Future Ireland Fund

Investment Strategy 2025

Gníomhaireacht Bainistíochta an Chisteáin Náisiúnta
National Treasury Management Agency

An Ciste um Éire sa Todhchaí
Future Ireland Fund

Table of Contents

1. Introduction 2

2. Contributions and Withdrawals 2

3. Investment Strategy 3

3.1 Investment Beliefs 3

3.2 Investment Objective 3

3.3 Risk Appetite 3

3.4 Investment Benchmark 4

3.5 Asset Classes 4

3.6 Long Term Asset Allocation 5

4. Risk Management 5

5. Implementation 5

6. ESG Approach 6

7. Review and Reporting 8

8. Appendix 9

1. Introduction

The Future Ireland Fund ("FI Fund") was established in July 2024, following the commencement of the Future Ireland Fund and Infrastructure, Climate and Nature Fund Act 2024 ("the Act"). The Future Ireland Fund is designed to serve as a long term savings fund to support, in a consistent and sustainable manner, State expenditure from 2041 onwards.

Ownership of the FI Fund is vested in the Minister for Finance, and the National Treasury Management Agency (NTMA) is responsible for control and management of the Fund. The NTMA is mandated to hold or invest the FI Fund on a commercial basis so as to seek to secure the optimal total financial return, having regard to a number of factors including the level of risk to the assets. Partial withdrawals may be made from the FI Fund and paid to the Exchequer from 2041 onwards. Once withdrawn, that money will form part of Exchequer funds, from which Government expenditure is funded.

The NTMA has designed an investment strategy based on a long term investment horizon with the capacity to withstand periods of significant volatility in investment markets, potentially including periods of negative returns and marked declines in asset values. This strategy is designed to achieve the FI Fund's investment objective over the long term.

2. Contributions and Withdrawals

Each year until 2035, the Government is expected to contribute 0.8% of relevant GDP to the FI Fund.

In the event of significant deterioration in the public finances, Dáil Éireann may resolve to reduce the amount payable to the FI Fund in any given year or opt not to make any payment in that year. Conversely Dáil Éireann may resolve to increase the payment from the Central Fund to the FI Fund in any given year.

No withdrawals from the FI Fund are permitted until 2041. From 2040 onwards, the Minister may propose for Government approval the withdrawal in the subsequent year of up to 3% (or, with the sanction of a resolution of Dáil Éireann, up to 5% in certain circumstances) of the FI Fund's net asset value as at 31 December of the year preceding the Minister's proposal. Once withdrawn, that money will form part of Exchequer funds, from which Government expenditure is funded.

3. Investment Strategy

3.1 Investment Beliefs

Investment beliefs are an important set of principles which inform and guide investment decision making. These beliefs underpin the design and implementation of the investment strategy. For the FI Fund, the investment beliefs are as follows:

1. The FI Fund needs to take risk to be rewarded, and risks are multi-faceted and difficult to holistically quantify.
2. Determining the appropriate risk appetite and the allocation to assets / risk factors will have the biggest impact on long term results.
3. Responsible and sustainable investing can create value and/or can reduce risk over the long term.
4. A long term horizon and low liquidity needs can increase the tolerance for interim volatility, investable opportunity set, impact of compounding returns, and probability of achieving objectives.
5. Efficient portfolio design and diversification is important as it can improve the portfolio's expected return relative to expected risk.
6. Markets are predominantly efficient, but inefficiencies can exist. Market inefficiency and increased breadth can provide scope for alpha with due consideration of costs.

3.2 Investment Objective

The investment objective for the FI Fund is to seek to maximise financial returns having regard to risk, including risk associated with environmental, social or governance ("ESG") matters of relevance, to enable consistent and sustainable payments to the Exchequer from 2041 onwards.

3.3 Risk Appetite

A reference portfolio is a simple, low-cost portfolio which can be expected to achieve the FI Fund's objectives with reasonable likelihood. Communicated as a simple mix of public equities and public fixed income (expressed in percentage (%) terms), it provides an easily understood portfolio to contextualise risk while not necessarily being a full reflection of the invested portfolio.

The FI Fund Reference Portfolio, or risk appetite is as follows:

FI Fund - *80% global public equities and 20% global public fixed income.*

3.4 Investment Benchmark

The FI Fund's Reference Portfolio is the primary benchmark for the assessment of investment performance. A number of considerations are taken into account when selecting the underlying equity and fixed income indices, including the need to closely reflect the investable opportunity set, transparency and availability and alignment with legislation.

