



Investment and Risk Policies

Board approved: 1 April 2026

Acknowledgment of Country

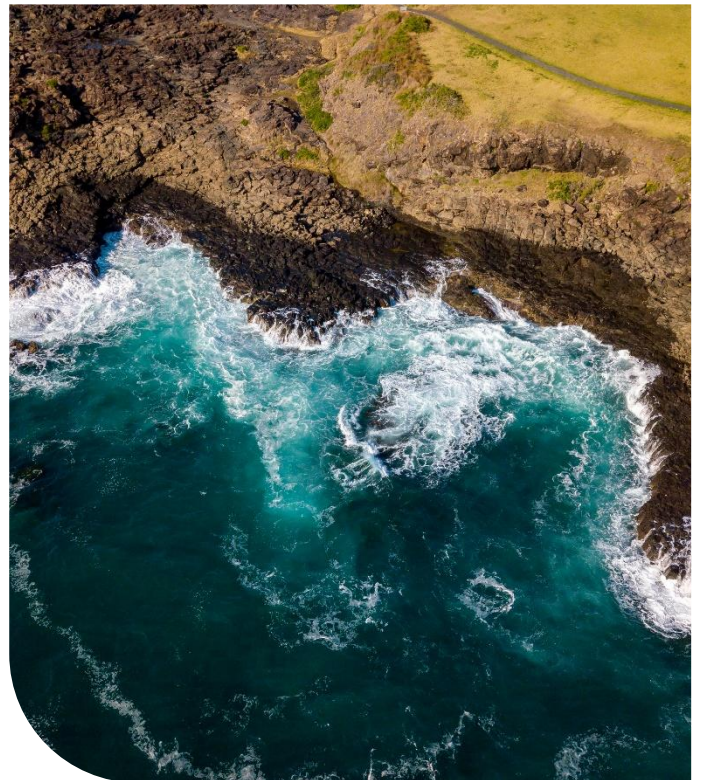
We acknowledge that Aboriginal and Torres Strait Islander peoples are the First Peoples and Traditional Custodians of Australia, and the oldest continuing culture in human history.

We pay respect to Elders past and present and commit to respecting the lands we walk on, and the communities we walk with.

We celebrate the deep and enduring connection of Aboriginal and Torres Strait Islander peoples to Country and acknowledge their continuing custodianship of the land, seas and sky.

We acknowledge the ongoing stewardship of Aboriginal and Torres Strait Islander peoples, and the important contribution they make to our communities and economies.

We reflect on the continuing impact of government policies and practices, and recognise our responsibility to work together with and for Aboriginal and Torres Strait Islander peoples, families and communities, towards improved economic, social and cultural outcomes.



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1. Purpose

The Investment and Risk Policies in this document have been prepared pursuant to section 29 of the Energy Security Corporation Act 2024 (NSW) (ESC Act).

This document outlines the Board endorsed Investment and Risk Policies that will guide the Energy Security Corporation (the **ESC**) investment strategies, activities, functions and operations to be consistent with the ESC Act and the Energy Security Corporation Investment Mandate (Investment Mandate).

