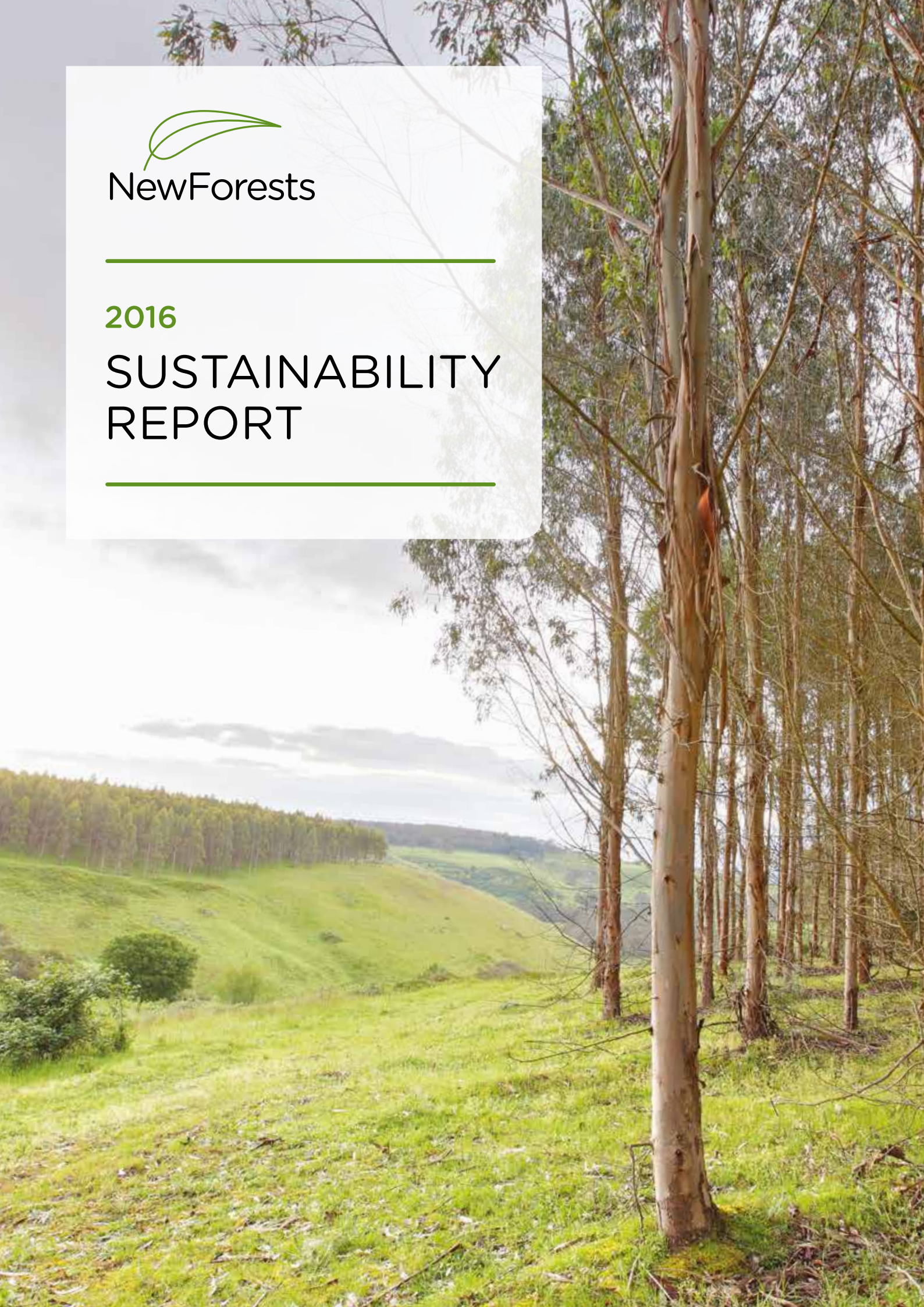




NewForests

2016

SUSTAINABILITY REPORT



Message from the CEO

New Forests continued to expand its investment programs in 2016 and strengthen commitments to operate on a sustainable and responsible basis. In our fifth annual sustainability report we aim to provide transparency in our operations, as well as celebrate our successes and note how we are addressing our challenges.

We now operate forestry investments in six countries, including timber plantations, semi-natural managed forests, conservation areas, timber processing, infrastructure, and even small areas of agriculture. Our aspiration remains to create shared value where our investments generate financial returns alongside solutions to environmental and social challenges. Our report this year continues to tell the story of our business and how we operate, and I hope it not only provides useful information for our clients and stakeholders but also ideas and concepts useful to others.

Political and economic changes in 2016 have created uncertainty in the investment environment. On the one hand the world has made substantial steps forward with the Paris Agreement and commitments to the Sustainable Development Goals. On the other hand we see increasing nationalism and risks of protectionism and barriers to investment and trade. For institutional investors the need to operate transparently and on a sustainable basis is more important than ever.

New Forests remains committed to being a responsible investor and demonstrating our approach through Sustainable Landscape Investment, based on the following themes:

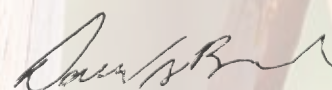
- appropriate land use and **land use planning**;
- improving both the biological and economic **productivity** of our assets;
- ensuring that we support the provision of **ecosystem services** like carbon storage, clean water, and biodiversity conservation;
- implementing good **governance**, including 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

Our report is organised around these themes, and we have tried to provide specific examples of how they translate into on-the-ground performance. In 2016 we have benefitted from positive market conditions across the Asia-Pacific region. With strong markets as tailwinds it is easier to generate positive outcomes in the communities where we invest. However, it is equally important to use those positive circumstances to re-invest in efficiency, new technologies, and skills development so that we will remain competitive even in weaker market conditions.

We see the next step in our sustainability reporting to be moving toward specific, measurable indicators of our Sustainable Landscape Investment approach. New Forests has established a sustainability working group in our company to progress these ideas, and we aim to start reporting against these new metrics in our next sustainability report for 2017. We also look forward to collaborate with our stakeholders and others in identifying and refining these measures.

I hope that you enjoy reading the report. I am proud of and inspired by the work that goes on across our investments by thousands of hardworking people, as well as the engagement and open dialogue that we have with the wide range of stakeholders in our business.

Sincerely,



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

Our aspiration remains to create shared value where our investments generate financial returns alongside solutions to environmental and social challenges.

New Forests 2016 Sustainability Report

New Forests' fifth annual Sustainability Report is intended to provide clients and stakeholders with a transparent view of our approach and goals in operating our business and investment programs in a sustainable and responsible manner.

This report is presented in light of our belief that environmental, social, and governance (ESG) risks, opportunities, and impacts are material to the value of our investments and are relevant for our company's shareholders and clients. We also recognise that the

ESG impacts of our investments are important to other stakeholders, including the people who live in communities that are affected by our investments, the individuals who are employed directly or indirectly by our investment activities, local and national government bodies,

and civil society. This report includes information related to the New Forests group of companies and investments managed during 2016 and builds on information provided in previous annual sustainability reports.

6.3 
MILLION TONNES
OF CERTIFIED TIMBER


3,600
PEOPLE EMPLOYED IN
INVESTMENT OPERATIONS


400,000+
HECTARES OF PLANTATION
FORESTS (NET AREA)

FOREST CARBON PARTNERS
15 
PROJECTS


39%
OF ALL INVESTMENTS
BY AREA ARE MANAGED
FOR PROTECTION AND
CONSERVATION

110 
MILLION TONNES
OF CO₂e STORED IN
PLANTATION FORESTS

TOTAL ASSETS
UNDER MANAGEMENT
 29%
TO AUD 3.6 BILLION


843,000
HECTARES UNDER MANAGEMENT


96%
CERTIFIED TIMBER

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New Forests

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

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

2016 Business Update

New Forests continued to grow its Australia and New Zealand business in 2016, with new acquisitions in both countries and significant increases in timber production for both domestic and export markets. In the United States we began to expand our business to incorporate investments in forestry as well as carbon offsets and made our first acquisition of a portfolio of forestry assets in California. In Asia we continued to expand our plantation development programs in Malaysia, Indonesia, and Laos. New Forests now operates investments in six countries, and manages a range of plantations including pine, eucalyptus, and rubber, as well as semi-natural forestry and carbon offset projects in the United States.

In February 2016, New Forests welcomed Mitsui & Co Ltd (Mitsui) as a new shareholder in the New Forests group of companies. Mitsui's investment in New Forests aims to support the continuing growth of our investment model focusing on forests and sustainable assets. New Forests and Mitsui share a mutual dedication to support a stable, sustainable forest sector and timber supply.



New Forests continued to focus on development of internal resourcing in support of our corporate aim of business excellence. We created and filled two new positions to support these internal business systems, and welcomed a Company Secretary and Human Resources Director. We also made progress in the development and implementation of risk and compliance systems, which must continue to grow with the scale and of our business.

Creation of the Sustainability Working Group

In 2016 New Forests launched a Sustainability Working Group (SWG) to progress our corporate sustainability goals. Internal to New Forests, the SWG is responsible for planning, development, and coordination of New Forests' Sustainable Landscape Investment (SLI) framework and shared value initiatives. The SWG adopted two medium-term goals under its 2016-2020 work plan:

- Benchmark New Forests' sustainability performance and demonstrate that Sustainable Landscape Investment enhances performance; and
- Pursue new business and investment opportunities by creating shared value.

To tackle these ambitious goals, we have brought together a diverse group of New Forests' staff representing a cross section of our business in terms of function and experience ensuring a diverse mix of people from across the company. Specifically in the 2016-17 financial year timeframe the SWG is focusing on the establishment of a new sustainability performance benchmarking tool. We aspire to use this for identification of shared value and ESG impact targets within each fund and investment. New Forests believes this approach will ultimately demonstrate that SLI supports significant value creation in the sustainable assets we manage.

New Forests now operates investments in six countries, and manages a range of plantations including pine, eucalyptus, and rubber, as well as semi-natural forestry and carbon offset projects in the United States.

Our Investment Programs

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

AUSTRALIA AND NEW ZEALAND		AUD 3.4 BILLION ¹
Australia New Zealand Forest Fund (ANZFF)	New Forests' first timberland fund for the ANZ region closed in 2010. The fund is fully invested and comprises a portfolio of more than 330,000 hectares of Australian softwood and hardwood plantations as well as the Timberlink Australia and Timberlink New Zealand sawmilling, sales, and distribution businesses.	Sustainable forestry
Australia New Zealand Forest Fund 2 (ANZFF2)	New Forests' second timberland fund for the ANZ region closed in 2014. The fund neared completion of its investment program in 2016 and has a portfolio of hardwood and softwood assets across more than 235,000 hectares located in Australia and New Zealand as well as the Forico property management business in Tasmania.	Sustainable forestry
Australia New Zealand Forest Fund 3 (ANZFF3)	New Forests' third timberland fund for the ANZ region had a first close in November 2016. The fund made no investments in 2016.	Sustainable forestry
SOUTHEAST ASIA		AUD 144 MILLION ²
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 was fully invested in 2016 with investments in Malaysia and Indonesia, with a gross area of more than 115,000 hectares, and a transaction in the process of completion in Laos.	Sustainable forestry
UNITED STATES		AUD 70 MILLION ³
Eco Products Fund (EPF)	This fund is co-managed with Equator LLC. The fund invested in US-based mitigation banks, forest carbon offset projects, and a biobank in Sabah, Malaysia. EPF activities throughout 2016 focused on the liquidation of the fund's remaining assets. For this reason, the EPF activities are not a focus of this report.	Mitigation banking, Forest carbon
Forest Carbon Partners (FCP)	FCP finances and develops forest carbon offset projects for the California carbon market. FCP works with family, industrial, and tribal landowners across more than 180,000 hectares (440,000 acres) in the continental US and Alaska to create carbon offset projects that deliver real financial value and increase and diversify revenue for timberland owners.	Forest carbon
Carbon Forestry	In September 2016, New Forests acquired a California timberland asset of approximately 2,700 hectares (6,700 acres) on behalf of a separate account client, representing the first acquisition related to New Forests' Carbon Forestry strategy.	Sustainable forestry

In the following sections we provide an overview of New Forests' three regional investment strategies and discuss key business achievements in 2016. New Forests' total assets under management and committed capital increased by 29% from approximately AUD 2.8 billion to AUD 3.6 billion by the end of 2016, largely driven by the capital raise of ANZFF3 but also supported by increased total net asset value over the year.

