



**Remarks by David Brand, Chairman & CEO of New Forests Pty Ltd,
to the AC.Care Fundraising Luncheon - Mount Gambier, April 11, 2014**

Thank you to the organizers for the opportunity to speak to you today in support of the important cause of alleviating poverty and homelessness. In fact one of my sons is a social worker managing a group home for homeless youth, and I know it can be a thankless and difficult job. I think someone once said that the quality of a society should be judged by how it takes care of its most disadvantaged, and today's event is certainly a credit to the Mount Gambier community.

Well, let me turn to the subject of my talk today which is the outlook for the forestry sector in this region. Mount Gambier and the surrounding Green Triangle region form one of the centres of Australia's forestry sector and have a long history in the development and management of timber plantations and timber processing. New Forests has been a relatively small player in the regional forestry sector since our founding in 2005, but over the past three years we have expanded quite a bit.

For those of you who don't know us, we are a Sydney-based forestry investment management business. Our clients are superannuation funds, pension funds, medical and insurance funds. Basically we acquire and manage forestry and associated processing or infrastructure assets in order to produce stable returns for the retirement savings of working men and women in Australia, Europe and North America.

Most of the forestry sector in this region is now owned by institutional investors. That means that the industry is now well-capitalized, focussed on commercial outcomes, and able to draw on both our local expertise as well as international best practice in forestry management. The industry here has been doing it tough over the past five years, but now the ownership has stabilized and market conditions are steadily improving.

New Forests manages over 80,000 hectares of hardwood plantation and 40,000 hectares of softwood plantation in the Green Triangle region, all of it on freehold land. Funds managed by New Forests also own the Timberlink Australia business,



including the Tarpeena sawmill. Across Australia we have almost 400,000 hectares of land and timber plantations, the Timberlink business, and associated nursery, seed orchard and other assets. We also operate investment businesses in Asia and the United States from offices in Singapore and San Francisco. Over the almost 9 years we have been in business we have grown from an initial \$50 million in assets under management to more than \$2.3 billion in assets and funds under management today.

Our forestry investments in Australia are our largest business, representing about \$1.6 billion in assets. We have a substantial position in both hardwood and softwood timber. On the softwood side we have a very strong business including the whole supply chain from the forest to the customer via the Timberlink Australia business. Our hardwood business expanded substantially last year as we bought the Managed Investment Scheme plantations originally established by APT and Great Southern Plantations. Our business now includes the sale of domestic softwood sawlogs, the export of surplus softwood sawlogs to China, and the export of softwood and hardwood woodchips to Japan, China and most recently India. In addition, via Timberlink we are the third largest timber producer and distributor in Australia.

With the moderating Australian dollar and the low interest rates currently prevailing all our markets are strengthening.

If we start with the hardwood woodchip sector, the recovery really began around September of last year. In October and November Australia exported 450,000 bone dry metric tonnes or “BDMT” per month of hardwood woodchips—which represents record levels. Total exports in calendar year 2013 rose to 3.6 million BDMT from 3.1 BDMT in 2012. We expect that this will increase to over 4 million BDMT in 2014. Over 2014 and 2015 total Asian woodchip demand is expected to increase by more than 25% as new pulp and paper capacity being built in coastal China comes online, and as India emerges as a new market for hardwood woodchips. We also see total Australian supply rising from the expected 4 million BDMT in 2014, to 6 million BDMT in the next 2 or 3 years. We should be able to find a market for this increasing supply as total Asian demand, including Japan, China and India is likely to expand from 18 million BDMT in 2013 to about 25 million BDMT in 2016 or 2017. I was in

Vietnam last week, and while their competing supply in the hardwood woodchip market rose from about 5 million BDMT in 2012 to 6.8 million BDMT in 2013, my meetings there suggest a strong government policy intent to divert more wood to domestic processing rather than further increasing woodchip exports to China.

In terms of the domestic softwood timber and log markets, the story is also positive. The December quarter of 2013 saw a 16% increase in new residential building approvals. Timber demand is rising in line with a recovery in new housing starts, and there have been three price increases for structural timber in the last year. The Tarpeena mill has been working flat out since we bought the business a little over a year ago. Timberlink expects that to continue, as the forecast is for total Australian softwood timber demand to increase from 3.6 million cubic metres in 2013/14 to about 4 million cubic metres in 2015/16. That means that we need to add the equivalent of another 1.5 Tarpeena sawmills to the Australian timber supply over the next two years. The rising domestic timber price also flows through to the pine plantations we own in the Green Triangle and in Tasmania, and both these forests are making good profits in the 2014 financial year to date. In fact our Green Triangle forests met their profit target for the year by the end of February, with four months still to go.

An important part of the softwood market has been the rising log export business to China. In Australia we manage our pine plantations intensively with up to three thinning operations prior to the final clearfall. With the closing of the Kimberly Clark mill, there has been an excess of pulpwood in the Green Triangle region. The Timberlink Tarpeena sawmill really doesn't make money from small logs, and China is now paying high prices for logs down to a 10 centimetre small end diameter. Logs that would have been wood-chipped are now being diverted to log export – creating value and leaving less wood to waste.

