
2017
SUSTAINABILITY
REPORT



The past year has in some ways been turbulent for the international policy environment related to sustainable development, climate change, and responsible investment.

The United States withdrew from the Paris Agreement and several governments implemented policies that restrict free trade or investment flows. Yet, behind this there is a rising recognition by investors, businesses, cities, and non-governmental organisations that change is necessary. We are heading towards a world with 10 billion people in 2050, and a gross world product that could exceed \$200 trillion at that point. Yet the world has not gotten any larger, and our human society is putting more and more pressure on natural resources.

The forestry sector has a role to play in adjusting our economy and consumption patterns to a more sustainable basis. Forests are a perpetually renewable resource and provide a myriad of products from building materials to packaging, tissues, paper, fabrics, energy, and household furnishings. Many of these forest products also substitute for higher embodied energy materials like concrete, steel, and petrochemicals. And forests are naturally a reservoir of carbon and support biodiversity, water quality, and soil conservation. It is not surprising that forests have often been called a central part of the natural infrastructure of the world.

We believe that the trend in the forestry sector is towards responsible intensification of timber production. The goal is to limit the area of land used for intensive production – so that remaining natural ecosystems can be conserved – while steadily increasing production per hectare. Alongside that needs to be financial support for conservation, which requires public-private partnerships, government policy that places value on ecosystem services, and cooperative and innovative approaches to investments, such as the concept of blended finance.

New Forests has strived to generate shared value from our investments—sound risk-adjusted financial returns, but also community benefits, conservation of natural systems, and collaboration in landscape management. We now operate in six countries, and manage over 855,000 hectares of land. More than a third of that land is managed for conservation. We directly support nearly 4,200 jobs. Our forests hold nearly 113 million tonnes of carbon dioxide equivalent. We harvested and sold nearly 6 million tonnes of timber in 2017, and operated sawmills, woodchip mills, port facilities, and seedling nurseries. I personally feel that we are now controlling world-class assets, operating sustainably at scale, and can increasingly contribute new ideas on how the forestry sector can evolve and contribute to society.

Our current challenge, outlined in this report, is to link our philosophy of forest management to measurable indicators that collectively show progress towards an end-goal, whether that be expanding carbon stocks, improving worker health and safety, or enhancing productivity in the forests being used for commercial harvest. Over time we expect that improvements across the range of measures we include in our concept of Sustainable Landscape Investment will correlate with better investment performance.

I am proud to share that as of the publication of this report, New Forests has become a Certified B Corporation®, meeting independently verified social and environmental performance, public transparency, and legal accountability standards. Throughout 2017 we worked towards B Corp™ certification and look forward to joining the community of B Corps in 2018. As a B Corp we aspire to use the power of markets to solve social and environmental problems through our investment business.

Sincerely,

David Brand
Founder and Chief Executive Officer
New Forests Pty Ltd



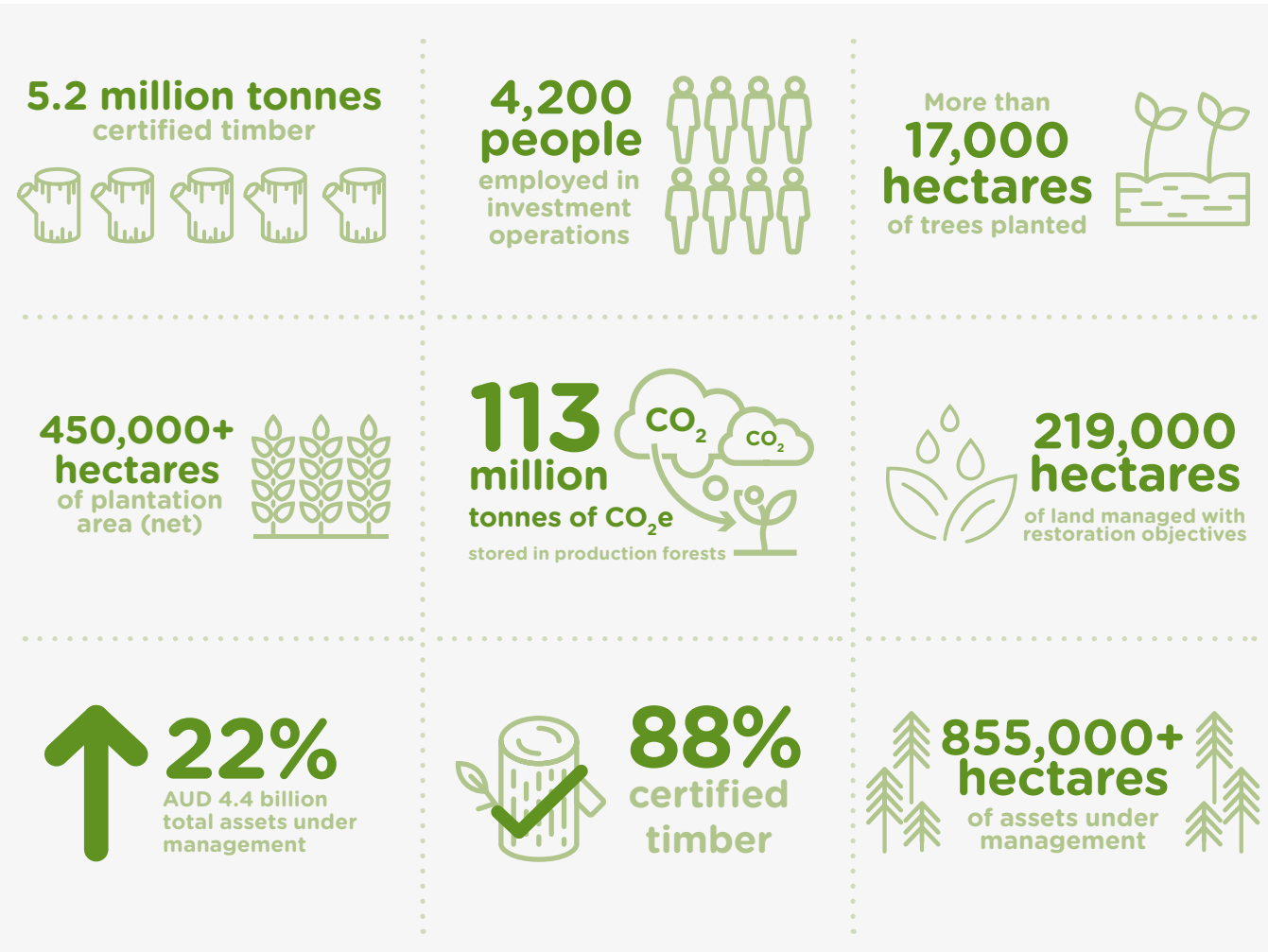
New Forests' 2017 Sustainability Report covers the calendar year 2017 business and investment activities of the New Forests group of companies and describes our approach and performance as responsible investors.

Public sustainability reporting reflects our belief that environmental, social, and governance (ESG) risks, opportunities, and impacts are material considerations for the stakeholders of our business. Moreover, we are dedicated to generating positive sustainability performance alongside commercial

investment returns. New Forests wants to engage transparently and cooperatively with investors, others in the private sector, and civil society to ensure our efforts contribute to shared goals. We therefore welcome any questions or comments about this report and our sustainability efforts.

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*Figures presented above are rounded.

Update from the Sustainability Working Group



New Forests' Sustainability Working Group (SWG) completed its first full year in operation in 2017. The SWG focuses on continual progress and innovation in the company's sustainability programs. 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 work of the SWG is central to the evolution of our sustainability programs. The group is designing the new framework by which we aim to manage and report on sustainability performance. This approach will scale from sustainability performance management at the asset level to the broader sustainability impact of our funds at regional levels.

Throughout 2017, the SWG worked towards its two medium-term goals under its 2020 work plan: (1) benchmark New Forests' sustainability performance and demonstrate that Sustainable Landscape Investment enhances performance and (2) pursue new business and investment opportunities by creating shared value. To develop our benchmarking approach, the SWG conducted a review of sustainable forest management and impact investing

frameworks to design a set of metrics that can be used to measure, manage, and monitor ESG performance across a range of indicators. The SWG wants the body of metrics to focus on the material ESG and financial aspects that cumulatively shape performance within the SLI context. It has been challenging to identify metrics and indicators that are broadly applicable across the diverse geographies of New Forests' investments, for which data can be collected and monitored without requiring excessive costs and resources, and that can be linked to meaningful management and reporting objectives. The SWG has opted to develop a single overarching SLI metric set that can be customised by region, type of investment, and investment structure - enabling flexibility and helping to ensure the metrics are fit for purpose.

Throughout 2018, the SWG aims to complete internal and external consultations for these new metrics and develop guidance for their use in impact management and monitoring. The SLI performance framework marks a shift from reporting on sustainability impacts with a backward-looking view to supporting forward looking management strategies. As the new system is still under development, this 2017 report uses the same E&S metrics

New Forests has reported against since 2014.

Alongside our internal efforts to better define sustainability performance, there are new and emerging frameworks for disclosing, benchmarking, and managing sustainability risks and performance in investments, such as the Natural Capital Protocol Forest Sector Guide, the Task Force on Climate-related Financial Disclosure, and the opportunity to align investments with the Sustainable Development Goals, among others. We aim to align our efforts with these other industry and collaborative projects, but also feel that we must develop a system that integrates directly with New Forests' approach and systems for asset management. The aim is to position our investment programs to meet the rising global demand for investments that generate positive environmental and social impacts while also improving our understanding of the linkages between sustainable investment management and financial performance.

We look forward to engaging with our clients, business partners, and other stakeholders as we deepen our commitment to investing in sustainable landscapes.

SUSTAINABLE LANDSCAPE INVESTMENT & THE SDGS

SUPPORT SECURITY AND RECOGNITION OF

LAND RIGHTS



FORMALISE WORK AGREEMENTS

IN EMERGING ECONOMIES



ELIMINATE CHILD LABOUR

PROHIBIT FORCED LABOUR

PROMOTE SMALL BUSINESSES IN THE SUPPLY CHAIN

DEVELOP AND MAINTAIN RURAL INFRASTRUCTURE



RESTORE ECOSYSTEMS AND HALT LAND DEGRADATION

SUSTAINABLE DEVELOPMENT GOALS



The SDGs and Responsible Investment in Forestry



Since the 2015 launch of the Sustainable Development Goals (SDGs), there has been a clear call to action for the private sector to support the 2030 Agenda for Sustainable Development. While most clearly linked to Goal 15 - Life on Land, forestry investment can make a difference to many of the goals and targets of the SDGs. The Forest Stewardship Council (FSC) has identified 11 Goals and 35 Targets that are supported through responsible forest management.¹

New Forests welcomes the SDGs as a framework that can help guide investment activities and support sustainable development. New Forests' business is wholly aligned with Target 15.2: By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally. We have reviewed our business against the SDG framework to identify where we already contribute to achieving the SDGs and to better understand how we can make meaningful progress on the SDG targets and demonstrate our impact as it relates to the SDG indicators.

• **Goal 8 - DECENT WORK AND ECONOMIC GROWTH** - Our commitment to shared prosperity focuses on providing safe jobs

with integrity, opportunity for skills development and training, and strengthening supply chains to be more resilient and productive. Nearly 4,200 people are directly employed in the operations of the investments we manage. Workers' rights are ensured and promoted through adhering to the Core Conventions of the ILO, as included under FSC certification.

• **Goal 12 - RESPONSIBLE CONSUMPTION AND PRODUCTION** - We use third-party certification to demonstrate the sustainability of forest management practices, with nearly 525,000 hectares of certified forests in our portfolio. Our investments harvested and sold nearly 5.2 million tonnes of certified timber in 2017. We also support the development of the growing bio-economy, which will transform markets towards the sustainable production and use of bio-based materials.