¹ Net Asset Value and uncalled capital as at 31 December 2016 for ANZFF and ANZFF2 and uncalled capital for ANZFF3.

² Net Asset Value and uncalled capital as at 31 December 2016.

³ Includes Net Asset Value for the Eco Products Fund, Invested Capital of Forest Carbon Partners, and Invested and Committed Capital for Carbon Forestry.



Sustainable Timberland Investment in Australia and New Zealand

Timberland investment in Australia and New Zealand offers access to mature domestic timber markets, exposure to increasing Asian demand for wood products, well-established forestry management systems and infrastructure, and stable, low-risk operating environments. New Forests is the largest timberland investment manager in Australia and is steadily expanding assets under management in New Zealand.

New Forests' investment strategy is to generate superior total returns to investors by establishing a diversified portfolio of timberland properties and timberland related investments in Australia and New Zealand. Our Australia New Zealand Forest Funds (ANZFF series) have exposure to all three key markets in the region, including Australian hardwood (eucalyptus), Australian softwood (pine), and New Zealand softwood (primarily pine). We have also made investments into timber processing and infrastructure facilities in Australia and New Zealand, where these assets have added value or reduced risk for the forestry estate. All assets are managed on an environmentally and socially sustainable basis to enhance returns, improve asset operations, and reduce risk.

New Forests continued investing ANZFF2 in 2016 and completed acquisitions in Australia and New

Zealand. The Australian acquisition comprises 8,000 hectares of pine plantation and land in New South Wales. In New Zealand, ANZFF2 expanded its Wairarapa Estate with the acquisition of additional forestry cutting rights in the North Island. ANZFF2 also settled on the acquisition of two South Island estates.

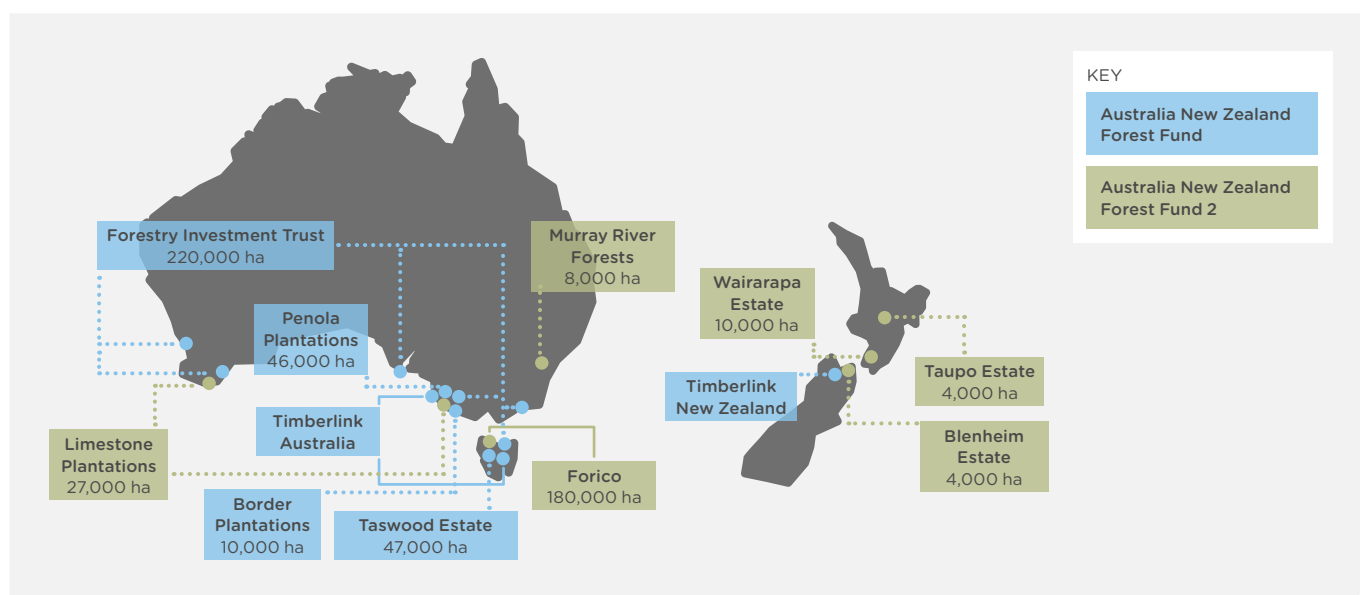
In November 2016, we announced the launch of ANZFF3 as part of our continued commitment to investing in the Australia-New Zealand region. To date the fund has six clients with capital commitments of more than AUD 660 million.

New Forests' investments, operations, and timber marketing teams in the region had a successful operational year, including the following achievements:

- The ANZFF2 portfolio asset Forico successfully completed its planting season with a record

7 million seedlings planted across more than 6,300 hectares.⁴

- Timberlink Australia continued its positive track record in environmental compliance, including receiving a new environmental licence for its Bell Bay site, which was issued with improved conditions as a result of good environmental performance over an extended period.
- The ANZFF2 portfolio brought its New Zealand assets into FSC® certification, with the Taupo Estate and Wairarapa Estate achieving Forest Stewardship Council Forest Management (FSC FM) certification.
- New Forests Timber Products completed its first full calendar year of operations in 2016, achieving sales of 2.7 million green metric tonnes of woodchips – about 35% of the Australian export market.



⁴ See <http://forico.com.au/latest-news/news/forico-completes-7-million-seedling-planting-program> for more information.



Sustainable Forestry in Emerging Markets of Southeast Asia

New Forests' strategy in Southeast Asia capitalises on the growing demand for long-term investment in sustainable plantation forestry in the region. We manage investments in sustainable forestry assets in the region for a variety of end markets, including timber, rubber, bioenergy, and environmental products. Asia is the fastest growing global source of demand for wood products, with an increasing deficit of regional forest supply.

New Forests manages the first dedicated institutional timberland fund in Southeast Asia – the Tropical Asia Forest Fund (TAFF), which has invested in hardwood timber and rubber plantation companies with exposure to a variety of timber species and markets. In 2016 New Forests executed a binding agreement for a new investment by TAFF in Laos, which completed in early 2017.

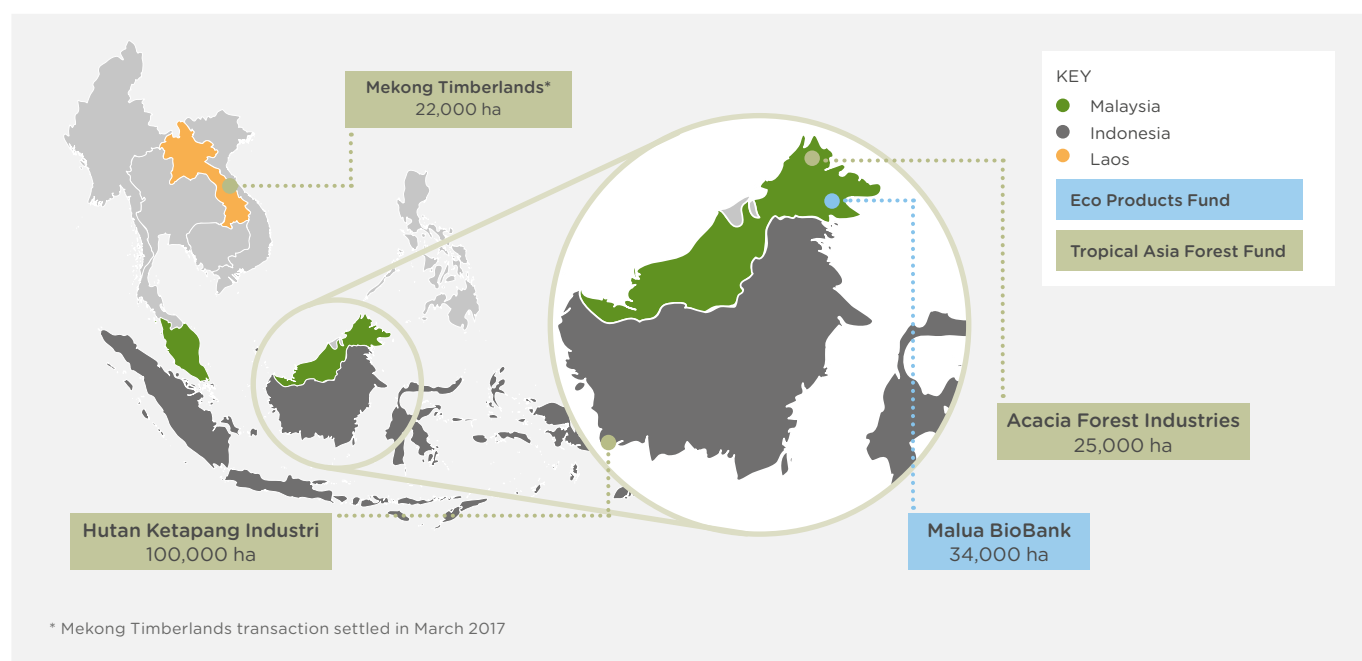
New Forests and an Indonesian project partner were awarded the 2016 Sustainable Forestry Deal of the Year by *Environmental Finance*, for the December 2015 equity investment by TAFF into a large-scale rubber plantation known as Hutan Ketapang Industri (HKI), located in West Kalimantan, Indonesia. The investment was honoured for its large-scale approach to integrated landscape investment and was noted for

being among the first institutional investments in Indonesian forestry. Throughout 2016 operational ESG activities at HKI focused on completion of impact assessments as well as development and training for local staff on identifying land class types to support responsible operational planning.

In Malaysia, TAFF's investment in the Hijauan Group continued with the consolidation of operations into joint-venture subsidiary Acacia Forest Industries (AFI). AFI welcomed a new General Manager who oversaw the merging of Hijauan and AFI staff into a single operating company. In addition, AFI invested in developing in-house resource management with recruitment of a dedicated Technical and R&D Manager in 2016, which has resulted in improved practices and processes already showing substantial increases in operational productivity

and improved plantation growth. The AFI business also successfully transferred the FSC certificate into its direct management ensuring an ongoing supply of certified timber into domestic Malaysian and export markets.

Throughout 2016 New Forests continued as manager of the Malua Biobank on behalf of the Eco Products Fund; key activities included marketing the Malua Biodiversity Conservation Certificates and exploring other avenues including developing the Malua Biobank as a carbon project. In addition, the Eco Products Fund will reach the end of its term in June 2017 and has been preparing to hand over the management of the Malua Biobank back to the Sabah Foundation and Sabah Forestry Department.





Carbon Forestry and Conservation Finance in the United States

As the US timberland market matured, New Forests has sought to develop innovative investment strategies that give investors exposure to new markets and opportunities for better returns in the sector. Capitalising on our unique analytic capacities and expertise in transacting in environmental markets, New Forests has developed conservation-oriented investment strategies in the US since 2007.

New Forests' conservation strategies are driven by both state and federal regulations that create markets for ecosystem restoration and protection. These markets in turn create opportunities to manage forest and land assets for multiple values, including timber and conservation.

