



NewForests

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2019  
**SUSTAINABILITY  
REPORT**

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# Introduction



**David Brand**  
CEO New Forests

## Message from the CEO

**As we release our 2019 Sustainability Report, it is worth reflecting on how rapidly the world is changing with the rising recognition of the economic consequences of both climate change and the degradation of nature.**

At the time of publication, the world is struggling with Covid-19 pandemic. This is both a public health and economic crisis, and the world is coping with impacts across nearly all aspects of society. The international agendas on climate change, the conservation of nature, and sustainable development must adjust to the current crisis and its lasting impacts as they move forward. In fact, we may start to place greater value on sustainable investment and the resilience that can be fostered through placing greater emphasis on both human and natural capital. This decade, from 2020 to 2030, is being called the Decade of Action, as the world needs to mobilise to make concerted progress on climate change, the UN Sustainable Development Goals (SDGs), and reversing the loss and degradation of ecosystems. As part of these interlinked agendas, there is rising interest in forestry and land use as part of the Natural Climate Solutions (NCS) concept. Forests are becoming more broadly valued and more valuable. It is more vital than ever that the financial community and the forestry sector come together to ensure that forestry investment advances the shared agendas for sustainable development.

New Forests aspires for the forestry sector to be a leader in the transition to a sustainable future for people and planet. We believe that forestry can make positive contributions to climate change mitigation, biodiversity conservation, rural community development, and the transition to a circular bioeconomy. We have worked steadily over the past few years to develop and use metrics that create transparency and clarity around the outcomes of our investment programs. We have also sought to work with industry associations, sustainable and impact investment organisations, NGOs, and community groups to develop a shared view of what it means for our asset class to be truly sustainable.

We see the rising demand for wood fibre and wood building materials as part of a movement towards a circular bioeconomy. Wood is low-emission, renewable, recyclable, reusable, and ultimately biodegradable. We also understand that responsible intensification of production is necessary to meet the needs of a growing human population and an expanding global economy. This is possible if we manage sustainable landscapes for both societal and environmental values while incorporating agriculture and forestry production alongside conservation. We believe our investments should generate benefits to local communities, including indigenous peoples, as well as generate sound risk-adjusted returns to our investors. Reporting on environmental, social, and governance (ESG) management and outcomes can help support this more holistic view that considers risk, return, and impact as related components of investment performance. I hope this report, and the data and stories in it, provide you with information to help understand how we see our responsibilities and the potential of the forestry asset class to be a leader in our planet's sustainable future.

As always, please contact us with any questions or ideas, as we continue to try to refine our approach and improve our performance.

## About This Report

**New Forests' 2019 Sustainability Report aims to bring our sustainability commitment to life with a combination of performance data and analysis as well as an exploration of material sustainability issues in our forestry investments.**

We seek to provide timely, transparent, and relevant sustainability information. Our clients increasingly require us, as their investment manager, to report and provide disclosures about the ESG exposure and impacts of their investments. Under the guidance of the New Forests' Board of Directors, the company undertakes sustainability reporting for key stakeholders: our investment clients, our employees, and the communities where we operate. In addition, we recognise that our investments may have significant impacts on the goods and services that forests sustain and deliver – especially ecosystem services – and that this means our stakeholders also include members of the public who are interested in the environmental and societal impacts of forestry investment.

The materiality of topics discussed in this report has been established through New Forests' corporate sustainability policies and is discussed further on page 13. This report covers the activities of the New Forests group of companies during the calendar year 2019 as well as the performance and impacts of the investments we manage. Data and information relating to investments in Australia and New Zealand are provided for the financial year 1 July 2018 to 30 June 2019. Data and information relating to investments in Southeast Asia and the United States are provided for the calendar year 1 January 2019 to 31 December 2019.

New Forests commits to striving for higher standards of sustainability performance. We value partnerships in this effort, and we welcome questions or comments regarding this report and our business.



## New Forests 2019 Sustainability Snapshot

**Our Business**



**15 years**  
in business



**70**  
employees



**39% female**  
employees



**5 Offices**  
Sydney and Melbourne, AUS  
Tauranga, NZ  
Singapore, SG  
San Francisco, US

**Our Investments**



**AUD 5.6 billion**  
in assets under management



**3 regional**  
investment programs



Managing investments in  
**6 countries**



**A+ rating**  
Principles for Responsible Investment

**Our Impact**



**614,000+**  
hectares  
certified forests



**510,000+**  
hectares  
net productive forest area



**158,700+**  
hectares  
conservation areas



**135+ million tonnes**  
CO<sub>2</sub>e stored in production forests



**2.5 million**  
carbon credits  
issued



**5,550+ people**  
employed  
via investments



**21% female**  
employees



**7.3 million m<sup>3</sup>**  
timber harvested



**99% of timber**  
harvested from  
certified forests

Our Business data as at 31 March 2020. Employment figures for total individual employees.

Our Investments data as at 31 December 2019.

Our Impact data for the financial years of all funds ending in 2019. Employment figures for full-time equivalents.

# Our Business

## Corporate Governance

New Forests is committed to conducting business in a responsible and ethical manner.

### Code of Conduct

Our Code of Conduct (CoC) is at the core of realising this commitment; employees are trained on the Code, as well as the broader range of New Forests' policies and procedures, through a structured online training program and ad hoc internal trainings. We are proud to work in an organisation that promotes professionalism, courtesy, business excellence, diversity, and respect.

### Governance and Compliance Frameworks

Our governance and compliance frameworks are driven by good practice and regulatory compliance, including our responsibilities under the company's Australian Financial Services Licence and as a Registered Investment Advisor in the United States.<sup>1</sup> Alongside financial compliance, New Forests' systems and procedures encompass funds management governance, administration, and operational control systems.

### Management and Oversight Bodies

New Forests' responsible business approach is guided and overseen by senior management and the New Forests Board of Directors with the support of corporate and board committees.

#### New Forests Pty Ltd Board of Directors

*Appointed by shareholders and holds six meetings with at least two in-person meetings per year.*

- David Brand\* (Chair)
- Hans Mehn
- Daniel Weiss
- Masaru Namiki
- Radha Kuppalli\*
- Charl Pienaar
- John Rogers

\*Indicates Executive Director.

#### Executive Committee and Management Committees

*The Executive Committee meets weekly by teleconference with at least quarterly in-person strategy sessions. Management Committees meet once per quarter, with separate meetings for each region of investment.*

- David Brand - Chief Executive Officer
- Margaret Cole - General Counsel
- Radha Kuppalli - Managing Director, Investor Services
- Gavin Le Roux - Chief Financial Officer
- Mark Rogers - Managing Director, Australia-New Zealand
- Geoffrey Seeto - Managing Director, Asia
- Brian Shillinglaw - Managing Director, United States



#### New Forests' governance objectives

- Promote ethical and responsible decision-making
- Recognise and manage risks
- Maintain fiscal responsibility
- Enable solid foundation for management and oversight
- Make timely and balanced disclosures

#### Board Committees

*Supporting committees cover key aspects of New Forests' governance and management.*

- Remuneration Committee
- Risk and Compliance Committee
- Product Approval Committee

<sup>1</sup> New Forests, Inc. became a Registered Investment Adviser on 31 January 2019.

New Forests' Board continues to move towards accepted good governance practices, including Board composition. The information below reflects material metrics in relation to board composition and activities in 2019.

### Key Board Metrics - 2019



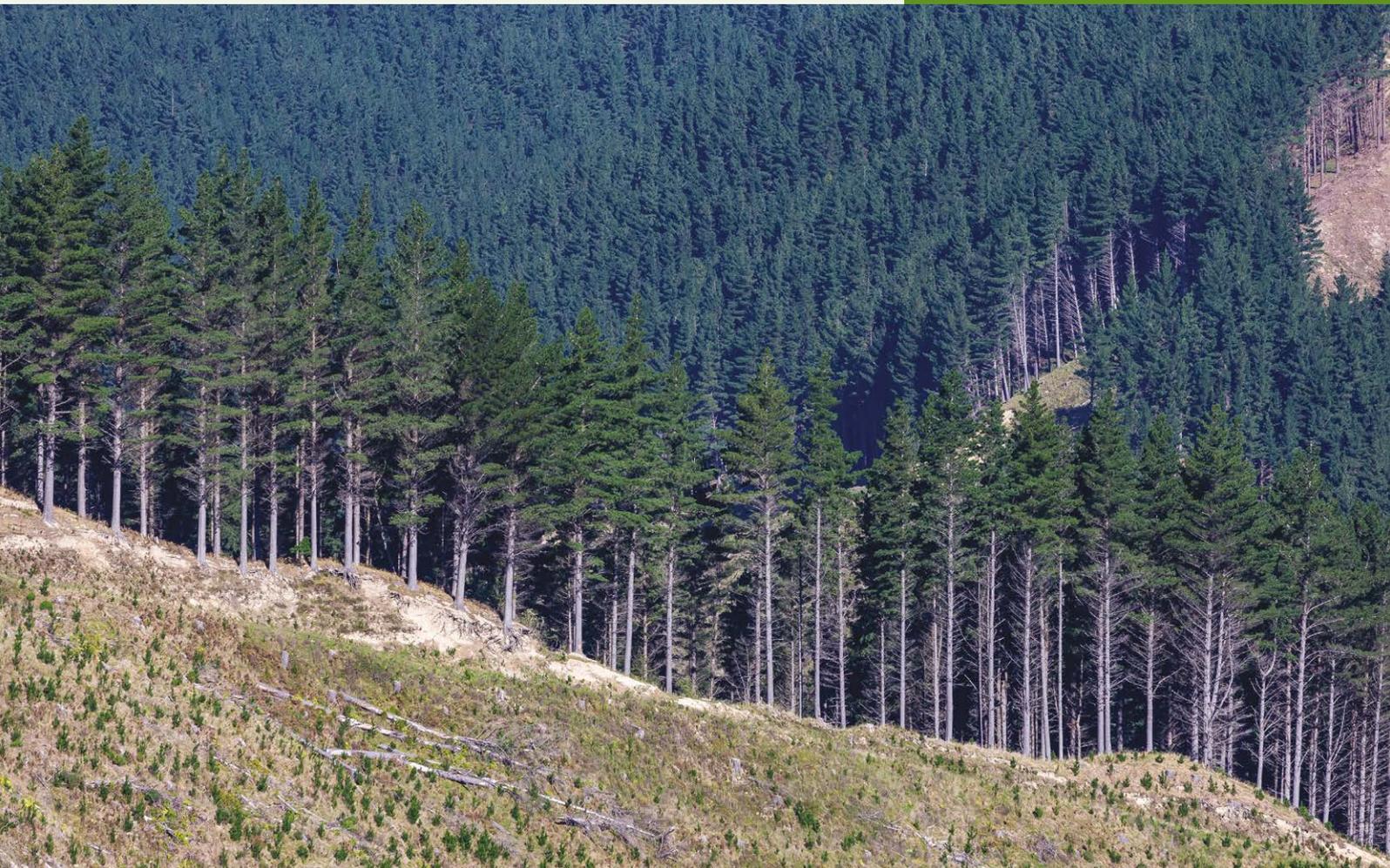
## Sustainability and ESG Integration

Sustainability is a core aspect of New Forests' work. The company's internal Sustainability Working Group successfully completed its directive to create and implement the Sustainable Landscape Investment (SLI) program and concluded its mandate in 2019. New Forests' sustainability function continues to provide services to the business in these areas:

