

Sustainable & Responsible Investment Strategy



Gníomhaireacht Bainistíochta an Chisteáin Náisiúnta
National Treasury Management Agency

Ciste Infheistíochta Straitéisí d'Éirinn
Ireland Strategic Investment Fund



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Introduction

The Sustainable & Responsible Investment Strategy (S&RIS) 2023 continues the Ireland Strategic Investment Fund's (ISIF) longstanding commitment to be a responsible investor as stewards of public assets by protecting and enhancing both the long term value of the Fund and the reputation of the National Treasury Management Agency (NTMA) in how it delivers its mandate and provides an update on the 2020 S&RIS.

The NTMA believes that responsibly managed companies, those that actively manage environmental, social and governance (ESG) issues, are best-placed to achieve a sustainable competitive advantage and provide strong, long term investment opportunities. They are more likely to endure and create sustainable value over the long term.

ISIF endeavours to be a responsible investor, actively integrating ESG factors into its decision-making processes with a view to enhancing the overall outcomes for the Fund and ultimately its beneficial owner.

The overarching objective of this strategy is to protect and enhance both the long-term value of the Fund and the reputation of the NTMA in delivering on its mandate in a sustainable and responsible manner.

The National Treasury Management Agency (NTMA) controls and manages the Ireland Strategic Investment Fund (ISIF), which has a statutory mandate to invest on a commercial basis in a manner designed to support economic activity and employment in the State.

Mandate

The mandate of the Fund remains the same - to invest on a commercial basis to support economic activity and employment in the State.

Vision

ISIF's ambition is to have a transformative impact in Ireland by prioritising investment that address the main strategic challenges facing the country.

Mission

ISIF seeks to fulfill its objectives by acting as a trusted, patient and flexible investor, attracting and developing exceptional people and delivering its investment strategies in line with its core values and responsible investment principles.

Responsible Investment Principles

ISIF's portfolio reflects solidly based investment beliefs, which capitalise on its competitive advantages that deliver a risk diversified portfolio over a long-term investment horizon. Environmental, social and governance are key factors that affect portfolio performance.

Key Responsible Investment principles:

- To deliver long term sustainable returns, ISIF needs to think long term.
- Sustainable returns will be achieved from well governed and sustainable assets.
- ISIF will apply materiality-based decision making in the implementation of its S&RIS.
- ESG risks vary between asset classes, sectors and companies, ISIF adapts its approach and strategy as appropriate.
- Climate change presents a systemic risk that ISIF must consider as part of its approach to portfolio management.
- ISIF will be transparent and accountable in all it does and in how it invests.














As a significant investor, ISIF seeks to advance responsible investing within the investment industry. S&RI is not at odds with ISIF's mandate; it is about how ISIF achieves its mandate and how it behaves as an investor and as a steward of public assets.

Responsible Investment Journey

ISIF is a responsible investor, and integrating environmental, social and governance (ESG) factors has been core to its investment approach since being a founding signatory to the UN Principles of Responsible Investment (PRI) in 2006. Since ISIF's 2020 S&RIS the exclusion of nuclear weapons has been included, and in 2021, ISIF published its first Climate Report, which provides an overview of ISIF's overall approach to climate investing and how it is managing and mitigating climate risk in its investments.



Founding signatory to UNPRI.	2006	
Established Active Ownership Strategy.	2007	
First Irish Carbon Disclosure Project Signatory.		
First country to prohibit state investment in Cluster Munitions & Anti-Personnel Mines.	2008	
First Sustainability focused Investment.		
ISIF established and commitment to RI embedded in business plan, investment strategy, PRI and Santiago principles.	2014	
Tobacco Manufacturers Removed from Portfolio.	2016	
ISIF's SRI&S published, High Carbon Companies removed, Portfolio analytics capabilities deepened, Supporter of climate Action 100+.	2017	
ISIF integrates ESG across Irish portfolio, Carbon Tools developed, Fossil Fuel Divestment Act.	2018	
Climate Change embedded as Strategic Pillar of ISIF Investment Strategy 2.0.	2019	
ISIF joined One Planet Sovereign Wealth Funds (OPSWF).	2020	
Companies involved in the manufacture and testing of nuclear weapons or critical Component parts removed from the Portfolio.	2021	
ISIF publishes its first annual Climate Report, providing the public with detailed information on the climate impact of its investments.		