Based on a benchmark assessment framework, the following are the indices for the FI Fund's benchmark:

- **Equity (80% Weight)** - All-Country World Paris-Aligned Total Return Index *(75% Euro Hedged ex. Emerging Markets)*

- **Fixed Income (20% Weight)** - Global Aggregate Bond Total Return Index *(100% Euro Hedged)*

3.5 Asset Classes

The investment opportunity set is categorised into five major asset classes or portfolio "building blocks" aiming to capture a diverse range of investment risk premia. These are:

1. **Equities** – assets that have exposure to economic and earnings growth across different company sizes, geographies and sectors in both listed (public) and non-listed (private) markets.
2. **Real Assets** – typically real estate and infrastructure assets (inflation protection assets). These assets have exposure to different economic, sectors, and supply/demand trends. They range across geographies, sector, and public/private.
3. **Commodities** – typically assets such as metals, energy, agriculture and forestry. These assets have exposure to inflation supply/demand trends.
4. **Debt** – assets that have exposure to interest rates and credit spreads via contractual income streams. These assets range across issuers, geographies, credit ratings in both public and private markets.
5. **Other** – Assets that do not clearly fall within one of the major asset classes above (i.e. hedge funds, FX).

Cash, cash equivalents and various derivative and financial instruments will also be used for implementation purposes including, without limitation, forwards, futures, options, collective investment schemes and exchange traded funds.

Not all asset classes outlined above are included in the proposed Long Term Asset Allocation (outlined below); however, this will be reviewed periodically.

3.6 Long Term Asset Allocation

By allocating to additional asset classes above and beyond that of the fund's Reference Portfolio, the portfolio is expected to have a more efficient strategy design delivering additional expected return within the equivalent risk appetite. While several variations of the Long Term Asset Allocation ("LT AA") would satisfy the FI Fund's objective, the LT AA is outlined in Table 1 as follows:

Table 1: Outline of the proposed long term asset allocation vs. the Reference Portfolio

Asset Class	RP Weight	LT AA Weight
Public equities	**80%**	**70%**
Private equity		**5%**
Real Assets		**10%**
Private Credit		**5%**
Public Fixed income	**20%**	**10%**

4. Risk Management

Given that the FI Fund's portfolio will likely vary from the Reference Portfolio through time, it will be evaluated and assessed through several risk metrics. A conventional measure for risk budgeting or quantifying this variability from the fund's benchmark is tracking error or "active risk".

Tracking error is a metric which enables measurement and monitoring of how closely a fund's performance is to its benchmark, alongside the risk that is attributable to active decisions to deviate from it. Tracking error is simply the volatility of the difference between the returns of the actual fund and the returns of the reference portfolio benchmark.

An active risk or *ex ante* tracking error budget of 3.5% is included in the FI Fund's investment strategy, calculated on a rolling three-year quarterly basis. This figure can be interpreted as how much the portfolio can expect to deviate from the Reference Portfolio benchmark over time.

5. Implementation

Implementation of the FI Fund's investment strategy will occur in two primary stages:

- Stage One (2025-2026) – Transitioning from the interim investment strategy into the public asset allocations of this long term strategy in line with the fund's Reference Portfolio.
- Stage Two (2026 onwards) – Establishing the private market allocations of the Investment Strategy over time.

6. ESG Approach

Under the Act and specifically when performing its function of holding or investing the assets of the FI Fund in accordance with its investment policy, the Agency must have regard to (among other factors) the level of risk to the assets of the FI Fund that the Agency considers appropriate, including any such risk posed by ESG matters of relevance to such performance.

The following five principles guide the ESG approach taken by the NTMA across all funds controlled and managed by the NTMA[1]

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 endeavour to 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 the following elements:

(i) Risk Decision Making Framework:

A Risk Decision Making Framework seeks to manage risks posed to the assets of the FI Fund by ESG matters of relevance to the achievement of the investment objective in line with the Fund's 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 detail in Appendix 1.

(ii) Capital Allocation:

Capital is allocated in line with the FI Fund's investment policy to seek to achieve the Fund's overarching investment objective. Capital is apportioned via the selection of appropriate indices or benchmarks for passive investing and / or by focusing on active investment opportunities in private markets. As an example, Climate Change, as referenced in the ESG principles above, presents material risks but also opportunities for an investment portfolio. Aligning the equity benchmark for the FI Fund with the Paris Agreement reflects a desire for a better environmental outcome as compared to broader

[1] Infrastructure, Climate and Nature Fund, Future Ireland Fund and Ireland Strategic Investment Fund

market indices, consistent with a risk-adjusted approach to achieving the investment objective of the FI Fund.

(iii) 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.

(iv) 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.

(v) 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. (See Appendix 2).

A number of categories of investment are automatically excluded from the FI Fund having regard to legislative requirements applicable to the fund. The exclusions mandated by legislation currently comprise: (a) fossil fuel undertakings, as defined by section 31 of the Act 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.

In accordance with the NTMA's Risk Decision Making Framework (see Appendix 1), additional categories of investment are considered by the NTMA for exclusion from the FI Fund where they pose risk to the assets of the FI Fund and, in particular, to the achievement by the fund of the optimal total financial return. A small number of discretionary exclusions have been so identified to date, namely individual companies that fall into 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.

