

The background of the entire page is a photograph of a forest. The upper half shows a dense stand of tall, thin trees with light-colored bark, possibly larch or birch, with some bare branches visible. The lower half shows a similar forest but with more green foliage in the foreground, creating a sense of depth. A semi-transparent, light brown rectangular box is centered over the upper half of the image, containing the title text.

2015
SUSTAINABILITY
REPORT

Message from the CEO

New Forests celebrated its 10th anniversary in 2015. It has been a significant decade. The global recession that began in 2008 created one of the most difficult financial crises in the past century, and we are still feeling the flow on effects. At the same time, it has also been a decade of evolution, with institutional investors responding to a call to action toward greater responsible investment. These economic challenges and opportunities have generated changes in the forestry sector. We have seen dramatic shifts in markets, the rise of the imperative to integrate forests and land use in efforts to address climate change, and a greater emphasis on sustainable and responsible land management. In response, New Forests has sought to refine its corporate purpose and investment philosophy in alignment with these developments. We hope our 2015 Sustainability Report provides you with an insight into how New Forests is seeking to conceptualise, measure, and deliver an investment program based on shared value and long-term performance.

New Forests now manages investments in more than 765,000 hectares of land, conservation projects, timber plantations, and associated natural vegetation, agriculture, timber processing, and infrastructure. Our business operates across Oceania, Southeast Asia, and the United States with investments in Australia, New Zealand, Indonesia, Malaysia, and the United States.

As we have grown, we have continued to ask the question: What is our responsibility as an investment manager, both to our clients and to the communities where we operate? In some regions, we are the largest land manager and a major source of employment and economic activity. How we conduct our business impacts not only impacts our clients, but also affects thousands of people who are employees, contractors, and stakeholders in the forestry assets that we manage.

Over the past year, in seeking to answer this question, New Forests undertook a review of investment

approaches and what leading companies around the world are doing to align commercial performance with social and environmental outcomes. As a result, we adopted the concept of shared value as core to our investment philosophy. In our case we see shared value as reflecting our view that generating appropriate risk-adjusted returns over the long term to our clients is equally important to, and mutually reinforcing of, generating long-term benefits to the communities where we operate. In practice, this means that we will invest to improve the quality and productive capacity of our forestry, infrastructure, and processing assets; we will support research and the deployment of new technologies; we will seek to support local industry; we will engage with local communities and stakeholders; we will encourage innovation in how we manage our assets and how we market timber products; and we will use responsible financial and investment structures to promote stable operating environments.





To encapsulate what this means at an operating level, we have further developed a set of key criteria that will lead us to the ability to quantify our performance via what we call Sustainable Landscape Investment. This model is based on the following themes:

- appropriate land use and **land use planning**;
- improving both the biological and economic **productivity** of our assets;
- ensuring that we support the provision of **ecosystem services** like carbon storage, clean water, and biodiversity conservation;
- implementing good **governance**, including openness to new ideas, transparency in decision-making, and accountability for our decisions;
- **risk management** and emphasising long-term outcomes rather than short-term gains; and
- promoting **shared prosperity** through business practices that support local communities.

This conceptual framework will guide our work as we develop goals and measurable indicators to assess our progress in implementing our Sustainable Landscape Investment strategy. As you read this report, I hope you will see the progress we are making as we implement this approach across our business and reinforce a shift of the forest industry by investing with a long-term vision of sustainable and productive landscapes.

Finally, I would highlight that the forest sector has an important role to play as the world struggles with the need to constrain greenhouse gas emissions and reduce the degree of climate change. Forest management is a key part of the global carbon cycle. Forests and soils are a significant reservoir of stored carbon. Wood products are the lowest embodied energy building materials, and woody biomass can be a substitute for fossil energy, fossil fuels, and petrochemicals. Flowing out of the Paris Conference in late 2015 was a renewed recognition of the role of the forest sector, and land use more generally, in addressing climate change. New Forests expects that many institutional investors will be exploring whether repositioning of investment portfolios from fossil-energy based commodities to forestry may be part of their investment policy. In fact, institutional investment will be central to the future of the forest sector, as long-term patient capital will be needed to build the plantation base that can support both traditional wood product demand as well as the new bio-based economy.

I hope that you find our 2015 Sustainability Report to be interesting and useful, and we would be happy to hear any feedback and questions you may have.

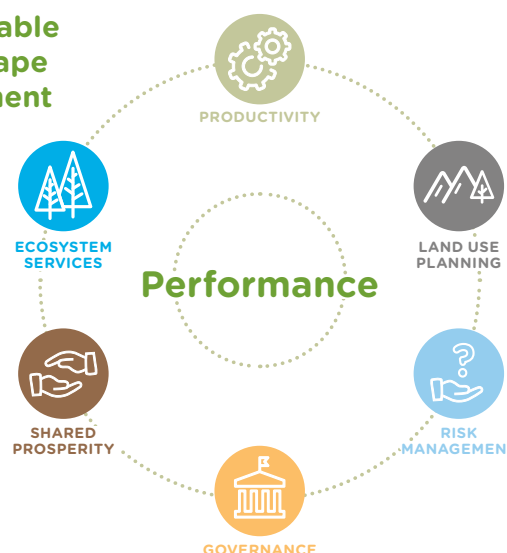
Sincerely,

David Brand
Founder and Chief Executive Officer,
New Forests Pty Ltd

Investing to create productive and sustainable landscapes—to benefit our clients and the communities where we operate

New Forests' investments encompass both production and conservation for long-term value. We invest in forestry, land, and environmental assets to provide attractive returns for our clients while contributing to positive outcomes for the communities where we operate. To achieve this, our Sustainable Landscape Investment approach focuses on business, environmental, and social performance.

Sustainable Landscape Investment



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Look for the icons below throughout this report to find regional examples and case studies from each of New Forests’ investment strategies.



Australia and New Zealand



Southeast Asia



United States

Report Overview

New Forests emphasises transparency and continual improvement in our sustainability programs to support better investment outcomes and accountability. Since 2011 we have issued annual sustainability reports to provide accurate information about our progress in the areas of responsible investment and sustainability.

New Forests believes that social and environmental impacts can be material to the value of investments, and therefore this information is highly relevant for our company’s shareholders and our clients. However, we also recognise that the social and environmental impacts of our investments are important to other stakeholders including the people who live in communities that are affected by our investments, the workers who are employed directly or indirectly by our investment activities as well as their families, the general public, governments, and civil society.

This report includes a brief overview of New Forests and our investment programs, followed by a review of our responsible investment approach, and discussion of our material social and environmental impacts.

This report covers the New Forests group of companies and the investments we have managed from 1 January 2015 to 31 December 2015, building on our previous annual report issued in April 2015. In keeping with best practice in sustainability reporting, we present this information in the broader context of our business and the environmental, social, and economic contexts in which we operate. Where possible, we seek to present this information within the framework of our Sustainable Landscape Investment model; however, this is a work in progress and we expect to continue refining how we set measurable goals and report on progress and outcomes in the future.

New Forests



New Forests was established in 2005 as an investment management business specialising in forestry and environmental markets.

Today, our assets under management are AUD 2.8 billion and encompass a range of investments across Australia, New Zealand, Southeast Asia, and the United States in forests, rural land, forest carbon assets, wetland and stream mitigation banks, and a tropical biobank. New Forests offers commingled funds and separate accounts for institutional investors.

The majority of our clients are pension funds, but our clients also include insurance companies, sovereign wealth funds, endowments, and family offices.

New Forests is privately held. Our board of directors is a unique set of leaders in sustainable asset management, next generation renewable energy and natural resources technologies, forestry and conservation investment, and private equity. This diverse and experienced leadership helps ensure that the business is strategically positioned to align with opportunities in sustainability as well as to manage economic, environmental, and social risks.

The company is headquartered in Sydney with an international presence that now includes a group of nine wholly-owned subsidiary businesses and 52¹ employees across offices in Australia, New Zealand, Southeast Asia, and the United States. While operating as a single global company, each New Forests subsidiary contributes to a shared corporate business plan and strategy. During 2015 two new subsidiaries were launched in line with business development and investment strategy objectives.

New Forests Timber Products Pty Ltd (NFTP) was established in Australia to provide timber marketing services for Australian hardwood assets. This new business enables New Forests to retain supply chain value for the benefit of our clients while providing a reliable woodchip business to customers in the Asia-Pacific region. The launch of NFTP is a result of achieving scale in our Australian timberland holdings as well a response to the market opportunity for growing woodchip demand in Asia.

New Forests US Timberlands LLC was established in the US to enable continued growth in investment offerings and services in the North American market. Our US business has grown during the year, adding additional staff to reflect our strong focus on current and long-term opportunities in forest carbon and conservation finance in the US.



Visit www.nftp.com.au to learn more about our latest business New Forests Timber Products.

¹ As of 31 March 2015.

Our Investment Programs

The table below summarises New Forests' funds and other investment products in three regional investment programs based in Australia and New Zealand, Southeast Asia, and the United States.

AUSTRALIA AND NEW ZEALAND		AUD 2.57 BILLION ²
Australia New Zealand Forest Fund (ANZFF)	New Forests' first timberland fund closed in 2010. The fund is fully invested and comprises a portfolio of more than 330,000 hectares of Australian softwood and hardwood plantations as well as the Timberlink Australia Pty Ltd sawmilling, sales, and distribution business.	Sustainable forestry
Australia New Zealand Forest Fund 2 (ANZFF2)	New Forests' second round fund in Australia and New Zealand reached a final close in 2014. The fund is currently being invested and has a portfolio of hardwood and softwood assets located in both Australia and New Zealand.	Sustainable forestry
SOUTHEAST ASIA		USD 146 MILLION ³
Tropical Asia Forest Fund (TAFF)	This is the first institutional investment fund dedicated to sustainable forestry in Southeast Asia, with a final close in 2013. The fund is currently being invested.	Sustainable forestry
UNITED STATES		USD 50 MILLION ⁴
Eco Products Fund (EPF)	This fund is co-managed with Equator LLC. The fund has invested in US-based mitigation banks, forest carbon offset projects, and a biobank in Sabah, Malaysia.	Mitigation banking, Forest carbon, Voluntary biobank
Forest Carbon Partners (FCP)	Forest Carbon Partners finances and develops forest carbon offset projects for the California carbon market. FCP works with family, industrial, and tribal landowners to create carbon offset projects that deliver real financial value – increasing and diversifying revenue for timberland owners.	Forest carbon
Carbon Forestry	New Forests is actively investing in this strategy to manage forestry assets for both timber and carbon.	Sustainable forestry

In the following pages we provide an overview of New Forests' three regional investment strategies and discuss key achievements in the business during the reporting period, from 1 January 2015 to 31 December 2015. During this time, New Forests' total assets under management increased by 12% from AUD 2.5 billion to more than AUD 2.8 billion.

TOTAL ASSETS UNDER MANAGEMENT

↑ 12%

TO AUD \$2.8 BILLION

² Net Asset Value and uncalled capital as at 31 December 2015.

³ Net Asset Value and uncalled capital as at 31 December 2015.

⁴ Includes Net Asset Value for the Eco Products Fund as of 30 June 2015 and NAV and uncalled capital for forest carbon and sustainable forestry investments as of 31 December 2015.



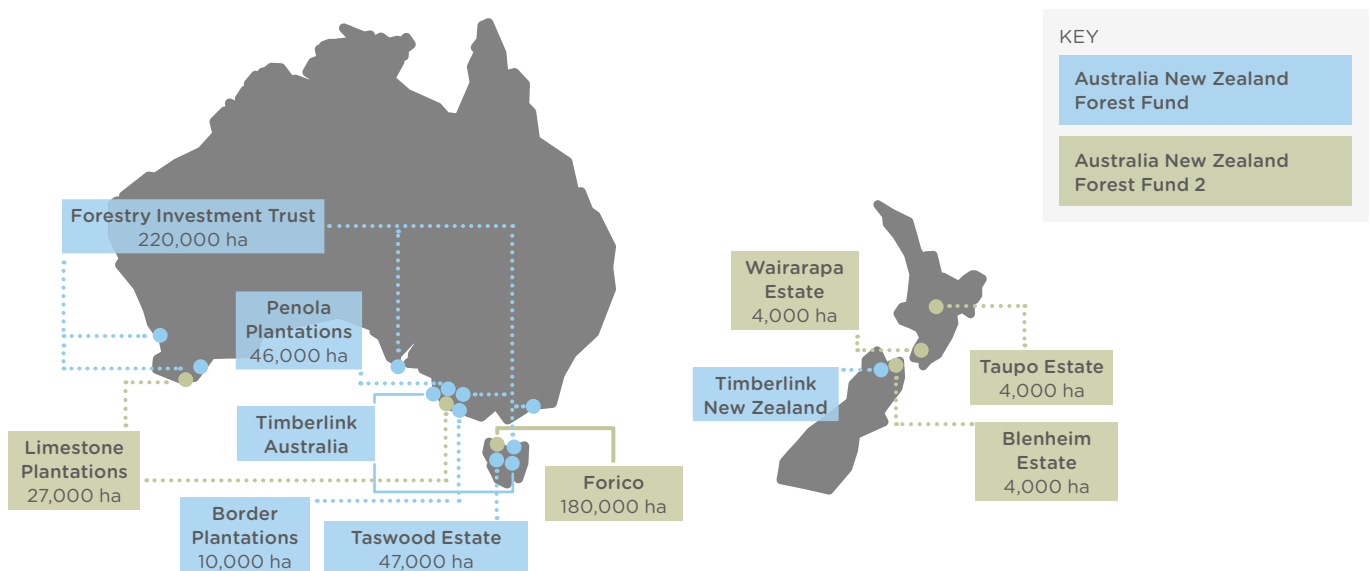
New Forests manages a diversified, world-class portfolio of softwood and hardwood timber estates in Australia and New Zealand. Timberland investment in the region offers access to mature timber markets, well-established forestry management systems, and new opportunities from increasing Asian demand for wood products. Investors can be exposed to Asian demand growth while investing in a stable, low-risk business environment. New Forests is the largest timberland investment manager in Australia and has operated in New Zealand since 2005.