Integration of ESG within Investment Process

Capital Allocation	Allocating capital to sustainable solutions <ul style="list-style-type: none"> To date, ISIF has focused on its Climate Strategy to make investments that help position Ireland for a net zero carbon economy as envisaged under the national Climate Action Plan. 	Core Tools
Integrated Analysis	<ul style="list-style-type: none"> ISIF integrates ESG issues into its decision-making processes both pre and post-investment in its Global and Irish portfolio. 	
Active Ownership	ISIF is an active owner of its investments. <ul style="list-style-type: none"> ISIF seeks to use its equity shareholding and / or debt exposure to influence and realise material ESG improvements. The purpose of this is to positively impact shareholder value in both listed and unlisted investments in its Global and Irish portfolio over the long term. 	
Exclusion	<ul style="list-style-type: none"> Exclusion is used on a limited basis and inter alia on sustainable investment grounds. This is in addition to those exclusions mandated by legislation. 	
Regulatory & Best Practice	<ul style="list-style-type: none"> ISIF aims to invest in accordance with relevant global best practice standards. ISIF strives to be a model of best practice taking guidance from internationally recognised guidelines, codes of conduct and platforms. 	Key Guidance
Alignment With Policies	<ul style="list-style-type: none"> As a public fund, it is important that ISIF's investment decisions are consistent with Government policy. ISIF will support initiatives by investing in a manner that is aligned with the Irish Government's long-term sustainability commitments such as the Climate Action Plan and the EU Sustainable Finance Action Plan initiatives. 	
Transparency	<ul style="list-style-type: none"> ISIF will report to stakeholders regularly and in relation to the Principles for Responsible Investment (PRI) reporting framework on an annual basis. ISIF will also provide relevant ESG information both as part of its annual reporting and regularly on its website including its Climate Report. 	Accountable

ISIF Exclusion Categories (Both Statutory and Non-Statutory)

Cluster Munitions and Antipersonnel Mines Act 2008

Legislation that effectively translated the Convention on Cluster Munitions and anti-personnel mines into Irish Law.

Ireland was the first country to require divestment by law, but this is now an industry standard.

The Act prohibits the investment of “public moneys” into a company that manufactures prohibited munitions or component parts, through both direct and indirect investment.

The fund operates a zero tolerance policy in respect of exposure across all mandates.

Tobacco Manufacturing 2016

ISIF considered investments in Tobacco Manufacturers through its Exclusions Decision Making Framework that allows for limited negative screening.

This negative screening framework places sustainability and a long term investment outlook at the core of any decision to exclude.

ISIF excluded Tobacco Manufacturing companies in Dec 2016.

High Carbon Companies (Oil & Sand) 2017

ISIF removed the least sustainable fossil fuel types and activity types, but not all.

Coal Producers and processors and Oil Sands were excluded on this basis at revenue levels of >30% and >10% respectively (Dec 2017). These exclusions were non statutory and apply to directly held investments.

Fossil Fuel Divestment Act 2018

The Act prohibits ISIF from investing in companies that derive >20% of turnover from the extraction, exploration and refinement of Fossil Fuels (coal, peat, oil and gas intended for use in the production of energy by combustion).

ISIF has developed an exclusion list which is available on its website, applied primarily to directly held securities (permits indirect exposure of up to 15% of the AUM of pooled fund assets).

Nuclear Weapons 2021

ISIF's exclusion policy was extended to incorporate the exclusion of direct investment in companies that have been verified to be involved in the manufacture and test of nuclear weapons or critical component parts.

- ISIF 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.
- Exclusions made under the negative screening framework are made where, having considered relevant, reliable and reasonable factual evidence, it has been reasonably concluded that investing in an entity or category of investment is not consistent with the NTMA's statutory duties concerning investment of the ISIF or with its investment strategy for its discretionary assets. This is in addition to investment exclusions mandated by legislation.