- **Corporate sustainability** – Our corporate sustainability approach focuses on embedding social and environmental purpose and accountability throughout our business and the services we provide.
- **Responsible investment (RI)** – RI is both an approach to and the practices associated with incorporating ESG factors throughout the investment process. Our RI Policy guides the company in this regard.

The following organisational responsibilities are in place to ensure that sustainability and ESG integration are incorporated into workflows.

New Forests Role	Responsibilities	Example Activities
CEO	Oversight of sustainability programs	<ul style="list-style-type: none"> <li>• Sets strategic direction for sustainability in business strategy</li> <li>• Approves key procedures</li> </ul>
Managing Director, Investor Services	Oversight of sustainability programs	<ul style="list-style-type: none"> <li>• Ensures inclusion of sustainability in business strategy and management</li> <li>• Oversight for sustainability initiatives</li> <li>• Reports ESG issues directly to Board and Executive Committee</li> </ul>
Director, Sustainability and Communications	Management of sustainability programs	<ul style="list-style-type: none"> <li>• Administers the Social and Environmental Management System (SEMS), RI Policy, and associated activities</li> <li>• Provides guidance on ESG issues</li> <li>• Monitors and reports on ESG performance</li> <li>• Internal sign-off on investments from the ESG perspective</li> </ul>
Investments and Operations Teams	Implement ESG integration in investment process for assets	<ul style="list-style-type: none"> <li>• ESG assessments during due diligence and asset management</li> <li>• ESG implementation support to investees</li> </ul>
Portfolio Managers	Oversight of ESG in funds and assets	<ul style="list-style-type: none"> <li>• Set strategic direction for ESG in funds and assets</li> </ul>



## Impact and Advocacy

New Forests participates in industry associations and investment networks that are driving responsible business and investment, advancing sustainable forest management, advocating effective public policy, and growing sustainable-finance markets.

### B Corp™

New Forests became a certified B Corp™ in 2018 and received an initial score of 88.1. The company was rated as a B Corp Best in the World in the category of Customers for 2019, reflecting the sustainability integration in our financial services products.

### Principles for Responsible Investment (PRI)

New Forests became a PRI signatory in 2010, and, in 2019, received an A+ rating for its reporting. PRI continues to be a guide for New Forests' RI strategies. Public transparency and assessment reports can be found online at <https://www.unpri.org/signatory-directory/new-forests-pty-limited/1537.article>.

### Industry Memberships and Associations

New Forests uses industry association memberships as key elements of our external engagement strategy by participating in networks that are driving industry best practice, advancing sustainable forest management, advocating effective public policy, and growing sustainable-finance markets. New Forests is a member of the following organisations:



# Our Investments

## Investment Programs

New Forests is a global firm with specialised regional investment programs and on-the-ground presence. Our local knowledge enables us to better originate investment opportunities, conduct effective due diligence, and engage in active management of our investments. At the same time, our investments benefit from the scale, experience, systems, and governance of New Forests' established global forestry investment management platform. Together, the New Forests team aims to deliver strong financial performance over the long term while contributing to economic solutions that support climate action and sustainable development. As of 31 December 2019, New Forests' assets under management totalled approximately AUD 5.6 billion.

### Australia and New Zealand

AUD 4.9 billion



- Australia New Zealand Forest Fund (ANZFF)
- Australia New Zealand Forest Fund 2 (ANZFF2)
- Australia New Zealand Forest Fund 3 (ANZFF3)
- Co-investments

Forestry investment in Australia and New Zealand provides exposure to mature timber markets, well-established forestry management systems, and new opportunities from increasing Asian demand for wood products. New Forests' Australia and New Zealand investment program provides balanced exposure to Australian softwood and hardwood plantations and New Zealand softwood plantations in a stable, low-risk environment. All assets are managed on a sustainable basis with a view toward enhancing long-term productivity and asset value. Our Australia and New Zealand investments are characterised by high-quality certified forestry estates capable of generating attractive cash yield and long-term capital appreciation.

### Southeast Asia

AUD 234 million



- Tropical Asia Forest Fund (TAFF)

The forestry sector of Southeast Asia is at a critical inflection point as the industry shifts toward plantation-based timber supply and the development of additional processing to meet rising Asian timber demand. This provides an opportunity for investors to acquire and develop efficient, sustainably managed, fast-growing plantations. New Forests focuses on certified plantation forestry with an emphasis on technological and silvicultural improvements and a rigorous approach to environmental and societal values and good governance. New Forests has pioneered institutional investment in the forestry sector of Southeast Asia through our Tropical Asia Forest Fund (TAFF), through which we contribute to long-term investment in renewable resources and conservation of ecosystem services associated with forests and community engagement.

### United States

AUD 476 million



- Forest Carbon Partners
- Carbon Forestry Separate Accounts (US Carbon Forestry)

Forestry investment in the United States has evolved to encompass a variety of values in addition to core timber revenue. With in-house expertise in conservation finance and forest carbon markets, New Forests has developed our US Carbon Forestry investment strategy that capitalises on a new source of forest value from the California carbon market. New Forests uses proprietary technology to identify high carbon value forests, then optimises timber and carbon management to enhance returns through the sale of carbon offsets while transitioning the forest to higher value timber production. New Forests has developed this strategy to provide investors access to a valuable re-segmentation of the mature United States timberland market while directly mitigating climate change through sustainable forest management.

## Responsible Investment

**New Forests believes that integrating ESG considerations throughout our investment programs can lower risk, promote stable returns, and encourage more sustainable asset management that can add investment value. Our RI Policy guides strategies and commitments that support this approach within our investment programs.**

A cornerstone of our RI approach is New Forests' Social and Environmental Management System (SEMS), which describes the internal requirements, procedures, and documentation that support identification and management of significant environmental and societal aspects in our investments. The SEMS also provides guidance for the use of third-party certification systems and standards that can demonstrate the responsible management of New Forests' investments. The system is supported by New Forests' SLI framework, which provides both a conceptual vision to support our investment philosophy as well as a system of metrics for managing material ESG and impact issues. The SLI framework is discussed in the SLI - ESG Performance section of this report.

New Forests has been a signatory to the UN-backed PRI since 2010. We consistently earn top-tier ratings in the annual PRI Reporting and Assessment, with an A+ score achieved in 2019 for Strategy and Governance. Our 2019 participation with the PRI network included presenting on a PRI-hosted climate change and forestry webinar and joining a panel on integrating the SDGs in real assets investment at the inaugural PRI Responsible Investment in Real Assets event. More detail on New Forests' PRI involvement and responsible investment approach can be found in our RI Transparency Report and Assessment Report, available on New Forests' website or the PRI Data Portal.



Throughout 2019, New Forests also supported the Global Impact Investing Network (GIIN) in its growing programmatic and research focus on impact investing in sustainable forestry. This support included partnering for panel presentations at third-party events, presenting at GIIN network events, and supporting the GIIN's IRIS+ team in the development of new "core metric sets" for sustainable forestry and water resources management, released in early 2020. New Forests also participates in the GIIN's blended finance working group.

### Learn more

Check out PRI's Webinar *Combating climate change: what role can forestry investors play?*

<https://www.unpri.org/investor-tools/forestry>



### Learn more

Check out GIIN's publication *Scaling Impact Investment in Forestry*

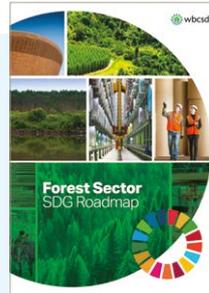
<https://thegiin.org/research/publication/forestry>



## Our Investments and the Sustainable Development Goals

**New Forests believes that achieving the Sustainable Development Goals (SDGs) requires an approach that is beyond business as usual and that forestry investment must be a driver of solutions that support the SDGs.**

In 2019, as a member of the World Business Council for Sustainable Development (WBCSD) Forest Solutions Group, New Forests contributed to developing and launching the *Forest Sector SDG Roadmap*, which outlined the most significant contributions that the forestry sector could make to the SDGs. The Forest Solutions Group members also committed to transparency in how our respective businesses are affecting sustainable development. New Forests prioritises Goals 8, 12, 13, and 15 and began reporting the contribution of our investments to these goals in 2019 using our SDG Dashboard (see following page).