A key priority for 2015 was investing ANZFF2. Of particular note is a series of investments in the North and South Islands of New Zealand, which has given ANZFF2 a larger footprint in that country. New Forests Timber Products Pty Ltd was established in October 2015 and is now responsible for the marketing of plantation timber products from New Forests' hardwood plantation estates in Australia. This new step into timber marketing reflects New Forests' desire to capture value through an integrated supply chain for our investment clients while simplifying and streamlining the sales process for our timber customers. NFTP focuses on certified, plantation timber products, and is expected to market and sell up to four million green metric tonnes of hardwood chip in 2016.

New Forests' investments in the region had a successful operational year, with noteworthy achievements in the areas of forest certification, landscape planning, and improved operational capacity.

- Portfolio company Forico Pty Ltd (Forico) achieved FSC Forest Management certification, making it the largest FSC-certified plantation estate in Tasmania and meeting stakeholder demand for sustainable management of the 180,000 hectare Forico estate.

- Forico also re-opened the Surrey Hills Chip Mill in September 2015 following a significant investment to upgrade the facility, including converting the production line from native log processing to plantation log.
- Timberlink Australia issued its first corporate sustainability report in July 2015, providing the company's board and shareholders with quantified indicators regarding social and environmental management and performance.
- New Forests convened its first collaborative landscape-planning meeting in October 2015 in the Green Triangle region of Australia, bringing together the property managers responsible for managing our investments in the region with representatives of the local Catchment Management Authority and the non-profit organisation Greening Australia. The objective of the meeting was to share information about each organisation's environmental objectives in the region and to identify opportunities where these overlapped with the New Forests estate and set priorities for stewardship activities, such as pest control and biodiversity corridors.



Our Investment Programs

Sustainable Forestry in Emerging Markets of Southeast Asia



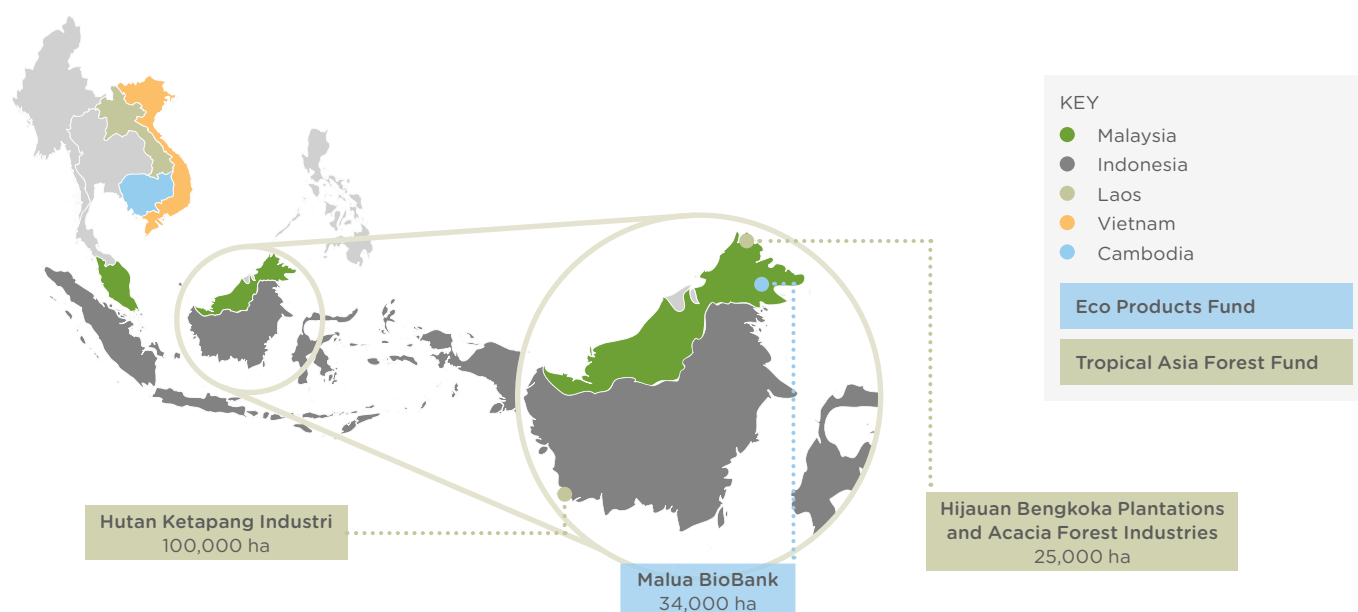
Tropical Southeast Asia is an emerging market for sustainable plantation forestry investment by institutional investors. Our Southeast Asian investment strategy focuses on certified plantation forestry with an emphasis on technological and silvicultural improvements and a rigorous approach to environmental and social values and good governance. New Forests manages the first dedicated institutional timberland fund in Southeast Asia – the Tropical Asia Forest Fund, which aims to invest in an international portfolio of timber plantation assets with exposure to a variety of timber species and markets.

New Forests continued to work on deploying investment capital for TAFF during 2015. In December we announced the completion of an equity investment in a large-scale rubber plantation known as Hutan Ketapang Industri (HKI), located in West Kalimantan, Indonesia. TAFF is partnering with a major Indonesian conglomerate as part of the HKI investment and is seeking to bring best practices in ESG management to the development of what will be one of the world's largest rubber plantations. This transaction was recognised by the publication *Environmental Finance* as the Sustainable Forestry Deal of the Year 2016 for its large-scale approach to integrated landscape investment, and was noted for being among the first institutional investments in Indonesian forestry.

Operational management in Southeast Asia focused on ongoing asset management of TAFF's first investment, which includes the Hijauan Group and its interest in Acacia Forest Industries on the Bengkoka Peninsula of Sabah, Malaysia. New Forests has worked to strengthen community relations, to improve the quality of the

timber plantation estate, and to implement a strategic plan for the investment focused on the right choice of plantation species and good execution of operations plans.

In addition, New Forests also continues to manage the Malua Biobank, a 34,000-hectare conservation investment in Sabah. The project originated from a former logging concession in 2008 and operates under a Conservation Management Plan. In November 2015, the Roundtable on Sustainable Palm Oil (RSPO) endorsed a process to remediate or compensate for past clearance of land that had not been assessed for High Conservation Values (HCVs). These compensation procedures could foster support for restoration and conservation projects like the Malua Biobank as providers of compensation solutions to RSPO producers seeking to comply with the RSPO Principles and Criteria. New Forests continues to advocate for the inclusion of conservation investments as a solution to the problem of forest degradation and loss in forest-risk commodities.

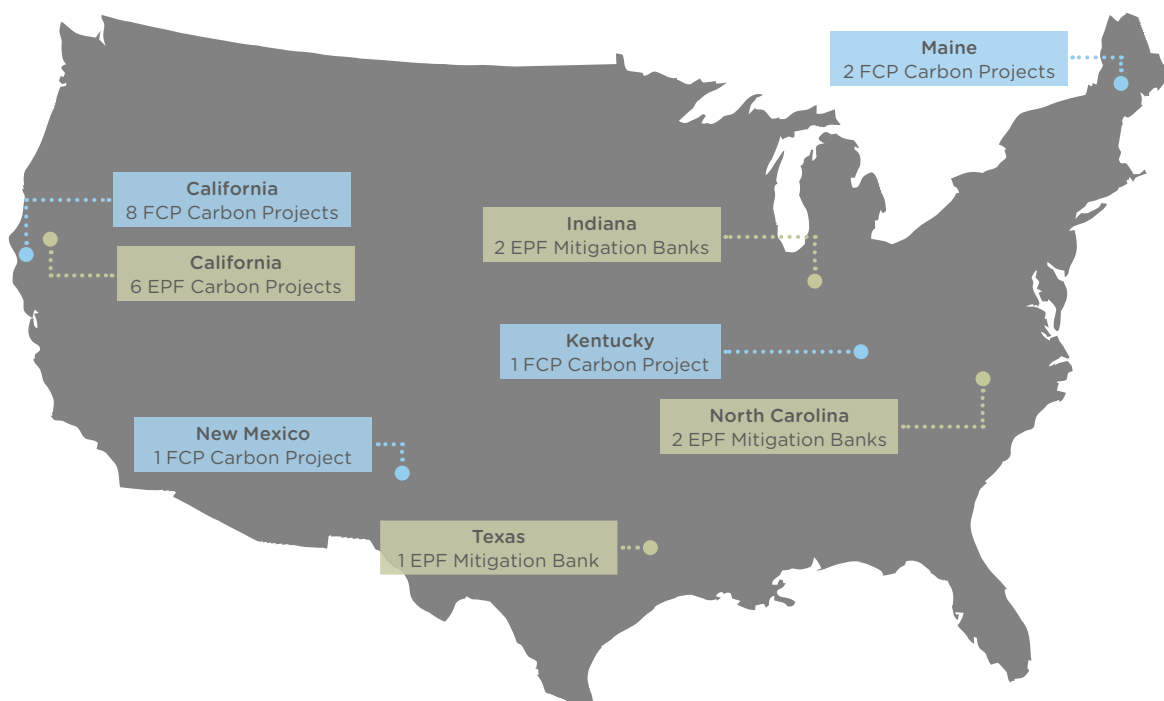




Forestry investment in the United States has evolved beyond traditional timber management to also encompass returns driven by conservation management strategies and the valuation of ecosystem services in growing environmental markets. New Forests' US business focuses on strategies related to conservation finance, forest carbon offsets, and carbon forestry. We established the first institutional fund investing in both forest carbon and mitigation banking, and have developed additional investment products that build on our track record.

The Forest Carbon Partners investment program was active in engaging new landowners for the establishment of forest carbon offset projects to supply the California greenhouse gas emissions trading program. As of 31 December 2015, FCP projects included nearly 110,000 hectares of projects on private and tribal forestlands in the United States and delivered more than 700,000 tonnes of California Compliance Offsets in the year. The program has registered the most projects under the California forest offset protocol to date, with projects located in four states.

New Forests also continues as Co-General Partner of The Eco Products Fund. In this role New Forests is managing the fund's mitigation bank portfolio, which comprises five mitigation banks located in the states of Indiana, North Carolina, and Texas.



KEY

Eco Products Fund

Forest Carbon Partners

Investing Responsibly

Over New Forests' 10-year history, we have formalised and administered our sustainability approach through a complementary set of company-wide environmental, social, and governance (ESG) policies and programs that support responsible investment through all of our funds. Our ESG integration practices benefit from a growing global movement supporting responsible investment that enables collaboration with other investors and practitioners.

Responsible Investment Policy

In 2015 New Forests introduced a new Responsible Investment Policy. The Responsible Investment Policy replaced our Social and Environmental Policy, which was originally created in 2010, together with New Forests' Social and Environmental Management System (SEMS), and was based around four guiding principles: responsible investment, third-party certification, transparency, and continual improvement. As a result of our ongoing review of our approach to sustainability and best practice, New Forests decided the Responsible Investment Policy would better reflect the purpose and objectives of integrating ESG into our investment programs. The policy was formally adopted by the New Forests Board of Directors in March 2015 and is available on New Forests' website. This new policy creates a formal commitment to ESG integration by defining the scope and application of the policy, indicating the tools that should be used to implement the policy, and formalising a requirement for monitoring and review.

Principles for Responsible Investment

New Forests has been a signatory and member of the Principles for Responsible Investment (PRI) since 2010. The PRI reporting and assessment program is an integral part of demonstrating accountability to responsible investment goals, and New Forests supports disclosure of PRI transparency reports—we make our PRI Responsible Investment Transparency Report and PRI Assessment Report freely available on our website.

