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GOVERNANCE, STRUCTURE AND PEOPLE

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GOVERNANCE, STRUCTURE AND PEOPLE

The CEFC is an Australian Government entity, and reports to Parliament through its Responsible Ministers. The CEFC is constituted as a Commonwealth statutory authority by the *Clean Energy Finance Corporation Act 2012*.

The governance structure of the CEFC is determined by:

- The CEFC Act, and
- The *Public Governance, Performance and Accountability Act 2013*, and
- By policies, procedures and systems established by the Board and Management.

The CEFC Act provides for a governing Board made up of Australian Government appointees. These in turn appoint the Chief Executive Officer (a statutory officer) and staff, employed under such terms and conditions as the Board sees fit.

The Corporation's investment function is to invest in the clean energy technology areas of renewables, energy efficiency and other low emissions technologies.

The investment process is governed by the CEFC Act; an Investment Mandate from Responsible Ministers that sets out the direction to be taken by the CEFC in relation to risk and return; and Board-made Investment Policies.

The CEFC is funded by $10 billion of special appropriations through the CEFC Act, rather than through the annual Federal Budget process.

Ultimate authority resides in the Board, unless delegated to the CEO, or from the CEO to the Corporation's staff. The Board has established two committees to assist it in governance of the Corporation: Audit and Risk, and Remuneration and HR.

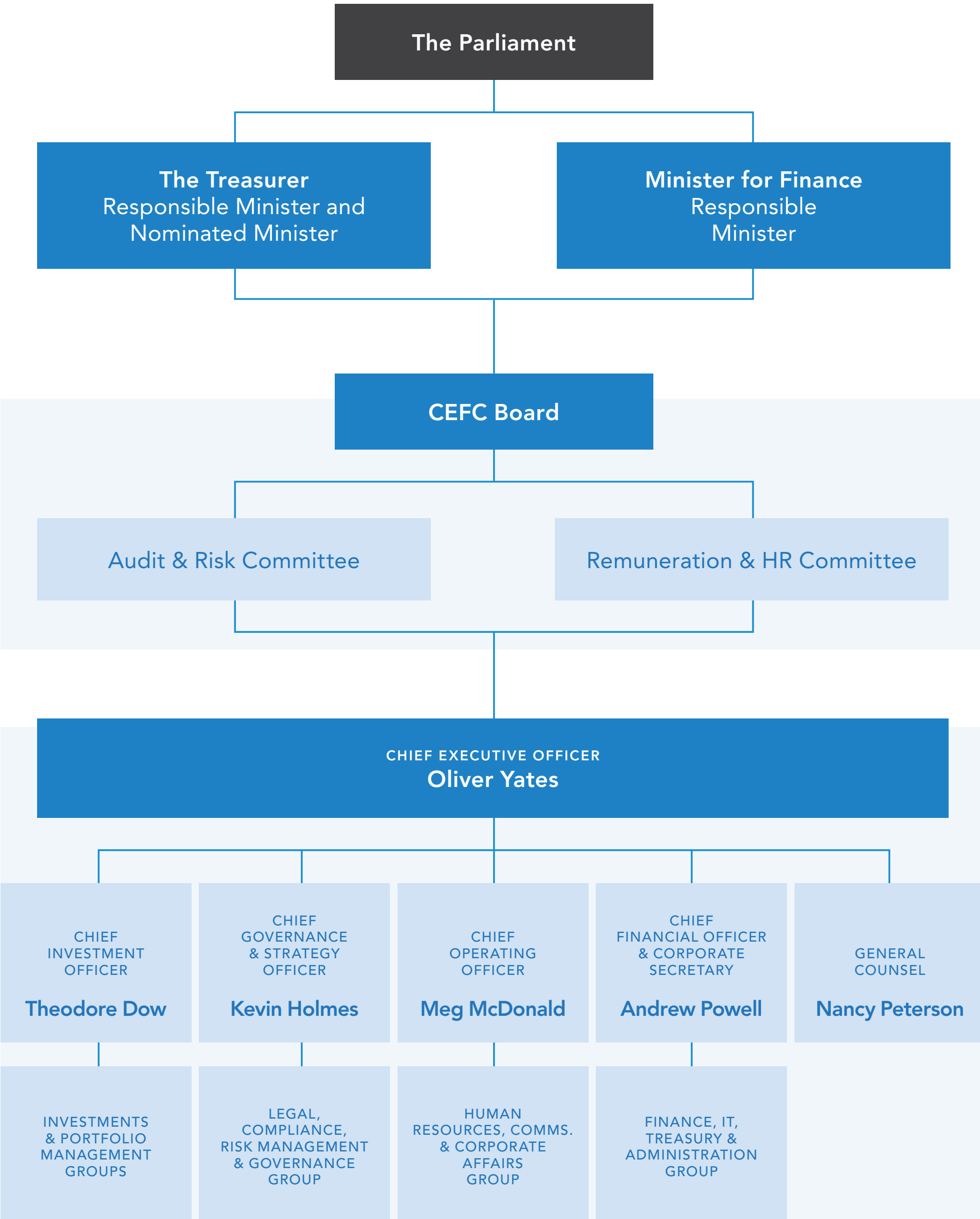
The CEO has responsibility for the day-to-day management of the Corporation, and the Corporation has been structured with a leadership group of four supporting executives (collectively, 'the Executive').

The Executive is supported by the General Counsel and the CEO has established three committees to assist in day-to-day management: the Executive Investment Committee; the Asset Management Committee and the Executive Risk Committee.

During the reporting period, the Corporation had no subsidiaries.

A diagram illustrating the Corporation's structure is set out in Figure 22.

Figure 22: CEFC organisational structure 2014–15



After the close of the 2014–15 financial year, under revised AAOs of 21 September 2015, responsibility for the CEFC transferred to the Environment portfolio, under Responsible Ministers, the Hon Greg Hunt MP, Minister for the Environment, and Senator the Hon Mathias Cormann, Minister for Finance.

RESPONSIBLE MINISTERS

The CEFC has two Responsible Ministers, and for the 2014–15 year sat within the Treasury portfolio.

Under the CEFC Act, the Responsible Ministers are the Treasurer and the Finance Minister. During the reporting period this was the Hon Joe Hockey MP as Treasurer and Senator the Hon Mathias Cormann, as Finance Minister, with no changes.

The Nominated Minister is one of the Responsible Ministers who exercises additional powers and functions under the CEFC Act. The CEFC Act provides that the Responsible Ministers must determine between them which is to be the Nominated Minister. The Treasurer is designated as the Nominated Minister by the *Clean Energy Finance Corporation (Nominated Minister) Determination 2012* agreed and made 7 February 2013.

There were two Administrative Arrangements Orders (AAOs) current during the 2014–2015 year, and each of them affirmed that primary responsibility for administration of the CEFC's enabling legislation remained with the Treasurer.

Note that after the reporting period, on 21 September 2015 amendments were made to the AAO to transfer the CEFC Act from the Treasury portfolio to the Environment portfolio.

In consequence, this Annual Report is transmitted to the Hon Greg Hunt MP, Minister for the Environment, and Senator the Hon Mathias Cormann, Minister for Finance.

Ministerial powers of direction

The CEFC Act is structured in such a way as to maximise operational independence (particularly in regards investment decision making), and Ministerial powers to direct under that Act are limited, primarily to the Investment Mandate (see discussion on the Investment Mandate on page 109).

The CEFC also requested and on 18 February 2015 received a Ministerial Direction to pay monies the Board identifies as surplus back into the Special Account. This reflects the fact that the CEFC was not conceived as having a large cash management function.

Apart from the Investment Mandate, the CEFC did not receive any other Ministerial Directions under the enabling legislation or other legislation during the reporting period.

MEMBERS OF THE CEFC BOARD

The following individuals were all Members of the CEFC Board throughout the year. All Board Members serve in a part-time, independent and non-executive capacity.

Ms Jillian Broadbent AO
Chair

Ms Broadbent has had a distinguished career in the banking sector. In 2003, she was made an Officer of the Order of Australia for service to economic and financial development in Australia and the community through administrative support for cultural and charitable groups. Ms Broadbent was a member of the board of the Reserve Bank of Australia from 1998 to 2013.

Ms Broadbent also serves on the board of Woolworths Limited, is chair of the board of Swiss Re Life and Health Australia Limited and Chancellor of the University of Wollongong. She was a director of ASX Limited (February 2010 to October 2012), Special Broadcasting Corporation (SBS), Qantas Airways Limited, Westfield Property Trusts, Woodside Petroleum Limited and Coca-Cola Amatil Limited (1999–2010).

The CEFC benefits from Ms Broadbent's leadership, reputation and experience gained over her career and as chair of the CEFC Expert Review Panel.

Ms Broadbent was appointed with effect from 7 August 2012 for five years.

Mr Paul Binsted
Member

Mr Binsted has extensive experience in investment banking and other aspects of corporate financial advice. Mr Binsted's breadth of experience comes from his previous position as managing director and joint CEO of Lazard in Australia, and senior roles with other investment banks, including Citigroup Australia.

Mr Binsted was a member of the Australian Financial Forum (Johnson Report) Panel of Experts into growing the Australian Financial Services Industry. He is also a former chairman of both the State Rail Authority of NSW and the Sydney Ports Corporation.

Mr Binsted was appointed with effect from 6 February 2013 for five years.

Mr Michael Carapiet
Member

Mr Carapiet is chair of the Safety, Return to Work and Support Board covering Workers' Compensation Insurance, Motor Accidents Authority and Lifetime Care in NSW. He is the chair of Smartgroup Corporation Limited and chair of Adexum Capital Limited.

Mr Carapiet is a board member of Infrastructure Australia and Link Group, and on the advisory board of Norton Rose Australia. He was the deputy chair and board member of the Export Finance and Insurance Corporation from 2005 to 2011.