ISIF Investment Impact Strategy

ISIF will prioritise the use of its capital and resources to address strategic challenges and focus its efforts on making transformational investments across its impact themes of:

Indigenous Scaling Businesses	Climate	Housing and Enabling Infrastructure	Food and Agriculture
<ul style="list-style-type: none"> Enhancing the funding environment to support scaling indigenous businesses. Focus on both innovative businesses that can become the next Irish “unicorn” and the funding landscape for SMEs and start-ups generally. 	<ul style="list-style-type: none"> Invest to position Ireland for a net zero carbon economy Multi-strand strategy from infrastructure to technology to support the transition of the Irish economy to net zero before 2050. 	<ul style="list-style-type: none"> Support the delivery of new homes across a range of dwelling types and tenure Enabling regional areas outside of Dublin to drive balanced growth. 	<ul style="list-style-type: none"> Support decarbonisation Develop new sectors that leverage Ireland’s natural advantages, IP and industry capability Scale Irish companies and sectors to be world leaders.

ISIF will invest in driving the sustainable development of the Irish economy, focusing on transformative impact in executing its impact strategy. The Fund will retain the flexibility to address any stabilisation investments that arise that are clear and national priorities. Where possible, ISIF will target Regional Development across all Impact Themes. ISIF’s strategy includes a fifth Compelling and National theme for situations that require the Fund to adapt to new national priorities.

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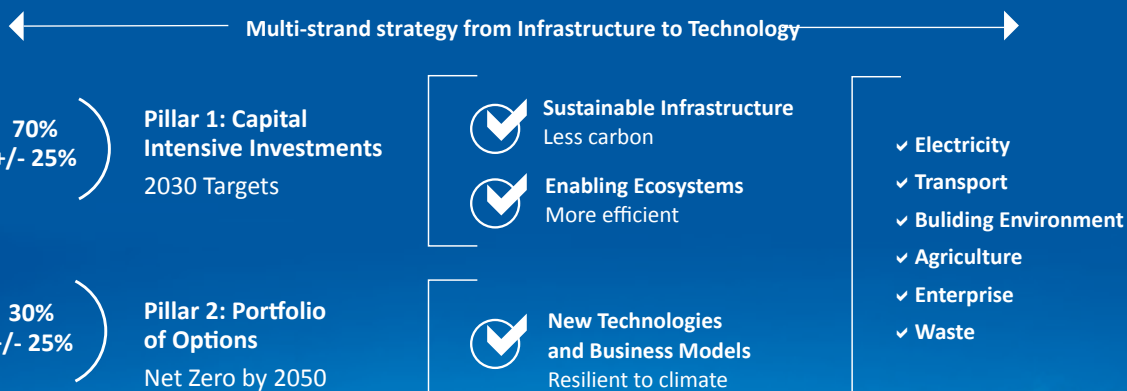


ISIF Investment Impact Strategy - Climate Strategy

Investing with impact is key to ISIF's mandate as it continues to support the wider economy, deploying significant capital and attracting co-investment in innovative and exciting ways that match the double bottom line mandate of generating a commercial return and supporting economic activity and employment. ISIF will prioritise the use of its capital and resources to address strategic challenges and focus its efforts on making transformational investments across its impact themes, including Climate. The Fund has commenced investments within its stated ambition of €1bn towards climate-related investments over 5 years; this will arguably be where ISIF will have its greatest impact. ISIF's Climate Strategy encompasses all areas of the economy where carbon emissions are present such as energy, transport, built environment, waste and enterprise and incorporates other thematic investment areas that will be key to transitioning to a net zero economy.

Climate - Strategy

Transition to a low -carbon economy, meeting 2023 target and achieving Net Zero before 2050.



Diversity, Equity and Inclusion (DEI)

- In 2022, ISIF's internal director nominations increased from 33% to 42% female (0% when first measured in 2019) against the annual target of 30%. This target was reviewed in December 2022 and has since been revised to 40%.
- ISIF is also a member of Level 20 (a not-for-profit organisation founded with the aim of improving gender diversity in the private equity industry) and the 30% Club Industry group for the financial services sector.
- The gender diversity action plan, also sets a minimum target of 30% female representation on the boards of ISIF investee companies across the Irish Portfolio, against which progress continues to be made.
- EOS at Federated Hermes engages on behalf of ISIF on the Global Portfolio where DEI is considered as a key engagement theme in their Engagement Plan for 2023-2025.