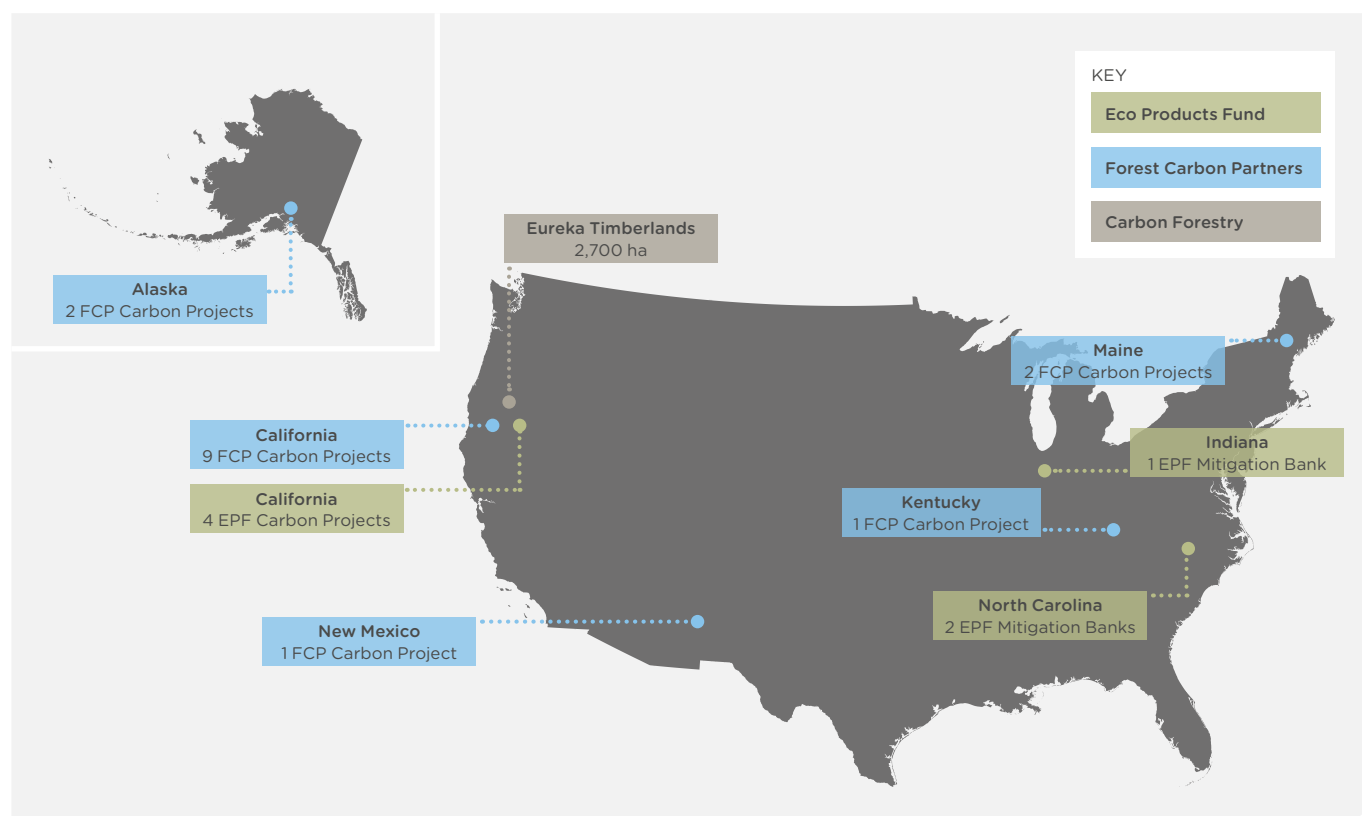
New Forests' US investment vehicles currently include a carbon forestry separate account and Forest Carbon Partners, a Limited Partnership that conducts carbon project finance and development on third-party timberland for the California carbon market. In 2016, Forest Carbon Partners signed three additional projects, two with Alaska Native Corporations and

one with a private landowner in California, in total covering around 169,000 acres. During the year, one project was registered and four projects received credit issuances with more than 320,000 mtCO₂e of offsets issued. Since inception, the program has grown to include 15 projects in five states, registered seven projects, and been issued 2.3 million credits.

New Forests is now applying our expertise in the California carbon market to growing our Carbon Forestry timberland investment strategy. In September 2016, New Forests acquired the Eureka Timberlands on behalf of a separate account client.

The investment includes 2,700 hectares (approximately 6,700 acres) of redwood and Douglas-fir forest in Northern California. The forests will be managed to produce a mix of high value timber products as well as California-compliant carbon offsets.

New Forests also continues as co-General Partner of The Eco Products Fund. EPF activities throughout 2016 focused on the liquidation of the fund's remaining assets due to the end of the fund's term. For this reason, the EPF activities are not a focus of this report. Please refer to previous sustainability reports for a description of EPF's portfolio.



Investing Responsibly

Responsible investment and sustainable management of land and natural resources are at the centre of New Forests' investment philosophy and corporate culture. We believe our responsible investment commitment is bolstered not just by our internal ESG systems and requirements but also by being active participants in global responsible investment and sustainable development efforts.

Responsible Investment Policy

New Forests' Responsible Investment Policy is the guiding framework for our practice of responsible investment. The following excerpt describes why and how our responsible investment commitment is implemented and integrated via the policy:

In seeking to be a responsible investor, New Forests is committed to a set of principles and criteria that ensure our investments are aligned with the interests of the communities where we operate and with the needs of our clients. This commitment encompasses a range of criteria including environmental stewardship, human rights, health and safety, employment conditions, and openness and transparency. New Forests seeks to support the welfare of communities and individuals who may be directly impacted by our investments, including employees, workers, and

local communities. New Forests also aims to balance productivity with the conservation of forest and land resources to enrich landscapes and create shared value. We expect to implement these principles and criteria through active ownership including our governance processes, policies, and contractual agreements with our service providers.

New Forests believes operational excellence is a critical component of integrating ESG in our investment programs. Operational excellence refers to systematic organisational behaviour that drives sustainable performance improvement against the principles and criteria discussed above. We also recognise that continuous improvement involves change over time, including adoption of new technologies, responding to feedback and challenges in our business, and implementing new policies and procedures that represent best practice.

Principles for Responsible Investment

New Forests has been a signatory to the Principles for Responsible Investment (PRI) since 2010.

In keeping with the PRI's accountability mechanism, we complete annual reporting on our responsible investment activities through the reporting framework. This results in a PRI Responsible Investment (RI) Transparency Report and a PRI Assessment Report; our reports are available for download on our website.

New Forests received an A+ rating in the 2016 assessment (submitted to cover our 2015 activities), with 30 out of 30 stars awarded for the Strategy and Governance module. The module covers a company's overall approach to RI, including governance, RI Policy, objectives and targets, the resources allocated to RI, and approach to RI and public-policy collaboration.

Our PRI report covering 2016 activities was submitted in March 2017, and the report and assessment results will be posted on our website when available.

New Forests also engages with the PRI and its network whenever possible to promote sustainable real assets issues. In 2016, we attended and presented at several RI conferences, including the PRI in Person event in Singapore in September 2016. Active membership in PRI and engagement in related industry associations is a key component of our efforts to be active participants in our industry and dedicate resources to ensure it is progressing in the right direction.

Social and Environmental Management System (SEMS)

New Forests' SEMS has been a cornerstone of the company's approach to RI since 2010. The system is designed to identify,

manage, and monitor environmental and social (E&S) 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 E&S standards. This is supported, where possible, by the use of third-party certifications and standards. We use performance monitoring and a regular system of Management Review to ensure the SEMS stays applicable and relevant.

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 E&S 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.

During 2016, all of New Forests' forestry funds were subject to internal SEMS requirements, and we included our first carbon forestry separate account via a new declaration document for US Carbon Forestry investments. ANZFF, ANZFF2, and FCP all received 100% compliance ratings in their annual audits. An audit was not completed for TAFF during 2016 due to turnover in the E&S resourcing within the fund. As the TAFF E&S Manager position has subsequently been filled, New Forests expects to complete the TAFF audit in early 2017. Overall, New Forests believes the strong results of the 2016 audits reflect the successful integration of SEMS requirements into the management of the funds.

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

In 2016 New Forests' investments included more than 500,000 hectares of certified forests in Australia, New Zealand, and Malaysia. Internationally recognised forest management certification supports the transparency of responsible forest management in supply chains. New Forests believes that not only is certification vital for demonstrating good forest stewardship to the market, but it

also provides a useful framework to strengthen investment due diligence and operational management. New Forests uses the Forest Stewardship Council⁵ (FSC) and some standards endorsed by the Programme for Endorsement of Forest Certification⁶ (PEFC), such as the Australian Forestry Standard (AFS).

New Forests has adopted FSC certification as a target across our forestry investment funds. We are committed to supporting the FSC through active membership, including engaging with other FSC members and FSC-convened working groups. Throughout 2016 we continued to support the development of the Australian national standard with a representative on the Australian Standards Development Group. In addition, New Forests has been active as a stakeholder in the consultation forum for the Motion 12 developments regarding the inclusion of forest conservation and restoration in the FSC system. In September 2016, New Forests attended the first regional FSC membership meeting for the Asia Pacific with a view toward developing effective regional partnerships and preparing for the next FSC General Assembly, which is scheduled for October 2017. We believe we must be active FSC members in order to promote the effectiveness of forest certification as well as ensure that our forestry investments can benefit from stronger markets for certified timber.

New Forests' investments also may be certified to other forest standards that are appropriate for local regulatory, market, and operational contexts. For example, several of our Australian assets are dual certified for FSC and the AFS, which is a PEFC-endorsed standard and particularly important for domestic timber markets.



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

30/30
FOR
"PRI OVERARCHING
APPROACH"



⁵ See <https://ic.fsc.org/> for more information.

⁶ See <http://www.pefc.org/> for more information.

Investing Responsibly

New Forests Timber Products (NFTP) currently markets hardwood chip from assets in Australia. With a focus on certified woodchip, NFTP has established a reputation as a leading provider of high-quality plantation woodchip and customers have benefited from a stable, consistent supply. Third-party forest certification also benefits our TAFF investment in Acacia Forest Industries (AFI), which passed its first five-yearly FSC audit in 2016 following the transfer of the certificate from its sister company. Maintaining well recognised forest management certification is therefore an ongoing priority from both a financial and operational perspective in our investments.

IFC PERFORMANCE STANDARDS

The IFC Performance Standards (IFC PS) are leading best practice standards designed to help avoid, mitigate, and manage E&S risks and impacts. New Forests uses the IFC PS as a component of our E&S assessment and management

activities, particularly for our emerging markets investments in Asia. We use the IFC PS to assess and manage moderate and high-risk plantation investments and for high-risk infrastructure or processing assets. Together, the IFC PS cover all major areas of E&S management that can be material for investment risk and asset performance. However, the IFC PS are not commonly applied in forestry investment programs. During 2016, New Forests supported TAFF portfolio company AFI in its company-wide program to comply with the IFC PS. AFI appointed an environmental consultancy specialising in strategic risk management to support a program of IFC compliance, which included updating the company's IFC gap assessment to devise a new action plan. The company subsequently held workshops to support its senior management and staff in understanding the IFC requirements and designing strategies to meet or exceed these requirements. As of the end 2016,

AFI had significantly improved its compliance score and aims to complete the action plan in 2017.

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. Currently, most of New Forests' investments or projects to commercialise ecosystem services are based on regulatory standards and programs, including improved forest management projects for the California cap-and-trade scheme; carbon storage in plantation forests under the New Zealand Emissions Trading Scheme; wetlands, stream, and nutrient banks under US mitigation banking rules; and water trading under government schemes in Australia.

Certification Status of Forestry Investments by Fund

	FSC	PEFC	Notes
ANZFF			
Forestry Investment Trust	✓	✓	Core forestry regions included in FSC certificate
Taswood Estate	✓	✓	
Border Plantations			In process of integrating to new property manager's FSC group scheme
Penola Plantations	✓	✓	
ANZFF2			
Limestone Plantations	✓		
Forico	✓	✓	
Wairarapa Estate	✓		
Taupo Estate	✓		
Blenheim Estate			Progressing toward FSC certification
Murray River Forests			Progressing toward FSC certification
TAFF			
Acacia Forest Industries	✓		
Hutan Ketapang Industri			Progressing toward FSC certification
CARBON FORESTRY			
Eureka Timberlands			Progressing toward FSC certification

✓ Partially Certified

✓ Fully Certified

Sustainable Landscape Investment – ESG Measurement and Performance

In our 2015 Sustainability Report, New Forests introduced our vision for Sustainable Landscape Investment, a framework that seeks to promote shared value and enhance investment performance by integrating productivity, ecosystem services, land use planning, shared prosperity, governance, and risk management in investment management.

To continue to develop this framework, in 2016 we launched our Sustainability Working Group as described above. The benchmark system developed by the SWG in 2017 will use ESG metrics to monitor investment impacts over time, with the objective of demonstrating that our management approach improves performance.