Mr Carapiet retired from Macquarie Group in July 2011, having joined Macquarie in 1985. He held several senior executive roles at Macquarie, and was a member of the Executive Committee from 2005 until his retirement, when he was executive chairman of Macquarie Capital and Macquarie Securities.

Mr Carapiet was appointed with effect from 7 August 2012 for five years.

Mr Ian Moore
Member

Mr Moore was a member of the CEFC Expert Review Panel in 2011 and 2012. He has 22 years of banking and finance experience, predominantly at Bankers Trust. He was the head of the Bankers Trust corporate finance business and a member of the bank's Credit Committee.

Mr Moore was previously a board member and on the audit committee of the responsible entity for four listed and one unlisted Challenger Infrastructure and Property Funds. He was also previously on the advisory committee for the Challenger Emerging Markets Global Infrastructure Fund. He was also a board member and chair of the risk committee of hedge fund Artesian Capital Management.

Mr Moore was appointed with effect from 7 August 2012 for five years.

Ms Anna Skarbek
Member

Ms Skarbek is CEO of ClimateWorks Australia. She has previously worked in investment banking in London, at Climate Change Capital, and in Melbourne at Macquarie Bank, and as senior policy adviser to the Victorian Deputy Premier.

Ms Skarbek is also a trustee of the Sustainable Melbourne Fund and a member of the Grattan Institute's Energy Program Reference Panel. She is a former director of the Carbon Market Institute, Linking Melbourne Authority, Amnesty International Australia and The Big Issue Australia. Ms Skarbek was a member of the Australian Government's Energy White Paper Reference Panel, Land Sector Carbon and Biodiversity Board and NGO Roundtable on Climate Change.

Ms Skarbek holds First Class Honours Degrees in Commerce and Law from Monash University and is a Graduate Member of the Australian Institute of Company Directors.

Ms Skarbek was appointed with effect from 7 August 2012 for five years.

Mr Andrew Stock
Member

Mr Stock is an experienced professional having spent more than 40 years in the energy sector, including in senior management roles in petroleum and petrochemical companies in Australia and overseas. Mr Stock is a director of Alinta Holdings and Horizon Oil Limited, and past director of Geodynamics Limited and Silex Systems Limited.

In his previous long career at Origin, Mr Stock was responsible for Origin's major capital developments in upstream petroleum, power generation and low emissions technology businesses. He is chair of the Energy Advisory Boards at Adelaide and Melbourne Universities.

Mr Stock was appointed with effect from 7 August 2012 for five years.

Mr Martijn Wilder AM
Member

Martijn Wilder AM is a partner with Baker & McKenzie where he established and heads the firm's Global Environmental Markets and Climate Change practice. Mr Wilder is also an adjunct professor of Law at the Australian National University and an affiliate of the Cambridge Centre for Climate Change Mitigation Research, Department of Land Economy at the University of Cambridge.

His other roles include: chair of the NSW Climate Change Council; governing board member of the Renewable Energy and Energy Efficiency Partnership; a director and governor of the World Wildlife Fund; a director of the Climate Council and a member of the Wentworth Group of Concerned Scientists. In 2015, Mr Wilder was appointed to chair the Victorian Government's Independent Review Committee of its Climate Change Act. Mr Wilder was previously chairman of Low Carbon Australia.

Mr Wilder holds a Bachelor of Economics (Hons) from the University of Sydney, LLB Honours from the Australian National University, LLM from the University of Cambridge and has studied at the Hague Academy Centre for Studies and Research in International Law and International Relations. He is also a Graduate Member of the Australian Institute of Company Directors.

Mr Wilder was appointed with effect from 6 February 2013 for five years.

ABOUT THE BOARD

The Corporation is governed by a Board consisting of a Chair and between four and six other Members, each appointed by the Responsible Ministers to act on a part time basis.

The Board has adopted a charter which sets out its roles and responsibilities. In addition, the Board had two separately chartered Committees during the financial year as follows:

1. Audit and Risk Committee – which supervises financial governance, financial performance, audit, annual reporting, compliance and risk management.
2. Remuneration and Human Resources (HR) Committee – which supervises workforce staffing, performance evaluation and monitoring, as well as remuneration and succession planning for the CEFC Executive.

Board Committee membership

Each of the Board Members, other than the Chair, serves on one of the Board Committees, either as a Committee Chair or Member. Committee meetings are open to all Board Members to attend, but only Committee Members have voting rights.

Committee memberships of the Board Members throughout the 2014–2015 year are outlined in Figure 23.

Figure 23: Board Committee Memberships 2014–15

Board Member	Remuneration & Human Resources Committee	Audit & Risk Committee
Jillian Broadbent AO		
Paul Binsted		Committee Chair
Michael Carapiet	Committee Chair (to 21/08/2015); Committee Member (21/08/2015-)	
Ian Moore		Committee Member
Anna Skarbek	Committee Member	
Andrew Stock	Committee Member (to 21/08/2015); Committee Chair (21/08/2015-)	
Martijn Wilder AM		Committee Member

Figure 24: Board Member attendance at meetings 2014–15

Board Member	Board Meetings No. Attended	Board Meetings No. Eligible to Attend	Remuneration & Human Resources Committee Meetings No. Attended	Remuneration & Human Resources Committee Meetings No. Eligible to Attend	Audit & Risk Committee Meetings No. Attended	Audit & Risk Committee Meetings No. Eligible to Attend
Jillian Broadbent AO	12	12				
Paul Binsted	11	12			5	5
Michael Carapiet	10	12	5	5		
Ian Moore	10	12			3	5
Anna Skarbek	11	12	5	5		
Andrew Stock	11	12	5	5		
Martijn Wilder AM	11	12			4	5

Meeting attendance by Board Members

In 2014–15 there were 12 Board meetings and a further 10 Board Committee meetings.

Figure 24 outlines the attendance record of each member of the CEFC Board at the 12 Board and 10 Board Committee meetings held during 2014–15. Please note that for Committees, only attendance of actual Members of each Committee is recorded in this figure (although all Board members are entitled to attend any meeting of a Committee).

Board Member remuneration and allowances

Under the CEFC Act and the *Remuneration Tribunal Act 1974*, remuneration for Board members is determined independently by the Australian Government Remuneration Tribunal. Throughout 2014–15, the following Remuneration Tribunal Determinations were in effect and are reflected in the Figure 25.

Under both determinations, Board members were remunerated annually (rather than per day or by meeting) as outlined in Figure 26. The amount did not change in 2014–15.

In addition, superannuation is payable on these amounts at the rate of 9.5 per cent in accordance with the *Superannuation Guarantee Charge Act 1992*. Actual amounts paid to each Board member during the reporting period are specified in Note 11 in the Financial Statements from page 168.

Travel allowance is also payable under the Remuneration Tribunal determinations and these are set by a separate *Remuneration Tribunal Determination 2013/16 – Official Travel by Office Holders* (as amended). Interpretation of the 2013/16 Determination was affected by other Policies of the Australian Government (page 114).

Board Member professional development and performance evaluation

During the reporting period, legislation to abolish the CEFC was before the Parliament and, in the circumstances, the CEFC Board chose not to undertake a formal performance review.

In the 2014–15 year, the Board identified a need for deeper understanding of developments in the clean energy technology sector and conducted technology 'deep-dive' sessions examining solar thermal and hydrogen technologies. A further 'deep-dive' session considered electricity and gas pricing forecasts. During the year the Board also kept itself informed of legislative developments, with a particular focus on the Renewable Energy Target and the Emissions Reduction Fund.

Figure 25: Remuneration Tribunal determinations for Board Member remuneration 2014–15

Determination Title	Date of Effect
Remuneration Tribunal Determination 2014/08 – Remuneration and Allowances for Holders of Part-Time Public Office	From 1 July 2015 to 11 May 2015
Remuneration Tribunal Determination 2015/08 – Remuneration and Allowances for Holders of Part-Time Public Office	From 11 May 2015

Figure 26: Rates of Board Member remuneration 2014–15

Office	Annual Remuneration
Chair	$102,400
Board Member	$51,200

ABOUT THE EXECUTIVE TEAM

The CEO is supported by a leadership team of four Executives. The CEFC Executive is drawn from different industries and market segments, bringing the skills and private sector experience necessary for the CEFC to pursue its objectives. Executives are delegated responsibilities to administer their areas by the CEO.

Theodore Dow
Chief Investment Officer

Mr Dow has over 25 years of experience in treasury, finance and banking. A mezzanine and high yield debt specialist, during the course of his career Mr Dow has completed more than 60 transactions globally, with an aggregate enterprise value of approximately $30 billion.

Mr Dow has previously held positions with AMP Private Capital, Babcock & Brown and Westpac, and was most recently managing director of DIF Capital Partners, where he held line responsibility for managing approximately $600 million in investments in private debt, hybrid capital, equity-linked bonds and private equity.

In addition to serving on the board of DIF, Mr Dow has held a number of board and advisory board positions, including the PaperlinX SPS Trust, Strategic Capital Equities, Sports Tips Pty Ltd and the NSW Government Energy GAP Taskforce.

Mr Dow holds an Advanced MBA from the University of Queensland, a Masters in Financial Management from Manchester Business School (UK), a Post Graduate degree in Japanese from Kansai Gai Dai University (Japan) and a Magna Cum Laude Honors BA Degree in Economics from Boston University.

Kevin Holmes
Chief Governance and Strategy Officer

Mr Holmes is responsible for coordinating the development of CEFC strategy and overseeing risk management of CEFC investments and the Corporation itself. In his governance capacity, Mr Holmes also chairs the Executive Investment Committee and the Executive Risk Committee.

Mr Holmes was previously chief financial officer at EnergyAustralia (formerly TRUenergy), where he played a key role in the growth and transformation of the business into Australia's second largest electricity retailer and largest privately-owned generator.

