

Oireachtas Committee on Enterprise, Trade and Employment
Opening remarks – Nick Ashmore, Director, Ireland Strategic Investment Fund (ISIF)
Wednesday 22 March 2023

Chair, members of the Committee,

Thank you for inviting us here today to discuss the start-up and scaling environment in Ireland.

I'm joined by my colleagues Paul Saunders, Senior Investment Director and Georgina Murphy Investment Director with the ISIF team within the NTMA.

Helping Irish businesses to achieve scale is a major area of focus for ISIF. Our most recent published update shows we have committed over €6bn on commercial terms across 175 separate investments in Ireland - and Scaling Indigenous Businesses is one of the four key investment themes we pursue, alongside Climate, Housing and enabling infrastructure and Food & Agriculture.

Our investments in Ireland to date support an estimated 39,000 jobs, of which half are located outside Dublin.

We are big supporters of SMEs and our investment track record demonstrates this. We want them to succeed. We want them to grow their business at home and to target global markets. We want them to create and sustain more jobs. We support them through Seed, Venture Capital, Growth Credit Funds and directly. And we want them to use the capital we can offer across the entire spectrum – debt, equity and hybrid forms of investment – to achieve their goals and to benefit the wider Irish economy.

We take great pride in the successes we have played a role in. ISIF was a significant investor in Finance Ireland, which supports a wide range of small businesses and farmers with funding and Global Shares, a significant regional success story, which was supported by ISIF-backed Motive Partners and recently sold to JP Morgan.

These transactions are an excellent example of what we call the “double bottom line” mandate that has been set for us by the Oireachtas, which requires us to invest with the aim of increasing economic activity and employment in Ireland, in addition to generating a commercial return.

That commercial return is best illustrated by our cumulative investment gain since inception in 2014 – we have generated a gain of just over €2.1bn on our investment portfolio, the equivalent of a 3.4% return per annum.

ISIF Investment Strategy

Before I proceed, I'd like to give the Committee more information on the new Impact Investment Strategy we announced last summer.

In addition to setting out the 4 key investment themes I referred to, this strategy supports a number of major initiatives that are relevant to what we're discussing today:

We've set out an ambition to invest €500m in city-specific investment programmes for each of Ireland's 5 regional cities - Cork, Galway, Limerick, Waterford and Kilkenny. This is a cornerstone of ISIF's new investment strategy that will result in major investment being targeted to each city in the form of new places to work, places to live and enabling investments resulting in the regeneration of each of these city centres.

A significant element of this programme is targeting investments in emerging and scaling businesses in each of these cities, together with pursuing other opportunities to support sustainable growth.

Our strategy also includes a separate commitment, which we first made in 2021, to invest €1bn in climate related investments over a 5-year period. We are well on the way to achieving this, with c.€500 million committed as at end February 2023.

This aspect of our strategy is looking to fund delivery of sustainable infrastructure in support of Ireland's 2030 climate targets. We're also looking at new technology and business models that can offer sustainable routes to transforming Ireland's economy and achieving full decarbonisation with the urgency that our shared climate challenge requires so ISIF will in turn invest in start-up and scaling businesses in the climate arena.

ISIF is a responsible investor and an active asset owner. As a sovereign fund, we seek to play a leadership role across environmental, social and governance matters throughout the portfolio. We do this because we know it is right and will build resilient companies with potential to create long term value.

Importance of Generating Co-Investment

In implementing our new strategy, I want the Committee to know the importance of ISIF's ability to generate what we call "crowding in" or catalysing of additional investment into the Irish economy from private sector sources – particularly from international co-investors. Critical to this is a strong focus on partnering or investing with best-in-class fund managers and management teams.

ISIF's success as a catalyst is demonstrated by its portfolio of Irish investments generating a co-investment rate of 1.6 times – that is, across our portfolio, for every €1m we have invested, on average we have seen private sector crowding in of €1.6m in additional investment.

This means that the €6bn committed to Ireland to date by ISIF has catalysed total investment of more than €15bn in the Irish economy, made up of ISIF's investment and private sector co-investment.

From our experience, international investors attach a lot of importance to ISIF's involvement, when they are considering an investment decision. This has given us a key role as a cornerstone investor in many businesses and projects, with our decision to invest after carrying out our own due diligence often being a significant consideration when other parties are undergoing due diligence of their own.

ISIF perspective on the start-up and scaling environment

I will bring my opening remarks to a conclusion with a brief analysis outlining ISIF's perspective on the start-up and scaling environment.

As you would expect, we consider this area to be the North Star of our mandate, one that guides our investment approach as we consider how best we can leverage the taxpayer capital at our disposal for everyone's benefit.

In forming our views on the environment facing SMEs and scale-ups, we have the benefit of the deep experience and corporate memory that have been built up from the 175 separate investments we have made in Ireland, many of which have successfully navigated the leap from small domestic player to one with a material and growing international presence.