New Forests received a top-tier rating in the 2015 assessment, which covered activities and responsible investment implementation in 2014. Our PRI report covering 2015 activities was submitted in March 2016, and the report and assessment results will be posted on our website when available. It should be noted, however, that there is currently no assessment tool for unlisted forestry or conservation investments. PRI only evaluates our approach to responsible investment, strategy, and governance and not factors specific to real assets or forestry.

As a corporate development goal for 2015, New Forests set a target to increase engagement with the PRI and its network of signatories. Some of our activities to support this goal included:

- Attendance at PRI and PRI regional network events, including the annual PRI in Person global conference.
- Participation in the private equity work stream's working group on ESG in Limited Partner Due Diligence Questionnaires (LP DDQ). The working group developed and disseminated new guidance for LP DDQs to support enhanced engagement on ESG management in the manager selection process. See the case study on page 9 to learn more about New Forests' involvement in the working group and to find a link to the LP DDQ.
- Taking part in voluntary PRI surveys and opportunities for feedback. An ongoing objective of our engagement with the PRI is to increase dialogue within the investment community around the opportunities for integrating responsible investment in real assets.



Find our PRI Reports, Responsible Investment Policy, and sustainability archives on our website:
www.newforests.com.au/#sustainability



29/30 FOR
"PRI OVERARCHING
APPROACH"



Integrating ESG into Transaction Documentation

New Forests takes a private equity approach to investing in Southeast Asian forestry by acquiring shareholdings in existing forestry companies and businesses that hold forestry concession licences. In these cases New Forests must work with joint venture partners, portfolio companies, and other shareholders to ensure high standards of ESG can be met through the activities of the investee companies. Throughout 2015, New Forests participated in a PRI working group for the development of the LP Responsible Investment DDQ and Accompanying Guidance, a questionnaire and implementation guide intended to support Limited Partners in understanding and evaluating how General Partners integrate material ESG factors into investment practices. The guidance includes case studies of ESG integration in practice in private equity.

New Forests was featured in the Accompanying Guidance for our approach to including ESG-related considerations in transaction structuring, such as through transaction documents and post-investment action plans. The feature focused on how we use structuring and shareholder agreements to ensure that New Forests' certification requirements and management standards are achieved.

As an example, during a recent transaction to acquire a minority interest in a growing Indonesian plantation company, New Forests developed an Environmental & Social Agreement (ESA) that forms part of the Shareholders Agreement and covers implementation of ESG measures. This includes defining an Executive role with board-level representation and charged with oversight of compliance with the ESA and implementation of an Environmental & Social Action Plan (ESAP). The ESA also requires appropriate resourcing for ESG management and compliance, as well as describing remedies in the case of breaches. The ESAP is a living document initially developed from due diligence exercises focusing on gap analysis against the IFC Performance Standards, community appraisals and a land use assessment. This executive role is also responsible for all operational planning and preparation of annual work plans and budgets related to the ESAP. These work plans and budgets require approval by a board member representing each material shareholder, and so provide a regular mechanism to ensure mutual agreement on management of ESG considerations within the core operations of the business.

By developing and negotiating operational controls and third-party certification and standards requirements during deal structuring, New Forests is able to collaborate with portfolio companies and investment partners on ESG management from the start of an investment and ensure operational controls are in place for the life time of the investment.

Excerpt from the PRI LP Responsible Investment DDQ Accompanying Guidance. Available at: http://2xjmlj8428u1a2k5o341m71.wpengine.netdna-cdn.com/wp-content/uploads/PRI-LP-Responsible-Investment-DDQ_accompanying-guidance.pdf

Investing Responsibly



Social and Environmental Management System (SEMS)

Since 2010 New Forests' SEMS has been a cornerstone of the company's approach to responsible investment. The system is designed to identify, manage, and monitor social and environmental issues related to New Forests' investments. New Forests' SEMS also guides the operating companies and property managers we work with to ensure our investments are managed to high social and environmental standards. This is supported, where possible, by the use of third-party certifications and standards under our SEMS certification guidance. We use performance monitoring and a regular system of Management Review to ensure the SEMS stays applicable and relevant.

2015 SEMS PERFORMANCE

SEMS compliance is based upon commitments made in a declaration document for each fund. The declaration documents include both a Certification Policy and Implementation Requirements, which describe the social and environmental management activities required throughout the investment process. Certification Policies are tailored to the geography, risk, and investment mandate of each fund and include targets for certification or accreditation with respect to legal and regulatory requirements, forest certification, third-party protocols or registration systems, and/or the use of performance standards.

Currently, New Forests has four funds subject to internal SEMS audits: ANZFF, ANZFF2, TAFF, and FCP.⁵ Each year, we conduct an internal audit with the participation of the portfolio management teams for each of the funds. In total the 2015 audits indicated a 99% compliance rating across all of the funds, 1% identified as "working toward compliance," and zero findings of non-compliance. New Forests believes the strong results of the 2015 audits reflect the integration of SEMS requirements into the management of the funds.

New Forests believes the strong results of the 2015 audits reflect the integration of SEMS requirements into the management of the funds.

⁵ EPF does not fall under the SEMS as it pre-dates the SEMS and the fund is not wholly managed by New Forests.



Third-party Certification and Standards

Forest certification and other third-party certification schemes are important tools for responsible management of forests and other real assets. In addition to providing standards, reputable 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. In this section we provide a summary of the types of certification schemes and standards we currently apply to our investments and how we work to support these standards in their application, relevance to our investments, and general promotion of best practices.

FOREST CERTIFICATION

Forest certification schemes are vital for demonstrating good forest stewardship and are important tools for investors, forestry asset managers, and forestry companies. New Forests uses the Forest Stewardship Council⁶ (FSC) and some standards endorsed by the Programme for the Endorsement of Forest Certification⁷ (PEFC), such as the Australian Forestry Standard (AFS). In 2015 New Forests' investments included more than 473,000 hectares of certified timber plantations.

The FSC system offers an internationally recognised, third-party certification of responsible forest management, and the standards can be used as risk management tools. We have adopted FSC certification as a target across our forestry investment funds. We also use the FSC standard as a due diligence tool for assessing ESG risks and capacity when exploring possible investments. New Forests is committed to supporting and improving the FSC through active membership, including engaging with other FSC members and FSC-convened working groups. Key issues of concern to New Forests include the ongoing development of an Australian national standard and ensuring that as the FSC system continues to evolve, the standards continue to support a variety of sustainable forestry investments across responsibly managed plantations.

473,000

HECTARES OF CERTIFIED TIMBER PLANTATIONS



Certification Status of Forestry Investments by Fund

	FSC	PEFC	Notes
ANZFF			
Forestry Investment Trust	✓	✓	Core forestry regions included in FSC and PEFC certificates
Taswood Estate	✓	✓	
Border Plantations	✓	✓	
Penola Plantations	✓	✓	
ANZFF2			
Limestone Plantations	✓	✓	
Forico	✓	✓	
Wairarapa Estate			In progress toward FSC certification
Taupo Estate			In progress toward FSC certification
TAFF			
Hijauan Bengkoka Plantations/ Acacia Forest Industries	✓		
Hutan Ketapang Industri			Investment made December 2015 with target FSC and/or PEFC certification

✓ Partially Certified

✓ Fully Certified

⁶ See <https://ic.fsc.org/> for more information.

⁷ See <http://www.pefc.org/> for more information.

Investing Responsibly



Forico Awarded FSC® Certification

Forico is Tasmania's largest private forestry business and was launched in September 2014 to manage a large forestry estate acquired by the New Forests Australia New Zealand Forest Fund 2 (ANZFF2) and co-investors. In November 2015, Forico was awarded FSC Forest Management Certification covering almost 180,000 hectares of plantation and natural forest under Forico management control. The certificate includes the management and harvest of around 100,000 hectares of plantation, which is mostly *Eucalyptus nitens*. The primary market for Forico's plantation product is hardwood wood fibre export to Asian markets, and the FSC certificate is an important component of marketing for the business. The certification milestone was achieved less than 15 months after the launch of the Forico business, requiring a dedicated work plan and extensive stakeholder engagement.

Bryan Hayes, Forico CEO stated, "This certification has required more than a year of hard work, including updated forest management planning and improved operational practices, and is testament to our people and the very high standards of forest management we aspire to achieve as we build our plantation based wood fibre business in Tasmania."

The Forico website contains extensive information about the company's certification and community programs.

To learn more visit:

<http://forico.com.au/community-and-sustainability>

IFC PERFORMANCE STANDARDS

The IFC Performance Standards (IFC PS) form an international benchmark for identifying and managing social and environmental risks and impacts, and are designed to help avoid, mitigate, and manage risks and impacts as part of sustainable business. New Forests uses the IFC PS as a component of our social and environmental 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 and for high-risk infrastructure or processing assets. Together, the IFC PS cover all major areas of social and environmental management that can be material for investment risk and asset performance. In 2015, New Forests engaged with our development finance institution clients in the Tropical Asia Forest Fund to apply the IFC PS in due diligence activities for the fund.

ENVIRONMENTAL 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. Where New Forests invests under a regulated regime, we work to achieve compliance with all the social and environmental requirements as defined under the prevailing regulatory framework in addition to the technical framework.

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, wetlands, stream, and nutrient banks under US mitigation banking rules, and water trading under government schemes in Australia. New Forests also manages the Malua Biobank, which is a conservation finance investment targeting biodiversity habitat restoration in Southeast Asia. As there is no applicable standard, the project is managed to a Conservation Management Plan with oversight by an Advisory Committee composed of NGO and academic specialists.

ESG Management and Impacts



New Forests uses impact reporting to monitor and disclose the results of our efforts to achieve net positive social and environmental outcomes alongside economic returns. Quantified impact metrics allow for standardisation in reporting on ESG aspects of our investments and enable greater transparency.

New Forests has identified a set of impact metrics using the Impact Reporting & Investment Standards (IRIS) developed and managed by the Global Impact Investing Network (GIIN). The metrics were selected for their relevance to material social and environmental impacts of New Forests' investments. We are continuing to assess how the metrics we use can support goals and monitoring in our Sustainable Landscape Investment approach.

New Forests wants ESG disclosures to be useful and relevant for our stakeholders, and so we present them both at an aggregate level – combining all of New Forests' funds under management – as well as at the level of each fund, allowing investors to monitor the funds' impacts directly. We also provide context to describe the relevance of each indicator and the underlying social and environmental issues to which they relate. We feel this combination of impact

measurement and description helps communicate the impact of our investments and how they are managed for sustainable outcomes for the environment and society.

In total, New Forests' investments encompass more than 765,000 hectares of forests and land in Australia, New Zealand, Malaysia, Indonesia, and the United States as of 31 December 2015. This includes the full licence, title, fee, or concession area of all investments completed by ANZFF, ANZFF2, TAFF, FCP, and EPF and active in the portfolio at the end of the reporting period. Note that where joint ventures or share cropping agreements are in place, we have included the complete estate. Using IRIS' definitions, we distinguish between directly controlled land, which is typically operated by property managers and portfolio companies, and indirectly controlled land, which may be owned by third parties.

Metric ^a	Metric ID	ANZFF	ANZFF2	TAFF	FCP	EPF	All Funds
Hectares of Land under Direct Control inc. Portfolio Companies and Property Managers							
Cultivated/ Planted Area	OI1674	222,480	112,246	21,612	-	-	356,338
Sustainably Managed	OI6912	304,372	216,162	40,617	-	7,801	568,952
Total Directly Controlled	OI5408	304,372	216,162	40,617	-	7,801	568,952
Hectares of Land under Indirect Control inc. Third-Party Land							
Cultivated/ Planted Area	PI7403	-	7,628	-	-	-	7,628
Sustainably Managed	PI6796	-	7,628	12,061	108,969	-	128,658
Total Indirectly Controlled	PI3789	-	7,628	80,238	108,969	-	128,658
Total Land Managed		304,372	223,790	120,855	108,969	7,801	765,787

^a **Note:** New Forests has reworded the metric names for clarity: the full IRIS Metrics are Land Directly Controlled: Cultivated (OI6714), Land Directly Controlled: Sustainably Managed (OI6912); Land Directly Controlled: Total (OI5408); Land Indirectly Controlled: Cultivated (PI7403); Land Indirectly Controlled: Sustainably Managed (OI6912); and Land Indirectly Controlled: Total (PI3789).