• **Goal 13 - CLIMATE ACTION** - Forests are essential in climate regulation and climate change mitigation. Our investments store nearly 113 million tonnes of carbon in biological systems that are managed on a sustainable basis, and produce low-carbon materials for use in a range of sectors. We have created innovative

investment structures that support greenhouse gas emissions reductions, including our Forest Carbon Partners program, which has registered more than 6.4 million offsets since inception and verified 370,000 tonnes of California Carbon Offsets in 2017.

• **Goal 15 - LIFE ON LAND** - The sustainable management of the world's forests is at the core of our investment program. We manage more than 855,000 hectares of forests and land under long-term plans for sustainability. Through industry leadership, collaboration, and innovation we seek to advance best practice in forestry investment to generate positive environmental and social outcomes from the investments we manage while encouraging others to do so as well.

Throughout this report, you will read about the Responsible Investment (RI) approach that guides our business and the SLI framework that supports our asset management. We hope the context we provide, the data we disclose, and the case studies we share demonstrate how our commitment to RI and SLI align with global efforts to support the Agenda for Sustainable Development.



¹ FSC (2016). FSC: A tool to implement the Sustainable Development Goals. Available for download at: <https://ic.fsc.org/en/web-page/-/fsc-contributions-to-achieving-the-sustainable-development-goals>.



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

AUSTRALIA AND NEW ZEALAND		AUD 3.9 BILLION ²
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 290,000 hectares of Australian softwood and hardwood plantations as well as the Timberlink Australia and Timberlink New Zealand sawmilling, sales, and distribution businesses.	
Australia New Zealand Forest Fund 2 (ANZFF2)	New Forests’ second timberland fund for the ANZ region closed in 2014. The fund completed its investment program in 2017 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.	
Australia New Zealand Forest Fund 3 (ANZFF3)	New Forests’ third timberland fund for the ANZ region held its final close in November 2017. ANZFF3 will target high value timberland and associated infrastructure in Australia and New Zealand.	
SOUTHEAST ASIA		AUD 198 MILLION ³
Tropical Asia Forest Fund (TAFF)	New Forests’ emerging markets strategy focuses on sustainable forestry in Southeast Asia. The fund settled on its final investment in early 2017, and New Forests manages a portfolio of investments in Malaysia, Indonesia, and Laos.	
UNITED STATES		AUD 362 MILLION ⁴
Forest Carbon Partners (FCP)	FCP finances and develops forest carbon offset projects for the California carbon market. FCP works with family, industrial, and tribal landowners across more than 183,000 hectares (450,000 acres) in the continental US and Alaska to create carbon offset projects that deliver a new source of revenue for forest owners.	
Forest Climate Solutions (FCS)	The FCS investment program includes a separate account managed since 2016, and in 2017, New Forests reached agreements to acquire additional properties in California on behalf of private clients. With an acquisition settled in January 2018, New Forests now manages around 75,000 hectares (185,000 acres) of US timberlands under this strategy.	

The following sections describe New Forests’ three regional investment strategies and highlight key activities from 2017. The fund and investment strategy acronyms above will be used throughout this report. New Forests’ total assets under management and committed capital increased from AUD 3.6 billion to more than AUD 4.4 billion by year end 2017, an increase of 22% supported by both new capital raisings and valuation increases in operating assets.

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 our assets under management in New Zealand.

New Forests’ investment strategy in the region 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 (pine). The ANZFF funds have also invested in timber processing and infrastructure facilities to optimise supply chain value and risk-weighted returns. All assets are managed on a sustainable basis, which New Forests believes will maximise our investors’ long-term returns.

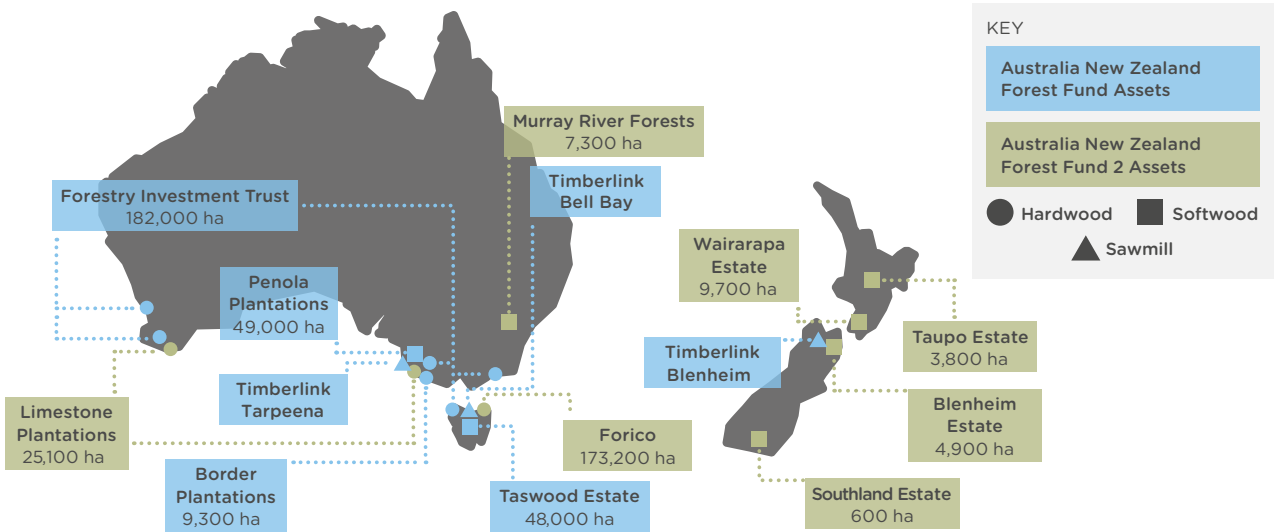
2017 was a successful year for the ANZFF and ANZFF2 investments with the following achievements:

ANZFF

- Penola Plantations and Taswood Estate, Australian softwood plantation assets, increased production by 10% to achieve a record production year with 1.5 million green metric tonnes (GMT) of sales to domestic and export customers. The assets successfully implemented new log truck driver training programs and harvesting operator fatigue management safety protocols.
- Timberlink Australia, an Australasian lumber processing business, 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 because of good environmental performance over an extended period.
- Forestry Investment Trust (FIT), an Australian hardwood plantation asset, reached a production milestone with 1 million GMT of woodchips exported from each of Albany Port in Western Australia and Portland Port in Victoria. FIT also expanded its work with Birdlife Australia to systematically inventory birds across its property portfolio to inform future species conservation and landscape restoration work.

ANZFF2

- Taupo Estate and Wairarapa Estates, New Zealand softwood plantation assets, achieved Forest Stewardship Council Forest Management (FSC FM) certification. These investments supported local university forest programs in areas linked with the assets’ future operations.
- Blenheim Estate, a New Zealand softwood plantation asset, successfully partnered with a local wildlife trust to support the protection and breeding of the endangered New Zealand Falcon.
- Tasmanian Forest Trust, an Australian hardwood plantation asset managed by Forico Pty Ltd, achieved a record production year with 1.6 million GMT of sales to export and domestic customers. The asset successfully completed planting of 7 million seedlings over more than 6,300 hectares.
- ANZFF2 executed three sales contracts for the acquisition of 27,900 hectares of forestland assets in the North and South Islands of New Zealand. These acquisitions were submitted for approval by the New Zealand Government under national laws governing foreign investment.



² Net Asset Value and committed capital as at 31 December 2017 for ANZFF, ANZFF2 and for ANZFF3. Not audited.

³ Net Asset Value and committed capital as at 31 December 2017. Not audited.

⁴ Includes Net Asset Value and committed capital as at 31 December 2017 for Forest Carbon Partners and Forest Climate Solutions (formerly Carbon Forestry) as at 31 December 2017. Not audited.



Following the 2016 launch of ANZFF3, New Forests completed the capital raise with a final close of AUD 873 million in November 2017. New Forests believes this region has continuing strong fundamentals for long-term timberland investment with well understood biological growth, access to growing export and domestic markets, low sovereign risk, regionally fragmented ownership and world class forestry contractors and infrastructure.

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. New Forests manages investments in assets exposed to 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 timber supply. There is growing trade in logs, lumber, pulp, woodchips, and bioenergy pellets among countries in the Asia-Pacific region, with Southeast Asia offering competitive growing and operating conditions to service the region's timber demand. This demand has been driven not only by industries exporting to global markets, but also by rising consumption from the growing middle class across China, India, and Southeast Asia. Together, this variety of expanding and diversifying markets makes a compelling opportunity for forestry investors.

New Forests has been active in timberland markets in Southeast Asia since 2007, and the company established its first office in the region in 2008. New Forests began developing its pipeline of investment opportunities at that time and over the past decade has developed extensive business and governmental relationships in Southeast Asia. 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. We seek to add value through disciplined forest management, a focus on market development, and a best-in-class approach to responsible investment.

Highlights from New Forests' Southeast Asian investment program in 2017 include the following:

- TAFF acquired a hardwood plantation of approximately 15,000 net hectares in Laos now operating as Mekong Timber Plantations Ltd. This acquisition brings the gross area of TAFF investments to around 150,000 hectares with a target of more than 60,000 net hectares of certified forest plantations.

- TAFF portfolio company Hutan Ketapang Industri undertook and completed a series of environmental and land cover studies, seeking to meet criteria of the IFC Performance Standards and the Forest Stewardship Council and to inform the development of a new Environmental and Social Management System.
- TAFF portfolio company Acacia Forest Industries constructed a new high-quality nursery to increase its control over seedling stock, with a productive capacity of 2.5 million seedlings per year. This supports AFI's ongoing conversion to eucalypts that are more disease and pest resistant.