Meanwhile, New Forests continues to report and disclose E&S impacts of investments using established metrics that we have reported against since 2014. These metrics come from the Impact Reporting & Investment Standards (IRIS) developed and managed by the Global Impact Investing Network (GIIN). These impact metrics support standardisation in reporting

on E&S issues – not only among our investments but also with comparability to other investments. 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 E&S issues to which they relate. We feel this combination of impact measurement and description is vital for communicating the true 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 840,000 hectares of forests and land in Australia, New Zealand, Malaysia, Indonesia, and the United States as of 31 December 2016. This includes the full licence, title, fee, or concession area of all investments completed by ANZFF, ANZFF2, TAFF, FCP, and in the Carbon Forestry strategy and active in the portfolio at the end of the reporting period.⁷ Note that where joint ventures or share cropping agreements are in place, we have included the complete estate rather than pro-rata shares. 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 leased to other users or be owned by third-parties.

Sustainable Landscape Investment



We feel this combination of impact measurement and description is vital for communicating the true impact of our investments and how they are managed for sustainable outcomes for the environment and society.

⁷ New Forests’ 2015 Sustainability Report included Eco Products Fund areas, which are no longer included as the fund is in the process of winding up. Carbon Forestry has been added to the current reporting.

Sustainable Landscape Investment – ESG Measurement and Performance

Metric ⁸	Metric ID	ANZFF	ANZFF2	TAFF	FCP ⁹	CFOR	All Funds
Hectares of Land under Direct Control including Portfolio Companies and Property Managers							
Cultivated/ Planted Area	OI1674	237,429	116,606	23,900	-	2,702	380,637
Sustainably Managed	OI6912	311,121	218,414	32,492	-	2,702	564,729
Total Directly Controlled	OI5408	311,121	218,414	115,225	-	2,702	647,462
Hectares of Land under Indirect Control including Third-Party Land							
Cultivated/ Planted Area	PI7403	1,037	17,097	-	-	-	18,134
Sustainably Managed	PI6796	409	17,097	-	177,547	-	195,053
Total Indirectly Controlled	PI3789	1,037	17,097	-	177,547	-	195,681
Total Land Managed		312,158	235,511	115,225	177,547	2,702	843,143

New Forests also reports the area under sustainable management. We include areas that are certified or in the process of moving toward certification within this figure. Therefore, some areas such as the current unplanted area of some assets are not yet included. However, as forest management plans are developed that include full estate management and protection, these areas will be included in the portion listed as sustainably managed.

We believe understanding this high-level view of overall land management is important context for the discussion throughout the rest of this 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 have been selected for their relevance and materiality to New Forests' investment programs. Where possible, New Forests uses

these metrics alongside discussion of the six thematic areas of our SLI 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.

400,000+
HECTARES OF PLANTATION
FORESTS (NET AREA)



843,000
HECTARES UNDER
MANAGEMENT

⁸ 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).

⁹ Does not include contracted projects that have not yet been listed with the regulator.

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

Metric	Metric ID	All Funds
Type of Land Area	PD3922	Forest land; Agricultural land; Water areas; Wetland
Conservation Priority Characteristics ¹¹	PD9009	<p>Ecology and Habitat: Wilderness; Significant biodiversity; Critical habitat; Wildlife habitat; Land with shared boundaries to existing protected land</p> <p>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</p> <p>Ecosystem Services: Land that provides basic ecosystem services in critical situations; Land providing other ecosystem services</p>
Ecosystem Services	PD8494	<p>Provisioning Value/Services: Biological raw materials; Freshwater</p> <p>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</p> <p>Supporting Values/Services: Habitat, Nutrient cycling; Primary production; Water cycling</p> <p>Cultural Values/Services: Recreation; Educational and inspirational values</p>



¹¹ Conservation priority characteristics for each investment are described in detail in the forest management plans (forestry) and offset project listing documentation (carbon projects).



Productivity

New Forests' entrepreneurial drive and innovative use of technology mean we are able to pursue, and generate returns from, productivity enhancements that support increased investment returns from our assets. We seek to enhance productivity responsibly and believe incremental productivity gains must be actively pursued in order to make most effective use of each hectare under production. To this end we seek to institute efficient, rational, and strategic management of forests and land to bolster the productivity of our investments over the long term.

The production of forest products and agricultural goods must continue to increase in order to meet growing global needs for fibre, fuel, and food. At the same time, the area available for such production is constrained by growing populations, the competing need for preservation and maintenance 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. Improving productivity can present a challenge from an investment perspective, where New Forests must try to balance multiple outcomes for improved investment performance.

We seek to overcome traditional barriers to balanced productivity gains by using best management practices and seeking win-win outcomes that support higher risk-adjusted total returns.

Within New Forests' timberland investments, 59% of the total area under management is dedicated to timber production, including nearly 380,000 hectares of eucalyptus, pine, acacia, and rubber plantations. In 2016, of the more than 6.3 million tonnes of timber produced from our assets, over 96% was certified to FSC and/or PEFC compliant certification schemes. The remaining portion comes from recent acquisitions that are preparing for forest management certification.

Most of our assets under management are timber plantations, which are grown on sustainable harvest regimes, e.g. where harvest does not exceed growth. As active investors New Forests looks not only for sustained timber yield from these plantations, but also to steadily improve plantation productivity in terms of growth, yield, and desirable timber characteristics such as stiffness that ultimately improve plantation quality and value. R&D is vital to achieve these productivity aims. Some examples of 2016 R&D and productivity initiatives are described below; these examples are just a snapshot of the ongoing efforts to improve productivity underway in our investments.

Metric	Metric ID	Units	ANZFF	ANZFF2	TAFF	All Funds
Units/Volume Sold: Total	PI1263	tonnes timber	4,525,835	1,679,567	95,998	6,301,400
Units/Volume Sold: Certified	PI7289	tonnes timber	4,425,507	1,558,919	95,998	6,080,424

96%
CERTIFIED TIMBER





AUSTRALIA AND NEW ZEALAND

At ANZFF2 asset Limestone Plantations, new fertiliser trials commenced to improve understanding of nutrition requirements for second rotation sites. The trial targets varying applications of macro and micro nutrients and has been designed by an independent plant nutrition scientist. The scientist will also analyse the results, though outcomes that may inform future management are not expected for several years due to the longitudinal nature of the study.

At the Taswood Estate, which is an ANZFF asset, new technology on harvesting machines now enables real-time optimisation of log cutting in the field for improved log value recovery, as described on the next page.

At ANZFF's portfolio asset Penola Plantations, managers acquired new data via LiDAR technology to improve forest inventory and yield data with greater resolution. LiDAR improves data quality and precision as described in the example here on the right.



A Laser Focus on Productivity

LiDAR, which stands for Light Detection and Ranging, is a remote sensing technology that offers significant efficiency and improved data quality when applied to support forest management. The technology uses short wavelengths of light in the electromagnetic spectrum, typically in the ultraviolet, visible, or near infrared range, to measure three-dimensional structures, such as tree heights and diameters, and the underlying terrain.

The data must be collected by flying a LiDAR equipped airplane over the study area. LiDAR's principle advantage over conventional optical instruments, such as digital cameras, for elevation model creation is that it collects data at a very high resolution allowing for precise measurements and inferences to be made from the data.

LiDAR imagery was collected for Penola Plantations in 2016 in collaboration with other forest managers to minimise the cost per area surveyed. Calibrating the LiDAR data collected with conventional ground based measurements has allowed Penola Plantations to improve stand level timber volume estimates and reduce the intensity and cost of ground based inventory. LiDAR has also been trialled on New Forests' hardwood estates for gathering inventory data and testing the accuracy of volume projections to baseline data.

Productivity



The Cutting Edge of Log Processing

In 2016, harvesting operations at the Taswood Estate implemented new data capture tools to enhance value recovery. Sensors on the head of the harvesting machine collect real-time data about the log dimensions and quality while software captures and analyses the information. This provides information on log product recovery and implements optimised log making in mechanical harvesting heads.

The new software and hardware allow every tree to be merchandised to maximise the value recovered through the upload of actual log prices and specifications to an on-board computer. As each log is debarked by the head, the new harvest equipment takes length and diameter measurements and transmits these to a central CPU in the machine, which determines the optimal cross cutting regime for that tree. This optimised solution is then communicated back to the harvest head for cutting and producing log products for segregation at roadside to different markets.

Contract workers have been trained on this new technology, which is managed directly by the harvest operator from within the machine cab. From a sustainability perspective, these advanced harvest heads and systems enable better maximisation of the raw wood product by optimising for market demand. It also enhances safety and efficiency in log handling and transport to the sawmill, which can access live data about the logs it receives, thereby reducing the need for log handling and sorting in the log yard.



SOUTHEAST ASIA

New Forests has encouraged Acacia Forest Industries to implement changes that have led to healthier and more productive timber plantations. In 2016, the company implemented a survey of all plantings at age six months to track survival and height growth, enabling identification of improvements to forestry management. The company also reviewed its establishment R&D trials to identify opportunities for improvement; among the results were changes to Standard Operating Procedures (SOP), including for planting hole sizes and seedling handling in the field. The SOP requires that seedlings are planted within 48 hours of dispatch from the nursery. Combined with quality control auditing and improving training and management of the establishment teams, these factors have resulted in improved height growth from 1.8 metres to 2.7 metres at age six months, a 50% increase.

TAFF's rubber plantation investment, HKI, has begun to shift how nurseries use a horticultural technique known as budding or grafting, which is a process of joining parts of two plants together. In grafting, a bud is joined together with rootstock, with the bud being the portion that grows into the visible tree and the rootstock being the part that establishes the base of the trunk and root system for the tree. HKI now focuses on green budding, moving away from its original practice of brown budding.

With the green budding process a younger rootstock and younger mother plant (the bud source) are grafted and sown in polybags rather than open field planting. This more controlled environment results in higher quality, more vigorous plants. It also allows a shorter nursery period, but requires additional investment in nursery infrastructure and training of highly skilled nursery staff to be able to successfully undertake green budding.



UNITED STATES

As noted earlier in this report, New Forests completed its first US timberland acquisition in September 2016 with the purchase of Eureka Timberlands. Located in Northern California, the asset includes four semi-natural forest properties that have an established history of active forest management. The new acquisition will be managed for both timberland and forest carbon offsets. In the context of semi-natural forests and their management, there are different productivity aspects that can be considered, including decreasing the risk of losses to fire or pests. As we enter the first year of management of the Eureka Timberlands, New Forests has identified potential productivity and loss reduction via the following activities:

- Analyse the forest area in non-productive condition to assess potential gains in production forest area. This includes roads, skid trails, landings, historical pasture, and brush fields.
- Cooperate with neighbours in black bear control to reduce damage to young redwood trees.
- Evaluate the cost/benefit of using improved genetic stock for planting.
- Consider timber stand improvement work outside carbon project areas to increase commercial conifer stocks while reducing the quantity of non-commercial tanoak.
- Plan for the installation of strategically placed fuel breaks to link in with landscape-level fuel management and fire suppression plans, including shaded fuel breaks along existing roads.
- Plan for the installation of strategically placed motion sensitive cameras to monitor key road access points to properties, which would benefit trespass issues as well as provide a check on logs leaving the property.

As the examples above show, the semi-natural forest context provides a range of opportunities for addressing productivity, many of which relate to the biodiversity of the asset as well as understanding how the local land use context and planning can affect the asset's long-term productivity.



Land Use Planning

New Forests defines land use planning as a process to determine the allocation of the use of land in a way that accounts for economic, social, and environmental values. The land uses we typically consider may include plantation or semi-natural forestry, agriculture, community use, or conservation management.

With investments that vary in scale from hundreds of hectares to tens of thousands of hectares, we look at land use planning at differing levels. Land use planning must consider the economic and social factors that may influence the management or that can be affected by the land use. At times land use planning may require 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. Ultimately, through land use planning we seek to allocate forests and land to a range of uses that support healthy and resilient ecosystems and shared prosperity.

There are a variety of tools that New Forests, our property managers, and portfolio 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. These tools can guide decision-making and planning for conservation, protection, and restoration alongside commercial investment activities.

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 most rational 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 and accounting for the relative benefits of using areas for certain purposes. 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. In the case study opposite we describe how environmental and regulatory factors like water availability and water licensing are considered in HBU and land use planning.

