

## **‘Off-platform’ Project Finance - Loans**

### **Guidelines for Borrowers**

April 2017

### **TasBuild Purpose**

TasBuild is responsible for providing long service benefits to workers in the construction industry and ensuring that both employee entitlements are protected and the costs associated with providing for portable long service leave is a level playing field for employers in Tasmania’s construction industry.

As such, Board’s clear focus is on ensuring that benefits are available for members of the construction industry as they fall due. Since establishment TasBuild has grown its investment portfolio through conservative traditional investments to a level where provision of the benefits is stable and that there is a clear buffer available to deal with any significant downturn in investment markets. TasBuild refers to these investments as its ‘*On-platform*’ investments.

### **General Investment Principles**

TasBuild’s Investment Policy Statement outlines its five general investment principles as being:

1. Investments shall be made solely in the interests of the Fund.
2. Investments shall be made with care, skill, prudence and diligence.
3. Investment of funds shall be so diversified as to minimise the risk of large losses, unless under the circumstances it is clearly prudent to do so.
4. TasBuild may employ one or more investment managers to attain its investment objectives.
5. TasBuild is to monitor internal cash holdings and ensure cash is employed productively at all times.

### **‘Off-platform’ Investment Portfolio**

The Board of TasBuild has determined that one of the funds wider roles is that of fostering growth and employment opportunities in the construction industry through an ‘off-platform’ approach to investing a small portion of its portfolio. In determining this policy it has been mindful of three elements of the TasBuild Investment Policy Statement:

- Investments shall be made solely in the interests of the Fund.
- Investments shall be made with care, skill, prudence and diligence.
- Investment of funds shall be so diversified as to minimise the risk of large losses, unless under the circumstances it is clearly prudent to do so.

### **‘Off-platform’ Project Finance - Loans**

The type of investments that TasBuild will consider under their ‘Off-platform’ Project Finance - Loans will be:

- Property loans
- Construction loans

Any loans being considered must be consistent with the TasBuild objectives.

No investment to any one applicant will be more than 5% of the total value of the assets of the fund.

### **Key Guiding Principles**

In developing its ‘Off-platform’ portfolio, TasBuild has adopted four key guiding principles:

1. Good for the construction industry;
2. Have a positive economic impact;
3. Have a positive community benefit; and
4. Return rate to be commensurate with the level of risk.

### **Good for the construction industry**

TasBuild has the view that for an investment to be good for the construction industry it should meet the following criteria. It would:

1. Be a catalyst for additional building work securing industry jobs;
2. Benefit the Tasmanian economy and the general community; and
3. Provide TasBuild with an opportunity to increase its profile.

### **Return rate to be commensurate with the level of risk**

Through its fund managers TasBuild has determined a level of return that it generally aspires to from all its investment asset classes. Similarly TasBuild will look to gain a return, commensurate with the risk taken for off-platform style loans.

### **Loan Term**

Generally TasBuild’s preference is to provide short term Project Finance - Loans of periods less than five years:

- Construction loans - for a period that expires no more than 12 months after the ‘practical completion’ of the project.

### Mitigation of Risk

Risk with 'Off-platform' Project Finance - Loans is defined as:

- financial risks - ability to pay interest and any capital repayments
- security risk - the ability for TasBuild to recover its funds should the project fail; and
- industry risk - reputational risk to TasBuild, industry/market conditions, legislative risk, applicant's financial reputation or character, etc.

### Financial and Security Risks

TasBuild will seek to ensure that its interest component can be paid by the borrower either from the investment or other sources and that appropriate security is available.

The risk mitigation criteria to be adopted are:

- **Interest.** Cash flow information is to show a clear ability to generate cash from either the project or other resources so as to be able to pay TasBuild interest and/or capital repayments.
- **Capital Security.** The collateral offered should be sufficient to ensure that in the event of failure of the project that TasBuild can redeem its capital invested. Criteria to be adopted as a guide are:
  - Lending of no more than 70%<sup>1</sup> of the assessed value of property; or
  - A clear 40% excess of value of security over the loan value.

The valuation of any security offered will form a major part of any TasBuild due diligence assessment.

Valuations undertaken by the borrower will only be accepted when less than three months old and by a valuer known to TasBuild. Generally TasBuild will brief its own valuer (the cost of which being paid by the applicant).

### Industry Risk

An assessment will be required of at least the following:

- **Industry conditions.** Addressing the economics of the construction industry at the present time.
- **Market conditions.**
- **Character of the Applicant.**

***It is the applicant's responsibility to ensure that they are aware of the above guidelines and that in their application they convince the Board of TasBuild that they have provided information that addresses the "Key Guiding Principles" and "Industry Risk".***

<sup>1</sup> Percentage is within a +/- of the current industry practice for loans of this type and aligns with the LVR established previously by the Law Society for Mortgage Funds.