

Investment Thesis

Off-platform Investments

May 2021

Investment Thesis

This Investment Thesis outlines the principles which will guide the Board in establishing the appropriate management governance over the directly managed investments known as the Off Platform Investment Portfolio.

The Thesis will address such issues as:

- purchase and sale of investments;
- what action to take, when and why;
- documentation of decisions and actions; and
- allocation of responsibilities for decisions and actions.

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, the 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 are stable and there is a clear buffer available to deal with any significant downturn in investment markets. The main portfolio is invested through an implemented consulting approach contracted to Mercer and is referred to as the *On-platform* investments.

General Investment Principles

TasBuild's Investment Policy Statement outlines the following general investment principles:

- 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.
- TasBuild may employ one or more investment managers to attain its investment objectives.
- TasBuild is to monitor internal cash holdings and ensure cash is employed productively at all times.

Off-platform Investment Strategy

The Board of TasBuild has determined that one of the funds wider roles is that of contributing to 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 the Investment Policy Statement general investment principles and to ensure that the Off-platform Investments still comply with the strategic asset allocation and asset class range percentages as specified in the Investment Strategy to ensure the Off-platform investments do not distort the overall TasBuild portfolio investment strategy.

The amount to be allocated annually to Off-platform Investments will be from 0% up to a maximum of 20% of the total investments of the TasBuild portfolio with a target of 10% of the total investments of the TasBuild portfolio.

Off-platform Investment Oversight

Various reports will be tabled at each Investment Committee meeting addressing:

- the Off-platform investments held;
- the current valuations;
- the asset classes the individual assets belong to;
- the percentage of the total TasBuild portfolio;
- compliance with the TasBuild Investment Strategy; and
- commentary on any matters in relation the investments held that must be highlighted for Board/Investment Committee attention.

Off-platform Investment Classes

The types of investments that may be considered for inclusion in the Off-platform Portfolio include:

- real property;
- investment in companies or trusts investing in real property or providing finance for construction projects;
- interest bearing investments such as bank accounts or term deposits;
- loans for purchase or construction of real property; and
- any other investment option that complies with the guidance specified in this Thesis.

The asset allocation ranges for the off platform investment classes as a percentage of the total of off platform investments is as follows:

Investment Class	Allocation
Interest Bearing Deposits	15 - 40%
Loans	30 - 70%
Property	0 - 50%

Allocations to the above asset classes must also be managed by ensuring the off-platform asset classes do not cause the strategic asset allocations for these asset classes in the

total investment portfolio to unreasonably deviate from the nominated target percentages.

Off-platform Investment Due Diligence

Any investment to be considered for inclusion in the Off-platform portfolio must be thoroughly assessed to ensure TasBuild can have a high degree of confidence that:

- the investment complies with the investment principles and the strategic asset allocation and asset class ranges;
- the expected investment valuations should be achieved for the life of the investment;
- any investment security offered is legally available to be offered and meets the loan to value ratio criteria required;
- where required the legal representative of TasBuild has been engaged to protect TasBuild from a legal perspective;
- where the complexity of an investment option warrants it, an independent expert is engaged to provide the expert opinion to ensure the appropriate assessment has taken place; and
- documentation is maintained to support the actions taken, the assessment and the decision made.

Investment Loans

The types of loans that TasBuild will consider under their Off-platform Investment Portfolio will be property and construction loans.

Any investment loan being considered must be consistent with our investment objectives.

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

The below key guiding principles must be considered when evaluating an investment loan:

- Good for the construction industry;
- Have a positive economic impact;
- Have a positive community benefit; and
- Have an interest rate that is commensurate with the level of risk.

Good for the construction industry

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

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

Interest 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 investment loans.

Loan Term.

Generally TasBuild's preference is to provide short term construction finance loans for periods less than five years and will expire no more than 12 months after the 'practical completion' of the project.

Mitigation of Loan Risk

Risk with Off-platform Investment Loans are 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, applicants 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 75%* of the assessed value of property; or
- A clear 40% excess of value of security over the loan value.

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

The valuation of any security offered will form a major part of any TasBuild due diligence assessment. Valuations provided 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 - Cash flow documents and projected returns for the project.
- Character of the Applicant.

Off-platform Investment Evaluation Process

The Off-platform Evaluation Process must be followed to provide appropriate documentation and evidence for Investment Committee and Board consideration.