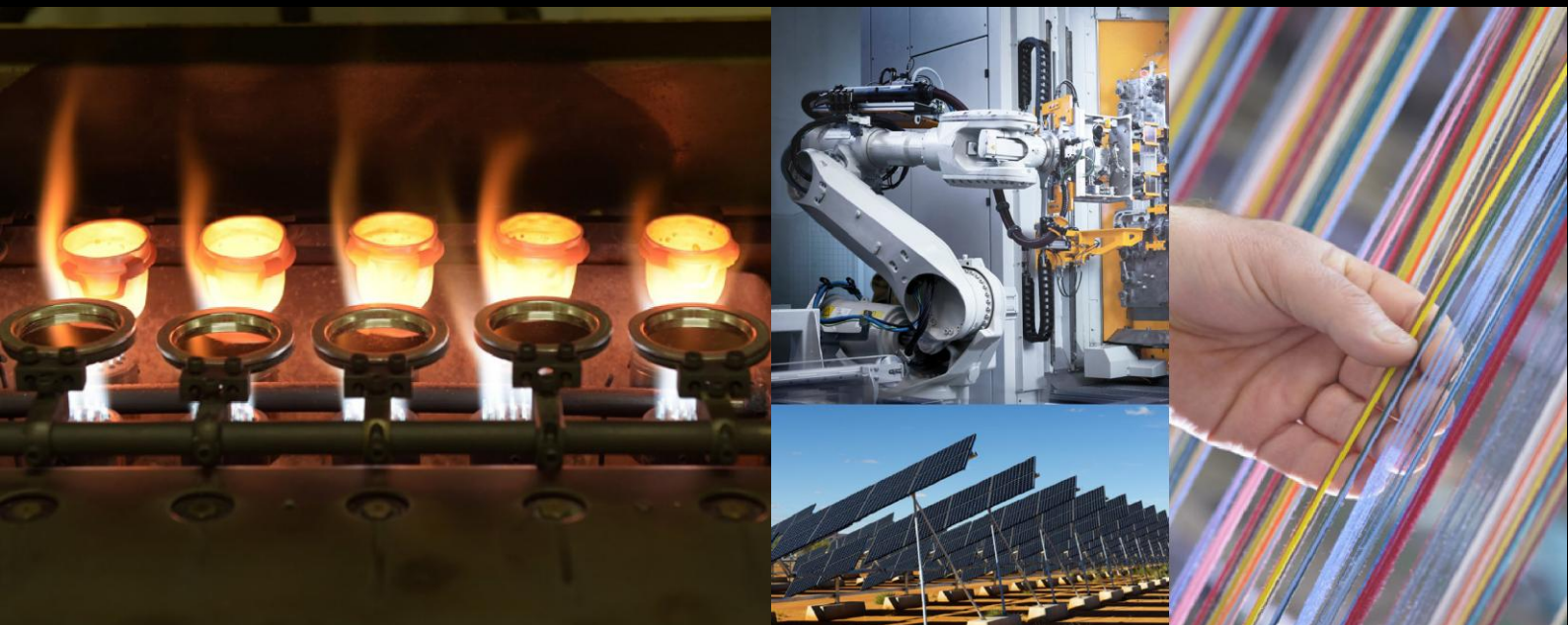


Investment Policies

This document constitutes the NRFC's investment policies for the purposes of section 75 of the *National Reconstruction Fund Corporation Act 2023* (Cth).

September 2025



Introduction

Australia's ability to maintain and develop industrial capability is crucial to harnessing economic opportunities and generating growth and prosperity. Ongoing global economic, technological and geopolitical changes create opportunities and challenges for Australia. Our industry and economy need to prepare to respond to these challenges. This means developing a competitive and resilient industrial base that helps Australia remain secure and fulfil our economic potential.

The National Reconstruction Fund Corporation (NRFC) was established under *National Reconstruction Fund Corporation Act 2023* (NRFC Act). The purpose of the NRFC is to diversify and transform Australian industry and economy by facilitating increased flows of capital into 7 Priority Areas. These include:

- Renewables and low emissions technologies
- Enabling capabilities
- Defence capability
- Transport
- Value-add in resources
- Value-add in agriculture, forestry and fisheries
- Medical science.

