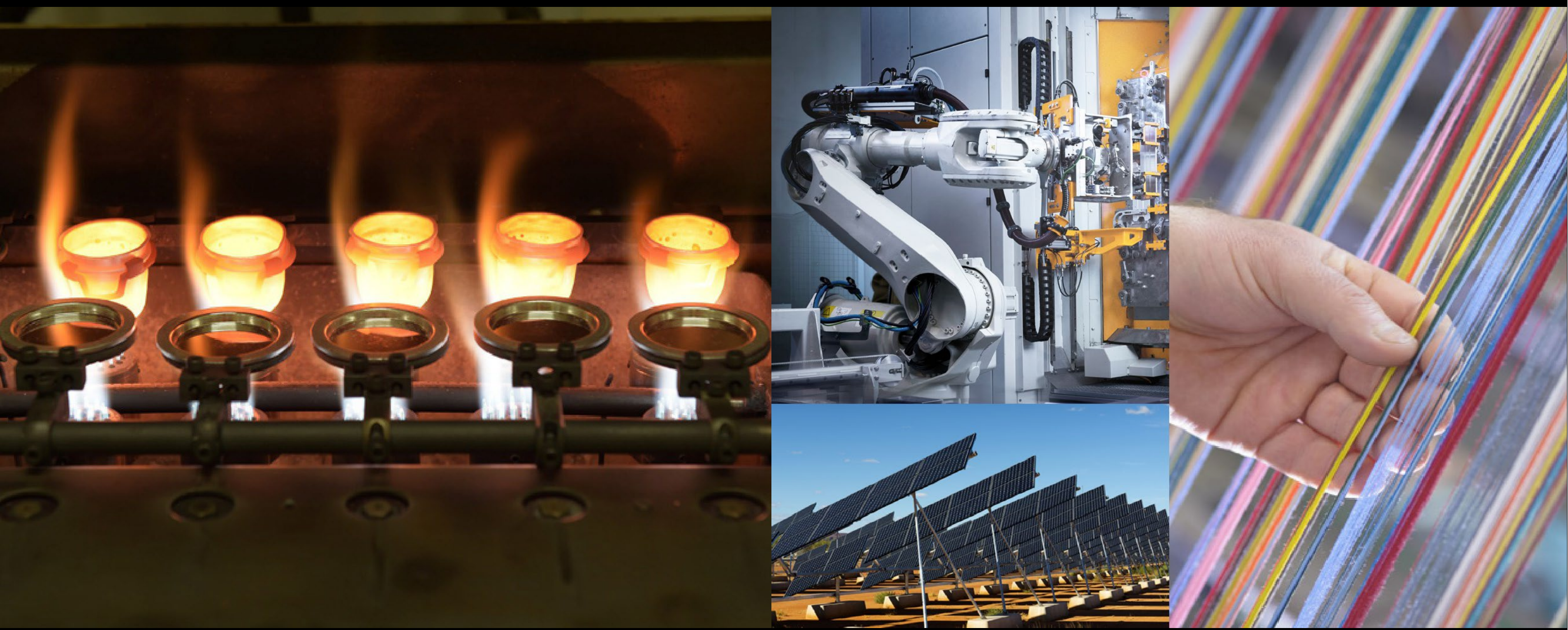
National Reconstruction Fund Corporation

Investment Policies



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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 (**NRFC Act**). The purpose of the NRFC is to diversify and transform Australian industry and economy by facilitating increased flows of capital into eight (8) Priority Areas:

- Renewables and low emissions technologies;
- Enabling capabilities;
- Defense;
- Transport;
- Value-add in Resources;
- Value-add in Agriculture, Forestry and Fisheries;
- Medical science, and;
- Industrial manufacturing and critical supply chains.

The NRFC is governed in accordance with the NRFC’s Investment Mandate and the NRFC’s Priority Areas Declaration, as well as the Public Governance, Performance and Accountability Act.

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 (5) areas:

- The NRFC's strategy in relation to its **investment powers and investment functions**;
- 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, labour, social and governance** (referred to here as 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 the NRFC Act. These Investment Policies are complemented by other investment-related material published by the NRFC, including our Investment Mandate which provides detail on how we exercise our investment powers.