Metric	MetricID	Units	ANZFF	ANZFF2	TAFF	FCP	CFOR	All Funds
Area of Trees Planted	PI4127	hectares	3,691	8,478	6,134	-	-	18,303
Area of Land Reforested	PI4907	hectares	209	8	3,485	-	-	3,702
Area of Native Species Reforestation (incl. commercial and non-commercial)	PI3848	hectares	209	68	211	-	-	488
Streams Under Restoration Management	PI6885	kilometres	25	268	-	1,603	-	1,896
Ecological Restoration Management Area	PI9556	hectares	33,204	976	-	177,547	1,766	213,493
Protected Land Area: Total	PI4716	hectares	44,344	89,354	17,876	177,547	1,766	330,887
Protected Land Area: Permanent	PI3924	hectares	39,328	8,230	14,405	4,250	-	66,213



Under Stress – Forest Industry Adjusts to Water Licensing in the Lower Limestone Coast

Australia has a long history of water risk and water management, but regions across the country differ dramatically in how water is managed.

In late 2013 the Lower Limestone Coast Water Allocation Plan (WAP) was adopted by the South East Natural Resource Management Board of South Australia, and over the past three years this plan has been further developed and entered into force. The plan affects around 44,000 hectares of South Australian properties across four plantation estates managed by New Forests.

Throughout 2016, New Forests engaged with regulators to develop and implement strategies to comply with the new system that ultimately will have significant land use and water impacts across the region. Existing commercial plantations were granted forest water licences under the WAP, covering the current forest rotation, but the WAP prescribes a system of water use reductions in certain water management areas over time. New Forests believes this will lead to a net reduction in plantation area following harvest, the extent of which will vary across the region, with forest managers needing to assess future crop viability and expected investment returns in light of mandated water reductions.

Moving forward, the water usage reduction strategy presents a range of opportunities and risks that investors and forest managers must address. In terms of opportunities, there are two aspects of the WAP that may benefit investments: the freely allocated water licences may be converted to irrigation licences, and water licences are tradable commodities. Ultimately the WAP appears to have presented short-term challenges to forest management as the industry adjusts to the new rules, but over the long term may also present opportunity to support returns at a portfolio level if water licence value can be realised as part of highest and best use and long-term regional planning. To manage water risk and opportunities, New Forests is in the process of developing plans to manage water value and opportunities based on analysis of best future land use and seeking relevant approvals from the regulator.

Land Use Planning

CONSERVATION, PROTECTION, AND RESTORATION

New Forests' investments include approximately 330,000 hectares of protected areas, representing 39% of the entire land estate associated with our investments programs.¹²

This demonstrates the ability to include conservation areas within commercial forestry investments. Based on the IRIS metrics, we distinguish between areas that are protected under current management regimes from those that are permanently protected on the basis of legal instruments such as covenants, easements, and/or other regulatory restrictions. Around 8% of the current total New Forests portfolio is under a permanent protection mechanism. The status of conservation areas varies depending on the type of area, the management objectives, legal requirements, and long-term land use opportunities. In some cases, ecological restoration activities aim 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 High Conservation Value (HCV) approach¹³ 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 forestry.



AUSTRALIA AND NEW ZEALAND

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.

In December 2016 New Forests held its second annual Green Triangle landscape planning workshop with the Glenelg Hopkins Catchment Management Authority, Greening Australia, and representatives from property management companies, PF Olsen Australia, Timberlands Pacific, and Sustainable Forest Management. These workshops provide an opportunity for collaboration between property managers and key natural resource management representatives to improve conservation outcomes, strengthen partnerships, and maximise benefits to the environment. This is an important opportunity to identify shared priorities and synergies in funding, skill sets, and areas suitable for conservation, restoration, and protection activities.



39%

OF ALL INVESTMENTS
BY AREA ARE MANAGED
FOR PROTECTION AND
CONSERVATION

The Forico natural forest estate is the largest protected area within New Forests' investments and encompasses more than 81,000 hectares managed for conservation and biodiversity values. Although the Forico natural forest estate is not legally permanently protected at this time, the Forico business is committed to maintaining and enhancing the natural forest area and keeping it free from commercial timber harvest. To support the conservation management of the area, Forico seeks to develop an ecosystem accounting approach that can assist the company in its decision making while integrating E&S values from the natural forest conservation area into company accounts. See the case study on the following page for more information.

¹² The 2016 total protected area is in total around 7,000 hectares less than our figures for 2015 due to the exclusion of the Eco Products Fund from this year's total. However, all of the project area in the Eco Products Fund portfolio and former assets remain under permanent conservation easements and long-term protection mechanisms.

¹³ See <http://www.hcvnetwork.org>



SOUTHEAST ASIA

In Southeast Asia, protected areas include government-classified forest reserves, areas required to be managed for conservation under relevant legislation, and other areas identified for conservation under the HCV approach and the rules of the FSC that prevent conversion of forest to non-forest. It is critical that these areas be accurately mapped and identified so that they are protected in operational activities, and ideally put under an effective landscape management plan. At the TAFF investment in Hutan Ketapang Industri (HKI) in West Kalimantan, New Forests and a consultant developed a field-based tool for identification of land cover types to assist the land survey team in verifying that areas intended for operations could responsibly be planted. This step was an important process to verify original tentative HCV maps that were developed from satellite data and field sampling. As the HKI operation continues to expand, land verification is a critical step ahead of planting operations. Moving forward, land cover types that are required to be protected and conserved (under the regulatory, FSC, and IFC PS requirements) will be mapped and entered into a conservation management plan.



UNITED STATES

In the United States, all forestry projects in our Forest Carbon Partners portfolio incorporate long-term landowner obligations that protect the carbon stocks in the forest area and are included in this report as protected areas. This meets long-term protection requirements of the California Carbon Offset protocol.



Making Every Hectare Count

Forico's management strategy aspires to "make every hectare count," which encompasses the business' commitment to responsible forest management and its commercial objectives. The company's corporate obligations also require it to demonstrate the economic value inherent in E&S sustainability. Yet this is difficult because traditional metrics of business performance are based on economic criteria that do not account for factors such as ecosystem health, biodiversity, or the social benefits provided by forests. Furthermore, with 45% of Forico's holdings in natural forests, the company bears costs of managing its natural forest estate for conservation and biodiversity values rather than timber extraction. This makes it even more imperative to understand how E&S values of forests support Forico's corporate objectives. To address this, Forico has embarked on a pioneering project to extend its traditional corporate accounts to include E&S factors.

Forico worked together with the Institute for Development of Environmental-Economic Accounting (IDEEA) in 2016 to account for the stocks and changes in ecosystem assets held by Forico and to quantify and value the flow of ecosystem services provided by these assets. The project makes use of the United Nation's System of Environmental-Economic Accounting and is believed to be the first such application to a corporate forestry business. Under the Forico approach, both production and native forest areas were evaluated, resulting in a detailed dataset of ecosystem extent that can be used to inform decision making. The data include ecosystem characteristics, such as vegetation type, rainfall, soil type, and slope. This information provides a better understanding of the Forico estate, which can allow for integrated financial and ecosystem accounting. Though work is ongoing, the project already demonstrates initial learnings about how E&S information can be integrated with more traditional business accounting in a more comprehensive framework that accounts for assets and income jointly. While there is no easy solution to pricing the value of E&S values of forests, the Forico and IDEEA project is another step toward making every hectare count.



Ecosystem Services

Ecosystems services are the benefits we all receive from natural ecosystems. New Forests seeks to ensure our investments promote and enhance ecosystem services, where possible, and limit any negative effects on vital ecosystem services. While there are many services provided by nature, in this section of our sustainability report we focus on two key areas that we believe are important material considerations across our investment programs: carbon and biodiversity.

Although ecosystem services issues are complex and often interrelated, by focusing on carbon and biodiversity we emphasise the materiality to our investments and stakeholders. In particular, we seek to describe the importance of how carbon and biodiversity are managed in our investments and how we position them to support better investment performance and long-term value. In our developing Sustainable Landscape Investment benchmarking framework, we aim to include a broader range of ecosystem services as part of our impact and performance monitoring in the future.

Forest Climate Benefits

Forests have a vital role to play in mitigating climate change, and New Forests' investment strategies are at the nexus of the opportunity to improve climate outcomes via commercial investment strategies. Our investment activities include carbon sequestration and storage in timberlands, sequestering additional carbon through improved forest management offset projects, developing new market opportunities for timber products to substitute for more energy intensive products, and engaging with a range of stakeholders to identify and pursue forest-climate investment solutions.

The carbon sequestration and storage in timberlands and conservation investments may be the most tangible or obvious of the climate benefits of the forest sector. However, there is tremendous opportunity to avoid emissions and store carbon through the value chain of timber products. Forestry is increasingly seen as a contributor to the growing bio-economy, a shift

in resource use and production that includes replacement of fossil-based energy, fuels, and chemicals with more sustainable inputs from bioenergy, biofuels, bio-plastics, and bio-materials. As the bio-economy continues to develop, New Forests expects the forest sector will increasingly become a driver of forest-climate solutions through long-term carbon sequestration, storage, and substitution.

Furthermore, effective climate policy is a critical enabler for responsible investment in forestry and has the potential to align institutional investment with climate mitigation via forestry investment. New Forests has been an active proponent of forest-carbon policy issues in the wider climate policy debate as well as in the development of greenhouse gas emission trading markets. We advocate and engage at policy levels ranging from state, to federal, to international. We do this not only in support of our current investments, but because we believe climate policy must align with opportunities for good forest management.

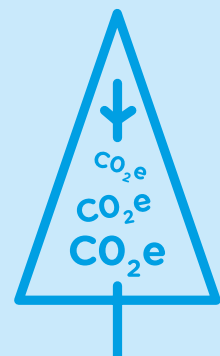
CARBON STORAGE IN COMMERCIAL FORESTRY

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. By producing these products from plantation-grown timber, natural forests and the carbon stored within them are maintained, and a positive cycle of carbon accrual in plantations and plantation products is enabled.

New Forests has made public disclosures of the estimate of carbon stored in our plantation forest investments since 2014. Our reporting is based on voluntary calculations of the plantation carbon stock, and we have used conservative assumptions in our calculations based on plantation estate models; for example, we have excluded remnant vegetation and native forest conservation areas. This approach provides only a "standing stock" assessment of the amount of accumulated carbon in plantations' managed productive area across our ANZFF, ANZFF2, and TAFF investments.

110 million tonnes

OF CO₂e STORED IN PLANTATION FORESTS



As part of our efforts to improve our carbon stock estimation and reporting, the 2016 accounts also include estimates of carbon stock in residual biomass on site, such as woody debris left after harvesting. This is currently only implemented for the ANZFF and ANZFF2 related assets, and provides a more accurate estimate of the carbon stock in these plantations. It should be noted, however, that this difference in methodology results in a higher carbon stock value per hectare relative to previous estimates. In addition to this change, we have also reviewed the factors used in the calculations, and as a result have revised the root to shoot ratio used. This revision resulted in a reduction in the estimate of tree carbon stock of 7.7% across all assets within ANZFF and ANZFF2, and in the table below is applied retrospectively to the 2015 estimates to allow comparison with the 2016 estimates.

We estimate that the carbon stock in plantations managed by New Forests was more than 110 million tonnes of carbon dioxide equivalent (MtCO₂e) as at December 2016.

This is a significantly higher than the estimate for 2015, due to the addition of new assets within the portfolios, as well as the inclusion of carbon in harvest debris. More commentary about changes in the estimate for each of the funds is given below.

It is important to note that we have not accounted for 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 New Forests' current carbon accounting, harvested product is essentially treated as a complete emission at the time of harvest, which results in a lower calculation for long-term total carbon storage.

The change in total carbon stock within the ANZFF portfolio was driven largely by the inclusion of carbon in harvest debris. When considering only carbon in standing trees, the 9% increase in carbon stock was due partly to the addition of new plantations within the Penola Plantations estate (0.9 MtCO₂e), but primarily results from the revision of yield tables in the FIT and Taswood estates to reflect inventory results. Carbon stock in Border Plantations estate increased significantly due to the inclusion of new stands as they are handed back from lessees.

The large increase in carbon stock in the ANZFF2 portfolio was also due largely to the addition of new assets to this portfolio, as well as the inclusion of carbon in harvest debris. In relation to the 39% increase in tree carbon stock, two-thirds (6.9 MtCO₂e) was due to the addition of new assets, with the remainder due to growth in trees exceeding the removals from harvesting.

