



**2018  
SUSTAINABILITY  
REPORT**

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# Message from the CEO



**David Brand**  
CEO, New Forests

New Forests is now in its 14<sup>th</sup> year of business. Our assets under management have grown and diversified over the years, and today we manage high-quality forestry assets, processing and infrastructure, conservation areas, and carbon offset projects across six countries in the Asia-Pacific region.

From the start, New Forests has seen sustainability as a core part of our business and as an opportunity for the forestry sector in a decarbonising world economy. It is exciting today that as we build on the substantial scale of the assets we manage for our clients, we can also generate positive impacts for communities and the environment and contribute solutions to key global challenges.

In 2018 climate change related impacts, whether forest fires in Europe, the Western US, and Australia; major storms in the Atlantic and Pacific; a severe drought in Australia; or temperature anomalies in the Arctic, seemed to be insistently disruptive. Major climate change fora in 2018, including the Global Climate Action Summit and the COP in Poland, as well as the report of the IPCC on the consequences of 1.5°C temperature increase, have begun to recognise the important role of forests, agriculture, and land use in both contributing to and solving the climate crisis. NGOs, scientists, and policymakers now increasingly call for 30% or more of greenhouse gas emissions mitigation to come from the land use sector by 2030. The reality, however, is that only 3% of climate finance is dedicated to forestry and land use-based solutions. One of our objectives as a company is to change that.

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## Message from the CEO

As the world reacts to the plastics crisis, recycling and re-use rates are low, and plastics remain in the environment for centuries. We are creating hundreds of millions of tonnes of plastic waste each year, and a substantial amount ends in the oceans. One part of the solution may well be to go back to where we were three or four decades ago and return to paper straws, paper bags, and paper packaging. In fact, the rise of new wood, fibre, and biomass markets in recent years has been impressive, with bio-refineries being built to make a range of new materials and bio-chemicals, and a variety of new engineered wood products entering large-scale use and substituting for concrete and steel in multi-story buildings.

Here, at the intersection of climate change solutions, sustainable materials, and the rising flow of investment funds into the forestry asset class, we find an important opportunity. It may be that the concept of a “timberland” asset class is too limiting, and we need to think more holistically about forests and their role in a spectrum of ecological services like climate mitigation, watershed protection, and biodiversity conservation, as well as the source of renewable, recyclable, and decomposable materials. This recognition provides an opportunity to extend the forestry asset class into a unique asset class, natural infrastructure, selling both critical wood and fibre-based products and environmental services.

In fact, New Forests is already pushing that concept forward in our investment strategies and fund products, with examples you can read about in this report across our investments in Australia, New Zealand, Southeast Asia, and the United States. This year’s sustainability report is continuing to build on our past work and will be the first time that we report on a suite of indicators against the Sustainable Landscape Investment (SLI) approach that we introduced in our 2015 report. It has been a substantial undertaking by our dedicated internal Sustainability Working Group to identify the indicators and collect the data across our assets over nearly a million hectares and six countries. However, we expect the data to help move the agenda forward by shedding light on areas where there are opportunities for improvement or lessons learned in one asset that can be applied to other assets we are managing.

We have also continued to feature real stories from the various assets and include thoughts from our staff, our service providers, our partners, and our stakeholders. This report forms a tapestry of the range of issues, opportunities, and challenges that we face across the diversity of the assets we manage for our clients. As always, we welcome your feedback and questions.

# About This Report

New Forests' 2018 Sustainability Report contains highlights of our business and illustrates our corporate sustainability framework and approach to responsible investment (RI). This report covers the activities of the New Forests group of companies during the calendar year 2018 as well as the environmental, social, and governance (ESG) performance and impacts of the investments we managed during the financial years ending in 2018. Importantly, this is the first report using New Forests' revised SLI indicators, which were piloted in 2018 as part of our ongoing efforts for continual improvement in impact management. Quantified indicators and information relating to investments in Australia and New Zealand are provided for the financial year 1 July 2017 – 30 June 2018 unless otherwise stated. Information relating to investments in Southeast Asia and the United States are for the calendar year 1 January 2018 to 31 December 2018.

New Forests believes that transparency is at the core of responsible business. Under the guidance of the New Forests' Board of Directors, the company considers that our key stakeholders are our investment clients, our employees, and the communities where we operate. These communities include the people who work and live in and around the forest operations we manage as well as the business and supply chain partners who support our investments. We also consider other actors throughout the forestry sector and forest products value chain. It is important for our partners to be aware of the shifting trends in forestry investments in relation to sustainability and for our clients to understand how we aim to position their investments to perform well alongside these trends. In addition, we recognise that our investments may have significant impacts on the goods and services that forests can deliver – especially ecosystem services – and that this means our broader stakeholders also include members of the public who may be affected by our investment operations and their impacts on these services.

Throughout this report, New Forests provides material information for our key stakeholders about our business and investments while also keeping in mind the interests of our broader public stakeholders, particularly those seeking transparency and responsibility in sustainable forest management and investment. The materiality of topics discussed in this report has been established through New Forests' corporate sustainability policies and Sustainability Working Group (SWG) process; and public disclosures are made based on our significant economic, environmental, and social impacts, particularly where we believe that discussion of our management approach and the impacts of our investments will be of importance to our stakeholders.

As a responsible forestry investor, New Forests commits to continuing to achieve higher standards of sustainability and we report on the ESG risks, opportunities, and impacts of the investments we manage. We value partnerships in this effort, and we welcome any questions or comments regarding this report and our approach to sustainability and RI.

For questions or comments, contact [info@newforests.com.au](mailto:info@newforests.com.au).

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# Sustainability Working Group Update

**New Forests’ SWG focuses on continual progress and innovation in the company’s sustainability programs. The SWG is responsible for designing, developing, and integrating sustainability initiatives across our business and includes members from each of our investment programs as well as our Executive Committee and finance, risk and compliance, and corporate services teams. Throughout 2018, the SWG continued its focus on furthering our SLI framework, aiming for its ultimate ability to enhance investment performance through managing risks and identifying opportunities for value creation.**

In 2018, New Forests released a new set of SLI indicators to monitor, manage, and report on ESG and impact. Although new management frameworks for disclosing, benchmarking, and managing ESG and impact are emerging throughout the investment world, there is no generally recognised ESG and/or impact performance framework for sustainable forestry that can be used globally. Therefore, New Forests has invested in developing our own framework so that it can be tailored to the nature of our sustainable forestry and environmental markets investments located across the Asia-Pacific region and the United States. At the same time, we aspire to align our approach with other industry and collaborative projects and will continue to engage with other investors and businesses in these important efforts. The SLI framework includes around 80 metrics that can be customised by region, type of investment, and investment structure - enabling flexibility and helping to ensure the metrics are fit-for-purpose in support of New Forests’ asset management and reporting.

New Forests is piloting the new SLI indicators for 2018, with this 2018 Sustainability Report being the first public reporting of SLI data. Around 50% of the metrics are used in this report, while the remainder contribute contextual data for asset management or comprise commercial and sensitive data. The rationale for public reporting is to provide transparency through appropriate disclosures regarding performance and impacts that are material to public stakeholders. During 2019, the SWG will continue to develop the SLI framework through a review of the pilot year data, consultation with partners, review of disclosures, integration of the SLI framework throughout our investment and governance practices, and development of SLI data management and analysis approaches that align with New Forests’ corporate performance management system.

New Forests hopes that this report is a useful reflection of the progress in our SLI framework, and we look forward to working with our clients, business partners, and others to maximise the financial, environmental, and social values of our ESG and impact management approach.

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# Looking Ahead: Advancing Sustainable Landscape Investment

New Forests believes that forestry is a sector that will lead the transition to a sustainable future. Our business was founded in 2005 on the idea of forests as “natural infrastructure” for our planet, providing the services and goods that society needs to thrive. The Sustainable Landscape Investment indicators that we have introduced in our 2018 Sustainability Report seek to quantify the ESG and impact performance of this natural infrastructure that we manage across the Asia-Pacific region and the United States.

There is an array of reporting frameworks, standards, and guidelines to support investors in identifying ESG risks and a growing body of best practice for impact management. New Forests’ SLI framework is a critical component of our efforts to advance transparency and accountability for the assets we manage on behalf of our clients and to promote excellence and continuous improvement in investment management. As we look ahead to 2019, we will focus on advancing Sustainable Landscape Investment in our investment management approach.

## Key areas of focus will include:

- ➔ **Embedding our SLI indicators into our investment decision making and governance and asset management processes;**
- ➔ **Benchmarking our performance and seeking out appropriate data to do so; and**
- ➔ **Reporting our progress to clients and other key stakeholders.**

We recognise that for New Forests’ clients, common ESG and impact reporting frameworks will be critical in order to compare investment managers, understand what drives financial performance, and engage in robust discussions with their constituents, often-times pensioners with growing concerns about the sustainability impacts of their retirement investments. People want to retire in a world that is thriving for them, their children, and their grandchildren, and we share this vision.

We will also continue to share our experience with other investment managers through international forums like PRI, GIIN, WBCSD, and FSC and the local and national forestry associations that we engage in. It is important to New Forests that ESG and impact measurement and performance are collectively advanced by the investment management industry with a view towards integration into all aspects of investment decision making and asset management and continuous improvement.

We hope that the sharing of our experience and progress to date in this 2018 Sustainability Report, as well as discussion of challenges we face, is constructive for our stakeholders and other investors and actors in the forest value chain. Realising the potential of the forest sector as a driver of climate solutions, sustainable development, and renewable materials is both necessary and possible; we invite you to join us in advancing a collective movement for Sustainable Landscape Investment.

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# SLI Metrics & Glossary

Click the headings at right for descriptions of the SLI metrics and indicators used in this report. While the SLI indicators are designed as a fit-for-purpose tool for sustainable forestry investment monitoring, not every investment is included in the data reported for each indicator. Key variances include:

- ➔ The ANZFF investment in Timberlink Australia Pty Limited and Timberlink New Zealand Pty Limited is not included in Land Use Planning or Ecosystem Services. It is included in Productivity (in relation to timber volume produced from sawmills), Shared Prosperity, Risk Management, and Governance.
- ➔ The ANZFF2 investment in Wenita Forest Products in New Zealand and the related forest and land assets is not included as the transaction settled after the reporting period.
- ➔ ANZFF3 investments are not included as there were no assets under management during the Australia-New Zealand reporting period of 1 July 2017 - 30 June 2018.
- ➔ Forest Carbon Partners data are not reported where there is no operational control over the related issues. Themes not reported for FCP include Productivity, Land Use Planning (except for Environmental Markets Project Area), Ecosystem Services for Biodiversity and Water, Shared Prosperity, Risk Management, and Governance.

 **PRODUCTIVITY** 

 **LAND USE PLANNING** 

 **ECOSYSTEM SERVICES** 

 **SHARED PROSPERITY** 

 **RISK MANAGEMENT** 

 **GOVERNANCE** 

## PRODUCTIVITY

Harvest Volume	Volume harvested from the estate
Certified Harvest Volume	Volume harvested from the estate from areas under active forest management certification
R & D Expenditure	Investment and expenditure in forest-related research, extension and development, and education.



## LAND USE PLANNING

Environmental Restoration Management Area	Area of land managed for environmental restoration. Area should be managed with a plan for intentional restoration of environmental values through specific management prescriptions
Environmental Markets Project Area	Area listed and/or registered under one or more environmental markets projects, including carbon, mitigation banking, or other.
HCV Types	Based on guidance of the HCV Resource Network.
Permanently Protected Area	Area of land under a permanent mechanism for environmental protection and conservation, e.g. conservation easement, covenants. The protection mechanism must be legal in perpetuity.
Conservation Zone or Protected Area	Area of land managed for environmental protection and conservation. Includes land subject to legal land use restrictions set for the purposes of maintaining biological diversity and natural resources.
Natural Forest and/or Remnant Vegetation Area	Area of land that is predominantly under natural forms of vegetation and not used for cultivation. This area may include environments of varying naturalness and condition.
Certified Area	Area (gross) under third-party sustainability certification and managed on behalf of the investment and/or within certification held by the asset manager that includes forest and/or land management practices, e.g. FSC, PEFC, Organic.
Natural and/or Semi-Natural Production Forest Area (net)	Area of natural forest and/or semi-natural forest that is managed for timber production.
Planted or Regenerated Production Forest Area (net)	Area of planted plantation and/or regenerated plantation that is managed for timber production. Includes planted forest and area naturally regenerated from planted forests and under timber production regime.
Agricultural Land	Area of land primarily used for agricultural production activities. Includes by lessees or share farmers. For the avoidance of doubt, does not include agricultural activities undertaken by communities on customary or community land in Asia.
Commercial Replant Area	Area replanted or re-established for commercial tree crops, i.e. following harvest and not including new areas of plantation/forest
Commercial Reforestation Area	Area of land planted for commercial forest management, i.e. from unplanted to planted / new establishment and not re-establishment.
Environmental Plantings/ Reforestation Area	Area of land (re)forested/(re)planted for conservation management.
Community and Livelihoods Plantings - within Management Unit	Area within the management unit / asset boundaries that is production area managed and/or established by the asset (in part or in whole) for the benefit of communities, individuals, and households. Such plantings may be established in partnership with local communities and/or via requirements for livelihoods plantings. Area may be double counted from total production area.
Community and Livelihoods Plantings - outside Management Unit	Area outside the management unit / asset boundaries that is production area managed and/or established by the asset (in part or in whole) for the benefit of communities, individuals, and households. Such plantings may be established in partnership with local communities” and/or via requirements for livelihoods plantings. Area may be double counted from total production area.
Reversion Area	Area of land reverted from forest to non-forest or which has been harvested and won't be replanted to forest cover.



## ECOSYSTEM SERVICES

Biodiversity Conservation Programs

Active programs in place targeting the conservation or enhancement of biodiversity, including species-specific or habitat initiatives such as a HCV management plan, a program that targets species research or conservation, or a program that targets habitat condition improvements and restoration.

Forest Carbon - Productive Area Carbon Storage

Forest carbon stock in production areas of the forest estate.

Forest Carbon - Annual Change

Change in forest carbon stocks as at the end of the financial year compared to the prior financial year. Reported as net positive Sequestration as a positive number and net emissions as a negative number.

Carbon Offsets Issued

Carbon offsets issued during the reporting period.

Recreation and Cultural Access

The company/asset provide access for recreation or cultural purposes, such as hiking, biking, horse riding, motorised vehicles, camping, hunting, religious or cultural importance, nature viewing, tourism, birdwatching, etc.



## SHARED PROSPERITY

Smallholders and Outgrowers	Number of participants engaged in outgrower, smallholder, and livelihood planting programs.
Employees - Female	Number of female employees, including part-time and full-time employees.
Employees - Total	Number of employees of the external manager, including part-time and full-time employees.
Temporary/ Contract Workers	Number of temporary employees engaged by the external manager during the reporting period. Temporary employees include contractors, subcontractors, casual, and fixed-term, projects, seasonal, or intermittent work.





## RISK MANAGEMENT

Risk Management System	An active risk management system that covers all aspects of the asset, including commercial, environmental, and safety.
OHS System	An OHS system certified by a third-party.
Fatalities	Number of fatalities, including Employees, Contractors and Visitors.
Lost Time Incident Frequency Rate	The number of Lost Time Incidents occurring per 1 million hours worked.
Medical Treatment Incident Frequency Rate	The number of Medical Treatment Incidents occurring per 1 million hours worked.



## GOVERNANCE

Code of Conduct	A Code of Conduct or equivalent policy is in place.
Board or Operational Committee Independence Percentage	Percentage of the members of the Board or Operational Committee who are independent.
Governance Meetings	Number of Board of Director meetings (for investee companies) or Operations Committee meetings (as applicable) held.



# Disclaimer

As global demand for resources grows, there is a need to increase productivity while ensuring the conservation of the world's remaining natural forests. New Forests seeks to create investment strategies that provide lasting solutions to this challenge. Through responsible management of forests and other real assets, we create shared benefit for investors and local communities alike. We believe that meeting the needs of a broad range of stakeholders will provide better returns over the long term.

New Forests has international reach, with offices and assets in Australia, New Zealand, Southeast Asia, and the US. This gives us a global perspective combined with local expertise that allows us to understand and manage our assets more effectively. Wherever we operate in the world, our strength lies in our people and their drive to make investments that create the best possible outcomes. By investing with integrity and transparency we aim to generate strong returns while helping tackle some of the world's great sustainability challenges.

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**New Forests is part of the Certified B Corp community, a global movement of people using business as a force for good.**

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# New Forests – Leading the Future of Forestry Investment

New Forests is a specialist investment manager offering leading-edge strategies in forestry, land management, and conservation. Our investment philosophy recognises that institutional investment can drive both the productive use and long-term stewardship of forests and land.

We seek to create shared value – where we not only execute investments that generate excellent returns to our clients but also enrich the landscapes and communities where we operate by addressing environmental and social challenges.



**Headquartered in Sydney, Australia**

Additional Offices in Melbourne, San Francisco, Sydney, Singapore, and New Zealand



**5.2 Billion AUD in AUM & FUM for institutional investment clients**

Institutional investors, including pension funds, sovereign wealth funds, insurance and reinsurance groups, and impact investors

**60+ Employees**



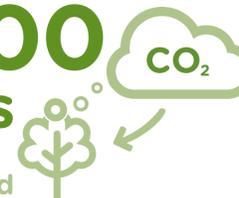
**18,000+ Hectares**

trees planted in 2018



**160,000 Hectares**

carbon projects on third-party land



**730,000 Hectares**

forestry assets



**Regional Investment Strategies**

Australia New Zealand United States Southeast Asia

**Managing investments in 6 countries**

Australia, New Zealand, Malaysia, Indonesia, Laos, and the United States

## Dedicated to Sustainable Landscape Investment



Productivity



Land Use Planning



Ecosystem Services



Shared Prosperity



Risk Management



Governance

LEADING FORESTRY INVESTMENT

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# Investment Programs

New Forests' investment programs focus on regional investment strategies, applying our international forestry investment experience and regional expertise to identify attractive investment opportunities in Australia and New Zealand, Southeast Asia, and the United States.