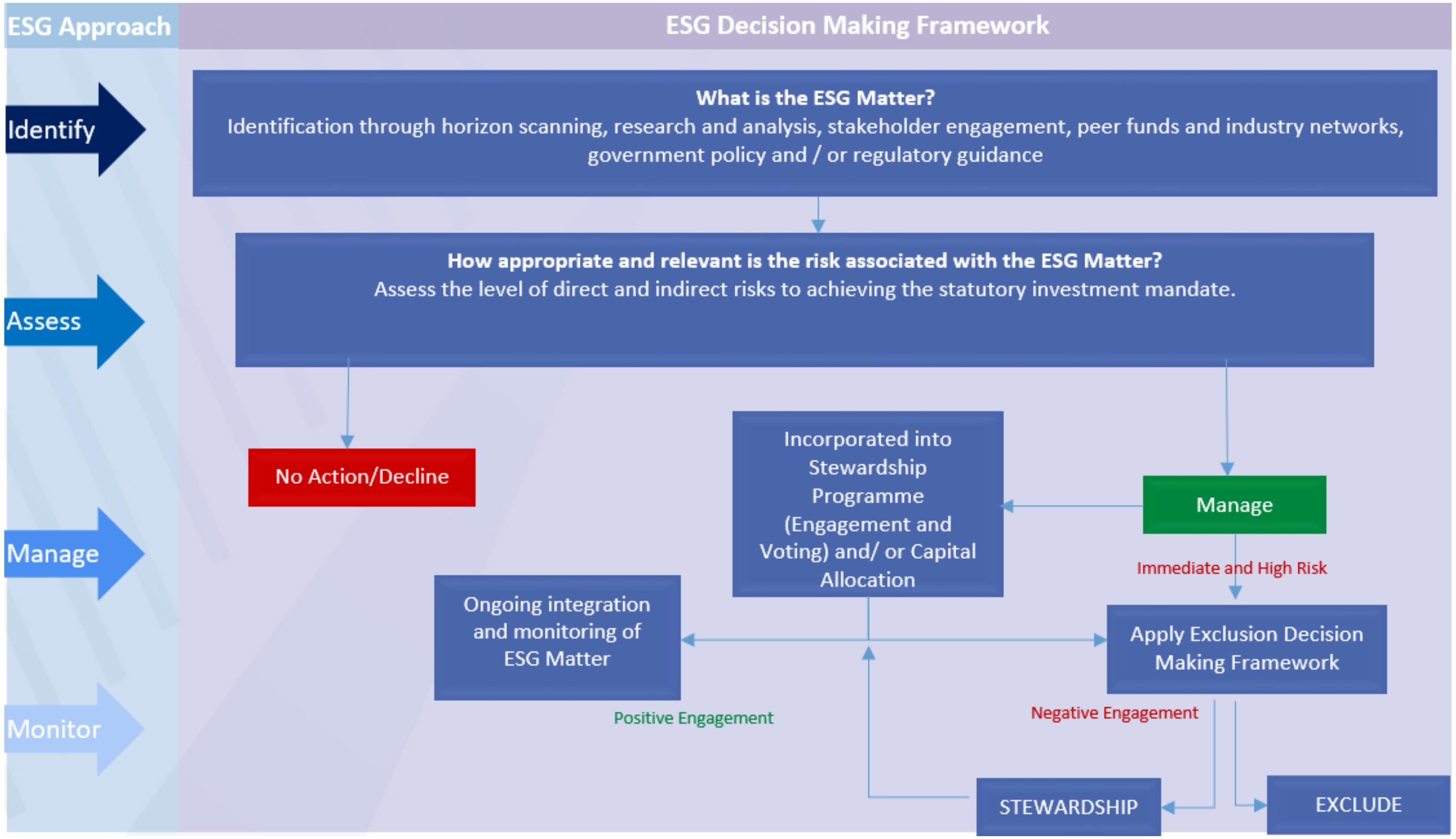
7. Review and Reporting

As required by the Act, the NTMA will keep the Investment Strategy under review. The NTMA will conduct a periodic review of the Investment Strategy at least every three years, or more frequently if necessary to respond to fundamental changes in the assumptions underpinning the strategy or the external environment.

Annual updates on the Future Ireland Fund, including reporting on the fund's performance against its benchmark, and details of the fund's asset allocation, will be published in the NTMA Annual Report.

8. Appendix

Appendix 1: ESG Risk Decision Making Framework



Appendix 2: Exclusion Framework

1. **Framework Guiding Principles:**

- The NTMA is committed to responsible investment and to be an active owner of its assets. Therefore, the NTMA views engagement as its preferred way of addressing companies' behavior 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 statutory investment mandate for the funds.
- Exclusions should ideally be company specific and should apply to all securities issued (subject to specific exemptions).

2. **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, product or conduct • 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 or conduct (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**	The 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.

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