CARBON SEQUESTRATION AND STORAGE NEW FORESTS' PLANTATION INVESTMENTS

Fund	2015 MtCO ₂ e	2016 MtCO ₂ e			One-year Change	
	Trees only	Trees only	Debris	Combined	Trees only	Total ^b
ANZFF (incl. entirety of FIT and Penola Plantations)	55.8 ^a	60.7	7.4	68.1	+9%	+22%
ANZFF2 (incl. entirety of Forico)	26.6 ^a	37.0	4.6	41.6	+39%	+56%
TAFF	1.3	0.97	N/A	0.97	-27%	-27%
All Plantation Investments	83.7	98.7	12.0	110.7	+18%	+32%

^a ANZFF and ANZFF2 estimates of carbon stock in 2015 are different to those previously reported by New Forests, due to the retrospective adjustment in the root to shoot ratio used. This adjustment resulted in a 7.7% decrease in carbon stock across the estates.

^b It is important to note that much of the change in total carbon stock between 2015 and 2016 is due to the change in estimation methodology to include carbon in debris in the 2016 estimates.

Ecosystem Services

The TAFF total carbon stock was adversely affected by significant yield decreases in the regenerated acacia area of AFI, which were lowered based on pre-harvest inventories. In addition, 700 hectares of young to mid-age acacia plantation was lost to fire, which has subsequently been replanted. AFI also had a 15% decrease in net planted area during the year as some areas were harvested but not yet replanted due to pending resolution of community land use needs. The 2016 TAFF figures now include the carbon stock from HKI's rubber estate, which contributes 343,000 tCO₂e and was not included in the 2015 carbon accounting.

Forest Carbon Credits and Offset Projects

The emissions avoided or additional carbon stored in forests can also be verified and sold under certain voluntary and compliance based greenhouse gas emissions reductions schemes. Typically carbon offsets are sold to businesses and other entities to help them meet emissions reduction goals and/or compliance requirements. New Forests works to commercialise carbon value, primarily through opportunities under regulatory systems where possible.

AUSTRALIA AND NEW ZEALAND

New Forests monitors and engages with carbon 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. During 2016, New Forests was active in the development of a commercial forestry methodology

for potential inclusion by the Australian Government's Carbon Farming Initiative. Also in 2016, New Forests acquired plantations in New Zealand, giving additional exposure to the NZ ETS, which includes forestry as a regulated activity.



SOUTHEAST ASIA

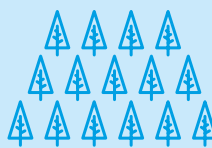
In Southeast Asia New Forests considers voluntary carbon markets where they may complement plantation management, but we do not have any active projects in development or operation. New Forests has joined the newly formed Asia-Pacific Rainforest Partnership's private sector working group, which promotes action to reduce emissions from deforestation and forest degradation (REDD+) in the Asia-Pacific region.¹⁴ Developing pathways for forest restoration and conservation to become economically viable is a key interest of the group, and carbon markets present potential if REDD+ markets gain scale and viability.



UNITED STATES

Forest Carbon Partners invests in the development of high-quality 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. Forest Carbon Partners' portfolio of carbon offset projects includes 15 projects encompassing around 440,000 acres (177,000 hectares) at the end of 2016.

FOREST CARBON PARTNERS

15 
PROJECTS

440,000
ACRES OF TIMBERLAND

The forecast total carbon benefit of the Forest Carbon Partners portfolio, based on contracted projects at the end of 2016, was more than 19 million mtCO₂e over the life of the fund. This is equivalent to the GHG reductions of taking more than 4 million passenger vehicles off the road for one year.¹⁵ As of the end of 2016, a total of more than 2.3 million credits have been issued to Forest Carbon Partners' projects since inception, with more than 320,000 tonnes issued to projects and 700,000 tonnes of offsets sold in 2016.

¹⁴ To learn more about the Asia Pacific Rainforest Partnership visit <http://www.cifor.org/wp-content/themes/dw-focus-child/asia-pacific-rainforests-summit/pdf/Fact-Sheet-Rainforest-Partnership.pdf>.

¹⁵ US Environmental Protection Agency, Greenhouse Gas Equivalencies Calculator, available at <https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator>.



Carbon Forestry – Jointly Managing Carbon and Timber Values

New Forests completed its first timberland acquisition in the US in September 2016 with the purchase of 6,700 acres (2,700 hectares) of redwood and Douglas fir forest in Humboldt County, California. Known as the Eureka Timberlands, the assets were bought by California Timberlands Inc., a wholly owned subsidiary of New Forests, acting as General Partner on behalf of a confidential timberland investor.

The asset marks New Forests' entry into timberland asset management in the US, where since 2007 we have focused on development of professional investment opportunities in regulated environmental markets. The investment is also noteworthy for its high-quality redwood stands and intended management under a dual timber and carbon regime, which will produce near-term revenue through both timber harvest and the sale of carbon offsets to California's carbon market.

The California carbon market is a regulatory carbon market where greenhouse gas polluters are compelled by law to purchase either California Carbon Allowances or project-based offsets equivalent to their annual greenhouse gas emissions. Offsets may be issued by the State of California for greenhouse gas emission reduction projects developed pursuant to regulatory offset protocols adopted by the California Air Resources Board.

In total, 45 million California Carbon Offsets (CCOs) had been issued by the end of 2016 with a total value more than USD 487 million.¹⁶ Forestry projects have supplied over 50% of CCOs issued to date, and the rate of forestry CCO issuance is increasing.¹⁷

Based on forecast demand for CCOs, New Forests believes there is a compelling opportunity for development of combined carbon and timber management projects, known as improved forest management projects. The California carbon market has now reached a stage of maturity where it can support a new forestry investment strategy. With several years of successful operation, the carbon market established under California's Global Warming Solutions Act gives confidence to investors that an investment strategy oriented towards forest conservation can, in certain types of forests, deliver higher returns than conventional forestry investment.

¹⁶ California Air Resources Board. ARB Offset Credit Issuance. <http://www.arb.ca.gov/cc/capandtrade/offsets/issuance/issuance.htm> (Accessed January 1, 2017); New Forests' analysis.

¹⁷ Ibid.

Ecosystem Services



Forest carbon projects have emerged as a conservation finance tool with benefits that can extend beyond carbon offsets. As an example, Forest Carbon Partners purchased coal rights from Chugach Alaska Corporation that were then retired, paving a path for a forest carbon project and permanent protection of a valuable watershed. The project saw the retirement of Chugach's portion of the Bering River Coal Field, estimated to hold recoverable coal reserves of up to 3 billion short tons of coal, which translates into between 200 million and 8.6 billion short tons of carbon dioxide if completely combusted.¹⁸ The Chugach project also ensures long-term sustainable management of vital watershed resources including for the Copper River salmon population. The area's conservation will ensure access to subsistence and livelihoods activities that are important resources for the social and economic benefit of many Alaskans.

COMBINING CARBON AND TIMBER MANAGEMENT

New Forests deployed its first capital in September 2016 into our Carbon Forestry strategy, which seeks to re-segment the US timberland market to pursue above-market returns on certain carbon-rich timberlands. The strategy benefits from New Forests' significant IP in carbon project management as well as leading-edge analytical tools to identify and originate transactions that meet the Carbon Forestry profile. This strategy directly links conservation and production values by managing properties for both carbon and timber values. To learn more about New Forests' first timberland acquisition in the US, read about Eureka Timberlands on the previous page.

Biodiversity and Wildlife

Many ecosystem services are provided by or supported by biodiversity. Therefore as we consider the ecosystem services of the assets we manage, the maintenance and promotion of biodiversity is an important concern. New Forests' investments include a wide range of biodiversity and a diversity of natural and semi-natural ecosystems through to intensively managed plantation systems. 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 regulatory standards for mitigation banking and carbon offsets. The principles, criteria, and requirements of these systems form a minimum standard for managing biodiversity across our investments.

¹⁸ Based on a conversion factor of 2.86 short tons of carbon dioxide produced in the complete combustion of each short ton of coal. See Hong and Slatick (1994), Carbon Dioxide Emission Factors for Coal, available at https://www.eia.gov/coal/production/quarterly/co2_article/co2.html



Regional Wetlands Improvements to Support Biodiversity

Australia's Green Triangle – the cross border region of southeastern South Australia and western Victoria – is one of the country's premier timberland regions, known for its high-quality eucalypt and pine plantations.

However, when these plantations were established in the 1990s they often took the place of agriculture. Planning at the time was largely based on soil types and environmental features, leaving behind a mosaic of unplanted areas that were left for various conservation or logistical reasons. In today's forest industry the management of these areas for conservation outcomes is increasingly a priority. Wetlands have been identified as a strategic focus in this area due to the historical impacts of land use change and wetlands fragmentation.

Given the historical occurrence of wetlands throughout this region, wetland flora and fauna feature highly across much of the existing conservation area within the plantation estates owned by New Forests' funds. Since 2015 there have been multiple wetland assessment and improvement works across both the softwood and hardwood estates. These efforts help inform operational management strategies, on-site conservation works, and have involved a range of stakeholders including New Forests' property managers, the Nature Glenelg Trust, Glenelg Hopkins Catchment Management Authority, and independent environmental consultants. By working together with these local partners, our assets benefit from local expertise while also supporting regional conservation priorities.



Photo credit: Joel Turner

Wetlands improvement projects on our plantations are therefore an important part of New Forests' efforts to support landscape-level outcomes in the areas in which we invest. Projects range from identification and protection of wetlands habitats to targeted projects to enhance seasonal inundation to support the viability of wetland species. Key outcomes and next steps for wetlands improvement in the Green Triangle plantation estates are summarised below.

Estate	Activities completed in 2016	Ongoing and planned activities
Forestry Investment Trust	Desktop assessment of 200+ wetlands with 63 sites assessed in the field. 23 sites identified with conservation priority and suitability for Brolga (Australian crane) habitat.	List of properties/sites to be prioritised for additional assessments to ensure there is no impact to neighbouring properties as to the direction of flow and runoff. As properties are identified a proposal of works will be developed.
Limestone Plantations	Rapid assessments of all wetlands for baseline condition and prioritisation of improvement works.	Restoration plans have been developed for two properties to restore wetland inundation extents and monitor biodiversity impact of the improvement works.
Penola Plantations	Victorian properties underwent biological assessments of native reserves and wetlands. South Australian properties underwent identification of priority wetlands for targeted improvement works including woody and noxious weed removal.	Results from the report will guide environmental priorities for on ground works. Works program developed that includes 14 wetlands (four seasonal herbaceous wetlands and 10 high value priority wetlands).



Ecosystem Services

The ecosystems we manage contain important wildlife habitat of varying condition as well as regional and global importance. By using tools such as the HCV approach, operations managers are able to identify, manage, and monitor potential impacts on biodiversity and ensure that operational activities do not have a negative impact on biodiversity. New Forests also looks for opportunities to manage areas for improved wildlife habitat and to support species conservation initiatives. These activities are typically led by property managers and portfolio companies to improve wildlife habitat on the areas they manage; however, New Forests assists in setting strategic priorities and, where possible, encourages collaboration across investments and with other stakeholders. Examples of biodiversity and wildlife projects underway in 2016 include:

- Throughout 2016, there were more than 20 conservation and stewardship projects active on the ANZFF and ANZFF2 estates. Each of these projects promotes biodiversity in some way, such as through behavioural research of key wildlife species, improving habitat condition, or undertaking measures to protect sensitive habitats.
- New Forests and industry partners jointly commissioned a study of koala movement in response to harvesting, which completed in 2016. The study was undertaken by an independent ecologist and provided information about how koalas in the study area responded to harvest activity based on their movement, with the majority relocating to other nearby blue gum areas. Such information is important for continual improvement as we work with industry and government to minimise disruption to koala populations due to operational activities.
- Professor Elissa Cameron and PhD candidate James Pay are undertaking a research project into endangered wedge-tailed eagles through the University of Tasmania and co-funded by Taswood Estate. The aim of this study is to describe the behaviour of eagles while on the nest and measure their response to nearby forestry activities to review management of human activities around nests. During 2016, 30 active nests were assessed in a first phase of the project, which may also use remote sensing methods, cameras, and GPS data loggers.
- An aggregation of projects targeting improving ecosystem condition in wetlands is underway in Australia's Green Triangle region. While each individual project has local merits, by reviewing these projects at a total portfolio and/or landscape level, the scale and combined impact of wetlands improvement projects becomes apparent.
- A new research project commenced at AFI focusing on sun bear ecology in the local Bengkoka Peninsula, which is a highly modified landscape with small natural forest remnants, timber plantations, and a variety of village land uses. The study is led by the Borneo Sun Bear Conservation Centre, with the goal of developing conservation strategies that will aid the management of this species in and around modified plantation landscapes.
- An Environmental & Social Impact Assessment (ESIA) was commissioned and completed for the Kendawangan block of HKI. The ESIA collected baseline ecosystem and environmental data in order to inform management planning for the estate and to ensure effective mitigation measures are developed to safeguard biodiversity and ecosystem services.