Click the headings at right to explore New Forests' three regional investment strategies and highlight progress and achievements from the investment management business in 2018. New Forests' total assets under management and committed capital increased from AUD 4.4 billion to more than AUD 5.2 billion throughout 2018, an increase of 16% supported by both new acquisitions and valuation increases in operating assets.<sup>1</sup>

INVESTMENT PROGRAMS 

AUSTRALIA & NEW ZEALAND OVERVIEW 

SOUTHEAST ASIA OVERVIEW 

UNITED STATES OVERVIEW 

<sup>1</sup> Net Asset Value and committed capital as at 31 December 2018 for ANZFF, ANZFF2, ANZFF3, and all related co-investments. Not audited. Net Asset Value and committed capital as at 31 December 2018 for TAFF, Forest Carbon Partners, and US Carbon Forestry separate managed accounts. Does not include capital committed in US Carbon Forestry separate managed accounts that remain in originations phase. Based on USD:AUD exchange rate as at 31 December 2018.

Leading Forestry Investment

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# Australia and New Zealand Overview

AUD 4.5 billion

## Australia New Zealand Forest Fund (ANZFF)

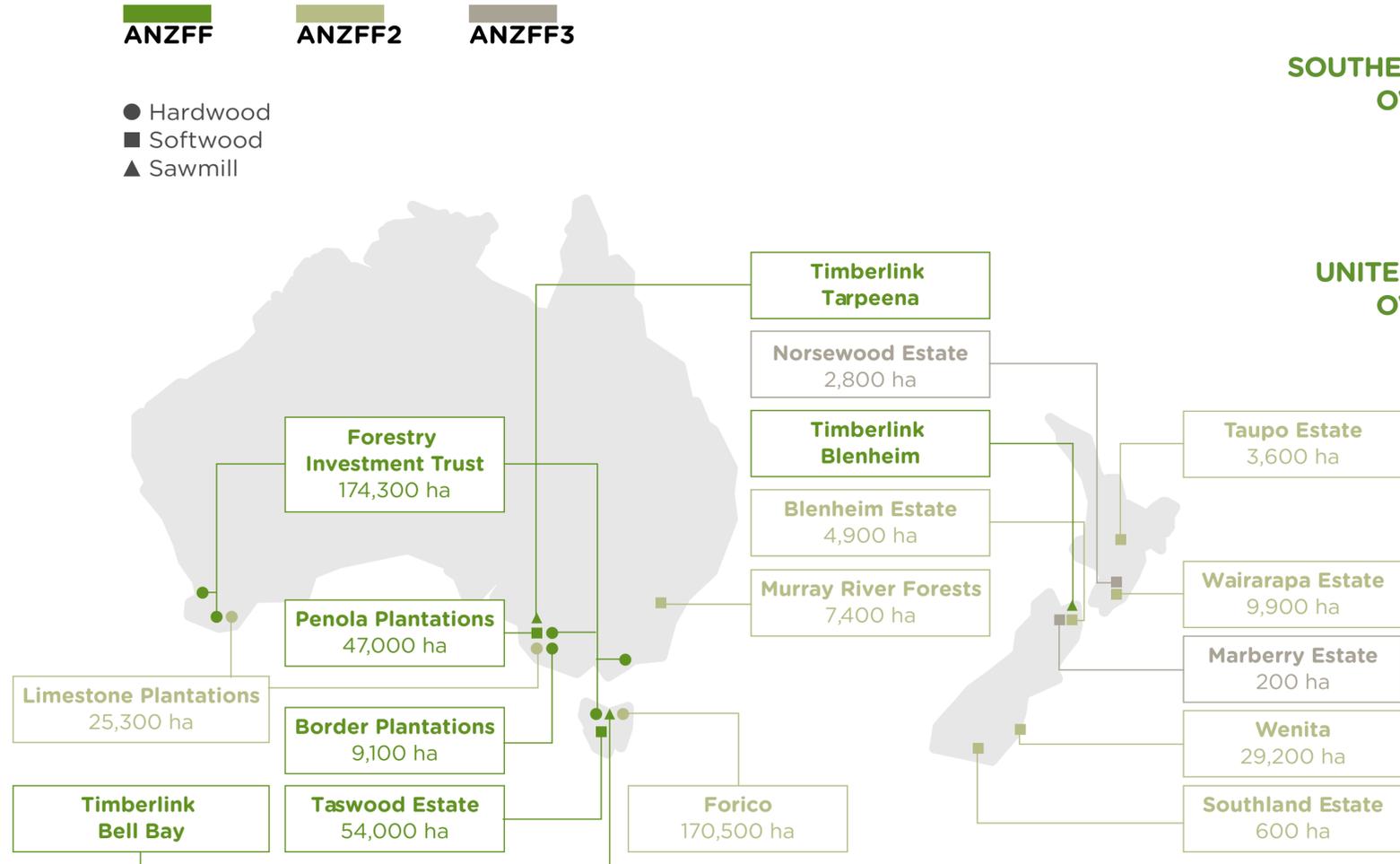
New Forests' first timberland fund for the ANZ region closed in 2010. The fund is fully invested and comprises a portfolio of around 240,000 hectares of Australian softwood and hardwood plantations as well as the Timberlink Australia and Timberlink New Zealand sawmilling, sales, and distribution businesses.

## Australia New Zealand Forest Fund 2 (ANZFF2)

New Forests' second timberland fund for the ANZ region closed in 2014. The fund completed its final acquisitions in 2018 and has a portfolio of hardwood and softwood assets across nearly 150,000 productive hectares located in Australia and New Zealand.

## Australia New Zealand Forest Fund 3 (ANZFF3)

New Forests' third timberland fund in the ANZ region reached a final close in 2017. ANZFF3 is being actively deployed across high value timberland and associated infrastructure in Australia and New Zealand.



Note: Image is not to scale. Figures are gross area as of 31 December 2018.

MORE ▶

# Australia and New Zealand Overview

New Forests' investment strategy in Australia and New Zealand seeks to generate superior total returns to investors by establishing a diversified portfolio of timberland properties and forestry-related investments.

Our Australia New Zealand Forest Funds (ANZFF series) have exposure to domestic and export markets for major end-products (i.e. lumber, engineered wood products, and pulp and paper) through investments in hardwood (eucalyptus) and softwood (pine) plantations and related processing and infrastructure facilities. Investments by the fund in downstream processing (including sawmills, woodchip plants, and port facilities) are aimed at optimising supply chain value for plantation investments.



## 2018 Australia and New Zealand investment program highlights

- ➔ Implementation of a new risk-based strategic planning framework that enables New Forests to consistently manage strategic objectives across all assets, based on guidance from the Australian Institute of Company Directors and Governance Institute of Australia.
- ➔ Approval of an AUD 100 million capital expansion project for Timberlink Australia designed to improve the efficiency and capacity of its sawmills.
- ➔ Completion of major capital upgrades in wood processing infrastructure within the Tasmanian Forest Trust including an upgrade of the Surrey Hills log yard.
- ➔ Completion of the final acquisition for ANZFF2 and achievement of forest certification on all ANZFF2 assets.<sup>2</sup>
- ➔ Commencement of aggregation of small to medium sized properties in New Zealand in the ANZFF3 portfolio, including purchase of the first bare land reforestation project in the ANZFF fund series.

## Managing a diversified portfolio of

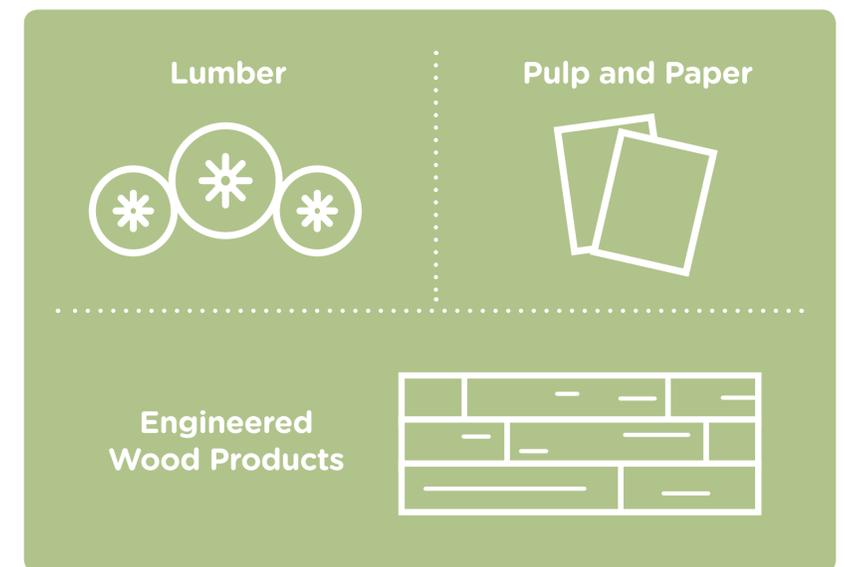


Eucalyptus  
Hardwood Plantations



Pine  
Softwood Plantations

Our Australian and New Zealand investments have exposure to domestic and export timber markets



**AUSTRALIA & NEW ZEALAND CASE STUDIES** ▶

<sup>2</sup> All ANZFF2 investments were certified as at 31 December 2018, but as at 30 June 2018 Southland Estate and Blenheim Estate were pending certification.



# Southeast Asia Overview

AUD 227 million

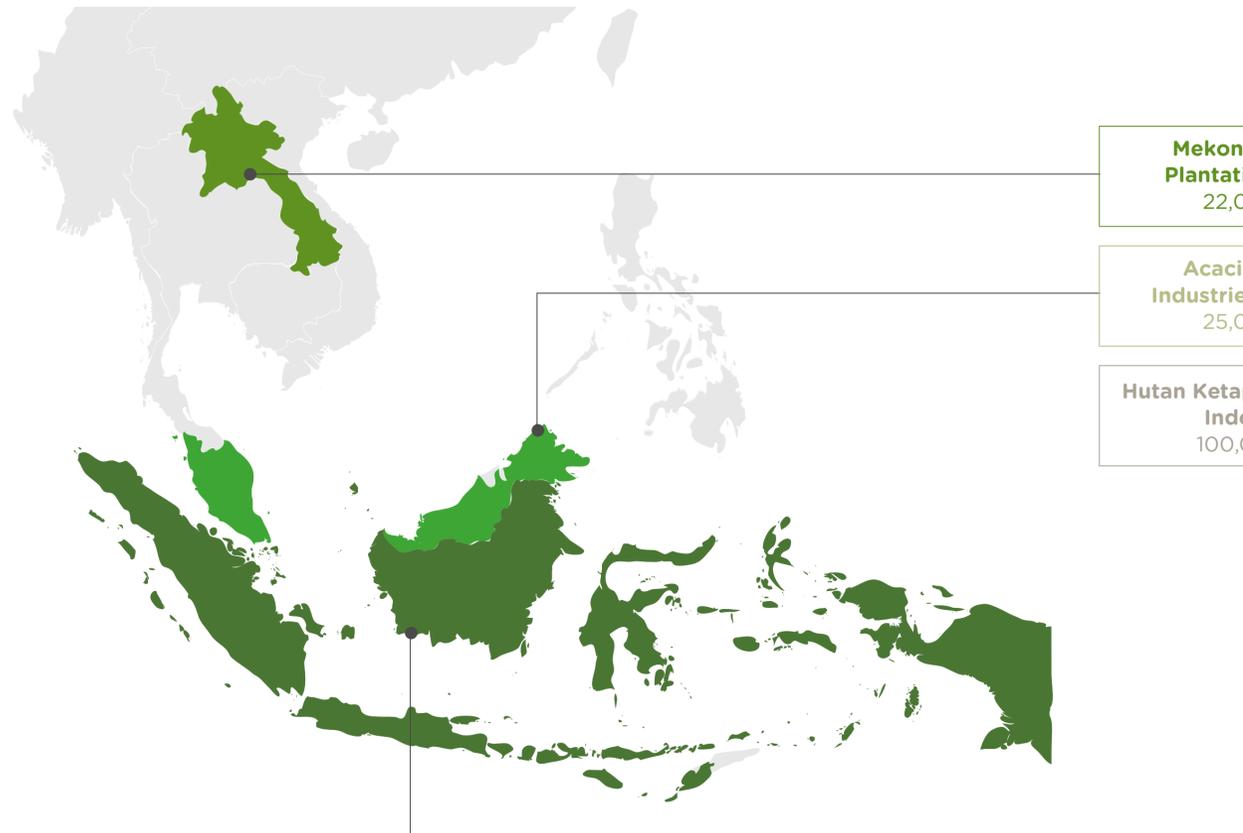
### Tropical Asia Forest Fund (TAFF)

New Forests' Southeast Asian fund, TAFF, continues to manage its portfolio of investments in Malaysia, Indonesia, and Laos with a gross area of nearly 150,000 hectares.

New Forests' strategy in Southeast Asia capitalises on the growing demand for long-term investment in sustainable plantation forestry in the region and the opportunity to align institutional investment with a shift of the Asian forest sector towards responsibly managed, intensive timber plantations.

New Forests has been operating in Asia since 2008, managing investments in plantation forestry assets and cultivating relationships with a variety of business partners and governments while developing a robust pipeline of investment opportunities.

Since 2012, New Forests has managed the first and only dedicated institutional timberland fund in Southeast Asia, the Tropical Asia Forest Fund (TAFF), which has investments in tropical hardwood and rubber plantation companies in Malaysia, Indonesia, and Laos.



Note: Figures are gross areas as at 31 December 2018.



### 2018 Southeast Asia investment program highlights

➔ New Forests and Gondwana Genomics, an Australian genetics technology firm, announced a collaboration to deploy genetic technology to boost productivity in two tropical eucalyptus plantation investments of TAFF in Malaysia and Laos. It is the world's first large-scale investment in tropical eucalyptus Marker Assisted Selection (MAS), aiming to deliver significant gains in tree plantation productivity and resilience.

➔ The successful restructure and increased investment commitment to TAFF's investee company, Acacia Forest Industries, which will support the ongoing transition to a high-yielding *Eucalyptus pellita* crop.

**SOUTHEAST ASIA CASE STUDIES** ▶



# United States Overview

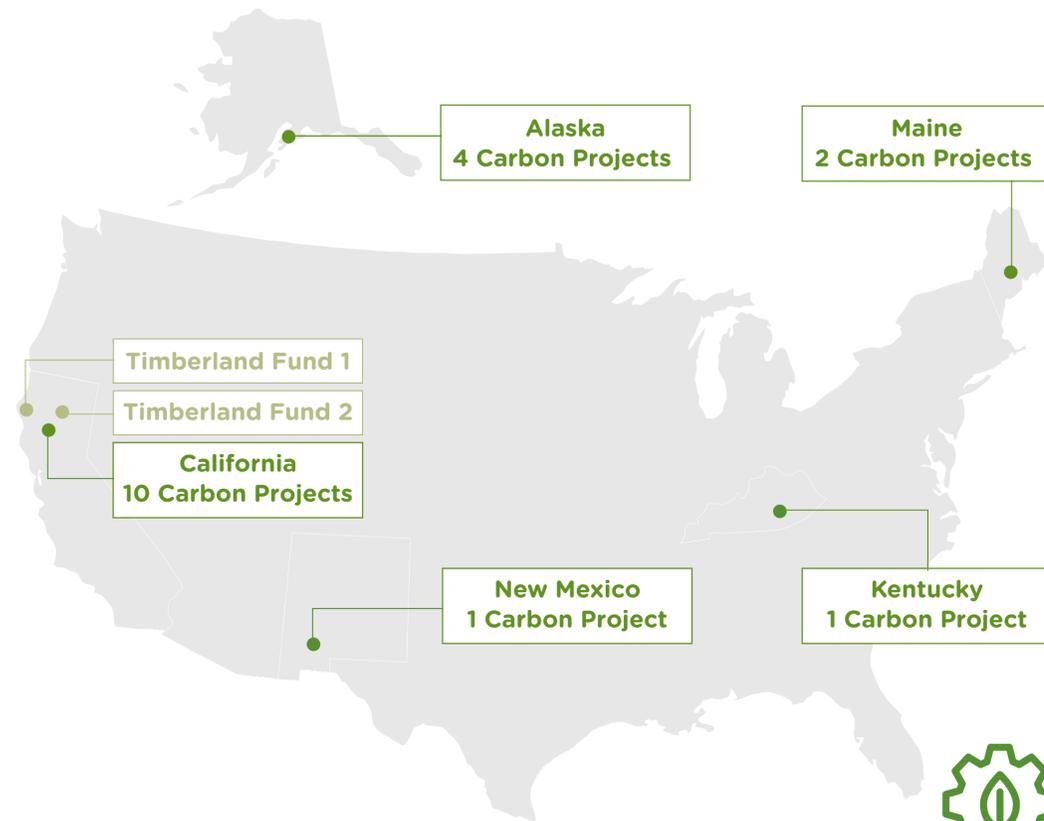
AUD 501 million

### Forest Carbon Partners (FCP)

FCP finances and develops forest carbon offset projects for the California carbon market. FCP works with family, industrial, and tribal landowners across more than 183,000 hectares (450,000 acres) in the continental US and Alaska to create carbon offset projects that deliver a new source of revenue for forest owners.

### Carbon Forestry Separate Accounts (US Carbon Forestry)

New Forests began investing in its US Carbon Forestry strategy in 2016, and as of the end of 2018, manages four separate accounts in this strategy with more than 75,000 hectares under management (187,000+ acres). This includes three timberland investments in Northern California and an active originations program.