Prior to that, Mr Holmes was chief operating officer and chief financial officer of Pacific Hydro, where he helped establish a world leading renewable energy company through an aggressive global growth strategy, including major greenfield projects in Australia, Chile, Brazil, the Philippines and Fiji.

Mr Holmes also had a long international career with BHP Billiton, holding senior positions both in Australia and overseas, as well as with British Gas in the United Kingdom.

Mr Holmes is a Chartered Accountant, a Commerce Graduate of Otago University in New Zealand, a member of the Chartered Accountants Australia and New Zealand and a Graduate Member of the Australian Institute of Company Directors.

Meg McDonald,
Chief Operating Officer

Ms McDonald has significant career experience in business, government and carbon policy. Ms McDonald had roles with Alcoa as President of Alcoa Foundation; director, Global Issues, Alcoa Inc. in New York and General Manager, Corporate Affairs for Alcoa in Australia. Before joining Alcoa, she was a senior Australian diplomat, including as Australia's Deputy Ambassador to the United States and as Australia's Ambassador for the Environment. In 1997-98, Ms McDonald was Australia's lead negotiator for the Kyoto Protocol and played a key role in shaping those negotiations and other environment treaties.

As the CEO of Low Carbon Australia Limited, prior to its merger with the CEFC in 2013, Ms McDonald led the development of innovative financial solutions to Australian business, government and the wider community to encourage action on energy efficiency, cost-effective carbon reductions and carbon neutral accreditation. Low Carbon Australia financed energy efficiency projects and investment partnerships of more than $80 million, generating a flow of new financing of more than $270 million for energy efficiency and low emissions technologies in the marketplace.

Ms McDonald holds an Honours Degree in Applied Science from the University of NSW.

Andrew Powell
Chief Financial Officer and Corporate Secretary

Mr Powell has more than 25 years of business experience, working within industry and public accounting both in Australia and the United States. Mr Powell is experienced in all aspects of financial accounting, as well as mergers and acquisitions, public listings and transaction and deal structuring.

Mr Powell was previously the chief financial officer and company secretary of Low Carbon Australia Limited, a public company established by the Australian Government in 2010. In addition to having oversight of the finance, IT, HR and legal roles as CFO, Mr Powell worked with the deal teams on structuring and reviewing transactions. He also actively supported the CEO in providing strategic direction, articulating a compelling vision and building the company's profile with the general public and business community.

Prior to that, Mr Powell was senior vice president of finance for Symyx Technologies, Inc. a NASDAQ-listed company, for a period of eight years in California. He also worked with Ernst & Young in both Australia and the United States for a combined period of nine years.

Mr Powell is a Chartered Accountant and holds a Bachelor of Economics from Macquarie University.

Management Committees

In addition to the Executive leadership group, the CEFC has three formal Management level committees that assist the Corporation in internal governance and the review and management of its investments. In summary these are:

- The Executive Investment Committee – which screens new investments prior to presentation to the Board, and closes out transactions after Board investment approval
- The Asset Management Committee – which has an oversight role for the ongoing management and performance of investments that have reached financial close
- The Executive Risk Committee – which assists the Corporation in managing risk, compliance and governance issues, associated with the Corporation's investments and the Corporation itself.

Executive remuneration and allowances

The Board's Remuneration and Human Resources Committee is chartered with responsibility for the structuring of Executive remuneration, evaluation of performance and approving any variable compensation amounts.

During the reporting period, Total Annual Remuneration Packages (TARPs) for the five CEFC Executives included the following components:

- Base salary
- Superannuation
- Allowances
- Variable compensation

Variable compensation payments were made within the reporting period. Variable compensation payments for each 12-month period are determined within the guidelines established by the Remuneration and Human Resources Committee.

CEFC staff members on a site visit to Taralga Wind Farm

Figure 27: The CEFC's human resourcing structure as at 30 June 2015

Category	Level	Number
Statutory Officers (8)	Chair	1 (part time)
	Board Members	6 (part time)
	Chief Executive Officer	1 (FTE)
Staff (56 FTE)	Executive-Level	4 (FTE)
	Non-Executive Level	51 (FTE)
	Consultants	1 (FTE)

The method for calculation is based on both short-term and longer-term metrics agreed by the Board and includes financial, operational and personal targets.

Eligibility to receive a variable compensation payment is determined after an individual performance assessment, which takes into account the CEFC's broader achievement of goals.

More information on payments made to Senior Executives in the reporting period is available in the Financial Statements at Note 1.8 and Note 13 (pages 145 and 170 respectively).

Most CEFC Executive travel and expenses claims are usually dealt with on an indemnity and reimbursement basis (see indemnities and insurance premiums for officials on page 125).

THE CEFC'S PEOPLE

While the CEFC has a large amount of capital available to invest, the CEFC is a small organisation in terms of people.

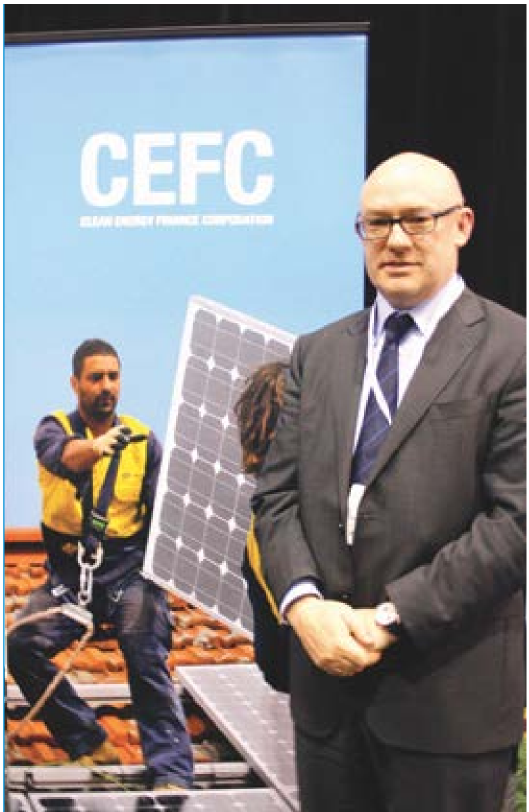
The Corporation has eight statutory officers, including a Board of seven, made up of one part-time Chair and six part-time Board Members, plus a full-time Chief Executive Officer.

The CEFC is headquartered in Sydney, has a second office located in Brisbane, and an arrangement to utilise offices of the Climate Change Authority in Melbourne. At 30 June 2015, there was a headcount of 31 staff located in Sydney, 27 staff located in Brisbane and two in Melbourne (including the CEO but excluding Board members).

At 30 June 2015, excluding Board members and including the CEO and four Executives, the CEFC had a headcount of 60 staff (FTE: 57 staff) dedicated to fulfilling the Corporation's investment portfolio management, corporate treasury, finance, human resources, compliance, risk management, marketing, communications, stakeholder relations and administration functions. Given our investment focus, the CEFC's staff are mainly drawn from a private sector financing background. Although working in the public sector, CEFC employees are not public servants for the purposes of the *Public Service Act 1999* and are instead employed under the CEFC Act. Employment conditions and remuneration are determined by the Corporation.

The organisation remains a relatively young one, still building its operating platforms and maturing its structures as its portfolio builds and evolves, and in light of the experience in the market. This also requires the CEFC to progressively augment and deepen its staff skill base.

The CEFC has also been able to draw upon the expertise and experience of its international counterparts, in particular from the UK Green Investment Bank (GIB) in specialist areas of our respective investment priority market sectors, emerging technologies, portfolio management, and in the legal area. To assist this, the CEFC has developed a short-term staff exchange program with the GIB. The initial successful two month placement in the CEFC by a member of the GIB's investment team took place in Q4 of 2014–15. This will be followed up by a reciprocal exchange of a CEFC legal team member to the UK during 2015–16.



CEFC was a key supporter of the Solar 2015 Conference

Terms of employment, remuneration and conditions

CEFC staff have their terms and conditions established under contract. Salaries may include a variable compensation component. As for Executives, this is overseen by the Board's Remuneration and Human Resources Committee. More information on payments made to employees in the reporting period is available in the Financial Statements at Note 1.8 and Note 3 (see pages 145 and 155 respectively).

CEFC staff travel and expenses claims are usually dealt with on an indemnity and reimbursement basis.

Figure 28: CEFC staffing structure (FTE, excludes Board and CEO)

Level	No.
Executive	4
Executive Director	8
Director	8
Associate Director	16
Analyst	6
Manager	7
Administration	7
TOTAL	**56**

Staff profile: Structure

The CEFC does not use Australian Public Service classifications and has instead adopted the structure outlined in Figure 28.

Staff Profile: Age

CEFC staff have an average age of 43 years. This reflects the specialised role of the CEFC, and:

- The need to hire experienced, senior practitioners within each profession required, and
- The fact the CEFC does not have a graduate entry program. Consideration may be given to instituting such a program as the Corporation reaches further maturity.

Staff Profile: Gender and equal employment opportunity

The Corporation is at near gender equity in raw terms, with 49 per cent female compared with 51 per cent male. These statistics are based on headcount and exclude the Board and CEO.

Women are over-represented at more junior levels of the organisation and under-represented at more senior levels:

- At Executive level, the gender ratio is 75 per cent male to 25 per cent female (i.e. one of four Executives, excluding the CEO)
- Of the next 16 most senior employees below Executive level, 69 per cent are male and 31 per cent are female (a headcount ratio of 11 men to five women)
- Of the next 39 employees, 59 per cent are female and 41 per cent are male (a headcount ratio of 23 female to 16 male).

The CEFC takes gender equity seriously, and during the 2013–14 year added an Equal Employment Opportunity program to a list of measures the Corporation has adopted to reinforce that the workplace is supportive of women. The full EEO report for 2015 can be accessed online at the CEFC website.

Staff Profile: Diversity

Of the CEFC's headcount of 60 staff at 30 June 2015, 45 per cent were born overseas and nine per cent have English as a second language. No CEFC employees identified as Indigenous or as having a disability.