Wildlife management and research activities like those described above require strong support from the local property management teams 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.



Shared Prosperity

New Forests invests in forests and landscapes to generate value for investors, communities and the environment. How we invest, manage, and conserve assets to generate financial returns must also generate sustainable and equitable growth. Our duty as responsible investors extends to supporting shared prosperity for the communities in the areas in which we invest as well as for the partners with whom we work across our asset management activities and in the supply chain.

Well managed institutional investments in forestry and sustainable landscapes offer the potential to underpin rural economies and support common goals of shared prosperity. For example, our investments can support stable regional economic development, promote local employment and skills development, address land tenure issues, and generate benefits for multiple users. In these ways we aim for the responsible management of our operating investments to be a source of shared prosperity.

Employment and Strengthening the Industry

Forestry investments can directly contribute to 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 ready 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 3,600 unique individuals were involved in the operations of our investments in 2016. Of these, 74 full time equivalents were dedicated specifically to E&S management. Our portfolio companies and property managers also wish to reinforce that in addition to dedicated staff, the majority of operational roles involve significant activities that support E&S outcomes.

In the figures below, total 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 and total more than 2,500 contract workers in 2016. 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.

Another important opportunity to enhance shared prosperity is through promoting development within the forest sector and supporting related supply chains. In particular, skills development and training is an increasing focus for the forest industry. New technology is emerging that reduces the person-hour and hands-on elements of many traditional jobs, replacing these activities with new machines, software, and other technologies. This means that the workforce must adapt to these changes and be prepared for innovation in the forest sector. Work safety training is also a major focus of the industry that goes hand in hand with skills development and training. New Forests is pleased to support the newly launched ArbreHub, a non-profit based in Tasmania and established to promote careers and training in the forest industry.

Metric Name	Metric ID	Units	ANZFF	ANZFF2	TAFF	FCP ¹⁹	CFOR	All Funds
Permanent Employees: Total	OI8869	Individuals	595	83	411	-	3	1,092
Contract Employees: Total	NFContractors	Individuals	788	475	1,233	61	2	2,559
Employees Dedicated to E&S Performance	OI6370	Full time equivalent	27	5	32	9	1	74

¹⁹ 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.

Shared Prosperity

Local Community Development

Local communities, the people who live in and near the assets we manage, are key stakeholders in our business. These communities may 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 community services provided by our investments. Furthermore, local communities have a right to fair employment opportunities in the areas in which they live. Accordingly, 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 the 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 impacts on local communities, we find engaging with local communities to be one of the most important management factors in all of our investment strategies.



AUSTRALIA AND NEW ZEALAND

For investments in Australia and New Zealand, community engagement activities are principally undertaken by our third-party property managers and overseen by New Forests' stewardship manager. These activities ensure our management is transparent and that appropriate disclosures are made in a timely and accessible manner.

New Forests is now one of the largest timberland managers in Australia with 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



New Hub Launched to Promote Tasmania's Forest Industry

New Forests is proud to have supported the development and launch of the non-profit Arbre Forest Industries Promotion and Training Hub (ArbreHub) via our ANZFF and ANZFF2 holdings. Located in the Australian state of Tasmania, where both funds have extensive holdings, ArbreHub's primary function is to promote careers and skills development within the forest industry.

ArbreHub is overseen and managed by a governing board represented by all major Tasmanian forest growers. The organisation facilitates and promotes forest industry training and careers, with a focus on harvesting, transport, and silviculture. ArbreHub's charter is to work diligently, and foster strong relationships with the education industry, government agencies, training providers, and community groups to promote the value and opportunity of forestry careers. The group also brings a focus on innovation and development of higher value uses for Tasmania's timber supply,

New Forests' CEO David Brand spoke to ArbreHub and its partners in December 2016, delivering a speech entitled "Transforming Tasmania's Forestry Sector – Creating Jobs and Building Human Capital." Read the speech on New Forests' website to learn more about how institutional investment can support skills development and opportunity in the forest sector: <http://bit.ly/NFarbre>. New Forests believes our investments must support a vibrant and active industry, and that our investments will in turn benefit from the expertise of skilled workers and an industry that can attract and retain the best quality of workers. ArbreHub is one such collaborative effort to grow a strong, skilled, and inspiring forest sector. To find out more, visit ArbreHub online: <http://www.arbre.net.au/>.





economies, and our operational activities contribute to local employment, infrastructure, land taxes for local governments, and even innovation, research, and small business opportunities. Similarly, New Forests has established a growing presence in New Zealand, in particular with growth in our investments in the Wairarapa region. As we continue to invest in New Zealand, we look to identify new opportunities to align our plantation investments with needs of the local industry and communities. New Forests' investments also provide services such as pest and weed control, fire risk reduction, and fire management that are important for regional safety and community needs across both Australia and New Zealand.



SOUTHEAST ASIA

The New Forests Tropical Asia Forest Fund is the first fund dedicated to institutional investment in Southeast Asian plantations. By addressing land tenure and community rights, the companies in which we invest can make significant progress to stem inequality and provide sustainable development opportunities. 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. New Forests includes detailed legal review of land tenure and stakeholder consultation including with all relevant indigenous peoples' groups and NGOs as part of due diligence. 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. Our efforts to promote community development must therefore first address legacy problems of plantation establishment and then consider how the plantation business can create shared value moving forward.



Supply Chain Partnerships for the Long Haul

Over the past three years New Forests has entered into more than 10 new long-term agreements for our softwood assets with forest contractors to provide harvest and haulage services valued at more than AUD 300 million dollars. New Forests believes our ability to provide longer-term contracts is a benefit to our supply chain partners, by helping to address the challenges they face in a sector that typically operates on seasonal and short-term contracts.

From the forest contractors' perspective, the security of three- to five-year agreements enables them to:

- attract, retain, and train skilled workers;
- invest in business systems to improve safety, environmental, and financial outcomes;
- obtain competitive finance for new equipment purchases; and
- reduce their unit costs due to the security of ongoing log offtake and improved operating equipment and systems.

As New Forests' fund activities in New Zealand continued to grow in 2016, a key focus has been on fostering relationships with contracting businesses to support operational activities, particularly around

harvest and haul. A recent example is the award of three new harvesting contracts in late 2016 to contractors operating in ANZFF2 New Zealand assets in the Wairarapa and Hawkes Bay regions. The three successful contractors, Horne Bros Ltd, GT Harvesting Ltd, and Cox Forestry Services Ltd were able to use the base contract term of three to five years to purchase new equipment and secure skilled machine operators. Using this approach of long-term contracts enables us to attract better partners and helps them strengthen their businesses – resulting in positive benefits back to our investment funds as well.



Shared Prosperity



UNITED STATES

New Forests has steadily built up a program of conservation investments in the US that also support shared prosperity and help private timberland owners, traditional landowners, and communities to achieve their development goals. Our 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. In addition to the benefits of working with community-centred projects, Forest Carbon Partners also contributes to social outcomes through its ability to preserve open space and working lands and to protect natural ecosystem services that benefit direct users and local communities. Through our partnerships with these individuals, organisations, and communities, the Forest Carbon Partners program supports community conservation goals as well as provides access to revenues that support sustainable economic development.

In 2016, we signed two projects with Alaskan Native Corporations, which are expected to provide significant carbon revenue to the traditional landowners while also providing long-term sustainable development strategies that secure subsistence, livelihood, and recreational resources that are important to traditional ways of life. Forest Carbon Partners completed a ground-breaking transaction with Chugach Alaska Corporation (Chugach) in December 2016. The Chugach region includes one million acres in southcentral Alaska and more than 5,000 miles of coastline along the southern tip of the Kenai Peninsula, through the Kenai Fjords, Prince William Sound, and Gulf of Alaska. Chugach is entitled to 928,000 acres, of which 378,000 acres are full fee entitlement, and 550,000 acres are subsurface estate where Alaska Native village corporations have surface entitlements. As part of the transaction, Chugach sold its Bering River coal rights (comprising a majority of the rights in the Bering River Coal Field) to New Forests. Those coal rights were in turn retired via transfer to the Nature

Conservancy and with a restrictive covenant held by the local Native Conservancy land trust. In turn, Chugach agreed to develop a forest carbon offset project on 115,000 acres (46,000+ hectares) of its timberlands, securing revenue under California's cap-and-trade program while committing to a long-term carbon management strategy. In our Q&A with Chugach Alaska Corporation Chair Sheri Buretta, we discuss how carbon finance helps the corporation achieve its 100-year plan, which benefits its 2,500+ shareholders.





Community-based Natural Resource Management in Malaysia

Since TAFF's equity investment into the Hijauan Group in 2013, New Forests has been working with the portfolio companies in the group to promote enhanced community engagement and to address longstanding land tenure and resource conflicts in the area.

In partnership with PACOS Trust, a local NGO, Acacia Forest Industries (AFI) completed participatory mapping in 2016 to identify and understand the extent of land use and real or potential conflict between communities and the AFI plantation estate. The program also aimed to foster better understanding of land use needs and to set the stage for further land use resolutions.

The program used both community meetings and in-field mapping tools to record detailed information about land use throughout the gazetted area. The project produced maps that included all land use types for each of the 59 villages. Overall participation and cooperation was high, with villages contributing directly to field data collection and mapping. A variety of land uses and activities were recorded including: agriculture, residential area, grave sites, animal husbandry, basic infrastructure and facilities, subsistence livelihoods, sacred sites, recreation, and land reserved for future generations. PACOS Trust reported that the communities see the land as a source of life, a symbol of culture, and part of the identity of indigenous communities and heritage for future generations.

The mapping confirmed overlaps between village land and the gazetted area in which the company works (the gazette is assigned to Sabah Forestry Development Authority, a government agency that is a joint venture partner in AFI). The overlap has led to conflicts between some communities and SAFODA in the past. However, the mapping exercise also found that there was overall a strong recognition of positive development benefits from the plantation activity in the area, including infrastructure and employment opportunities. The mapping results provide a spatially accurate and defined basis for addressing land use conflicts moving forward. The project results indicate a clear need for improved community and stakeholder relations among SAFODA, AFI, and the local communities. SAFODA and AFI are addressing this through a revamped Community & Social Relations committee (CSR committee) to be formed in 2017, which will be responsible for addressing land use conflicts and providing ongoing stakeholder relations for local communities.



AFI also instigated a series of community-based natural resource management workshops to build on the community mapping program. The workshop series, which started in 2016 and will be completed in early 2017, includes presentations from senior government officials at the state and district levels, local NGOs, and AFI. The workshops provide essential information on legal issues around land tenure and licensing, development of non-timber forest product extraction programs, conservation, and sustainable use of natural resources. AFI believes the workshops will help communities develop long-term plans for resource management that complement the ongoing plantation activities in the area.

While community mapping has been successful in recording vital land use information, there remains a need for the villages, SAFODA, and AFI to work together to resolve land use conflicts and implement enhanced sustainable natural resource initiatives. AFI intends to build on this program under its social forestry program and the guidance of its CSR committee.

Shared Prosperity



Conservation Finance Supports Alaska Native Community

New Forests spoke with Chugach Chair Sheri Buretta to find out how their work with Forest Carbon Partners supports the corporation's efforts to provide opportunities to shareholders through responsible management of its land, businesses, and assets.

Q: Thanks for speaking with us, Sheri. First, can you tell us a bit about Chugach?