ESG Management and Impacts

Metric	Metric ID	All Funds
Type of Land Area	PD3922	Forest land; Agricultural land; Water areas; Wetland
Conservation Priority Characteristics ⁹	PD9009	Ecology and Habitat: Wilderness; Significant biodiversity; Critical habitat; Wildlife habitat; Land with shared boundaries to existing protected land Public/Human Use: Park, land for community recreation, and access to public lands; Natural or cultural features of outstanding/unique value; Open space; Working lands; Scientific value Ecosystem Services: Land that provides basic ecosystem services in critical situations; Land providing other ecosystem services
Ecosystem Services	PD8494	Provisioning Value/Services: Biological raw materials; Freshwater Regulating Values/Services: Maintenance of air quality; Regulation of climate; Regulation of water timing and flows; Erosion control; Maintenance of soil quality; Pest mitigation; Pollination; Natural hazard mitigation Supporting Values/Services: Habitat, Nutrient cycling; Primary production; Water cycling Cultural Values/Services: Recreation; Educational and inspirational values

We believe understanding this high-level view of overall land management is important context for the discussion throughout the rest of this section of the report. On the following pages, we present metrics that cover the sustainable management of the forests and land in our investments. We use a subset of IRIS' land conservation metrics,¹⁰ which we have selected for their relevance and materiality to our investment programs. Where possible, New Forests uses these metrics

alongside discussion of the six thematic areas of our Sustainable Landscape Investment model. While we are continuing to develop the framework to link ESG metrics and performance to the Sustainable Landscape Investment model, we believe it is important to share the process and approach we apply and where possible to match these with measurable outcomes and related indicators.

⁹ Conservation priority characteristics for each investment are described in detail in the forest management plans (forestry), offset project listing documentation (carbon projects), and mitigation banking instruments (mitigation banks).

¹⁰ See <https://iris.thegiin.org/land-conservation-metrics>



Productivity



New Forests' commitment to productivity is enshrined in our vision of "investing to create productive and sustainable landscapes." In pursuing this vision we look to the efficient, rational, and strategic management of forests and land to bolster the productivity of our investments.

The majority of our assets under management are timber plantations grown on sustainable harvest regimes that provide wood products that might otherwise come from native forests. Timber plantations help alleviate pressure on native ecosystems while sustaining the production of goods. Furthermore, these investments use intensive plantation management that aims to improve plantation yields, forest health, and stability while also taking into account the sustainability of the plantation system.

Within New Forests' timberland investments, 55% of total area is dedicated to plantation production, including nearly 340,000 hectares of eucalyptus, pine, acacia, and rubber trees. Throughout the 2015 reporting period, these plantations produced nearly 3.8 million tonnes of plantation-grown timber for domestic and international markets. Around 95% of this total production was certified to FSC and/or PEFC compliant certification schemes.

The production of forest and agricultural products must continue to increase to meet growing global needs for fibre, fuel, and food. At the same time, the area available for production use is constrained by growing populations, the competing need for conservation of ecosystem services, and the degradation and loss of productive areas through previous exploitation. This means from a landscape perspective, we must consider not just how to produce more but how to do so in a manner that avoids degradation of the ecological functions that support production.

Metric	Metric ID	Units	ANZFF	ANZFF2	TAFF	All Funds
Units/Volume Sold: Total	PI1263	tonnes timber	2,577,218	982,742	238,392	3,798,352
Units/Volume Sold: Certified	PI7289	tonnes timber	2,384,578	982,742	238,392	3,605,712

95%

CERTIFIED
TIMBER



Productivity

Some examples of productivity initiatives in New Forests' asset management include:



- Improving degraded land and transitioning it back to productive uses, such as forestry and agriculture – TAFF's 2015 investment in Hutan Ketapang Industri will include establishment of plantations on *Imperata* grassland, which is a modified ecosystem with very low productivity and resulting from past deforestation and fire. By establishing new plantations on these degraded areas, the overall productivity of the area can be restored, offering both environmental and commercial benefits.
- Aligning site selection, species selection, and appropriate management regimes – TAFF instigated a strategic shift in one of its investments away from *Acacia mangium*, which was suffering crop losses from *Ceratocystis* fungus, to *Eucalyptus pellita*. This will support intensified and more resilient production over the medium term.
- Genetics and breeding programs for improved output, wood quality, and resilience. In 2015 New Forests worked with TAFF portfolio company Acacia Forest Industries to update tree nursery protocols as the business sought to increase nursery output while simultaneously improving seedling specs. The initial results from this ongoing effort have demonstrated better survival and improved early vigour in the plantation, which should support higher yields.



- Targeting silviculture to improve forest growth, timber quality, and/or specific ecological functions – Improved Forest Management (IFM) carbon projects developed by FCP use modified management strategies to enable greater overall carbon storage, usually from extending rotation ages or modifying harvest schedules. In carbon forestry, this can also produce higher-quality, larger sawlogs while maintaining more carbon in the forest.
- Allocating land to highest and best use with consideration of environmental, social, and economic factors – In 2015 New Forests managed approximately 1,900 hectares of row crops on land that was reverted from plantation forestry back to agriculture as part of the Forestry Investment Trust in order to provide a better long-term production model in areas of lower forestry growth rates or that are too far from timber markets. All reversion of ex-plantation land to agriculture must follow best practice guidelines that include economic and land use planning analysis.
- For non-timberland investments, such as our conservation investments and processing facilities, we also look for productivity opportunities that can sustainably improve the efficiency and operation of the investment, whether for conservation management or timber processing. The case study on the following page describes one such productivity improvement in lumber production at the Timberlink Australia sawmill in Tarpeena, South Australia.





Turning the Heat Up on Energy Efficiency at Timberlink Tarpeena

When plantation *Pinus radiata* trees are harvested and logs cut into boards, more than half of the weight of the timber is water. The majority of the water must be removed for high-value end uses such as timber framing. In Australia, timber is typically dried to about 11% moisture content, and structural Radiata pine is usually dried in kilns at temperatures in excess of 100°C in less than a day. These kilns recirculate air through racks of drying timber, adding heat and venting humidity. Cooling and steaming phases follow the drying process to level out moisture content and alleviate stresses in the wood that are induced by the rapid drying. All Timberlink sawmills use biomass heat plants to provide the heat energy for drying; this equates to roughly 75% of total energy usage on site. The biomass energy is produced from waste products, like sawdust, at the mill.

As part of Timberlink's drive to increase production capacity and decrease its environmental footprint, in September 2015 Timberlink commissioned the largest contra-flow kiln (CFK) in the world at its Tarpeena mill. The kiln is 80 metres long and holds 800 cubic metres of timber at any time. The new CFK operates in a significantly different manner to standard "batch" drying kilns. It allows a continuous process with two tracks of timber to be dried - pushed in opposite directions. As the hot, dry wood exits the kiln, it pre-heats the cold wet wood; steam from the drying process treats the dry wood before it leaves the kiln; and a significant proportion of the

water evaporated from the wood is condensed rather than escaping as vapour. Combined, these reduce the heat consumption per unit volume of timber dried by approximately 30%. In addition, electricity consumption to drive the fans circulating air is decreased by 22% compared to the old batch kilns.

The productivity gains from improved kiln technology were approved as part of capital expenditure improvements to the Tarpeena mill in 2014, with the kiln installed in 2015. The flow on benefits of the improvement include greater product consistency, supporting better product flow and storage on site, and energy savings.

 **30%**
**REDUCTION IN HEAT
USE PER UNIT**

75% 
**BIOMASS POWER
FROM WASTE PRODUCTS**

Land Use Planning

Land use planning refers to the process of analysis and consensus building for the allocation of the use of land in a way that accounts for economic, social, and environmental values.

As New Forests' investments vary in scale from hundreds of hectares to estates of more than 100,000 hectares, we look at land use planning at different scales but with common considerations. Typically, this means taking into account the desirability and suitability for a given land use, such as plantation forestry, agriculture, community use, or conservation management, and considering the economic and social factors that may influence the management or that can be affected by the land use. This requires stakeholder engagement and may involve assessment of current and future stakeholder needs, resolution of land tenure uncertainties or conflicts, and identifying management models that support shared objectives.

There are a variety of tools that New Forests, our property managers, and operating companies use to support land use planning. In particular, we focus on highest and best use analysis to support management decisions while also seeking to integrate conservation management and maintenance of High Conservation Values (HCVs). These tools can guide decision-making and planning for conservation, protection, and restoration alongside commercial investment activities for timber production.

Metric	Metric ID	Units	ANZFF	ANZFF2	TAFF	FCP	EPF	All Funds
Trees Planted	PI4127	hectares	2,831	2,613	1,177	-	29	6,650
Trees Planted: Native Species	PI3848	hectares	539	36	-	-	29	604
Land Reforested with Native Species	PI4907	hectares	118	-	-	-	29	147
Streams under Restoration Management	PI6885	kilometres	25	8	-	1,603	273	1,909
Ecological Restoration Management Area	PI9556	hectares	34,911	573	283	108,969	7,801	152,537
Protected Land Area: Total	PI4716	hectares	39,105	87,782	23,323	108,969	7,801	266,981
Protected Land Area: Permanent	PI3924	hectares	35,115	6,468	1,776	814	7,801	51,974



Partnerships, Collaboration, and Landscape Planning in Australia's Green Triangle

Plantation and land assets managed by New Forests can play an important role in landscape improvement and conservation initiatives. To address this potential as part of collaborative land use planning, New Forests held an inaugural landscape planning workshop with property managers and other key stakeholders in the Green Triangle during September 2015. The purpose of the workshop was to provide a forum for discussing and agreeing to priority conservation and stewardship projects across the properties within New Forests' managed investments in the Green Triangle region. The workshop reviewed existing landscape improvement initiatives and defined a pathway to improve outcomes, strengthen partnerships, and maximise benefits to the environment and community through a collaborative and coordinated approach to landscape planning in the Green Triangle.

The workshop included representatives from New Forests' operations team, each of the property management firms responsible for New Forests' assets in the region, the non-profit organisation Greening Australia, and the Glenelg Hopkins Catchment Management Authority (GHCMA), an agency responsible for the planning and implementation of strategies to protect and enhance the health of the region's biodiversity, soils, and land.

The workshop identified biodiversity, threatened species, and HCVs on private plantation land as important priorities for contributing to catchment objectives. New Forests has committed to provide the GHCMA with information relating to HCVs identified on land we manage. This information will improve regional datasets and assist with identifying priority areas for remnant vegetation enhancement and wildlife corridor planning.

New Forests will continue to host an annual workshop to maintain focus on aligning objectives, creating shared value across assets, and ensuring information sharing enables complementary initiatives to maximise conservation efforts across all portfolio assets. The next challenge is to develop measurable targets to translate the ongoing conservation work into a metric that demonstrates our contribution towards the broader landscape objectives. This work strengthens New Forests' shared value philosophy and ensures this vision is integrated through all levels of our investments including at the operational asset level.

Land Use Planning

Highest and Best Use

Professional forestry investment has increasingly adopted an approach to highest and best use (HBU) management that recognises that forestry may not always be the most economically beneficial use of land. In New Forests' Australian hardwood plantations, HBU analysis is used in determining a core forestry estate versus areas where we believe plantation forestry is not the best use of the land, based on a combination of economic, social, and environmental factors. HBU analysis supports larger landscape objectives by allowing for the allocation of land to the best use. In the past, application of HBU in forestry may have led to the decision to sell off or fragment parts of larger forestry holdings. However, HBU in the context of Sustainable Landscape Investment and broader land use planning requires the consideration of HBU as one factor alongside others that incorporate ecosystem services, community needs, and long-term objectives for both production and conservation across a landscape.

Conservation, Protection, and Restoration

There are approximately 267,000 hectares of protected area managed across New Forests' investments. This represents more than one-third of the entire land estate associated with our investments programs. New Forests makes a distinction between areas that are informally protected based on current management regimes and those that can be considered permanently protected based on easements, covenants, or regulatory restrictions and/or requirements. The status of conservation areas can vary depending on the type of area, the management objectives, legal requirements, and long-term land use opportunities. Protected area status also depends on the management strategies in place and local context. In some cases, ecological restoration activities are undertaken to improve ecosystem health and function, particularly for conservation investments where the primary focus of investment is to generate ecosystem services and restore natural ecosystems.

The HCV approach¹¹ is an important tool for responsible land management and is a key component of some leading sustainability standards schemes. The HCV approach was developed by the Forest Stewardship Council and assesses biological, ecological, social, and cultural values across six HCV types, covering a range of conservation priorities. Through the approach, outstanding or significant HCVs can be identified, managed, and monitored such that the HCVs are maintained or enhanced. In our forestry investments, HCVs are incorporated within forest management plans developed by property managers and portfolio companies. HCV areas are an important focus for maintaining and enhancing biodiversity values alongside commercial plantation forestry.



In New Forests' Australian and New Zealand estates, the area included in our protected area metric includes HCV areas identified and managed as part of FSC certification requirements as well as remnant vegetation areas. This is owing to requirements to manage these areas for the maintenance and promotion of HCVs and/or restrictions on the ability to use the land for plantation activities. In some cases, HCV areas may be considered permanently protected, particularly if the area is designated as a forest reserve or if there are legislative requirements to maintain the area as a set aside.