Given the CEFC's small employment profile, the CEFC does not consider the low numbers identified as being of Indigenous background or as persons with a disability as statistically significant.

These statistics are based on headcount and exclude the Board and CEO.

CEFC staff members visit Moree Solar Farm

LAW AND POLICY

ENABLING LEGISLATION

CEFC Act and associated key governance events

The CEFC Act sets out the organisation's purpose and functions, establishes arrangements for the Board, CEO and staff, and creates a system of delegations to ensure that the Corporation has sufficient resources and sufficient controls on their use. The Corporation was established by the CEFC Act on 3 August 2012.

The object of the CEFC under the CEFC Act is 'to facilitate financial flows into the clean energy sector'.

The main function of the CEFC is the 'investment function': to invest, directly and indirectly, in renewables, energy efficiency and other emissions reducing technologies. The CEFC Act also specifies a number of support functions such as:

- Liaison with relevant individuals, businesses and agencies to facilitate the investment function
- Performance of any other functions conferred by the CEFC Act or any other Commonwealth law
- Anything incidental or conducive to the performance of the investment function or the other functions.

In summary, the CEFC Act contains five positive duties (i.e. 'you must do this') and three negative duties ('i.e. you must not do this') in relation to the investment function.

The main positive duties under the CEFC Act in relation to investments are:

- To perform the investment function including by investing in businesses or projects for the development of, commercialisation of, or in relation to the use of clean energy technology, or in businesses that supply goods or services needed to develop, or commercialise or in relation to the use of the same
- To ensure investments are solely or mainly Australian-based
- By 1 July 2018, to ensure that at least 50 per cent of the Corporation's portfolio is invested into renewables
- To otherwise comply with directions of the Investment Mandate, a piece of subordinate legislation described at page 109
- To establish Investment Policies that support the above.

The main negative duties under the CEFC Act are:

- Not to invest in carbon capture and storage
- Not to invest in nuclear technology
- Not to invest in nuclear power.

Clean energy technology is broadly defined through the definitions of renewable, energy efficiency and low emissions technologies (excluding the prohibited technologies above). Further restrictions on eligibility may be placed by means of the Investment Mandate, which had not occurred at the time of writing.

During the financial year there were no amendments to the CEFC's enabling legislation. Following the change of government on 18 September 2013, Australian Government policy towards the CEFC has been to abolish the Corporation through repeal of the CEFC Act. This has remained Australian Government policy throughout the reporting period.

The Australian Government has brought forward legislation to effect its policy of abolition on three occasions, but at the time of writing none of these Bills had secured passage. Figure 30 outlines the current status of these Bills.

The duty of the CEFC Board, CEO and staff throughout this period remains to administer the law as it stands, to carry out the investment task assigned to the CEFC under law, and to be responsive to Government direction as it is given from time to time (issued principally through the Investment Mandate).

The CEFC has a professional, respectful relationship with both its Responsible Ministers and the officials of the Treasury and the Finance Departments. Throughout the period, the CEFC has been able to engage with, and work constructively with, Government and the Treasury (as portfolio department), including continuation of administrative funding and drawdown processes from the Special Account in accordance with the CEFC Act, and in providing reporting under its various reporting responsibilities.

Figure 29: Technologies the CEFC invests in

Type	What is in scope
Renewable Energy Technologies	Renewables (including bioenergy, geothermal, hydro, ocean, solar, waste-to-energy, wind)
	Hybrids of renewables with other technologies*
	Technologies (including enabling technologies) that are related to renewable energy (including supply of goods or services)
Energy Efficiency Technologies	Energy efficiency (including energy conservation and demand management)
	Technologies (including enabling technologies) that are related to energy efficiency (including supply of goods or services)
Low Emissions Technologies	Technologies that reduce emissions that are not renewables or energy efficiency* (including supply of goods or services)

* May involve a threshold emissions intensity test against baseline activity to determine eligibility.

Figure 30: Abolition legislation – current status

Bill	Introduced House	How Dealt With	Introduced Senate	How Dealt With
Clean Energy Finance Corporation (Abolition) Bill 2013	13 November 2013	Passed – 21 November 2013	2 December 2013	Negatived – 10 December 2013
Clean Energy Finance Corporation (Abolition) Bill 2013 [No.2]	20 March 2014	Passed – 27 March 2014	27 March 2014	Negatived – 18 June 2014
Clean Energy Finance Corporation (Abolition) Bill 2014	23 June 2014	Not dealt with at time of writing	N/A	N/A

After the close of the 2014–15 financial year, under revised Administrative Orders of 21 September 2015, responsibility for the CEFC transferred to the Environment portfolio, under Responsible Ministers, the Hon Greg Hunt MP, Minister for the Environment, and Senator the Hon Mathias Cormann, Minister for Finance.

CEFC Investment Mandate and associated key governance events

The Investment Mandate direction is the means by which the Government of the day provides instruction as to how the Corporation can make investments, providing it:

- Does not have a purpose of directing the Corporation to make or not make a particular investment; and
- Is not inconsistent with the CEFC Act, (including the object of the Act).

Under the CEFC Act, the CEFC Board must be consulted on the draft of a proposed new Mandate, and any submission made by the Board must be tabled in the Parliament.

During the reporting period there were two versions of the Investment Mandate in effect. Details of these are set out in the figure below.

During the reporting period, the CEFC was provided with a consultation draft of a further new Investment Mandate by its Responsible Ministers under correspondence dated 24 June 2015. At the time of writing the consultation period was still in train.

The currently applicable Mandate directs that the CEFC will:

- Mobilise investment in renewable energy, low emissions and energy efficiency projects and technologies in Australia, as well as manufacturing businesses and services that produce required inputs
- Apply commercial rigour and make its investment decisions independently of Government
- Achieve a benchmark rate of return based on a weighted average of the five year Australian Government bond rate plus 4 to 5 per cent, measured across the portfolio of investments over time
- Not increase the level of exposure to credit risk above the level of the existing portfolio as assessed on 5 March 2015
- Invest responsibly and manage risk to achieve financial self-sufficiency
- Be expected to focus on projects and technologies at the later stages of development (while noting the Corporation may invest at the demonstration, commercialisation and development stages)
- Use financial products and structures to address impediments inhibiting investments in the sector
- Be limited to providing $300 million of concessionality in any one financial year
- Take a long-term outlook when setting its investment strategy

Figure 31: Investment Mandates in effect 2014–15

Name	Date Issued	Date Registered	Date of Effect
Clean Energy Finance Corporation (Investment Mandate) Direction 2013	16 April 2013	24 April 2013	25 April 2013 to 4 March 2015
Clean Energy Finance Corporation (Investment Mandate) Direction 2015	17 February 2015	4 March 2015	5 March 2015 onwards

- Ensure that projects seeking CEFC funding of greater than $20 million comply with Australian Industry Participation Plans (AIPP) policy
- Consider its potential impact on the operation of Australian financial and energy markets when making its investment decisions, and specifically on the market for Large Scale Generation certificates under the RET
- Have regard to positive externalities and public policy outcomes when making investment decisions and when determining the extent of any concessionality for an investment.

Copies of the current Investment Mandate, and accompanying Explanatory Statement, the consultation draft and CEFC submissions on them are available on the Comlaw website at comlaw.gov.au

CEFC Investment Policies and associated key governance events

Meeting the various requirements of the Investment Mandate is a difficult task, but it is the Board's role to ensure that the Corporation takes all reasonable steps necessary to achieve these ends, and to establish Investment Policies that support the Investment Mandate. The CEFC Investment Policies are published on the CEFC's website.

The CEFC Investment Policies set out:

- A governance framework for the CEFC, which clarifies the roles of the Board, the Executive team, committees and external advisors in investment making
- The investment strategy of the Corporation, including the 2018 Portfolio Vision, investment approach and guidelines
- Board-approved definitions of key terms it is empowered to define under the CEFC Act ('solely or mainly Australian-based' and 'low emissions technology') and guidelines as to what it will assess as 'renewable energy technology' and 'energy efficiency technology'
- Benchmarks and standards for assessing performance of the CEFC's investments and of the Corporation itself
- Risk management for its investments and for the Corporation itself.

Figure 32: Credits to the Special Account under CEFC Act, section 46*

Specified date	Amount credited on specified date	Cumulative section 46 credits as at specified date
1 July 2013	$2 billion	$2 billion
1 July 2014	$2 billion	$4 billion
1 July 2015	$2 billion	$6 billion
1 July 2016	$2 billion	$8 billion
1 July 2017	$2 billion	$10 billion

*excluding surplus returned by the Corporation

These policies are reviewed at least once annually and automatically upon issue of a new Investment Mandate. The Investment Policies were under review from the change of Investment Mandate from 5 March 2015, when a consultation draft on a new Mandate was received on 24 June 2015. In light of this, further review of the Investment Policies has been suspended pending the outcome of this most recent process.

CEFC funding and associated key governance events

The CEFC is self-funding through its investment returns on money appropriated to it under the CEFC Act.

Under the CEFC Act, $2 billion is credited to the CEFC Special Account in the Treasury each 1 July, for five years from 1 July 2013, as outlined in Figure 32.

The CEFC was not created to exercise a major cash management function. Accordingly, funds credited to the Special Account do not actually leave the Consolidated Revenue Fund created by *The Constitution* until they are released for investment when authorised by the Nominated Minister in accordance with the procedure outlined in the Act.

In other words, the funds depicted in Figure 32 above are a drawing right of the CEFC against the Special Account maintained by the Treasury, rather than an actual transfer to the CEFC. The funds are only actually drawn down when the CEFC has a use for them. Investments are made (both directly by the CEFC and indirectly through intermediaries) into eligible clean energy projects. Repayments and returns from these projects are paid directly to the CEFC's operational account. Where the Board has identified funds that it considers surplus money, this surplus can then be returned to the Special Account via the Treasury.