A: Chugach Alaska Corporation (Chugach) was formed under the Alaska Native Claims Settlement Act (ANCSA) signed into law on December 18, 1971. ANCSA was intended as a mechanism to “settle” the long-standing, legitimate land claims made by Alaska Natives and to provide an economic development structure, in the form of corporations, to create a path to economic sustainability.

Our lands are the foundation of our corporation and our culture, and utilisation of the land for economic purposes is closely balanced with subsistence use and historic preservation.

Today, Chugach represents the interests of more than 2,500 Alaska Native shareholders/members. We generate revenue through a diverse portfolio of businesses, investments, and land development projects. Those profits fuel critical benefits for our shareholders, from dividends and educational scholarships to cultural programs and professional development opportunities.

Q: We understand that Chugach evaluated a range of business models and options for commercialising its coal rights. Can you tell us what about this transaction with New Forests made it the preferred option?

A: We believe using our land in this way is the best approach to support the economic development initiative called for in Chugach's 100-year plan. Through the ANCSA, Chugach was conveyed 73,000 acres of land and mineral rights comprising a large portion of the Bering River Coal Field in 1983. Selling the Bering River coal rights to New Forests and pursuing a forest carbon offset project will benefit shareholders by generating significant revenue over the life of the project. This, in turn, provides valuable funding to Chugach's educational endowment and Settlement Trust funds. In addition, there will be opportunities for potential forestry management business development and shareholder hire related to carbon projects around the state.



Q: How as a corporation do you balance the economic interests with the long-term environmental and social values of the Chugach assets?

A: A hallmark of the Chugach philosophy is our consideration for how the decisions we make today will impact the future health of the corporation. With every decision we make, we ask ourselves whether we're creating a more valuable, sustainable Chugach for shareholders not only today, but for their children and grandchildren tomorrow.

A coal sale and carbon offset project is a unique opportunity to create long-term, sustainable economic and financial benefits for our shareholders and region.

Q: How do you see this management strategy supporting shared prosperity for Chugach and its shareholders?

A: Chugach is a for-profit corporation with a social mission: to ensure profitability, celebration of our heritage, and ownership of our lands for the Alaska Native people of the Chugach region.

Through our unique cash flow structure, the Chugach family of companies generates profits that create long-term sustainability for our corporation, and in turn our shareholders. Earnings generated by our operating businesses, investments, and lands projects fund our educational endowment, Settlement Trust, and shareholder development and cultural programs that directly benefit our shareholders and the Chugach region. The Bering River Coal Field transaction is a great example of shared prosperity in action, as the profits generated directly strengthen the fabric of our shareholder community.

Q: Is there anything else you'd like to share?

A: This transaction represents a milestone not only for our corporation, but for the broader Alaska Native community as well. Chugach was instrumental in leading a campaign with the California Air Resources Board to allow Alaska to participate in California's cap-and-trade program, which they granted in November 2015. This opens the door for the 11 other land-based, regional Alaska Native corporations to pursue similar projects to create sustainable, meaningful value on behalf of their shareholder communities.



A coal sale and carbon offset project is a unique opportunity to create long-term, sustainable economic and financial benefits for our shareholders and region

- Sheri Buretta, Chair of Chugach Alaska Corporation



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 bodies work across the business to promote ethical and responsible decision-making; recognise and manage risks; maintain fiscal responsibility; lay a solid foundation for management and oversight; and 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. Our internal governance in turn informs the approach we bring to the investments we manage.

In 2016 New Forests recruited a full-time Company Secretary to provide additional resourcing to our governance programs. The Company Secretary is responsible for developing systems and procedures to improve governance activities within the New Forests group of companies but also within the administration of our responsibilities to each of our investment funds and accounts. 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 management 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 with a solid foundation in fund governance.

New Forests also uses its governance systems to help promote better corporate governance in the operating companies in which we invest and to support better governance of trust-owned assets. As of the end of 2016, New Forests' funds were actively invested in six operating-level companies, and eight of New Forests' staff, including non-executive directors and the executive team, were active in board positions of those operating companies. These boards present a formal opportunity for directors to engage in the corporate governance 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 drive business value alongside the biological assets of the investments.

Because New Forests' investments include a variety of investment structures, ownership profiles, and risk exposures, we face different opportunities in addressing risk management and governance. For operating companies, the board of directors must contribute to effective governance, ideally with a diversity of experience, perspectives, skills, and backgrounds. While public markets in many cases now provide recommendations or requirements for independence in Boards, private companies typically do not have obligations for independence or other types of diversity in boards. New Forests believes independent directors can add value to corporate governance, which ultimately supports company success and value. In the Q&A that follows with Ken Boundy, Non-executive Director for Timberlink Australia Pty Ltd, we explore the value that independent directors can bring to a business and how they contribute to better corporate governance.

The Value of Board Independence

A company's board of directors holds ultimate accountability and oversight for corporate governance within a business. New Forests asked Ken Boundy, Independent Director of Timberlink Australia Pty Ltd since 2013, to share with us his perspective as an independent director.

Q: What is your role as an independent Director on the Timberlink Board?

A: To add value to the board as an experienced professional company director focusing on the major governance issues faced by a board. This includes taking a view on the CEO and management performance, risk, financial position, and quality of process. My role is also to provide an independent perspective in the event that issues arise between the owner (New Forests' ANZFF fund) and the Company. While there has been no area of conflict, potential issues that may arise include dividend payments, capital spend, and overall growth strategy.

Q: How is your role with Timberlink (as a company wholly owned by a private investment vehicle) different from your role as director for other types of companies?

A: In essence, it is not different at all in the substantive role of being a non-executive director. In this instance, there is a need to also understand the agenda and goals of New Forests' ANZFF and be able to encourage broader understanding between owner and Company, at all times representing judgement around what is consistent with Corporate Law and also fair.

Q: Is it a challenge to consider the best interests of Timberlink as a company separate from the best interests of the fund that ultimately owns the company? If so, how do you and the Board manage this challenge?

A: Generally not a problem as the ground rules and the expectations of the Company are clear. My primary interests are on the success and governance of Timberlink. Having said that, the challenge of being independent remains important. Although none have arisen at this stage, I imagine an issue would be solved by mature dialogue leading to resolution.

Q: How do you think independence in the Board ultimately adds value to the company?

A: Independence is a good check and balance for the owners and it also provides good optics for New Forests' fund investors around good governance. I think a lack of independence leaves the owner company open to potential investor criticism and also removes the important perceived protection for management of the Company – the feeling from the CEO and his team that there is a fair minded and trusted person representing their interests at the board table.

Q: Beyond independence, what other diversity do you bring to the Timberlink Board?

A: I bring broad multi-sector experience to the board rather than pure timber industry experience, including from the wider building materials industry. I also bring specialist experience in innovation, marketing, and global growth.

Q: How do you ensure you receive the information you need to do your job as an independent director?

A: By being as well informed as possible about the objectives of the owner and the Company and by remaining up to date with the professional standards and performance expected of an independent director.

The logo for Timberlink Australia. It features the word "TIMBER" in a dark blue, sans-serif font, followed by "LINK" in a lighter blue, sans-serif font. Below "LINK" is the word "AUSTRALIA" in a smaller, dark blue, sans-serif font. The text is enclosed in a thin blue rectangular border.



Risk Management

New Forests takes the view that risk management can drive performance and support improved E&S impacts. While it is challenging to describe or quantify the benefits of avoided risks in many cases, appropriate risk management is an essential part of a healthy investment or business.

Through risk management we seek to create more resilient, profitable, and impactful investments. Our responsible investment approach supports ESG risk management by positioning our investments to capture value from E&S solutions rather than being exposed to risks from negative E&S impacts.

We also apply a risk management framework to our own 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. Throughout 2016, New Forests has focused on implementing systems to support continual improvement in our risk management approach. A significant project was undertaken to review all fund compliance obligations in preparation for the launch of a new fund compliance software solution in 2017. In addition, the company developed new policies on outsourcing and third-party due diligence that provide a framework designed to ensure that we engage high-quality external service providers that are aligned with our values and assist us in achieving our strategic business goals. These policies ensure that our arrangements with these service providers are subject to appropriate due diligence, approval, and ongoing monitoring.

In addition, risk management at the investment level is a critical success factor within our investment process and asset management. As an example of active risk management, in this report we look at fire risk in plantations. Forest fires can lead to significant asset losses, result in fines for negligence, and can threaten the safety of local communities. Fortunately there are many things we can do to help protect against fire. Operations include efforts to decrease the physical risk of fire, to mitigate potential losses from fire, and to improve awareness and readiness that support effective fire response. Fire insurance may also be used to contain the scale of potential value loss from fire incidents. On the ground, the physical risk of fire can be addressed through measures such as fire breaks and avoiding development on drying peatlands. Lastly, if a fire occurs there must be capacity and skills to safely fight the fire. Often fire readiness is a collaborative endeavour, particularly in fire-prone areas of Australia where resources can be pooled to ensure community safety and to protect plantation resources. In 2016, through our investments in the Green Triangle region, we contributed to a new integrated bush fire management approach, including contracting a new fire coordinator to work across the region and coordinate the

forest fire resources in the region. This collaborative action leverages the asset-based investments that are made in fire fighting equipment and creates an efficient framework for fast and safe response to bushfire.

Forest fires in Southeast Asia are also under scrutiny for their contribution to deforestation, climate change, and regional haze – a severe health threat. At TAFF's portfolio company HKI in West Kalimantan, Indonesia, the company's fire program is led by the social manager of the plantation, reflecting the importance of working with local communities to prevent fire. The case study on the following page describes how the company seeks to engage communities to enhance fire awareness, readiness, and community safety.

Risk management at the investment level is a critical success factor within our investment process and asset management.



Fire Awareness and Prevention at PT HKI

PT Hutan Ketapang Industri (HKI) takes a proactive approach to ensuring its plantation assets, concession, employees, and local communities are protected from fire. The plantation rubber company operates within a 100,000 hectare concession in West Kalimantan, and must be prepared to prevent against and manage forest fire.

To meet this objective, HKI's fire program works closely with the villages in its concession. To date, 26 community members from the villages of Pangkala Batu and Mekar Utama have been trained as part of the fire brigade. In addition, community outreach sessions take place twice a week. These sessions are provided jointly with the local fire department and focus on education around forest fire issues for both local communities and HKI employees. Outreach includes education about fire protection and readiness laws and helps communities to understand the connection between fire management and community safety. HKI believes these villages must be partners in preventing fire.

HKI's fire program is conducted in close cooperation with Manggala Agni, the Indonesian Forest Fire Control Brigade established by the Ministry of Forestry. Manggala Agni was formed to carry out forest fire control activities including prevention, fire suppression, and management of issues after fires. Half of HKI's 72 fire fighters have already been certified by Manggala Agni, and the company continues to work with the brigade. In addition to a well-trained brigade, HKI maintains essential equipment needed to suppress fires. HKI also

operates a fire risk rating and awareness system with fire towers, regular fire patrols, and fire warning signs located throughout its estate. However, given the remote nature and large scale of the concession, factors such as road access and condition, infrastructure, and surveillance are also vital for monitoring and response to fire.

From the company perspective, the fire brigade and related resources are essential for risk management. Having such capacity meets legal requirements and ensures compliance with Indonesian law. Furthermore, community involvement in the program reflects the high importance HKI places on community engagement to jointly protect against fire. HKI views preventive action as the top priority, and believes this is the best mitigation to minimise adverse E&S impacts of fire and to limit losses caused by forest fire. Protecting the company's assets and ensuring local safety mean fire awareness and readiness is a constant focus for the company.

Continuing to Make Progress

New Forests' business has grown on the belief that sustainable practice makes for better returns. Yet the world's natural capital continues to go largely unpriced and undervalued.

Our challenge as an investment manager is to find ways in which responsible management of ESG issues drives a better bottom line – through risk mitigation, long-term value accretion, and through realising opportunities for innovation and sustainable growth. As our Sustainability Working Group continues to progress New Forests' concept of Sustainable Landscape Investment, we will look for shared value opportunities in our own business and in the assets we manage.

With a commitment to transparency, we will report on our efforts as we move forward and will be accountable to ourselves and stakeholders for the impacts of our investments. We welcome your feedback and collaboration along the way.

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