FCP

US Carbon Forestry



### 2018 United States investment program highlights

Since launching its US business in 2007, New Forests has pioneered investments that integrate environmental market and timberland management.

New Forests was the first company to successfully register a forest carbon offset project in California's regulatory cap-and-trade program. Since then, New Forests has grown to be one of the leading suppliers of forest carbon offsets in the California market.

Forest Carbon Partners, a New Forests-managed carbon finance vehicle, works with Native American tribes and corporations, non-profit land trusts, and family forest owners to develop high-quality carbon projects that deliver climate mitigation and support landowner conservation objectives.

In real assets investment, New Forests has placed over USD 275 million since 2016 through its carbon forestry investment strategy, which seeks to deliver higher returns by adding revenue from offset sales to a core rate of return from sustainable forest management.

➔ Acquisition of more than 69,000 hectares of US timberland, now operating as Shasta Cascade Timberlands and managed under a multi-revenue strategy for timber, carbon, renewable energy, and conservation finance.

➔ Registration and monetisation of carbon offset projects on 826 hectares of Northern California forests acquired in 2016 in the US Carbon Forestry strategy.

➔ Issuance of more than 3.8 million California Carbon Offsets by Forest Carbon Partners.

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# Responsible Business

New Forests is committed to conducting business in a responsible and ethical manner. Our Code of Conduct is at the core of realising this commitment. New Forests expects its employees to maintain a high standard of conduct and work performance. Good personal conduct contributes to a healthy and inspiring work environment for all and helps the company maintain its reputation with investors and other stakeholders. We are proud to work in an organisation that promotes professionalism, courtesy, excellence, diversity, and respect. Employees are trained on the Code of Conduct as well as the broader range of New Forests' policies and procedures through a structured online training program and ad hoc internal trainings. New Forests' governance bodies work across the business to promote ethical and responsible decision making; recognise and manage risks; maintain fiscal responsibility; lay a solid foundation for management and oversight; and make timely and balanced disclosures. We have in place a governance and compliance framework driven by good practice and regulatory compliance, including for the company's Australian Financial Services Licence and as a Registered Investment Advisor in United States.<sup>3</sup> Alongside financial compliance, New Forests' systems and procedures encompass

funds management governance, administration, and operational control systems. Significant policies and procedures are reviewed and approved by the company's Risk and Compliance Committee, Executive Committee, and Board of Directors, as relevant. New Forests' responsible business approach is closely linked to the involvement and oversight of senior management and the New Forests Board of Directors in ensuring our business' success, including our commitment to responsible investment.

### New Forests Pty Ltd Board of Directors

Appointed by shareholders and holds six meetings with at least two in-person meetings per year. The current Directors:

- > **David Brand**
- > **Radha Kuppalli**
- > **Hans Mehn**
- > **Masaru Namiki**
- > **Charl Pienaar**
- > **John Rogers**
- > **Daniel Weiss**

### Executive Committee Management Committees

The Executive Committee meets weekly by teleconference with at least quarterly in-person strategy sessions. Management Committees meet once per quarter, with separate meetings for each region of investment.

- > **David Brand**  
Chief Executive Officer
- > **Margaret Cole**  
General Counsel
- > **Radha Kuppalli**  
Executive Director, Investor Services
- > **Gavin Le Roux**  
Chief Financial Officer
- > **Mark Rogers**  
Managing Director, Australia-New Zealand
- > **Geoffrey Seeto**  
Managing Director, Asia
- > **Brian Shillinglaw**  
Executive Director, United States

### Other Corporate Committees

Supporting committees cover key aspects of New Forests' governance and management.

- > **Remuneration Committee (board committee)**
- > **Investment Committees (by fund and region)**
- > **Management Committees (by region)**
- > **Risk & Compliance Committee**
- > **Marketing Committee**
- > **Product Approval Committee**
- > **Sustainability Working Group**

<sup>3</sup> Note that New Forests Inc. became a Registered Investment Adviser on 31 January 2019.



# Third-party Certification and Standards

Forest certification and other third-party certification schemes are important tools for responsible management of investments in the forest sector. In addition to providing standards, reputable certification programs offer credible assurance and transparency for both timber markets and stakeholders. New Forests' SEMS sets guidance for the types of third-party certification schemes we use and that are required for the investments we manage.

## Forest Management Certification

In accordance with our SEMS requirements, New Forests is committed to achieving and maintaining internationally recognised forest certification on all eligible assets worldwide. New Forests uses the Forest Stewardship Council®<sup>4</sup> (FSC) and standards endorsed by the Programme for Endorsement of Forest Certification<sup>5</sup> (PEFC), such as Responsible Wood in Australia. Assets may also participate in national timber legality systems and standards, according to local regulation and voluntary systems.

For investments that are not yet certified, New Forests requires time-bound commitments and targets. The status of New Forests' forestry investments with respect to both FSC and PEFC forest management certifications is shown on the following page. As these investments are managed by local property management firms or by the operating companies in which we invest, these local partners hold the certificates rather than New Forests.

## IFC Performance Standards

The IFC Performance Standards (IFC PS) provide best practices designed to help avoid, mitigate, and manage environmental and social (E&S) risks and impacts. New Forests uses the IFC PS as a component of our E&S assessment and management activities, particularly for our emerging markets investments in Asia. We use the IFC PS to assess and manage moderate and high-risk plantation investments, high-risk infrastructure, or processing assets. Together, the IFC PS cover all major areas of E&S management that can be material for investment risk and asset performance.

## Environmental Markets Standards and Certifications

Environmental standards and certification for other ecosystem services are more nascent than those found in forestry. In some cases, governments and industry associations have created schemes – such as cap-and-trade or other offsetting programs – that set standards for responsible production or for standardised quantification of environmental benefits. Currently, most of New Forests' investments or projects to commercialise ecosystem services are based on regulatory standards and programs, including improved forest management projects for the California cap-and-trade scheme; carbon storage in plantation forests under the New Zealand Emissions Trading Scheme and the Australian Carbon Farming Initiative and Emissions Reduction Fund; and water trading under government schemes in Australia.

<sup>4</sup> See <https://ic.fsc.org/> for more information. New Forests is FSC non-certificate licence holder FSC-N002114. FSC is not responsible for and does not endorse any financial claims on investments  
<sup>5</sup> See <http://www.pefc.org/> for more information.

MORE ►

# Third-party Certification and Standards

## New Forests and the Forest Stewardship Council

### Certification Status of Forestry Investments<sup>6</sup>

ANZFF	FSC FM	PEFC	Working towards Certification
<b>Border Plantations</b>	●		
<b>Forestry Investment Trust</b>	●	●	
<b>Penola Plantations</b>	●	●	
<b>Taswood Estate</b>	●	●	
<b>ANZFF2</b>			
<b>Blenheim Estate</b>	●		
<b>Limestone Plantations</b>	●		
<b>Murray River Forest</b>	●	●	
<b>Southland Estate</b>	●		
<b>Tasmanian Forest Trust</b>	●	●	
<b>Taupo Estate</b>	●		
<b>Wairarapa Estate</b>	●		
<b>Wenita Forest Products</b>	●		
<b>ANZFF3</b>			
<b>Marberry Estate Limited</b>			○
<b>Norsewood Estate Limited</b>			○
<b>TAFF</b>			
<b>Acacia Forest Industries</b>	●		
<b>Hutan Ketapang Industri</b>			○
<b>Mekong Timber Plantations</b>			○
<b>US Carbon Forestry</b>			
<b>Eureka Timberlands</b>			○
<b>Pine Creek Timberlands</b>			○
<b>Shasta Cascade Timberlands</b>	●		

New Forests supports the FSC through active membership, including engaging with other FSC members and FSC-convened working groups. Our staff work together with peers in the forest industry and with other stakeholders to support an FSC system that effectively promotes responsible forest management, by engaging, working, and learning collaboratively to strengthen the FSC system and extend its reach throughout the world’s forests and timber markets.

“In 2018, the Australian FSC National Forest Stewardship Standard was released – the result of more than five years of development and cooperation. I’m proud of the input that New Forests and our peers provided, which was essential to delivering a robust standard that fits the contexts of Australia’s unique environment and forest sector.”

Amanda Naismith – Operations Manager, New Forests (Australia-New Zealand) and Deputy Chair of the Board of Directors, FSC Australia

“At New Forests, we deal with the consequences of forest conversion in our investees and potential investees, strategising around conservation and restoration management, monitoring, and risk mitigation planning. FSC certification provides an important tool for us to navigate the risks related to conversion and we welcomed the opportunity to actively participate in the development of a new FSC Policy for Conversion. As a Working Group member, we work together with other FSC members to develop mechanisms that incentivise restoration and conservation, prevent deforestation, and that further the FSC’s overall efforts to promote responsible forest management worldwide.”

Marthe Tollenaar – Environmental & Social Manager, New Forests (Asia) and Member of FSC Forest Conversion Working Group

<sup>6</sup> Forest certification status as at 31 December 2018 for all investments.



# Responsible Investment

New Forests' approach to RI is underpinned by our Responsible Investment Policy (RI Policy), which codifies our belief that integrating ESG considerations throughout our investment programs, corporate strategy, and business plan supports lowering risk, promotes stable investment returns, and encourages more sustainable asset management that can add investment value. The RI Policy serves as a guide to integrating ESG into our business and investment strategies and describes strategies and commitments that support implementation and compliance with the policy.

New Forests strives to continually strengthen the RI practices we use while delivering better outcomes for our clients and stakeholders. Our commitment to continual improvement not only includes ESG considerations but also extends to impact management. Throughout this report we share our experience and lessons learned on this journey of continual improvement in ESG integration and impact management through sustainable forestry investment. By ESG integration we mean the approach and processes through which New Forests considers environmental, social, and corporate governance issues in our investments.



By impact management we refer to our efforts to understand the environmental and social impacts of our investments and our ongoing efforts to monitor, measure, and report on them while seeking to reduce the negative and increase the positive.



## Social and Environmental Management System

A cornerstone of our RI approach is New Forests' Social and Environmental Management System (SEMS), which describes the internal requirements, procedures, and documentation that support identification and management of significant environmental and social aspects in our investments. The SEMS also provides guidance for the use of third-party certification systems and standards that can demonstrate the responsible management of New Forests' investments.

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# Using Business as a Force for Good

New Forests is part of the certified B Corp™ movement, an ambitious group of businesses accelerating a global cultural shift to build a more inclusive and sustainable economy.

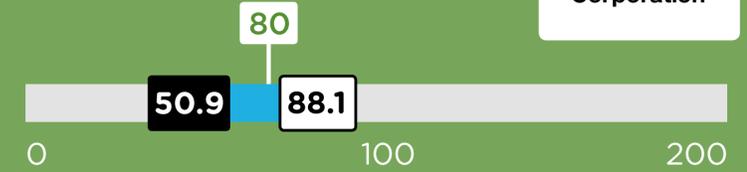
For New Forests, becoming a certified B Corp in 2018 was the next step in embedding our corporate purpose – investing to create productive and sustainable landscapes – in everything we do. As an asset manager, New Forests joins a small but growing movement of financial services providers that have aligned with the B Corp approach, demonstrating that the objectives of balancing purpose and profit are possible in investment management.

Motivation to become a B Corp started with New Forests’ Board of Directors, and New Forests’ management and staff have enthusiastically supported the certification process and joining the B Corp movement. New Forests now seeks to utilise the B Impact Assessment and the aims of the B Corp community as supporting elements as we re-commit to a corporate vision and purpose that is founded in our fundamental belief that a thriving forest sector backed by purpose-driven investment can provide multiple benefits to communities and our planet.

B Corp certification required that New Forests complete the B Impact Assessment, which asks questions about how the operations of a company create positive impact for the company’s workers, community, and environment. To certify as a B Corp, a company must achieve a minimum verified score of 80 points. New Forests’ inaugural B Impact Score was 88.1, qualifying New Forests Pty Ltd for certification in April 2018. The graphic at right shows the breakdown of New Forests’ score across the impact areas of the assessment. New Forests’ Executive Committee and senior management have reviewed the B Impact Assessment results and are using the framework to support the company’s ongoing commitment to excellence in how we manage our business.

Overall B Impact Score

88.1



The B Impact Scores are compared against all businesses that have completed the B Impact Assessment. The average business scores 50.9, while 80 is the cut-off to achieve certification. New Forests scored 88.1 in our inaugural assessment



**Governance**  
12.2



**Workers**  
31.2



**Community**  
7.4



**Environment**  
12.2



**Customers**  
31.2

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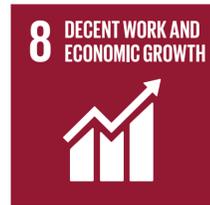
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# Forestry Investment Action Areas Aligned to Sustainable Development Goals and Targets

New Forests supports the achievement of the SDGs through sustainable forestry investment. New Forests focuses on positive impact through the SDGs 8, 12, 13, and 15 due to the alignment of forestry impact opportunities with the associated targets and indicators of these goals. Our performance in 2018 reflects our ongoing ambitions to create positive environmental, social, and development outcomes through forestry investment.



## Decent Work and Economic Growth

- › Achieve higher levels of economic productivity through labour-intensive sectors
- › Decent job creation
- › Immediate and effective measures to end modern slavery and eliminate child labour
- › Decouple economic growth from environmental degradation



## Responsible Consumption and Production

- › Achieve the sustainable management and efficient use of natural resources
- › Ensure sustainable consumption and production patterns



## Climate Action

- › Mobilise climate finance
- › Contribute to emission reductions and carbon dioxide removals



## Life on Land

- › Promote implementation of sustainable forest management
- › Ensure the sustainable use of forests
- › Ensure restoration of ecosystems
- › Substantially increase afforestation and reforestation globally
- › Reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species

[NEW FORESTS' SDG DASHBOARD ►](#)

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# New Forests SDG Dashboard – 2018



Individuals employed - with workers' rights requirements across all investments	5,300+ people	●			
Timber produced per net productive hectare	16.5 m <sup>3</sup> per hectare	●	●		●
Volume of certified timber produced	6.7 million m <sup>3</sup>		●		●
Percentage of certified timber production	99%		●		●
Carbon stored in production forests	121.6 million tonnes CO <sub>2</sub> e		●	●	●
Net carbon storage in production forest over 2018 <sup>7</sup>	+9.5 million tonnes CO <sub>2</sub> e			●	
Carbon offsets generated – dollars invested	4.5 million tonnes CO <sub>2</sub> e			●	
Low-carbon investment	USD 487 million			●	
Area of certified forest management	567,000+ hectares		●		●
Area of environmental restoration	9,400+ hectares				●
Area of trees planted (commercial)	18,000+ hectares				●
Area of environmental reforestation	600+ hectares				●

<sup>7</sup> Includes new acquisitions in addition to carbon sequestration through biological growth, less carbon from harvested areas.



# Collaborating to Advance Sustainable Forestry Investment

## Industry Memberships and Associations

New Forests uses industry association memberships as key elements of our external engagement strategy by participating in networks that are driving forward industry best practice, advancing sustainable forest management, advocating for effective public policy, and growing the markets for sustainable finance.

Our priority areas are the transition to a low-carbon economy, addressing climate change through natural capital solutions, and ensuring equitable growth and sustainable development, underpinned by our focus on strong investment returns for our clients. In 2018, New Forests made a significant push to expand and assess our engagement in such networks, joining Ceres, the Investor Group on Climate Change (IGCC), the Asian Investor Group on Climate Change (AIGCC), the World Business Council on Sustainable Development (WBCSD), and Business Council for Sustainable Development Australia (BCSD Australia).

New Forests is a proud and active member and/or signatory of the following:



## Principles for Responsible Investment

New Forests uses the Principles for Responsible Investment (PRI) to guide our RI activities. The Principles align with New Forests' approach to sustainable investment, ESG integration, active ownership, disclosure, and engagement. Throughout 2018, New Forests supported the PRI in its expanding programs related to timberland. As a PRI signatory, New Forests participates in the annual reporting and assessment framework and received an A+ rating in the 2018 assessment. We also take part in working groups and consultations with PRI staff on a regular basis.

2018 Assessment Report Rating **A+**

Learn more by reading New Forests' **Transparency Report** and **Assessment Report**

# Sustainable Landscape Investment - ESG Performance and Impact Management

New Forests' Sustainable Landscape Investment (SLI) framework defines investment performance as inclusive of not only financial performance but also performance in six interconnected themes: productivity, land use planning, ecosystem services, shared prosperity, risk management, and governance. These six themes cover the material ESG and impact issues of greatest importance in New Forests' business, and each has sub-themes that contain one or more metrics.

The SLI framework was conceived from New Forests' ESG materiality assessments and encompasses the ESG aspects of our investments through which we drive performance and impact. Our first materiality assessment in 2014 led to the development of the six sub-themes of the SLI framework. In 2016, New Forests began expanding on this, aiming to establish an effective tool for measuring and managing sustainability performance and to provide a method for benchmarking sustainable forestry investments.

New Forests launched a set of around 80 SLI metrics across the six thematic performance areas in 2018, which form the basis of the reporting in this section.<sup>8</sup> The definitions for metrics relating to data in this report are provided at the end of this report. The SLI metrics reflect New Forests' philosophy of incorporating sustainability and excellence in operational management throughout our business and the investments we manage.

The sustainability impacts of our business materialise in the investments we manage and typically take place at the asset or operating level. We therefore report on our SLI indicators with the cooperation of the third-party property managers and investee companies who support day-to-day operations of forest management and supply chain activities.

## SLI Framework and Material ESG and Impact Issues in New Forests' Investments

### SLI Themes and Sub-Themes



<sup>8</sup> As a fiduciary managing privately held assets, New Forests discloses ESG performance and impacts that are viewed as having material importance to external stakeholders. Metrics that are not used for public disclosure contribute to client reporting and/or to support asset management and internal decision-making. While we are committed to transparency in support of the stakeholders who are interested in and may be affected by the investments we manage, we must balance disclosure with commercial sensitivities.

