and high/low inflation outcomes. The same principles will apply to the global portfolio which will act as a source of liquidity until the capital is fully deployed.

9. Co-investment is very important

A key element of the ISIF strategy will be to attract co-investment from third-party investment partners - both domestic and international. This will leverage the ISIF's finite resources to significantly increase the quantum of economic impact in Ireland that can be achieved from its investment programme.

Over time it is expected that some ISIF investments, once established and operational, may be able to be sold to third-party investors. To the extent this is achievable; the ISIF will be able to redeploy the capital thereby freed up so as to achieve further new economic impact. In effect, the long-term strategy should be one of recycling capital, via third-party investor involvement, either at the outset or subsequently, to enable new investments with positive economic impact to be executed on an ongoing basis.

10. Business Model

The ISIF will aim to be a best-in-class investor operating at all times to high international standards. As a long-term and responsible sovereign fund investor, the ISIF will aim to invest in accordance with the relevant global standards of corporate governance, transparency and responsible investment adhering to both the Santiago Principles and the UN-sponsored Principles of Responsible Investment (PRI). The PRI in particular focus on the management of environmental, social and governance factors to improve sustainability of financial returns. There are few other Irish signatories and the ISIF should aim to be the leading proponent in Ireland of responsible investment.

The ISIF business model represents a shift away from global investments largely outsourced to third-party managers towards more direct investment in Ireland by the ISIF, which will be a very substantial investor in the Irish economy. It is expected that the ISIF's investment will be approximately 50% direct and 50% indirect through third-party managers. Large-value, low-volume transactions are likely to be direct while higher-volume, smaller-value transactions will ideally be invested through third-party platforms as previously outlined.

Finally, the NTMA has engaged with and will continue to engage with peer sovereign wealth funds and sovereign development funds (of which there are very few) to share learning and ideas and to seek to develop best practices for implementing sovereign development fund and impact investing style mandates. In this regard, the NTMA is currently involved in a Stanford University research project.

11. Strategic Objectives

In order to achieve the Fund's overall objectives, five strategic objectives have been identified. These will drive both fund and business management objectives over the next four years. Each of these objectives has its own specific goals and targets as shown below.

Strategic Objectives	Goals	Specific Targets
Deployment	<ul style="list-style-type: none"> Accelerate as much as possible Likely to take 3 to 5 years (2018 to 2020) 	<ul style="list-style-type: none"> €500m - €1bn (total €2bn - €2.5bn) capital committed in 2015 100% committed/reserved by end 2019 Commitments are key - ISIF acknowledges that actual drawdowns can take significantly longer
Diversification	<ul style="list-style-type: none"> Diversified across asset classes, drivers of economic impact, sectors & duration and number of investments 	<ul style="list-style-type: none"> 50% Equity/50% Debt (+/- 10%) 50% Direct/50% Indirect (+/- 10%) Min of €250 million per "investment bucket"
Return	<ul style="list-style-type: none"> Each individual investment must be "commercial" Portfolio expected return to be 4% (rolling 5 yr.) Long-term outlook 	<ul style="list-style-type: none"> Achieve commercial risk adjusted return on each individual investment across entire portfolio (co-investment is a prime validation of commerciality) Target medium term portfolio return of 4% p.a. (gross)
Economic Impact Objective	<ul style="list-style-type: none"> Focus on high economic impact sectors (80% of assets) Short-term/accelerator role in lower impact sectors (20% of assets) Identify key metrics on ex-ante basis to monitor on ex-post basis 	<ul style="list-style-type: none"> Achieve 80%:20% allocation by end yr. 4 (+/-5%) <ul style="list-style-type: none"> 60%:40% allocation by end yr. 1 (+/-5%) 70%:30% allocation by end yr. 2 (+/-5%) 75%:25% allocation by end yr. 3 (+/-5%) Report key metrics in the areas of output and employment to assess the economic benefits of investments. Economic targets to be defined as experience is gained
Multiply Investment Impact	<ul style="list-style-type: none"> Co-investors (2.5x multiple to date) Recycle and re-use 	<ul style="list-style-type: none"> Total investment size/ISIF investment > 2.0x across entire portfolio 10% of investment commitments available for recycling by end 2019

Deployment is an important objective for stakeholders. While the deployment targets set out above are aggressive and challenging, it must be accepted that such deployment will at all times be subject to the availability of investment opportunities that meet the ISIF's double bottom line mandate. If enough such opportunities are not available, then the ISIF will not invest.

The NTMA will seek to manage the ISIF to ensure that the maximum opportunity set is developed and originated and to ensure that any failure to meet deployment targets will be due to limited availability of transactions meeting ISIF's criteria and not to inefficient or slow investment management processes.