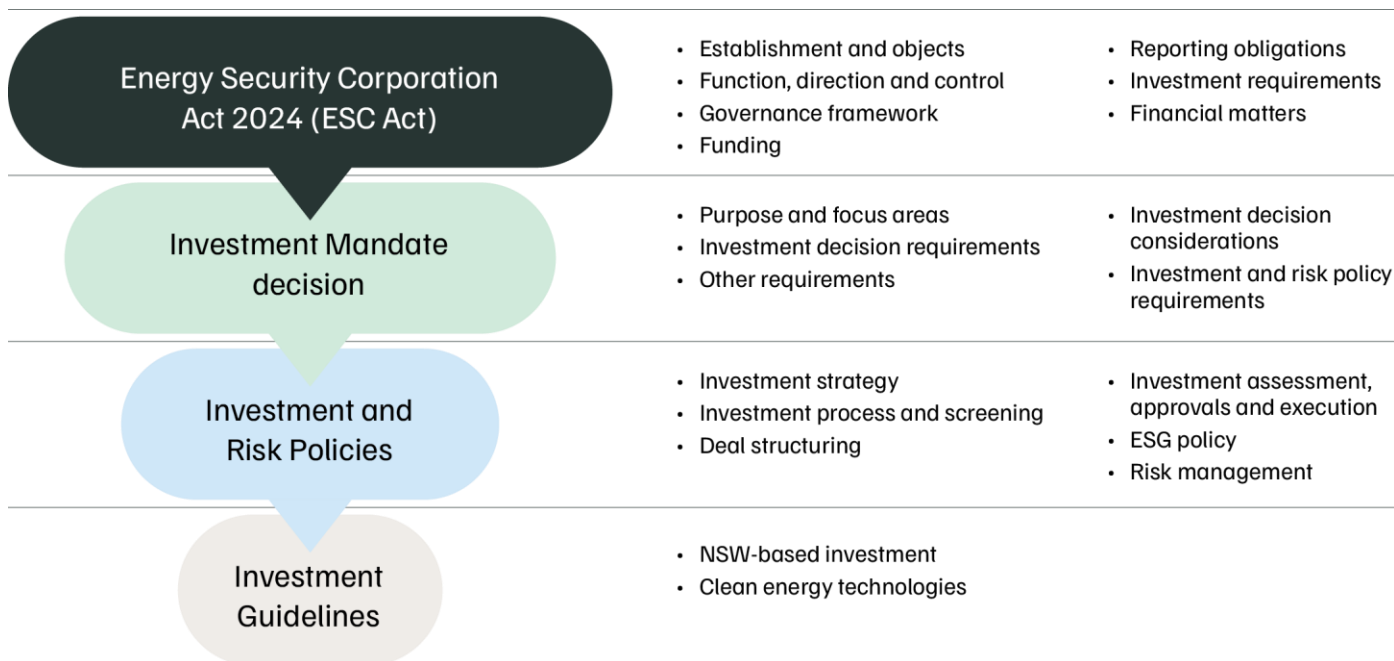
These Investment and Risk Policies have been updated to reflect the ESC’s latest Investment Mandate which directs the Board to deliver on its functions and the ESC Act by investing the ESC’s Operational Fund (**General Portfolio**) and the **Home Energy Saver Loan Fund** (see section 4A).

These Investment and Risk Policies are published under section 30 of the ESC Act. They will be reviewed by the Board if there is a change to the Investment Mandate and within 12 months of the first publication on the ESC’s website.

1.1 Investment and Risk Policies in context

The Investment and Risk Policies sit within the ESC legislative framework and interacts with the Investment Mandate and Investment Guidelines as outlined in Figure 1.

Figure 1 - Investment policies diagram



2. Investment strategy – General Portfolio

The ESC's mandate for the General Portfolio is to accelerate investment in large-scale storage and enabling infrastructure to support a reliable and secure electricity system for New South Wales.

The ESC seeks to invest in projects and opportunities that:

- align with its Investment Mandate (see section 2.1) and strategic priorities
- deliver new capacity or greenfield assets
- support strong, capable sponsors and address project funding gaps
- crowd in private lenders and equity by absorbing risks that commercial capital will not take
- where possible, catalyse Financial Investment Decision (FID) and/or bring forward Commercial Operation Date (COD)
- where possible, extend the duration of storage
- for Consumer Energy Resources (CER), present an opportunity to invest in platforms or portfolios of distributed assets to achieve the necessary scale.

To achieve our objectives, the ESC's approach is to:

- structure its investments through debt, equity or hybrid instruments, utilising concessionality where required, to address project financing gaps
- co-invest with or crowd-in private sector investors
- align and coordinate with key entities across government, where appropriate, to accelerate private capital deployment and projects
- apply commercial rigour and best practice in carrying out our investment function
- act nimbly and decisively.