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## Sustainable Landscape Investment - ESG Performance and Impact Management

**This report describes our approach to managing material SLI issues and impacts and provides aggregated data at the fund level, where possible, for each of our commingled investment funds, with the following exceptions.**

- ➔ **Data pertaining to the investments held in carbon forestry separate accounts are reported jointly in lieu of fund or vehicle-level accounting.**
- ➔ **Due to the timing of acquisition settlements, some assets are not included in the SLI data because they were not managed investments during the applicable reporting period. This includes the ANZFF2 investment Wenita Forest Products and associated forests and land as well as all ANZFF3 investments to date.**
- ➔ **The ANZFF sawmilling investments operating as Timberlink are not included for Productivity, Land Use Planning, and Ecosystem Services but are included for relevant Shared Prosperity, Risk Management, and Governance data.**
- ➔ **FCP data are not reported for most indicators, because the FCP activities are restricted to offset project development and carbon credit marketing and do not include operational forestry management.**





# Productivity

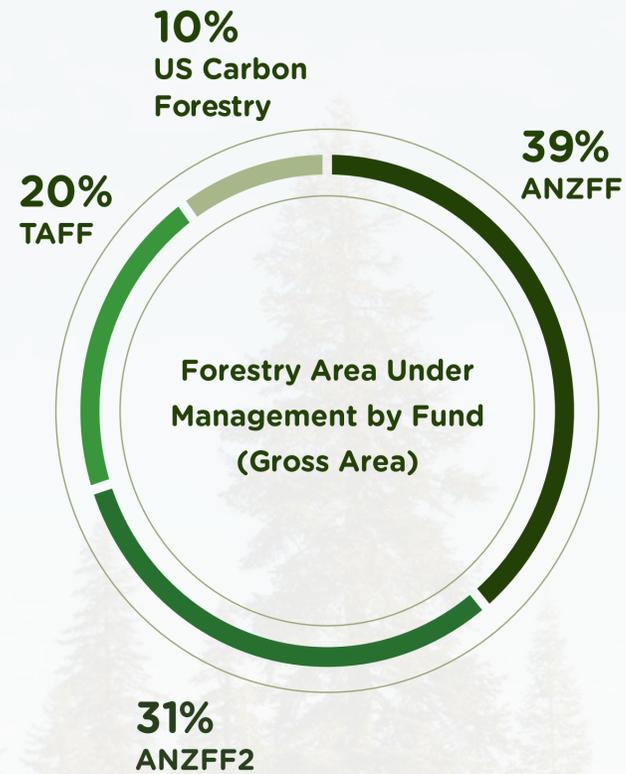
PRODUCTIVITY

FOREST DESCRIPTION, GROWTH, & SILVICULTURE

TIMBER PRODUCTION

RESEARCH & DEVELOPMENT

Biological productivity is a central driver of return in forestry investments. By seeking continual improvement through productivity enhancements on each hectare that we manage, New Forests seeks to increase not only biological growth and yield but also return on investment. Today's forest sector uses technology and innovation to spur growth, encourage favourable product characteristics, and reduce waste. Activities aimed at enhancing productivity must be cost effective and balanced against negative externalities. New Forests' SLI framework focuses on the Productivity sub-themes of Forest Description, Growth, and Silviculture; Timber Production; and Research and Development.



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# Forest Description, Growth, and Silviculture

New Forests' investment strategies include timber production from naturally regenerated and semi-natural forests in the US and intensively managed plantation systems in Australia, New Zealand and Southeast Asia. Increasing the biological productivity of these assets means more timber is grown and a greater volume can be sustainably harvested over time, which increases the value of the forestry assets.

Our SLI framework includes Forest Description, Growth, and Silviculture metrics that are used to monitor the key productive characteristics of our production forests, including growth rates, standing volume, harvested volume, and growth volume. The majority of this SLI data is used for internal asset management functions rather than orienting towards external environmental and social impact reporting.

In total, New Forests' forestry funds encompassed 730,000 hectares (gross) of forests and land, of which the net managed production forest area is around 56%. New Forests' investments include eucalyptus, pine, acacia, and rubber plantations, all of which are managed under long-term forest management plans.

FOREST DESCRIPTION, GROWTH, & SILVICULTURE

TIMBER PRODUCTION

RESEARCH & DEVELOPMENT



# Timber Production

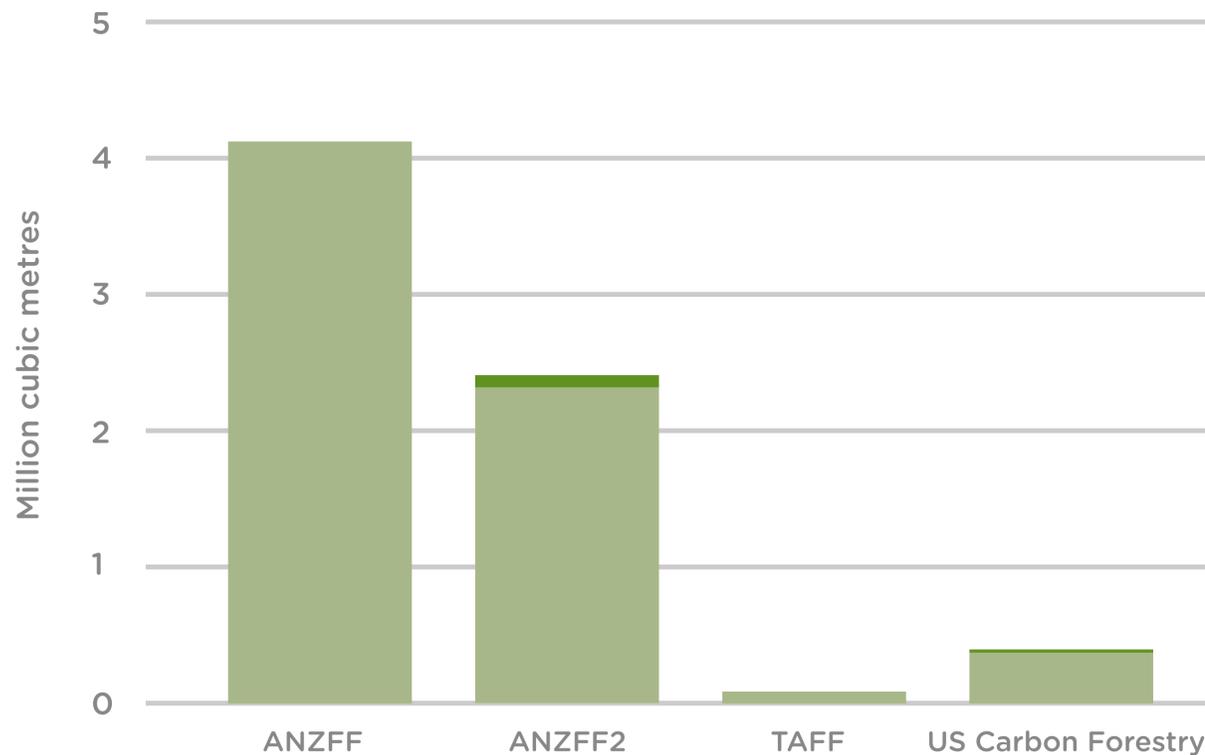
New Forests' forestry investments harvested and sold more than 6.8 million m<sup>3</sup> of timber in 2018. A total of 99% of timber harvested came from forests certified under FSC and/or PEFC, while the remainder originated from recent acquisitions that were working towards achieving forest management certification. The Timberlink sawmills (owned by ANZFF) operate with FSC chain of custody certification and purchase the bulk of their wood supply from certified ANZFF plantations, with the remainder coming from local third-party plantations that meet the company's responsible sourcing requirements.

In 2018, Timberlink sold just over 495,000 m<sup>3</sup> of solid wood (88% certified) and nearly 275,000 bone dry metric tonnes (BDMT) of woodchip (65% certified). New Forests Timber Products Pty Ltd (NFTP) is the marketing and sales contractor for New Forests' two largest hardwood plantations, the Tasmanian Forest Trust and the Forestry Investment Trust. Working with the property management firms who manage these two estates, NFTP successfully marketed 3.5 million green metric tonnes of certified woodchip and logs to markets in Asia.

## Timber Harvest and Timber Certification

	Units	ANZFF	ANZFF2	TAFF	US Carbon Forestry	All Funds
<b>Timber Harvest Volume</b>	m <sup>3</sup>	4,148,377	2,156,050	74,631	424,381	6,803,439
<b>Certified Timber Harvest Volume</b>	m <sup>3</sup>	4,148,377	2,074,777	74,631	414,486	6,712,254
<b>Percentage of Harvest Certified</b>	%	100%	96%	100%	98%	99%

## Timber Harvest



- PRODUCTIVITY ○
- FOREST DESCRIPTION, GROWTH, & SILVICULTURE ○
- TIMBER PRODUCTION ●
- RESEARCH & DEVELOPMENT ○

- Certified Timber Harvest Volume
- Additional Timber Harvest Volume

# Research and Development

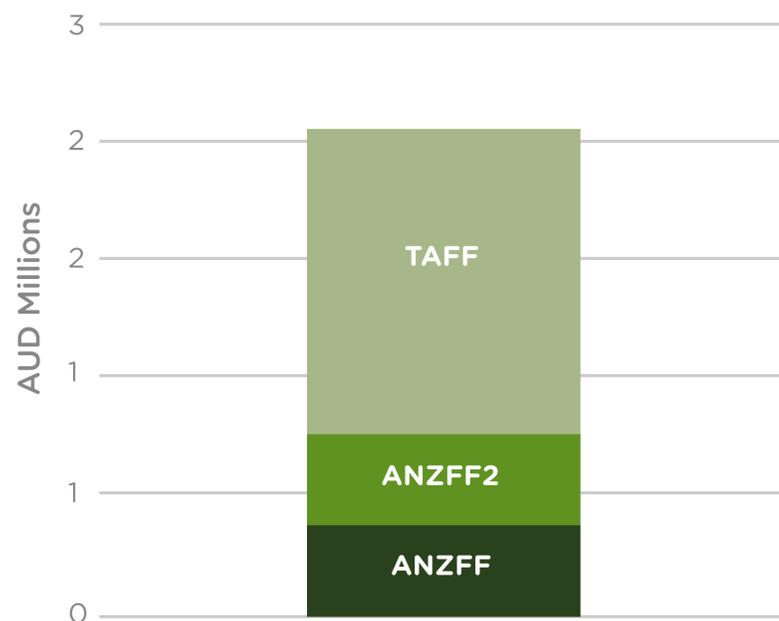
New Forests manages assets for long-term value creation, seeking to improve investment performance and asset management with information and innovation gained via research and development (R&D). R&D initiatives are initiated in alignment with the asset management strategy for each investment. Collaborating with our property managers and investee companies, New Forests also seeks to foster cross-investment and industry collaboration in support of continual improvement in forest management.

FOREST DESCRIPTION, GROWTH, & SILVICULTURE

TIMBER PRODUCTION

RESEARCH & DEVELOPMENT

## Research & Development Expenditure





# Land Use Planning

LAND USE PLANNING

CONSERVATION LAND USE

PRODUCTION LAND USE

LAND USE CHANGE

SOCIAL LAND USE

One of the most pressing issues facing the forest sector is how forests and forest management are integrated within broader landscapes. Land use planning refers to a consideration of economic, social, and environmental values to determine allocation of land use, typically across a large area. Rational, or optimal, land use planning supports forestry investments by ensuring that multiple values can be provided from forests and land, considering a variety of environmental and social values and the stakeholders to whom these values may be important.

The SLI sub-themes addressed in this section include Conservation, Production, and Social land uses as well as reporting on Land Use Change. Since our processes for land use planning are largely specified by the third-party standards and guidance used in operational management, including Forest Stewardship Council certification and the IFC Performance Standards, the land use planning metrics are area-based measures that describe the area under management.

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# Conservation Land Use

Central to New Forests' vision for sustainable forestry is the belief that forests should contribute to local, regional, and global conservation aims. The High Conservation Value (HCV) approach and other land use planning tools support better decision-making for conservation, protection, and restoration alongside commercial investment activities. To understand how conservation value is integrated in land use planning, New Forests uses metrics that describe the areas that are managed for environmental restoration, environmental market projects, permanently protected areas, conservation zones, and natural forest and remnant vegetation areas.

## Conservation Land Use Areas

	Units	ANZFF	ANZFF2	TAFF	FCP	US Carbon Forestry	All Funds
<b>Environmental Restoration Management Area</b>	hectares	8,333	445	558	N/A	92	9,428
<b>Environmental Markets Project Area<sup>9</sup></b>	hectares	0	3,546	0	159,928	1,652	165,126
<b>Permanently Protected Area</b>	hectares	338	6,090	17,094	N/A	3,320	26,842
<b>Conservation Zone or Protected Area</b>	hectares	36,196	84,786	47,442	N/A	5,528	173,952
<b>Natural Forest and/or Remnant Vegetation Area</b>	hectares	34,944	84,999	45,914	N/A	2,047	167,904

CONSERVATION LAND USE

PRODUCTION LAND USE

LAND USE CHANGE

SOCIAL LAND USE



<sup>9</sup> Includes only registered and/or listed project areas under applicable regulatory or voluntary programs. Does not include areas that may still be working toward such registration.

# Production Land Use

New Forests' investments encompass different types of land used for commercial production. While most of our forestry investments are timber plantations, we also manage an investment in a sustainable rubber plantation and areas within large forestry estates that are dedicated to agricultural production. New Forests also has a growing investment program in managed regenerated and semi-natural forests of the Pacific Northwest in the US. One of the distinguishing features of responsible forest management is the use of third-party forest certification, which provides a transparent assessment of the quality of forest management practices. New Forests believes bringing new areas into forest certification and continuing to manage certified forests responsibly is one of the greatest contributions we can measure towards SDG 15, Life on Land, by demonstrating the sustainable management of forest resources. As of 2018, New Forests manages investments incorporating more than 560,000 hectares of certified forests.

## Production Land Use Areas

	Units	ANZFF	ANZFF2	TAFF	US Carbon Forestry	All Funds
Certified Area	hectares	265,762	208,560	17,337	70,348	562,007
Natural and/or Semi-natural Production Forest Area (net)	hectares	1,782 <sup>10</sup>	0	0	2,972	4,755
Planted or Regenerated Production Forest Area (net)	hectares	199,288	120,872	42,475	60,724	423,359
Agricultural Land	hectares	12,525	803	N/A	N/A	13,328

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PRODUCTION LAND USE

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SOCIAL LAND USE



New Forests manages investments incorporating

more than  
**560,000**  
hectares

of certified forests

<sup>10</sup> This area pertains to the Taswood Estate. It was previously plantation forest that after harvest was re-seeded back to mixed natural forest species. It is legally available and designated as production forest, but the forest management plan does not include harvest of this area and instead treats it as a natural forest restoration area.

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# Land Use Change

Land use change in forestry has the potential to produce negative environmental impacts and diminish social or cultural values associated with the land. New Forests is committed to a “no deforestation” approach, which we seek to execute through our adherence to forest certification and responsible forestry.

Responsible management practices can generate positive changes in land use and contribute to overall better land use planning. For example, New Forests’ investments may include commercial reforestation, where land transitions from having no forest cover (i.e. bare land or degraded land) to a newly established plantation, which generates new forest cover. Throughout 2018, New Forests’ sustainable rubber investment in West Kalimantan continued its reforestation plan, seeking to establish a plantation of more than 30,000 hectares of rubberwood trees. In addition, in 2018 New Forests made its first New Zealand investment with a greenfield strategy, which involves commercial reforestation with pine plantings. In this case, the greenfield strategy is supported by the carbon value that will be accrued to the new plantation.

Other land use changes in New Forests’ investments relate to ecosystem restoration, other land use planning objectives, and commercial objectives for “highest and best use” of the land.

**Key areas to note include:**

- > Restoration projects may include reversion where areas that had previously been planted to plantation are reverted after harvest to an environmental restoration area, typically in buffer zones and riparian areas.
- > Shasta Cascade Timberlands cleared approximately 230 hectares of forest to establish more effective fire breaks during the 2018 California fire season.
- > In Australia, some plantation areas are deemed commercially unsuitable for re-establishment after harvest and are reverted to the prior land use.

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# Land Use Change

Reversion decisions and planning occur on a property-by-property basis. In Australia, where most reversion takes place within our funds, the objective is typically to transition the property after timber harvest back to an agricultural use that pre-dated the timber plantation.<sup>11</sup> More than 6,700 hectares was reverted from our Australian investments during the reporting period. While this results in a total decrease of plantation area, careful reversion practices and decisions about which properties can support land use planning in a broader context, bringing back attractive agricultural land to farming.

## Land Use Change Areas

	Units	ANZFF	ANZFF2	TAFF	US Carbon Forestry	All Funds
<b>Commercial Replant Area</b>	hectares	3,900	8,800	4,324	1,188	18,212
<b>Commercial Reforestation Area</b>	hectares	1	188	2,363	0	2,552
<b>Environmental Plantings/ Reforestation Area</b>	hectares	63	53	501	0	617
<b>Reversion Area</b>	hectares	6,659	71	0	230	6,960

<sup>11</sup> Agricultural reversion may include re-establishing pasture for livestock grazing as well as establishing agricultural crops. New Forests uses reversion guidelines that are applied by the Australian property managers to develop a responsible reversion plan for each property, considering the environmental and social values that may be provided by the property. For example, the reversion guidelines include considering how leaving some trees in the landscape can support environmental, social, and economic values for the property, and often reversion plans include retaining an area of coppice crop that provides ongoing benefits.

# Social Land Use

Engagement and consultation with stakeholders are essential to understanding current and future needs relating to forests and land. These activities are also important to addressing land tenure, respecting local and indigenous rights, and identifying management models that support shared objectives. With effective engagement, land use planning can identify opportunities to contribute to shared prosperity as well.