FOREST CLIMATE SOLUTIONS AND CONSERVATION FINANCE IN THE UNITED STATES

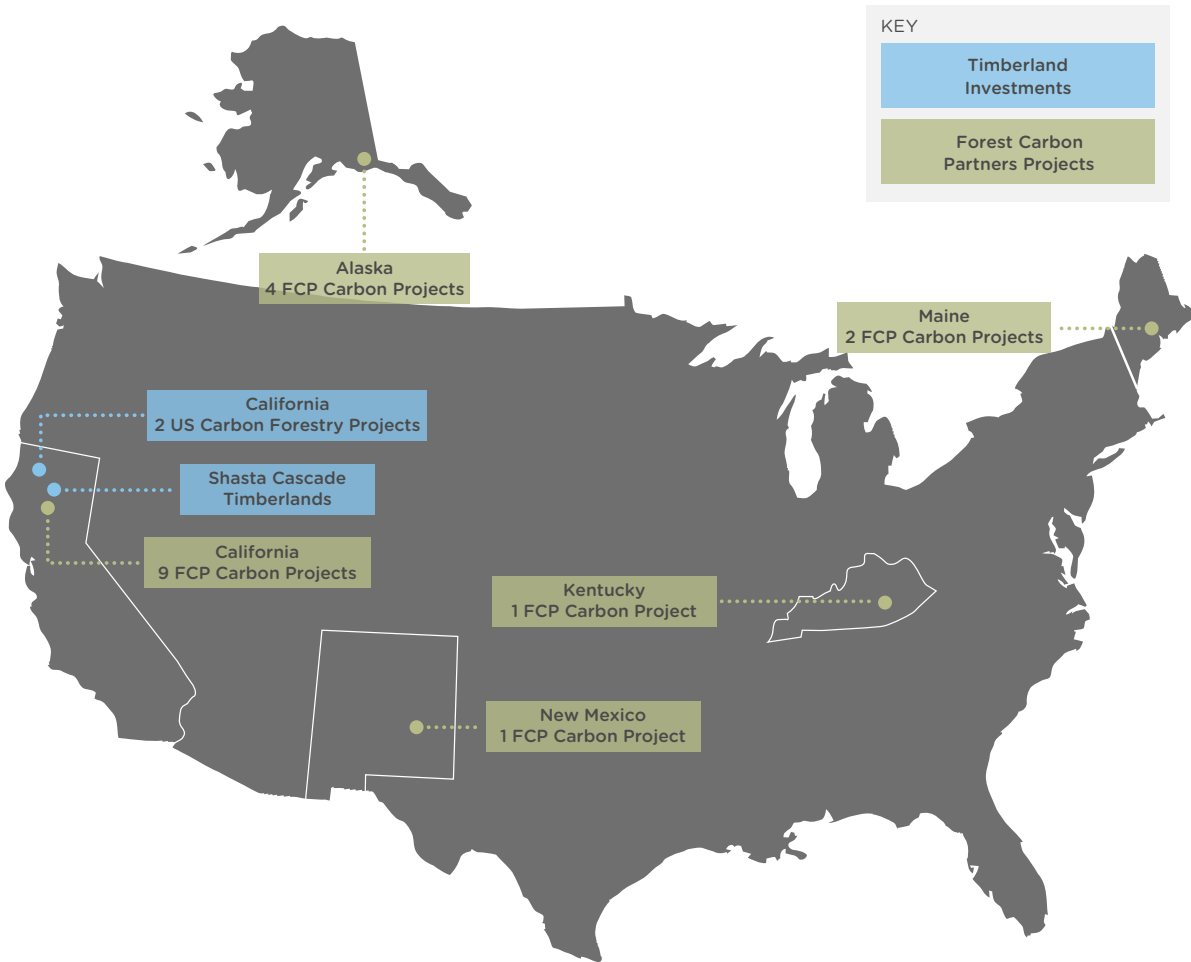
Since launching its US business in 2007, New Forests has pioneered investments at the forefront of timberland and environmental markets and was the first company to successfully register a forest carbon offset project in California's cap-and-trade program. Since then, New Forests has grown to be one of the leading suppliers of forest carbon offsets in the California market. Forest Carbon Partners - New Forests' carbon project finance vehicle - works with Native American tribes and corporations, non-profit land trusts, and private owners to develop high-quality carbon projects that deliver climate mitigation and support landowner conservation objectives. Building on this expertise and New

Forests' timberland investment track record, our Forest Climate Solutions investment strategy in the US seeks to provide higher returns by combining revenues associated with timberland investment, carbon management, and conservation finance.

New Forests' US investment business continued its growth trajectory in 2017, with the following achievements.

- As of 2017, Forest Carbon Partners has 16 active projects in its portfolio. This includes listing three projects during the year with the termination of one project due to wildfire impacts. Since its launch in 2011, Forest Carbon Partners has achieved significant scale with projects in five states; as of end of 2017, nine of these projects were registered and had been issued 6.4 million credits since inception.

- Throughout 2017, New Forests continued to establish our presence in the US timberland market, differentiated by our expertise in combined timber and carbon management. In October 2017, we announced an agreement to purchase 170,000 acres of high-quality timberlands in northern California, now called Shasta Cascade Timberlands; the transaction settled in 2018.





New Forests maintains a commitment to responsible investment (RI), which forms a core component of our investment management business. We believe applying a RI lens to the way we originate, evaluate, and manage assets will not only support improved investment performance but will contribute to better outcomes for the environment and society. New Forests’ ESG systems and procedures provide a structure for RI, which we look to continually improve through engagement – with our staff, clients, and business partners.

RESPONSIBLE INVESTMENT POLICY

New Forests’ Responsible Investment Policy is the guiding framework for our practice of RI. The policy sets out the scope and approach to integrating ESG considerations into New Forests’ business and investment programs.

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 is a signatory to the Principles for Responsible Investment (PRI), a global membership body representing more than 1,700 asset owners, asset managers, and advisers with more than USD 60 trillion in assets under management. The PRI works to promote RI globally, and New Forests has been a member since 2010.

As a PRI signatory, New Forests participates in the annual reporting and assessment framework. We are proud to have received another A+ rating in the 2017 assessment (which covers our 2016 activities), with 30 out of 30 stars in the Strategy and Governance model. New Forests continues to make our PRI reporting and assessments easily available by download on our website. Our PRI report covering 2017 activities was submitted in March 2018, and the report and assessment results will be posted on our website when available.

In 2017, New Forests joined the PRI’s latest private equity working group, which seeks to produce guidance on how Limited Partners and General Partners can monitor and report ESG integration practices during the lifetime of a private equity fund. New Forests has also proactively worked with the PRI and its network to build a focus on responsible investment in real assets, particularly timberland. We are pleased to note that PRI has launched a new programmatic area focused on real assets, which kicks off in 2018. We look forward to supporting the PRI in this new initiative, which aims to provide tools and resources to support RI in real assets and to introduce new reporting tools under the PRI reporting umbrella in the coming years.



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

30/30
FOR
“PRI OVERARCHING
APPROACH”



SUSTAINABILITY THEMED INVESTMENT AS AN RI STRATEGY

New Forests is proud to be among the investment managers leading the growth of responsible investment (RI) in Australia, with a foundation in sustainability themed investment. New Forests’ sustainable forestry funds constitute more than 10% of the Australian market for sustainability themed investment as published in the Responsible Investment Benchmark Report 2017, published by the Responsible Investment Association of Australasia (RIAA). RIAA defines these sustainability themed investments as one of the possible “core RI” strategies applied by investors. This means our global funds under management contribute to the more than AUD 51 billion in core RI strategies managed in Australia.

The Principles for Responsible Investment (PRI) also highlights the role of these themed investments in the RI universe. The organisation supports a work stream focused on exploring investment opportunities that

deliver positive environmental and social impact within a fiduciary and market-return context. The PRI notes that such themed investments allow investors to target solutions to major environmental and social challenges – a call to action that is increasingly supported by global agendas such as the Sustainable Development Goals and the Paris Agreement.

The RIAA analysis also indicated that New Forests’ funds under management met their threshold for demonstrating leading ESG integration, indicating that a high-quality approach to broad RI practices is also in place. New Forests was one of only three managers to meet the threshold of leading ESG integration as well as offering core RI strategies, which we believe reflects our aim to continually meet international best practice for ESG integration while applying a focused approach to generating sustainable impacts in the forestry asset class.

5 Responsible Investment Association of Australia, 2017. Responsible Investment Benchmark Report: 2017 Australia. Available for download at <https://responsibleinvestment.org/resources/Benchmark-report/Australia/>.

6 Principles for Responsible Investment, 2012. Environmental and Social Themed Investing. Available for download at: <https://www.unpri.org/investor-tools/thematic-and-impact-investing>.



SOCIAL AND ENVIRONMENTAL MANAGEMENT SYSTEM (SEMS)

New Forests' SEMS has been a cornerstone of the company's approach to responsible investment since 2010. The system is designed to identify, manage, and monitor 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, using 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 2017, New Forests executed SEMS Declaration Documents for its newest investment vehicles, ANZFF3 and Shasta Cascade Timberlands. New Forests also continued its SEMS training for all new employees and property managers.

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 certification programs offer credible assurance and transparency for both timber markets and stakeholders. New Forests' SEMS sets guidance for the types of third-party certification schemes we use and that are required for the investments we manage. 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.

Forest Certification

New Forests is committed to achieving and maintaining internationally recognised forest certification on all eligible assets worldwide. New Forests uses the Forest Stewardship Council® (FSC) and some standards endorsed by the Programme for Endorsement of Forest Certification® (PEFC), such as the Australian Forestry Standard (AFS). Some assets also participate in national timber legality systems and standards, according to local regulation and voluntary systems. As of the end of 2017, New Forests' investments included approximately 525,000 hectares (gross) of certified production plantations and forests. For investments that are not yet certified, New Forests requires time-bound commitments and targets.

Forest certification supports the transparency of responsible forest management in supply chains and demonstrates good forest stewardship to the market. New Forests also uses forest certification and standards systems to strengthen investment due diligence and operational management. 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. In 2017, New Forests participated in the ongoing consultation surrounding forest conversion and restoration (see case study on page 13). In addition to this targeted engagement, the company maintained representation in the Australian Standards Development Group and attended the 2017 FSC General Assembly. We believe we must be active FSC members to promote the effectiveness of forest certification as well as to 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 Australian Forestry Standard (AFS), which is a PEFC-endorsed standard and particularly important for domestic timber markets.

Forest certification is also important for timber sales, markets, and processing. In 2017, the Timberlink New Zealand sawmill (an ANZFF company) achieved FSC chain of custody certification for its business and products, meaning all three Timberlink Australia and New Zealand mills can produce and sell FSC certified products. In addition, New Forests' timber marketing business, New Forests Timber Products, continues to differentiate itself in the market with a focus on high-quality, certified plantation woodchip supply to Asian markets. Maintaining well recognised forest management certification is therefore an ongoing priority from both a financial and operational perspective in our investments.

Certification Status of Forestry Investments by Fund in 2017

	FSC	PEFC	Notes
AUSTRALIA NEW ZEALAND FOREST FUND (ANZFF)			
Forestry Investment Trust	✓	✓	
Taswood Estate	✓	✓	
Border Plantations			In process of integrating to new property manager's FSC group scheme
Penola Plantations	✓	✓	
AUSTRALIA NEW ZEALAND FOREST FUND 2 (ANZFF2)			
Limestone Plantations	✓		
Forico	✓	✓	
Wairarapa Estate	✓		
Taupo Estate	✓		
Blenheim Estate	✓		
Southland Estate			Progressing towards FSC certification
Murray River Forest	✓	✓	
TROPICAL ASIA FOREST FUND (TAFF)			
Acacia Forest Industries	✓		
Hutan Ketapang Industri			Progressing towards FSC certification
Mekong Timber Plantations			Progressing towards FSC certification
FOREST CLIMATE SOLUTIONS (FCS)			
Eureka (California Timberland Investments)		✓	Progressing towards FSC certification



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

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



IFC Performance Standards

The IFC Performance Standards (IFC PS) are 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. During 2017, New Forests engaged closely with its TAFF operating companies to improve conformance to the IFC PS and ensure developing business systems reflected the IFC requirements for integration of E&S management. Approaches deployed in TAFF include engaging consultants to develop and monitor Environmental and Social Action Plans; engaging a team of specialists to develop Environmental and Social Monitoring and Management Systems; and recruiting senior managers into the companies who have direct experience with the IFC PS. In each case, New Forests has worked with the portfolio company to

set targets and allocate resourcing so that the IFC PS can be implemented. This is particularly important as the standards are not yet well known within the forest industry and set a high bar for systems compliance.

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 and Australian Carbon Farming Initiative; and water trading under government schemes in Australia.

During 2017, there were considerable carbon policy developments in some of New Forests’ key markets.

- The State of California extended its cap-and-trade program to 2030 following intense debate and review of competing bills that would have variously ended the program or modified it through extensions. The successful bill provides security to investors who manage US forests for a combination of climate mitigation and timber revenues to the program’s 2030 horizon.
- The Australian Carbon Farming Initiative approved a methodology for plantation forestry following an extended development and consultation process; New Forests supported the development of the new methodology through participation in the working group to create the standard, and ANZFF2 investment company Forico has secured the first contract for emissions reductions from a plantation forestry project under the Australian Emissions Reduction Fund.



RESTORATION AND COMPENSATION IN FOREST CERTIFICATION

The Forest Stewardship Council has prohibited the certification of companies that deforested land after FSC’s inception in 1994. Years of stakeholder debate around this “1994 rule” led to the development of proposals to allow such companies to seek certification if they commit to programs for restoration to compensate for the impacts of past forest conversion. As a member of the FSC, New Forests has been active in this debate and the development of proposals that would increase the ability of responsibly managed plantations to gain FSC certification, as well as mechanisms that encourage forest restoration and possible forest compensation markets.