2.1 Investment mandated objectives

The ESC's legislative objectives are:

- a) to accelerate private sector investments in clean energy projects in New South Wales that improve the reliability, security and sustainability of electricity supply
- b) to support New South Wales to achieve the targets for reducing net greenhouse gas emissions under the *Climate Change (Net Zero Future) Act 2023*
- c) to complement other government initiatives relating to clean energy technologies and partner with the private sector to finance clean energy technologies
- d) to achieve a government-mandated rate of return through a portfolio approach.

Additionally, investments may contribute to targets under the *Electricity Infrastructure Investment Act (EII Act)*, the Essential System Services (ESS) and the Peak Demand Reduction Scheme (PDRS) in the *Electricity Supply Act 1995 (NSW)*.

The Investment Mandate for the General Portfolio lists the following focus areas for the Board to prioritise when making investment decisions:

- a) utility-scale storage projects to cover long periods of lower-than-expected variable renewable energy availability, which is of 8 hours in duration or greater
- b) utility-scale storage projects between 4 to 8 hours in duration
- c) utility-scale storage projects, up to 4 hours in duration, connected to a distribution network
- d) energy generation, storage and end-use equipment that is located on the customer side of the electricity metre including, but not limited to, virtual power plants (VPPs)
- e) system security and network infrastructure.

2.1.1 Portfolio limits – General Portfolio

The geographic and sector-specific purpose of the ESC limits the scope for diversification as a risk mitigant. At the portfolio level, diversification and concentration guidelines will operate as part of a risk management strategy. The objective is to mitigate the impact on the overall portfolio returns of any potential investment losses due to overweight concentrations or systemic sector risks.

The ESC Act and the Investment Mandate also specify certain portfolio limits as set out in Table 1. As part of the investment process, the Board may from time to time set additional portfolio construction limits to deal with concentration, development, technology and other risk issues.

Table 1 - Portfolio limits

Item	Mandated portfolio limits
Debt	The majority of the seed capital will be invested through a mix of debt instruments (see Table 5).
Equity	The value of equity investments in the portfolio is limited to \$300 million, based on the initial value invested not the mark-to-market value over time.
Investment threshold	The minimum amount of an individual investment is \$25 million, and the maximum amount is \$150 million based on the initial value invested.
Concessionality	The amount of concessionality provided in any financial year is limited to \$100 million for investments made in that year.
Guarantees	The total value of all outstanding guarantees at any time is limited to 5% of the total amount that has been credited to the ESC Fund under section 39 of the Act.

2.1.2 Other considerations

As well as the ESC Act objectives and the Investment Mandate focus areas, the ESC Act and the Investment Mandate also include other investment considerations, including those set out in sections 3.2.1 and 5.3.

Investment considerations and portfolio limits are incorporated into the investment strategy through the investment screening process, deal structuring, and investment assessment processes outlined in sections 3, 4 and 5.

2.2 ESC performance measures – General Portfolio

The performance of the ESC and its investments will be measured according to a mix of quantitative and qualitative performance metrics.

The metrics assess the effectiveness of the ESC in deploying the invested capital, achieving its legislated objectives, and adhering to the parameters set out in the Investment Mandate and other governance requirements. Table 2 provides a summary of the initial ESC and investment performance metrics.

Table 2 - Performance metrics

Metric	Description
Capital deployment	The ESC aims to deploy its capital in a timely fashion to ensure that it can meaningfully contribute to the state's energy transition. This will be measured in the dollar amount deployed annually.
New capacity facilitated	The ESC aims to invest in clean energy technologies to facilitate additional renewable energy capacity. This will be measured in MW and MWh of additional capacity facilitated by invested projects.
Catalysed co-investment	The ESC Act legislates the objective of catalysing private sector investment in clean energy technologies. This will be assessed as the amount of private sector investment proportionate to the amount of investment provided by the ESC on a portfolio basis.
Medium to long-term portfolio return	The ESC Act and Investment Mandate provides a medium to long-term rate of return that the ESC must target at a portfolio level. This will be measured as a portfolio weighted return against the target return in the Investment Mandate.