New Forests encounters important social land use values in all the regions in which we operate; however, respecting these rights is often most important when considering indigenous peoples and local communities who may be marginalised from poor governance of land tenure and rights. New Forests aims to support and uphold customary rights through applying the best practices of the FSC Principles and Criteria and the IFC Performance Standards, as applicable.

In addition, we seek to be an active and engaged investor that contributes to advancing discussions around land tenure, rights, and social land use needs. In 2018, New Forests participated in events convened by the Global Landscapes Forum, SOCAP, the Interlaken Group, and RECOFTC (the Center for People and Forests) to engage with other stakeholders on addressing land tenure rights in private investment.

Social land use values and rights can be important components of both investment strategy, including for the development of partnerships and investment structures, as well as influencing ongoing management.



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# Social Land Use

The following examples demonstrate a variety of social land uses and values across New Forests' investment regions:

→ **Through the FCP investment program in the United States, New Forests has established partnerships with seven Native American tribal corporations and organisations for the development of forest carbon offset projects on Native-owned forests. These projects cover nearly 350,000 acres (140,000 hectares) of Native lands and support long-term economic development through sustainable natural resource management.**

→ **In New Zealand, New Forests manages the Taupo Estate with a cutting right on lands owned by Hautu-Rangipo Whenau Limited, an Iwi-owned partnership; ongoing management includes access for traditional and cultural uses of the forestland.**

→ **In Malaysia, the TAFF investee Acacia Forest Industries is working with the non-profit World Agroforestry Center (ICRAF) to pilot joint ventures in agroforestry models with local community members, aiming to meet local needs for income and land use development interests.**

→ **At another TAFF asset, Mekong Timber Plantations in Laos, a large-scale outgrower scheme involves more than 5,000 hectares of plantings on individual and family-owned land.**

## Social Land Use Areas

	Units	ANZFF	ANZFF2	TAFF	US Carbon Forestry	All Funds
<b>Community and Livelihoods Plantings – within Management Unit<sup>12</sup></b>	hectares	0	0	0	0	0
<b>Community and Livelihoods Plantings – outside Management Unit</b>	hectares	0	0	5,011	0	5,011

<sup>12</sup> "Within Management Unit" refers to areas that are within the land owned and/or operated by the investment/asset and which are considered part of the "forest Management Unit" (FMU). Some investments have arrangements with third-party land owners or managers that include plantings that are outside the boundaries of the FMU, while others are within the overall boundaries of the FMU but are considered to be on land with third-party claims or customary tenure.



# Ecosystem Services

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Ecosystem services are the benefits we all receive from natural ecosystems. New Forests seeks to ensure our investments promote and enhance ecosystem services. While there are many complex and interrelated services provided by nature, New Forests' SLI framework focuses on areas where forestry management activities may significantly influence Carbon and Climate, Biodiversity, and Water.

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# Biodiversity

Biodiversity refers to the diversity of living organisms on earth and is the foundation for the functioning of many ecosystem services. New Forests’ investments encompass biodiversity across many ecosystem types. Biodiversity management is explicitly included within all the third-party certification schemes and standards used by New Forests, especially in the High Conservation Value (HCV) approach required for FSC certification and Critical Habitat requirements of the IFC Performance Standards. The principles, criteria, and requirements of these systems together with legal and regulatory requirements form minimum standards for managing biodiversity across our investments. By working with our property managers, investees, and other stakeholders, we seek to go further than a do-no-harm approach and instead actively promote biodiversity at our investments.

Under the SLI framework, New Forests tracks Biodiversity Conservation Programs for all investments. These programs include a diverse range of activities, including management of HCVs, species-focused research and conservation, and improvement and restoration of biodiversity habitat. New Forests encourages regular review of the efficacy of these programs, aligned with regular biodiversity monitoring.

We also track the occurrence of Rare, Threatened and Endangered Species present in each investment. Biodiversity Conservation Programs are managed by local property management and investee company teams, often in cooperation with other stakeholders, such as government, non-profits, researchers, and other businesses. Such collaborations help ensure forestry investment supports regional conservation goals and advances a movement towards net positive biodiversity impacts.

New Forests anticipates all forestry investments will have active conservation programs that support the maintenance and promotion of biodiversity during the life of our investment. Through the ANZFF and TAFF funds, 100% of investments have such programs, while in ANZFF2 and the US Carbon Forestry program, the managers are working to identify and develop programs - primarily due to the recent appointment of managers following acquisitions.

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## Conservation Management Activities

	ANZFF	ANZFF2	TAFF	US Carbon Forestry
<b>Conservation programs in operation</b>	100%	86%	100%	33%
<b>HCV management plans in place</b>	100%	71%	100%	33%
<b>Species-focused research or conservation programs</b>	75%	86%	66%	33%
<b>Habitat improvement or restoration programs</b>	100%	86%	100%	33%

Table shows the percentage of investments, based on number of assets or investees per fund, that have conservation management programs in operation that include HCV management plans, species-focused research or conservation, and/or habitat improvement or restoration.

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# Carbon and Climate

New Forests’ investment strategies support the opportunity for the forest sector to contribute to global net greenhouse gas emissions reductions and carbon dioxide removal, which are essential in the global pathway to minimising the effects of climate change. Forests and land use today comprise around 24% of global greenhouse gas emissions, but the IPCC’s Special Report on Global Warming of 1.5° found that the forest sector offers significant near-term climate mitigation potential.<sup>13</sup> While forests and land can provide more than 30% of mitigation potential through 2030, only around 3% of climate finance today goes to forestry and land use.

New Forests’ investment activities promote carbon sequestration and storage in forests and wood products, establish new plantations via afforestation and reforestation, sequester additional carbon through improved forest management, and include developing new market opportunities for timber products to substitute for more energy intensive products. Throughout our investment programs, we engage with a range of stakeholders to identify and pursue forest-climate investment solutions. This includes active participation in investment groups focused on climate change, engaging with public policy on climate, and working with other sustainable businesses to partner in our climate efforts.

Under the SLI framework, New Forests reports the carbon storage in the productive areas of the forests we manage and the annual change in that carbon storage. New Forests uses conservative assumptions in our calculations based on forestry resource models; for example, we have excluded remnant vegetation and native forest conservation areas. This approach provides a “standing stock” assessment of the amount of stored carbon across forestry production areas of the ANZFF, ANZFF2, and TAFF and in New Forests’ Carbon Forestry investments; we report in metric tonnes carbon dioxide equivalent (tCO<sub>2</sub>e).

It is important to note that we have not quantified the carbon storage benefits of harvested wood products, which store carbon in products like paper, packaging, timbers, and furniture. This means our reporting underestimates the full climate benefit of our commercial forest management. In fact, harvested wood products provide significant net positive carbon storage over the life of a long-term forestry investment. Timber harvest is not a full “emission” of the stored carbon, but rather a portion is transferred into the wood products that result, and the subsequent re-plant or regeneration of the forest also sequesters and stores additional carbon, in a net positive cycle. Under New Forests’ current carbon accounting, the carbon storage benefits of durable wood products are not quantified, which results in a lower calculation for long-term total carbon storage.

<sup>13</sup> IPCC, (October 2015). Special Report: Global Warming of 1.5°C. Available at: <https://www.ipcc.ch/sr15/>.

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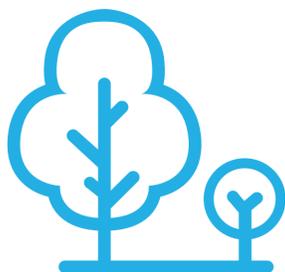
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# Carbon and Climate

New Forests estimates the carbon storage of our commercial timberlands was 121.6 million tCO<sub>2</sub>e in 2018. This reflects an overall positive year-on-year change of 8.4%, largely driven by new acquisitions but also supported by biological growth and reforestation in the TAFF investment program. New Forests' carbon analysis is at the fund level and therefore the total area under management may vary from year to year, depending on acquisitions and dispositions. Furthermore, the age class of forests can greatly affect total carbon over plantation areas, particularly where there is not an even age-class distribution.

**121.6 MILLION**  
tCO<sub>2</sub>e stored in  
production forestry assets



## Annual changes at the fund level for 2018 include the following:

- ➔ **ANZFF experienced a slight loss in carbon levels, mainly driven by increased harvest volumes in our hardwood plantations (due to age class) and the transition of marginal forestlands back to agricultural use. The accumulation of carbon stock in softwood plantations trended upwards.**
- ➔ **ANZFF2 biological growth exceeded harvest volumes in most of our assets, which led to an overall increase in carbon.**
- ➔ **TAFF continued to expand total plantation area as its rubber plantation investment continues to be established, adding around 1,600 hectares of new plantings and driving a 12% increase in carbon stocks.**
- ➔ **The US Carbon Forestry program expanded its total area under management significantly increasing total carbon stock of the combined estates with the acquisitions of Shasta Cascade Timberlands and the Pine Creek asset. The Eureka estate had an estimated increase of around 1%.**

## Carbon Sequestration and Storage<sup>14</sup>

	Units	ANZFF	ANZFF2	TAFF	US Carbon Forestry	All Funds
<b>2018</b>	Million tCO <sub>2</sub> e	65.3	42.4	3.1	10.8	121.6
<b>Annual Change</b>	Million tCO <sub>2</sub> e	-.8	.9	.4	9.0	9.5
<b>Annual Change</b>	%	-1.2%	2.2%	13.5%	495.3%	8.4%

New Forests intends to build on our carbon reporting practices to enhance alignment with the improving guidance for greenhouse gas emissions reporting both in financial services and in the forest sector. This includes reviewing inclusion of harvested wood products carbon accrual over time as well as estimating carbon stock in non-productive (conservation) areas of our investments. There is also potential to review operational emissions relating to fuel use, transport, and processing emissions. New Forests will consider these climate reporting improvements through its SLI continual improvement as well as in the context of climate risk management.

<sup>14</sup> Forest Carbon Partners assets are excluded here as New Forests holds no interest in timber production in these areas. New Forests has revised some of its 2017 carbon stock numbers based on improved information. While these figures are not included in this report, the revised 2017 data were used to calculate the annual changes. This includes updates to ANZFF, ANZFF2, and US Carbon Forestry estimates. The ANZFF and ANZFF2 revisions are due to corrections to yield tables. Reported values for 2017 are slightly lower than reported previously. The revision to US Carbon Forestry applies to the Eureka estate and incorporates carbon estimates from tracts with active harvest as well as tracts with carbon offset projects.

# Carbon and Climate

Markets that generate financial value from forest carbon are critical for harnessing the power of forests to mitigate climate change. New Forests commercialises carbon value where possible, primarily through opportunities under government regulated systems. New Forests reports the volume of carbon offsets issued, including from forestry investments and carbon finance projects of our FCP program as well as from timberlands owned by our investment funds.

In 2018, New Forests' investments were exposed to carbon markets in the Australian Carbon Farming Initiative (CFI) and the Emissions Reduction Fund (ERF); the New Zealand Emissions Trading Scheme (NZ ETS); and the California cap-and-trade market, which is part of the Western Climate Initiative. We seek to take a leadership role in these markets to advance the potential of the forest sector as a critical solution towards the low-carbon economy.

1

2

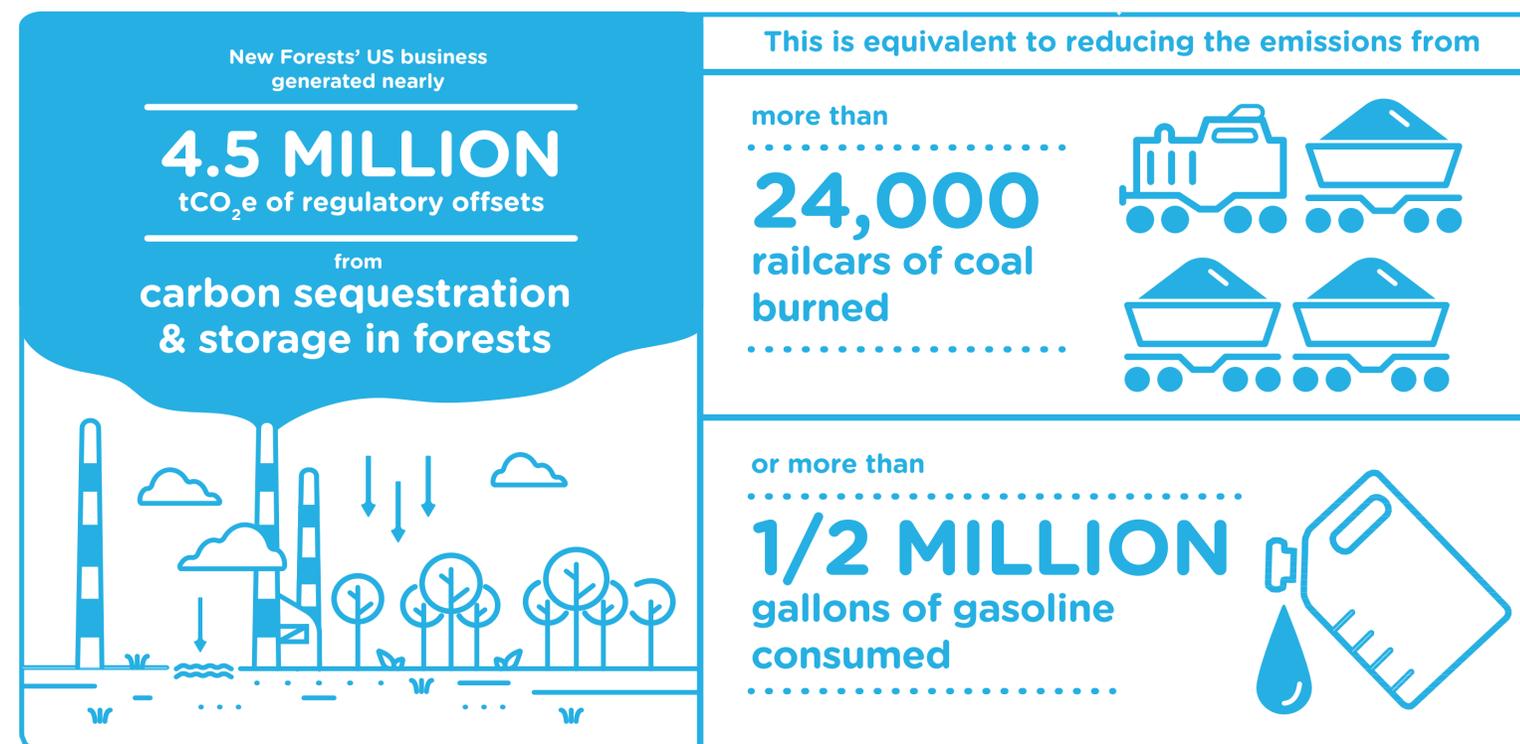
## Highlights of New Forests' climate actions in 2018

- ➔ **ANZFF2 has three active CFI projects with agreements for the purchase of more than 200,000 Australian Carbon Credit Units over the next 11 years through the ERF. ANZFF2 also manages New Zealand forests that are subject to carbon liabilities and opportunities from the NZ ETS.**
- ➔ **During 2018, the FCP investment program sold more than 6 million California Carbon Offsets in forward and spot sales. At the end of 2018, New Forests had sold more than USD 140 million of carbon offsets in forward and delivered sale to the California market.**

- ➔ **New Forests joined the investor climate action groups Ceres, Investor Group on Climate Change, and Asia Investor Group on Climate Change and supported the Investor Agenda, which calls on global investors to accelerate and scale up action to tackle climate change.**
- ➔ **New Forests developed a blended finance investment structure that can direct impact investment to climate-finance opportunities alongside commercial forestry investments in Southeast Asia.**

## Carbon Offsets Issued

	Units	ANZFF	ANZFF2	TAFF	FCP	US Carbon Forestry	All Funds
<b>Carbon Offsets Issued</b>	Million tCO <sub>2</sub> e	0	0	0	3,895,612	593,684	4,489,296



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<sup>15</sup> Based on the US EPA Greenhouse Gas Equivalencies Calculator. <https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator>



# Water

Good forest management requires management of water quality and potential impacts on the availability of water for other users, while taking into account the way that forests use water and how water moves throughout the ecosystem. Water management is highly location specific, and New Forests finds that the context of water management, including regulatory requirements, risks, and opportunities, is highly variable across the investments we manage. On the one hand, forest management can present risk of negative impacts on local water resources, such as from sedimentation, chemical run off, and from changing hydrology, whether through intentional disruptions such as drains or from indirect changes such as placing stress on water availability. On the other hand, responsible forestry practices can contribute to healthy watersheds, promote functioning riparian buffers, and support the availability of clean water supply for other users.

New Forests has not yet developed quantitative metrics for water management as part of our SLI framework. Instead, we are monitoring qualitative descriptions of water management practices and will seek to identify standardised options for reporting in the future. As part of forest management certification, all forests must be managed to avoid and minimise any disruption to water quality and quantity. Beyond this, managing forests in a way that is optimised for local conditions, such as soil and terrain, supports functioning ecosystems that can provide reliable, high-quality water resources. In addition, focused stewardship projects demonstrate how responsible forest management can integrate management that promotes natural hydrology and the unique values of aquatic resources.

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# Recreation and Cultural Services

Forests are valuable for the resources and opportunities they provide to people, such as recreation, amenity value, and safeguarding sites of cultural significance. Through forest management plans, New Forests' investments are positioned to provide these ongoing social values. In some cases, these values may generate modest ancillary revenue, while in other cases, these ecosystem services are made available as part of the commitment of forest managers back to local communities and users. Access to working forests and conservation areas must be carefully managed, and in some cases, access is restricted due to risks, such as wildfire and active operations. The table at right summarises the types of recreation and cultural services provided in each of New Forests' funds.