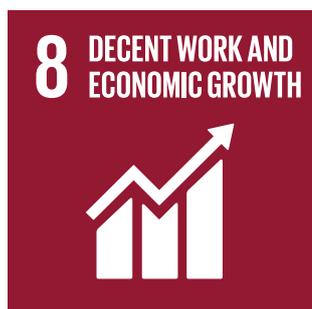
### [Learn more](#)

Check out the *Forest Sector SDG Roadmap*

<https://www.wbcsd.org/Sector-Projects/Forest-Solutions-Group/Resources/Forest-Sector-SDG-Roadmap>



# SUSTAINABLE DEVELOPMENT GOALS



- Achieve higher levels of productivity
- Job creation
- End modern slavery and child labour



- Sustainable management and use of natural resources
- Sustainable consumption and production



- Mobilise climate finance
- Emissions reductions
- Carbon dioxide (CO<sub>2</sub>) removals



- Sustainable forest management
- Ecosystem restoration
- Increase afforestation and reforestation
- Reduce natural habitat degradation, biodiversity loss, and extinction of threatened species

## New Forests' 2019 Contribution to the SDGs

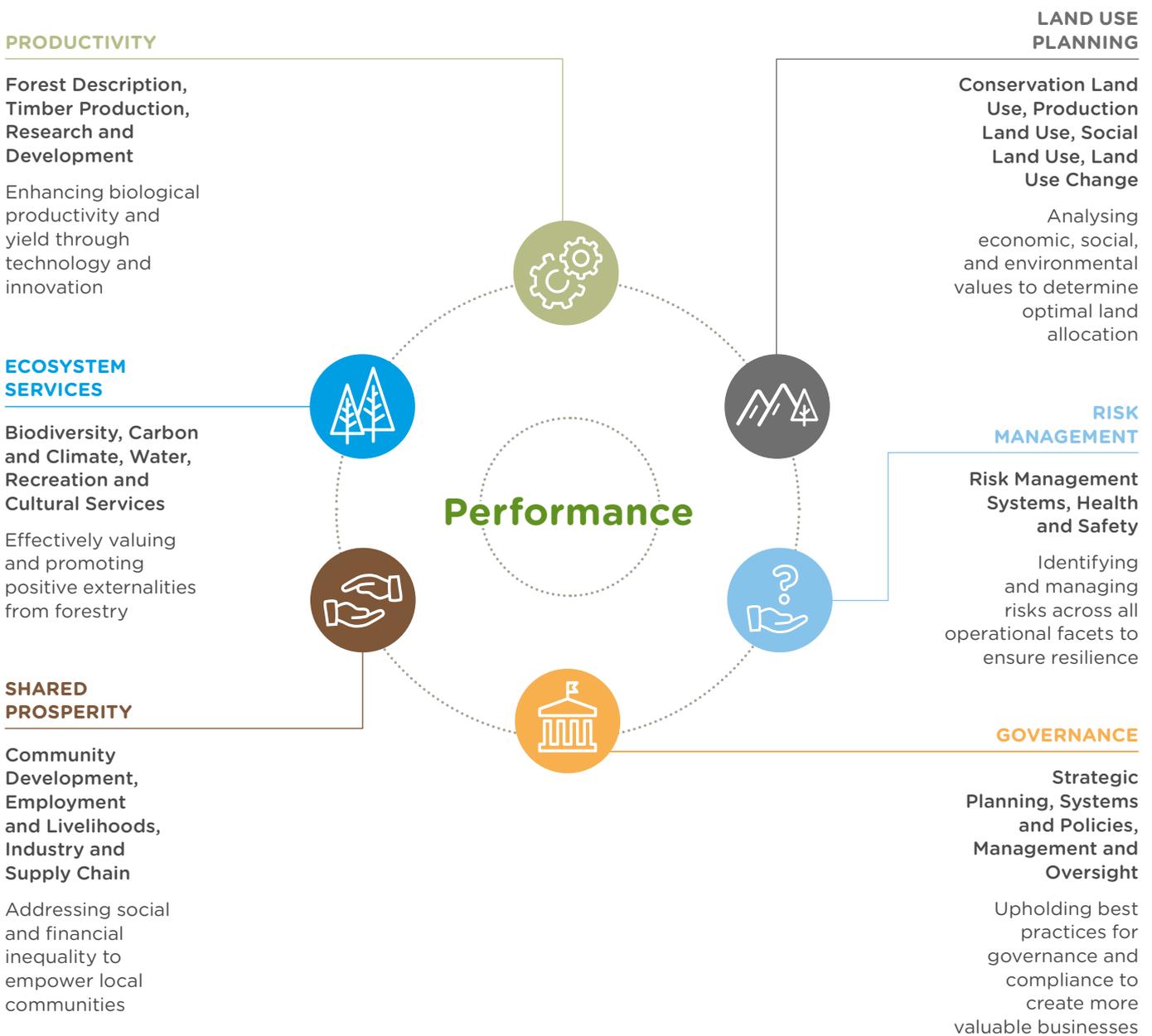
		8	12	13	15
Individuals employed with workers' rights requirements	5,500+ people	●			
Tonnes timber produced/net productive hectare	17.5 tonnes per hectare	●	●		●
Ratio of production area to conservation area	2.6:1	●	●		●
Volume of certified timber produced	7.2 million m <sup>3</sup>		●		●
Percentage of timber production that is certified	99%		●		●
Carbon stored in production forests	135.2 million tonnes CO <sub>2</sub> e		●	●	●
Net carbon storage in production forests over 2019 <sup>2</sup>	+13.6 million tonnes CO <sub>2</sub> e			●	
Carbon offsets generated	2.5 million tonnes CO <sub>2</sub> e			●	
Low-carbon investment – dollars invested	AUD 692 million			●	
Area of certified forest management	614,000+ hectares		●		●
Area of environmental restoration	9,900+ hectares				●
Area of commercial reforestation	20,000+ hectares				●
Area of environmental reforestation	590+ hectares				●

<sup>2</sup> Includes new acquisitions in addition to carbon sequestration through biological growth.

# Our Impact

## Sustainable Landscape Investment - ESG Performance and Impact Management

New Forests' SLI framework supports our approach to managing ESG issues as part of total investment performance, recognising that ESG management is vital for risk management and can also create value for the investment, the environment, and society. The SLI framework includes six interconnected themes: productivity, land use planning, ecosystem services, shared prosperity, risk management, and governance.



## Materiality and New Forests' SLI Framework

New Forests believes that managing and disclosing material ESG issues is our duty as an asset manager and as a responsible business. New Forests' SEMS identifies that the most material impacts of our business occur in the investment programs we manage, given the tangible nature of our real assets investments and the potential to impact the environment and society.

### New Forests' Materiality Assessment and Continual Improvement in ESG and Impact Management



**Our SLI framework was designed based on the concept of materiality, whereby we seek to manage and disclose the impacts which are material to financial performance, risk management, and global environmental and societal challenges.**

The initial materiality assessment took place in 2014 via a sustainability management retreat and was developed through the introduction of the SLI concept in 2015. In 2016, New Forests began expanding on this, aiming to establish an effective tool for measuring and managing sustainability performance and to provide a method for benchmarking sustainable forestry investments. In 2018, we launched the SLI metrics to monitor, manage, and report material ESG and impact performance. The SLI metrics reflect New Forests' philosophy of incorporating sustainability and excellence in operational management throughout our business and the investments we manage.

The SLI metrics, as well as discussion of the material issues they relate to, form the basis of the reporting in this section.<sup>3</sup> The definitions for metrics relating to data in this report are provided on page 44. The following sections describe our approach to managing material SLI issues and provide aggregated data at the fund level, where possible, for each of our commingled investment funds with the following exceptions:

- Data pertaining to the investments held in US Carbon Forestry separate accounts are reported jointly in lieu of fund- or vehicle-level accounting.
- The Australia New Zealand Forest Fund (ANZFF) sawmilling investments operating as Timberlink are not included for Productivity, Land Use Planning, and Ecosystem Services but are included for relevant Shared Prosperity, Risk Management, and Governance data.
- Forest Carbon Partners (FCP) data are not reported for most indicators, because the FCP activities are restricted to offset-project development and carbon credit marketing and do not include operational forestry management.

<sup>3</sup> As a fiduciary managing privately held assets, New Forests discloses ESG performance and impacts that are viewed as having material importance to external stakeholders. Metrics that are not used for public disclosure contribute to client reporting and/or to support asset management and internal decision-making. While we are committed to transparency in support of the stakeholders who are interested in and may be affected by the investments we manage, we must balance disclosure with commercial sensitivities.



## Productivity

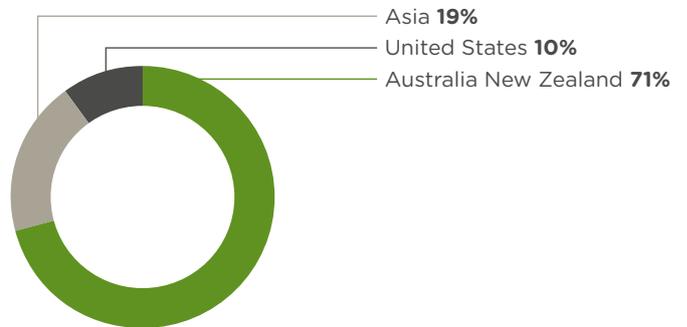
With global population and consumption on the rise, the efficient use of land for the production of raw materials is increasingly important, and productivity of forestry investments is a core driver of both current revenue and total asset value. New Forests brings a focus on productivity as part of strategic asset management, while also taking a view that healthy, resilient forests help safeguard productivity and asset values for the long term. New Forests' SLI framework focuses on the Productivity sub-themes of Forest Description, Growth, and Silviculture; Timber Production; and Research and Development.

### Forest Description, Growth, and Silviculture

Forest Description, Growth, and Silviculture metrics are used to monitor the key productive characteristics of our production forests, including growth rates, standing volume, harvested volume, and growth volume. The majority of this SLI data is used for internal asset management functions rather than for external environmental and social impact reporting.