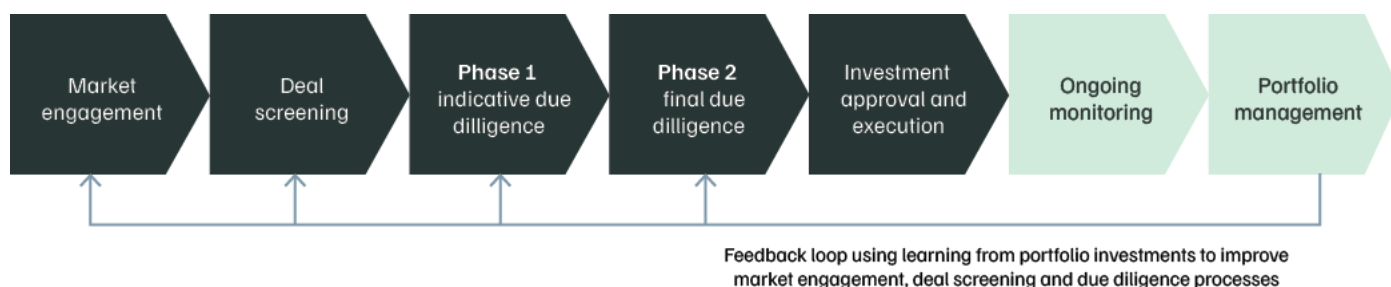
3. Investment process

The investment process may be activated by an enquiry from or a direct approach to a project or program proponent that potentially falls within the scope of the ESC’s legislative objectives, Investment Mandate and this investment strategy. The investment process reflects that each potential investment opportunity will be separately assessed through a screening process and necessitate the development of flexible and tailored financing solutions. The Board is ultimately responsible for prioritising individual investment decisions to deliver on the ESC legislated objectives and the Investment Mandate.

3.1 Overview of the investment process

To ensure that the ESC maximises the utility of its invested capital, the pipeline of potential investments will undergo a rigorous investment process. This involves early market engagement, deal screening, a preliminary investment assessment, and deal structuring followed by a detailed due diligence investment assessment process and documentation before the investment agreements are executed and an investment commitment is made.

Figure 2 - Investment process summary



3.2 Investment screening

There are a large number of development projects which are being progressed by proponents which could potentially fall into the remit of the ESC. To ensure that the ESC's limited resources are applied to the greatest effect, all projects considered by the ESC will undergo a deal screening process to ensure that the ESC's resources and capital are applied to projects which are most aligned with the objectives set out in the ESC Act, the Investment Mandate, and any other requirements.

3.2.1 Mandatory eligibility screen

The ESC will screen investment opportunities to ensure compliance with mandatory eligibility criteria:

Table 3 - Mandatory eligibility criteria

Item	Description
Investment Mandate focus areas	Compliance with one of the five Investment Mandate focus areas.
New South Wales based	The ESC will screen the pipeline to ensure that proposed investments are solely or mainly based in New South Wales. Guidance on 'New South Wales based' will be published on the website.
Clean energy technologies	The ESC will screen investments to ensure that they are 'clean energy technologies' businesses or projects. Guidance on 'clean energy technologies' will be published on the website.
Not prohibited	The ESC will not proceed with any excluded investments, which includes, nuclear technology or nuclear power; technology for carbon capture and storage within the meaning of the <i>National Greenhouse and Energy Reporting Act 2007</i> of the Commonwealth; or electricity generated from wood waste or biomass from timber native to Australia.
Proven technology	The ESC looks to finance mature technologies with a commercial readiness level of 3 and greater and a technology readiness level of 9. ¹
Size of investment	The ESC will screen to ensure that the expected amount to be invested is \$25 million to \$150 million.
Strong counterparty/proponent	The ESC will look for investments where the relevant counterparty or proponent does not have material, ongoing and unmitigated adverse misconduct or reputational issues.

