Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Sustainable Investment Charter

June 2022

Purpose and Motivation

We are Ireland's Central Bank, responsible for maintaining monetary and financial stability and ensuring the financial system works in the interests of the community. We are part of Europe's monetary and banking unions, and of the world's network of financial regulators. Our values underpin how we interact with each other and reflect our aspirations, for ourselves and for our community. We believe in the importance of an independent central bank that is transparent, accountable and connected across all public policy domains, in Ireland, in Europe and across the world. As part of our overall mission, we are committed to being a socially responsible and sustainable organisation, which we believe will help us achieve our vision: trusted by the public, respected by our peers and a fulfilling workplace for our people. We are also conscious of our ability to be a positive influence on the behaviour of others by leading on and by promoting important sustainability issues such as climate change.

The purpose of this Charter is to guide us in considering how sustainable investment principles will apply to our investment practices. As an integral part of the Central Bank's culture of acting sustainably, we will aim to invest our financial assets in a sustainable manner in accordance with the Central Bank Commission's approved risk appetite and consistent with the Bank's discretionary Investment Policy Framework. We expect that impacts on the environment and society are considered in the management of our financial assets. We believe that stewardship of the investment assets should go hand-in-hand with sustainable investment practices that seek to minimise the Environmental, Social and Governance (ESG) risks of our assets.

Context

The Sustainable Investment Charter will form part of the Central Bank's discretionary Investment Policy Framework, which is set by the Central Bank Commission. The overall objective of this Framework is to maintain the resilience of the Bank's wider balance sheet. The incorporation of sustainable investment principles to manage sustainability-linked risks will act to further strengthen this Framework.

The establishment and implementation of this Charter will be progressed on an iterative basis, allowing for changes in the international investment landscape, the evolution of institutional governance practices and learning over time. The effects of climate change will be a strategic focus in the first iteration of this Charter as it represents a systemic risk that the Bank must consider as part of its approach in managing the discretionary investment assets. Climate change, and associated efforts by global policymakers to transition to a carbon neutral economy, is likely to be one of the main structural forces shaping the investment landscape in which the Bank will operate over the next few decades. We take seriously the imperative to play our part in mitigating and acting on climate change.

Sustainable Investment approach

While remaining steadfast in fulfilling its mandate, the Bank will continue to seek to deliver long-term, sustainable investment returns while safeguarding its stock of financial assets. In adopting this Charter, the Bank will, in addition, seek to address sustainability-linked risks and to pursue sustainability-linked opportunities in its investment portfolios. Further, it is the Bank's belief that organisations that manage ESG factors effectively are more likely to endure and create sustainable value over the long-term.

There are various approaches to sustainable investment. In the first iteration of this Charter we will focus on Exclusion, Impact Investing and ESG Integration as our core strategies.

Exclusion

Exclusion or Negative Screening is the ESG strategy that systematically excludes controversial companies and/or sectors from an investment universe. These exclusions can be based on global norms or values, violation of international treaties, and cover an entity's products and/or conduct. The Bank will not knowingly invest in any company that is involved in the manufacture of prohibited/controversial weapons as defined in relevant international treaties or in the tobacco industry. The Bank expects our investee companies to comply with the principles of corporate sustainability defined in the UN Global Compact (UN GC). We expect also that our incorporation of sustainable investment principles will also result in the screening out of corporate activities considered among the most detrimental to long-term environmental sustainability, such as coal mining. The Bank's *Investment Exclusion*

Policy details the rationale for products and business practices that are deemed to be detrimental to society and incompatible with sustainable investment strategies, and hence should be excluded from our investment universe.

Impact Investing

Impact investing can be defined as an ESG strategy that aims to generate an intentional and quantifiable positive impact alongside financial returns. The Bank allocates a portion of its investment assets to green, social and sustainable bonds; primarily issued by multilateral development banks, supranational organisations and sovereign/sovereign-linked agencies. This allocation is comprised of direct investments and we also participate in the Bank for International Settlements' (BIS) green bond funds for central banks. We will determine the suitability of a target allocation of our investment assets for impact investing-related sustainable bonds.

ESG Integration

It is our belief that that the inclusion of ESG factors enhances the understanding of long-term investment risks and opportunities. Under an ESG Integration approach, we will strive to systematically include financially material ESG factors in our investment analysis, portfolio construction, and risk management to improve the risk-return profile of the investment assets. A framework to include ESG criteria in the investment process will be developed, with a specific focus on climate change as it poses potentially material risks, over various time horizons, to the economic structures of entities within our investment universe.

Transparency and Reporting

We will report annually on progress made in our commitment to incorporating sustainable investment principles. Commencing in early 2023, we will disclose climate change-related metrics of the investment assets.

The Bank's equities portfolios are managed externally and therefore sustainable investment strategies relating to active ownership, such as voting and engagement, resides with our external manager(s). Our external equity managers are required to be signatories of the UN-sponsored Principles for Responsible Investing (UN PRI), while the voting and engagement activities of our managers are reported to the Bank. It must be noted that regardless of the nature of external equity management arrangements in place, the Bank retains ultimate responsibility for the broad sustainable investment principles that are applied to all our investment assets.

Scope

This Charter covers the management of assets for which the Bank has the full and sole responsibility, which means that we will seek to apply ESG considerations to our discretionary investment assets. All monetary policy-related assets, as well as the ECB Foreign Reserves that are managed by the Bank in its role as a member of the Eurosystem in a decentralised manner and holdings of Special Drawing Rights (SDRs) allocated by the International Monetary Fund (IMF), are outside the scope of this Charter.

Governance and Review

The Central Bank Commission is responsible for the Sustainable Investment Charter. It is important that we continue to develop this Charter and that it remains relevant to and aligned with the Bank's values and strategy, as well as to broad sustainable finance developments. To this end, this Charter will be reviewed annually and updated at least every three years.

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