IRELAND STRATEGIC INVESTMENT FUND

Gníomhaireacht Bainistíochta an Chisteáin Náisiúnta
National Treasury Management Agency

Ciste Infheistíochta Straitéisí d'Éirinn
Ireland Strategic Investment Fund

ISIF Investment Strategy

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1. Background and Context

Introduction

The Ireland Strategic Investment Fund (ISIF or the Fund) was established in December 2014, under the National Treasury Management Agency (Amendment) Act 2014 (as amended) (2014 Act). The National Treasury Management Agency (NTMA) controls and manages ISIF, which comprises the Discretionary Portfolio and the Directed Portfolio.

The Discretionary Portfolio, which is the focus of this investment strategy, includes both the Irish Portfolio and the ISIF Funding Portfolio. The Irish Portfolio operates under a “double bottom line” mandate - to invest on a commercial basis in a manner designed to support economic activity and employment in the State, and targets investments designed to have direct economic benefits in Ireland. The ISIF Funding Portfolio, which is primarily composed of highly liquid investments, provides liquidity to fund the Irish Portfolio investments, commitments, approved investments and pipeline.

The Directed Portfolio, historically consisting primarily of public policy investments in AIB and Bank of Ireland and currently comprising mainly cash, cash equivalents, and public policy investments in the Strategic Banking Corporation of Ireland (SBCI) and Home Building Finance Ireland (HBFI), is held under the direction of the Minister for Finance and falls outside the scope of this strategy.

ISIF’s Mandate

ISIF’s double bottom line mandate requires it to invest in opportunities with both commercial returns, and which seek to support Irish economic activity and employment within the State. Accordingly, all investment decisions are made with a focus on generating financial returns while also contributing to the broader economic health of Ireland.

To achieve its goals, ISIF seeks to operate as a trusted, patient, and adaptable investor. By adhering to the core values of the NTMA, along with principles of responsible investment, ISIF aims to deliver on its mandate effectively, ensuring that its activities contribute positively to Ireland's economic landscape.

Economic Impact

ISIF evaluates and seeks to maximise the economic impact of its investments, considering this alongside the relevant investment's potential commercial return.

The analysis focuses on the dimensions of additionality, displacement and deadweight.

1. **Additionality** refers to the additional economic benefits in Ireland that would not have occurred otherwise. This focuses on two measures of additionality: Gross Value Added (GVA) and employment which are likely to arise as a result of the investment under consideration, over and above what would have taken place anyway. ISIF also considers sector specific additionality metrics such as housing units delivered, and renewable megawatts (MW) added to the grid.
2. **Displacement** refers to instances whereby the additionality created from an investment is reduced at the overall economy level due to a reduction in such benefits elsewhere in the economy.

3. **Deadweight** refers to instances whereby the economic benefits created from an investment would have been achieved in any event in the absence of intervention.

Financial Performance

ISIF measures its financial performance against a legislatively defined benchmark, which is set as the average 5-year rolling cost of Irish Government debt. [1]

ESG Matters

ISIF's approach to ESG as set out in section 4 of this investment strategy guides how it will meet legal requirements and stakeholder expectations and align with global best practice in this area such as the UN-supported Principles for Responsible Investment (PRI) of which the NTMA is a founding signatory.

This investment strategy sets out the NTMA's approach to the effective management of risks posed by relevant ESG matters. It details the tools used by the NTMA to manage such ESG-related risks including capital allocation, integration, stewardship and, as a last resort, exclusion. It also sets out the basis on which the Agency identifies categories of investment in which the Fund's assets will not be invested in light of relevant ESG matters and gives details of the excluded categories of investment which have been identified.

1

Using Eurostat's definition of cost of debt, which is based on the ratio of total annual interest cost to average sovereign debt outstanding.

2. Irish Portfolio Investment Strategy

The ISIF Investment Strategy has evolved to align with the following four key investment themes aligned to State priorities, areas where long-term commercial investment can help the State to meet key challenges.