¹ [Technology-Readiness-Levels.pdf](#)

3.2.2 Investment merit screen – General Portfolio

The ESC will merit screen investment opportunities to assess their alignment with the investment strategy and ESC’s risk appetite. The approach to screening described here provides a general framework for assessment. The merit of each individual investment is determined on a case-by-case basis. The ESC will also consider the portfolio outcomes for the target rate of return, risk profile and portfolio limits.

Table 4 - Merit screen criteria

Item	Description
Investment Mandate focus areas	Compliance with one of the five Investment Mandate focus areas and any strategic priority focus areas within the mandate.
Strategic value to New South Wales	Investments in projects or opportunities that: <ul style="list-style-type: none"> • deliver new capacity or greenfield assets • enhance system reliability and strength • where possible, bring forward project delivery (including both FID and/or COD) • where possible, extend the duration of storage.
Strong counterparty/proponent	The relevant counterparty and/or proponent brings strong credit quality, capability, experience and/or track record in developing, delivering, operating and/or owning clean energy technologies, projects and companies.
Necessity/financing gap	The ESC’s involvement is required to close the financing gaps for the project.
Accelerate and crowd in	The ESC will ensure that there is existing co-financier support and that third party equity and/or debt capital is crowded into the investment. The ESC will consider the potential effect of the proposed investment on other market participants.
Risk-return profile	The ESC will screen deals to proceed to due diligence where the investment risk and return profile is attractive to the ESC after taking into account the strategic value of the investment and a broad-based assessment of the merit and risk profile.

4. Deal structuring – General Portfolio

The ESC will seek to structure deals according to the individual characteristics of each considered project whether this be through the use of various tailored financial instruments, the provision of flexible investment terms, or the provision of concessionality.

4.1 Investment instruments

The ESC is capable of providing an array of flexible financial instruments which can be tailored to suit the needs of an individual project. These instruments can take a variety of forms with differing risk profiles (see Table 5). The ESC can also invest directly or indirectly, including into a special purpose vehicle with non-recourse finance, asset backed finance or company finance.

Table 5 - Finance instruments

Instrument	Consideration
Senior debt / first ranking	While the ESC can provide senior debt financing to projects, the intention is for the ESC to <u>not</u> crowd out the private sector and as such, is not expected to sit in a standard senior debt stack where there is sufficient private capital interest.
Subordinated/mezzanine debt	The ESC can help to supplement existing debt financing by taking on varying degrees of subordination to senior debt. Subordinated debt can be tailored to fill a particular gap in the debt stack, offsetting risks that the private sector is unwilling to take on.
Convertible debt/preferred equity	The ESC can provide hybrid financing instruments through convertible debt or preferred equity, taking on a mix of debt-like and equity-like risk characteristics without directly diluting the existing pool of common equity financing.
Common equity	The provision of equity will be considered judiciously to ensure that such an investment meets the ESC's objectives. The ESC is cognisant that taking a majority interest in a project can crowd out other private sector investors from the sector.
Guarantees	<p>The ESC can provide guarantees to projects, noting that the ESC preferences other financial instruments where possible.</p> <p>The ESC can provide guarantees for the repayment of a loan (including interest), only if:</p> <ul style="list-style-type: none">• the loan or commitment is a loan or commitment that could have been made by the ESC in exercising its investment function• the guarantee is limited and quantifiable.

4.2 Size of investment

The size of each investment is limited to a minimum of \$25 million and a maximum \$150 million.

4.3 Risk and return

The Investment Mandate allows the Board to exercise discretion in structuring the ESC's investment portfolio in accordance with a risk tolerance which can exceed that of commercial banks and other private sector investors. This will allow the Board to structure the ESC's investments to flexibly fill market gaps, catalyse private sector investments and achieve the objectives set out in the ESC Act.

The medium to long-term target portfolio rate of return is equal to the 5-year NSW Treasury Bond rate + 1.5%.