Investment Powers and Functions

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

Investment Powers

We make investments across our General Portfolio and sub-funds that:

- are in one of eight (8) Priority Areas of the Australian economy (renewables and low emission technologies; enabling capabilities; defense capability; transport; value-add in resources; value-add in agriculture, forestry and fisheries; medical science and industrial manufacturing and critical supply chains) 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 relative to targeted portfolio and sub-fund benchmarks (including an ability to repay debt where relevant);
- must have regard to the public policy considerations set out in section 17(3A) and (4) of the NRFC Act and section 9 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).

We operate with a commercial approach, including undertaking appropriate due diligence, credit and investment risk assessment processes, and seek appropriate return for risk to achieve financial self-sustainability and have regard to delivering investments that contribute to our public policy considerations.

We can generally 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 (**SME**s). We are 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.

We can, in defined circumstances, provide **concessional finance**. 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.

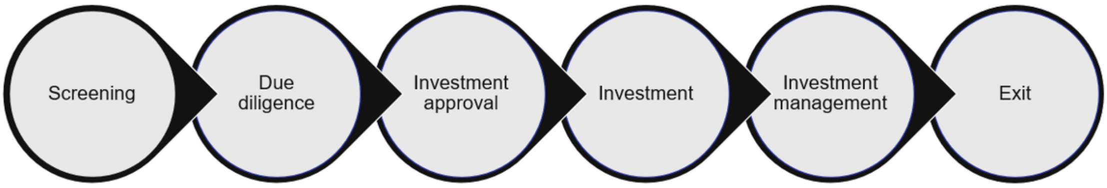
For the General Portfolio (in particular):

- we are required to consider the potential effect of the Corporation's investment practices on other market participants and the efficient operation of the Australian financial market; and seek to avoid displacing alternative private and public sector financing in each priority area of the Australian economy, to the extent that this is reasonably practicable; and
- we are not permitted to provide concessional finance unless it is the most appropriate way of achieving particular public policy outcomes that the NRFC is seeking to achieve; and the level of concessionality is commensurate with the assessed and anticipated economic benefits and public policy outcomes that the concessionality is anticipated to deliver and is the minimum that would achieve those benefits and outcomes.

Investment Functions

The breadth and diversity of our 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 Process seeks to balance scalability, efficiency and discipline.

Our Investment Process covers the entire investment lifecycle for all investments.



Investment proposals progress through various stages and key decision points of the Investment Process. If successful, the proposal is approved, executed and proceeds to ongoing investment management.

The key stages of the Investment Process are:

Screening – initial pre-screening of proposals with respect to eligibility and alignment with Act and Mandate.

Due Diligence – three phases (with increasing levels of detail) of evidence based due diligence considering the following financial and non-financial factors:

- **Financial fit:** Do the economics and return profile of the investment opportunity meet the NRFC's investment parameters and support the relevant fund or sub-fund benchmark return requirement? Is the return timeframe consistent with the Mandate? Is the valuation reasonable (equity) or credit quality satisfactory (debt)?
- **Commercial fit:** Is the transaction suitably developed and does it have appropriate and capable management and relationships in place to ensure execution? Is investment readiness adequate? Is there a clear pathway to exit or liquidity event? Is the use of proceeds appropriate? Is the proposed business model scalable? Is the IP adequately protected?
- **Technical Readiness:** Has sufficient technology or project development been completed to provide confidence in the technical performance of the product or project to support the business case?
- **Market fit:** Is the product market large and accessible? Is there a strong product-market fit? Is there a clear competitive advantage and reasonable barrier to entry? Will the investment impact other market participants and the efficient operation of Australian financial markets?
- **Impact fit:** How does the investment support public policy outcomes and perform against section 17 factors?
- **Governance:** Is there an experienced management team and evidence of operational and financial delivery? Does the business have robust governance and ESG practices?
- **Risk Tolerance:** Are the risks inherent in the transaction within the parameters of the organisation's approved risk appetite? 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.

