Opening Statement by Kieran Bristow, Head of Investment Strategy,
Ireland Strategic Investment Fund (ISIF), National Treasury Management Agency (NTMA)
to the Oireachtas Joint Committee on Finance, Public Expenditure and Reform and Taoiseach

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Chairman, Deputies,

Thank you for inviting us to meet with the Committee this afternoon.

Today I would like to tell you about three things:

- How ISIF's investment activity is **supporting Ireland's transition to a low-carbon economy**;
- How the term "fossil fuels" relates to a very broad category and **that some are at the high-carbon (or "dirty") end of the spectrum, such as peat and coal, while** others such as natural gas do have a role to play in the short term as we transition to a low carbon economy;
- And how as implementers of this legislation, we wish to **minimise unnecessary transaction costs** across the global investment portfolio **and also avoid potential unintended consequences within the Irish portfolio**.

I will address each of these points in more detail shortly but first I will give you a brief overview of ISIF and how it is addressing climate risk and decarbonisation as part of its long-term strategy to invest in Ireland.

The Oireachtas requires ISIF to invest on a commercial basis in a manner designed to support economic activity and employment in Ireland. ISIF has approximately €8.5 billion available for investment, with €2.8 billion already directly committed to investments in Ireland across a wide range of projects and sectors – this investment has attracted a further €5.3 billion of commitments to Ireland from private sector co-investors which means that €8.1 billion has to date been committed to Ireland as a result of ISIF's activities. The remainder of ISIF's assets are invested globally – in bonds, equities and other assets.

In effect the ISIF is managing two portfolios at the same time. It is gradually selling a portfolio of global investments and using the proceeds to gradually build up a portfolio of Irish investments.

Liquidating one portfolio while building up another requires two very different approaches. The liquidation of the global portfolio is expected to conclude over the next five years under the Fund's Global Portfolio Transition Strategy (GPTS). This means the divestment in the timeframe envisaged by the fossil fuel Bill is already well underway.

Whether we are selling assets or investing in new ones, ISIF is always conscious that it must act as a long-term, sustainable and responsible investor. The Fund's Sustainability and Responsible Investment Policy emphasises climate change as a priority for us. As a global investor and universal owner, the Fund's strategy has been focussed on active ownership, risk mitigation and positive influence, rather than to exclude sectors or companies. Its predecessor, the National Pensions Reserve Fund, was a founding signatory to the Principles for Responsible Investment (PRI), and the Fund is also a long term supporter of the CDP (formerly known as the Carbon Disclosure Project).Turning to the three points I made at the outset:

The first is that ISIF is investing to support the transition to a low carbon economy, and actively targets investments that will be part of that transition. For example, all of ISIF's investments in Ireland in the energy sector are targeted at facilitating, in line with public policy, Ireland's transition to a low carbon economy.

Given the structure of the Irish economy and the energy sector, this requires ISIF to be able to work with and invest in existing Irish energy providers. **It is important that ISIF is allowed to retain this ability** if it is to be successful in continuing the important work of supporting the transition to a low-carbon economy.

While we understand that the draft Bill does not intend to remove this ability, the Bill as currently worded could be interpreted to limit ISIF's ability to invest in a wide range of sectors including SMEs, ICT, Healthcare and Infrastructure.

Turning to my second point, we would emphasise the importance of distinguishing between high-carbon fossil fuels at the "dirty" end of the spectrum and those at the opposite end such as natural gas.

We are considering a process that could potentially see the exclusion of investments in companies where the level of risk to the Fund's assets is inappropriate to the given rate of returns. Other Sovereign Funds such as Norway and France have also excluded the heaviest carbon emitters, such as coal, in the first instance.

ISIF, in the context of the Bill, believes that either tightening the definition of a "fossil fuel company" or focussing on those companies with the highest negative carbon impact in the first instance may be appropriate. For example eliminating fossil fuel companies engaged in coal extraction and processing could have significant environmental impact.

Turning to my third point, I would like to draw the Committee's attention to some potential implementation issues such as transaction costs and unintended consequences within the Irish portfolio.