The Irish market is well positioned towards start-ups and scale-ups with **strengths** that include:

It has a mature ecosystem: The Irish innovation funding landscape is at least 30 years old – it is now reasonably mature, developed and connected to other markets with a proven track record that attracts the attention of local and international investors.

It has an educated talented workforce with entrepreneurial skills: Ireland has a great reputation for the quality of its workforce across R&D, manufacturing, regulation, product development, software development, engineering etc, and being a great jurisdiction to build new tech and life science companies. We have strengths in a number of very attractive sectors - biotech, medtech, enterprise software, cyber, manufacturing, regulatory technology, and others. We also produce great entrepreneurs with drive, ambition and tenacity.

The ecosystem benefits from being joined up: Participants in the Irish ecosystem - public and private - operate in a cohesive manner to support founders to maximise their potential while all of the elements you expect to see in a functioning ecosystem are present in Ireland – accelerators, angel networks, co-working spaces, innovation hubs, diverse funding sources, repeat entrepreneurship, increasing exit values, sophisticated investor base, and the ready availability of successful founders who are able and willing to act as mentors. These features all contribute to supporting a vibrant and diverse ecosystem that itself is well connected with other hubs and Europe and beyond.

It has a global reputation and track record: Ireland's reputation in key markets like the US is very strong – attributable to diaspora and also the calibre of founders that Ireland has been producing that have had success in international markets. Ireland's reputation for stability, persistent industrial policies, membership of international bodies like UN, EU, also creates a supportive environment for companies to attract investment and compete in international markets. While Ireland is small country in a global context, it has an ability to create companies of scale in many sectors.

Reliability of early-stage funding environment: Entrepreneurs and investors have confidence that businesses have access to patient and persistent support from Enterprise Ireland, ISIF and others which can help businesses navigate the global ebb and flow of capital in a manner that works for them.

In terms of **weaknesses**, the Irish market has to contend with some naturally occurring drawbacks and other features that include:

The market is small: our small domestic market means internationalising is an early priority for companies. It is difficult for consumer businesses to grow beyond a certain scale in Ireland and they have to seek new markets if they want to keep growing.

A small market is more vulnerable to shocks in a way that larger markets might have greater resilience. One example is the reliance on international investors for larger later stage growth equity rounds which can dry up quickly when capital markets tighten. We are seeing this happen currently - the IVCA reported in February that overseas investment dropped 73% in Q4 compared with same period a year earlier.

Early exits persist: Ireland has developed a track record (particularly over the past 20 years) of creating new scaling businesses. A strong ecosystem has developed to support the creation of these businesses. However, more often than not, those businesses are often acquired by / subsumed into foreign multinationals. While recognising that these transactions can lead to further investment on the ground in Ireland and deepen ties with those multinationals, Ireland's track record of creating national champions that go beyond a certain point needs to improve.

Shallow domestic investor base: We have a small investor landscape – SMEs are very reliant on Enterprise Ireland, ISIF, and EIF for Fund formation, which is the critical part of the funding landscape. The small pool of investors in Ireland creates a greater reliance on international capital than is the case in other countries.

Management expertise gaps: The relatively small size of the population means Ireland may not have the depth of management talent/experience needed to support an individual company's journey.

Opportunities and Threats:

Even allowing for the strengths and weaknesses of the Irish market, however, we have a very positive view on the potential for start-ups and scale-ups and we intend to continue being a major commercial backer of these types of businesses.

This is particularly true for businesses that can exploit the opportunities that we see – such as the specialism that exists in key sectors, such as agriculture and food, climate innovation, healthcare, technology, life sciences and financial services.

In addition, the success that Ireland has had in attracting and leveraging FDI is unique in an international context and offers considerable spill over benefits.

Notwithstanding these opportunities, there are of course threats – not least the risk of talent flight to other jurisdictions as international competition for talent becomes ever more intense; or of Irish companies being picked off by overseas acquirers before they can get to a stage where they are major global competitors in their own right.

But these are threats that are capable of being addressed.

The current volatility we are seeing in capital markets and energy markets is an excellent reminder that we can never afford to be complacent, but there is good reason for well-managed businesses that have key competitive advantages to be confident that they can continue to grow and scale. And we will be here to help as many of them as we can.

To conclude, the environment for start-ups and scaleups in Ireland is a lot more vibrant than it used to be, but it remains fragile in key aspects. ISIF is well integrated into a diverse group of parties that support companies start and scale in a very cohesive and complementary manner – both public and private, domestic and international. ISIF has a unique ability (through its mandate, networks, track record, reputation, flexibility etc) to help Irish companies unlock the opportunity areas described, and as a through the cycle investor, will continue to do so on a consistent basis.

ends