Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach

Opening Remarks – Nick Ashmore, Director, Ireland Strategic Investment Fund (ISIF)

Wednesday 20 March 2024

Chair, members of the Committee,

I am joined by my colleague, Deborah Meghen who is Investment Director – Sustainability and Responsible Investment, at the Ireland Strategic Investment Fund (ISIF).

I would like to use my opening statement to brief you on:

- the background to ISIF's Global Portfolio;
- why we use external managers for selecting investments in our Global Portfolio;
- how ISIF came to hold investments in companies that are listed on the UN database relating to the Occupied Palestinian Territory; and
- potential investment considerations that the Committee may wish to incorporate into its pre-legislative scrutiny of the proposed legislation.

ISIF's global investments

ISIF investments, excluding legacy public policy investments in banks, are held through two portfolios – our Irish Portfolio (with a total value of €3.4 billion, and total commitments of €7.2 billion[1]), comprising investments designed to support economic activity and employment in Ireland, and our Global Portfolio (with a total value of €4.8 billion), comprising all other investments.

As you are aware, as part of its overall investment activities ISIF has direct investments in 11 companies on the UN database, totaling approximately €4.2 million, exclusive of exposures that may arise indirectly through pooled investment vehicles. Investments in these companies are held through ISIF's Global Portfolio.

The Global Portfolio and its investment profile differ significantly from our Irish Portfolio for a number of reasons:

- The Global Portfolio is in essence a reserve portfolio. It is used to fund investments in the Irish Portfolio, in line with ISIF's mandate of investing on a commercial basis to support economic activity and employment in Ireland.

- As suitable investment opportunities arise in Ireland, we fund these investments through cash generated from the sale of Global Portfolio assets.

[1] Figures presented are based on draft year-end 2023 figures unless otherwise stated.

- We manage the Global Portfolio with a view to making sure its investments are appropriately risk controlled and highly liquid. They tend to have higher liquidity than our Irish Portfolio investments.

- The Global Portfolio tends to be invested in instruments that are readily traded on recognised exchanges or secondary markets – such as equities, sovereign bonds, corporate bonds or units of pooled fund investments or collective investment vehicles (that is, investments where ISIF is invested alongside many other institutional investors).

- The Irish Portfolio, in contrast, tends to be invested in direct equity shareholdings in companies that are not traded on public markets, or debt investments that again are not traded, or in specialist funds that target specific sectors, such as Irish SMEs, seed capital, growth capital or venture capital investments.

- The Irish Portfolio is focused on 4 priority investment themes to execute on its legislative mandate – Climate; Housing and Enabling Investments; Scaling Indigenous Businesses; and Food and Agriculture. ISIF has made very significant progress in recent years in identifying and executing investments aligned with these themes – in particular in the area of Climate, where we set out an ambition in 2021 to invest €1 billion over a 5-year period and it is already clear we will exceed that ambition significantly ahead of schedule.

What the distinction between the two portfolios means in practice is that the Global Portfolio is designed to achieve a return across global markets diversified across countries and sectors, whereas the Irish Portfolio has by definition a more concentrated focus on investments which support economic activity and employment in Ireland.

It also means the Global Portfolio has a much larger number of individual investments than the Irish Portfolio, but these individual investments can be much smaller in size.

This level of diversification aims to mitigate risk to the funds that have been entrusted to us to manage. By investing across multiple jurisdictions throughout the world, we mitigate the risk of sharp falls in any individual country's stock market. By investing across multiple sectors, we mitigate the risk of sharp falls in the value of one individual sector, and so on.

Our use of external managers for selecting investments in our Global Portfolio

When it comes to making investment decisions in our Global Portfolio, we follow what we consider industry best practice for sovereign wealth funds and major institutional investors.

To achieve the level of diversification in our Global Portfolio that we think is prudent, we have engaged multiple external investment firms to manage different parts of the Global Portfolio on our behalf. This is the approach taken by many of the investors that we consider our equivalents or our peers.

There are many factors feeding into this decision.

The Global Portfolio funds the investments that we are making in companies, projects and platforms in Ireland through the Irish Portfolio. We therefore focus staff resources on growing the Irish Portfolio and crowding in private sector co-investment, including international co-investment, to maximise the impact of these activities in Ireland. To date, ISIF's investment commitments of €7.2 billion in Ireland have generated co-investment of €11.1 billion.

Against this backdrop and given the nature and purpose of the Global Portfolio, the use of external investment firms allows us to access expertise in specific areas of the market. And, critically, it allows us to achieve greater levels of diversification than would otherwise be open to us.