Female-led Investment Firms

In November 2022, ISIF announced its ambition to invest a minimum of €50m over the next two years through private equity firms that are majority-owned by women. By establishing an ambition for investing in female-led investment opportunities, ISIF is seeking to demonstrate its commitment to addressing gender inequality and promoting greater diversity at senior levels – both within ISIF and in the companies and funds in which it invests.

Gender Diversity Data

30 April 2023

ISIF Board Nominations

ISIF female board nominations increased 41.6% since first measured (2019). Female ISIF board observer nominations also increased since 2019.

At least 1 Woman on Board

Over half of all Irish Portfolio direct investments have at least one woman on the board, representing a 23% point increase since inception (2019).

Female Representation on Board

The percentage of female representation on the board of ISIF's indirect investment has increased since inception (2019) to 14%, an increase of 3%.

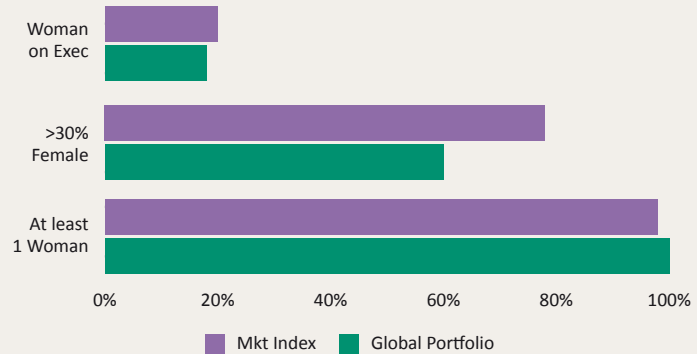
Female CEOs

The percentage of the CEOs of ISIF's indirect investments who are female has increased since inception (2019) to 12%, an increase of 4%.

At least 30% Female Board

62% of all Global Portfolio investments have a board that is at least 30% female, representing a 14% increase since 2019.

Global Portfolio Dec 2022



NTMA Climate Action Strategy 2022-2024

- ISIF as part of the NTMA supports various actions contained in the Government's Climate Action Plan (CAP) 2021 and the NTMA Climate Action Strategy 2022-2024¹ which reviews progress made to date and is updated to ensure alignment with the CAP 2021 and subsequent plans.. The overarching objective of NTMA's climate strategy is to ensure that the NTMA builds on its leadership role in sustainable finance to support the delivery of the Government's climate action initiatives through its mandates and to be a net zero emissions organisation by 2030.
- In order to do so, the NTMA commits to integrating climate action into its business decisions, including investment, in the context of delivering its mandates to the Government and being an environmentally sustainable and impactful organisation. As per the NTMA Climate Action Strategy, the NTMA's climate goals comprise of external and internal deliverables to be achieved through its business mandates, processes and systems. The four goals, net zero, Embed, Engage and Disclose, reflect the work currently underway with targets set to further enhance the NTMA's drive to support the Government's climate action commitments. The goals also commit the NTMA to be environmentally sustainable, reflecting the "NEED To Act Now".

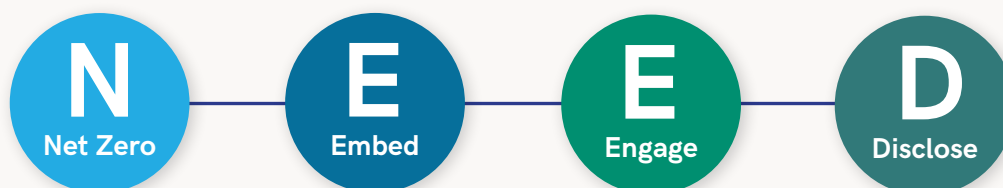
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The NTMA Sustainability Group, established in 2019, oversees the delivery of the NTMA Climate Action Strategy while also facilitating cross-unit collaboration and information sharing with respect to climate-related activities.



- The oversight and monitoring of the NTMA’s Climate Action Strategy is a priority for the NTMA’s Board and Executive Management Team (EMT). The Chief Financial and Operating Officer (CFOO), with the support of the Senior Business Manager – Sustainability (SBMS), is responsible for the co-ordination of combined climate action effort across the NTMA.
- The NTMA Sustainability Group, established in 2019, oversees delivery of the NTMA Climate Action Strategy while also facilitating cross unit collaboration and information sharing with respect to climate-related activities. Alignment with the Public Sector Climate Mandate (July 2021), a CAP21 action, is also a key consideration for this group. The NTMA has also established an employee led Green Team to support the aim of the NTMA to be a recognised leader in sustainable workplace practices in Ireland. The Green Team assists in embedding new environmentally sustainable behaviours among all employees and consists of committed and engaged employees who undertake environmentally sustainable initiatives in addition to their other responsibilities.