Investment Approval – review of investment at Investment Committee and 'approval to invest' granted (per DOA) for successful proposals.

Investment – commercial & financial close to execute investment and announce.

Investment Management – ongoing monitoring and management of the investment over its lifecycle including development of investment management plans, routine investment reviews & valuations and portfolio management.

Exit – exit investment (i.e. equity) or repay loan (i.e. debt) to realise investment returns.

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.

We expect 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.

We consider 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.

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

Our Investment Mandate prescribes different portfolio benchmarks for the General Portfolio and each of the Sub-Funds.

- For the **General Portfolio**, we are required to target an average return of between 2 - 3 per cent (%) above the five-year Australian government bond rate as the benchmark return of the General Portfolio over the medium to long term.
- For the **Net Zero Fund**, we are required to target an average return of 1 per cent (%) below the five-year Australian government bond rate as the benchmark return of the Net Zero Fund over the medium to long term; and
- For the **Forestry Growth Fund**, we are required to target an average return of 1 per cent (%) below the five-year Australian government bond rate as the benchmark return of the Forestry Growth Fund over the medium to long term.
- For the **Economic Resilience Program**, we may only make investments in the form of loans with zero per cent interest. There is therefore no benchmark rate of return.

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

Our Corporate Plan outlines organisational performance measures of the NRFC as an organisation. These measures reflect the NRFC's stage of development and the priority we are giving to setting up the enabling frameworks to support investment.

Our performance measures also allow for continuous improvement. This means they will evolve as our organisation develops and our investment activity progresses. As we publish subsequent corporate plans, we will review these measures to ensure they show how we are achieving our purpose and facilitating flows of finance into growth areas of the Australian economy.

Risk Management

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.

The NRFC's key risk considerations include, but are not limited to:

- **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 non-compliance with our legislative framework and / or adverse proceedings arising from the NRFC's activities.

Portfolio-Specific Risk Appetite

Our Investment Mandate prescribes different risk appetites for the General Portfolio and each of the Sub-Funds.

- For the **General Portfolio**, we are required to seek to develop a diversified General Portfolio that has, in aggregate, an acceptable but not excessive level of risk. We may accept a higher level of risk than the risk tolerance of commercial banks and private sector investors, if this higher risk tolerance supports the objects of the Act and the Investment Mandate. This may consider that higher risks than are acceptable for other investments could be appropriate for investments in emerging technologies and industries, investments that support Australia's strategic interests or investments with long-term payback periods.
- For the **Net Zero Fund**, we are required to seek to develop a diversified portfolio that has, in aggregate, an acceptable level of risk, having regard to the terms of the Act and the Net Zero Fund's objectives. We may determine that the acceptable level of risk is higher than for the General Portfolio and may be higher than the risk tolerance of commercial banks and private sector investors, if this higher risk tolerance supports the objects of the Act and the Investment Mandate.
- For the **Forestry Growth Fund**, we are required to seek to develop a diversified portfolio that has, in aggregate, an acceptable level of risk, having regard to the terms of the Act and the Forestry Growth Fund's objectives. We may determine that the acceptable level of risk is

higher than for the General Portfolio and may be higher than the risk tolerance of commercial banks and private sector investors, if this higher risk tolerance supports the objects of the Act and the Investment Mandate.

- For the **Economic Resilience Program**, we are required to seek to develop a diversified portfolio that has, in aggregate, an acceptable level of risk, having regard to the terms of the Act and the Economic Resilience Program's objectives. We may determine that the acceptable level of risk is higher than for the General Portfolio and may be higher than the risk tolerance of commercial banks and private sector investors, if this higher risk tolerance supports the objects of the Act and the Investment Mandate.

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 and risk appetite, including:

- developing and sustaining an appropriate pipeline of investment proposals;
- pursuing an average return rate as set out in our Investment Mandate 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.

Environmental, Social and Governance (ESG)

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 Priority Areas. These considerations are integrated across due diligence, investment decision making, investment 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 investment management lifecycle. The NRFC has dedicated ESG resources as part of the Investment Team.