In September 2017, New Forests was invited to take part in the desktop assessment of proposed restoration and compensation procedures that had been developed by an FSC working group seeking to address the 1994 rule. New Forests’ operations team members Amanda Naismith and Marthe Tollenaar joined the FSC working group in Bonn and presented two case studies from New Forests’ investments, one from Australia and one from Asia. Both case studies demonstrated how forestry investors have considered past deforestation impacts as part of investment decision-making, how forest management practices can address past impacts of deforestation,

and how the proposed restoration and compensation procedures could be applied to actual forestry businesses. The working group received the case studies favourably, and indicated that using real world examples had been helpful to understand how the proposed requirements may create barriers to participation through introducing uncertainty and increasing costs. At the same time, the New Forests investment examples showed that responsible investors are already seeking to use the FSC standards to improve forest management practices and address legacy deforestation impacts.

At the FSC’s October 2017 General Assembly, the FSC membership voted that the organisation develop a mechanism that includes a policy approach to compensation for past conversion, including restoration and conservation that promote environmental values and compensation for other socio-economic values. The motion approved at the General Assembly was built in part on the progress achieved through the desktop assessment described above. New Forests supports the FSC in developing policy guidance on the 1994 rule that can pragmatically encourage restoration within the FSC system.

Sustainable Landscape Investment

ESG Measurement and Performance

New Forests has publicly reported on the material E&S impacts of our investments since 2012, with a focus on continual improvement in our approach to disclosing E&S information.

On the following pages, we present data that describe and quantify the impact of sustainable management of forests and land in New Forests' investments. While the local management context of each asset differs, we strive for a consistent management approach and to provide transparency in our disclosures about the assets we manage and their E&S impacts. As we look forward to refining and piloting our new Sustainable Landscape Investment performance framework in 2018, we continue to disclose material E&S impacts using a subset of the Impact Reporting & Investment Standards (IRIS) land conservation metrics,⁹ which have been selected for their relevance and materiality to New Forests' investment programs. New Forests uses these metrics alongside discussion of the six thematic areas of our SLI model.

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 New Forests' funds under management – as well as at the level of each fund or separate account, allowing investors to monitor

the impacts of their investments directly. Additional ESG reporting is provided to investors in quarterly fund reports that describe asset-level performance and progress against targets like certification. In this report, we 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 our investments are managed for sustainable outcomes for the environment and society. In total, New Forests' investments encompassed more than 855,000 gross hectares of forests and land at the end of 2017. This includes the full licence, title, fee, or concession area of all investments completed by ANZFF, ANZFF2, TAFF, FCP, and in the FCS separate accounts. E&S reporting throughout this report refers to data for the calendar year 2017 and as at 31 December 2017 wherever possible. Only projects and assets in the portfolio at the end of 2017 are included; dispositions prior to and acquisitions that settled after 31 December 2017 are excluded.

Note that where joint ventures or share cropping agreements are in place, we have included the complete estate rather than pro rata shares. This is because the ESG management we apply affects the entire estate; however, we recognise that some clients may seek to account for the impacts of their portfolio on a pro rata basis that reflects only their portion of ownership in the underlying asset.

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. 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 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.

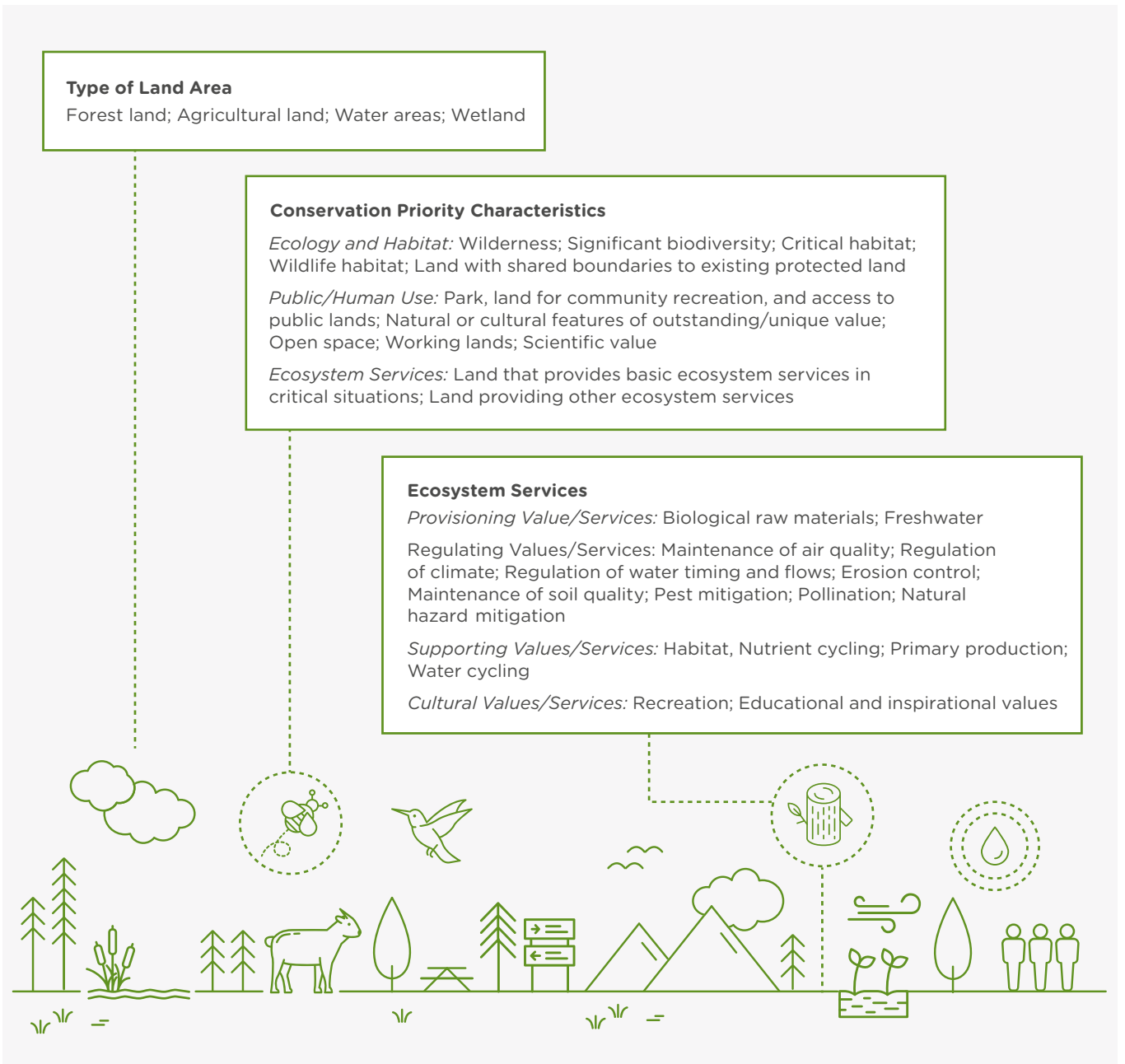
Metric	Metric ID	ANZFF	ANZFF2	TAFF	FCP	FCS	All Funds
Hectares of Land under Direct Control including Portfolio Companies and Property Managers							
Cultivated/Planted Area	OI1674	220,229	119,462	45,918	-	-	385,609
Sustainably Managed	OI6912	292,114	222,013	107,990	-	2,702	624,819
Total Directly Controlled	OI5408	292,114	222,013	139,324	-	2,702	656,153
Hectares of Land under Indirect Control including Portfolio Companies and Property Managers							
Cultivated/Planted Area	PI7403	438	13,294	535	-	-	14,267
Sustainably Managed	PI6796	-	14,829	-	183,237	-	198,066
Total Indirectly Controlled	PI3789	438	14,829	535	183,237	-	199,039
Total Land Managed		292,552	236,842	139,859	183,237	2,702	855,192

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

New Forests' investments encompassed

more than **855,000** hectares

of forests and land at the end of 2017



IRIS metric IDs: PD3922 Type of Land Area; PD9009 Conservation Priority Characteristics; PD8494 Ecosystem Services.



Biological productivity is at the core of value creation in New Forests’ timberland investments. By seeking continual improvement through productivity enhancements, New Forests seeks to increase not only biological growth and yield but also return on investment.

Today’s forest sector uses technology and innovation to spur growth, encourage favourable product characteristics, and reduce waste. Activities aimed at enhancing productivity must be cost effective and balanced against negative externalities. However, in general, New Forests aims to generate steady, incremental productivity gains so that we can make the most effective use of each hectare under production. For this reason, productivity enhancement is important to both the sustainability and financial performance of our investments.

New Forests’ investment strategies provide responsible approaches to timber production from semi-natural forests in the US and intensively managed plantation systems in Australia, New Zealand, and Southeast Asia. Increasing the biological productivity of these assets means more timber is grown and a greater volume can be sustainably harvested over time, which increases the value of the forestry assets. Within New Forests’ timberland investments, 47% of the total area under management is dedicated to timber production, including over 456,800 hectares of eucalyptus, pine, acacia, and rubber plantations.

In 2017, New Forests’ forestry investments harvested and sold almost 5.9 million tonnes of timber; of this, 88% was certified to FSC and/or PEFC compliant certification schemes. The remaining portion comes from recent acquisitions that are preparing for forest management certification as well as plantations that have been excised from certification due to intention to sell or revert to agriculture after harvest. The Timberlink sawmills (owned by ANZFF) purchase wood from certified ANZFF plantations as well as some fibre from other local growers. In 2017, Timberlink sold just shy of 480,000 m³ of solid wood (89% certified) and just over 213,000 bone dry metric tonnes (BDMT) of woodchip (84% certified).

Most of New Forests’ assets under management are timber plantations; these 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 over the long term, but also to steadily improve plantation productivity in terms of growth, yield, and desirable timber characteristics that ultimately improve

plantation quality and value. As our US investment business grows, New Forests now also manages semi-natural forests, which have been subject to prior logging, regeneration, and replanting to create today’s mixed species and age class semi-natural forests. Productivity management of such forests is complex, and allows us to manage for a combination of factors, such as log size, quality, species, and carbon sequestration and storage over more extensive rotation ages, in some cases as much as 60 to 70 years.

As part of our commitment to improving productivity, we promote active Research and Development (R&D) across our estates and investments. Along with the biological productivity discussed above, we also focus on process efficiency throughout the supply chain and operation of our investments. Productivity and R&D initiatives in 2017 are described below; these are just a few examples of the emphasis New Forests, our property managers, and our portfolio companies apply to growing more timber in a sustainable way and enhancing the productivity of our investments.

- Production was increased on the ANZFF softwood estates in Australia, Penola Plantations and the Taswood Estate, because of past silvicultural improvements enhancing underlying productivity. This led to record harvest levels without comprising the long-run sustainable yield of the assets.
- Timberlink Australia and New Zealand continued to pursue energy savings and production efficiency at its mills. The company converted to contraflow kilns in its Blenheim (New Zealand) mill, reducing energy consumption by more than 30% for each cubic metre of wood produced. The company also used biomass energy from its own wood waste to meet 93% of its energy demand.
- Two TAFF investments, Acacia Forest Industries and Mekong Timber Plantations, agreed to a multi-year collaborative genomics project (see case study below). The initiative with partner Gondwana Genomics aims to deliver significant gains in productivity to tropical forestry while seeking to reduce disease and pest risks through preserving genetic diversity. ANZFF2 portfolio company Forico is also working with Gondwana Genomics.
- TAFF’s rubber plantation Hutan Ketapang Industri focused on early site preparation improvements to ensure good early growth and survival for new plantings. Examples of such improvements include improved site ploughing

and weed control and establishing cover crops prior to rubber planting to prevent weed growth and to fix nitrogen for improved site productivity.