Investment Policies

The NRFC Board is responsible for deciding strategies and policies to be followed by the NRFC and ensuring the proper, efficient, and effective performance of the NRFC's statutory functions. The Board is required by law to govern the NRFC in a way that promotes the proper use and management of public resources for which the Board and the NRFC is responsible, promotes the achievement of the purposes of the NRFC and promotes the NRFC's financial sustainability.

Section 75 of the NRFC Act requires the NRFC Board to formulate written policies to be complied with by the NRFC in five areas:

- The NRFC's strategy in relation to its investment functions and investment powers;
- The impact of NRFC investments on First Nations Australians;
- Benchmarks and standards for assessing the performance of the NRFC's investments and of the NRFC itself;
- Risk management for the NRFC's investments and for the NRFC itself; and
- Environmental, social and governance (ESG) matters to be considered by NRFC in relation to its investment functions and investment powers.

This document constitutes the NRFC's investment policies for the purposes of Section 75 of the NRFC Act in each of these five areas. It will be published on the NRFC's website as required and will be reviewed periodically in accordance with section 75(5) of that Act.

The investment policies published in this document are complemented by other investment-related material published by the NRFC. This includes our Investment Guidance, which provides an overview of our minimum investment requirements and process and our Investment Mandate which provides detail on how we exercise our investment powers.

1. Investment functions and powers

This section explains the NRFC's strategy in relation to its investment functions and investment powers.

The NRFC is Australia's sovereign investor in industrial capability. Our purpose is to diversify and transform Australia's economy and industry and facilitate increased flows of finance into Priority Areas of investment.

The NRFC is governed in accordance with the [PGPA Act](#), the [NRFC Act](#), the NRFC's [Investment Mandate](#) and the NRFC's [Priority Areas Declaration](#).

These instruments define our investment functions and investment powers.

Investment functions

The NRFC is permitted to make investments that:

- are in one of seven Priority Areas of the Australian economy: Renewables and Low Emission Technologies; Enabling Capabilities; Defence Capability; Transport; Value-add in Resources; Value-add in Agriculture, Forestry and Fisheries; and Medical Science) as set out in the Priority Areas Declaration;
- are not expressly prohibited (such as investments that directly finance coal or natural gas extraction or related pipeline infrastructure or native forest logging);
- demonstrate a positive return on investment or an ability to repay debt (as applicable);
- make a positive impact on our legislated public policy outcomes as set out in section 17(3A) and (4) of the NRFC Act and section 10 of the Investment Mandate;
- are solely or mainly Australian based, noting the board's [guidelines](#) on what it will consider in determining whether an investment meets this criteria; and
- are subject to an [Australian Industry Participation Plan](#) (where applicable).

The NRFC can invest using different forms of debt, equity, guarantees and partnerships, and across a broad range of businesses and commercial entities, including small and medium sized enterprises (SMEs).

The NRFC is not permitted to provide grant funding. We are not permitted to provide concessional finance unless this is the most appropriate way of achieving our public policy objectives. Concessional finance could include lower-than-market interest rates, longer tenors, subordinated positions, income-contingent repayment terms, lower equity internal rates of return, or different share classes. Our ability to consider offering concessional finance is guided by the requirements set out in the Investment Mandate. We must make a reasonable qualitative assessment of the economic benefits and public policy outcomes that the concessionality is anticipated to deliver and align the level of concessionality provided with these anticipated benefits. The concessionality must be the minimum that would achieve those economic benefits and public policy outcomes.

The NRFC is not permitted to hold (together with other Commonwealth entities) a controlling or majority equity stake in any entity. Furthermore, any equity investments must be made in entities whose activities are 'constitutionally supported activities' as defined in section 5 of the NRFC Act.

Investment powers

The NRFC invests on commercial terms, seeks appropriate return for risk, aims to achieve financial self-sustainability and has regard to delivering investments that contribute to our legislated public policy objectives. These include improving Australia's industrial capability, national security, supporting decarbonisation, crowding in private sector investment, encouraging economic participation by historically underrepresented groups, boosting regional development and creating highly skilled jobs.

The breadth and diversity of the Investment Mandate mean we must be disciplined in how we identify and source investment opportunities and make investment decisions. Given the breadth, diversity and scale of our mandate and investment task, our investment approval process seeks to balance speed, scalability, efficiency and discipline.