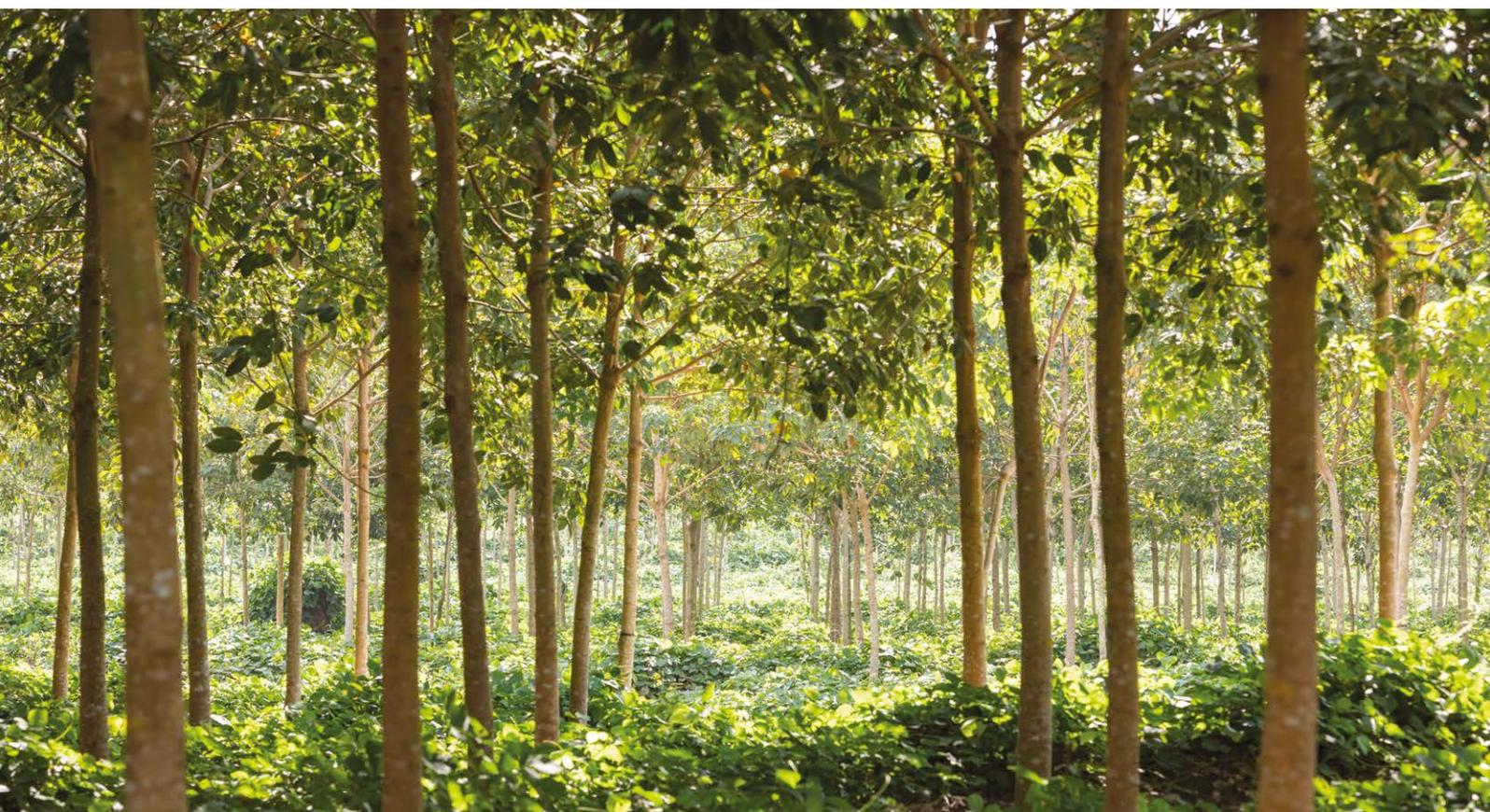
In total, New Forests' forestry assets encompassed approximately 765,000 hectares (gross) of forests and land, of which the net managed production forest area is around 63%. See page 21 for more information about Production Land Use and areas under management.

**Total Area by Region**



### Gross Asset Area (hectares)

ANZFF	ANZFF2	ANZFF3	TAFF	US Carbon Forestry	Portfolio Total
283,684	251,961	4,055	147,751	77,282	764,733



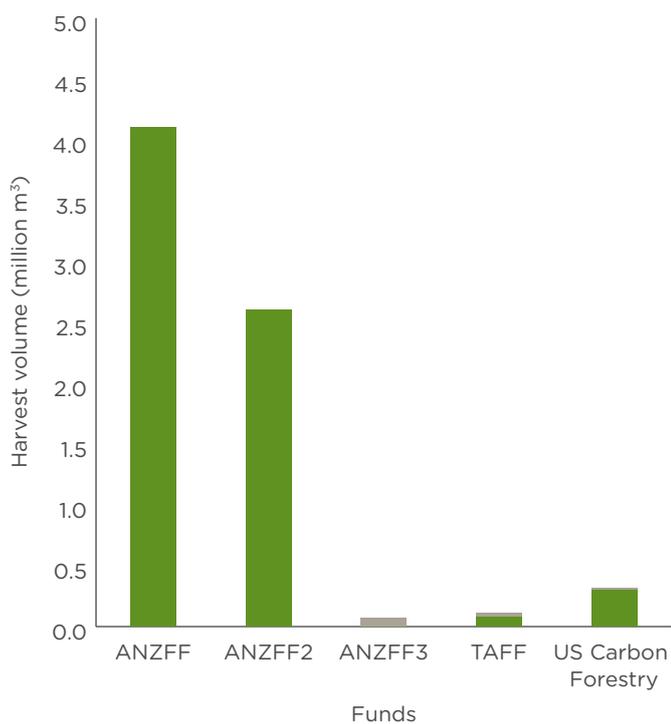
## Timber Production

New Forests' forestry investments harvested and sold more than 7.3 million tonnes of timber in 2019. A total of 99% of harvested timber came from forests certified under the Forest Stewardship Council® (FSC®) and/or the Programme for Endorsement of Forest Certification (PEFC), while the remainder originated from recent acquisitions that were working toward achieving forest management certification.

### Timber Harvest and Certification

	ANZFF	ANZFF2	ANZFF3	TAFF	US Carbon Forestry	Portfolio Total
Timber Harvest Volume (m <sup>3</sup> )	4,135,702	2,638,853	66,942	106,315	339,000	7,286,812
Certified Timber Harvest Volume (m <sup>3</sup> )	4,135,702	2,638,853	0	80,559	323,000	7,178,114
Certified Timber Harvest (%)	100	100	0	76	95	99

### Timber Harvest Volume



The Timberlink sawmills (owned by ANZFF) operate with FSC® chain of custody certification and purchase the bulk of their wood supply from New Forests' certified plantations, with the remainder coming from local third-party plantations that meet the company's responsible sourcing requirements. In 2019, Timberlink sold over 497,000 m<sup>3</sup> of solid wood (83% certified) and over 191,585 bone dry metric tonnes (BDMT) of woodchip (90% certified).

- Certified Timber Harvest Volume
- Non-certified Timber Harvest Volume



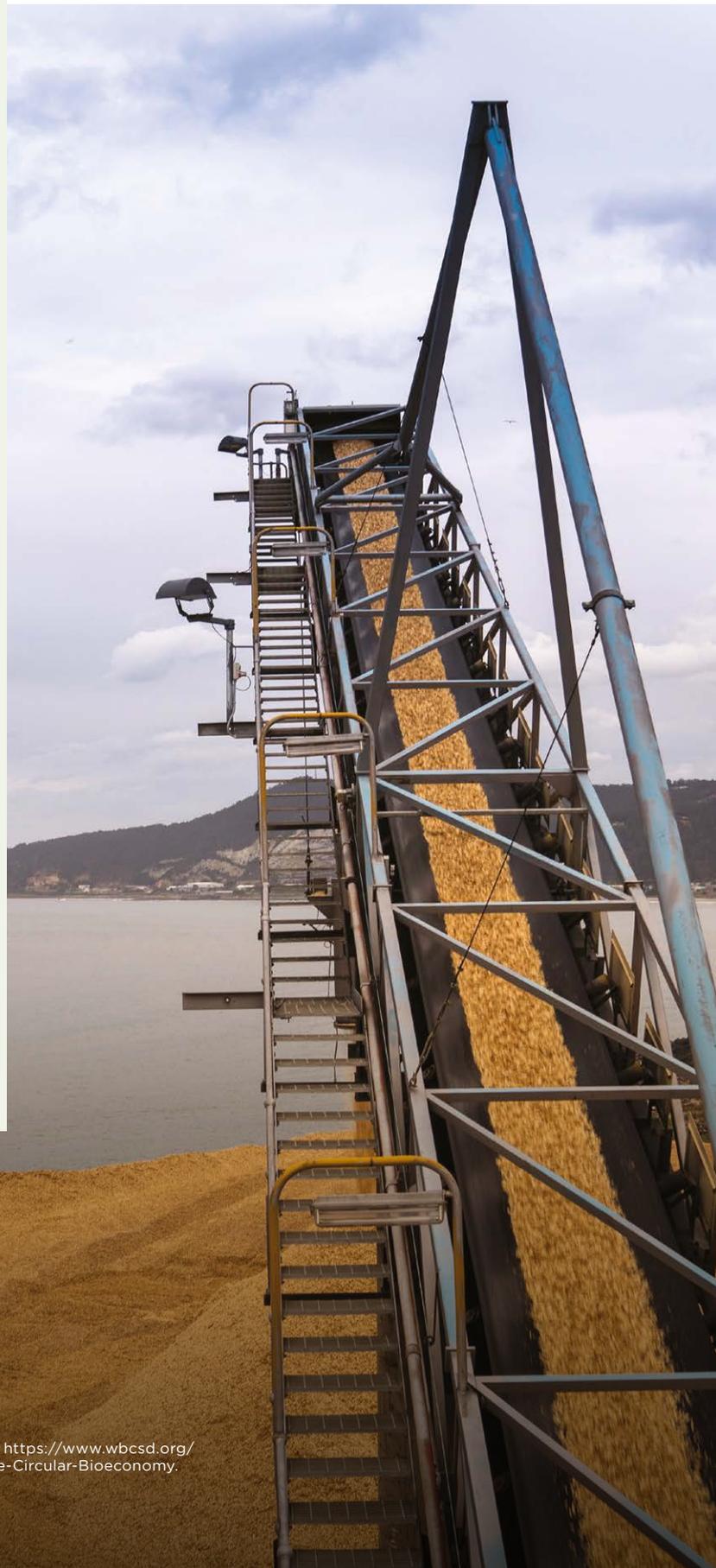
# NewForests

TIMBER PRODUCTS

## Certified Woodchip and Supplying the Sustainable Bioeconomy

**New Forests Timber Products (NFTP) is the wood fibre sales contractor supporting New Forests' plantation estates. NFTP aims to be the supplier of choice for certified plantation forest products and specialises in the sale of certified eucalyptus woodchip from premier Australian plantations.**

Certified woodchips are one of the key inputs in the rising bioeconomy, which includes an expanding array of products made from timber and wood fibre. NFTP is proud to supply companies who are responding to the bioeconomy opportunity with new and innovative products that help consumers make more environmentally friendly choices and that improve societal impacts. For example, two Japanese customers now produce an alternative to plastic that is used for fast food packaging. This special paper product both retains and repels moisture and is completely biodegradable and recyclable. As another example, a Chinese customer is increasing production of pharmaceutical grade dissolving pulp – made from Australian eucalyptus woodchip – to produce face masks that assist in protecting the wearer from poor air quality and contagious diseases. As the world population and consumption continue to rise, the bioeconomy is a USD 7.7 trillion opportunity<sup>4</sup> where bio-derived inputs, like woodchips, wood fibre, and other plant matter, can provide renewable alternatives and new products that meet the needs of our growing global community.