## Recreation and Cultural Services

	ANZFF	ANZFF2	TAFF	US Carbon Forestry
Hiking, biking, horse-riding	•	•	•	•
Motorised vehicles		•	•	•
Camping		•	•	•
Hunting	•	•	•	•
Access to sites of religious or cultural importance	•	•	•	•
Nature viewing, tourism, etc.	•	•	•	•

The table above indicates whether each type of recreation and/or cultural service is provided within the assets of a given fund. It does not indicate that the service is provided by all assets within a fund.

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Rising social and financial inequality is an issue of increasing importance for investors, governments, communities, and society at large. The effects of inequality can be destabilising to political and economic conditions at the local, national, and global levels and are also a moral issue. Forestry investment can significantly contribute to shared prosperity given the strong links between the forest sector and issues such as land tenure, indigenous rights, and the economic challenges facing rural communities in a rapidly urbanising world. New Forests seeks to support thriving communities in the areas where we operate and ensure that our investors' financial success also provides benefits to these communities. We seek to accomplish this by focussing on three areas: Community Development, Employment and Livelihoods, and Industry and Supply Chains.

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**PARTNERING FOR LOCAL EMPLOYMENT** 

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# Community Development

By focusing on community development, New Forests seeks to promote the systematic identification of opportunities to support community objectives that align with, or are complementary to, sustainable forest management in the regions in which we operate. As forestry investors, we may be able to directly support community development through investment strategies that incorporate benefits agreements or shared prosperity objectives into core investment activities.

For example, New Forests manages some forestry investments where counterparties or landowners include indigenous organisations and corporations. We also are engaging in forest management and environmental markets investments on community-owned lands and forests, which can support community development through economic growth and income. In other cases, we seek to support community development through effective stakeholder engagement programs and inclusive management approaches. Through our SLI framework, New Forests monitors community development expenditure and benefits delivered through investment activities.

While community development opportunities exist in all regions in which we invest, New Forests' Southeast Asian investment program presents strong development potential through outgrower and smallholder programs, and thus is the focus of our SLI indicator in the Community Development sub-theme. Through these programs, investees support local individuals and communities to establish plantations, which can benefit the scale of the investment, while also enabling the communities to gain from productive use of the land for forestry. The structure of these programs varies based on the needs and interests of the smallholder and outgrower participants in each program, as well as with the regulatory requirements that underpin forestry operations and the commercial interests of each enterprise.

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## Smallholders and Outgrowers

	Units	ANZFF	ANZFF2	TAFF	US Carbon Forestry	All Funds
<b>Smallholders and Outgrowers</b>	Individuals	0	0	3,512	0	3,512



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# Employment and Livelihoods

Forestry investment supports employment opportunities, mostly in rural and regional areas where primary industries are major components of local economies. We believe in more than just providing job opportunities but in doing our part to ensure jobs in the forest sector align with the objectives of SDG 8: promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. This objective applies equally in the emerging and developed markets in which we invest.



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The table at right reports on employment related to the operational management of our investments and does not include New Forests' staff. In total more than 5,300 people were involved in the operations of our investments in 2018, of which more than 1,500 were direct permanent employees of the companies and the remainder are subcontracted or temporary employees.

## Employment

	Units	ANZFF	ANZFF2	TAFF	US Carbon Forestry	All Funds
<b>Female Employees<sup>16</sup></b>	%	19%	18%	19%	38%	15%
<b>Total Employees</b>	Individuals	646	255	579	39	1,519
<b>Temporary/Contract Workers</b>	Individuals	847	289	2,586	71	3,793
<b>Fund Total Employees &amp; Workers</b>	Individuals	1,493	544	3,165	110	5,312

However, shared prosperity calls for more than just basic employment. Workers' rights criteria that help ensure jobs are legal, safe, and rewarding are a key part of the FSC certification we seek to achieve for all our forestry investments. The IFC Performance Standards also include criteria on workers' rights. Beyond these standards, the property management firms we work with and our investee companies undertake a variety of workforce development initiatives and play a role in strengthening their local industry and supply chain. New Forests views workforce development and industry collaboration as key areas for shared value strategies.

<sup>16</sup> Refers to percentage of female employees based on total number of permanent employees of the external property manager or investee.



# Industry and Supply Chains

Another important opportunity to enhance shared prosperity is through supporting processing industries, the advancement of a vibrant forest products value chain, and using our influence to improve supply chains and their operations. Skills development and training is an increasing focus for the forest industry as new technologies come into use, changing the way we grow, harvest, and process wood products.

Work safe training remains an important focus that goes hand in hand with skills development and leadership training. New Forests seeks to drive health and safety improvements through setting an expectation of best practice, monitoring safety performance on a regular basis, keeping a constant focus on continual improvement, and supporting intervention when needed. Safety is discussed in the Risk Management section of this report.



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# ? Risk Management

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RISK MANAGEMENT SYSTEMS

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Through good risk management practices, New Forests seeks to create more resilient, profitable, and sustainable investments. Our enterprise risk management framework starts with our corporate management of business risks and flows through to the culture of risk management we bring to our management of funds and investments.

Integrating risk management throughout the commercial, environmental, social, and operational facets of our funds under management is central to our investment management approach. The SLI framework focuses on Risk Management Systems and Safety. Of course, risk management is a broad governance concern, and New Forests seeks to ensure that risk management approaches in the investments we manage are appropriate to the nature and scale of the risks facing each investment and that these align with the risk tolerance established by New Forests.

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# Risk Management Systems

Risk management is a critical enabler to resilient, sustainable investments and it underpins asset management in all areas. New Forests' SLI indicators track the quality and nature of both risk and occupational, health, and safety (OHS) systems in place for property managers and investees. In terms of risk management systems, we encourage the use of comprehensive systems that cover commercial, operational, ESG, and safety issues in an integrated fashion.

All our investments are covered by New Forests' Enterprise Risk Management Framework, which is described in the case study that follows. Through this framework, risk registers are developed for each investment with the involvement of property managers or investees, New Forests' operations staff, and New Forests' risk and compliance team. These investment-level risk registers inform fund-level registers, which are reviewed by New Forests' Management Committees on a regular basis to support asset management functions.



**100%**  
of investments managed  
with Risk Management Systems



# Safety

Occupational health and safety are a primary concern across the forest sector. New Forests encourages and promotes implementation of best practice in health and safety. We recognise that employees of third-party property managers, investees, and contractors are the individuals that face potential day-to-day risks in forestry operations, transport, and processing. It is these individuals and companies who strive for excellence in operations, with safety being paramount.

New Forests monitors key safety data, and property managers and investees generally set safety targets appropriate to their operations. As part of regular monthly and quarterly reporting, standardised metrics are reported. These metrics are the result of a collaborative process that took place in 2018 to harmonise safety reporting across New Forests' investments. This meant tackling differences among regional levels of practice, regulatory standards, and operating contexts. Reporting also requires that there be a safety and reporting culture in place to accurately capture incidents and report in a standard, consistent manner.

**Safety and Incident Frequency Rates<sup>17</sup>**

	Units	ANZFF	ANZFF2	TAFF	All Funds
<b>Fatalities</b>	Total	0	0	0	0
<b>LTIFR Lost Time Incident<sup>18</sup> Frequency Rate</b>	Average Lost Time Incidents per 1 million hours	14	15	9	13
<b>MTIFR Medical Treatment Incident<sup>19</sup> Frequency Rate</b>	Average Medical Treatment Incidents per 1 million hours	15	9	3	10

<sup>17</sup> Data for US Carbon Forestry separate accounts not available for 2018 due to a review.

<sup>18</sup> Lost Time Incident means an occurrence that resulted in a fatality, permanent disability or time lost from work of one day/shift or more during the reporting period. Reporting includes all employees and contractors.

<sup>19</sup> Medical Treatment Incident means an occurrence that did not result in a lost-time incident and for which first-aid or medical treatment was administered, e.g. doctor, hospital visit, during the reporting period. Reporting includes all employees and contractors.



# Governance

New Forests' governance and compliance framework is driven by the belief that good governance creates more valuable businesses. New Forests' governance bodies work across the business to promote ethical and responsible decision-making; recognise and manage risks; maintain fiscal responsibility; lay a solid foundation for management and oversight of investments; and ensure the company makes timely and balanced disclosures. This governance approach is also closely linked to the involvement of senior management and New Forests' Board of Directors in ensuring our business' success, including our commitment to RI. Our internal governance in turn informs the approach we bring to the investments we manage.

Our SLI framework focuses on three areas of governance that support New Forests' efforts to foster accountability and alignment with strategic objectives for each investment: Strategic Planning, Systems and Policies, and Board/Operational Governance. As the SLI indicators introduced new criteria for 2018 reporting, these are the first year we are reporting publicly on governance data.

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# Governance

## Governance Statistics

	Units	ANZFF	ANZFF2	TAFF	US Carbon Forestry	All Funds
<b>Code of Conduct</b>	Percentage managers/investees that have a Code of Conduct	100%	86%	100%	100%	94%
<b>Board Independence<sup>20</sup></b>	Average percentage of independent members for operating company boards	20%	17%	5%	0%	7%
<b>Governance Meetings</b>	Average number of governance body meetings for each operating company/investment	4	3	4	.3	2

### Some additional context may support interpretation of the results:

➔ The majority of forestry fund assets in Australia and New Zealand are structured as real assets investments in managed trusts, where a Responsible Entity is the owner of the asset and New Forests acts as manager. In these cases, New Forests uses an “Operations Committee” to oversee the day-to-day asset management at the investment level. These committees are typically comprised of senior staff of the property manager and New Forests and therefore do not have independent directors.

➔ Where the Australia and New Zealand investments are held by fund-owned vehicles, those vehicles have boards of directors, including for Timberlink Australia Pty Ltd and Forico Pty Ltd, which each have one independent director.

➔ The US Carbon Forestry investments have also adopted the Operations Committee model. Whether the investment vehicle has independent directors will depend on the decision of the relevant client.

➔ New Forests will continue to engage with property managers and investees to increase shared understanding of the governance indicators within the SLI framework and to work jointly towards best practice governance procedures in our investments.

<sup>20</sup> Data refer only to assets with investment vehicle boards.



# Emerging Trends in Responsible Investment

Sustainability is a dynamic field and particularly so within the investment industry where the responsible and impact investment movements are fast evolving and growing. New Forests is aligned to the growth in these areas, as we provide an ESG-oriented investment approach that seeks to present financial returns alongside thematic environmental and social impacts. We aim to stay across key advances in these fields so they can help improve our investment performance, enhance our ability to create positive outcomes through investment, and contribute to shared understanding through better communication of sustainable investment approaches. This is a continuous effort, and this section highlights some of the emerging trends in sustainable investment and how New Forests is responding in our business and asset management.

**Task Force for Climate-related  
Financial Disclosure**



**Modern Slavery**



**Impact Management and the  
Sustainable Development Goals**



EMERGING ISSUES



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# Emerging Trends in Responsible Investment

## Task Force for Climate-related Financial Disclosure

The Task Force for Climate-related Financial Disclosures (TCFD) released its final recommendations in mid-2017, and throughout 2018 businesses began to implement the recommendations for the identification and voluntary disclosure of the financial impacts of climate change. The investment community has begun to welcome TCFD-aligned disclosure, which is envisioned as enabling shareholders and investors to better price and manage climate risks. Ultimately, TCFD reporting may support a shift towards more sustainable, climate-resilient investments. New Forests welcomes this focused effort on climate risk and opportunity assessment. Doing so requires that we consider our own shareholders as a privately-owned company but also that we account for our fiduciary obligations as an investment manager.

New Forests sees our role as including management of climate risks and opportunities on behalf of our clients within the investment mandates of our funds and separate accounts. Moreover, New Forests anticipates investment opportunities for the forest sector from the transition to a low-carbon economy, including climate regulation and demand for sustainable materials, as part of a global response to climate change. We aim to position our business and the investments we manage to benefit financially from contributing to the shift of the forest sector to a driver of climate mitigation and resilience.



# Emerging Trends in Responsible Investment

## Modern Slavery

There is a growing body of legislation and regulation worldwide that mandates businesses prevent the occurrence of Modern Slavery, which includes human trafficking, forced labour, slavery and slavery-like practices, and certain types of employment-based exploitation. Investors are now seeking to understand their exposure to Modern Slavery and to instil responsible investment practices that will identify risks and ensure remedial action where required. The risk of Modern Slavery does exist within New Forests' investments and their operations. Certain activities in forestry are labour intensive and have traditionally required low or unskilled labour.

Furthermore, many forest operations are in remote and rural areas where employment may be less desirable or where employees have a lower sense of freedom to leave employment. Through our existing systems and procedures, New Forests has in place risk and compliance systems and environmental and social management requirements that can be used to ensure the effective identification of Modern Slavery risks as well as provide guidance on managing those risks. With increasing global discourse and resources regarding Modern Slavery, there is potential scope to strengthen and clarify how New Forests manages the risk of Modern Slavery and seeks to engage with our business partners to influence socially responsible practices. In 2018, New Forests began a review of risk exposure and of our policies and systems with a view towards the direct inclusion of Modern Slavery as part of New Forests' risk management framework and seeking to identify areas for further engagement with our investees on the issue.

# Emerging Trends in Responsible Investment

## Impact Management and the Sustainable Development Goals

Investors and businesses today are increasingly interested in understanding how their operations and portfolios align with the Sustainable Development Goals (SDGs). New Forests believes investors can align investment strategies and asset management to support the SDGs, though it is important to recognise the SDG Targets and Indicators established by the United Nations are set at the country level rather than being directed at the private sector. As investors, we look for the thematic alignment of our investments with the opportunity to support sustainable development and to target positive outcomes for people and planet. We have reviewed our business against the SDG framework to identify where we already contribute to achieving the SDGs and to better understand how we can make meaningful progress on the SDG targets and indicators.

We focus on core alignment with the SDGs 8, 12, 13, and 15, and note that New Forests' business is wholly aligned with Target 15.2: "By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally." Beyond this, we use information from our SLI framework to highlight our contribution to the SDGs through forestry investment.

New Forests is also working with the Forest Solutions Group of the World Business Council on Sustainable Development (WBCSD) to launch the Forest Sector SDG Roadmap in 2019.

[NEW FORESTS' SDG DASHBOARD ►](#)

# Continual Improvement in Risk Management to Support Investments

New Forests maintains an Enterprise Risk Management (ERM) Framework that provides an overview of the key concepts for managing risk within our business and guidance on how risk management processes can be integrated with normal management processes and responsibilities. The primary objective of the ERM is to support the achievement of maximum sustainable value from all organisational activities and to enhance the understanding of the potential upside and downside of factors that can affect New Forests. New Forests uses the AS/NZS ISO 31000 Standard for Risk Management, “Risk Management – Principles and Guidelines,” to support, embed, and sustain risk management activities.

The primary role of a KRI is to track trends over time, which can provide important feedback to asset managers and governance and serve as early warning signals.

New Forests’ 2018 review focused on targeting and managing operational risk exposure by using thresholds aligned to New Forests’ risk appetite. These KRIs will be monitored with a frequency that matches the nature of the risk. The KRIs were developed to complement the risk and compliance self-assessment processes and have been incorporated into our monthly and quarterly management reporting.

New Forests also conducted risk workshops with the management teams of Forico, the ANZFF2-owned forest manager for the Tasmanian Forest Trust, and Timberlink, the sawmilling business owned by ANZFF. Working to share best practice with these operating companies helps align their corporate risk management approach with New Forests’ approach to monitoring and managing risk in our investments.

In 2018, as part of the continual improvement of its Enterprise Risk Management Framework, New Forests sought to develop key risk indicators (KRIs) to help to better monitor potential future shifts in risk conditions, as well as new emerging risks so that management and our boards could more proactively identify potential impacts on New Forests’ material risks. KRIs are metrics specific to New Forests’ business, fund, or investment, depending on the level at which they are set, and measure the likelihood and severity of events that exceed our risk appetite.

“Our overall approach in seeking better alignment of risk management was based on our view that across our business, and where we have influence in our investments, it was important to share the same risk vocabulary so that risks are universally and consistently evaluated and understood.”

Paul Kennedy – Head of Risk and Compliance, New Forests



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# A Changing World: Managing Risk from Forest Fires

Forest fires are an increasing threat to communities and forests across the globe. With 2018 being one of the hottest years on record, forest owners and governments increasingly need to turn their attention to active management of forests to reduce the prevalence and severity of wildfires. Managing fire risk has always been a priority for New Forests, but we expect fire risk to increase in certain areas where we operate due to climate change and more frequent and prolonged occurrences of droughts, which increase fire conditions.

New Forests works to continually improve our risk management framework to adjust to a rising frequency and severity of fires. We take appropriate financial, strategic, and operational steps to mitigate fire risk and enhance the physical resilience of our forests as well as the financial resilience of our investments. This is something that requires local engagement and considerations of the fit of each forestry investment within a landscape, as well as considering the neighbouring communities that may also be affected by fires.

Some of the key fire risk mitigation activities include:

- ➔ **Fire-smart operations, such as maintaining fire breaks, fuel reduction, and “green fire breaks” where pruning or other silvicultural practices reduce the fire risk or increase the ability to control fires.**
- ➔ **Investing in early fire detection and firefighting equipment, such as water tankers, and readiness of well-trained fire crews.**
- ➔ **Coordinating with other local forest owners and the communities who neighbour our forests. Having effective systems for collaborative response and communication prepared in advance can be critical to respond quickly to contain fires and ensure community safety.**
- ➔ **Managing recreational use and access to forests, particularly in periods of high-fire-risk as well as working with communities to help prevent fire caused by human activities, such as arson, poorly managed prescribed burns, burning of refuse, or accidents.**
- ➔ **Ensuring effective internal crisis response, so that decision-making processes are clear in emergency situations, enabling effective response to fires.**

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# A Changing World: Managing Risk from Forest Fires

Where commercially feasible, New Forests undertakes insurance on behalf of our investors for tree crop damage from fires and other physical risks. Unfortunately, insurance may not always be available or affordable, and insurance only serves to mitigate the financial losses and does not reduce other problems caused by fires.