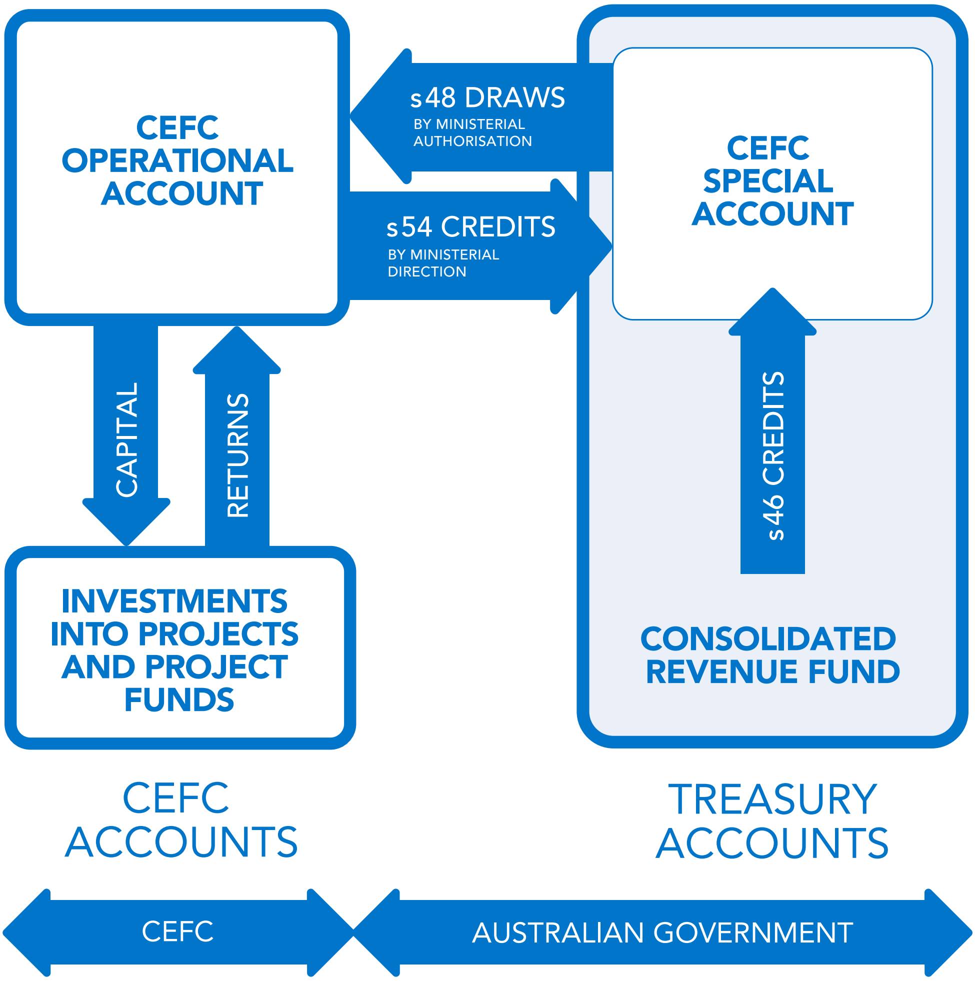
During the year, the CEFC and the Responsible Ministers agreed a mechanism for return of surplus cash amounts and the Corporation returned funds to the Commonwealth including amounts of repaid principal from some of the first fully-acquitted loans. Figure 33 summarises movements in and out of the Special Account.

Under the CEFC Act, and subject to ministerial authorisation, the Corporation may also make payments to ARENA. No requests were made and no payments to ARENA occurred during the 2014–15 reporting period.

Figure 33: Credits and debits to the Special Account during 2014–15

Transaction	Credits ($m)	Debits ($m)	Balance ($m)
Opening balance of the Special Account			868.4
Section 46 Credit – 1 July 2014	2,000.0		2,868.4
Section 54(1) Return of Funds	50.6		2,919.0
Total	**2,050.6**	-	**2,919.0**

Figure 34: How the CEFC's Special Account and Operational Accounts work



OTHER LEGISLATION, POLICIES OF THE AUSTRALIAN GOVERNMENT AND KEY GOVERNANCE EVENTS

Transfer of remaining assets and deregistration of Low Carbon Australia Limited

Low Carbon Australia Limited (LCAL) was a Commonwealth company formed in 2010 with $84.6 million in funds, primarily to invest in energy efficiency and activity resulting in greenhouse gas abatement. As a loan-based program in an area traditionally associated with grants, in many ways LCAL was a much smaller forerunner of the CEFC.

On 19 December 2012, the then Australian Government and Boards of both the CEFC and LCAL announced the intention that the CEFC and LCAL integrate. Integration of staff occurred on 17 April 2013, and during the 2013–14 financial year integration of the LCAL investment portfolio was completed.

On 25 June 2013, LCAL's then Responsible Minister, the Hon Greg Combet AM MP, directed that the balance of the LCAL assets be transferred to the CEFC and that LCAL be deregistered. This process was suspended during the operation of the caretaker period following 5 August 2013.

On 18 September 2013, the Abbott Ministry was sworn in and on 14 October 2013, the new Minister for the Environment, the Hon Greg Hunt MP, wrote to the Board of Low Carbon Australia Limited directing the company to cease the deregistration process while the Government examined its options.

On 1 May 2014, the National Commission of Audit report was released which recommended abolition of Low Carbon Australia Limited, and on 13 May 2014, the Environment Portfolio Budget Statement affirmed that LCAL would be abolished.

On 1 August 2014, the LCAL Board received correspondence from Minister Hunt directing the recommencement of the deregistration process and the transfer of any remaining assets to the CEFC (as disclosed at Notes 12 and 18 to the Financial Statements), and as a related entity transaction (see pages 169 and 177 respectively).

Low Carbon Australia Limited was deregistered by the Australian Securities and Investments Commission as of 17 December 2014 and ceased to exist at that date. Up until that time, and from 17 April 2013, the CEFC provided the necessary services for LCAL to continue to meet its remaining legal and reporting obligations.

Public Governance, Performance and Accountability Act 2013 (PGPA Act)

The PGPA Act was passed to repeal and replace the former *Commonwealth Authorities and Companies Act 1997* (the CAC Act) from July 1, 2014. However, the *Commonwealth Authorities (Annual Reporting) Orders 2011* remains in force and has been applied in the preparation of this annual report.

As a corporate Commonwealth entity, apart from the CEFC Act, the PGPA Act and its subordinate instruments are the main legislation that govern the Corporation's activities. The PGPA Act imposes various duties, responsibilities and accountabilities on the CEFC Board (both as a collective and as individuals) and on employees.

As the main finance law for government at the federal level, the PGPA Act sets the standard for the use of public resources and the management of risk. The *Public Governance, Performance and Accountability Rule 2014* specifies further requirements at a more operational level of detail. Australian Accounting Standards Board (AASB) standards are applied to the Corporation by force of the *Public Governance, Performance and Accountability (Financial Performance) Rule 2015.*

The CEFC makes an annual representation to Ministers as to compliance under this legislation, and in 2015 reported full compliance.

Government Policy Orders

The PGPA Act also allows the Australian Government to issue directions to the Corporation by means of a Government Policy Order (GPO). As at the time of writing there were no GPOs in effect, but the CEFC has received notice of intended future application of the Australian Government Protective Security Policy Framework to the Corporation by this means.

In relation to General Policy Orders under the CAC Act:

- The CEFC was established on 3 August 2012, therefore no pre-1 July 2008 General Policy Orders apply
- During the reporting period, there were no General Policy Orders that applied to the CEFC.

Australian Government energy and environmental policies

The 2014–15 year was characterised by a number of important reviews and policy changes at the intersection of energy and environment policy – i.e. where the CEFC tends to invest as a 'clean energy' financier. Some of these policy reviews and changes included:

- A green paper/white paper process on the future of the energy sector
- A green paper/white paper process on the Emissions Reduction Fund, followed by new legislation and the scheme's successful introduction
- Termination of the former carbon pricing legislation and associated industry grant assistance measures under the various Clean Technology Innovation and Investment programs
- Termination of the former Energy Efficiency Opportunities legislation
- A review and legislation to reduce the Renewable Energy Target (RET)
- Reduction and re-phasing of funding to ARENA.

As investors generally seek policy clarity and certainty, many of these changes and processes had a dampening effect on demand for clean energy take up, as is reported in Section 1 of this report.

Other Australian Government policy affecting the CEFC

Since the change of Government on 18 September 2013, the Corporation has been notified of several changed policies of the Australian Government that have sought to extend their application to the CEFC.

While these are not of legal effect, they have been notified to the CEFC, usually as an interim arrangement to assist in the rapid adoption of Australian Government policy. Some of these could take shape in future as Rules or Government Policy Orders made as part of the PGPA Act reforms.

The CEFC has sought to adopt a co-operative approach to engagement with Government and seeks to comply with the policy of the Government wherever possible. Complying in this way may circumscribe the CEFC's scope of operations, despite the formal operational independence prescribed in the CEFC Act.

With respect to the Australian Government Public Sector Workplace Bargaining Policy, the CEFC has been in practical compliance. An exemption from the need to commence a process of enterprise bargaining was sought while the bill to abolish the Corporation remained in the Parliament.

To 30 June 2015, policies informally notified to the CEFC by correspondence are set out in Figure 35.