When we bought our softwood forests in both Tasmania and the Green Triangle, thinning operations were up to two years behind schedule. This hot China market is letting us aggressively catch up our silviculture programs and ensure we have properly managed forests. We are aiming to ship about one 25,000 to 30,000 tonne load of small softwood sawlogs per month, combining the cargo from Burnie in Tasmania and Portland in Victoria.

I was also in China last week, in Guangdong Province. Looking at their softwood and hardwood plantations it is pretty apparent that they are going to need more imported timber. Local government officials told me that they really can't expand their timber plantations any more, and there is even pressure to convert some of the plantations back to land for agriculture or development. Much of the softwood plantation I saw is of poor quality and is called 'eco-forest' meaning it is primarily grown for watershed conservation.

The other emerging trend now is for Chinese firms to start importing Australian hardwood logs for veneer production. A couple of years ago most people would have said you were crazy if you suggested that blue gum could be the basis of a veneer industry. However, in China necessity is the mother of invention, and tropical hardwood supply is drying up. One firm in China is already planning to ramp up imports of blue gum logs as a substitute for tropical hardwood logs and has set a goal of 1 million tonnes of blue gum logs per annum for high value heavy plywood products.

All this demand is going to translate into a significant expansion of harvest operations, port operations and general business opportunities in the Green Triangle and in other Australian forestry regions. In two to three years time, the Port of Portland may need to handle 3 million green metric tonnes per annum of hardwood woodchip, 1 million green metric tonnes of softwood woodchip per annum, 1.5 million tonnes of softwood logs, and 0.5 million tonnes of hardwood logs. That means about 90 woodchip vessels per annum and probably about 75 log ships per annum—a significant increase in the cargo being transferred through that port.

We are also expanding our Tarpeena mill over the next two years from the current 460,000 tonnes per annum of sawlog intake to up 600,000 tonnes per annum. To do that we are investing about \$20 million into the green mill, drying kilns and dry mill operations. About \$8 million of this is coming from a South Australian government grant. The basic sawmill technology in Tarpeena hasn't been updated since the 1990s so this will increase throughput and efficiency and cut our production costs by about 10% per cubic metre of timber produced.

We are also looking at the feasibility of a biomass energy facility at Tarpeena to run on sawmill waste and forestry thinning. We are expecting our initial feasibility study for this plant within a week, and then we will decide if the economics work, and if so proceed to a phase two design process.

Our investments in the Green Triangle rely on a huge array of service providers, contractors and local businesses. We use PF Olsen, Timberlands Pacific and Forestry South Australia as our primary forestry management businesses, and they are top quality forestry specialists. We employ almost 200 people in the Timberlink sawmill in Tarpeena and we outsource to dozens of harvest contractors, cartage firms, tree planters, silviculture crews, log marshalling services and research providers. We recognize that the Green Triangle is home to one of the most efficient forestry sectors in the world, and while other countries might have faster tree growth, we have the comparative advantages of excellent wood quality, good operating conditions, a well trained and experienced workforce, fully developed infrastructure and over 100 years of forestry experience.

Of course we can't rest on our laurels. The forestry sector needs to be continuously increasing productivity, increasing efficiency, applying new technology and searching for new markets. There is demand for land for a variety of competing agricultural uses, and we need to justify our use of land by generating economic returns. We also compete with other countries that can grow timber, such as New Zealand, Brazil, Chile, Vietnam and Indonesia.

However, the macro picture is strong, as traditional softwood timber suppliers Russia and Canada both have declining timber availability, and tropical hardwood producers such as Indonesia and Malaysia are seeing the end of the timber frontier. This means that the future of forestry will require investment capital to meet growing demand for hardwood and softwood timber. That funding won't come from governments that have budget deficits and other pressing priorities for public services. I also think that the MIS model has proven a failure, and therefore the source of funding is going to have to be via institutional investment. In Australia, we have a developed economy and as noted earlier, a relatively low risk investment environment. That means that our cost of capital for forestry is much lower than many of our competitors like Brazil, Indonesia or Vietnam. Many of our clients want



the majority of their forestry investment in safe countries like the USA, Australia and New Zealand. In fact about 90% of all direct institutional investment in forestry is in those three countries.

The other emphasis of our clients is on environmental and social sustainability. Superannuation funds, pension funds, endowments and medical insurance funds have very high standards for the sustainability of their investments. We require that all the forests that we manage will be independently certified as being sustainably managed, and that we will be good corporate citizens and good local employers. We want to emphasize health and safety in all our operations, and we want to address issues before they are in the media, rather than after.

As I said at the outset, we primarily work to provide financial support to the retirement savings of hundreds of thousands of people. We have a long-term perspective and a focus on generating stable returns. With that should come the long-term underpinning of employment and economic growth in the Green Triangle region.

Thank you again for the opportunity to speak to you today, and I hope you have a successful fundraising for the AC.Care organization today.