Typically there can be a significant period of time between when an investor commits to an investment and when this commitment is deployed. The ISIF deployment targets include capital committed to investments or funds which may be drawn down or called over time as requested by the fund manager or company/project sponsor. Deployment over time is a fundamental characteristic of private equity investment and if suitable investment opportunities are not found, commitments will not be drawn. Therefore the ISIF may in some instances potentially invest less than expected or than originally committed.

12. Implementation Issues

a) Governance & Management

The *NTMA (Amendment) Act, 2014* includes important changes to the governance structure of the NTMA. Under the Act, the Agency is required to establish an Investment Committee. The functions of the Investment Committee are to:

- a. make 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;
- b. advise the Agency on the investment strategy; and
- c. oversee the implementation of the investment strategy.

The Investment Committee comprises five members appointed by the Agency, two of whom are members of the Agency (other than the *ex officio* members of the Agency - the Chief Executive and the Secretaries General of the Departments of Finance and Public Expenditure and Reform). Three members are external members who have acquired substantial relevant expertise and experience and who are appointed by the Agency with the consent of the Minister. No members of staff of the Agency may be appointed as members of the Committee.

The Investment Committee was established in late February 2015 and its members⁴ are:

- Agency Members: Brendan McDonagh (Chair), Susan Webb
- External Members: John Herlihy, Richard Leonard and Julie Sinnamon

b) Transition of global portfolio to Irish investment

The NTMA is currently developing a strategy to transition over a number of years from the current largely global portfolio which the ISIF inherited from the NPRF. The objective of this strategy is to preserve capital to ensure the amount available for investment in Ireland is not unduly depleted, while simultaneously seeking to earn at a portfolio level a return in excess of the 4% target.

c) Investment monitoring

The ISIF Business Unit closely monitors all investments made by the Fund. Being potentially a substantial investor in Irish enterprises will require a suitable monitoring policy and procedures, balancing the need to steward the ISIF's investment and understand the details with the separate legal and fiduciary status of the boards of investee companies and projects. The ISIF's policy in this regard will be developed over time.

d) External Monitoring & Reporting

A comprehensive ISIF annual report will be produced meeting high standards of disclosure, transparency and compliance with all legislative requirements, while respecting the legitimate confidentiality needs of commercial investee enterprises. In addition, the NTMA will publish quarterly ISIF updates on its website.

The most important new requirement will be for economic impact reporting. NTMA will measure and report (on an ex-post basis) the economic impact of the ISIF investments on a range of relevant metrics, including employment, turnover, exports and R&D. There is no single measure which can be used to assess the Fund's performance in terms of its economic impact objectives of supporting economic activity and employment. It will be necessary to examine the additionality created for the economy, which can come in many forms including increased employment, increased net exports, increased output or enabling infrastructure. Furthermore there are additional economic multiplier effects arising which will need to be recognised. Two economic impact reports will be published per annum.

e) Risk Management

The NTMA will operate a high quality risk management framework appropriate to the ISIF's mandate and investment strategy. The ISIF's risk management function is linked in to the overall management of risk across the NTMA. Current identified top risks include investment risks such as deployment and performance, economic impact risk, legal and regulatory risk, operation risk and reputational risks. Mitigation processes have been developed and are being implemented.

f) Communications Strategy

The transitioning of the NPRF into the ISIF has resulted in substantial change, both in name and the mandate for the Fund. Increasing public understanding of the ISIF, its strategy and processes will be important.

The purpose of a communications strategy for the ISIF is to develop ways in which the mandate and objectives of the ISIF can be communicated and marketed effectively to the ISIF's target audience so as to (i) increase stakeholders' (incl. media) understanding of the ISIF, its challenges (in particular, economic impact) and results, (ii) maximise deal flow, and (iii) provide a solid basis for attracting co-investors.

⁴ Investment committee member biographies are available at www.ntma.ie

13. ISIF Commencement Portfolio: Investments to date

The ISIF's current portfolio includes investment commitments made by the NPRF Commission in preparation for the ISIF as well as initial investment commitments made under ISIF governance totalling €1.5 billion in areas such as infrastructure, venture capital and long-term finance for SMEs. Substantial third-party capital has also been invested alongside the ISIF at a ratio of total investment to ISIF investment of 2.5x (as at 31 March 2015). The most recent portfolio details are published on the ISIF website (www.isif.ie)



Ireland Strategic Investment Fund
Treasury Building
Grand Canal Street
Dublin 2

T +353 1 238 4000

E info@isif.ie

W www.isif.ie

 Follow us on Twitter @NTMA_IE