- New Forests trained third-party consultants in carbon project development activities to increase the efficiency of our project development process. The training helped consultants understand the linkages between forest resource planning and carbon quantification approaches while building the skill set of the local industry to address climate change opportunities in forestry.

THE NEXT GENERATION OF SMART BREEDING FOR PLANTATION GROWTH AND RESILIENCE

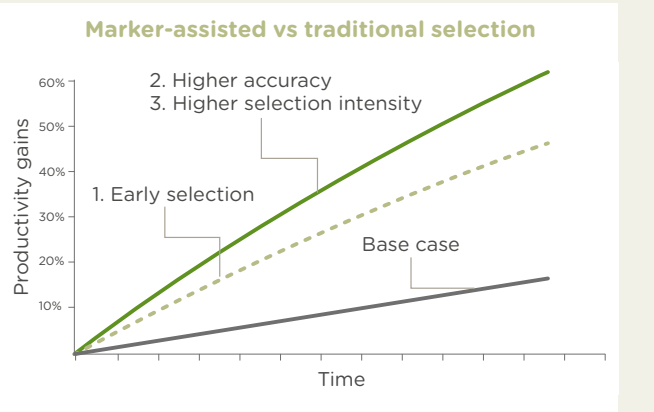
New Forests has identified genomic R&D as a promising means to achieve rapid gains in productivity, wood quality, and resistance to environmental threats. As of 2017, several New Forests portfolio companies have begun work with an innovative Australian research firm using world-leading genetic testing systems to predict desirable commercial attributes of plantation trees.

Gondwana Genomics, a privately held Australian owned company, uses its licensed marker-assisted selection (MAS) technology – or “smart breeding” – to screen tree species for a range of characteristics, allowing companies to accurately predict the performance of a tree and grow plantations that support their individual commercial priorities. MAS uses targeted sequencing of favourable genotypes to select for these traits, such as disease resistance, higher pulp yield, and faster growth. MAS uses advanced tree breeding techniques to speed up breeding for desirable traits, without requiring genetic modification.

Gondwana Genomics started its work in the Australian forest industry, where it works with ANZFF2 portfolio company Forico, among others. New Forests has worked with the firm to expand its reach to tropical plantations through a unique collaboration that involves Acacia Forest Industries and Mekong Timber Plantations, both TAFF investments. In the case of these tropical plantations, the new genomics R&D

program is anticipated to shorten time frames for targeted growth improvements. For example, the original target timeframe for an increase in growth rate of three cubic metres per hectare per annum was around five to eight years; with the Gondwana Genomics collaboration, the companies aim to achieve this target in three to four years. Growth and yield are a primary focus of the project, as well as desirable wood characteristics that meet timber market preferences. In addition, the TAFF companies will also select for trees that are less susceptible to tropical pests and diseases.

With such promising potential, New Forests expects to see genomic R&D, like the work with Gondwana Genomics, branching out to other investments in the coming years.



Metric	Metric ID	Units	ANZFF	ANZFF2	TAFF	FCS	All Funds
Harvest Sales							
Units/Volume Sold: Total	PI1263	Tonnes of Timber	3,640,349	2,200,042	44,551	2,122	5,887,064
Units/Volume Sold: Certified	PI7289	Tonnes of Timber	3,192,943	1,953,840	43,944	2,122	5,192,849
Processed Timber Sales							
Units/Volume Sold: Total	PI1263	Woodchip BDMT	213,452				213,452
		Solid Wood m³	479,349				479,349
Units/Volume Sold: Certified	PI7289	Woodchip BDMT	179,677				179,677
		Solid Wood m³	428,390				428,390



New Forests uses land use planning to support forest and land management that is ecologically sound and socially responsible. Land use planning refers to a multi-faceted consideration of economic, social, and environmental values to determine allocation of uses of land, generally across a large area that provides a variety of ecosystem services and integrates multiple land uses.

New Forests’ primary commercial land use activities are plantation establishment and management, sustainable management of semi-natural forests, and smaller areas of agriculture, including cropping and grazing. These activities take place in a broader land use context alongside private and public lands, community land areas, and conservation management areas. In fact, some of the investments we manage are of sufficient scale and geographic distribution to have potential for a landscape management approach within one investment. In other cases, we aim for our investments to contribute positively within a landscape of multiple uses and many stakeholders.

Engagement and consultation with stakeholders is essential for understanding current and future needs, which should support effective land use planning. These activities are also important to addressing land tenure, respecting local and indigenous rights, and identifying management models that support shared objectives. With effective

engagement, land use planning can identify opportunities to contribute to shared prosperity as well.

With effective planning, properties and estates can provide a variety of social, environmental, and commercial values to New Forests’ investors as well as benefits to other stakeholders. With New Forests’ commitment to third-party sustainability certification, requirements for High Conservation Value (HCV)¹⁰ assessments, management of environmental impacts, and social engagement strategies also factor in to land use planning.

HCV and other land use planning tools support better decision-making for conservation, protection, and restoration alongside commercial investment activities. These tools also support land use planning for commercial plantation establishment. In 2017, our investments completed more than 17,000 hectares of tree plantings, of which approximately 3,700 hectares was establishment of new plantations on degraded lands at Hutan Ketapang Industri in Indonesia.



Metric	Metric ID	Units	ANZFF	ANZFF2	TAFF	FCP	FCS	All Funds
Area of trees planted	PI4127	Hectares	3,646	7,085	6,658	-	-	17,389
Area of land reforested	PI4907	Hectares	17	-	3,777	-	-	3,794
Area of native species reforestation	PI3848	Hectares	40	75	490	-	-	605
Streams under restoration management	PI6885	Kilometres	25	268	-	1,559	100	1,952
Ecological restoration management area	PI9556	Hectares	27,360	3,583	558	183,237	-	214,738
Protected land area: total	PI4716	Hectares	39,445	83,705	48,364	183,237	-	354,751
Protected land area: permanent	PI3924	Hectares	39,445	8,615	17,095	2,892	-	68,047

¹⁰ See <http://www.hcvnetwork.org>. 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 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 conserving biodiversity values alongside commercial forestry.

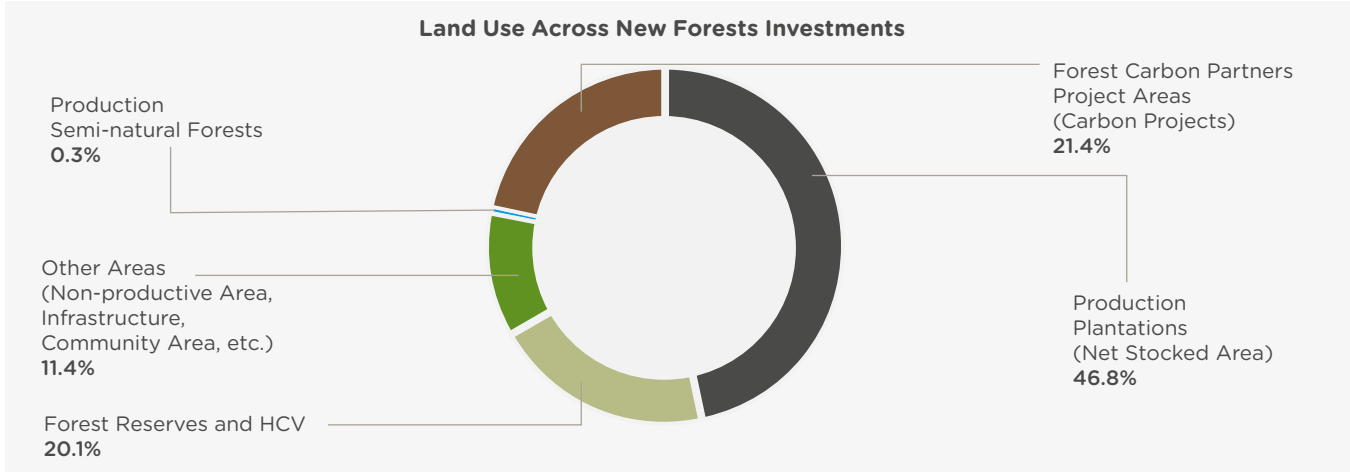
ECOSYSTEM RESILIENCE IN A CHANGING CLIMATE

As the global financial community increasingly recognises the investment risks of climate change, New Forests is taking on-the-ground action to ensure ecosystem resilience through landscape planning and conservation initiatives. Such resilience efforts include enhancing ecosystem health and ensuring ecosystem services are maintained at a landscape level. For this reason, partnership beyond property lines and across public and private lands is important for securing resilience.

In August 2017 New Forests formalised a public-private partnership with the Glenelg Hopkins Catchment Management Authority (CMA) to cooperate towards achieving regional conservation goals and improved ecosystem resilience in a changing climate. Via a new memorandum of understanding (MOU), New Forests and the Glenelg Hopkins CMA set the stage for an ongoing partnership on conservation and stewardship projects on New Forests’ Green Triangle plantations, building on prior cooperation since 2012.

The focus on ecosystem resilience addresses environmental risks over time, which can be managed through strategic intervention and seeking to create healthier landscapes. This aligns with New Forests’ responsibilities as an investor with a long-term management horizon and responsibilities for plantations with rotation lengths varying from between 12 to 30 years in the region.

At the time of signing, the Glenelg Hopkins CMA noted that working with private landowners is crucial for implementing the regional catchment strategy and improving ecosystem resilience. New Forests will work with the CMA to prioritise conservation initiatives on its plantations to align with the regional catchment strategy. New Forests will continue to convene annual landscape planning workshops in the region and expects the MOU to bring cohesion to the ongoing collaborative approach to landscape planning for conservation management.





CONSERVATION, PROTECTION, AND RESTORATION

New Forests’ investments integrate conservation management within commercial forest and plantation management. Across our portfolios, there are approximately 360,000 hectares of protected areas, representing 39% of the entire land estate associated with our investments programs. Using the IRIS metric guidance, we distinguish between areas that are protected under current management regimes and those that are permanently protected based on legal instruments such as covenants, easements, and/or other regulatory restrictions. Over 7% 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 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.

New Forests’ Australian estate offers significant scale for landscape planning. Since 2015, New Forests has convened an annual landscape planning workshop in the Green Triangle region, which is one of the country’s premier forestry regions and located along the border of Victoria and South Australia. The workshops include the Glenelg Hopkins Catchment Management Authority, Greening Australia, and representatives from property management companies, PF Olsen Australia, Timberlands Pacific, and Sustainable Forest Management. The 2017 workshop reviewed shared conservation priorities and set the stage for a 2018 collaboration that will use a harmonised process to determine conservation project priorities, aiming to focus funding and efforts where they will create the most benefit. These workshops and ongoing collaborations help identify shared priorities and synergies in funding, skill sets, and areas suitable for conservation, restoration, and protection activities.

There are also extensive land use planning and conservation opportunities elsewhere in the Australia-New Zealand estate. In Tasmania, the Forico natural forest estate comprises more than 80,000 hectares and is the largest protected area within New Forests’ investments. Although the Forico natural forest estate is not legally permanently protected, the Forico business is committed to maintaining and enhancing the natural forest area and keeping it free from commercial timber harvest. In New Zealand, property managers for the Wairarapa Estate are working with the Department of Conservation to ensure protection of unique saline springs occurring in the estate.