4.4 Terms

The ESC has the flexibility to structure the terms of an individual investment. Key terms for a debt investment include tenor, priority, amortisation and interest capitalisation profiles. Key terms for an equity investment include governance rights, dividend policy and transfer rights.

4.5 Concessionality

The ESC can offer concessional terms when structuring its investments depending on the importance of a particular project and its alignment with the objectives set out in the ESC Act. Before offering concessional terms, the Investment Mandate requires the ESC Board to be certain that the provision of such terms is essential to meeting the ESC's objectives, that the level of concessionality is proportionate to the anticipated economic benefits and public policy outcomes, and that the level of concessionality offered is the minimum required to achieve the proposed benefits.

The Investment Mandate requires that the Board ensure that the total amount of concessionality each year does not incur a concessional expense which is greater than \$100m. This expense reflects the mark-to-market valuation of loans made that financial year and should be measured as the difference between the present value of each loan at market rates and the present value of each loan at the given concessional rate.

4A Deal structuring – Home Energy Saver loan program

4A.1 Investment strategy

The ESC's Investment Mandate includes supporting the private sector to provide loans or funding to incentivise the uptake of eligible clean energy technologies, for home energy upgrades for NSW-based residential dwellings.

To achieve the ESC's mandated objectives for the Home Energy Saver loan program, the ESC's investment strategy is to:

1. Increase the uptake of residential home energy upgrades across NSW – including owner-occupiers, renters and strata dwellings.
2. Catalyse private-sector lending into home energy upgrades through a targeted, time-bound initiative. Establish strategic partnerships with private-sector stakeholders.
3. Deploy \$480 million to drive market participation and momentum.
4. Lower household energy bills through improved efficiency, electrification and smarter energy use.
5. Reduce emissions from the residential sector.

4A.2 Investment screening

Investment screening for the Home Energy Saver loan program will be guided by the following evaluation criteria:

1. Overall quality of the proposal and its alignment with the objectives for the Home Energy Saver loan program.
2. Demonstrated pre-existing capability to deliver financial products aligned with the purpose of the Home Energy Saver loan program.
3. The merits of the proposal given the objectives set out for the Home Energy Saver loan program.
4. Relevant unique or innovative elements of the proposal that accelerate, scale or transform the sector, and deepen the impact and benefits for households.
5. Value for money and the nature of financial structure.
6. Strategy and market alignment of the proposal, including to the ESC's purpose.

4A.3 Risk and Return

In addition to the risk considerations applicable to all ESC investments, Home Energy Saver loan program investments are assessed with specific regard to:

- portfolio credit risk, including expected loan losses, concentration and correlation risks
- origination, underwriting and servicing standards applied by finance partners

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- consumer, regulatory and conduct risk, reflecting the retail and policy sensitive nature of the Home Energy Saver loan program
 - data, reporting and transparency risk; and
 - liquidity, repayment flow and wind-down risk.

There is no mandated target rate of return on the portfolio of investments under the Home Energy Saver loan program.

The Board must target an acceptable, but not excessive, level of loan loss risk and seek to maximise principal repayment of amounts invested.

4A.4 Terms

The ESC has the flexibility to structure the size and terms of an individual investment to deliver the Home Energy Saver loan program.

4A.5 Concessionality and performance

The Board will apply concessionality in line with the objectives for the Home Energy Saver loan program. Concessionality reflects the difference between the fair value of loans made at market rates and the present value of loans made at the given concessional rate.

In managing concessionality and risk under the Home Energy Saver loan program, the ESC:

- targets an acceptable level of loan loss risk consistent with public policy objectives
- seeks to maximise principal repayment over the life of the Home Energy Saver loan program; and
- periodically reviews investment practices and portfolio performance and provides advice to the responsible Minister as required by the Investment Mandate.

4A.6 Investment process

Except as expressly modified by this section, the same investment process, governance framework, due diligence standards and risk management principles set out elsewhere in these Investment and Risk Policies apply to Home Energy Saver loan program investments.

