SUSTAINABLE LANDSCAPE INVESTMENT IN SOUTHEAST ASIAN FORESTRY

Opportunities for Climate Action, SDG Investing, and Impact Investing

Responsible investment in the forestry sector of Southeast Asia will contribute to achieving the Sustainable Development Goals (SDGs) and reducing carbon emissions in line with the Paris Agreement on climate change.

NewForests
Impact Investing through Sustainable Landscape Investment in Southeast Asia

The impact investment movement is informed, active, and growing, with mainstream finance now joining mission-driven investors in deploying private capital towards universal sustainable development challenges and opportunities. Impact investing requires the intention to deliver positive environmental and social (E&S) outcomes, which is why there are natural synergies when aligning impact investments with global agendas like the SDGs and the Paris Agreement. Collectively, the SDGs and the Paris Agreement form a platform that can support mission, strategy, investment allocation, and communication for investors to understand how their investments provide E&S benefits alongside financial returns.

New Forests uses our proprietary Sustainable Landscape Investment (SLI) approach to support performance and impact management while aligning investments with these worldwide agendas. The SLI approach enables integrated management of business, environmental, and social performance. It has been designed to support New Forests’ mission of investing to create productive and sustainable landscapes, for the benefit of our clients and the communities where we operate.

The SLI framework was developed with more than a decade of New Forests’ investment experience in the forestry asset class, as well as investments in timber processing and related infrastructure, that support more productive and effective supply chains in forestry and land use sectors. The SLI approach includes six core themes that are material considerations in creating sustainable investment value and better performance, including:

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

The SLI approach also provides the basis for our impact measurement and monitoring approach. New Forests monitors E&S impacts and performance over time, with the purpose of demonstrating our management approach improves performance underpinned by appropriate risk management and governance. Each theme is reported in New Forests’ annual Sustainability Report, available on our website.

With more than $100 billion of global timberland institutional investment today, there remains a significant funding gap to mobilise the capital required to capture the forest-climate opportunity and support the SDGs. New investment structures including climate finance, blended finance, green forest bonds, payments for performance, and high-impact investment strategies will be needed to leverage more private and institutional investment into the forestry climate opportunity. New Forests is committed to bringing long-term, like-minded investor capital and applying its forest industry expertise in the Southeast Asian region.
The SDGs and the Forestry Sector of Southeast Asia

Since the 2015 launch of the SDGs, the private sector has been called to action to support the 2030 Agenda for Sustainable Development. The SDGs are an all-encompassing collection of global economic, social, and environmental development goals and targets to end poverty, protect the planet, and ensure peace and prosperity. The private sector is increasingly seeking investment and business opportunities to contribute to achievement of the SDGs.

At the nexus of climate change, sustainable livelihoods, natural resource use, and ecosystem services, the forestry asset class provides clear opportunities for SDG investing. In fact, by applying a long-term horizon and implementing responsible investment – where environmental, social, and corporate governance issues are accounted for in investment decision-making – forestry investors will find an alignment of their commercial interests with enhancing outcomes that support sustainable development. This opportunity is particularly compelling in the forestry sector of Southeast Asia.

Historically, the Southeast Asian forestry sector has been based on the logging of natural forests. As the last commercial frontiers of natural forest timber are exploited and global concern rises over climate change, biodiversity loss, and the social effects of forest degradation and deforestation, Asia’s forestry sector is changing. Fast-growing, capital-efficient, and sustainably managed plantation estates are increasingly important in the development of a high-quality, stable regional forestry sector. Meeting the future timber needs of the world, and especially of the expanding economies and rising middle classes in Asia, is an attractive commercial opportunity for the establishment and improvement of plantation forest resources in Southeast Asia.

New Forests welcomes the SDGs as a framework that can help guide investment activities and support sustainable development as we continue sustainable forestry investment in Southeast Asia. In seeking to support SDG investing, New Forests focuses on Goals 8 (Decent Work and Economic Growth), 12 (Responsible Consumption and Production), 13 (Climate Action), and 15 (Life on Land), which have defined targets that are most closely tied to our sustainable forestry investment strategy in Southeast Asia. The graphics that follow describe some of the ways in which New Forests’ approach to Sustainable Landscape Investment (SLI) contributes to the SDGs and how investors can monitor SDG-related impacts.

### Sustainable Landscape Investment & the SDGs

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop and Maintain Rural Infrastructure</td>
<td>Restore Ecosystems and Halt Land Degradation</td>
<td>Conserve High Conservation Values and Critical Habitats</td>
<td>Promote Gender Equality</td>
</tr>
<tr>
<td>Reduce Road Accidents in the Supply Chain</td>
<td>Halting Deforestation and Implement Zero Deforestation Policies</td>
<td>Provide Safe Work Environments and Work-Safe Training</td>
<td>Manage Water Impacts and Water Quality</td>
</tr>
<tr>
<td>Supply Low Carbon Building Materials</td>
<td>Efficiently Manage Natural Resources</td>
<td>Strengthen Natural Resilience to Climate Change and Extreme Weather</td>
<td>Reforest Degraded Lands</td>
</tr>
<tr>
<td>Control and Prevent Poaching and Illegal Harvesting</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all

New Forests’ SLI framework integrates the concept of shared prosperity, through which New Forests focuses on providing safe jobs with integrity, opportunity for skills development and training, and strengthening supply chains to be more resilient and productive. The forestry sector in Southeast Asia is labour intensive with opportunities to advance the quality of jobs through worker training, a focus on worker health and safety, adopting more advanced technologies and innovations, efficiency improvements, supply chain engagement, and focusing on creating higher value products.