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. TAFF portfolio company Hutan Ketapang Industri (HKI) continues to refine its estate mapping to enable effective conservation and restoration activities across its 100,000-hectare estate in West Kalimantan, Indonesia. Throughout 2017 consultants and a specialist biodiversity team worked to identify environmental values and biodiversity using both the HCV framework and the IFC PS guidelines, resulting in additional area confirmed as HCV. Following the assessments, the HKI estate has been classified as containing critical habitat due to its importance in providing habitat for regionally threatened species. TAFF’s 2017 acquisition in Laos, Mekong Timber Plantations, commenced its Environmental and Social Impact Assessment (ESIA), which will also review opportunities for conservation and restoration within the context of addressing past and future environmental and social impacts from the plantation project.

As of 2017,
New Forests’ funds included
more than
219,000
hectares
of land managed with
restoration objectives



New Forests’ Forest Carbon Partners program now includes more than 185,000 hectares (450,000 acres) of timberlands in the US owned and managed by third parties, with agreements to comply with forest carbon offset projects developed and managed by FCP. Under the carbon agreements, all FCP areas are subject to long-term landowner obligations that protect the carbon stocks in the forest area – effectively perpetuating sustainable management regimes – and are included in this report as protected areas. In addition, some FCP projects use conservation easements to guarantee permanent protection. FCP’s project with

the Chugach Alaska Corporation, announced in early 2017, notably ensured the permanent protection of an ecologically diverse area of the Bering River Coal Field. New Forests retired the coal rights under a conservation agreement with The Nature Conservancy and The Native Conservancy, while agreeing to work with Chugach to develop carbon offsets from its timberlands. The Bering River Coal Field is situated on the eastern edge of Alaska’s Copper River Delta – the largest contiguous wetlands on the Pacific Coast of North America and one of the world’s most productive wild salmon fisheries.

Active restoration is also an important component of land use planning, aiming to restore habitats, protect and ensure provision of ecosystem services, and support resilience to changing climate, pests, and threats. As of 2017, New Forests’ funds included more than 219,000 hectares of land managed with restoration objectives. Read the case study that follows to learn about restoration with New Zealand’s endemic Mountain Totara conifers at the Blenheim Estate.



RESTORING THE MOUNTAIN TOTARA IN THE MARLBOROUGH

Work is underway to restore and repopulate the indigenous Mountain Totara species back into Marlborough’s forests. Once a flourishing species in the Marlborough region, the Mountain Totara, which grows to 15-18 metres, has been degraded over the years by the introduction of non-native animals, and the trees are no longer regenerating well. New Forests’ Blenheim Estate, totalling 4,600 hectares, is one of the last areas the species remains.

Estate managers Merrill and Ring have joined forces with the Department of Conservation to roll out a five-year project to restore about 23 hectares of Mountain Totara. The project includes installing fencing around the current trees to control animal access, and the

creation of a local nursery to grow seedlings and nurture new crops. More than 500 seedlings have been planted at the nursery. The project aims that by winter 2019, the surviving seedlings will be robust enough for planting.

The project was born out of research undertaken by Merrill and Ring, which showed declining numbers of Mountain Totara in the Blenheim Estate. The managers then engaged with the Department of Conservation for a means to re-establish the local species. Blenheim Estate supports the project as part of its efforts to protect and manage sensitive lands within the estate, ensuring that commercial plantation forests contribute biodiversity value to the broader landscape.



Ecosystem 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 ecosystems.

While there are many complex and interrelated services provided by nature, we focus on two areas that we believe are material to our investment programs: carbon and biodiversity. We can estimate the carbon sequestration of our portfolio, which is helpful for our clients and stakeholders to understand in the context of efforts to mitigate climate change and investing in forests as a climate solution. Biodiversity is complex to measure, so here we focus on efforts in our portfolio to protect critical habitat or support species endemic to and/or threatened in the areas we manage. In our developing Sustainable Landscape Investment benchmarking framework, we aim to include a broader range of ecosystem services and metrics as part of our ESG performance monitoring.

FOREST CARBON AND CLIMATE

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, establishing new plantations via afforestation and reforestation, sequestering additional carbon through improved forest management, and developing new market opportunities for timber products to substitute for more energy intensive products. Throughout our investment programs, we engage with a range of stakeholders to identify and pursue forest-climate investment solutions.

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. New Forests has been an active proponent of forest-carbon inclusion 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 because we believe climate policy can and should catalyse investments into forestry that generate climate mitigation outcomes, and because effective climate policy and robust carbon markets can add value to sustainable forestry investments.

In this report, we describe the climate impact of our investments in terms of the carbon that is stored and sequestered in the timberlands we manage and the net climate benefit of forest carbon projects we have developed and managed. While this report includes estimates of total carbon stock as at the end of 2017, through the development of our SLI metrics in 2018, we aim to expand this reporting to include carbon flows, i.e. net emissions or reductions, on an annual basis. This report also includes

a summary of carbon offset activity in our investments during 2017, which represents verified climate benefits from improved forest management projects.

Carbon Storage in Commercial Forestlands

New Forests has made public disclosures of the estimate of carbon stored in our forestry investments since 2014. To date our reporting has focused on the net planted area of our plantation investments, based on voluntary calculations of the plantation carbon stock. New Forests uses 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 across ANZFF, ANZFF2, and TAFF. Note that the methodology applied for ANZFF and ANZFF2 includes carbon in standing trees as well as on-site debris, while the TAFF methodology includes standing tree volume only.¹¹ This is due to available data and assumptions required to estimate carbon stocks based on operating models for each asset. Starting in 2017, we are including the carbon stock of US timberland assets managed under our Forest Climate Solutions program.¹²

Using the approaches described above, New Forests estimates the carbon storage of our commercial timberlands was nearly 113 million tonnes of carbon dioxide equivalent (tCO₂e) as at December 2017. It is important to note that we have not accounted for the carbon storage



FORESTS AS A CLIMATE SOLUTION - INVESTMENT SYMPOSIUM

The Forests as a Climate Solution investment symposium included diverse participation from more than 100 investors, NGOs, government, and businesses active in the development and promotion of forestry solutions to the climate change challenge. New Forests convened the event in San Francisco in May 2017 to explore and share investment approaches that generate commercial returns alongside quantifiable climate benefits.

Former US Vice President Al Gore delivered a keynote speech on the case for climate optimism. His speech explored success stories in the fight against climate change, and posited that with increasing investment directed towards responsible forestry, the forest sector is poised to be the next climate solution asset class. California Senate President pro Tempore Kevin de León delivered a second keynote, focusing on California's ongoing leadership in addressing climate change.

The event also included panel discussions featuring actual investments in sustainable forestry and forest carbon. New Forests' CEO David Brand moderated a panel of institutional and impact investors focused on the forest sector and its role in addressing climate change. Key messages included:

- Forests play a role as a global carbon reservoir and source of negative emissions, and can produce a range of substitutes for fossil energy, fossil fuels, petrochemicals, and high-embodied energy building materials. Investment in the forest sector can contribute to the conservation of existing forests, restoration of degraded forests, and increased sustainable timber production to support a transition to a bio-economy.
- More and more institutional investors recognise that investment flows can actively support the transition of the global economy to address climate change and the Sustainable Development Goals. This movement is taking root with impact investors and mission-driven investors, but may also be aligned with mainstream institutional investment portfolios.
- In the near term, investment strategies for climate action may still require demonstration and innovation. Impact investors play an important role in pioneering new investment strategies and paving the way for institutional investors to scale those strategies once they have been road tested.

11 The TAFF carbon stock estimate also includes soil carbon, due to availability of formulas used to derive carbon estimates. ANZFF and ANZFF2 figures do not include soil carbon.
12 The first of these investments was acquired in 2016. In October 2017, New Forests announced the agreement to purchase a further 170,000 acres of California timberlands, which will be managed to provide additional financial return by realizing the carbon value of improved forest management. This transaction demonstrates the scalability of forest carbon investments as climate solutions with commercial investment objectives. However, since the acquisition of the estate, now known as Shasta Cascade Timberlands, settled in January 2018, the carbon in those timberlands is not reported for the 2017 carbon stock values below. The Eureka carbon asset has over 1.5 million metric tonnes CO₂e. Calculation methodology accounts for above- and below-ground standing live and dead carbon following quantification methods specified under the California Air Resources Board's Compliance Offset Protocol for U.S. Forest Projects. This carbon quantification covers the area included in carbon offset projects, approximately 64% of the asset acreage. Carbon quantification is pending for the tracts not included in the offset project.



Million tCO ₂ e	ANZFF	ANZFF2	TAFF	FCS	All Funds
2017	66.7	43.7	2.7	1.5	112.6
2016	68.1	41.6	0.97	-	110.7
Annual Change	-2.1%	5.0%	177.3%	-	1.7%

benefits of harvested wood products, which can keep carbon stored in products like paper, packaging, timbers, and furniture up to decades. This means our reporting underestimates the full climate benefit of our commercial timberland management.¹³ Note that this analysis is at the fund level and therefore the total area under management may vary year to year. Annual changes at the fund level for 2017 include the following:

- ANZFF has a slight carbon stock decrease of -2.1%, largely driven by the disposition of 10,000 hectares from the Forestry Investment Trust.
- ANZFF2 has a slight carbon stock increase of 5.0%, achieved from biological growth (including net of harvest) across all assets in the portfolio.
- TAFF carbon stocks increased 2.7 times, largely due to the acquisition of Mekong Timber Plantations in Laos, a 22,000-hectare licence area.
- The carbon stocks within the FCS program in the US are included for this first time in this report, with a total of 1.5 million tonnes in the Eureka asset.

FOREST CARBON 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. 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 government regulated systems.

New Forests monitors and engages with carbon policy issues in Australia and New Zealand. In New Zealand, forestry is a regulated sector of the country's Emissions Trading Scheme (ETS). New Forests integrates carbon opportunities in its assessment of New Zealand investments and, in some cases, manages carbon liabilities assigned to forests we acquire. The Australian Government set up the Emissions Reduction Fund (ERF) as a scheme to provide incentives for a range of organisations and individuals to adopt new practices and technology to reduce their emissions. The ERF is administered by the Clean Energy Regulator and issues Australian carbon credit units for each tonne of carbon dioxide equivalent stored or avoided by a project. The inclusion of commercial plantation forestry projects was announced in August 2017. The first plantation forestry project to sell credits to the ERF was approved in December 2017 and will take place under a pilot by Forico Pty Ltd, a portfolio company of ANZFF2.

The NZ ETS and Australian ERF enable opportunities for our plantation investments to be managed jointly for timber and carbon values; however, eligibility rules and market dynamics require careful consideration.

In Southeast Asia, voluntary carbon markets may complement plantation management. However, voluntary carbon markets for reducing emissions from deforestation and degradation (REDD+) have not yet reached commercial scale and viability. New Forests is not actively managing or developing any REDD+ programs, but remains an active stakeholder and supporter of enabling conditions for REDD+ in support of sustainable forest management in Southeast Asia.

New Forests has been a lead investor in California's carbon market and has established investment strategies that use the regulatory market as a basis for investing in climate solutions in the forest sector. During 2017, the Forest Carbon Partners investment program sold more than 250,000 credits, was issued just under 370,000 California Carbon Offsets, and achieved preliminary registration of more than 3.9 million credits.



FORICO FIRST PLANTATION MANAGER APPROVED FOR AUSTRALIAN EMISSIONS REDUCTION FUND

ANZFF2 portfolio company Forico has partnered to develop the first plantation forest project approved to sell carbon credits to the Australian Government under its AUD 2.55 billion Emissions Reduction Fund (ERF). In 2017, the Australian Government approved a Plantation Forestry Method under the ERF, which allows for the recognition of carbon sequestration in new and longer-rotation plantation forests as well as the carbon stored in wood products. Forico is the first forest manager in Australia approved under the ERF, with an application to register a project in northeast Tasmania approved by the Clean Energy Regulator and a Carbon Abatement Contract secured via ERF auction. The project will see Forico assign 630 hectares into a new project based on developing long-term pine plantations – which means a greater volume

of carbon dioxide is removed from the atmosphere and stored in the plantation and ultimately in the wood products it produces. In total the project is expected to deliver up to 68,959 tonnes of CO₂e climate abatement over 10 years.