Figure 35: Policies informally notified to the CEFC by correspondence

Date	Description
24 September 2012, 5 February 2013	Co-operation with Parliamentary Budget Office – the Australian Government published Australian Government Protocols Governing the Engagement Between Commonwealth Bodies and the Parliamentary Budget Officer
6 January 2014	International Travel – Requests that all officials travel at business class or lower, notwithstanding any entitlement established by Remuneration Tribunal to travel at first class
6 January 2014 (clarified 2 July 2014)	International Travel – Requests that officials refuse complimentary upgrades to first class travel notwithstanding any entitlement established by Remuneration Tribunal to travel at first class
13 May 2014	International Travel – Reporting international travel over a threshold of $50k as stipulated in Whole of Government Travel Arrangement Advice 2014/15
20 February 2012	Recruitment – Requests that the CEFC comply with the APSC's Interim Recruitment Arrangements for non-APS Agencies (effective until 1 July 2015)
28 March 2014	Employment Framework – Requests that the CEFC conduct bargaining under the Australian Government Public Sector Workplace Bargaining Policy

Other Statutory Requirements Affecting the CEFC

As a corporate Commonwealth authority which acts actively and commercially in the finance sector, there are a range of other statutory reporting requirements. These are outlined below.

Anti-Money Laundering/Counter-Terrorism Financing Act 2006 (AML/CTF Act)

Compliance with the AML/CTF Act is embedded into CEFC's business. As the name suggests, the AML/CTF Act is directed to combatting money laundering and terrorist finance. The principal responsibilities are ensuring that the CEFC understands who its customers are and that suspect transactions are reported. A range of reporting and review obligations apply, and the CEFC has an internal compliance group to run AML/CTF Act compliance and assurance.

Equal Employment Opportunity (Commonwealth Authorities) Act 1987 (EEO Act)

Under the EEO Act the timing of the annual reporting requirement depends on when the entity first gained 40 employees or more.

The CEFC was formed as a Corporation on 3 August 2012, and the Corporation's first EEO program report fell due on 17 July 2014 (that is, one year and three months after the anniversary of which the Corporation first had 40 employees). The 2015 Report was tabled in Parliament on 1 September 2015. The report is available online at the CEFC website.

Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act)

The CEFC is required to report annually under the EPBC Act, and a full report can be found at Appendix B.

Freedom of Information Act 1982 (FOI Act)

The CEFC is an applicable agency for FOI Act purposes. Agencies subject to the FOI Act are required to grant access to non-exempt material on application and publish information as part of the Information Publication Scheme (IPS).

The CEFC is also required to lodge an annual statistical return with the Information Commissioner on statistics relating to time spent by employees of the CEFC in managing obligations under the FOI Act and the IPS, and the non-employee costs attributed to these functions. The CEFC lodged its Annual Statistical Return for 2014–2015 with the Information Commissioner on 31 July 2015.

During the reporting period, the Corporation received no FOI applications. More information on FOI applications and the CEFC's IPS is available on the CEFC website.

Public Interest Disclosure Act 2013 (PID Act)

The PID Act puts in place a scheme to encourage public officials to report suspected wrongdoing in the Australian public sector. Under the PID Act, the CEFC has responsibilities in establishing effective and clearly articulated policies and procedures for facilitating and responding to public interest disclosure requests.

The CEFC also provides the Commonwealth Ombudsman with the statistical information annually. The CEFC received no public interest disclosures during 2014–2015.

Work Health and Safety Act 2011 (WHS Act)

The CEFC is required to report annually under the WHS Act, and a full report can be found at Appendix C.

Judicial Decisions and Parliamentary Committees

The CEFC is not aware of any judicial decisions or decisions of administrative tribunals that have had, or may have, a significant effect on the operations of the CEFC in 2014–2015. There were also no reports about the CEFC made by the Commonwealth Ombudsman or the Office of the Australian Information Commissioner. There were no reports about the CEFC from the Auditor-General other than the 2013–14 annual audit report accompanying the financial statements (as reproduced in the CEFC's 2013–14 Annual Report).

As far as the CEFC is aware the only Parliamentary Committee reports which substantially involved the CEFC during 2014–2015 were as follows:

- Senate Economics Legislation Committee which reported on Additional Estimates 2014–15 (March 2015)
- Senate Economics Legislation Committee which reported on Budget Estimates 2015–16 (June 2015)
- Senate Select Committee on Wind Turbines which reported its Final Report after the end of financial year (August 2015).

CEFC BUSINESS MODEL AND APPROACH TO BUSINESS

PUBLIC PURPOSE WITH A PRIVATE SECTOR APPROACH

The CEFC is an investment institution and operates commercially. However the CEFC differs from commercial financial institutions in that it also has a public policy purpose.

The CEFC was formed with a statutory object to 'facilitate increased flows of finance into the clean energy sector' and it does this by performing the investment function in the renewable, energy efficiency and low emissions technology sectors.

Its Investment Mandate direction specifies that the CEFC applies commercial rigour when making its investment decisions, using financial products and structures to address the barriers inhibiting investment in the sector.

In establishing the Corporation, the then Government confirmed its expectation that, in line with its public policy intent, the Corporation should also consider positive externalities when making investment decisions. Put simply this means that the Corporation can give weight to non-financial aspects to the transaction that are of economic or public benefit.

GOVERNANCE APPROACH

The Board has built upon the statutory framework and Government policies by providing charters which specify Board and Board Committee responsibilities, and further adopted Codes of Ethics and Conduct, a system of written delegations of authority, and corporate policies and procedures to provide a complete ethical decision-making framework for the Corporation.

From this basis, the Board and Executive have together further extended and built out a robust set of investment policies, risk management policies accompanying procedures, and an internal support structure which assists in meeting the high standards required of the CEFC as a public authority.

Collectively, this interlocking system of:

- documented policies and procedures
- clear reporting lines and responsibilities
- a well-developed corporate ethos
- properly inducted and trained people

creates a streamlined system of both internal and external oversight, checks and balances that gives the CEFC Board the confidence that the Corporation's governance is Australian best practice and appropriate for an organisation of its type and maturity.

The latest improvement in this process was the selection and appointment of an Internal Auditor to provide further assurance to the Board of the Corporation's integrity.

INVESTMENT PROCESS

The CEFC's investment process has several fixed limiting factors imposed by the CEFC Act and the Investment Mandate:

- Firstly, the CEFC Act limits the scope of the CEFC's investments to the clean energy sector and fixes the exposure to solely or mainly Australian based activity.
- Secondly, the Investment Mandate requires the CEFC to apply commercial rigour, to achieve a benchmark return, to become self-sufficient, and to avoid unnecessary risk.

Within this universe, the CEFC Board sets out its own priorities for investment. Finally, the CEFC Executive and the Investment Team apply their resources to developing the best, and most investment ready investment proposals.

APPROACH TO INVESTING

The Board is responsible for the development of an investment strategy and approach which is consistent with the Corporation's obligations under the CEFC Act, Investment Mandate and normal investment risk management practices.

In addition to applying commercial rigour when making its investments, the Corporation is directed to target a benchmark return on its portfolio.

This direction is given with the Australian Government's expectation that the Corporation is not a grants organisation, that its investments are made with an expectation of being repaid, and that it invests responsibly and manages risk so it is on a pathway to financially self-sufficiency.

During the year, with the change of Investment Mandate, the benchmark return was lifted from meeting the five year Australian Government Bond Rate, *net* of operating expenses, to meeting a return of the five year Australian Government Bond Rate +4 to 5 per cent *before* operating expenses.

Achieving financial self-sufficiency means the Corporation needs to keep operating expenses low. The Corporation's primary expense is its staffing footprint. With just 57 staff (FTE, excluding the Board), the CEFC seeks to leverage the scale and service networks of co-finance partners to assist in delivering CEFC finance to small and medium businesses.

In establishing the Corporation, the then Government confirmed its expectation that the CEFC's investments should be structured to address the barriers currently inhibiting investment to help mobilise investment into the clean energy sector, and that its investment activities should 'not disrupt the areas where the market is functioning well'. The CEFC is also directed to 'consider the potential impacts on other market participants and the efficient operation of the Australian financial and energy markets'.

The CEFC has developed its operating model and is undertaking its investment activities fully in accordance with these directions and policy instructions.

In performing its investment function, the CEFC seeks to lend at risk-adjusted rates as close as possible to commercial market rates. The Corporation has adopted an approach of working to create structures which also prove attractive for participation of private sector co-financiers and other capital providers. The combination of the CEFC's commercial approach and seeking to 'crowd in' rather than 'crowd out' private sector investment helps create conditions for more efficient deployment of private sector capital. The Corporation's engagement in transactions in many cases is intended to see the private sector step into a transaction once the investment terms have been fully developed.

The CEFC can also provide concessional loans, where it is warranted in the circumstances. A concessional loan is one offered on more favourable terms than could be expected to be available between a private sector lender and private sector borrower. The concession(s) provided may take many forms, but typically will be one or more of:

- lower than market interest rates
- longer loan maturity
- longer/more flexible grace periods before the payment of principal and/or interest is due.

The CEFC views concessionality as a precious resource to be applied sparingly. The CEFC may choose to deploy concessional finance to assist in overcoming financial impediments and facilitate realisation of an otherwise bankable project.

This is determined on a case by case basis with reference to the specifics of the project or where the CEFC is lending to public sector organisations like universities and local councils. To 30 June 2015, the CEFC had provided a cumulative $12.9 million of concession on its investments. Within the 2014–15 year, the CEFC provided $1.4 million (2013–14 : $5.6 million) of concession on its investments.

Investments are only made where the CEFC has performed an assessment of the likelihood of repayment and has structured investment terms appropriate to the level of risk to minimise loss.

Once all the CEFC's requirements have been met, performance of the investment is actively monitored by the Corporation throughout its life.

Loans are repaid with principal and interest. During this year, the Corporation saw a further two loans under management fully repaid. The CEFC also invests a limited amount in equity and equity-like structures.

Any surplus funds in the CEFC's operating account can be returned to the CEFC's Special Account, which is in the custody of the Treasury.

Funds in the CEFC's Special Account are required to either be recycled into new investments, or to special payments to support the work of ARENA.

INVESTMENT STRATEGY

The CEFC investment strategy is part of the CEFC Investment Policies and includes the 2018 Portfolio Vision.