<sup>4</sup> WBCSD. "CEO Guide to the Circular Bioeconomy." 7 November 2019. <https://www.wbcsd.org/Programs/Circular-Economy/Factor-10/Resources/CEO-Guide-to-the-Circular-Bioeconomy>.

## Research and Development

New Forests manages assets to sustain and create long-term value, seeking to improve investment performance with information and innovation gained via research and development (R&D). R&D initiatives are aligned to the asset management strategy for each investment and/or fund. Across all funds, R&D expenditure in 2019 totalled more than AUD 14 million; however, approximately 12.3 million was comprised of significant investments by the Timberlink sawmilling business. The remaining R&D expenditure of approximately AUD 1.7 million resulted in an average R&D spend of AUD 2.27 per gross hectare of forestry investments. Collaborating with our property managers and investee companies, New Forests also seeks to foster cross-investment and industry collaboration in support of continual improvement in forest management.

### R&D and Industry Collaboration (AUD)

	ANZFF	ANZFF2	ANZFF3	TAFF	FCP	US Carbon Forestry	Portfolio Total
R&D Expenditure	12,624,373	517,861	18,074	874,048	0	0	14,034,356
Industry Collaboration Expenditure	630,800	554,836	0	36,699	36,676	97,565	1,356,576



### Satellites and Data Science in Support of Natural Climate Solutions

**As investors, businesses, and governments turn to nature-based solutions for climate mitigation, satellite data analytics and AI play an important role in the origination and management of forest carbon offset projects. In 2019, New Forests worked with Rezatec, a data science and remote sensing specialist firm, to support the analysis of prospective investments for Forest Carbon Partners.**

New Forests requires accurate and precise forest inventory to quantify climate benefits from sustainable forest management. Rezatec's platform provided improved efficiency in field data collection, resulting in timely, accurate, and spatially resolved results that met our due diligence and business development needs.

Specifically, New Forests engaged Rezatec to produce a comprehensive forest inventory more efficiently than by conducting a traditional large field-based survey. Through the analysis of satellite imagery, Rezatec

provided New Forests with a sampling protocol to inform the field survey, enabling them to optimise field crew deployment by sending crews to exact survey locations, thereby reducing the need for a large sampling size, whilst ensuring fully representative sampling.

Using the collected field data, together with satellite imagery processed through Rezatec's AI algorithms, Rezatec produced a detailed final inventory, reporting species and volume information as well as above-ground carbon estimates for the entire forest. The high-quality data and information also contributed to the development of detailed management plans for forests and carbon projects, creating efficiencies that build on the initial due diligence work.

Rezatec and New Forests found that innovative applications of remote sensing data can reduce inventory costs, make climate mitigation projects more affordable, and help demonstrate that technological innovation can provide invaluable tools in scaling and accelerating investment in natural climate solutions.



## Land Use Planning

New Forest's Land Use Planning theme focuses on Conservation, Production, and Social Land Uses as well as reporting on Land Use Change. Land use planning approaches are guided by both regulatory requirements and forest management standards. In this section, we report on land use activities across our investment portfolios with consideration for the economic, social, and environmental values provided by sustainable forest and land management.



### Spatial Optimisation to Address Fire Risk and Mitigation

**The property manager for the Shasta Cascade Timberlands (SCT) estate models the potential impact of natural disturbances, including fire, as part of its efforts to manage long-term sustainable yield of the forest.**

This modelling uses a combination of technologies and data science to support spatial optimisation that enables better land use planning and improves understanding of how fire risk mitigation supports forest health and value preservation.

A fire risk analysis conducted in 2019 used a program called FlamMap<sup>5</sup> that simulates potential fires and uses environmental and forest inventory data to predict wildfire growth and behaviour. The analysis also included a "suppression difficulty index" that accounts for both aviation and ground firefighting resources. This resulted in a spatially explicit fire risk analysis for SCT that informs fire risk mitigation efforts and supports understanding of forward-looking natural disturbance impacts in long-term forest resource models. The modelling and scenarios can inform spatial optimisation to aid decision-making regarding where to reduce stand density – to lower inherent fire risk and risk of losses – as well as where to focus mitigation efforts and suppression.

Examples of fire risk mitigations completed in 2019 and planned improvements include:

- Installation of four dip tanks, which provide water supply for fire suppression. Siting of the dip tanks was informed by the suppression difficulty index. An additional four dip tanks are planned for installation in 2020.
- Mapping of areas prioritised for "green thinning" activities in 2020 and 2021, where forest volume is reduced in high-risk boundaries where fire may cross from a neighbouring property or identified high-ignition-risk areas.
- Installing new permanent bare earth fire breaks in areas where elevated risk has been identified.

Management of SCT aims to show that leveraging spatially explicit fire risk information, mitigating fire risk, and addressing the long-term sustainable yield effects of natural disturbances reduce the overall risk of financial losses while promoting forest health and resilience. Ultimately, science and data-driven risk mitigation may also contribute to better understanding of fire risk in financial valuation, such as supporting lower discount rate premiums for fire risk, further securing value for forestry investors.

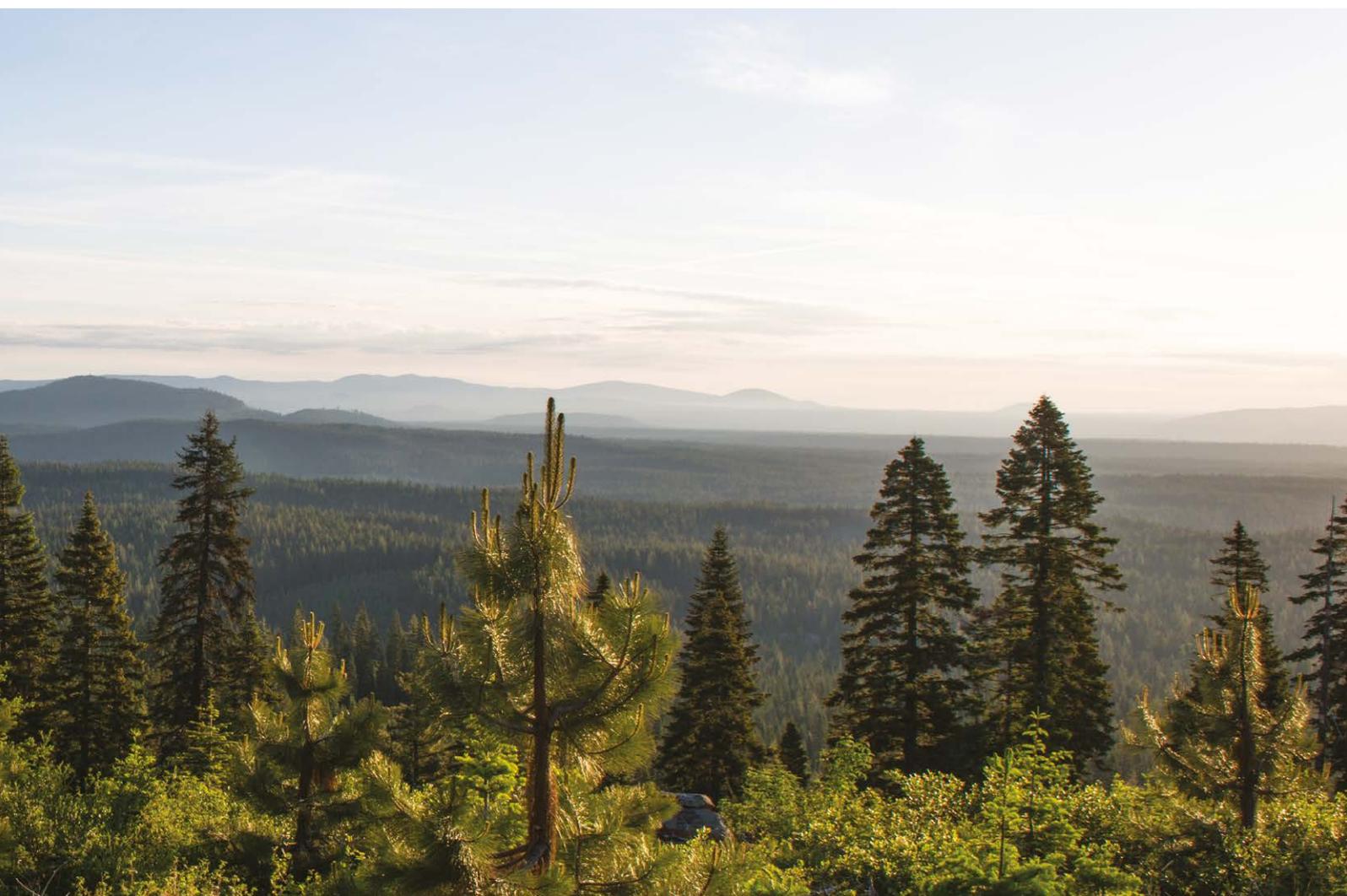
<sup>5</sup> For more information, see: <https://www.firelab.org/project/flammap>.