- Climate and Energy Transition
- Scaling Businesses
- Food, Agriculture and Marine
- Housing, Infrastructure and Sustainable Development

While these priorities guide the core investment activity, ISIF also actively pursues cross-theme opportunities that can significantly enhance its economic impact. These investments can be larger in scale and designed to generate significant impact by intersecting multiple strategic areas. They typically address issues of national importance, enabling ISIF to respond to emerging opportunities that can deliver transformative, long-term benefits for the Irish economy.

ISIF also has the ability to respond swiftly and decisively to shorter-term emerging opportunities or material challenges that the State could face via a fifth (only periodically applied) theme of National and Compelling Investments.

Climate and Energy Transition

Execution of the strategy relies on adherence to the double bottom line mandate, leveraging partnerships and crowding in capital to support investment opportunities in Ireland.

ISIF investments are evaluated on their commercial merits together with their potential Irish economic impact.

Mission Statement

ISIF's mission under the Climate & Energy Transition theme is to deliver commercial investment that positions Ireland for a net zero carbon economy and accelerates the energy transition. ISIF seeks to deliver on this mission through commercial investments and partnerships that can materially advance the decarbonisation of the Irish economy in the short, medium, and long-term.

Strategic Objective & Overview

The ISIF Climate & Energy Transition investment strategy has two components:

- Firstly, supporting the sustainable infrastructural requirements of the Irish economy out to 2030 in key areas where carbon emissions are prevalent, as outlined in the government's Climate Action Plan. This includes investments in renewable energy generation and storage infrastructure which support greater energy resilience and security.
- Secondly, funding the development of new technologies and business models that will support the transition of the Irish economy to net zero before 2050.

ISIF's Climate & Energy Transition objectives align with the Government's Climate Action Plan targets of: (i) a 51% reduction in GHG versus 2018 levels by 2030; and (ii) setting Ireland on a path to reach net zero emissions by no later than 2050. By crowding in significant amounts of private capital and specialist investors to stimulate the Irish climate investment ecosystem, ISIF's investment activities have catalysed a broad range of investors to be active in the energy transition sector in Ireland. ISIF seeks to leverage its status as a 'through-the-cycle' investor by partnering with world-class investors, corporates, and entrepreneurs, both in Ireland and internationally, that share ISIF's commitment to achieving net zero and have the capabilities and ambition to deliver on this vision.

Scaling Businesses

Mission Statement

ISIF's mission under the Scaling Businesses theme is to enhance the funding environment, enabling high-calibre businesses and entrepreneurs to reach their global potential.

Strategic Objective & Overview

Through the Scaling Businesses impact theme, ISIF seeks to create a broad, dynamic and competitive range of funding options to support the growth plans of indigenous businesses.

ISIF seeks to achieve this in two primary ways:

- ISIF is an active investor in venture capital, growth equity, private equity and private credit funds that invest in businesses located in Ireland at various stages of their growth journey (from early-stage start-ups to more established SMEs to high-growth companies with the potential to become Irish companies of scale). This investment activity helps support a robust funding ecosystem that provides capital solutions to companies in all sectors, at all stages of the growth lifecycle and across the capital structure. When investing in funds, ISIF seeks to commit to fund managers (both Irish and international) that complement the funding landscape in Ireland and that have an investment focus aligned with ISIF's objective of growing businesses located in Ireland.

- ISIF complements the funding options in the wider market by investing directly or co-investing in businesses where ISIF's involvement can help unlock growth or economic impact opportunities that might not otherwise proceed. When investing directly, ISIF is always a minority shareholder and focuses on supporting growth opportunities, with a preference for primary capital. When investing directly in businesses, ISIF seeks to do so alongside other investors.

Food, Agriculture and Marine

Mission Statement

ISIF's mission under the Food, Agriculture and Marine theme is to collaborate with key stakeholders in these sectors to seek to deliver transformational commercial investments that support Ireland becoming a world leader in sustainable food systems supporting the National Food Vision 2030 Strategy.

Strategic Objective & Overview

ISIF seeks to support the delivery of Ireland's national agri-food strategy – Food Vision 2030. Food Vision 2030's goal is for Ireland to become a world leader in sustainable food systems by balancing economic, social and environmental sustainability with health and innovation. The ISIF approach includes the deployment of patient flexible capital, leveraging deep sectoral and financial expertise, leveraging strong relationships with stakeholders and industry, nationally and internationally to address gaps in the market and solve sustainable food systems challenges.