ISIF is already in the process of selling its global assets. We expect we will have completed this divestment programme over the next five years, which is the time envisaged by the Bill.

However, it is important to note that selling over a shorter time period runs the risk of increasing transaction costs substantially. ISIF would have a strong preference that scope is given to allow divestment to take place in a manner that is in line with the Fund's current GPTS and which would not add to our anticipated transaction costs.

This Fossil Fuel Divestment Bill is largely focussed on the global portfolio, but it is within the growing Irish portfolio that we foresee some potential unintended consequences of the current draft Bill particularly where we are invested indirectly. For example, SME Funds may be supporting local businesses, such as service stations, distribution companies or home heating suppliers. This again points to the current broad definition of "fossil fuel company", which is perhaps unintentionally wide and the fact that even very limited levels of "indirect" exposure via Funds would be prohibited.

I will conclude by returning to the ISIF's Irish Energy Strategy.

The Fund invests in a manner that is aligned with Irish Government policy and is focused on Ireland's commitments across a variety of policy initiatives including the Climate Action and Low Carbon Development Act 2015, the COP21 Paris Agreement and the national decarbonisation and energy security objectives for

the Irish economy. Decarbonisation is a complex issue, particularly for Ireland, where economic activity is likely to remain dependent on fossil fuels, particularly gas, for an extended period – not years but decades.

The Fund's Energy Strategy has an €800m allocation entirely focussed on Sustainable Energy Investment that seeks to enable Ireland's transition to a low carbon economy. This strategy was developed in close consultation with the Department of Communications, Climate Action and Environment. It is also informed by the fact that the current Irish energy market is largely dependent on imported fossil fuels and that 75% of our electricity is derived from fossil fuels. While we would all prefer that this was not the case, this is the present day context in which the Fund is operating.

The Fund actively targets investment in companies that prioritise renewable energy, while reducing this fossil fuel dependency. It is focused on new sustainable energy infrastructure, new business models and new technologies which leverage Ireland's natural resources.

Energy Investments to date include €155m directly committed a wide range of renewable energy projects such as the Dublin Waste to Energy initiative, NTR wind energy generation and Greencoat Renewables plc. Indirectly, via a series of SME Funds, Infrastructure and Forestry investments totalling over €500m of investment commitments, the Fund is supporting renewable energy, power efficiency, onshore wind and emissions management. ISIF's current pipeline has approximately €300m of potential investment opportunities across a range of renewable technologies including Wind, Solar and Biomass. ISIF is also exploring more 'transformative' investments under its Innovation strategy, ranging from electric vehicles to energy-efficient data centres to storage solutions, that together have the potential to shift the ways Irish citizens and businesses consume energy into the future.

Despite this commitment to renewable energy, in the interim the Irish economy will remain dependent on fossil fuels. To enable the Irish economy to reduce its reliance on fuels such as peat, coal and oil, the Fund may see merit, in line with its mandate, in investing in lower-carbon fossil fuel-based transition solutions, such as gas storage and infrastructure.

We would respectfully request that the Committee be mindful of unintended consequences that could inadvertently inhibit our ambitions to progress the use of low-carbon alternatives to fossil fuels.

This will mean specifically addressing potential issues likely to arise in the Irish portfolio, such as the broad definition of fossil fuel company, the consideration of commonly used thresholds, the treatment of direct investment versus indirect investment and finally the fact that the current Bill would essentially prohibit ISIF investment in a renewables project semi state or private utilities such as Bord na Mona or ESB. ISIF strongly believes it must retain the flexibility to invest in such entities or projects where the investment case is clearly aligned with the State achieving its decarbonisation targets.

By way of conclusion - I would reiterate ISIF's position that it is highly committed to investing to support the long term transition to a low carbon economy.

This Bill has been very beneficial in increasing public awareness of climate change and bringing an opportunity to ISIF to highlight the work we are doing to support greater use of low-carbon alternatives to fossil fuels.

We share the goal of a successful transition to a low-carbon economy and hope that our insights will be helpful to your efforts to achieve this in a way that will deliver the best outcome possible.

We appreciate your time and welcome any questions you may have.