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Ireland Is Open For Business

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26th November 2014 | by Emmet Scully, Seanna Mulrean

The establishment of a new €6.8 billion Irish strategic investment fund is expected to be of interest to national and international investors and fund managers, and also Irish companies and operators in a range of sectors.

Once established, this new Irish Government fund will make investments that fulfil the dual objectives of achieving a commercial return and supporting economic growth and employment in Ireland. It also seeks to attract private sector co-investment.

The New Fund

The legislation that establishes the new €6.8 billion investment fund, the Ireland Strategic Investment Fund (ISIF) is the National Treasury Management Agency (Amendment) Act 2014 (the Act). It is expected that the part of the Act that establishes the ISIF will come into force by the end of 2014.

The Act provides for the establishment of the fund by restructuring the existing National Pensions Reserve Fund (NPRF) and making the €6.4 billion in that fund's discretionary portfolio available for commercial investment in Ireland. The NPRF's existing strategy will be redirected to investing in Ireland by the ISIF, which builds on the commitments made by the NPRF to date in areas of strategic importance to Ireland, including Irish infrastructure and SME financing.

What Sectors and Assets Might be Considered for Investment?

An investment strategy is still being finalised, but it is expected that the key principles of the fund will be as outlined below.

- ISIF will have an investment mandate focused on Ireland and will consider commercial investments that support economic growth and jobs in Ireland.
- Investment will be in areas of strategic importance.
- ISIF will seek to leverage resources by attracting private sector co-investment.
- ISIF will seek to recycle its capital investments over time in order to be in a position to invest in new projects.
- Investments will be consistent with Government policies and objectives.

The NPRF has already committed to a number of investments in water, infrastructure, long-term financing for SMEs and venture capital, in preparation for the establishment of the ISIF, which might be indicative of future investment policy preferences, priorities and objectives.

These investments include the following:

- €375 million to three new long-term funds which will provide equity, credit and restructuring/recovery investment for Irish SMEs.These include BlueBay Ireland Corporate Credit I Limited, launched by BlueBay Asset Management LLP and the NPRF in 2013, which is the largest of the NPRF's suite of SME-focused funds.
- A collaboration with Silicon Valley Bank which will lead to a US$100 million of new lending commitments to fast-growing Irish technology, life science, cleantech, private equity and venture

capital businesses over five years.
- A financing facility of US$250 million to Irish Water (the new Irish water authority).
- Stand-by credit facilities that facilitated the delivery of two public private partnership (PPP) projects: the N11 road project; and “Schools Bundles 3”, phase 3 of the Government's PPP programme for the design, build, finance and maintenance of new schools at various sites around Ireland; with a combined projects size of €286 million.
- A commitment of €250 million to the Irish Infrastructure Fund, a three way partnership between NPRF, AMP Capital and Irish Life Investment Managers.
- A commitment of €125 million to the Innovation Fund Ireland, a Government initiative led by Enterprise Ireland and the NPRF to attract leading international venture capital fund managers to Ireland and to increase the availability of capital to Irish early-stage and high-growth companies.
- A commitment of €81 million to venture capital funds that target investment opportunities in the areas of water, energy and broadband.

Investment Strategy

The National Treasury Management Agency (NTMA) will be responsible for the management of the ISIF. The NTMA has already indicated that they are open to dialogue on potential deals and opportunities. When considering potential opportunities and deals, the NTMA will be influenced by the characteristics of the investment opportunity set in Ireland and they will assess the usual key elements, including market opportunity, business strategy, strength of team and promoters, deal structure, terms and conditions, alignment of interests and revenue and return on investment projections. The NTMA has also indicated openness to considering "transformational type" ideas as well as the more conventional ones.

The NTMA, when determining what is an appropriate rate of return for its investments, may aim for different levels of return for different investments and types of investments. But it must seek to secure, over the long term, in relation to the assets of the fund, taken as a whole, a rate of return greater than the annual interest cost of the general government debt. That figure is the total gross debt at nominal value of the general government of the State, as arrived at in accordance with Council Regulation (EC) No.479/2009, as amended, and averaged over five years.

In order to maximise the positive economic impact of the fund, it is expected that the NTMA will allocate 80% to 85% of the fund to sectors with the highest economic impact; that would include infrastructure, which enables competitiveness in areas such as water, transport, broadband, critical real estate for foreign direct investment, research and development and education. The remaining 15% to 20% of the fund is expected to be allocated to projects with short term benefits including PPP projects in lower economic sectors, for example replacement projects.

Conclusion

The establishment of the ISIF is broadly welcomed and as the Irish economy is showing positive signs of stabilisation, it is expected that the ISIF will maintain and improve on the competiveness of the Irish economy.

The fund is now open for business and companies seeking investment or fund managers and investors interested in investment opportunities should contact the ISIF now.

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