## Conservation Land Use

Central to New Forests' vision for sustainable forestry is the belief that forests should contribute to local, regional, and global conservation aims. The High Conservation Value (HCV) approach and other land use planning tools support better decision-making for conservation, protection, and restoration alongside commercial investment activities. To understand how conservation value is integrated in land use planning, New Forests uses metrics that describe the areas that are managed for environmental restoration, environmental market projects, permanently protected areas, conservation zones, and natural forest and remnant vegetation areas.

### Conservation Land Use Areas (hectares)

	ANZFF	ANZFF2	ANZFF3	TAFF	FCP	US Carbon Forestry	Portfolio Total
Environmental Restoration Management Area	8,467	792	0	559	N/A	102	9,920
Environmental Markets Project Area	545	4,575	0	0	158,218	4,912	168,250
Permanently Protected Area	338	6,388	0	0	N/A	3,331	10,057
Conservation Zone or Protected Area	20,559	84,124	0	48,514	N/A	5,528	158,725





Photos courtesy of Tom Stein.

### Conservation Covenants - Ensuring Protection of Native Flora

**As part of investment evaluation, New Forests may consider where conservation covenants can be implemented to demonstrate the company's commitment to conserving environmental values.**

"QEII" covenants in New Zealand are an important mechanism for protecting biodiversity on private lands and represent a legal agreement between the Queen Elizabeth II National Trust and the landowner to protect an open space - and its environmental values - in perpetuity. Across the ANZFF2 Blenheim Estate in the South Island of New Zealand three covenant applications have been prepared, with the covenant areas planned to encompass more than 400 hectares. For example, the Jack's Peak covenant area includes 245 hectares of dryland, rocky peaks, bluffs, sub-alpine tussock, and herb fields along the northern side peak within the estate, which would complement nearby protected areas on the peak's southern and eastern faces.

The covenants are prepared by and will be managed by M&R Forestland Management Limited (M&R), who also is managing an additional covenant in progress on the nearby ANZFF3 Marberry Estate. These covenants demonstrate the funds' commitments to promoting high conservation values, which is a requirement for New Forests' forest certification targets. The Marberry Estate covenant area sustains endemic species such as the Marlborough rock daisy (*Pachystegia insignis*) and the taurepo (*Rhabdothamnus solandri*), which was dubbed "favourite native plant" by the New Zealand Plant Conservation Network in 2019 and is not known to occur elsewhere in the South Island. New Zealand falcons have also been reported in the area.

All the covenant lands will be managed for long-term conservation using Reserve Management Plans to promote this valuable biodiversity, including through management of invasive species - both plants and animals. Weeds and wilding pines will be controlled to minimise plant competition. M&R intend to engage with local stakeholders to help control feral pigs, goats, and deer to reduce pressure on sensitive native flora species. By managing areas like this under conservation covenants, New Forests and M&R ensure that sustainable plantation management also contributes to meaningful conservation of native flora and ecosystems.

## Production Land Use

New Forests' investments encompass varied forest types used for commercial timber production. While most of our forestry investments are timber plantations, we also manage an investment in a sustainable rubber plantation and areas within large forestry estates that are dedicated to agricultural production (primarily wheat and canola). New Forests also has a growing investment program that includes regenerated and semi-natural forests in the US. As of 2019, New Forests manages investments incorporating more than 614,000 hectares of certified forests.

### Production Land Use Areas (hectares)

	ANZFF	ANZFF2	ANZFF3	TAFF	US Carbon Forestry	Portfolio Total
Certified Area	253,842	240,733	3,859	41,387	74,297	614,118
Natural and/or Semi-natural Production Forest Area (net)	2,028	0	0	0	44,887	46,915
Planted or Regenerated Production Forest Area (net)	193,527	146,367	2,431	46,012	28,772	417,109
Agricultural Land (net)	16,380	1,618	0	0	0	17,998

## Social Land Use

New Forests encounters and incorporates important social land use values in all the regions in which we operate; however, respecting these rights is often most important when considering indigenous peoples and local communities who may be marginalised as a result of poor governance of land tenure and rights. New Forests aims to support and uphold customary rights through applying the best practices of the FSC® Principles and Criteria and the International Finance Corporation (IFC) Performance Standards, as applicable. In addition, we seek to be an active and engaged investor that contributes to advancing discussions around land tenure, rights, and social land use needs.

Social land use values and rights can be important components of designing investment strategy, including for the development of partnerships and investment structures, and influencing ongoing management.

### People and Communities as Partners in Sustainable Land Use



**7 carbon projects** with Native American tribes and tribal corporations in the United States (Forest Carbon Partners)



**90 hectares** of community forestry plantings established with 16 smallholders in Sabah, Malaysia (TAFF, Acacia Forest Industries)



**4,000+ hectares** of share-farm plantations with 260 local farmers in Tasmania, Australia (ANZFF2, Forico)



**3,464 hectares** leased from an Iwi-owned corporation in the North Island of New Zealand (ANZFF2)

## Land Use Change

Land use change in forestry has the potential to produce negative environmental impacts and diminish social or cultural values associated with the land. New Forests is committed to a “no deforestation” approach, which we seek to execute through our adherence to forest certification and responsible forestry.

New Forests engages in three main types of land use change:

- **Commercial Reforestation** – Replanted and newly planted areas established with the intention of being managed as production forest.<sup>6</sup>
- **Environmental Plantings and Reforestation** – Areas that are (re)forested/ (re)planted for conservation management.
- **Reversion Area** – Areas that are reverted from forestry back to previous agricultural land uses.

### 2019 Land Use Change Areas (hectares)

	ANZFF	ANZFF2	ANZFF3	TAFF	US Carbon Forestry	Portfolio Total
Commercial Reforestation Area <sup>7</sup>	8,061	8,229	55	2,073	1,585	20,003
Environmental Plantings/ Reforestation Area	0	42	0	556	0	598
Reversion Area	760	34	0	0	0	794

<sup>6</sup> Note that in New Forests’ SLI metrics, for simplicity we do not distinguish between afforestation and reforestation. Afforestation typically refers to the establishment of forest on lands that were not previously forest. Reforestation refers to the re-establishment of forests on lands that have previously been forest. In our SLI metrics, reforestation includes all planting of trees where forest cover is anticipated; we distinguish between (a) commercial reforestation, which is typically intended to include commercial timber production and also includes replanting areas after harvest and (b) environmental reforestation, which is typically not intended for commercial timber production.

<sup>7</sup> Note this area includes both replanting after harvest and planting of areas that were previously not forest, such as bare and degraded land.





## The Global Urgency of Reforestation to Halt the Climate Crisis

2019 was a pivotal year that highlighted the potential for reforestation to address climate change. The Intergovernmental Panel on Climate Change (IPCC) report *Climate Change and Land*<sup>8</sup> was released in August 2019 and emphasised that reforestation is a viable strategy to remove carbon dioxide from the atmosphere and, when integrated sustainably into the landscape, could ameliorate adverse climate change impacts. The report found that all pathways that limit warming to 1.5°C require some use of reforestation<sup>9</sup> as an emissions-reduction strategy. Researchers believe the planet could support 900 million more hectares of forests, which could capture approximately 205 gigatons of carbon,<sup>9</sup> equating to approximately 20 years of human-caused emissions.

Additionally, reforestation can contribute to biodiversity conservation, and healthy managed forests support a range of ecosystem services and livelihoods that provide both local economic benefits and global environmental benefits.<sup>10</sup> However, it is important that reforestation strategies are regionally specific and that areas are continuously maintained to avoid adverse effects or lowered restoration potential. There are many approaches to reforestation, ranging from simple mass reseedling, to establishing new commercial plantations, through to efforts to restore natural forest ecosystems. While the costs, benefits, and impacts of reforestation can also vary across approaches, a constant factor is that reforestation provides a key mechanism for carbon removal from the atmosphere and presents an immediately scalable opportunity for climate action.

Given that the United Nations has indicated that the world needs to reach net-zero emissions by 2050 to avoid the greatest impacts of climate change,<sup>11</sup> increasing reforestation efforts is a timely priority. New Forests already participates in reforestation through commercial and environmental plantings across its assets. As global awareness of reforestation as an emissions mitigator expands, aligning the business with natural climate solutions appears to be a significant opportunity.

8 IPCC. "Climate Change and Land Report." August 2019. <https://www.ipcc.ch/srccl/>.

9 Buis, Alan. "Examining the Viability of Planting Trees to Help Mitigate Climate Change." NASA, 7 November 2019. <https://climate.nasa.gov/news/2927/examining-the-viability-of-planting-trees-to-help-mitigate-climate-change/>.

10 Brancalion, Pedro HS, et al. "Global restoration opportunities in tropical rainforest landscapes." *Science advances* 5.7 (2019): eaav3223.

11 United Nations. "In the face of worsening climate crisis, UN Summit delivers new pathways and practical actions to shift global response to higher gear." Sustainable Development Goals. 23 September 2019. <https://www.un.org/sustainabledevelopment/blog/2019/09/in-the-face-of-worsening-climate-crisis-un-summit-delivers-new-pathways-and-practical-actions-to-shift-global-response-into-higher-gear/>.



## Ecosystem Services

Ecosystem services are the benefits we all receive from natural ecosystems and form an important component of our planet’s “natural capital.” New Forests considers ecosystem services using the GIIN’s IRIS<sup>12</sup> classifications as depicted in the graphic below. While these four classifications of provisioning, regulating, supporting, and cultural services are all material to a range of stakeholders, our SLI framework focuses on areas where forestry management activities may significantly influence the themes of Carbon and Climate, Biodiversity, Water, and Recreation and Cultural Services. We view these as the most material themes within the ecosystem services supported by our investments, noting that factors related to other ecosystem services are also covered in other areas of the SLI framework (e.g., timber production as a provisioning service is covered in the Productivity section).