“The 2018 summer and autumn brought fires of unprecedented scale and damage to Californian forests and communities. In times of crisis, it’s critical that New Forests as fund manager has a clear process in place to work effectively with our local property managers, to make decisions with strong governance in emergency situations, and to coordinate to help safeguard our investments as well as the structures and communities near them. The hard work and diligence of our management teams is vital, and we’re grateful to them and the thousands of firefighters and emergency response personnel who worked to ensure public safety during the 2018 Californian wildfires.”

James Bullen – Associate Director, Operations, New Forests (United States)

“As an industry, the forestry sector in the Green Triangle region of Australia, which has over 300,000 hectares of pine and eucalypt plantation, has had a long history of collaborating on firefighting arrangements. The cooperative arrangements see forest owners share information and direct firefighting capability, as well as providing industry representation to government-backed firefighting authorities. Since 1983, there have been no landscape-wide fires in the Green Triangle.”

Anthony Walsh – Regional Manager, PF Olsen (Australia) Pty Ltd

“Hutan Ketapang Industri has its own fire brigade with 88 fire patrolling and firefighting personnel scattered around the 100,000-hectare rubber tree concession. The HKI fire brigade has access to the latest satellite images, and any hotspot within the concession is examined. Fire reports are filed with the local army, police, and the office of the sub-district. The Ministry of Forestry has established an online fire reporting platform, and HKI utilises that.”

Juha Antilla – Director, Planning & Resources, PT Hutan Ketapang Industri



# Optimising Nutrient Fertiliser in Hardwood Plantations

Limestone Plantations, an ANZFF2 investment, is the subject of an ongoing fertiliser trial exploring the relationship between nitrogen (N) and phosphorus (P) throughout early growth phases of second rotation blue gum crops. This trial has potential to inform nutrition strategies in support of second rotation sites. Understanding the relationship between P and N, relative to the base level nutritional chemistry present at each of the relative sites, will allow forest managers to apply the optimal amount of key nutrients, balancing inputs with outputs to determine the best return on investment while minimising fertiliser wastage.

The effects of targeted nutrition on tree growth are not well studied for blue gum plantations. As more of the Australian hardwood plantation estate matures into second and even third rotation crops, it is increasingly important to understand how to support productivity increases through targeted interventions and optimising nutrient strategies to meet site-specific conditions. If a response for N is measured in growth data, the trial will help determine the optimal level of P to enhance this response.

The N x P trial is taking place on two properties with crops established in 2016 and 2018. The trial consists of 12 treatments with four replicates across the two properties. Each replicate underwent an initial nutrient treatment at establishment and will have a second application in year four and a third application in year six. The study tracks baseline N and P levels as well as growth rates on an annual basis. While it is too early to draw conclusions, the forest managers working together with a specialist agronomist aim to identify some early patterns in the data from the next annual measurements, with patterns ideally strengthening with each measurement over time.

“P and N are two nutrients absolutely necessary to support healthy tree growth. This trial is important in the context of overall site sustainability, with the end goal being a better understanding of how we can ensure successive rotations are as productive, or better, than the previous rotation.”

Phil White - Agronomist, Ag Diagnostics



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# Integrating Land Use Planning in Investment Decisions - Waitarere Forest, New Zealand

Integrating land use planning into investment due diligence and appraisal can help identify limitations, risks, or costs required to manage proposed forestry investments. This can aid forestry investors in developing management strategies and budgets that support the maintenance of targeted values. The example of ANZFF3’s investment in a Crown Forests License for the 2,000-gross hectare Waitarere Forest located in New Zealand’s Lower North Island region demonstrates how considering both environmental and social values can influence land use planning and investment analysis. As part of its acquisition thesis for the site, New Forests elected to enhance existing legal environmental and heritage protection as part of its bid assumptions as part of evaluating desired environmental outcomes and community benefits.

## Environmentally sensitive areas -

The most significant environmental considerations included coastal and erosion management and location near a Ramsar designated wetland. The coastal land of the Waitarere Forest includes a non-productive beachside corridor to provide biodiversity habitat and erosion protection. This corridor also supports plantation productivity by providing a windbreak against strong coastal winds.

The land is subject to a water and erosion covenant whereby the forest owner is obligated to maintain foredunes and support sand stability. No additional protection was considered necessary.

Situated next to the Manawatu Estuary, the Waitarere Forest must be managed to mitigate any impacts on this sensitive ecosystem. The Manawatu Estuary is listed under the Ramsar Convention as a Wetland of International Importance. According to the New Zealand Department of Conservation, the wetland “has one of the most diverse range of birds to be seen in any one place in New Zealand” with 95 species identified. The estuary is also a permanent home to threatened species, including 13 species of birds, six species of fish, and four plant species. New Forests identified that a 20,000 m<sup>2</sup> increase in the non-productive buffer alongside the Manuwatu Estuary was warranted to mitigate negative impacts on the sensitive estuary and incorporated the costs of the reestablishment of this area to native plants in the management plan.

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## Integrating Land Use Planning in Investment Decisions - Waitarere Forest, New Zealand

### Bordering a town and populated area -

New Forests evaluated the existing non-productive corridor from the town borders to ensure that the area was appropriate to support aesthetic considerations and town interests, such as noise reduction. It was determined that no additional protection was needed.

### Historical sites of indigenous significance -

The vendor of the forest had identified archaeological heritage sites containing middens, or places where collections of refuse such as shells, bones, and charcoal are found from earlier settlements. Under the Heritage New Zealand Pouhere Taonga Act 2014, sites such as these must not be damaged or modified without authority. Therefore, the ongoing management must ensure the sites are adequately protected against damage in future harvesting and other activities. No additional protection was considered necessary.

“New Forests’ investment appraisal relied on third-party assessments, information from the vendor, and our team’s analysis of how to meet regulatory obligations while also seeking to ensure the protection of key environmental and social values provided by the Waitarere Forest. This aided in the presentation of the unique features of this investment and supported an asset management strategy that can help ensure land use planning considerations form part of an effective forest management plan that can deliver benefits for environment, local stakeholders, and investors.”

George Mackarness - Senior Analyst, Investments,  
New Forests (Australia-New Zealand)





# Valuing Ecosystem Services through Economic-Environmental Accounting

Since its establishment by New Forests in 2014, Forico Pty Limited (Forico) has had a strong and ongoing commitment to sustainable management practices that “make every hectare count,” seeking to deliver economic, environmental, and social benefits to all stakeholders today, tomorrow, and into the future. As part of this commitment, Forico is engaged in an innovative pilot project with the IDEEA Group to apply the System for Environmental Economic Accounting (SEEA) to the company’s Surrey Hills Estate, a nearly 80,000-hectare plantation and natural forest managed asset, which is part of the 176,000-hectare estate of the Tasmanian Forest Trust. The project uses the SEEA framework to integrate environmental accounting with standard corporate financial accounts, which is not known to have been undertaken in a forestry context before. The project seeks to develop accounts that enable Forico to recognise the value of the ecosystem services that it delivers, supporting better stakeholder engagement and management decisions. Using SEEA accounting principles to record environmental stocks and flows means Forico aims to report on a broad suite of ecosystem services supported by sustainable forest management practices.

The project includes development of a spatial reporting system that integrates plantation and natural forest areas, supporting compilation of the environmental accounts data together with ecosystem condition assessment data. The approach uses ecosystem asset extent and condition accounts to determine the ecosystem services, then seeks to monetise the values based on current market prices, where possible. This is then integrated into standard financial accounting concepts, such as profit and loss accounts and balance sheets. By bringing ecosystem services into an “extended accounts” approach, value from these services has potential to be managed in an integrated fashion with the company’s financial assets and performance.



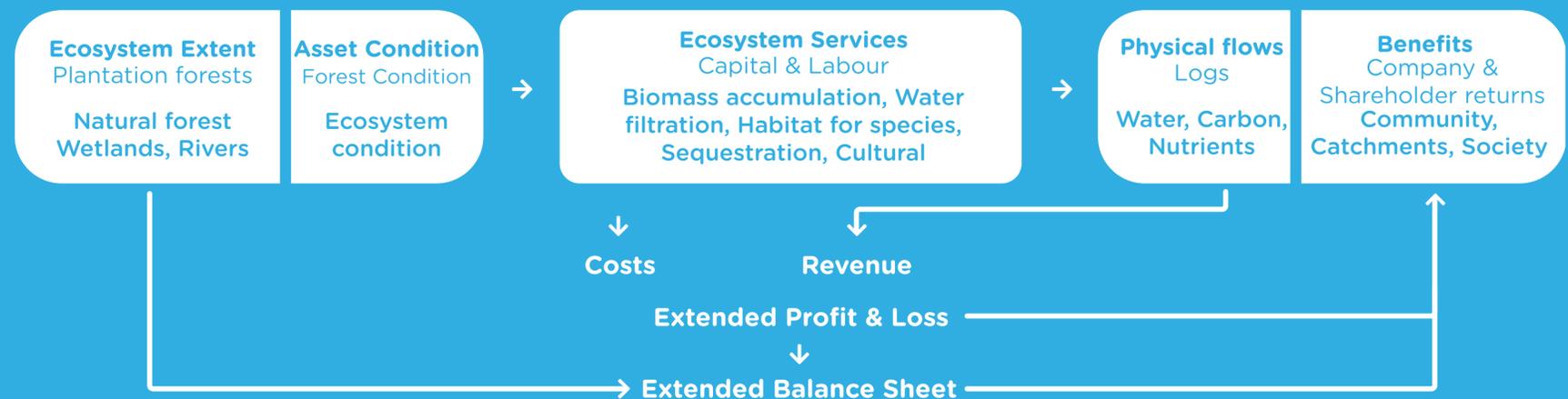
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\*Graphic adapted from the IDEEA Group.

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# Restoration and Protection of Seasonal Herbaceous Wetlands in Australia

New Forests' Penola Plantations estate (part of the ANZFF portfolio) in the Green Triangle region of Australia hosts a restoration initiative for threatened seasonal herbaceous wetlands (SHW). SHW are freshwater wetlands that are only inundated between winter and early summer and characterised by sedges, grasses, and herbaceous plants. Because these wetlands typically have clay and clay-loam soils, they have been attractive lands for cropping, pasture, and plantation forests, leading to a decrease in SHW as areas are drained and put into productive agriculture. The stresses on SHW are compounded by lower rainfall due to climate change. The cumulative effect is SHW are declining, and many SWH are classified as rare and critically endangered by Australia's Environmental Protection and Biodiversity Conservation Act.

The Green Triangle region is a focal area for SHW conservation. Timberlands Pacific Pty Ltd, a property manager engaged by New Forests to operate Penola Plantations, partnered with government agency Natural Resources South East to identify important wetland habitat on the Penola Plantations estate. The estate hosts up to 40 remnant wetlands, most found to be in good condition and supporting a wide range of native aquatic plants. Many of the wetlands

were found to be nationally significant as the rare communities of wetland species remained intact due to the protection received from the forestry estate. The ongoing restoration project involves 22 wetlands, of which five are nationally significant. New Forests and Timberlands Pacific have prioritised an environmental restoration program on four sites, seeking to mitigate potential threats and risks to the SWH.

- ➔ **Increasing buffer functions by widening to at least 10 metres and conducting wilding control of pine.**
- ➔ **Aligning access tracks to avoid wetland basins.**
- ➔ **Incorporating environmental and declared weed control to promote endangered native flora.**
- ➔ **Backfilling drained SHW to increase the length of natural inundation.**

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## Restoration and Protection of Seasonal Herbaceous Wetlands in Australia

Implementing these strategies reflects New Forests' and Timberlands Pacific's shared interest to improve ecosystem functions and preserve the biodiversity of the region. The 2018 winter season showed some early success of the restoration program, with indicator species such as the Brolga (*Antigone rubicunda*), a large member of the crane family, being sighted in the newly restored wetlands. In all, the wetland area will remain a modest portion of the broader nearly 47,000-hectare Penola Plantations estate but should provide an outsized contribution to the greater regional conservation priority of supporting SHW and the flora and fauna who rely on them for habitat.

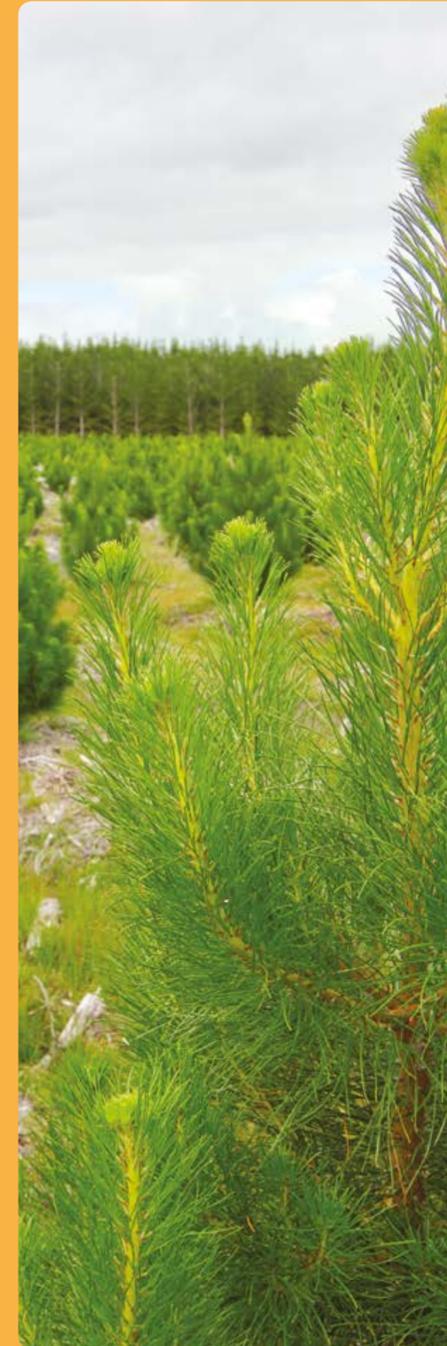
"It is important to fulfil our responsibility as the custodian of the land. Timberlands Pacific embarked on the process of having all the natural values throughout the estate assessed including the wetlands. These assessments identified the significant natural values and recommendations to protect and enhance these natural assets for future generations"

Alan Rossouw – Regional Manager,  
Timberlands Pacific Pty Ltd

# Timberlink Voluntarily Adopts ASX Corporate Governance Principles

The Boards of Timberlink Australia Pty Limited and Timberlink New Zealand Limited (collectively, Timberlink) reviewed their governance processes, policies, and procedures seeking to identify practices that would support the business' commitment to striving for corporate excellence. In 2018, the Timberlink Board appointed a small working group to develop governance improvement recommendations. While the group determined that Timberlink's existing policies were adequate, extensive, and sound, they identified the potential to provide a cohesive framework that would be adaptable to the changing conditions and strategy of the business and enable opportunity for benchmarking. This ultimately led to the decision by the Timberlink Board to adopt the ASX Governance Principles as relevant and applicable to Timberlink. The group found that the principles offered a suitable framework that represented best practice and aligned with the shareholders' interests to support good corporate governance.

The ASX Governance Principles & Recommendations provide recommendations that entities listed on the Australian Stock Exchange (ASX) can use to achieve good governance and meet shareholder expectations. Although Timberlink is privately held by New Forests' ANZFF, the ASX Governance Principles and Recommendations are instructive for the business. The governance framework will enable the Timberlink Directors to maintain authority over adequate internal controls and have oversight of risk management by setting policies, procedures, and risk appetite statements.



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# Timberlink Voluntarily Adopts ASX Corporate Governance Principles

The ASX Governance Principles and Recommendations are structured around and promote eight central principles:

➔ **Lay solid foundations for management and oversight**

➔ **Structure the board to add value**

➔ **Act ethically and responsibly**

➔ **Safeguard integrity in corporate reporting**

➔ **Make timely and balanced disclosures**

➔ **Respect the rights of securityholders**

➔ **Recognise and manage risks**

➔ **Remunerate fairly and responsibly**

The benefit of implementing the framework has been evident in the improvements made to harmonising Timberlink's risk, strategic, and operational objectives. It is important to note that Timberlink's efforts extend beyond adopting and integrating the governance framework. The business will continue to review its practices and policies from time to time to adapt to evolving business environments, using the principles of good corporate governance as a backbone to a robust but flexible system of internal controls, policies, procedures, and oversight.

“Part of Timberlink’s commitment to continual improvement is to adopt best practice principles throughout the business. When we looked at our governance and risk framework we knew we could set a higher standard. With the help of New Forests, the new framework we adopted has driven a greater understanding of governance and risk, leading to improved risk management as well as lifting the standard of business controls. This has also supported operational improvement and helped Timberlink in its drive to be a great business.”

Ian Tyson - CEO, Timberlink Australia and Timberlink New Zealand



# Planning for Success – Socio-economic Studies to Inform Land Use and Engagement in Indonesia



TAFF investee company PT Hutan Ketapang Industri (HKI) hired a local consulting firm in 2018 to conduct a detailed socio-economic study in its 100,000-hectare rubber plantations concession in West Kalimantan, Indonesia.

The study covered all eight villages and their hamlets within the concession and provided valuable information on the population, their economic activities, concerns, and aspirations. This information is now available as key inputs for land use planning and to inform appropriate engagement strategies and community development considerations. The consultant, Wana Aksara Institute, made several recommendations for HKI to improve its processes in land acquisition, Free Prior Informed Consent (FPIC) process, grievance mechanisms, and conflict resolution. The consultant also helped HKI to present and file its first semi-annual report on the potential of social conflicts to the Ministry of Environment and Forestry. After completion of the socio-economic study and potential conflict mapping, HKI is now using fresh tools in community engagement and has started participatory mapping processes with the communities.