Housing, Infrastructure and Sustainable Development

Mission Statement

ISIF's mission under the Housing, Infrastructure and Sustainable Development theme is to deliver commercial investments that seek to support the delivery of new homes, enhance and scale the national infrastructure and real estate stock and enable Ireland's cities to enhance their ability to attract investment and generate employment opportunities.

Strategic Objective & Overview

Investments under this theme will be completed in the following key areas:

Housing:

ISIF will focus on the supply of private/mass market-based developments. ISIF has already committed more than €2.7bn to homebuilding related investments and will continue to ensure a resilient and sustainable supply of investment capital to the sector. ISIF's new housing related investments are particularly focused on equity risk investments which can support the scaling of homebuilders through the unlocking of senior debt funding.

Sustainable Development:

- **Urban Regeneration**
  Enhancing the sustainability of the built environment is also a key area of focus. ISIF provides long-term patient capital for regionally and nationally transformational projects of scale, targeting a project in each of the five regional cities: Cork, Galway, Limerick, Waterford and Kilkenny and Dublin. ISIF's long-term approach to these urban regeneration projects is a key differentiation factor in unlocking sites of strategic importance in Ireland's key urban centres. Delivery of these schemes is typically unlocked through partnerships with private and public sector counterparties, such as the Glassworks Enterprise & Innovation Quarter in Waterford.

- **Commercial Real Estate**
  ISIF is a through-the-cycle provider of investment capital seeking to support the supply of high-quality places to work, primarily in the regions or other under-served/under-capitalised markets (e.g. Dublin at certain points of the cycle). These developments of new and enhanced commercial real estate will facilitate the growth of indigenous businesses and attract FDI nationwide.

Infrastructure:

ISIF will seek to support connectivity themed infrastructure which enhances the physical, virtual and energy connectivity of the State. ISIF will also seek to invest in funds and projects which enhance the overall infrastructure stock, focusing where investment capital can be most additional. This may include traditional infrastructure sectors along with emerging sectors such as social infrastructure and data centres.

National and Compelling

Mission Statement

ISIF's mission under the National and Compelling theme is to act swiftly and strategically in response to urgent, high-impact challenges and opportunities facing the Irish State. This reflects ISIF's commitment to being a responsive and agile investor, capable of investing commercially in support of the economy during periods of instability, transformation, or exceptional national need.

Strategic Objective & Overview

Investments under this theme are expected to serve as a flexible and dynamic component of this investment strategy, designed to complement the four core investment themes. The inclusion of this theme enables ISIF to deploy capital in situations where time-sensitive or cross-sectoral responses are required—such as during macroeconomic shocks, geopolitical disruptions, or transformative national events. The objective is to ensure that ISIF can play a stabilising and catalytic role when traditional investment channels may be insufficient or too slow to respond.

The National and Compelling theme may be activated, in line with ISIF's statutory mandate, to:

- Provide flexibility to invest outside the core themes of the ISIF investment strategy, and in instances of cross-theme initiatives that require a coordinated, multi-thematic investment response
- Act as a strategic reserve of capital that can be deployed when unexpected but critical national needs arise that require immediate and sustained investment
- Ensure ISIF can support the Irish economy in times of instability or opportunity.

3. ISIF Funding Portfolio Investment Strategy

ISIF was initially funded via a pool of assets previously held by the National Pension Reserve Fund. This asset pool, or portfolio[2] is held or invested in line with Section 39(3) of the 2014 Act and is the primary funding source for the Irish Portfolio.

This is referred to as the "ISIF Funding Portfolio" and it operates alongside the Irish Portfolio, to provide funding for existing and upcoming commitments to the Irish Portfolio, and to enable ISIF to continue making new investment commitments aligned to its double bottom line mandate.

The ISIF Funding Portfolio also provides flexibility to ISIF should an emerging opportunity or shock to the Irish corporate sector arise which requires a rapid and impactful response (such as the Pandemic Stabilisation Reserve Fund - PSRF).