The Forico natural forest estate is the largest protected area within New Forests' investments and encompasses 81,314 hectares managed for conservation and biodiversity values. Throughout 2015, Forico worked with a specialist consultant to continue developing procedures and methodologies for monitoring of threatened ecological communities. The business is also working collaboratively with public agencies and non-profits to support local environmental objectives, such as weed eradication and treatment of wildlings, and including the natural forest estate in these initiatives. Although the Forico natural forest estate is not legally permanently protected, it is anticipated to be an important ongoing source of natural forest conservation in Tasmania. The Forico business is committed to maintaining and enhancing the natural forest area and keeping it free from commercial timber harvest.



267,000

HECTARES OF PROTECTED AREAS

¹¹ See <http://www.hcvnetwork.org>



In Southeast Asia, protected areas in New Forests' investments include government-classified forest reserves as well as long-term conservation areas that are included in HCV maps and operational plans. Since 2008, New Forests has managed the 34,000-hectare Malua Biobank, a class 1 forest reserve, located in Malaysian Borneo. The conservation management plan in place seeks to promote forest restoration and recovery. Also in Borneo, New Forests and our joint venture partner in Hutan Ketapang Industri (HKI) worked throughout 2015 (prior to the investment by TAFF) to define the areas that will be managed for conservation within the overall rubber plantation estate. This was based on high-level HCV analysis that identified more than 22,000 hectares of HCV areas. As operational planning advances, it is anticipated that a further HCV analysis will refine these areas for inclusion in operational maps and management plans. The HKI estate also includes permanent protected areas based on legally required buffer zones of more than 1,700 hectares.



In the United States, our core business is related to conservation investment. Under the regulatory framework for California Carbon Offsets, all forestry projects in our Forest Carbon Partners portfolio incorporate long-term landowner obligations that protect the carbon stocks in the forest area. We have included these areas in this report as protected areas. Two of the FCP projects are located on sites with permanent conservation easements, which create 814 hectares of permanently protected area. The mitigation banks managed as part of the Eco Products Fund likewise are protected under conservation easements and will be managed under long-term stewardship agreements with perpetual conservation objectives.

34%



OF ALL INVESTMENTS BY AREA
ARE MANAGED FOR PROTECTION
AND CONSERVATION





“Zero Deforestation” in Plantation Best Practices

New Forests’ investments via the Tropical Asia Forest Fund have a strict no conversion requirement, which means that investments cannot include activities that either clear natural forest or degrade HCVs.

However, it is not as simple as it may seem to merely agree to leave forests intact. Most Asian forestry concessions today include a mixture of forest and land types, which may range from grasslands and wetlands to primary forest and deep peatlands. In most cases the concessions we consider as potential investment opportunities have been heavily impacted by human influence over decades. For this reason we have to take a clear approach to defining what counts as “forest” as well as using definitions and principles from third-party systems, including the Forest Stewardship Council, the HCV framework, and IFC Performance Standards.

The TAFF equity investment in Hutan Ketapang Industri (HKI) in Indonesia is an example of where we shared best practices in plantation development as we established a partnership with the existing parent company and counterparty, Sampoerna Agro. As Sampoerna Agro and New Forests were both committed to improving environmental outcomes, we approached this through transparency, information sharing, and using governance tools to support better outcomes.

Early on in structuring the transaction TAFF and Sampoerna Agro agreed to a set of criteria for determining and agreeing to the net plantable area in the concession, which were based on the rules of third-party sustainability systems, social and environmental criteria, and technical feasibility.

An expert analysis was commissioned and used both satellite analysis and field survey to develop a concession-wide map, demarcating forest types and HCV areas and also overlaying village and customary use areas. Ultimately, this map supported the agreed net plantable area that provided the basis for further negotiations. The resulting concession plan includes a mosaic land use system of more than 100,000 hectares, comprising areas intended for productive rubber plantation estate, conservation management, and community use, including villages and community forestry areas.

As part of TAFF’s investment, the HCV areas and several forest types were included in conservation set asides, which will ensure that the zero deforestation goal is mapped and included into operational planning. TAFF’s shareholder rights include the ability to develop environmental markets projects through HKI on the conservation areas. In this way, TAFF has positioned the HKI investment to comply with current best practice in zero deforestation as well as to have the possibility to develop revenue streams that will support ongoing management of conservation areas.

20,000+

HECTARES OF HCV



Ecosystem Services

Ecosystems are the natural infrastructure that provides the goods and services that sustain life on our planet—productive soils, freshwater, nutrient cycling, climate regulation as well as food, fibre, energy, and materials.

New Forests believes that these valuable ecosystem services have been under pressure from development, and frequently represent a form of market failure. For example converting a forested catchment that provides a water supply for millions of urban people to grazing use may provide local landowners a small incremental benefit, but at the cost of many times that amount to the water users. There is now an increasing recognition that market-based or price-based instruments will be a key part of supporting the conservation management of natural ecosystems such as forests. However, the pricing of such services is still emerging. In this section of our sustainability report, we focus on two key areas of ecosystem services that we believe are important material considerations across our investment programs: carbon and biodiversity. We seek to describe the importance of these ecosystem services in our asset management and how we position them to support better investment performance and long-term value.

Carbon Storage and Sequestration

New Forests' business addresses climate change impacts both directly and indirectly in each of our investment strategies. We have been active proponents of the inclusion of forestry-based activities in the response to climate change, advocating at policy levels ranging from state, to federal, to international. Beyond that, our investments have positive impacts on terrestrial carbon sequestration and storage, which is essential for mitigating climate change and can present opportunities for future adaptation. New Forests views our climate change impact as being two-fold. First, the storage and sequestration of carbon in the forests we manage as timberland investments make a contribution to reducing net greenhouse gas emissions. Second, forestry is increasingly seen as a key sector to replace fossil-based energy, fuels, and chemicals via bioenergy, biofuels, bio-plastics, and bio-materials. In the following sections, we explore how our investments contribute to climate change mitigation and describe the carbon impacts of our investments over 2015.



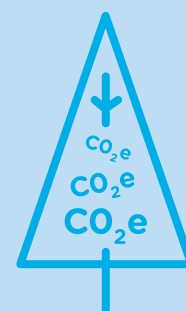
CARBON STORAGE IN PLANTATIONS

Carbon is sequestered in plantations as trees grow and long-term storage benefits accrue both in the plantation and in harvested wood products. In 2014 we made our first public disclosure of the estimate of carbon stored in our plantation forest investments. Our reporting is based on calculations of the carbon

stock in the plantations, and we have used conservative assumptions using plantation estate models; for example, we have excluded remnant vegetation, native forest conservation areas, and residual biomass on site. In this way, the values are a conservative estimate of the cumulative carbon storage of each plantation's managed productive area. This approach provides only a "standing stock" assessment of the amount of accumulated carbon in the above and below ground biomass of plantation trees across our ANZFF, ANZFF2, and TAFF investments. In 2015, we find that plantations managed by New Forests stored 90 million tonnes of carbon dioxide equivalent (tCO₂e).

It is important to note that we have not included the carbon storage benefits of harvested wood products, which can keep carbon stored in products like paper, packaging, timbers, and furniture over years or decades. In fact harvested wood products provide significant net positive carbon storage over the life of a long-term forestry investment. This is because a harvest is not a full "emission" of the stored carbon, but rather a portion is transferred into the wood products, and the subsequent re-plant or regeneration of the forest also sequesters and stores additional carbon, in a net positive cycle. Under the approach applied for our 2015 calculations, harvested areas are essentially taken as a complete emission, which results in a lower calculation for total carbon storage and lowers the calculated net carbon flow.

90 million
tonnes
OF CO₂e STORED
IN PLANTATION
FORESTS



Ecosystem Services

As we continue to develop our plantation carbon accounting, we aim to include harvested wood products to better reflect the positive climate impact of responsibly managed forests. We anticipate that over time this will demonstrate net carbon benefits from the management of our plantations; however, factors such as disposition of assets, rationalisation of land use, and changes in management regimes for better long-term outcomes may all affect the carbon stock in the investments.

Overall, plantation forestry is a climate-friendly activity – provided that plantations do not replace natural forests. The plantations included in our carbon calculations provide renewable fibre sources for use across industries, including construction, pulp and paper, furniture, and emerging bio-economy uses.

CARBON SEQUESTRATION AND STORAGE IN NEW FORESTS' TIMBER INVESTMENTS

Fund	2014 MtCO ₂ e in Plantation Biomass	2015 MtCO ₂ e in Plantation Biomass	One-year Change	Notes
ANZFF ¹²	61.2	60.4	-1.3%	There is a small net decrease in the biomass carbon at the fund level, which is predominantly caused by the accounting methodology for harvests. ¹³ During this time, the large softwood assets of Penola Plantations and Taswood Estate had ongoing mature harvests as did the Forestry Investment Trust. In particular the Taswood Estate has been harvesting a mature crop from a forestry right, which has high carbon stock and is not included in calculations for replant carbon as the forestry right ends with harvest. Carbon increases were seen for FIT due to growth increments but largely offset by increase in harvesting as the estate matures. Border Plantations saw a large net carbon increase as area was handed back from lessees.
ANZFF2 ¹⁴	27.6	28.8	4.3%	There was an increase in total standing carbon stock in ANZFF2 over 2015. Carbon increases were reflected in Forico, Limestone Plantations, Wairarapa Estate, and the acquisition of Taupo Estate.
TAFF ¹⁵	1.6	1.3	-16.8%	TAFF experienced a net carbon loss in standing biomass, with Hijauan Bengkoka Plantations continuing to harvest the remainder of its plantation tree crop. Acacia Forest Industries (AFI) has been replanting this area, and the second rotation is maturing, which has resulted in a modest net sequestration of 41,991 tCO ₂ e during 2015 at AFI. The net change for AFI is somewhat lower than might have been expected due to revised yield tables in 2015.
All Plantation Investments	90.5	90.6	0.1%	

¹² Includes all of FIT and Penola Plantations, which are managed by New Forests with investments by ANZFF and co-investors. ANZFF owns 27% of FIT and 38.4% of Penola Plantations.

¹³ Given that the 2014 estimate did not allow for harvest between 30 June and 31 December, and the 2015 estimate does account for harvesting up to 31 December, the impact due to harvesting represents 18 months of harvest. During this period we have seen a substantial increase in harvest operations.

¹⁴ Includes all of Forico, which is managed by New Forests with investments by ANZFF2 and co-investors. ANZFF2 owns 64.6% of Forico.

¹⁵ Does not include Hutan Ketapang Industri investment due to timing of acquisition in mid December 2015.



FOREST CARBON OFFSET PROJECTS

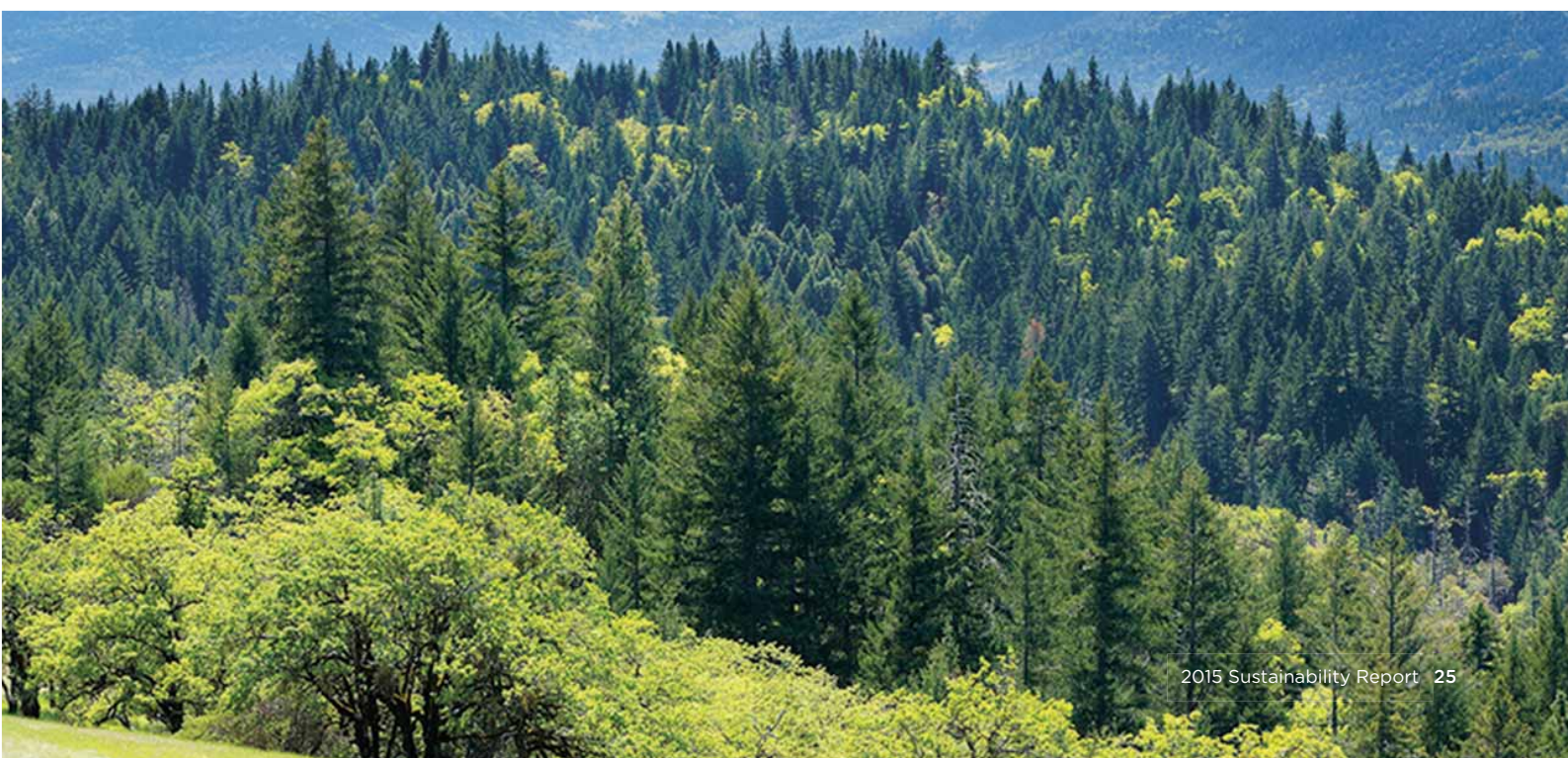
In forest carbon offset projects, carbon benefits are verified and sold to help businesses meet emissions reduction goals and/or compliance requirements. New Forests has been active in forest carbon markets since our establishment in 2005. All of our current projects are focused on the California carbon market, where the regulatory framework and market conditions support private investment in carbon offsetting activities. New Forests also monitors and engages with climate policy issues in Australia and New Zealand, where government-run carbon markets can include forestry activities, and there is potential scope for our plantation estate to be managed jointly for timber and carbon values. In Southeast Asia we consider voluntary carbon markets where they may complement plantation management.