## RUBBER PLANTATION CONCESSION STUDY

The study covered all **8 VILLAGES**



Provided valuable information on the

**POPULATION**  
and their **ECONOMIC**  
ACTIVITIES, CONCERNS  
AND ASPIRATIONS

The information is now available as key inputs for

**LAND USE PLANNING**  
to inform appropriate

**ENGAGEMENT STRATEGIES**

**AND COMMUNITY DEVELOPMENT**



IMPROVING  
OUTGROWER  
OPPORTUNITIES

FOSTERING A  
COMPLIANCE  
CULTURE

“With more detailed information on the population, its characteristics and expectations, it is much easier now to communicate with villagers and plan activities together.”

Suhadi Tholib – Social Manager, PT Hutan Ketapang Industri

# Improving Outgrower Opportunities to Ensure Economic Benefits to Participants and Business

To generate a shared value outcome at Mekong Timber Plantations (MTP) in Laos, in 2018 New Forests focused on the restructure and improvement of a smallholder outgrower scheme, which had been put in place prior to New Forests' investment but was effectively defunct. The restructure aims to enhance financial and income diversification outcomes for local growers while also supporting MTP's objectives to increase the scale of the plantation and its market position.

The redevelopment of this outgrower project is a joint effort undertaken in collaboration with the International Finance Corporation (IFC); FMO, the development finance institution of The Netherlands; and a local NGO, Village Focus International (VFI). MTP held a pilot village-level focus group discussion at the end of 2017 and two further discussions in early 2018 followed by a series of district-level cluster meetings with groups of outgrower representatives. IFC and VFI provided valuable technical expertise and training to MTP's field staff, allowing high-value re-engagement and an effective re-inventory of smallholder tree assets. This is an essential step in enabling the marketing of outgrower wood.

MTP inherited a program with around 3,500 participating smallholders in the region, and New Forests identified the opportunity to improve upon the outgrower program as part of its social due diligence prior to investing in MTP. The outgrower program was established to plant timber trees on individual or family-owned land outside the company's concession areas, with the intention that the company would harvest and sell the wood on behalf of the outgrowers.



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## Improving Outgrower Opportunities to Ensure Economic Benefits to Participants and Business

In addition, IFC, FMO, and VFI have assisted in the design, development, and implementation of internal management systems supporting IFC PS-compliant social safeguards. MTP now has in place a multi-track grievance mechanism for managing complaints, long-term grievances, requests, or simply comments and suggestions from external stakeholders as well as company employees and contract workers. The company has also developed and is now using a fully documented process for identifying site-specific environmental, social, and safety-related risks well in advance of planned operational activities and then obtaining – through gender-sensitive engagement – the free prior informed consent (FPIC) of affected communities.

MTP and IFC are continuing their collaboration into 2019, where the focus will be on harvesting the current outgrower wood and on designing a new, optimised scheme that will ensure economic benefits to the smallholders while providing a more streamlined management model.



Photo Credit: Village Focus International

“We’ve been impressed with the robust, multi-stakeholder process through which MTP has re-designed its outgrower scheme and implemented new systems for social and environmental sustainability. As part of our project to engage with the private sector towards more responsible investments in agriculture and forestry, the VFI team has been encouraged by MTP’s genuine commitment to sustainability – we hope that other companies in Laos will follow suit!”

Justine Sylvester – Advisor, Land & Livelihoods Program, Village Focus International

# Improving and Fostering a Compliance Culture

TAFF investee company Acacia Forest Industries Sdn Bhd (AFI) is a Malaysian company with hardwood plantations located in the north of the state of Sabah. AFI has been engaged in a multi-year process of environmental and social management system upgrades, supported by TAFF’s investment and the interests of AFI’s Board and senior management to demonstrate excellence in all aspects of operations.

Managing contractors and asserting positive influence through a company’s supply chain is one of the more challenging compliance aspects for many forestry businesses. AFI adheres to the IFC Performance Standards and guidance, which supports management of these complex issues. Yet, some incidences of non-compliance were identified in an audit in late 2017, such as a lack of transparency in contractor administration, inconsistencies in incident reporting by contractors, inefficient monitoring systems to track the compliance and performance of contractors in the field, and insufficient documentation of contract worker wages and minimum wage payments. In response, AFI undertook a comprehensive review and overhaul of contractor management throughout 2018.

AFI partnered with a systems expert to implement a safety and compliance software tool that captures live information from the field teams and provides management with the tools to respond directly to any trends and issues. Data is collected through internal audits with standardised checklists, using electronic tablets in the field that can dock to the systems in the office. Today, the business records around 50 events per month, with each event requiring review and a rigorous process to find root causes and implement improved or new controls as needed. This data feeds directly into the company’s risk management system.

These improved systems allow AFI to rely on its internal policies and bolstered risk reporting framework to support proactive risk and compliance culture. Through enhanced visibility and control, AFI now has the tools to better monitor compliance company-wide. A key upfront issue was therefore to communicate to all contractors that AFI would not tolerate practices that contradicted the terms of their agreements, that compliance would be enforced, and non-compliant providers must improve or would be terminated. Clear contract terms are critical for having shared expectations of the acceptable working terms and conditions for contract workers, including workers’ rights and protections, living conditions, legality of foreign workers, and health and safety. Similarly, AFI reminded its managers that they too were responsible and must proactively identify non-compliance and work with contractors to increase compliance.

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## Improving and Fostering a Compliance Culture

At the same time, AFI reinforced to its contractors that the company encourages local workers and employment opportunities as a priority. Today, the company's workforce is 99% Malaysian with 76% coming from the local community.

In addition, New Forests is assisting AFI and another TAFF investee, Mekong Timber Plantations, in a technical assistance program anticipated in 2019, which will focus on strengthening contractor compliance, efficiency, and safety practices.



“In late 2017, AFI welcomed Accreditation Services International on-site for a compliance audit of our FSC certification body. This thorough audit helped identify discrepancies in the contractor supply chain that were inconsistent with AFI's policies. While this was disappointing, it motivated us and gave us the evidence to re-double our contractor management efforts. We have made great strides in becoming more compliant and safer, and we are working to embed a consistent culture of compliance that starts with AFI and extends through our relationships with all partners, contractors, and suppliers.”

Mike Janssen – General Manager,  
Acacia Forest Industries Sdn Bhd

# Continuous Cover Forestry and Managing for Carbon Forestry Value

**Forestry investors and managers deploy a variety of silvicultural regimes and forest management approaches to support investment mandates and deliver appropriate risk-adjusted returns to clients.**

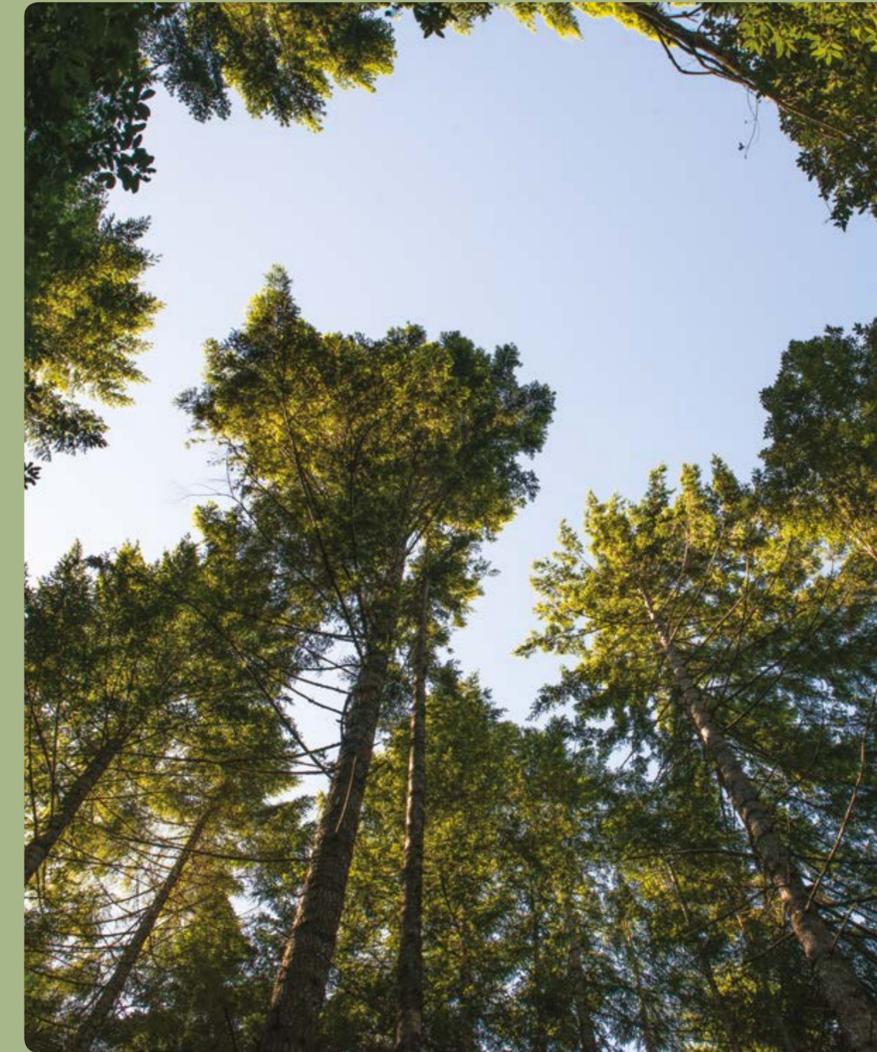
In New Forests' US business, one such approach is Continuous Cover Forestry (CCF), which promotes mixed-age stands by maintaining forest cover throughout the cutting cycle, with no clear cutting. Also referred to as Selection Harvesting, CCF relies on the careful selection and harvest of specific trees while retaining high-quality trees to grow within a diverse, mixed-age forest stand. CCF also supports multi-purpose management of forests to promote environmental values, such as a carbon storage and sequestration, watershed benefits, soil management, and sustaining native flora and fauna.

New Forests has found that CCF is particularly effective in maximising forest value in timberlands managed within the company's US Carbon Forestry investment program. For example, in 2018, New Forests acquired 4,224 hectares (10,438 acres) of land in Humboldt County, California, on behalf of a separate account client. This forest is covered by Douglas-fir, mixed hardwoods, and a young redwood plantation. Under a business as usual investment scenario and based on traditional timberland management strategies, the Pine Creek forest would have likely undergone immediate timber harvest,

including areas of clear cuts, to deliver near-term timber revenue at the detriment of long-run sustained yield. However, New Forests' biological and financial modelling indicated that investment returns could be improved by optimising the harvest plan to maximise combined revenues from both carbon offset credit and log sales, rather than from timber harvest alone. By developing a forest carbon offset project on the property, delaying near-term harvest, and applying CCF, New Forests' strategic asset management plan for the property seeks to improve investment returns by delivering near-term revenue from carbon while enabling a higher sustained timber yield over the long term, supporting a higher exit value.

The property will be registered under the California Carbon Offset Program, enabling the verification of carbon sequestration and storage in the forest, which can be monetised through the sale of California Carbon Offsets. This near-term income more than replaces the opportunity cost of foregone timber harvest revenue. Once the forest reaches its optimum level of standing volume and growth, the management strategy allows for CCF harvest of the growth increment of the forest.

By taking a site-specific approach to strategic asset management, New Forests seeks to identify sustainable forest management strategies that maximise financial value while also achieving meaningful conservation outcomes across our Carbon Forestry investments.



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# Restoring Underrepresented Ecosystems for Wildlife in California

Aspen and meadow habitats throughout Northern California have declined, primarily due to fire exclusion, which has allowed conifer trees to encroach into and overtop stands of aspen trees and wet meadow complexes. The 2015 California State Wildlife Action Plan Update has made aspen-meadow complexes a priority and private timberlands have an opportunity to contribute to the plan’s conservation objective.

The aspen and meadow restoration projects first started on the lands now known as Shasta Cascade Timberlands (SCT) in 2004. LandVest, the property management firm appointed in 2018 following New Forests’ acquisition of the asset, continues the management regime to prevent conifers from once again encroaching into these areas.<sup>21</sup> In total more than 250 acres (101 hectares) have been treated since the project began. The restoration projects start after commercial logging activities remove merchantable coniferous trees from aspen and/or meadow habitats.<sup>22</sup> Where conifer trees are under merchantable size, hand crews cut and pile the conifer trees. These piles provide additional habitat for species like quail, grouse, and turkeys that build their nests inside the piles to get protection from predators and extreme temperatures. Ongoing maintenance and restoration work helps ensure the return of the aspen-meadow characteristics.

The Rocky Mountain Elk Foundation and Pacific Forest Trust have been important partners in these projects, providing grant funding to offset some of the project costs as well as supplying volunteers, from time to time, to help maintain and restore the meadows. The Rocky Mountain Elk Foundation also supports a complementary monitoring program that uses around 30 trail cameras to track the elk cow to calf ratios throughout the summer and early fall. The results to date are positive indicating around 45 calves per 100 cows.

SCT has a Private Lands Wildlife Management Plan, which is a license agreement with the California Department of Fish and Wildlife, where landowners are given incentives to implement habitat improvement projects in return for special hunting and fishing opportunities. SCT is given the opportunity to purchase two bull and two cow elk tags<sup>23</sup> each year, which are rare in California. The manager gives community groups, non-profit organisations, and employees the opportunity to purchase these tags at cost for use in their fundraising efforts and as employee incentives.



“We’ve never sold a tag on the open market as we’ve felt strongly about offering the tags at cost to local organisations and providing an opportunity to employees who work so hard to manage the property to access these high-demand tags. As resource managers, we realise how important it is to restore and maintain these rare habitats within the SCT estate. We have also been recognised by our forest certification body for being proactive in ecosystem management and promoting underrepresented ecotypes.”

Rich Klug – Planning Manager, LandVest Inc.

<sup>21</sup> The project was initiated by former property owner and manager Roseburg Resources Company. In the procurement of the property management services for SCT, New Forests gave preference to providers who would take on the staff involved in management under the prior owner, which ensured institutional knowledge would carry over, including for long-term projects such as the aspen-meadow restoration.

<sup>22</sup> Typically, when timber is harvested, California’s Forest Practice Rules require the site to be replanted with conifer trees, however, where restoration efforts have occurred there are provisions in the Rules that allow for a more natural successional regime.

<sup>23</sup> “Tags” refer to the permitting system that allows for legal hunting of certain game species.

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# Employment and Livelihoods

## Partnering with Chugachmiut to Ensure Local Employment Opportunities in Alaskan Carbon Projects

New Forests is honoured to have established partnerships with several Native American tribal organisations in Alaska’s Kenai Peninsula and Prince William Sound through the Forest Carbon Partners (FCP) investment program. These projects encompass more than 100,000 acres (40,000 hectares) of Native Corporation-owned forests, which are managed for a variety of socio-economic objectives, including timber production, cultural resource preservation, water quality, conservation, and now for their ability to store and sequester carbon. New Forests sought the assistance of Chugachmiut, an Alaska Native 501(c)3 non-profit that serves the Native tribes of the Chugach Region, to find ways to increase local participation in field work to generate local employment opportunities and build support for the carbon projects through community involvement.



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## Employment and Livelihoods

The following Q&A features Chugachmiut forestry manager Nathan Lojewski who worked with New Forests and local stakeholders on the Forest Carbon Partners projects.

**Q: Can you share with us how forest management and forest conservation link to Chugachmiut's work?**

**A:** The seven Native Communities we serve still practice traditional subsistence lifestyles blended with western modern culture. Saying this, protection of land and natural resources, such as fish habitat, berry picking grounds, hunting areas, and traditional and medicinal plant gathering areas, is extremely important to our communities. At the same time, the traditional subsistence lifestyle does not provide the cash needed in modern western societies. What attracted me to forest conservation opportunities linked to the California cap-and-trade carbon market was that forest management could still take place in a way that respected and prioritised traditional uses and at the same time provide much needed cash to our tribal members to help support the necessities of modern life.

**Q: Why did you want to work with FCP on these projects?**

**A:** Chugachmiut partnered with FCP for several reasons. First, FCP was willing to work to build local capacity and support our communities' request to maximise local employment and participation. Each project has included local employment as timber cruisers, boat captains, and general labourers. Second, FCP supported training Chugachmiut technical staff in the intricacies of carbon project management. This gives us the confidence that the region will have the capacity to maintain these projects into their 100-year lifetime. Finally, FCP brought technical expertise to the table with a successful track record of working with other tribal groups in the lower 48 states to develop projects. The FCP team understands that while maximising economic returns is important, it is not necessarily the most important priority for our communities.

**Q: What are some of the unique challenges for conservation in the Kenai Peninsula?**

**A:** Many of the challenges we face revolve around the remoteness and ruggedness of the project areas. Our field efforts to measure trees and quantify carbon stocks require accessing lands hundreds of miles from the nearest road or hotel. We have opted to combine crews of outside timber cruisers paired with local Alaskans. These crews are dropped to locations by plane or helicopter, left in the Alaskan wilderness to measure trees. There's no going home at night and no modern conveniences, like kitchens or even telephone access. Dropping off a diverse group of sometimes strangers in the wilderness to function as a well-oiled team takes intense planning, training, and trust. This is something we helped to facilitate by working with FCP.

**Q: What are the skills and capacity needs that can be developed to ensure ongoing local involvement in managing Alaskan Native forests in a sustainable manner?**

**A:** FCP supported hiring of local community members on our projects. We have worked over the past three years to host timber cruising academies and some of our first timber cruiser assistants are now learning to be lead timber cruisers. This effort has been rewarding, and we are making progress, but we do not yet have the capacity to support all our projects with local labour alone. Bringing in contract timber cruisers for jobs that local people want is not popular in our communities. We would like to be in a situation where we utilise local timber cruisers and field staff for all work on our projects in the future.