Reflecting the programmatic and portfolio-based nature of the Home Energy Saver loan program, the application of the investment process may be adapted proportionately to focus on portfolio-level, counterparty and structural risks, rather than assessment of individual underlying loans.

5. Investment assessment

5.1 Overview

In carrying out its investment function, the Investment Mandate requires the Board to ensure that the merit of each investment is assessed with an appropriate degree of commercial rigour. To that end, the ESC will undertake thorough due diligence to identify the investment risks and to mitigate or price the risk as appropriate.

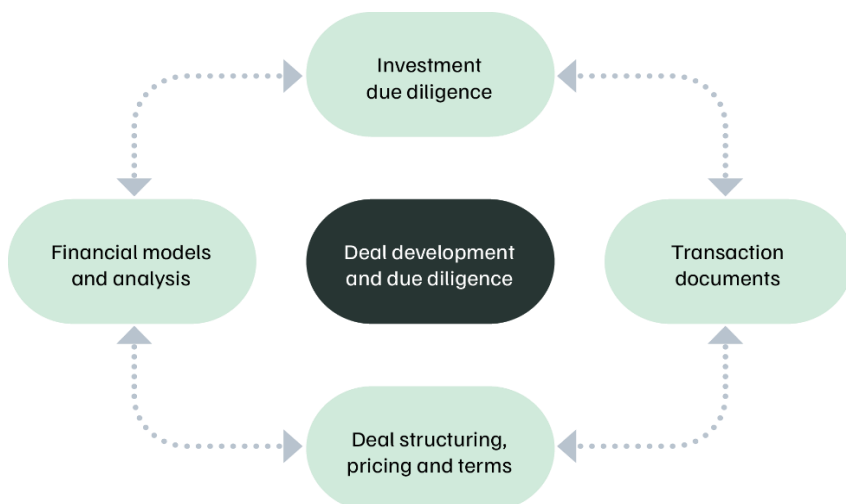
5.2 Due diligence assessment

The scope of the due diligence conducted during the ESC's investment process will be adapted to suit the characteristics of the project, accounting for varying factors such as the financial instrument used, and the unique risks associated with each project. Broadly speaking, this scope may include:

- Strategy
- Market
- Sponsor/counterparty
- Credit and financial
- Technical
- Legal, regulatory and compliance
- Commercial
- Deployment capabilities
- Vendor and supplier management
- Insurance
- Financial model and audit
- Portfolio impacts
- Community engagement
- ESG (as detailed in Section 5.3)
- Public policy outcomes
- Reputation to NSW Government

The due diligence process will heavily inform the tailoring of the ESC's investment in each project. Characteristics and risks unique to a particular project will dictate the terms and type of financing offered during the deal structuring process. This will be an iterative process and is summarised in Figure 3.

Figure 3 - Deal development and due diligence



5.3 ESG Policy

Effective management of investment and reputational risks, including matters related to environmental, social, labour and governance (ESG) issues will over the long-term support effective delivery of the ESC objectives. The Board has incorporated this perspective into the investment decision processes and criteria set out in this policy.

5.3.1 Scope of ESG

The ESC investment process includes consideration, where relevant, of the following ESG factors:

Table 6 - ESG considerations

Item	Consideration
Climate-related risks and opportunities disclosures	The ESC will consider investments for their climate-related risks.
Social licence and circular economy	The ESC will consider (i) community engagement activities and plans which seek positive community outcomes; and (ii) investments that incorporate circular economy principles in asset management practices.
Environmental impact	The ESC will consider the proponent, construction contractor and/or the majority equity sponsor for unaddressed serial or material offences of Australian environmental law.
Business conduct and ethics	The ESC will consider the proponent, construction contractor and/or the majority equity sponsor for unaddressed serial or material offences regarding anti-corruption, anti-bribery and anti-competitive conduct. The ESC will consider the investment for its <i>Modern Slavery Act 2018</i> (NSW) requirements.
New South Wales Industry	The ESC will consider the investment's approach to New South Wales Industry support (including participation, skills and training plans).
First Nations	The ESC will consider the investment for its ability to create positive economic and/or cultural impacts to First Nations peoples.