The primary objective of the ISIF Funding Portfolio is, to provide liquidity, with a secondary objective to focus on return (contributing to achieving ISIF's statutory benchmark). The ISIF Funding Portfolio's strategic investment principles are set out below:

1) The ISIF Funding Portfolio operates alongside the Irish Portfolio to manage uncalled commitments and uncommitted capital for the Irish Portfolio
2) The ISIF Funding Portfolio is designed to be highly liquid, so capital can be made available for Irish Portfolio investments and other outstanding commitments.
3) Liabilities or legally committed capital provide the basis for setting the risk appetite of the ISIF Funding Portfolio which is expressed via a market-based Reference Portfolio[3].
4) The ISIF Funding Portfolio investment process produces a Strategic Asset Allocation[4] that is expected to generate an appropriate risk-adjusted return.
5) The ISIF Funding Portfolio is influenced by substantial short- and medium-term cash needs for investment in Ireland and, generally requires a higher level of defensive and diversifying assets relative to risk assets.
6) The ISIF Funding Portfolio partners with external fund managers to implement investment strategies in line with its Strategic Asset Allocation.
7) ESG risk management is integrated in the ISIF Funding Portfolio in line with the ESG Approach.

The ISIF Funding Portfolio's implementation strategy (as reviewed by the Investment Committee and approved by the Agency) is aligned with the above principles. The implementation strategy is reviewed by the ISIF Investment Committee and approved by the Agency on a triennial basis.

[2] Previously referred to as the 'Global Portfolio'.
[3] The Reference Portfolio is a simple and investable portfolio which expresses the risk appetite of the Fund based on committed capital.
[4] This is a portfolio that introduces additional asset classes relative to the Reference Portfolio (based upon expected return, correlation and risk assumptions) to maximise for the expected return given the risk appetite set by the Agency.

4. ESG Approach

Section 39 of the 2014 Act (when commenced) provides that, as regards return, ISIF assets held or invested in accordance with Section 39 shall be held or invested on a commercial basis so as to seek to secure such rates of return as the Agency considers appropriate having regard to (among other factors) the level of risk to the assets, including any risk posed by environmental, social or governance matters of relevance to the holding or investing of the assets in accordance with Section 39.

The following five principles guide the ESG approach taken by the NTMA across all funds controlled and managed by the NTMA:

1. The NTMA invests sustainably in a manner that meets the needs of the present without compromising the ability of future generations to do the same.
2. The NTMA is a universal owner and therefore thinks long-term to deliver sustainable returns. This requires the consideration of systemic risks, such as Climate Change.
3. The NTMA acknowledges that risks associated with ESG matters will vary across asset classes, sectors, and companies and therefore across funds.
4. The NTMA will choose the most effective instrument to realise positive ESG change in seeking to create value and/or reduce risk over the long-term in its stewardship of the funds.
5. The NTMA is transparent and accountable with respect to its approach to ESG.

The NTMA's approach to the incorporation of risks and opportunities associated with ESG matters will include:

Risk Decision Making Framework:

A Risk Decision Making Framework seeks to manage risks posed to the assets of the ISIF by ESG matters of relevance to the achievement of the investment policy. The framework involves four steps – 1) identification, 2) assessment, 3) management and 4) monitoring to address risks and concerns associated with relevant ESG matters, as set out in more detail in Appendix A.

Capital Allocation:

Capital is allocated to different asset classes and investments to achieve the investment policy. Capital is allocated via the selection of appropriate indices or benchmarks for passive investing and / or by focusing on key thematic investment opportunities primarily in private markets to get exposure to ESG opportunities. Climate Change, as referenced in the ESG principles above, presents material risks but also opportunities.

Integration:

Integration involves considering ESG issues at every stage of the investment process to better manage risks and improve returns. The NTMA aligns its approach to integration with the United Nations supported Principles of Responsible Investment (PRI) guidance for both public and private market investing. The NTMA evaluates investment managers on a wide range of factors. All investment managers are expected to demonstrate how they integrate ESG considerations across their investment processes. In addition, commitments at a firm level to responsible investment are evaluated. The NTMA independently monitors relevant ESG matters at both a portfolio and individual investment level and through engagement with its investment managers.