Forico's CEO Bryan Hayes remarked, "This is a significant milestone for the plantation forest sector in Australia as the carbon market is recognising the ability of Australian timber plantations to be a part of the country's response to climate change. This also adds carbon credits to the balance sheet of plantation forests, supporting Forico in how we manage our forests for multiple values and providing economic incentives for increasing carbon sequestration."

¹³ In fact, harvested wood products provide significant net positive carbon storage over the life of a long-term forestry investment. Timber harvest is not a full "emission" of the stored carbon, but rather a portion is transferred into the wood products, 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.



BIODIVERSITY AND WILDLIFE

Biodiversity refers to the variety and diversity of living organisms on earth and is the foundation for the functioning of many ecosystem services. New Forests' investment portfolio comprises a variety of natural, semi-natural, and modified ecosystems. Biodiversity management is explicitly included within all the third-party certification schemes and standards used by New Forests, 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. By working with our property managers, portfolio companies, and other stakeholders, we seek to go further than a do-no-harm approach and instead seek to actively promote biodiversity at our investments.

Wildlife is an important component of biodiversity, and as forest and land managers it is important to ensure that healthy ecosystems can support an array of wildlife. Across New Forests' investments, 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 and the IFC Performance Standards requirements to assess critical habitat, operations managers can 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 undertaken in 2017 include:

- The Blenheim Estate in the South Island of New Zealand entered a new partnership with the Marlborough Falcon Trust aimed at increasing awareness and training for forestry workers on how to conduct safe forestry operations where falcons or their nests may be present.
- The Blenheim Estate also engaged with the Department of Conservation to develop a seedling nursery and re-establishment strategy for the threatened and endemic Mountain Totara species.
- PhD candidate James Pay continued his research project into endangered wedge-tailed eagles through the University of Tasmania and co-funded by Taswood Estate. The study aims to describe eagle nesting behaviour and measure the response to nearby forestry activities. A team of raptor experts from the US and Australia attached transmitters to eight juvenile birds in 2017. The focus is now on analysing the data collected, planning for the next breeding season, and reporting on the results of remote camera trials.
- New Forests signed an agreement to cooperate with the Glenelg Hopkins Catchment Management Authority to encourage ecosystem resilience in a changing climate. The agreement may include partnership approaches to flora and fauna biodiversity conservation that enhance ecosystem adaptability and mitigate the effects of climate change and habitat fragmentation.
- TAFF portfolio company Acacia Forest Industries continued to support the Borneo Sun Bear Conservation Centre in its behavioural study of sun bears, with the goal of developing conservation strategies that will aid the management of this species in and around modified plantation landscapes.

- AFI also entered a new memorandum of understanding with the Sabah Wetlands Conservation Society to conduct research and assessments to support integration of mangrove management recommendations into the company's efforts to conserve HCV areas.
- The full Environmental and Social Impact Assessment (ESIA) at Hutan Ketapang Industri (HKI) underwent public consultation and included a review of the concession to determine areas of critical habitat. The findings indicate that based on severe threat to natural habitats in Borneo, the HKI concession should be considered critical habitat for its potential to support endangered species.

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



CONSERVATION OF THE WORLD'S SMALLEST BEAR

Acacia Forest Industries (AFI) has been working with the Borneo Sun Bear Conservation Centre since 2016 to advance understanding of the sun bear's behavioural ecology. The sun bear is the world's smallest bear and is listed as vulnerable by the IUCN due to habitat loss and hunting. With forest degradation continuing to be a threat to sun bears, it is important to understand how sun bears live in and around modified habitats, such as plantations.

Researcher and MSc Candidate Ng Wai Pak is leading a study on sun bear ecology and habitat use in the commercial plantation forest at AFI. The AFI estate in northern Sabah, Malaysia includes a variety of land cover types and uses, including acacia and eucalyptus plantations, secondary natural forests, a planted forest reserve, mangrove forests, and wetlands; the mixed land use context prompts research questions about how sun bears access and use resources across this mosaic of land cover types and how plantation areas differ from other habitat types. Mr. Wai Pak uses a

combination of research techniques to gather data to address these questions. Camera traps were placed in a stratified sample throughout the area to record photos that are used to identify the number of bears in the area, using unique markings on the bears' throats to tell them apart, and to map bear movement across the research area. Mr. Wai Pak also placed tracking collars on two individuals and will record GPS locations from each animal three times a day for a year. He also collects other data opportunistically, such as markings, footprint locations, and droppings used for faecal analysis to determine diet.

Through his research, Mr. Wai Pak will reveal information about sun bear ecology and behaviour that can be used by AFI and other companies to develop wildlife management plans that minimise impacts from plantation operations and help ensure relevant habitats are protected for the benefit of ongoing sun bear conservation efforts.



New Forests invests in forests and landscapes to generate value for investors, communities, and the environment. Managing 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 in asset management and the supply chain. With this approach, we managed institutional investments in forestry and sustainable landscapes offer the potential to underpin rural economies and support common goals of shared prosperity.

EMPLOYMENT AND STRENGTHENING THE INDUSTRY

One of the direct social benefits of forestry investment is the maintenance and creation of jobs. The table below reports on employment related to the operational management of our investments and does not include New Forests' staff. Nearly 4,200 people were involved in the operations of our investments in 2017, of which 1,352 were direct permanent employees of the companies operating the investments

and a further 2,845 were contract employees, which may be hired under sub-contracting agreements. Many 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. However, shared prosperity calls for more than just basic employment. Workers' rights criteria that help ensure jobs are legal, safe, and rewarding are a key part of the FSC certification we seek to achieve for all our forestry investments. The IFC Performance Standards also include criteria on workers' rights. Beyond these standards, the property management firms we work with and our investee companies undertake a variety of workforce development initiatives and play a role in strengthening their local industry and supply chain. New Forests views workforce development and industry collaboration as key areas for shared value strategies.

Another important opportunity to enhance shared prosperity is by

supporting processing industries and using our influence to improve supply chains. Skills development and training is an increasing focus for the forest industry as new technologies come into use, changing the way we grow, harvest, and process wood products. Work safe training remains another important focus that goes hand in hand with skills development and leadership training. Across New Forests' investments, we seek to drive health and safety improvements through an expectation of best practice, monitoring safety performance on a regular basis, and supporting intervention when needed and continual improvement. The following health and safety initiatives and achievements demonstrate the types of activities undertaken in our investments to improve health and safety outcomes.

- New Forests commissioned a third-party review of safety systems and performance across all New Zealand property managers engaged by ANZFF2. No major non-conformances were

Metric	Metric ID	Units	ANZFF	ANZFF2	TAFF	FCP	FCS	All Funds
Permanent Employees: Total	OI8869	Individuals	590	114	587	54	7	1,352
Contract Employees: Total	NFContractors	Individuals	788	518	1452	77	10	2,845
Employees Dedicated to E&S Performance	OI6370	FTE	27	6	35	4	0	72
Fund Total		Individuals/ FTE	1,378	632	2,037	131	17	4,197

identified; however, the review identified improvements to align with best practice and improve compliance with the Health and Safety at Work Act 2015. These improvements have been progressively implemented by the managers during 2017.

- Standardised health and safety reporting was included in all quarterly asset reporting from property managers in Australia and New Zealand, based on the common reporting framework used by the Australian Forest & Wood Products Association. New Forests reviews this performance data in quarterly Operations Committees with each property management firm.
- Mekong Timber Plantations, the 2017 TAFF acquisition, put a policy in place to clearly end and prohibit child labour, which was identified during New Forests' due diligence. The company also began developing a contractor education program for awareness of the risks and issues with child labour and will continue with ongoing education and audits in 2018.
- Timberlink, the ANZFF-owned timber processing and distribution business, put in place MYOSH, a fully integrated occupational health, safety, environment, and quality system and reported a 37.5% decrease in its total reportable injury frequency rate (TRIFR).

SUPPORTING LOCAL COMMUNITIES

Shared prosperity initiatives also must account for impacts on local communities, including the people who live within and around the assets we manage. 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 our investments. Beginning with due diligence, we seek to identify 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.

In the Australia-New Zealand region, local communities are important stakeholders of plantation forestry operations. Property management firms conduct stakeholder engagement activities to ensure local concerns and needs are accounted for in management plans and to share information about operational activities that may affect neighbouring communities. Such engagement helps ensure forest management is transparent and that

appropriate disclosures are made in a timely and accessible manner.

New Forests is one of the largest timberland managers in Australia, with around 530,000 hectares of land and plantations under the ownership of investment trusts managed by New Forests. The business and operations of these investments contribute to regional economies by providing employment, supporting infrastructure, and via land and property taxes. Importantly, our assets also contribute to local firefighting capacity through provision of equipment and in cooperative response to fire incidents.

As New Forests continues to grow our investment program in New Zealand, we are focused on aligning our business with the needs of local communities and the broader forest industry. We do this by working with local property management firms, industry bodies, research institutions, and government agencies to identify priorities that align with sustainable forestry activities in each region where we operate. Often these projects align management activities with local conservation priorities and/or research initiatives, such as the support from Blenheim Estate to the Marlborough Falcon Trust and research at the Wairarapa Estate's Glenburn Forest Saline Springs, including a visit from staff of the Te Papa Museum and the Wellington Botanical Society to support identification of unique flora in the conservation area. Other focal projects may include community access for recreation and cultural use, such as an agreement at the





Taupo Estate that ensures traditional Maori landowners can access and use the estate. As another example, New Forests' ANZFF2 launched a forestry scholarship program that aims to support students focused on innovation and sustainability in the forest sector.

Local community engagement is a core component of the business strategy at each of our investments in Southeast Asia. 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.

While there are common themes of key issues, such as addressing land tenure, providing meaningful employment opportunities, and supporting local infrastructure, the local engagement and social strategies at each investment must be informed by the unique local context of each project. Companies should undertake meaningful consultation, seeking to understand community rights, interests, and objectives, and seeking to align the business with community development priorities. New Forests aims for each of the

TAFF investments to do this using FSC and IFC Performance Standards guidance and providing support to portfolio companies to address land tenure and community development. Nevertheless, there are complex and challenging situations that can require years to work through effectively. The following summarises focal activities from 2017 at each of the TAFF assets with respect to ongoing community engagement and development activities.

- Acacia Forest Industries in Malaysia continued to execute a multi-year engagement strategy to provide better clarity of land tenure rights for local communities while providing access to income generating activities. In 2017 a social forestry program plan was drafted, which will be piloted in 2018. The program seeks to develop commercially profitable plantations that benefit communities and AFI while resolving land claims.



FUTURE FOREST SCHOLARSHIP LAUNCHED TO SUPPORT INNOVATION RESEARCH

New Forests' Australia New Zealand Forest Fund 2 (ANZFF2) launched a new scholarship program in association with the New Zealand Institute of Foresters. The Future Forest Scholarships was seeded with a NZD 70,000 fund that may issue up two scholarships per year. The program gives preference to projects in environmental markets, wood fibre markets, forest logistics, productivity, and genetics – reflecting the

areas of innovation and research needed to ensure a successful future for New Zealand forestry in competitive global timber markets. The inaugural Future Forest Scholarship of NZD 10,000 was issued to University of Canterbury PhD student Fei Guo for his work in association with the New Zealand Dryland Forest Initiative. Mr. Guo's research uses spectroscopy to assess growth stress levels in standing timber.