The investment process covers the entire investment lifecycle.



In assessing an investment proposal, the NRFC will consider both financial and non-financial factors. Relevant factors may also include:

- **Alignment:** Does the investment opportunity align with our legislative framework?
- **Financial fit:** Do the economics of the investment opportunity meet the NRFC's investment parameters and support our portfolio benchmark return requirement?
- **Commercial fit:** Is the transaction suitably developed, and does it have appropriate and capable management and relationships in place to ensure execution?
- **Impact fit:** How does the investment support public policy outcomes?
- **Market fit:** Will the investment impact other market participants and the efficient operation of Australian financial markets?
- **Risk tolerance:** Are the risks inherent in the transaction within the parameters approved by the organisation? Have identified risks been sufficiently mitigated to make them acceptable?
- **Portfolio fit:** We may add additional limits as we evolve, such as exposures to individual counterparties or a target debt/equity mix. We'll consider other risk categories, including construction risk and the level of commercialisation.

2. Impact on First Nations Australians

This section outlines the NRFC's approach relating to the impact of the NRFC's investments on First Nations Australians.

The NRFC expects to invest across a range of sectors and locations, including urban, regional, rural and remote communities, and recognize that our investments may be in regions where First Nations Australians live or in culturally significant areas for First Nations Australians.

As part of our mandate, we must have regard to the desirability of encouraging and improving economic participation by First Nations Australians. We are committed to having a positive impact.

The NRF considers the potential positive and negative impacts on First Nations Australians issues when assessing investment proposals. We encourage counterparties to:

- engage in a genuine and meaningful way with relevant First Nations Australians and other titleholders on land or resource use including securing community or government cultural heritage approvals where relevant; and
- to develop strategies that provide relevant First Nations Australians and communities with opportunities to improve social and economic participation such as initiatives to boost local procurement, support First Nations businesses, or create local employment and training opportunities.

3. Performance measures

This section outlines the NRFC's approach relating to the benchmarks and standards for assessing the performance of investments and of the NRFC's performance generally.

Investment performance

The Investment Mandate requires the NRFC to target a portfolio benchmark return of on average 2–3% above the five-year Australian Government Bond rate over the medium to long term.

The NRFC can invest in debt, equity and guarantees to deliver investments that help achieve the policy objectives stated in the Act and Mandate and return target at a portfolio level.

Over the medium-to-long-term we aim to build an investment portfolio that is diversified across debt and equity, across the Priority Areas and across states and territories. We will develop and refine portfolio exposure guidelines and performance measures as our investment activities evolve.

Corporate performance

The Corporate Plan outlines performance measures for the NRFC over the next four years. These measures are reviewed annually and reflect NRFC's strategy and purpose. They demonstrate how the NRFC is achieving on our purpose of facilitating flows of finance into Priority Areas of the Australian economy and also monitor the subsequent positive economic and social outcomes.

4. Risk management approach

This section outlines the NRFC's approach to risk management of investments and the NRFC itself.

Corporate governance

The NRFC Board is responsible for deciding strategies and policies to be followed by the NRFC and ensuring the proper, efficient, and effective performance of the NRFC's statutory functions. The Board is required by law to govern the NRFC in a way that promotes the proper use and management of public resources for which the Board and the NRFC is responsible; promotes the achievement of the purposes of the NRFC; and promotes the NRFC's financial sustainability. The Board chooses to align its risk management arrangements with the Commonwealth Risk Management Policy as better practice.

The Board has established three Board committees:

- the Audit and Risk Committee which assists the Board to discharge its responsibilities in respect of financial reporting, performance reporting, external and internal audits, risk oversight and

management, internal control and compliance with relevant laws;

- the Board Investment Committee which assists the Board to discharge its responsibilities in respect of the effective governance, oversight and management of the NRFC's investment activities, including providing investment decision support to the Board; and
- the Remuneration, People and Culture Committee which assists the Board to discharge its responsibilities in respect of establishing people and culture strategies, policies and initiatives to attract and retain exceptional talent, and motivate and support employees.