Forest Carbon Partners invests in the development of carbon offsets for the California carbon market. In addition to providing quantifiable carbon abatement, the projects financed through FCP provide co-benefits to landowners and local communities. To date the program has entered agreements with Native American tribes, family forest owners, land trusts, industrial timberland owners, a university, and recreational clubs. During the reporting period, FCP achieved its second phase target of working with landowners on 100,000 acres of North American forests. In fact by the end of 2015, the program included a dozen projects with nearly 270,000 acres of forests (108,969 hectares) in four states. FCP is one of the leading providers of California Carbon Offsets to the market, and New Forests via FCP and the Eco Products Fund has sold more than 3.5 million tonnes of ARBOCs (California Air Resources Board Offset Credits).

FOREST CARBON PARTNERS

12 PROJECTS

270,000
ACRES OF TIMBERLAND



Ecosystem Services

Biodiversity and Wildlife

The maintenance of biodiversity is an important consideration in managing forests and conservation investments. Our business involves managing a wide range of natural and semi-natural ecosystems through to intensively managed plantation systems. As our investments are located in geographically and biologically diverse areas, our operational activities have a range of possible biodiversity impacts. Biodiversity management is explicitly included within all the third-party certification schemes and standards used by New Forests, including forest certification standards, the IFC PS, and the regulations for mitigation banking and carbon offsets. The principles, criteria, and requirements of these systems form a minimum standard for managing biodiversity across our investments.

We are committed to minimising and avoiding any adverse wildlife impacts, and one of the more tangible facets of biodiversity in our investments is the wildlife habitat that can be found within the plantations and land that we manage. A biodiversity assessment has been completed for every plantation investment in New Forests' funds. Once species are identified, responsible managers should seek to implement monitoring procedures, particularly where this can help improve understanding of the impacts of operations on species behaviour and habitat use. We look for opportunities to manage plantations and conservation areas for improved wildlife habitat and to support species conservation initiatives. New Forests also works with property managers and portfolio companies to improve wildlife habitat on our estate as part of an integrated landscape of conservation and production.

Examples of biodiversity and wildlife projects undertaken on plantation investments in 2015 include:



- Supporting a research study into the impacts of plantation management on the health and behaviour of koalas. The study undertaken in partnership with other companies in the forest industry was conducted by an independent ecologist. The study used a comparison of plantation harvest sites and control sites (no harvest) to examine five key indices of health (mortality, injuries, body weight changes, reproductive rates, and chlamydial disease). Overall, the results of the study were positive and indicate that, under the circumstances of the study, harvesting did not have any detectable impacts on koala health.

- A study of wedge-tailed eagle ecology has commenced in association with the Taswood Estate. The project has so far focused on an active nesting site within the estate and is using a new approach to capture photographs for monitoring the nests. Image captures show two surviving chicks, which is believed to be atypical for the species as usually only the larger chick survives to fledge.
- Use of camera traps at Limestone Plantations to support the Basalt to Bay Landcare Group's program for fox control and wildlife monitoring.
- A bird habitat and species diversity study was completed at the Forestry Investment Trust's Green Triangle area plantations to understand how different habitats may relate to avian species diversity.
- Ongoing camera trap monitoring of a resident sun bear population at Acacia Forest Industries in the Bengkoka peninsula to help inform future research regarding the behaviour of sun bears in and around the plantation and forest reserve.



Wildlife management and research activities like those above require support from the local property managers together with other stakeholders, such as government, non-profits, researchers, and other businesses. New Forests believes these types of collaborations are important components of ensuring forest management and timber production help support regional conservation goals and advance a movement toward net positive biodiversity impacts.



Plantations as Habitat for Diverse Bird Life

The Forestry Investment Trust (FIT) is the largest freehold eucalyptus plantation on mainland Australia and includes more than 500 properties. The estate is located in a mosaic of land use that includes farmland, plantation forestry, and native forests. In this context, it can be difficult to understand how plantation forests affect biodiversity, in an overall landscape that includes both modified and natural habitats.

To help understand how the FIT may contribute to bird habitat, property manager PF Olsen (Australia) Ltd partnered with BirdLife Australia to survey avian diversity in and around the FIT plantations of the Green Triangle region. The objective was to understand what bird species are found across the plantations, how plantation bird communities differ to those in native forests, and how plantations support bird diversity in the Green Triangle. This included surveys to identify and count bird species on transects in plantation and remnant vegetation. 135 surveys were completed in late 2015 by volunteer observers who were trained and supervised by staff from BirdLife Australia. A total of 75 bird species was recorded, totalling 2221 individuals. Of these, 61 bird species were observed in plantations, 17 of which were not recorded in native forests during the survey period. Many of these species are open country bird species and are able to take advantage of the open ground of younger plantations. In the native vegetation remnants, 58 bird species were observed, with 11 found only in these remnants. These species were generally woodland specialists, requiring habitat structure not available within plantation areas.

Importantly, the overall diversity index was found to be higher for the combined plantation and remnant area than for either native vegetation remnant or plantation area alone.

While full analysis of the study results is ongoing, New Forests hopes that research-based information and data about biodiversity will support continual improvement in plantation management by helping us to understand the potential of plantation as habitat. This study was a pilot to explore using volunteers to count birds and provide an objective assessment of the contribution that eucalypt plantations are making to biodiversity in the broader landscape. Depending on the outcomes of this pilot survey, the intention is to broaden the survey over the next four years and explore the change in diversity over time. An initial finding was that by integrating remnant vegetation within the blue gum plantations there is an increase in the possible birds that will use plantation habitat and that plantations are usable habitat for a range of species. New Forests thanks BirdLife Australia and PF Olsen for designing and implementing this study.

Shared Prosperity

Well-managed investments in forestry offer potential to benefit rural economies and align with the development objectives of local communities. However, there is also a range of issues of concern to local communities that must be managed when investing in forestry and conservation.

While the concept of shared prosperity most often refers to the role of equality within economic growth, as investors in real assets we mainly contribute through responsible business practices. For example, investments can provide stable regional economic development that supports local employment, addresses land tenure issues, generates multiple benefits for multiple users, and enables positive development outcomes for local communities. In these ways we aim for our operating investments to be a source of shared prosperity.

Employment

Forestry investments can directly support shared prosperity through growth in industry and employment. New Forests finds that in almost all cases there is opportunity to improve safe workplace practices and to develop a workforce able to support a growing and increasingly innovative forest industry. The table below reports on employment related to the operational management of our investments and does not include New Forests' staff. In total more than 2,300 individuals were involved in the forestry and conservation operations of our investments in 2015.

Of these, 58 full time equivalents were dedicated specifically to social and environmental management. Our portfolio companies and property managers also wish to reinforce that in addition to dedicated staff, the majority of operational roles involve activities that support social and environment outcomes.

In the figures below, permanent employees include all direct employees of portfolio companies and the employees of third-party managers who are contracted directly by fund-owned vehicles. Contract employees are those hired by portfolio companies and third-party managers on a contract basis, representing significant secondary employment from our investments with more than 1,300 contract workers. It is important to note that many of these contract workers are in fact permanent employees of other forest-related businesses, such as companies that provide services for land preparation, planting, and timber harvest and haulage.

Metric	Metric ID	Units	ANZFF	ANZFF2	TAFF	FCP ¹⁶	EPF	All Funds
Permanent Employees: Total	OI8869	Individuals	611	76	224	-	19	930
Contract Employees: Total	NFContractors	Individuals	729	255	401 ¹⁷	-	2	1,387
Employees Dedicated to Social and Environmental Performance	OI6370	Full time equivalent	10	6	18	-	21	58

¹⁶ Forest Carbon Partners employs consultants to support carbon project development activities. The management of forestry activities is not included within the scope of the project finance provided by FCP, and so no employment data is included in this report.

¹⁷ Contractor data for Hutan Ketapang Industri was not available.



Shared Value in Tasmania's Forest Supply Chain

Forico employs more than 220 contract workers through long-term relationships with small and medium sized businesses operating in Tasmania. We asked Tasmanian businessman Rob Kerrison to tell us about his company, Orana Enterprises Pty Limited (Orana), and how their work with Forico affects their goals and business strategy. Orana is a harvest and haulage business, which provides services to harvest and transport Forico plantation wood fibre products within the supply chain.

Tell us about your experience in forest industry in Tasmania.

I started contracting for Associated Pulp and Paper Mills (APPM) in 1986 and have worked for related entities since that time including North Forest Products, Gunns Limited, then Gunns Limited (in Receivership), and now Forico. In addition Orana has held contracts with other forest managers in Tasmania including Norske Skog, Forestry Tasmania, and Forest Enterprises Australia.

Do you think your business strategy has changed in the time since Forico's launch in late 2014?

Our business with Forico has grown from 75,000 tonnes per annum on short-term agreements to over 400,000 tonnes per annum on long-term contracts. Our business strategy has changed enormously, which is the result of our confidence in Forico and New Forests. The long-term contracts that we have with Forico are highly valued and give us the ability to invest with a new level of confidence. Investment in human resources, training, machinery and equipment has increased 10-fold in the past three years.

What have long-term business contracts and continuity in work flow meant for your business?

Long-term contracts and continuity of work engender confidence in our company and Forico. These are the catalysts for investment and growth, which are reflected in the whole business community in which we operate. We regularly receive very positive comments on the way Forico conduct themselves in all facets of their business enterprise.

Can you tell us about the types of skill sets and experience you've sought in order to expand your business and workforce?

We've expanded our human resources by the utilisation of various external contract training providers and health and safety personnel, particularly from the Australian Forest Contractors Association.



This is the first time during my forestry career that I have had the confidence to take family members from other successful careers and invest their future in the new plantation industry. It would give me no greater pleasure than to see some of our grandchildren also enter our business in the future.

Rob Kerrison, Owner, Orana

We have also been successful in attracting many people from the mining industry that have had the confidence in the business models of the Orana group and Forico, as well as the long-term outlook for the plantation timber industry to enter or return to the industry. Our greatest asset is highly motivated people who feel that they are working with you not for you. Most of our staff is multi-skilled with their skills covering operation of feller bunchers, skidders, forwarders, infield or roadside processing, landing and roading construction, log loading, log truck driving, and heavy equipment transport. The use of multi-skilled employees means that they have an understanding of the next person's role and ensures a much better performance from the whole business.

What do you think the outlook is for the role of forestry in the broader economy and communities of Northern Tasmania?

Orana is full of confidence in Forico and New Forests' long-term approach to the industry and the business partnerships they foster; as opposed to previous relationships, which were clearly based on the model of company versus contractor. Forico's approach replicates Orana's commitment to being intensely loyal and inclusive in business relationships and willing to find common ground in all areas.