When the CEFC evaluates an opportunity for investment, two broad threshold factors are considered:

- Eligibility constraints: the CEFC's ability to invest is limited by the CEFC Act, the Investment Mandate and the PGPA Act.
- Investment selection criteria: The CEFC evaluates the commercial merits and relative investment attractiveness of each prospective investment, influenced by the risk management approach of the CEFC and the implications of each potential investment decision for the 2018 Portfolio Vision.

The portfolio is still being built, but the Portfolio Vision identifies that, in accord with the CEFC Act, that at least 50 per cent renewable energy portion of the portfolio includes investments in wind, solar PV, thermal and CSP, biomass, geothermal, tidal and other renewable energy. This will include both on-grid and off-grid projects, and utilise creative and innovative structures to reduce the cost of capital, and will enable transactions in energy storage and transmission.

The balance of the portfolio, of up to 50 per cent low emissions and energy efficiency technologies, will be balanced between low emissions and energy efficiency transactions and consist of investments in manufacturing inputs, transport, government, private and other sectors.

The total portfolio will be diversified across Australia, diversified by borrower and include both direct and indirect financial participation.

PERMITTED INVESTMENT INSTRUMENTS

The CEFC has the capability to invest directly or indirectly across the capital structure in publicly traded or privately held instruments such as:

- senior debt
- subordinated debt
- preferred equity / convertible debt
- common equity interests in pooled investment schemes, trusts and partnerships
- net profits interests, royalty interests, entitlements to volumetric production payments.

APPROACH TO RISK

The CEFC operates under a sound risk management framework designed to identify and effectively manage critical risks. At the Corporate level, risk is managed by a focus on the six pillars of risk management activities:

1. Governance
2. Strategy
3. Risk Profiling and Reviews
4. Compliance
5. Controls
6. Assurance

The largest aspect of risk for a financing entity with the CEFC's operating profile is investment risk. The CEFC manages other corporate risks (e.g. workplace health and safety) through identifying, assessing and controlling activities. These activities are reported and reviewed at Board meetings, by the Board's Audit and Risk Committee, and by the Executive Risk Committee. Management of risk is performed by the Executive itself, and by well-inducted and trained employees who understand that risk management and compliance is everyone's responsibility and part and parcel of working at the CEFC.

Environmental, social and governance risk

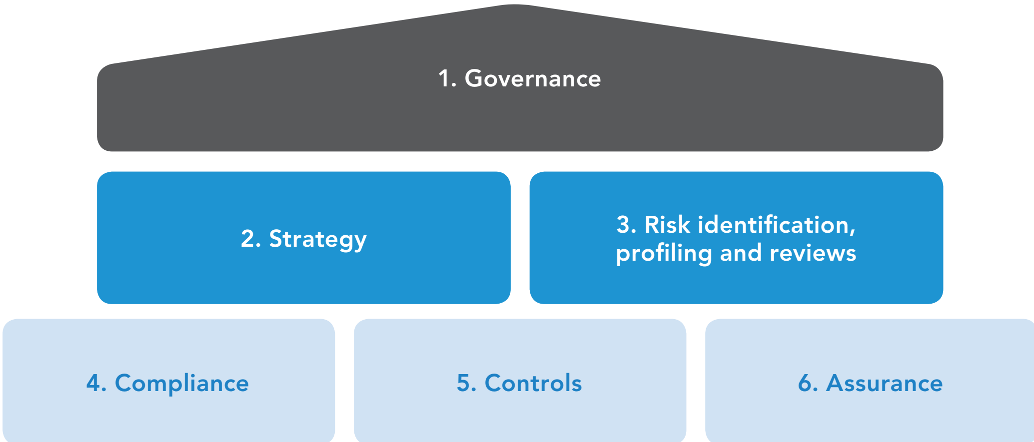
The Board believes that effective management of financial and reputational risks, including matters related to environmental, social and governance (ESG) issues will, over the long term, support its objectives and mission. More information about the Corporation's environmental and social impact is available in Section 1 (Performance Report) and Appendix B of this Annual Report.

DEALING WITH INVESTMENT RISK

Risk is related to return and is integral to how the CEFC assesses, considers, approves and manages investment opportunities. As a responsible investor, the CEFC is ever conscious that return does not come without risk, and the levels of investment return should be commensurate with assumed risk.

A strategy that is too risk-averse would not allow the CEFC to fulfil its mandate and public policy purpose. On the other hand, an approach which is too tolerant of investment risk could lead to unacceptable levels of capital losses. The CEFC recognises this reality and the CEFC Board has established an enterprise-wide Risk Management Framework that integrates with the CEFC Investment Policies and embeds the active management and mitigation of risks into all areas of investment.

Figure 36: Illustration of the CEFC enterprise risk management framework



Types of risk in CEFC investments

Credit Risk

The CEFC is exposed to credit risk, that is counterparty risk associated with extending finance to other parties. This is the macro risk that any business may fail or default on its payment obligations. At the portfolio level, diversification and concentration guidelines are in place. Guidelines are also applied to single asset, entity and industry level exposures.

During the 2014–15 year, there was a change in the Investment Mandate which basically has the effect of imposing a portfolio ceiling on credit risk measured with reference to the risk levels present in the portfolio as at 5 March 2015.

Market risk

The CEFC is also exposed (indirectly) to market risks. These risks are associated with a general fall in prices of energy and in particular, a fall in realised (as compared to expected) prices for both 'green' and 'black' electricity. Such price changes may adversely impact a borrower's ability to make repayments in accordance with a loan facility. The CEFC includes regulatory risk that impacts on prices within this set of risks.

Technology risk

The CEFC is, in addition, exposed (indirectly) to technology risks. Technology risk is defined as the risk of losses arising as a result of a technology not operating as effectively as predicted which may arise from design, engineering and/or implementation issues. Renewable energy, energy efficiency and low emissions technologies all present varying degrees of technological risk depending on the nature of the technology under consideration, the nature of the technology's application in the subject investments, the technology's stage of development along the innovation chain, and the nature and pace of innovation in competing technologies. Each individual project will carry its own risks for implementation underperformance (for example, delays in construction or installation).

Technology risk includes regulatory risk associated with the use of the particular technology. Assessment, analysis and mitigation for technology risk is a key component of the CEFC's investment risk analysis process.

Concentration risk

The CEFC has concentration risk. The sector-specific purpose of the CEFC limits the scope for diversification as a risk mitigant.

At the portfolio level, diversification and concentration guidelines are applied to technology types along with geographic, regulatory, single asset and industry level exposures.

Policy risk

The CEFC is also exposed to policy risk at both state and federal level, but particularly at federal level. Many of the existing policy settings at the intersection of the energy and environment portfolios were placed under review or proposed to be abolished as part of government policy. Many of the CEFC's investments depend on a 'green price' for financial viability and the RET review impacted on demand for CEFC finance. As the CEFC's focus is on investing in clean energy technology, these developments require close monitoring and careful evaluation in respect of the CEFC's existing and potential exposures.

In considering investments in this period, the Board and Management have been cognisant of these regulatory policy risks and have sought to mitigate these wherever possible while performing the statutory function.

Treating investment risk

A high-level summary of how the CEFC deals with investment risk is as follows:

- The CEFC has a well-developed process for gating and screening investments to ensure that there are multiple 'checkpoints' for risk before a given investment proposal makes it to the Board for approval
- This is underpinned by a thorough process of due diligence
- The CEFC only escalates investment proposals through the process that are credible and investment ready
- The CEFC applies the industry standard means of risk identification, risk analysis, risk evaluation and risk treatment to produce a risk assessment on any given investment which is tested at various stages throughout the approvals process
- Where shortcomings are identified, or the nature of the risks involved are unfamiliar, the progression of the investment may be paused while extra due diligence or market specific research is undertaken
- Where appropriate, the CEFC seeks the presence of reasonable subordination or a sufficient equity buffer as a protection of the CEFC investment against underperformance
- If the CEFC lends to projects selling power at 'merchant rates', it does so where the loan is expected to be comfortably serviced from revenue, even where actual prices received fall below current forecast prices and overall merchant risk exposure is capped at portfolio level
- The CEFC applies conditions to the investment that are appropriate to managing the proposed CEFC risk, for example, by applying special conditions that take effect for underperformance that result in extraordinary repayments of capital
- The CEFC has a clear preference for other debt participants in any transaction and usually seeks other private sector capital to share risk
- For debt investments, the CEFC is typically secured against the borrowing entity, the project or the equipment it is lending towards
- The CEFC spends considerable effort understanding the creditworthiness of borrowers, the technology, the business case of the proposal, the security on offer, and what will happen to the CEFC's funds in the capital structure (see Figure 37) if the proposal ultimately fails
- The CEFC diversifies its portfolio, seeking to avoid excessive concentration of risk in specific technologies, in exposure to single entities, in exposure to higher risk finance in the capital structure, in exposure to merchant risk, in exposure to individual commodity markets and geographical areas

- The CEFC has instituted an extensive portfolio management function, systems and process
- Inevitably, and despite the CEFC's best efforts, a given proportion of loans will underperform, and for some of these, the CEFC will experience a loss on default. In a default, the CEFC structures investments to minimise loss and maximise the chance that it will get principal and interest returned
- While no loans have defaulted to date, and the CEFC is not aware of any individual loan that is in actual default, the CEFC Board has adopted a prudent approach to provisioning for losses on the balance sheet.