ISIF's Climate Goal

ISIF's climate goal is to support long-term transition to net zero in Ireland before 2050 by driving substantial emissions reductions within the ISIF Portfolio and increasing ISIF's positive climate impact by 2030.

ISIF will:

- Decarbonise ISIF's investment Portfolio in a way that is consistent with achieving net zero emissions before 2050.
- Allocate capital to investment in assets and businesses that lower emissions and facilitate or take action to mitigate the impact of climate change.
- Utilise best practice Investment Frameworks and guidance to achieve net zero.
- Assess the climate commitments of ISIF's investees and asset managers, and
- Support companies and sectors that are leaders in emissions efficiency.
- Set emissions reduction targets and measure ISIF's progress against them. ISIF acknowledge that metrics to assess investments and measure alignment are continuously evolving across asset classes, and ISIF commit to developing its metrics in line with best practices.
- Conduct climate financial risk assessment in line with Task Force for Climate related Financial Disclosure recommendations (TCFD).



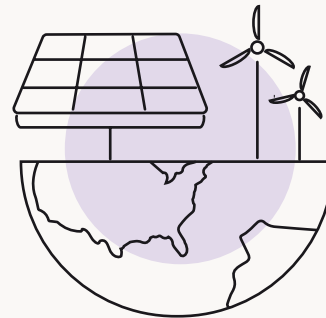
Achieving ISIF's Climate Goal

ISIF aims to both manage the risks and capture the opportunities that climate change presents through climate positive-investments and a whole of portfolio approach to engagement and risk mitigation.

Opportunity and Impact: Climate Positive Investment

Investing for a Net Zero World

- Allocating capital to new opportunities across both the Global and Irish Portfolio.
- Integrating climate change into investment strategies.
- ISIF's climate strategy is to make investments that help position Ireland for net zero.



Climate Risk Mitigation (including divestment)

Measure, Monitor and Divest

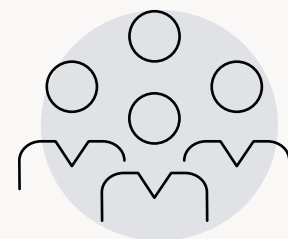
- Divestment from global fossil fuel and high carbon companies, supported by a regularly updated exclusion list of 239 companies in which ISIF will not invest and the Fossil Fuel Divestment Act 2018.
- Develop and measure appropriate climate metrics aligned with best practices.
- Monitor climate related physical risks, transition risk and scenario analysis.
- Ongoing ESG assessment on all investments, including due diligence on climate risks.