6. Investment approvals and execution

All ESC investments require approval from the Board. The Board may delegate the execution of the final transaction documents to members of the Executive Team.

The Board will operate with impartiality and according to its Code of Conduct. The Board will avoid conflicts of interest and undue influence through the declaration and management of interests and contacts. Any direct approach to a Board member that in any way relates to a potential investment will not be considered.

7. Risk management

Section 29(1)(c) of the ESC Act requires the Board to formulate written policies with respect to risk management for the ESC investments and the ESC itself.

The Board has formulated the ESC appetite for risk in the Risk Appetite Statement (**RAS**) in Section 8 to define the risk boundaries for the ESC in pursuit of its objectives.

As a prudent investor, the ESC is conscious that return does not come without risk and that the level of investment returns should be commensurate with the risk assumed.

An investment strategy that is too risk-averse would not allow the ESC to fulfil its statutory objective and public policy purpose. On the other hand, an approach which is too tolerant of investment risk could lead to higher than acceptable capital losses.

The ESC operates under a sound enterprise Risk Management Framework designed to identify and effectively manage risk.

The Risk Management Framework focuses on six pillars of risk management activity, to ensure a holistic approach to risk management on an enterprise basis and across all business disciplines. The six pillars of risk management activity applicable to the ESC business are:

1. Strategic
2. Investment
3. Financial
4. Operational and people
5. Regulatory and compliance
6. Reputation.

These functional pillars work progressively and collectively to identify and manage risks and thereby reduce the effects of uncertainty on objectives, in accordance with the International Standard on Risk Management, known as ISO31000:2018. In combination, these activities and the underlying supporting policies, procedures and documentation form the ESC Risk Management Framework.

8. Risk Appetite Statement

The ESC's RAS defines the broad boundaries within which the ESC pursues its strategic objectives. It also guides the risk appetite and limits applied to both financial and non-financial risks. The RAS recognises that:

- The ESC has a higher strategic and investment risk tolerance than that of commercial banks and other private sector investors to effectively fill the market gap and catalyse private sector investments.
- As a general government sector agency, the ESC has certain legislative and ministerial obligations of which it must comply with and thus does not intend to tolerate regulatory, compliance, reputational, people and operational risks.

The RAS is reviewed annually by the Board Audit and Risk Committee.

The ESC executive and management teams are responsible for operating the business within the approved risk limits. The Chief Risk Officer (CRO) is responsible for ensuring the risk appetite is translated into sufficiently robust operational guidelines, limits and metrics that are monitored and regularly reported on.

Table 7 - Risk tolerance and appetite

Risk category	Relative level of risk appetite		Risk Appetite Statements
	Lowest	Highest	
Strategic			The ESC has a high appetite for strategic risks
Investment			The ESC has a moderate appetite for investment risks on a portfolio level. The ESC has a moderate to high appetite for risk in each underlying investment.
Financial			The ESC has a moderate appetite for financial variability risks. The ESC has a low appetite for liquidity or business interruptions financial risks.
Operational and people			The ESC has a low appetite for operational and people risks.
Regulatory and compliance			The ESC has a low to minimal appetite for compliance risks.
Reputation			The ESC has a low appetite for reputational risks.

The Energy Security Corporation is a government-backed clean energy investor with a clear public mandate: to accelerate investment in large-scale storage, enabling infrastructure and consumer energy resources to support a reliable and secure electricity system for New South Wales. Our role is to unlock private capital by co-investing in clean energy projects that support energy system reliability. With flexible financing tools, we help close investment gaps and move priority projects forward.

Through targeted, catalytic investment, we are accelerating the delivery of critical energy projects and securing the electricity system New South Wales needs, now and into the future.