### Ecosystem services provided by New Forests’ investments:

 <p><b>Provisioning</b> Values/Services:</p> <ul style="list-style-type: none"> <li>• Biological raw materials</li> <li>• Biomass fuel</li> <li>• Freshwater</li> </ul>	 <p><b>Regulating</b> Values/Services:</p> <ul style="list-style-type: none"> <li>• Air quality maintenance</li> <li>• Climate regulation</li> <li>• Water timing and flows regulation</li> <li>• Erosion control</li> <li>• Soil quality maintenance</li> <li>• Pest mitigation</li> <li>• Pollination</li> <li>• Natural hazard mitigation</li> <li>• Water purification and waste treatment</li> <li>• Disease mitigation</li> </ul>	 <p><b>Supporting</b> Values/Services:</p> <ul style="list-style-type: none"> <li>• Habitat</li> <li>• Nutrient cycling</li> <li>• Primary production</li> <li>• Water cycling</li> </ul>	 <p><b>Cultural</b> Values/Services:</p> <ul style="list-style-type: none"> <li>• Recreation</li> <li>• Ethical and spiritual values</li> <li>• Educational and inspirational values</li> </ul>
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## Biodiversity

Biodiversity refers to the diversity of living organisms on Earth. Biodiversity management is incorporated in third-party certification schemes and standards, such as through the HCV approach required for FSC® certification and the Critical Habitat requirements of the IFC Performance Standards. The principles, criteria, and requirements of these systems, together with legal and regulatory requirements, form minimum standards for managing biodiversity across our investments.

### Conservation Management Activities (% of total assets)

	ANZFF	ANZFF2	ANZFF3	TAFF	US Carbon Forestry	Portfolio Average
Conservation Programs in Operation	80	75	50	100	100	81
Habitat Improvement or Restoration Programs	80	88	50	100	67	86
Species-focused Research or Conservation Programs	60	75	50	67	100	71
HCV Management Plans in Place	100	75	50	100	100	81

The data above reflect the percentage of assets (by number of assets, not by value or size) that have specific types of conservation programs and plans in place. As assets are onboarded into New Forests' management approach, biodiversity management plans and programs typically develop over time. Therefore, it is not uncommon that more recent investments do not have conservation programs, HCV plans, species research and conservation programs, or habitat improvement and restoration programs in place. Furthermore, not all types of programs may be suitable for every investment.

### Protecting Biodiversity at Hutan Ketapang Industri

**PT Hutan Ketapang Industri (PT HKI), located in South Ketapang on the island of Borneo in Indonesia, has done extensive work to monitor and protect biodiversity within its working landscape and protected areas.**

HKI's HCV area represents 38% of the company's total area, with a further 10% being protected area. In addition to its no-deforestation policies, HKI develops programs in conservation, enrichment planting, restoration, and monitoring of plants and animals.

HKI conducts biodiversity monitoring on the five protected ecosystems within its area: lowland rainforest, riparian, heath forest (*kerangas*), peat, and swamp. Additional research focuses on priority species for each ecosystem. Through December 2019, monitoring has found 511 vegetation species, 50 mammals, 164 avifauna species, and 34 herpetofauna species. In 2019, HKI partnered with Yayasan Palung Foundation, a local NGO, to conduct orangutan surveys to support the company's monitoring of key species. Orangutans are known to occur in areas of the estate that are not used for rubber production. Some of these habitat areas neighbour protected areas and include significant secondary and regenerating forest, which also provides habitat for other wildlife in addition to orangutans.

The orangutan survey is intended to establish a baseline for orangutan populations, and data from surveys and monitoring can help inform additional actions by the company, such as where to focus enrichment plantings, restoration, biodiversity corridors, and worker and community awareness programs that promote the importance of conservation of protected animals.

HKI uses its enrichment planting program in HCV areas, including riparian areas, HCV forests, and wetlands. Since 2017, the company has focused on conservation areas with low plant cover; restoration is done using site- and species-matching methods and prioritises highly degraded areas, such as old mine quarries and open hilly areas. Through this work, HKI strives to protect the species that rely on these ecosystems and enhance ecosystem health and resilience.



## Carbon and Climate

Throughout New Forests’ investment programs, we pursue a range of forest-climate solutions. New Forests enacts climate mitigation strategies both through dedicated climate strategies and within broader forestry investment mandates. For example, through Forest Carbon Partners, we work with third-party landowners, such as Native American tribes and family forest owners, to develop improved forest management (IFM) carbon offset projects with 16 FCP carbon projects active in 2019. Our US Carbon Forestry program also implements IFM carbon projects on investor-owned production forests, combining the timber and carbon values of forests for improved climate outcomes and financial returns. In Australia, New Zealand, and Southeast Asia,

New Forests participates in voluntary and regulatory carbon markets to add value to core forestry investments, principally through extending rotation lengths, species switching to longer rotations, and reforestation-based greenfield investments.

New Forests’ investment activities promote climate mitigation through three key approaches of Protect, Manage, and Restore forests for better climate outcomes. These categories align with the recommendations of scientists and international NGOs that have found that as much as 37% of required climate mitigation can come from nature-based solutions to climate change.<sup>13</sup> Of the estimated 11 gigatons of potential NCS emissions reductions and carbon removals, around 75% relate to forestry-based activities.

### Protect

- Alleviate pressure on natural forests and ensure a “no deforestation” approach for all investments
- Promote forest protection via active conservation management

#### Forest conservation and avoided deforestation



### Manage

- Increase forest productivity to sequester and store more carbon in managed forests
- Practice certified sustainable forest management
- Ensure sustainable forest harvest rates to deliver raw materials to the bioeconomy
- Develop new market opportunities for timber products to substitute for more energy-intensive products

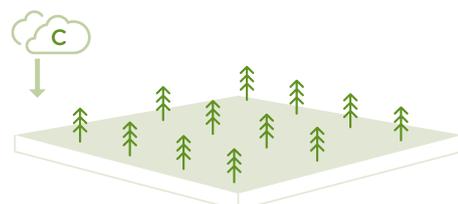
#### Sustainable forest management



### Restore

- Establish new plantations via reforestation on degraded lands
- Restore native ecosystems and promote regeneration of degraded lands
- Reverse land degradation and build healthy soils

#### Reforestation



<sup>13</sup> Griscom, Bronson W., et al. “Natural climate solutions.” *Proceedings of the National Academy of Sciences* 114.44 (2017): 11645-11650.

Under the SLI framework, New Forests reports the carbon storage in the productive areas of the forests we manage and the annual change in that carbon storage. New Forests has joined a technical working group to support enhanced Greenhouse Gas (GHG) accounting practices for carbon removals as part of the GHG Protocol.<sup>14</sup> While this guidance is in development, we continue to use conservative assumptions in our calculations based on forestry resource models; for example, we have excluded remnant vegetation and native forest conservation areas. This approach provides a “standing stock” assessment of the amount of stored carbon across production areas of forestry investments, which we report in metric tonnes carbon dioxide equivalent (tCO<sub>2</sub>e). This method does not include the ongoing carbon storage benefits of harvested wood products, which store carbon in products like construction timber and furniture.

This means our reporting underestimates the full climate benefit of our commercial forest management. In fact, harvested wood products can provide significant net positive carbon storage over the life of a long-term forestry investment. Harvesting of timber does not result in a full “emission” of the stored carbon, but rather a portion is transferred into certain wood products that may result, 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, the carbon storage benefits of durable wood products are not quantified, which results in a lower calculation of long-term total carbon storage.

New Forests estimates the carbon storage of the commercial forests we manage was more than 135 million tCO<sub>2</sub>e in 2019. New Forests’ carbon analysis is at the fund level and therefore the total area under management may vary from year to year, depending on acquisitions and dispositions. Furthermore, the age class of forests can greatly affect total carbon over plantation areas, particularly where there is not an even age-class distribution.

#### Carbon Sequestration and Storage by New Forests’ Production Forestry Investments (million tCO<sub>2</sub>e)

	ANZFF	ANZFF2	ANZFF3	TAFF	US Carbon Forestry	Portfolio Total
2019	64.5	51.3	1.6	3.0	14.8	135.2
Change from 2018	-0.8	8.9	N/A	-0.1	4.0	13.6
Change from 2018 (%)	-1%	21%	N/A	-3%	37%	11%
Key drivers of change	<p>↓</p> <p>Harvest of mature crops with uneven age class</p> <p>↓</p> <p>Controlled reversion to support return of land to agriculture</p> <p>↓</p> <p>Asset dispositions</p>	<p>↑</p> <p>New acquisitions</p>	<p>↑</p> <p>New acquisitions</p>	<p>↑</p> <p>Commercial reforestation and area increase</p> <p>↓</p> <p>Harvest of mature crops with uneven age class</p>	<p>↑</p> <p>Updated inventory and forest resource information</p>	

#### Carbon Credits Issued (million tCO<sub>2</sub>e)

	ANZFF	ANZFF2	ANZFF3	TAFF	FCP	US Carbon Forestry	Portfolio Total
	0	0	0	0	2,491,459	0	2,491,459

<sup>14</sup> The GHG Protocol is a global framework to measure, manage, and accurately report on GHG emissions. Learn more at <https://ghgprotocol.org/>.