The CEO has established two executive committees:

- the Executive Investment Committee to support investment selection, evaluation and execution; and
- the Executive Risk Committee to facilitate an enterprise-wide approach to risk management.

Risk management framework

The NRFC's risk management framework is designed to create a cycle of continuous improvement.

- **Risk architecture:** The NRFC's operating model reflects a 'Three Line of Defence' approach to risk management, with distinctive and interactive responsibilities. Risk management also plays an important role in shaping the NRFC's strategic direction, as well as preparing the business to operate in stressed conditions.
- **Risk behaviours:** The NRFC's risk management framework is designed to support a culture where leaders at every level deliberately and consistently role model appropriate risk behaviours. The NRFC's Code of Conduct formalises the Board's behavioural expectations and the Board-approved policies operationalise these expectations.
- **Risk identification:** The key risks facing the NRFC are set out in the Risk Appetite Statement, with any additional emerging or shared risks identified through the incident management process.
- **Risk assessment:** The NRFC has a standard way of assessing risk events and business changes. Each risk rating reflects likelihood and consequence of an event resulting in loss.
- **Risk treatment:** Once a risk has been identified and assessed, the Risk Owner is responsible for determining the appropriate response, with support from the NRFC's risk function where appropriate.
- **Risk monitoring:** The NRFC is in the process of documenting its control framework and annual program of risk-based control testing. This monitoring is supplemented by Internal Audit reviews and External audits. This monitoring is designed to produce actionable insights to strengthen the other components of our risk management framework.

Key risks

The NRFC ensures each individual investment is made in a way that is consistent with our objectives. This means we are focused on ensuring our investment approval process is designed and operating effectively to manage the risk of individual loan, equity investment or guarantee not performing as expected.

At a portfolio level, we are focused on ensuring our portfolio management processes are designed and operating effectively to manage the portfolio in a way that is consistent with our objectives – including:

- developing and sustaining an appropriate pipeline of investment proposals;
- pursuing an average return of 2 – 3% above the five-year Australian government bond rate over the medium to long term;
- achieving the priority sector coverage as directed by our enabling legislation;
- managing concentration risk within our portfolio to ensure it is not disproportionately sensitive to adverse price movements;

- managing the risk of adverse movements in interest rates and foreign currency exchange rates;
- complying with our Investment Mandate in relation to the concessionality of the financial accommodation we provide;
- achieving the target financing levels set out in our Investment Mandate; and
- appropriately aligning our investment strategy with global shifts towards a lower carbon economy.

The NRFC's key risks otherwise include:

- **Financial risk:** the risk of us failing to meet a financial obligation as it falls due;
- **Strategic risk:** the risk of our corporate strategy being misaligned with our objectives and / or operating environment;
- **Conduct risk:** the risk of employee behaviour that fails to meet the standards in our Code of Conduct;
- **People risk:** the risk that we manage our people in a way that is inconsistent with the NRFC's objectives;
- **Operational risk:** the risk of inadequate or failed internal processes or technology or external events impacting the NRFC's operations;
- **IT risk:** the risk of inadequate or failed IT processes or technology or external events impacting the NRFC's IT infrastructure;
- **Compliance risk:** the risk of the NRFC failing to comply with its statutory obligations; and
- **Legal risk:** the risk of adverse proceedings arising from the NRFC's activities.

5. Environmental, Social and Governance (ESG) Considerations

The NRFC considers ESG in both direct and indirect investments, starting from due diligence and continuing throughout the investment life cycle.

Under the NRFC Act, investments that directly finance the extraction of coal or natural gas, the construction of pipeline infrastructure primarily for extraction of natural gas; or the logging of native forests are prohibited.

The NRFC focuses on material, systemic and company specific ESG risks and opportunities. These factors are integrated into the investment decision making process for each investment and aligned with materiality across the NRF's Priority Areas. These considerations are integrated across due diligence, investment decision making, asset management and monitoring processes.

A cornerstone of the NRFC's ESG approach is proprietary frameworks and analysis which is supported by in-depth research aligned with best practice, global standards and new developments. This informs due diligence, investment opportunities and engagement, and is designed to be shared with investees and NRFC stakeholders.

Company engagement on ESG factors is conducted both during the investment process and throughout the asset management lifecycle. The NRFC has dedicated ESG resources as part of the Investment Team.