ISIF and other investors may not generally select the specific individual investments made on their behalf. However, we and other investors allocate capital to an external manager under an agreed set of parameters which tend to be broadly standard across all of that manager's clients.

This approach aims to strike the right balance between investing ISIF's resources efficiently and cost-effectively, and handing over to an external investment manager control of specialist individual decisions on whether or not to invest in a specific company within a wider framework of investment objectives set by ISIF.

In some cases, external managers will manage the money entrusted to them by pursuing a strategy of tracking market indices – essentially buying exposure to the movement in a recognised stock market index, such as the S&P500 in the US, the Eurostoxx indices in Europe, and regional or national equivalents.

This involves external managers buying the underlying shares that make up the relevant index in proportion to their index weighting.

When it comes to specifying individual companies in which a manager may or may not invest, there is often limited scope for restricting specific investments in pooled fund investment.

ISIF's investments in companies listed on the UN database

So, turning to our investments in companies listed on the UN database, it is important to be clear that these arose through the manner in which external investment managers select global investments on our behalf.

We have these exposures because these investments were made as part of wider investment strategies adopted by our external investment management service providers. This is not uncommon.

From an investment perspective, these holdings are aligned with the commercial investment parameters that apply to the relevant investment managers, and the investments have been made on that basis by the investment managers themselves. No inference should be drawn from these investments – they are neither an endorsement by ISIF of the companies in question nor any form of political statement by ISIF.

However, I will conclude my opening statement with some comments on potential investment considerations that may arise from a divestment of holdings on the UN database, which the Committee may want to incorporate in its pre-legislative scrutiny of the proposed legislation. Our observations are designed to support the deliberations and work of this Committee and the wider Oireachtas on the Bill.

Potential investment considerations arising in the context of the proposed legislation

The first consideration I would refer to you stems from the fact that, on the basis of our research, we are not aware of any sovereign wealth fund or pension fund which has divested from its exposure, to companies operating in the Occupied Palestinian Territory, or excluded investments in such companies, on foot of a specific legislative requirement.

We note that there may be potential implications from this Bill under the United States' anti-boycott legislation. This was raised in the discussion with the Foreign Affairs and Defence Committee.

This anti-boycott legislation is quite complex and potentially far-reaching but it is important that the legislation that is currently proposed be based on a careful assessment of the risk of any unintended consequences that may arise in this respect.

A second consideration arises from any reliance on the UN database as a basis for excluding companies. We are aware of concerns in the investor community around certain companies disputing the basis for their inclusion in the database and the potential implications of excluding a company solely on this basis, when such an exclusion could be the subject of legal challenge. This would align with the legal advice received and referred to by my Finance colleagues which indicates that there needs to be a solid basis on which to include companies on a list to mitigate possible legal challenge.

A third consideration is the practical challenge that could arise from our interactions with external investment managers, particularly those who manage collective investment vehicles (such as pooled funds) on behalf of a large number of investors. In such instances, where ISIF has such investments it is likely to represent a very small percentage of the overall invested funds and therefore our ability to require that the investment manager to apply bespoke exclusions is likely limited. This potentially limits our investment universe.

While we have been able to successfully implement exclusionary investment strategies to ensure compliance with legislation which prohibits ISIF from investing in 'fossil fuel undertakings' (as defined) or companies engaged in the manufacture of cluster munitions, these are strategies that are activity based and non-geographic and have been widely adopted by ISIF's peer group and have not faced the same challenges that a geography-specific strategy might entail.

In a scenario where it is difficult to implement an exclusionary strategy based on the UN database, we could potentially see ISIF being unable to avail of the services of some external investment managers to manage Global Portfolio investments. This would have implications for ISIF in seeking to maximise the value of the Irish Portfolio if increased internal resources have to be diverted to manage the Global Portfolio.

Finally, a fourth consideration arises from our collective learnings following the implementation of our fossil fuel divestment policy in recent years. That process highlighted a need for high degrees of clarity in defining the basis for exclusion from ISIF's investment universe.

A key feature of the fossil fuel divestment legislation was the inclusion of a 15% de minimis threshold to ensure that investments in companies who are a small part of a Collective Vehicle (Fund) do not determine ISIF's ability to invest in that Fund. In the case of the proposed legislation currently before the Committee, there have been examples in the past where we have identified that an investment by ISIF in a collective investment vehicle (pooled fund) which includes a peripheral and non-material exposure valued at just €10 (ten euro) to a company listed on the UN database would have resulted in the necessity to divest fully from that exposure.

In the absence of a de minimis threshold, ISIF could find itself in a position where it would be forced to divest the entire investment on foot of this ten-euro exposure.

Conclusion

This concludes my opening remarks. My colleagues and I will do our best to answer any questions you may have. Thank you.