Shared Prosperity

Local Community Development

Local communities, the people who live in and near the assets we manage, are key stakeholders in our business, because they may be employees, have traditional rights or uses of forestry areas, or be affected by operations like timber harvest, truck traffic, or pesticide usage. Communities may also be downstream water users or have dependencies on infrastructure and ecosystem services provided by our investments. Social considerations are identified and managed within all of our investments. Beginning with due diligence, we seek to identify potential or current social issues that may require risk mitigation or special attention in investment structuring and asset management. After we make an investment and throughout our ownership of an investment, New Forests seeks to support positive social outcomes for communities and other stakeholders. While our investment strategies may have very different types of social impacts, we find engaging with local communities to be one of the most important management factors in all of our investment strategies.

We announced the acquisition of rights to a Radiata pine plantation on Maori-owned land near Lake Taupo, New Zealand. The purchase of the forestry right helped the landowner, Hautu-Rangipo Whenua Limited, to re-acquire traditional ancestral lands.



New Forests is now one of the largest timberland managers in Australia with more than 540,000 hectares of land and plantations under the ownership of investment trusts managed by New Forests. This makes New Forests a significant participant in several regional economies, and New Forests' management activities contribute to local employment, infrastructure, land taxes for local governments, and even innovation, research, and small business opportunities. Community engagement activities are principally undertaken by our third-party property managers and overseen by New Forests. These activities ensure our management is transparent and that appropriate disclosures are made in a timely and accessible manner.

As New Forests has extensive operations across Australia, we encounter a variety of sustainability issues that are of high importance and impact for regional Australian communities, such as stable employment opportunities, land and food security, and the economic health of rural Australian communities. By undertaking high-quality forest management, we provide services such as pest and weed control, fire risk reduction, and fire management that promote environmental health and support regional safety and community objectives. These activities are well aligned with achieving positive forestry outcomes as well as being a good neighbour.

Via the ANZFF2 investment program, New Forests has expanded its footprint in New Zealand to around 12,000 hectares, and this growth has provided opportunities for shared prosperity. In June 2015, ANZFF2 entered into a forestry right agreement with a Maori corporation known as Hautu-Rangipo Whenua Limited (HRWL) for the rights to 4,000 hectares of timber plantation in the Central North Island of New Zealand. The pine plantation is located within a larger 8,500 hectare property that was purchased by HRWL as part of a deferred settlement process, which enables Maori groups to acquire traditional ancestral lands from the New Zealand government. HRWL is a newly formed Tūwharetoa Limited Partnership that was established to purchase the forests and underlying land from the government. Tūwharetoa is a Maori tribe, also known as an iwi, whose traditional lands extend throughout the central North Island of New Zealand.

To learn more about how ANZFF2's investment supports HRWL objectives, see page 31.



Shared Prosperity in Action – Plantation Forestry Helps Support Maori Land Management Goals

New Forests was honoured to partner with HRWL to enable the buy-and-lease back approach that supported the return of iwi land. Under this structure, ANZFF2 agreed to purchase the forestry right at the same time as HRWL acquired the land. New Forests spoke with, Geoff Thorp, one of HRWL's Directors to explore how the partnership with New Forests supports HRWL's commercial and social objectives.

Who is HRWL and what is its purpose?

HRWL was established as a vehicle to purchase an 8,500 hectare land block near Turangi. The land became available to Ngati Tūwharetoa to purchase, and given it was not in a position to complete the purchase itself, the tribe appealed to the Tūwharetoa land-owning trusts in the area to seek their interest in contributing to the purchase. Accordingly two Tūwharetoa forest trusts, three Tūwharetoa farm trusts, and the iwi-represented Tūwharetoa Settlement Trust, formed HRWL for the express purpose of purchasing the land. The company could not afford to also purchase the 4,000 hectares of plantations on the land, and so as described entered into an on-sale arrangement with New Forests for a one-rotation forestry right over the timberlands.

What is the role of commercial timberland within the HRWL land?

In addition to the 4,000 hectares of commercial timberland purchased by New Forests, HRWL has leased a further 1,500 hectares of pasture land to its forest trust shareholders, who will plant this land into forestry over the next three years. These same forest trust shareholders will also undertake the replanting of the New Forests ANZFF2 timberlands as they are progressively harvested over the next 30 years. In addition, the land contains around 1,000 hectares of pasture land and around 2,000 hectares of undeveloped lands, primarily natural forest and riverside reserve areas. In the long term, therefore, forestry will be the main commercial use of these lands.

How does the ANZFF2 forestry right support HRWL's commercial objectives?

In addition to the cultural objectives of the land purchase (discussed below), the investment clearly had to stack up financially for the investors. The ANZFF2 forestry right represents the largest lease of the lands by HRWL, both in terms of area and of annual income. This forestry right is a key component of the overall investment, and without it the land purchase could not have happened.

How have collaborations and partnerships, such as working with New Forests and ANZFF2, helped advance HRWL's land re-acquisition and management goals?

HRWL is very pleased to be working with New Forests, who have already established themselves as a professional and reliable partner in this business. While some HRWL partners already have considerable involvement in forestry in this region – the two forest trusts own around 32,000 hectares of timberlands in the area under joint-ventures with the NZ Government – we are pleased to be exposed to some new thinking and approaches to forest management. While HRWL itself does not envisage further expansion of its business, its various shareholding partners do have aspirations to increase their direct involvement in their areas of expertise – be it forestry or farming. We see that working with New Forests will provide further opportunities for mutually beneficial cooperation in a range of forestry-related areas.

How do the economic benefits to HRWL ultimately support the iwi?

A key driver of the formation of HRWL and the purchase of these lands has been to get these ancestral lands back into iwi ownership. The lands have been used as a prison and prison farm for around 100 years, and obviously have been unavailable for iwi access over this period. Given the centuries of iwi 'ownership' and occupation prior to this time, and the strong links that Maori have with their lands – indeed their whole genealogy involves direct linkages to the land itself – there has been a deep-felt pleasure in getting these lands back into Tūwharetoa ownership. The various shareholders in HRWL will get distributions from the leasing of their lands to various lessees, and these in turn will contribute toward both direct distributions to landowners and for iwi-wide benefits. Of these, educational grants will contribute the largest share, but other benefits will include cultural grants, health grants, and assistance for old people.

In addition, the ability for the many constituent Maori-owners of these lands to access the lands for recreational purposes is highly anticipated. The main use will be for hunting (deer and pigs), but a range of other cultural and recreational activities will be undertaken.

Shared Prosperity



Implementing of social and community engagement strategies has been a priority for our Tropical Asia Forest Fund since the fund's inception in June 2012. TAFF is the first fund dedicated to institutional investment in Southeast Asian plantations, and it is no surprise that we continue to encounter a range of social issues when considering investments. Many tropical timber plantations have indigenous and local communities living in or near them. Best practice includes the process of obtaining free, prior and informed consent (FPIC) from affected communities before establishing new plantations and ensuring local communities' rights are respected and upheld where plantation companies are already operating. While the right to FPIC is now well recognised, in practice there are many plantation companies that have not successfully executed FPIC. As New Forests looks to invest, we find that some investments will require retroactive efforts for positive community engagement. New Forests includes detailed legal review of land tenure and stakeholder consultation including with relevant indigenous peoples' groups and NGOs as part of due diligence.

Throughout the due diligence activities of TAFF, we continue to encounter complex social environments that present investment challenges. Some examples include unclear land tenure and unresolved land claims, illegal land appropriation by companies, encroachment into concession areas, poor communication and lack of engagement on behalf of the companies, corruption, and concerns about availability of forest resources for subsistence and commercial use. In New Forests' experience these issues can usually be identified in due diligence with strategies developed to address each issue, but to do so requires time and effort. The TAFF team includes a full-time ESG Manager, and we work together with local non-profits and consultants to address community issues in support of equitable and stable community relations.

We believe these efforts to address legacy problems of plantation establishment and to ensure new plantations are established with proper FPIC procedures are critical to business development goals and promoting shared prosperity. By addressing land tenure, community rights, and objectives, the companies in which we invest can make significant progress to stem inequality and provide sustainable development opportunities.





Stakeholder Engagement in Land Use Planning - Participatory Mapping in Sabah, Malaysia

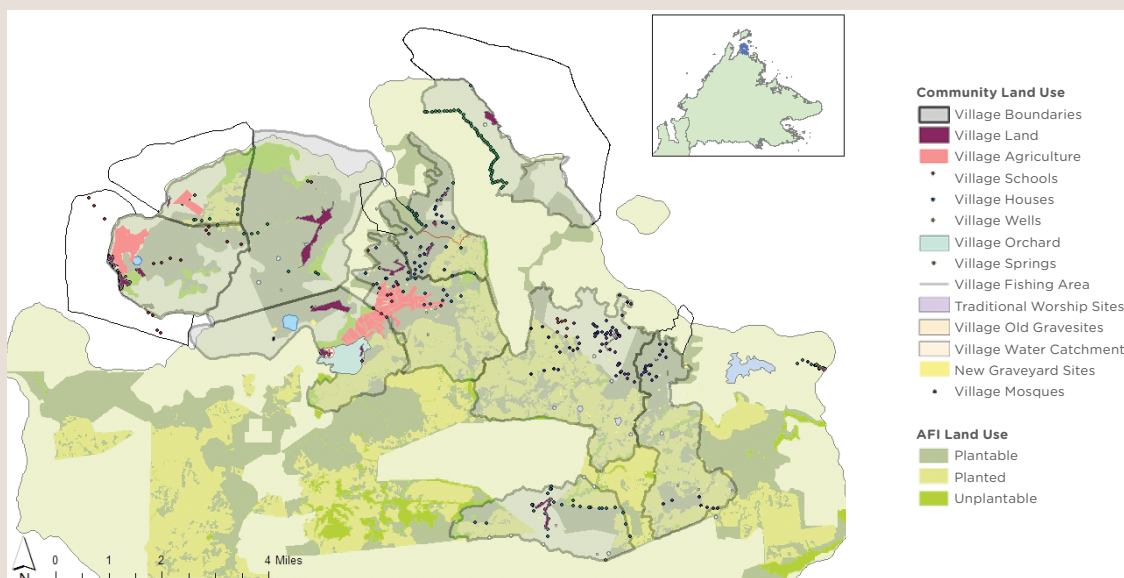
In our 2014 Sustainability Report, New Forests described the first steps of a community engagement program taking place through TAFF's investment in Hijauan Bengkoka Plantations (HBP) and Acacia Forest Industries (AFI) in Sabah, Malaysia. The social baseline study that we introduced in last year's report has now concluded, and the findings have been shared with stakeholders. The study documents the communities' livelihoods, land uses, and how common property resources are controlled and planned.

As of mid-2015, AFI has begun the second phase of community engagement, which moves into more active engagement and will use the findings of the baseline to form a basis for participatory mapping throughout the area. The aim of participatory mapping is to understand where communities perceive their land to be, where they currently have management activities, and where they believe they have the right to future use. AFI is now leading this work as it will be the long-term operating business in the region as HBP's harvest concludes in 2016 and AFI continues to operate the future tree rotations.

AFI teams work with the communities using handheld Global Positioning System devices (GPS) to map their land. The GPS tracks and waypoints are transferred to AFI's Geographical Information System (GIS), and all data is analysed and used to compile maps.

So far one map including several villages has been completed, and the mapping teams have been able to create a map of the communities' land claims at the household level as well as the communities' common property resources. The map below is a simplified version of the participatory mapping outcome for one area, which overlays community-designated areas such as a village boundaries, land, agricultural areas, and cultural sites, with the AFI company plantation data.

While the participatory mapping will continue through the first half of 2016, the process has already produced useful data that has allowed AFI and the communities to understand each others' perceptions of land use and the pressures each are facing. AFI has recognised that as a result of the participatory mapping some land will have to be excised from the plantation, which will support the communities' right to these areas while also providing the plantation company greater security and certainty of their own planned production areas. An additional benefit from community mapping and engagement is the possibility to establish future joint ventures with the communities, which may help a partnership approach to keep a greater area of the concession under productive forestry use. AFI believes the community engagement and mapping programs are establishing a shared appreciation of the goals of the communities as well as the company.





In the United States, mitigation banks and forest carbon offset projects can cover thousands of acres and require consideration of the role of these investments in local communities. The environmental markets projects we undertake and manage in the US must fit within regional land use planning goals and typically provide ongoing benefits to local communities through the provision of important ecosystem services. In some cases, the projects themselves deliver direct benefits by enabling communities to meet wider objectives for recreation, hunting, fishing, non-timber forest products, and other land use.

New Forests' Forest Carbon Partners investment program has continued its focus on partnering with private landowners, non-profits, and Native American tribes to develop forest carbon offset projects on US forestland. One of the key social benefits of FCP is the ability to provide

conservation finance to communities seeking to fund long-term conservation management, secure open space, and protect natural ecosystem services that benefit users and local communities.