Stewardship:

Stewardship involves the use of influence to protect and enhance overall long-term value. Exercising proxy voting rights and engagement with investee companies are important methods of reducing risk and enhancing shareholder value over the long-term. The NTMA avails of third-party expertise for voting and engagement. The NTMA contributes annually to the identification of priority themes for voting and engagement policies. Investors can more effectively communicate their concerns to corporate management by speaking to companies with a unified voice. This typically results in a more informed and constructive dialogue once the conditions for effective engagement are met. In addition to third party management, the NTMA may engage directly with its investees and / or indirectly via investment managers.

Exclusion Framework:

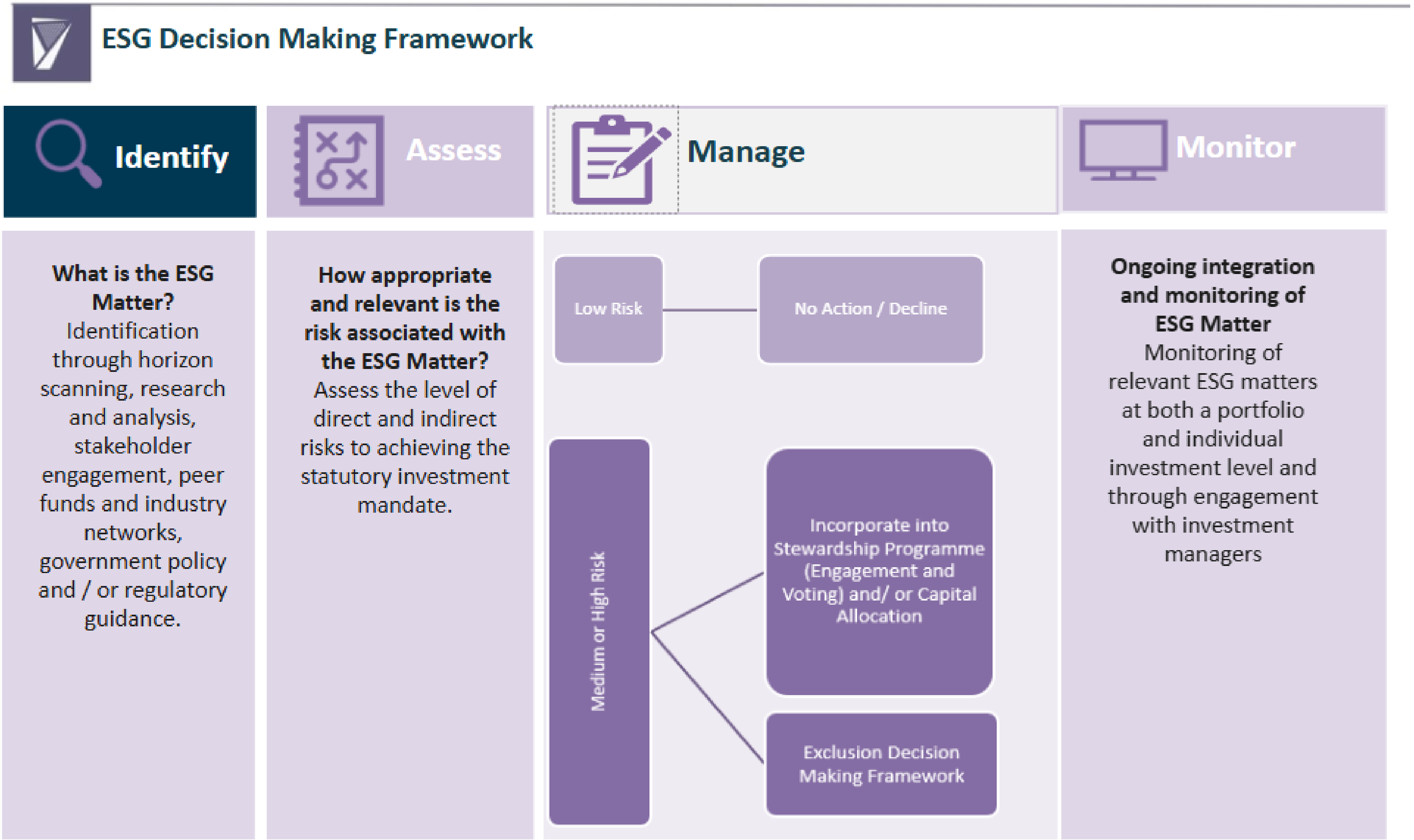
Exclusion means prohibiting investment in a particular security, issuer, investment, sector or financial instrument based on a risk assessment of ESG criteria. It is used by the NTMA, on a limited basis due to its belief that stewardship is the preferred way to effect change. The Exclusion Framework outlines the basis for discretionary based exclusions, as set out in more detail in Appendix B.