Engage and Influence

Whole Portfolio Approach

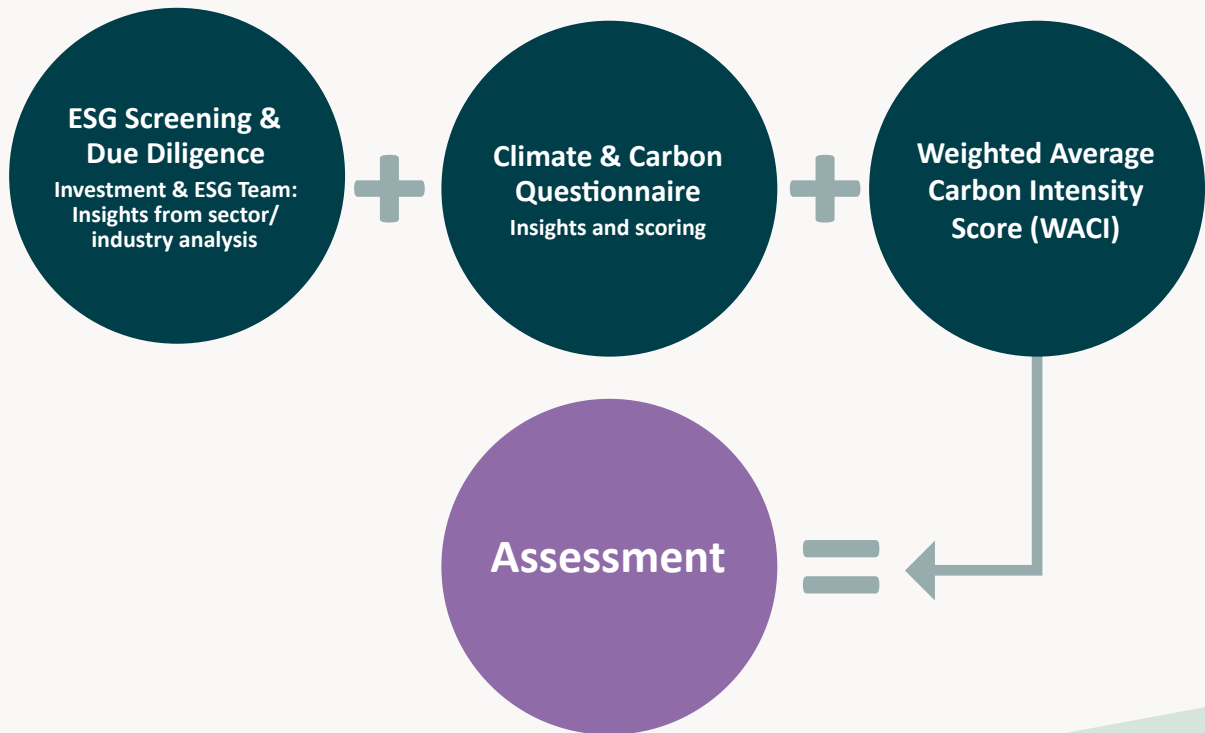
- Engage with external investment managers and investees.
- Improve disclosure and transparency.
- Engage with companies, stakeholders, government agencies and policy makers.
- Climate change is a systemic risk and therefore a whole of Portfolio challenge to be addressed in multiple ways with multiple stakeholders.



ESG/Climate Framework

All investments should be consistent with ISIF's double-bottom line mandate and the transition to net zero. An integrated ESG and Climate framework allows ISIF to consider the real-world impact of its investments with focus not only on key ESG aspects but also a specific focus on Climate through supporting the long-term transition to net zero in Ireland before 2050.

The ESG and Climate Framework consists of a series of tools used by the ESG and Investment Teams to create a comprehensive commentary on an Investee's ESG and Climate characteristics. This assessment is integrated into the ISIF investment decision-making process.



ESG Reporting

ISIF integrates a wide range of Environmental, Social and Governance (ESG) factors into its investment decisions across the whole of the Fund and endeavours to operate to global best in class standards and adheres to the Santiago Principles¹ for SWFs and the UN Principles for Responsible Investment (PRI) as such ESG reporting is key, below is a sample of ISIF Reports²:

- ISIF Climate Report
- UN Principles for Responsible Investment reporting
- Voting Disclosure
- Annual Engagement Review.



1 www.ifswf.org/santiago-principles-landing/santiago-principles
2 See www.isif.ie/publications for all reports

Looking Forward

- Over the last decade, there have been a number of significant developments in ESG and Climate Reporting guided principally by the UN Sustainability Goals, the Paris Climate Agreement, the European Green Deal, and more recently, the new COP15 Global Biodiversity Agreement. Within the ESG reporting landscape, there are many policies, regulations, standards and frameworks across both global and regional spectrum, all of which ISIF will continue to review and engage on where appropriate.
- ISIF believes strongly in sustainable and responsible investment and the principles that support ESG factors in its investments and will continue to strive for a best-in-class approach to ESG. As such, ISIF will continue to look forward and (i) engage on key challenges such as Climate Change and Human Capital as highlighted in the new COP15 Global Biodiversity Agreement and upcoming Task Force for Nature Related Financial Disclosure Guidelines (TNFD) and (ii) understand how ISIF's investment strategy can best support Biodiversity.
- The ISIF S&RIS will continue to be guided by the principles of responsible investing, long term thinking and stakeholder engagement. The fund will work closely with its portfolio companies and stakeholders to ensure that its investments align with the sustainability goals of Ireland and contribute to a more sustainable future for all.



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