- Hutan Ketapang Industri in Indonesia implemented its *Tali Asih* program that includes a basic FPIC procedure prior to land preparation activities for new plantation establishment. The approach includes community meetings and socialisation, land survey, public announcements, customary decision-making practices, and concludes with a ceremony to recognise the formal agreement. Also during 2017, HKI conducted a review of models for implementing *Tanaman Kehidupan*, which is a regulatory requirement for the establishment of livelihoods plantings to benefit the local communities.
- Mekong Timber Plantations in Laos engaged local consultants to complete a new Environmental & Social Impact Assessment as part of the company's plans to revitalise community development programs, including to compensate for adverse social impacts believed to have occurred during the land acquisition phase (under prior ownership). MTP also developed a plan to revitalise its

outgrower scheme and initiated relationships with prospective partners, including local and regional NGOs and international funding sources, and aims to launch a multi-year program in 2018.

New Forests' US investments closely align conservation-based management and local interests with investment strategies that deliver income and benefits to landowners and local communities. Through Forest Carbon Partners, we have established 16 active partnerships that support shared prosperity and help private timberland owners, traditional landowners, and communities to achieve their development goals. The program supports community conservation goals as well as providing access to revenues that support sustainable economic development. Forest Carbon Partners projects enable shared prosperity in many ways, from direct income to communities from carbon offset sales, to enabling re-acquisition of ancestral land, to providing new job opportunities in forest management and carbon project development

activities. For example, in the development of a carbon project in partnership with the Chugach Alaska Corporation, New Forests has worked to train tribal members to complete timber cruises and collect forest measurement data used in carbon quantification. Some of these shared prosperity outcomes were discussed at New Forests' Forests as a Climate Solution investment symposium.

New Forests also looks to make shared prosperity a priority in our growing US timberland investment program. With initial investments in Northern California, an emerging priority has become efforts to re-invigorate and stabilise the local forest industry and contracting supply chain. New Forests also contributes to social impact through its ability to preserve open space and working lands and to protect natural ecosystem services that benefit direct users and local communities.



SHARED PROSPERITY AT THE CORE OF NATIVE AMERICAN INVESTMENT PARTNERSHIPS

New Forests works with Native American corporations and tribes through our Forest Carbon Partners investment vehicle to develop and manage forest carbon offset projects on tribal lands that generate revenue from climate mitigation. These projects align with each tribe's strategic objectives. At New Forests' Forests as a Climate Solution Investment Symposium, hosted in San Francisco in May 2017, a panel featured some of New Forests' partners in these projects, exploring the ways in which benefits from the projects are anticipated to support shared prosperity. Representatives from the Yurok Tribal Council (California), Chugach Alaska Corporation (Alaska), and Port Graham Corporation (Alaska) described forestry projects undertaken with Forest Carbon Partners. Each project delivers a combination of social and environmental benefits. Highlights from these real-world climate investment projects include:

- The Yurok Tribe is reacquiring ancestral tribal lands through carbon finance. The Tribe is also using project proceeds to revitalise traditional livelihoods and crafts as co-benefits of their ancestral lands programs.

- The Chugach opted to sell their coal field rights, and ensure that these lands will never be mined, as part of a ground-breaking transaction to manage their forests within an improved forest management carbon project rather than to develop the coal rights. The decision considered current and future income generation and job opportunities, noting that carbon finance provided sustainable income generation that will not threaten other resources the Chugach require for subsistence, income, and cultural use.
- The Port Graham Corporation was motivated to engage in the carbon project for long-term environmental protection and sustainable development against a backdrop of external environmental threats from climate change and a history of damage from oil spills. Experiencing environmental changes and disasters demonstrated that development needs to align with the long-term viability of culturally important resources.



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

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

Our commitment to risk management extends to our oversight of funds under management and the risks faced by the investments and assets we manage. New Forests launched a fund compliance software solution in 2017 that promotes effective risk and compliance management with respect to our obligations as a general partner and manager of funds. The TriLine GRC program assigns responsibility to individuals throughout the businesses, ensuring accountability and oversight for key risks. This software complements the risk management practices already in place, including thorough review of risks during investment appraisal and due diligence, regular review of key risks through Management Committees and our Risk & Compliance Committee, and setting targets for mitigating material risks.

New Forests’ investments are structured in different onshore and offshore investment vehicles operating across multiple jurisdictions with a diverse investor client base. As a result, New Forests is exposed to an array of risks related to understanding, complying with, and navigating an increasingly complex regulatory environment with potential impacts to investment strategy, operations and reputation. Forestry investment continues to face challenges in relation to efforts to restrict foreign ownership of land, and the global investment industry in general is facing greater scrutiny around tax and tax structuring. In the following case studies, New Forests explores how it has responded to such challenges in our regulatory environment.

TROUBLE IN PARADISE – CIVIL SOCIETY CALLS FOR TRANSPARENCY IN INVESTMENTS

The release of the Paradise Papers in October 2017 brought public scrutiny to the topic of investment structuring. The papers, released following a data breach from a Caymans Islands law firm, raised controversy about tax structuring and heightened attention to the use of offshore investment vehicles. While corporate tax structuring is a complex area that can attract public scrutiny, there is not always understanding of the legitimate use of a tax neutral jurisdiction as the domicile for a fund. This has been an issue with investments made via jurisdictions referred to as tax havens.

TAFF was affected by the release of the Paradise Papers; however, the information release did not reveal any new details of the fund or its investments. New Forests has been consistently open and transparent about investment structuring, the location and nature of our investments, and that we use offshore vehicles on a case-by-case basis to avoid double taxation for our clients and allow the commingling of investor capital from multiple jurisdictions. TAFF is domiciled in the Cayman Islands as a reliable, tax neutral jurisdiction that is commonly used to facilitate commingled

fund investments in multiple jurisdictions. The TAFF structure has no effect on the corporate tax paid on profits in the country of each investment (Malaysia, Indonesia, and Laos), and when TAFF investors receive distributions from the fund, i.e. when there is a profit or return on investment, each investor will pay any taxes owing in their home tax domicile. The Cayman Islands structure therefore acts as a pass-through vehicle without affecting the tax obligations either at the investment level or at the level of the fund investor.

Ultimately, New Forests and TAFF are focused on developing high-quality plantation forestry businesses that adhere to good corporate governance, pay local tax in their countries of operation, and contribute to the sustainable development of Asia’s forest sector. We are proud of our collaboration with TAFF Limited Partners to address public concerns surrounding TAFF and the Paradise Papers, which we believe demonstrated a shared commitment to transparency and helped inform stakeholders about how and why investment into tropical forestry is providing environmental and social benefits that support sustainable economic development.



CHANGING APPROACH TOWARDS FOREIGN INVESTMENT IN NEW ZEALAND

Foreign investors must seek consent from the New Zealand Overseas Investment Office (OIO) in relation to purchasing “sensitive land” as defined in the Overseas Investment Act (2005), based on land type and exceeding an area threshold. The OIO application needs to demonstrate the benefit to New Zealand “will be, or is likely to be, substantial and identifiable.” The “benefits test” involves assessing an investment application against 21 economic, environmental, and non-economic factors, as compared to an alternative New Zealand purchaser.

Over the past two years, New Forests has witnessed a narrowing interpretation of the Overseas Investment Act, leading to uncertainty about the requirements for foreign investments, higher transaction costs, and lengthy application processing times.

The new Labour and New Zealand First coalition government took office in November 2017 with a platform to strengthen the domestic wood processing sector, promote afforestation and to re-establish the New Zealand Forestry Service. The new Government issued a Ministerial Directive Letter, applicable from mid-December 2017, to the OIO indicating its general policy towards overseas investment and the relative importance to be given to different benefit factors in assessing sensitive land applications.

For forest land, the 2017 directive notes overseas investment in the forestry sector and its associated downstream processing industries is beneficial to the economy and environment. It further states that the Government is supportive of increased domestic processing of primary products, and that investment in New Zealand forests should advance a significant Government policy or strategy.

New Forests continues to spend time understanding the OIO requirements and being on-the-ground, speaking to the Government, OIO, and forestry industry stakeholders in New Zealand, as well as reviewing our acquisition methodology and strategy. New Forests also looks to continue engagement with the new Government to help guide its implementation of forestry and overseas investment policies to ensure they are practical and supportive of continued foreign investment.

The evolving regulatory environment for foreign investment also underscores the importance of transparency and information sharing about the ways in which investments are structured to generate local benefits, so that stakeholders understand the existing and ongoing benefit of forestry investment for their communities.



New Forests' governance and compliance framework is driven by the belief that good governance creates more valuable businesses.

New Forests' governance bodies work across the business to promote ethical and responsible decision-making; recognise and manage risks; maintain fiscal responsibility; lay a solid foundation for management and oversight of investments; and ensure the company makes timely and balanced disclosures to asset owners.

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 2017, New Forests continued to advance our internal governance programs, principally through initiatives developed and managed by our Company Secretarial and Legal, Risk, & Compliance departments.

- The Company Secretary developed a skills matrix for the New Forests Group boards as well as the portfolio companies for which New Forests provides company secretarial services. A board skills matrix is used to identify and assess the mix of skills and diversity currently represented. This is a newer area of corporate reporting; since the 2015 financial year, Australian listed companies have started to formally disclose a board skills matrix. Through this, New Forests expects over time that there could be opportunity to improve or target independence, skill, age, and gender diversity in terms of board composition.

- New Forests prepared for upcoming registration in the US under SEC Investment Adviser rules, including the roll out of a new US Compliance Manual and working with external consultants to review all compliance procedures and practices in our US business.
- New Forests undertook initial steps to join the community of B Corps, which are for-profit companies certified by the non-profit B Lab to meet rigorous standards of social and environmental performance, accountability, and transparency. In 2017, New Forests completed the B Impact Assessment and prepared for certification, which was achieved in 2018.
- New Forests hosted leadership and governance training for its senior staff members, aimed at improving board-level reporting and supporting staff in current or future corporate director positions.

ENSURING RIGOUR IN FUND GOVERNANCE

New Forests' Investment Committees (ICs) and Management Committees (MCs) 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. Board representation provides 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. We believe improving corporate governance enhances the value of the businesses we invest in, and as part of our Responsible Investment Policy, New Forests uses governance roles to influence more sustainable corporate behaviour in our investments.



ALIGNING DATA MANAGEMENT, REPORTING SYSTEMS, AND GOVERNANCE

Today's business environment entails great amounts of data and information, which present IT and business challenges for many businesses. In the forest sector, companies must manage not only business, financial, and sales data but also manage high volumes of biological and resource information about the forests they manage, such as forest stand records, growth and yield data, and ongoing R&D programs.

TAFF portfolio company Acacia Forest Industries (AFI) has been working for several years to improve its internal data management systems and processes, including instituting enterprise resource planning software and a new land resource management system. As a further step in the data management transition, a specialist consultant was contracted in 2017 to develop a data integration approach with real-time reporting capability. The new approach allows information to be pulled from various systems,

such as spatial Geographic Information Systems, forestry information management systems, and accounting software. This lets users query and analyse data on demand. Data is aggregated and analysed, reducing risk of human error and enabling more timely reporting. This means managers can respond to changing business conditions and risks quickly, with the benefit of accurate and timely information. The system also features dashboards aligned to key initiatives of the businesses, providing ready to access snapshots of performance. The new system is used for monthly reporting to the board and shareholders, providing a more complete and reliable picture of the business' progress on strategic objectives. With successful implementation of the new enterprise data management approach at AFI, New Forests is rolling out similar advanced data management approaches in other portfolio companies.



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.

To learn more, visit us at www.newforests.com.au or contact us at info@newforests.com.au.

Certified



Corporation

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