A number of categories of investment are automatically excluded from the ISIF having regard to legislative requirements applicable to the Fund. The exclusions mandated by legislation currently comprise: (a) fossil fuel undertakings, as outlined in the Fossil Fuel Act 2018 and (b) companies involved in the manufacture of cluster munitions, explosive bomblets or anti-personnel mines (or their components) under the Cluster Munitions and Anti-Personnel Mines Act 2008. A list of the current exclusions is available on the NTMA/ISIF website.

In accordance with the Risk Decision Making Framework (see Appendix A) additional categories of investment are considered by the NTMA for exclusion from the ISIF where they pose risk to the assets of the ISIF and, in particular, to the achievement by the Fund of its statutory mandate (commercial return and economic/employment impact). To date, a small number of discretionary exclusions have been so identified, namely individual companies that fall in one or more of the following categories:

- Companies involved in the manufacturing/processing of tobacco.
- High carbon companies (coal processors and oil sands).
- Companies involved in the testing and/or manufacturing of nuclear weapons (or their component parts).
- Certain companies listed on the United Nations database of business enterprises involved in specified activities in the Occupied Palestinian Territories.

5. Appendix A: ESG Risk Decision Making Framework



6. Appendix B: Exclusion Framework

Framework Guiding Principles:

- The NTMA is committed to responsible investment and being an active owner of its assets. Therefore, the NTMA views engagement as its preferred way of addressing companies' behaviour and effecting positive change.
- The NTMA aims for exclusions to be limited in number and are in effect a "last resort" approach to responsible investment when other avenues are inappropriate or are deemed to be ineffective, and where exclusion is consistent with the statutory investment mandate for all Funds.
- Exclusions should ideally be product-based, company specific, and should apply to all securities issued (subject to specific exemptions).

Framework for decision making:

The NTMA has developed the following framework for identifying potential exclusions:

	Principle	Process
1)	**Issue identification and prioritisation**	• NTMA will use portfolio analytics services and its own ESG analysis to identify and assess relevant ESG risks within its portfolio. • Stakeholder engagement will be an important mechanism to identify ESG risks.
2)	**Research and Analysis**	In gathering relevant, reliable, reasonable factual evidence, the NTMA will consider relevant sources including: • Requirements of the Funds' respective mandates. • Irish Law. • International Law including Conventions, Treaties and agreements to which Ireland is a signatory. • Significant policy positions of the Irish Government. • Precedent of Peer Funds. • Relevant international standards.
3)	**Summary Investment View**	Evaluate level of risk posed by the ESG matter to the Fund's (or Funds') assets / returns. Develop and agree NTMA's long-term sustainable investment view on the issue having regard to that level of risk. To include, where applicable, but not limited to, consideration of the following items: • Thematic investment research papers • Long-term sustainability outlook for industry or product

		• Long-term strategy, value creation and growth prospects for industry • Business Model analysis: Product business strategy, R&D levels, sustainability standards • Assessment of risks and opportunities facing industry/product (for example regulatory & legal risk, transition risk, physical risk, technology risk, reputation risk) • Revenues generated by product • Evaluation of Industry relative to ESG best practices • External societal and/or environmental costs • Stress testing • Potential risk/return balance • Potential impact on portfolios. • Consideration of ESG specific risks and potential mitigation strategies such as active ownership
4)	**Potential Exclusion basis and NTMA Mandate Considerations**	All Funds must operate within their mandate, and any exclusions need to be considered in this context: • Identify companies potentially impacted and ensure potential exclusion is consistent with the NTMA statutory mandate. • Materiality thresholds at a company level will be applied in line with international best practices.
5)	**Portfolio Management Considerations**	All exclusions will be subject to practical implementation considerations, contractual obligations and portfolio management best practice.