SDG Target
8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors
8.4 Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-Year Framework of Programmes on Sustainable Consumption and Production, with developed countries taking the lead

Example Impact Indicators
- Jobs created
- Tonnes timber produced per net hectares planted
- Ratio of productive area to area managed for conservation

Ensure sustainable consumption and production patterns

New Forests has third-party certification requirements for all our forestry investments and supplies certified timber products into diverse supply chains. For timber production to meet growing demand, it is essential that forestry investments contribute to increasing forest productivity, balancing production with consideration of other environmental and social factors, as demonstrated in New Forests’ SLI approach. Moreover, the forestry sector offers opportunity to transform supply chains through the bio-economy—substituting wood fibre for fossil fuel-based products and other high carbon-embodied materials.

SDG Target
12.2 By 2030, achieve the sustainable management and efficient use of natural resources

Example Impact Indicators
- Area of certified forest
- Volume of certified products sold

Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

New Forests’ investments in Southeast Asia are positioned to support the national targets of countries to meet their obligations under the Paris Agreement. Forestry investments can contribute to climate change mitigation through avoided emissions by conserving forests threatened by deforestation and through sequestering and storing carbon in the biomass of new and growing plantations and forests. In addition, conservation management and responsible forestry support resilience to extreme weather events. New Forests also supports more resilient forestry through targeted tree breeding and selection. Our focus on fire awareness, fire control, monitoring, and firefighting capacity also helps avoid emissions and enhance ecosystem resilience.

SDG Target
13.a Implement the commitment... of mobilising jointly $100 billion annually by 2020 from all sources to address the needs of developing countries in the context of meaningful mitigation actions and transparency on implementation

Example Impact Indicators
- Carbon stock and flow
- Dollars invested in climate-positive investments

Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

In Southeast Asia, New Forests’ investment strategy targets opportunities to improve operating practices through the implementation of ESG measures that deliver more sustainable forestry business models. This investment strategy includes sustainable forest management, applying a zero-deforestation approach, and where possible targeting plantation expansion in degraded areas through reforestation and restoration.

SDG 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
15.5 Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species

Example Impact Indicators
- Area of certified forest
- Area of commercial reforestation
- Area of non-commercial reforestation/restoration
- Area of forest managed for conservation and protection
- IUCN red list species
The Paris Agreement and Forestry Investment Opportunities

The Paris Agreement is the global response to the threat of climate change and aims to limit warming to 1.5 to 2 degrees C above pre-industrial levels. The Paris Agreement establishes a long-term goal for climate change mitigation and adaptation as well as working towards making finance flows consistent with a pathway towards low greenhouse gas (GHG) emissions and climate-resilient development.1 Forests feature in the Paris Agreement in Article 5, which allows for harnessing the power of carbon sequestration and storage in forests to deliver emission reductions, and forestry will likely be a significant element of countries’ cooperative efforts under Article 6. The Agreement expressly supports reducing emissions from deforestation and forest degradation, commonly referred to as REDD+, which is targeted at developing countries, and includes conservation, sustainable forest management, and enhancing forest carbon stocks.

Nationally determined contributions (NDCs) underpin the Paris Agreement and the achievement of these long-term goals.2 NDCs document each country’s binding obligation and targets to reduce national emissions and adapt to the impacts of climate change. NDCs that relate to the forestry sector present potential investible opportunities that align with the SDG 13 target to mobilise finance to address the climate mitigation needs of developing countries while also supporting SDG 15-related actions to promote sustainable forest management.

Climate-smart land use, including forests and the forestry sector, is emerging as a core element of climate action and sustainable development. Not only are forest conservation and management central to the global carbon budget, but the forestry sector is becoming a source of myriad climate-friendly products that substitute for fossil energy and higher embodied energy building materials. Through investments aligned with the Paris Agreement, the climate change mitigation and adaptation potential of sustainable forestry can be realised.

THE ROLE OF FORESTRY IN NATIONALLY DETERMINED CONTRIBUTIONS OF TROPICAL TIMBER COUNTRIES IN SOUTHEAST ASIA

CAMBODIA
- Contribution from the Land Use, Land Use Change and Forestry (LULUCF) sector includes increasing forest cover to 60% of national land area by 2030.
- Improve forest governance and promote trade in verified legal timber.
- Forestry actions will be implemented as part of REDD+ strategy.

INDONESIA
- Greenhouse gas emission reductions will come from activities including effective land use and spatial planning, sustainable forest management, social forestry programs, and land restoration.
- REDD+ will be an important component of the NDC target from the land use sector.
- Forestry sector including peat fires CO₂e projected reduction between 497 Mt to 650 Mt.

LAOS
- The National Forestry Strategy for 2020 sets a target of increasing forest cover to 70% of land area, which is expected to reduce CO₂e by 60,000 to 69,000 kt.
- The target also includes maintaining forest cover after 2020, which forms part of the country’s mitigation strategy, supported by REDD+.
- Adaptation measures include promoting climate resilience in forests.

MALAYSIA
- Targeted sectors of the economy include LULUCF.
- There are two major regional forestry initiatives: Central Forest Spine (Peninsular Malaysia) and Heart of Borneo (Bornean Malaysia) to ensure sustainable forest management and use of natural resources.

VIETNAM
- Targeted sectors of the economy include LULUCF.
- Manage and develop sustainable forests, enhance carbon sequestration, and increase forest cover to 45%. Sustainable forest management includes large timber plantations as well as improving natural forests, afforestation and reforestation, and preventing deforestation.

1. UNFCCC. The Paris Agreement. https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement
2. UNFCCC. Nationally Determined Contributions. https://unfccc.int/process/the-paris-agreement/nationally-determined-contributions-ndcs
ABOUT NEW FORESTS

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

New Forests has international reach, with offices and assets in Australia, New Zealand, Southeast Asia, and the United States. 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.

For more information about forestry investment opportunities contact clientservices@newforests.com.au.