

Chief Executive's Review

Providing a major stimulus to the economy in response to a significant shock.



The external environment in which we are all working has never been more testing. We have switched suddenly from a global pandemic to a war on the doorstep of the European Union and these events are impacting on all of our mandates in some shape or form.

We enter the post-pandemic phase with Ireland having increased its debt by over €30bn to fund the Government's speedy and effective response to support the economy and its citizens.

This was an unprecedented intervention, providing a major stimulus to the economy in response to a significant shock.

It is made possible by the ECB expanding its bond buying programme effectively to purchase sovereign bonds one-for-one, keeping interest rates low and thus limiting the long term burden of this increased debt. This extended and extraordinary period of accommodative ECB policy and low interest rates has allowed the NTMA to support Government policy and restructure and re-profile Ireland's debt.

We have used these unique circumstances to smoothen out the maturity profile and extend the debt such that we now have one of the longest average maturities in Europe. We have pre-funded future maturities to take advantage of these low rates and as a result we hold over €25bn in cash today. This is effectively insurance against future rate rises which means the impact of rising rates in the market will not be felt in Ireland until the latter half of the decade. Indeed, last year the interest bill fell to €3.3bn which was 14% below the previous year despite the higher levels of borrowing. The 2021 interest bill is almost 60% below its peak in 2013 and interestingly is less than twice what it was in the mid-1980s whereas revenue today is 10 times what it was then.

This extraordinary environment for sovereign debt managers has been referred to as a 'Goldilocks' period – neither too hot nor too cold. However, in the past six months it has become clear that the interest cycle is turning quickly. The story is now less about Goldilocks and more about the three bears - inflation, lower economic growth and rising interest rates.

The terrible humanitarian crisis in Ukraine referred to by the Chair in her statement is also affecting European economies and the outlook for growth. This deterioration in economic conditions combined with a rising interest rate cycle has rattled equity markets across the world. This will undoubtedly impact negatively on the Ireland Strategic Investment Fund returns in 2022, potentially reversing the trend of considerable gains made consistently by the fund in recent years.

Investment returns in 2021 were excellent with a 10.7% return on the €9.6bn Fund which brings total gains close to €2.7bn since inception. The average annual return on the portfolio is now running at 4.5% per annum; when benchmarked against the average cost of borrowing in 2021 of 0.18% and the average interest rate on Ireland's total stock of debt of 1.5%, this is very good business for the State.

In addition, ISIF's economic impact continues to grow with 25 separate new investments in 2021 - the equivalent of a new multi-million euro investment every two weeks. Details of these investments, which are diversified across the regions and many sectors of the economy, are set out on page 27. For me, the marquee transaction of the year was the investment of \$50m (€42m) by the State in Stripe's March 2021 fundraising. This high-profile investment has helped cement a partnership for Ireland with one of the largest and most exciting next generation companies in the world.

NewERA's mandates continued to grow in 2021 with 11 transport and aviation companies designated by the Minister in February 2021, bringing the total number of designated companies to 18. The main focus of the year was again on companies most impacted by COVID-19, such as An Post, CIE, daa, IAA and Shannon Group. The team advised and assisted Government Departments and Ministers and have had a particularly busy year.

Climate was a particular focus, as the team developed a framework for Commercial State Bodies to address Climate Action objectives in conjunction with Department of Public Expenditure and Reform and the Department of Environment, Climate and Communications. NewERA will have a central role in coordinating this framework in the years ahead.

It was a landmark year for completions in the National Development Finance Agency with the construction phase in TU Dublin Grangegorman Campus completed in March, setting the stage for the return of students in September. In Social Housing PPP Bundle 1, 329 homes were completed and in Bundle 2 all 465 homes were completed. Building on the successful model of social housing PPPs the Government's 'Housing for All' strategy notes Government will increase the use of PPPs to deliver social housing.

The State Claims Agency team continued to play a critical role during the pandemic advising on vaccine indemnity, private hospital insurance and COVID incident management. Claims received (excluding mass actions) were 18% lower than pre-pandemic levels but the number of claims resolved (excluding mass actions) was slightly higher than 2020. Mediation continued to grow with 37% of claims settled by the clinical claims team involving a mediation process versus 25% in 2020.

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Throughout these events, however, the team in the NTMA have remained focused on the task at hand without being distracted by events outside our control. Our Board and independent non-executive directors, but particularly

our Chair have challenged us rigorously but always in a supportive and positive manner. We have been most fortunate to have had such oversight and expertise around the Board table.

As Chief Executive of the NTMA over the past seven years, I have had the pleasure and the privilege of working with people of outstanding calibre, at every level of the organisation, who consistently demonstrate the highest levels of commitment to the national interest and to the society, community and citizens that we are here to serve.

In this, my final Annual Report as Chief Executive, I want to say to each of them: I have witnessed your talent, your adaptability, your flexibility and your productivity first hand every day and I want to thank you for what you have done for me, for the NTMA and for the country. It has been my honour to serve as your Chief Executive.

I congratulate my successor, Frank O'Connor, on his appointment and I wish him and all my colleagues every success in the years to come.

Conor O'Kelly

Chief Executive | May 2022