Figure 37: Illustration of the order of application of losses in the capital structure

<table>
<tr><td rowspan="6">LOWEST RISK
Order of Application of Losses
HIGHEST RISK (first loss)</td><td>Super-Secured Debt</td><td>Finance that is secured in preference to the order of creditors</td><td>Some of the CEFC's loans are super secured</td></tr>
<tr><td>Senior Secured Debt</td><td>Debt that has first-ranking security over the assets after super-secured debt: the assets of the borrower will be used to pay out senior debt in priority to others in the capital structure with a lower secured priority or who may be unsecured</td><td>Most of the CEFC's investments are senior debt.</td></tr>
<tr><td>Subordinated Debt</td><td>Debt that is higher risk and exposed to loss before senior debt</td><td>The CEFC occasionally lends on a subordinated basis where warranted</td></tr>
<tr><td>Mezzanine/Hybrid
Secured Finance</td><td>A 'hybrid' debt and/or equity position that is readily convertible depending on the circumstances</td><td rowspan="3">To date the CEFC has only invested in equity where:
a. outperformance of the project would deliver the CEFC a share of 'super profits' or b) where the CEFC is exposed to well capitalised lower risk entities
b. equity exposure is diversified:
i. units in a fund of infrastructure assets or super-secured property loans
ii. in the form of return structures (e.g. warrants or options) where no capital is at risk</td></tr>
<tr><td>Preferred Equity</td><td>'Preference Shares': Has ownership rights, but may have rights additional to ordinary shareholders (e.g. special voting rights, more security)</td></tr>
<tr><td>Ordinary Equity</td><td>'Shares': Has ownership rights and access to distribution of profits but is in first-loss position</td></tr>
</table>

Conducting Due Diligence

Conducting thorough technical due diligence and integrating those findings and outcomes with financial modelling analysis is a key component of the overall investment analysis process.

Critical considerations for the CEFC's technical due diligence include the historical data on the reliability of the technology, the assessed suitability of the technology for the purpose and location, the degree of customisation required, levels of testing undertaken, and the confidence levels expressed regarding the expected performance of the technology.

CEFC staff have diverse specialist technical knowledge and experience which is supplemented by external due diligence and working together with agencies like ARENA and the CSIRO, as well as knowledge sharing with other green banks on complex technical and engineering risk assessments.

Rigorous due diligence and financial modelling analysis of the business case, along with assessments of other key investment risks, including credit risk, are used to determine appropriate investment structures, financial covenants, and the required legal undertakings for an intended investment, all of which are designed to enhance and protect the CEFC's position.

The CEFC's loans are early in their life and the Corporation does not yet have a long history from which to ascertain the future performance of these investments.

Collective provision overlays may be appropriate in future periods and the CEFC will need to accumulate data in relation to trends and its experience, as well as monitoring for impairment indicators that may give rise to a need for provisioning of losses.

In the meantime, the Board has required all lending to take place at a sufficient margin to allow for recovery of normalised expected loss estimates in a commercial lending portfolio in the energy sector.

RED TAPE REDUCTION

In carrying out its mission and statutory object, the CEFC makes finance available to Australian business that would not otherwise exist. To that end, the CEFC-administered legislation (the CEFC Act) is a net benefit to business.

The CEFC conducts its business like a commercial enterprise, such as a bank. The CEFC can talk to clients about their proposals at any stage of the investment process. Applications for finance can be accepted at any time, and the CEFC keeps application forms as simple as possible. Where the CEFC runs funding rounds and tender requests and the process doesn't suit, proponents are free to pick up the phone or lodge an application outside the process via the website.

To avoid wasting precious CEFC and client funds, much of the documentation and diligence necessary to support a transaction (sometimes totalling in the hundreds of thousands of dollars) is only performed after the proposal is deemed eligible, viable and Board approved, but before it is contracted and any funds drawn.

In performing this diligence, the information the CEFC collects is typically the same that any diligent financier would seek before funding a project. Often the information requested is crucial to justifying the business case, and gives clients additional security that their project will succeed.

The CEFC is conscious that it is a young organisation and has adopted an approach of continuous improvement. Where the CEFC can automate and improve processes to reduce the burden on clients without compromising investment integrity, the CEFC will continue to do so.

STATEMENT OF ETHICS AND ETHICAL DEALING

The CEFC is an Australian Government entity that is ultimately owned by the Australian people. The CEFC has adopted a Code of Conduct and Ethics to govern behaviour across the organisation, and the Board and Executive set a high standard of ethical behaviour, the tone of corporate culture, and an expectation of ethical conduct at all times.

RELATED ENTITY TRANSACTIONS

The CEFC approach to dealings with related entities during the 2014–15 year was governed firstly by the procedures of the CEFC Act and PGPA Act, and then by the Board Audit and Risk Committee which is chartered to review all related party transactions.

Board Members disclose their standing interests to the other directors and conflicts of interest are managed strictly in accordance with the law.

Declarations of new conflicts of interest are a standing item at every Board meeting and the company maintains an embargo register of exchange tradable instruments of entities with which the CEFC has dealings, and with which both Board members and staff avoid trade.

Where the relation to the other entity is via a Board Member and the interest is material, the Board Member takes no part in the decision on whether to enter the transaction or decline.

In addition to the statutory requirements around declarations of interest and procedures for dealing with conflicts of interest, the Board and CEO have established a system of declaration of interests for the Executive and staff, and an embargo register for the purposes of preventing conflicts of interest in the trade of stocks in companies that the CEFC may be doing business with.

Individual related entity transactions are disclosed in accordance with the relevant standards at Note 12 within the Financial Statements (page 169). The CEFC has undertaken a number of related party transactions during the reporting period which reflects the method of integration of Low Carbon Australia Limited (LCAL).

LCAL and the CEFC have a common sole owner in the Australian Government, and Mr Martijn Wilder AM was Chair of the LCAL Board while serving on the CEFC Board. The CEFC has also done business with Baker & McKenzie, a law firm in which Mr Wilder is a partner.

INDEMNITIES AND INSURANCE PREMIUMS FOR OFFICIALS

The CEFC has made certain indemnities and insurances to 'officers' of the Corporation including Board Members and senior managers (for the CEFC, this is the Executive). The CEFC also indemnifies staff for items such as travel expenses on a reimbursement basis.

Comcover and Comcare insurance

These insurances have general application that include Board Members and the Executive among others as per the ordinary insurances required of Commonwealth entities.

Travel and expense reimbursement

The CEFC does not issue corporate credit cards for staff travel and expenses and instead, through its employment contract, indemnifies staff members (including the Executive) for reasonable travel and ancillary expenses incurred by staff in the performance of their duties, based on verified claims on a reimbursement basis.

Board Members do not generally require travel reimbursement as their expenses are met through allowances as determined by the Remuneration Tribunal (see Board Member Remuneration and Allowances, page 98).

Figure 38: Indemnities and insurance premiums for officers 2014–15

Indemnity/Insurance	Officers Included	Period of coverage	Premium/ Fees paid
Comcover General liability Insurance coverage for Directors' and Officers'	All Board Members and the CEFC Executive; General Counsel; all staff and office bearers	1 July 2014 – 30 June 2015	$71,427
Deed of Insurance, Access & Indemnity with each Director and Officer	All Board Members and the CEFC Executive; General Counsel	10 May 2013 – 7 years after ceasing to be a Director or Officer of the Corporation	Nil – indemnity only
Supplementary Directors' and Officers' Insurance to fill in gaps in the Comcover coverage	All Directors and Officers	14 June 2013 – 14 June 2021	$590,665
Comcare Worker's Compensation Insurance	All Directors and Officers are covered as part of this policy	1 July 2014 – 30 June 2015	$20,473
Indemnification for Reasonable Travel and Expenses	All Directors and Officers	on-going	Nil – indemnity only

PROCUREMENT

The CEFC is not an entity to which the Commonwealth Procurement Rules are applicable. Procurement occurs via the most efficient, effective economical and ethical means possible, which can involve direct engagement of service providers based on quotes, select tenders, engagement of external advisors, and in some instances joining Australian Government procurement arrangements. Under section 74 of the CEFC Act, the Corporation must specify in the Annual Report the details for each procurement contract on foot within the financial year valued at above $80,000. These contracts are specified in Figure 39.

Figure 39: CEFC procurement contracts that were in place during the 2014–15 financial year

Date entered into	Value of Contract $	Value expensed during the FY $	Contracting Party	Purpose
February 2013	1,625,009	549,733	Dexus Property Group	Lease of premises, I Bligh Street, Sydney from 1 March 2013 to 29 February 2016.
June 2013	590,665	73,783	Marsh Pty Ltd	D&O Insurance for period 14 June 2013 to 14 June 2021
July 2013	714,945	265,772	The Uniting Church in Australia Property Trust (Q.)	Lease of premises at Level 8, 140 Ann Street, Brisbane through 14 July 2015
June 2014	132,000	0	Australian National Audit Office	Audit of financial statements for 30 June 2014
July 2014	107,884	98,243	Bloomberg Finance LP	Bloomberg terminal and NEF All Insight Package Level III
July 2014	134,245	134,245	Dakota Media Pty Ltd	Production services for case studies
July 2014	351,506	351,506	FCM Travel Solutions	Work travel and incidental costs for period 1 July 2014 to 30 June 2015 under the whole of government travel procurement program
July 2014	186,780	186,780	Studio Thick Pty Ltd	Website development, maintenance and Internet presence
June 2015	723,377	0	The Uniting Church in Australia Property Trust (Q.)	Extension of lease of premises at Level 8, 140 Ann Street, Brisbane from 15 July 2015 to 14 July 2018
July 2014	202,384	202,384	Intuitive Communication Pty Ltd t/a Momentum 2	Communications and marketing education on co-finance products
January 2015	204,000	73,740	Reval.com Inc	2 year license fees, maintenance, support and implementation costs for Loan Management System
February 2015	133,392	133,392	King & Wood Mallesons	Legal staff member seconded to the Corporation
March 2015	83,600	83,600	Randstad Pty Ltd	Staff placement fees
June 2015	145,000	145,000	Australian National Audit Office	Audit of financial statements for 30 June 2015
June 2015	501,031	0	Technology One Ltd	License Fees, 3 year minimum maintenance, support and initial implementation costs for FinanceOne software.
All contracts in year	**5,835,818**	**2,298,178**	Total 15 procurement contracts over $80,000.	