Throughout 2015, FCP continued to engage with new landowners to commence carbon offset projects on both private and tribal land and started working with new types of partners, including a college and recreational groups. As the range of project partners expands, FCP is able to support a broader variety of community objectives. Through our partnerships with these individuals, organisations, and communities, the FCP program supports community conservation goals as well as provides access to revenues that support sustainable economic development. Carbon finance provides these partners an important tool for enabling sustainable land management.



The Mescalero Apache Tribe and Forest Carbon Partners

New Forests' forest carbon project finance vehicle, Forest Carbon Partners, is currently implementing a forest carbon offset project with the Mescalero Apache Tribe on over 89,000 hectares (220,000 acres) in New Mexico. This project will sequester more than 2.3 million metric tonnes of carbon dioxide and support the Tribe's economic development plans, including the planned re-opening of the Tribe's forest products mill.

The Mescalero Apache, a sovereign Native American Tribe with more than 3,000 members headquartered in Mescalero, New Mexico, manage over 1,862 square kilometres of their ancestral homeland. Their forest management over decades has created a legacy of

well-stocked ponderosa pine and other conifer stands that support a sustained timber harvest, sustainable harvesting of non-timber forest products, wildlife habitat, ecosystem services, and cultural values.

New Forests' investment in and development of a forest carbon offset project for the California greenhouse gas emissions trading system with the Mescalero Apache is forecast to deliver substantial additional revenue to the Tribe, supporting the Tribe's economic development priorities and continued sustainable management of their forest.

3



NUMBER
OF FCP
PROJECTS IN
PARTNERSHIP
WITH NATIVE
AMERICAN
TRIBES

2.3M

tCO₂e PROJECTED
OVER THE
PROJECT LIFE

1,862 km²

OF ANCESTRAL
MESCALERO
HOMELAND

Governance



New Forests' governance and compliance framework is driven by not only regulatory compliance but by the belief that strong governance creates more valuable businesses. New Forests' governance processes 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 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 responsible investment.

New Forests operates Investment Committees (ICs) and Management Committees (MCs) that are central to the governance of each of our investment funds. Each IC is guided by a fund investment policy and committee charter. The ICs operate via consensus to analyse and debate investment decisions, while providing a forum for active and regular risk management review. The MCs provide oversight of the operational performance of assets by setting asset management priorities, tracking market developments, identifying risk, and approving risk management strategies. By operating dedicated MCs for each region in which we invest, New Forests maintains a strong focus on strategic asset management across the whole portfolio of investments.

New Forests also uses board seats to promote better corporate governance in the operating companies in which we invest and to support better governance of trust-owned assets. Because New Forests' investments include a variety of investment structures, ownership profiles, and risk exposures, we use several mechanisms to address risk management and governance. For example, our operating businesses in Australia and New Zealand are wholly-owned by the investment trusts. In Asia we have so far entered into partnerships where TAFF is a partial shareholder in existing plantation businesses. As at the end of 2015, New Forests' funds were actively invested in six operating-level companies, and eight of our non-executive directors and executive team were active in board positions of those operating companies. These boards present a formal opportunity for directors to engage in the strategic management of the companies, including on key ESG matters, such as health and safety, environmental impact, stakeholder engagement, use of third-party certification, risk, compliance, internal audits, and sustainability-related strategies. In these ways we target corporate governance improvements that help secure the investments and drive business value alongside the biological assets of the investments.



Governance



Cultivating a Culture of Safety and Inclusiveness – Q&A with Timberlink Australia

Health and safety is a personal issue as much as it is a governance concern or risk management priority. To explore what a culture of safety and inclusiveness means for Timberlink Australia, we turned to Corrie Shipton, WHS and Compliance Coordinator for Timberlink Australia's Bell Bay sawmill. Timberlink Australia was established and launched by ANZFF in January 2013 to operate sawmills and a timber sales distribution network.



"I first began working in the timber industry at 17 and in a dedicated safety role at 18. Health and Safety has always been something of great importance to me, which was sparked at a young age when my father, working in the timber industry, sustained an extremely serious injury that affected my whole family greatly and the effects of which still linger physically and mentally. My passion for workplace health and safety developed predominately through getting to know the people who I represented. As I developed working relationships, and ultimately work friendships, my interest in safety became personal. I am very lucky to work for a business whose values align perfectly to my own when it comes to matters of health and safety"

Corrie Shipton, Timberlink Bell Bay WHS and Compliance Coordinator

Q: You've worked with Timberlink Australia since 2014. In your time there, how has the team at Bell Bay worked to develop its safety culture?

A: One of the major changes that the team has made is making safety visual. Safety can sometimes be lost in just recording lag indicators (incidents/accidents). What we have done at Bell Bay is develop a strategy to record the daily activities that we undertake in relation to health and safety and make it prominent by displaying the actions we must undertake, scorecards (to track completion), and also displaying all open corrective actions so that any person on site is able to see what actions are due to be completed in their area. Another way in which we have made safety improvements visible is how we complete actions. If an employee puts in a hazard report, the action remains open until that individual has physically seen the change and signed off that they are satisfied with its completion. The major benefit to this is that people no longer say "there is no point putting in a report, because nothing happens," which is common within large manufacturing facilities. They can see the results and change.

Q: What else has the team made "visible" to the workforce to drive the culture change?

A: Our "Green Room" was created in June 2014 when Heidi Edmiston, Production Manager, joined our team. The Green Room is a communal area where the performance of every aspect of our business is displayed. All production figures and performance as well as upcoming training and area improvement plans are all on display, underneath our motto "Well trained people operating well maintained equipment in a safe environment." Our lead team on site meet in the room daily and follow a set agenda, with safety being the first topic, followed by production results, etc. Everyone is aware of all other areas' safety issues and performance. It has really brought us together as a team.

¹⁸ Department of Agriculture, Australian Government, February 2015. Diversity in Australia's forestry industry workforce. Available at: <http://www.agriculture.gov.au/abares/forestsaustralia/Documents/DvrstyInAustFrstyWrkfr20150220v1.0.0.pdf>



Q: Switching topics a bit, data published by the Australian government in 2015 noted that women made up only 19% of forest industry employees compared with 47% of the general Australian workforce.¹⁸ How do you find the issue of gender equality in the industry?

A: When I first started in timber manufacturing 13 years ago, I was a 17 year old female in a heavy industrial and male dominated environment. It was a hard upbringing, and business wasn't as diverse and open to equality as it is now. I knew that if I was going to be successful in my safety role within the industry, I would have to "earn my stripes" and demonstrate that I could work as hard as every other person. It was a matter of grabbing a shovel and getting dirty alongside everyone else. I learnt how to operate machines with the operators, and soon they respected me and treated me just like one of the work crew. Gender equality has changed so much since those days, and certainly within Timberlink, as I came to the business with solid sawmilling knowledge, and didn't have to start from scratch to earn the trust and respect of the workforce. Trust is the key – it doesn't matter about gender.

Q: A common point of discussion regarding gender equality is the perceived impact on career progression. Do you feel this has or could be an issue for you?

A: Not at all. Having been in safety based roles for most of my career, I have found that I often take on a "nurturing" type of role within the business. I get many people from across site coming to me on a regular basis to ask advice. I think this reflects the trust that I have developed with the people I work with. Safety coordinators in businesses are often very "black and white" and cold in their approach, whereas I have formed a different relationship with the workforce. I feel that this ability provides me with more career progression avenues than a piece of paper from a university.



Risk Management

New Forests believes risk management is central to the long-term success of forestry investment, not just in a sense of compliance but as a driver of performance that can support improved social and environmental outcomes.

It is difficult to determine the direct benefits that come through avoided risks and equally or more difficult to capture the value created in terms of social and environmental impacts. However, we believe risk management is a vital enabler in our Sustainable Landscape Investment model; it can foster more resilient, profitable, and impactful investments.

Our responsible investment approach supports ESG risk management by positioning our investments to capture value from environmental and social solutions rather than being exposed to risks from negative environmental and social impacts.

We also apply a risk management framework to our business that incorporates identification and monitoring of key risk indicators across New Forests' entities and the investments we manage. Key risks are monitored and reported to the Risk and Compliance Committee, which meets every two months. Throughout 2015, New Forests has focused on implementing systems to support continual improvement in our risk management approach. Some of the key activities included:

- Implementing a new company-wide Workplace Health & Safety (WHS) policy and supporting framework, such as WHS risk assessments, registers, and training.
- Commissioning an expert review of corruption and bribery risk exposure across our business and investment programs.
- Continuing to implement and roll out software-based solutions for training, compliance obligations, and risk management.
- Developing an Investment Risk Evaluation Tool, which was implemented across our Australia New Zealand Forest Fund 2, as described below.
- Undertaking a chain of responsibility review of haulage operators across all managed assets in Australia and implementing the review recommendations.



Throughout 2015 New Forests' Australia and New Zealand investments team trialled an Investment Risk Evaluation Tool, which is a standardised template requiring each deal sponsor to evaluate 18 risk categories. For each category, the user rates the inherent and residual likelihood and consequence of an occurrence of each risk type. This generates a risk rating score, which is compared to New Forests' defined risk appetite. The user is required to describe any applicable risk management or mitigation measures that are in place (e.g. our SEMS policy), and where a risk is outside the risk appetite boundary, there is a section to describe necessary further action and steps. This tool allows the investment team to clearly and consistently identify risks and mitigation strategies and to communicate those to the Investment Committee for their consideration in investment decision-making. The output of the Investment Risk Evaluation Tool can also then be used to support the transition to operations and asset management, setting the stage for implementing risk management protocols after investment. In operations, risk management is an ongoing exercise that is integrated directly with strategic asset management.

We believe risk management is a vital enabler in our Sustainable Landscape Investment model; it can foster more resilient, profitable, and impactful investments.



Safeguarding Integrity in Our Investments

New Forests has a longstanding commitment against bribery and corruption. In 2015 this approach was bolstered by the implementation of a dedicated Anti-Corruption Policy, which not only seeks to protect our business, but reflects our duty as corporate citizens. Although estimates vary, there is consensus that the worldwide cost of corruption is significant, with some suggestions that it costs 5% of global GDP. In the forest sector, Transparency International estimates that as much as USD 23 billion in illegal timber is harvested annually at a loss of USD 10 billion in revenue, and that corrupt actors are responsible for USD 29-33 billion in siphoned or lost conservation funding¹⁹

Our stakeholders, including governments, regulators, law enforcement agencies, shareholders, and clients, expect a commitment to ethical business relations, and New Forests' zero tolerance to bribery and corruption is now formally reflected in our Anti-Corruption Policy. Operating with a strict zero tolerance approach requires more than just a policy statement – it takes action, supporting tools and resources, and requires frank scrutiny of our own business and those we do business with. Throughout 2015 New Forests focused on reviewing and improving the procedures and processes we use to implement our anti-corruption and bribery commitment. This included:

- Engaging an expert consultant for targeted review and appraisal of our systems and to support development of the Anti-Corruption Policy and its implementation;

- Roll out of a “whistleblowing” program, Your Call, which enables anyone to report corruption safely, effectively, and if need be, anonymously;
- Conducting a corruption risk assessment, including in-depth interviews with senior management and staff on the front-line in identifying and managing corruption risk; and
- Implementing a software-based gifts and entertainment register for monitoring routine business activities that may pose a risk for bribery and corruption.

In addition to internal work to implement the policy, New Forests' investment programs take a proactive approach to anti-corruption. For example, in high-risk areas we use third-party firms for background checks of all new employees and key counterparty personnel and organisations. As a strategic engagement strategy, we also speak with business partners about our anti-corruption commitment and provide support to portfolio companies to address corruption in their supply chains.

New Forests believes that by formalising and socialising a strong commitment to ethical business – both internally and externally – we can minimise the risk of corruption in our business and investments and promote more effective governance.

yourcall

*If you're concerned about unsafe or dishonest work practices at one of our investments, you can let us know directly at **info@newforests.com.au** or by contacting our confidential independent reporting portal: **www.yourcall.com.au/report** Quote our ID: **NFAM2005***

¹⁹ Transparency International, 2015. See <http://www.transparency.org/topic/detail/forestry> for more information.

Continuing to Make Progress

New Forests is managing a diverse portfolio of assets from extensive timber plantations in Australia, to major timber processing businesses in Timberlink and Forico, to the complex social and environmental issues in Asian plantation development, and through to our program to secure carbon finance and project development for Native American Indian tribes and family landowners. We feel that in many areas we have made a difference and brought a new approach to management that has been of benefit to the communities where we operate but which has also retained focus on the investment returns to our clients. Nevertheless, we want to push ourselves and demonstrate progress against more ambitious goals. In particular with regard to our mission to create shared value for our clients, the environment, and society – this is a continuing challenge and opportunity for our business.

We welcome your feedback and collaboration as we move forward with our goal to further develop our Sustainable Landscape Investment approach with a focus on business, environmental, and social performance.







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