## Timberlink Leads in Setting Carbon Reduction Targets

**Timberlink collaborated with Edge Environment, an Australian sustainability consultancy,<sup>15</sup> to develop a framework, specific to the timber processing industry, for carbon reduction targets aligned with the Science Based Targets Initiative (SBTi).<sup>16</sup>**

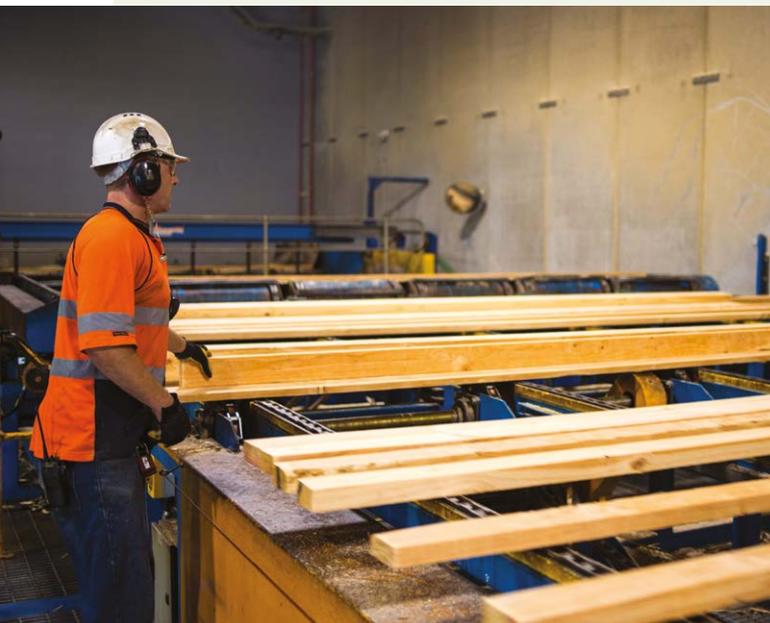
The project is supported by the National Institute for Forest Products Innovation in Australia. The SBTi encourages companies to use science-based targets to boost their competitive advantage in the transition to a low-carbon economy, with the larger goal that such targets will become standard business practice and support alignment with the Paris Agreement. To date, Edge Environment has quantified Timberlink's carbon footprint and calculated draft emissions-reduction targets. Timberlink aims to submit its targets for approval by the SBTi in 2020.

Timberlink's emissions come from a range of sources. The company's greatest source of GHG Scopes 1 and 2<sup>17</sup> emissions come from purchased electricity (82% of Scopes 1 and 2), while its largest Scope 3 contribution comes from the further processing and use of its sold products (55% of Scope 3).

Timberlink aims to align with a 1.5°C scenario reductions pathway for its Scopes 1 and 2 emissions. The company aspires to reduce absolute emissions under these Scopes by 4.2% year on year, with a goal of a 53% reduction in emissions per m<sup>3</sup> of product sold by 2030. To address its electricity emissions, Timberlink obtained an updated power contract for its Tarpeena mill in 2019 that will source 70% of its electricity from clean power. Additionally, reductions in fuel usage due to improved technology are expected to meet the 1.5°C target by 2030.

Scope 3 emissions are more difficult to quantify and manage. Timberlink set a minimum reduction in emissions intensity from 280 kg CO<sub>2</sub>e/m<sup>3</sup> to 226 kg CO<sub>2</sub>e/m<sup>3</sup> by 2030; this equates to no increase in absolute emissions despite an increase in volume production of 6%. Some of the main contributions towards reaching this goal could come from reducing fuel use and finding alternative markets for woodchip. Further work needs to be done with field experts and stakeholders to identify the best possible targets.

Many organisations are discussing becoming "net zero." Timberlink estimates that its large biogenic carbon sinks (-506,000 tCO<sub>2</sub>e in its wood products) offset its Scopes 1-3 emissions (371,000 tCO<sub>2</sub>e), making the company net negative. However, as industry and regional standards for Scope 3 emissions and biogenic carbon continue to evolve, additional reduction strategies may be more actively pursued. New Forests applauds Timberlink's leadership in forest industry carbon accounting and emission reduction efforts and in actively pursuing climate-positive actions.



<sup>15</sup> Learn more at <https://edgeenvironment.com/>.

<sup>16</sup> Learn more at <https://sciencebasedtargets.org/>.

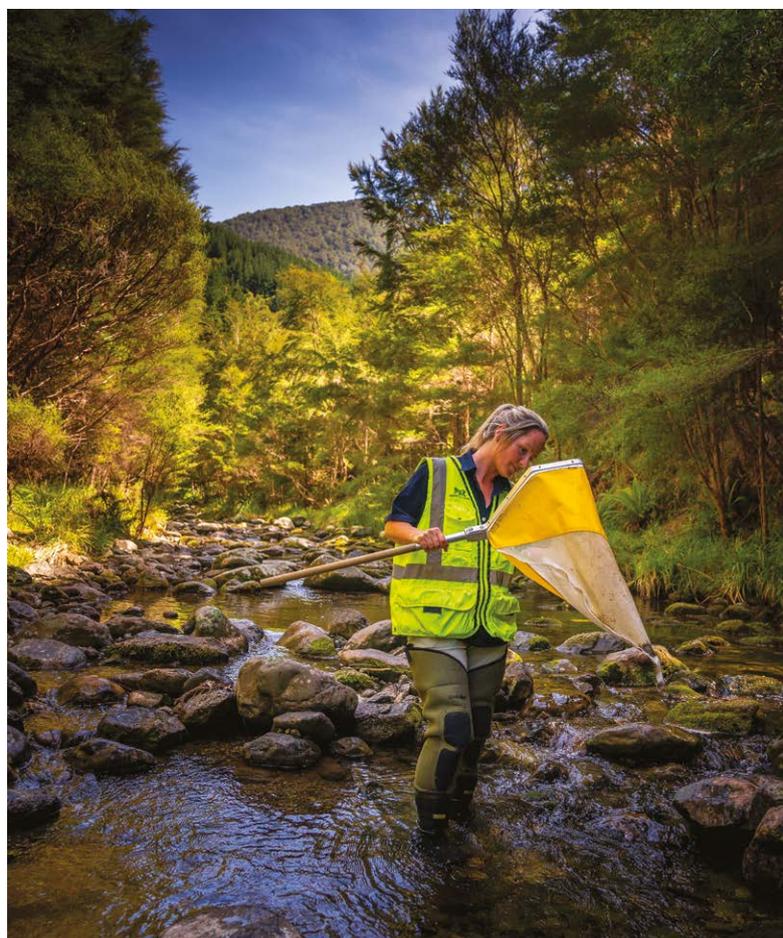
<sup>17</sup> For a definition of GHG Scopes 1-3, please visit <https://www.epa.gov/greeningepa/greenhouse-gases-epa>.

## Water

Good forest management requires management of water quality and potential impacts on the availability of water for other users, while considering how forests use water and how it moves throughout the ecosystem. Water management is highly location specific, and New Forests finds that the context of water management, including regulatory requirements, risks, and opportunities, varies significantly across the investments we manage. As part of forest management certification, all of our forests are managed to avoid and minimise any disruption to water quality and quantity. Beyond this, managing forests in a way that is optimised for local conditions, such as soil and terrain, supports functioning ecosystems that can provide reliable, high-quality water resources.

Examples of water management across New Forests' investments include:

- Wetlands restoration.
- Managing riparian buffers to support stream quality and aquatic life, including for key fisheries.
- Monitoring roading and culverts to ensure against runoff and adverse impacts at water crossings.
- Contributing conservation finance to sustain critical watershed values for anadromous fish.
- Monitoring water quality before and after key silvicultural and harvesting activities.
- Sale of water volumes to neighbouring agricultural businesses.
- Managing water allocations within watershed management regimes.



## Recreation and Cultural Services

Forests provide important recreational opportunities and can contain features and sites of cultural significance. Ensuring equitable access to forests and maintaining these values must be carefully considered in forest management planning. New Forests' investments are positioned to provide these ongoing social values. In some cases, these values may generate modest ancillary revenue, while in other cases, these ecosystem services are made available as part of the commitment of forest managers to contribute to local communities and users. Access to working forests and conservation areas must be carefully managed, and in some cases, access is restricted due to risks, such as wildfire and active operations. The table below summarises the types of recreation and cultural services provided in each of New Forests' funds.

	ANZFF	ANZFF2	ANZFF3	TAFF	US Carbon Forestry
Hiking, Biking, Horse-riding	Yes	Yes	No	Yes	Yes
Motorised Vehicles	Yes	Yes	No	Yes	No
Camping	No	Yes	No	Yes	No
Hunting	No	Yes	No	No	Yes
Access to Sites of Religious or Cultural Importance	Yes	Yes	Yes	Yes	Yes
Nature Viewing and Tourism	Yes	Yes	No	Yes	No

*The table above indicates whether each type of recreation and/or cultural service is provided by at least one asset of a given fund. It does not indicate that the service is provided by all assets of a fund.*



## Enjoying the Forest - Recreation, Education, and Visitors at Tasmania's Forico Estate

**Forico Pty Ltd is the forest management company for the Tasmanian Forest Trust estate, which encompasses more than 173,000 hectares in the Australian state of Tasmania.**

The Forico estate by area is roughly 52% plantation, 44% natural vegetation, 2% infrastructure, and 2% other land use cover. This diverse estate supports a range of ecosystem services encompassing the environmental, social, and financial values that forests sustain. Given the Forico estate's high percentage

of natural vegetation, which is concentrated in the area known as Surrey Hills, there is a plethora of opportunities for the forest to be enjoyed and shared with the broader community. Recreational opportunities help ensure that Forico's neighbours as well as visitors from elsewhere in Australia and abroad can enjoy the benefits of Tasmania's natural forests and productive rivers. Educational collaborations and other opportunities help bring children closer to nature, encourage the next generation of forestry and conservation advocates, and advance research on biodiversity, forestry, and other fields.

Highlights of recreational and educational uses of the estate from Forico's 2019 financial year:



**1,000 recreation visitors**

Forico permits recreational uses where access and safety can be ensured, while providing members of the public the chance to enjoy nature. Examples include mountain bike races, orienteering, access for anglers, bush walking, and naturalist groups.



**29 kilometres of angling access**

Forico, in collaboration with the Inland Fisheries Service through the Anglers Access Program, provides fishing access along rivers and the world-renowned Talbotts Lagoon located within Surrey Hills.



**635 overnight guests**

Forico's Guildford Lodge allows for overnight stays within Surrey Hills. The facility was used by 635 people from schools, education groups, researchers, community groups, fly-fishers, and staff.



**14 teachers**

Forico welcomed 14 teachers from the Tasmanian Agricultural Education Network on a field trip aimed at showcasing and explaining the operational and processing activities across a large-scale forestry business.



## Shared Prosperity

New Forests seeks to support thriving communities in the areas where we invest and to ensure that our investors' financial success also provides benefits to these communities. Our SLI framework highlights Shared Prosperity through the lenses of Community Development, Employment and Livelihoods, and Industry and Supply Chains.

### Community Development

New Forests seeks to promote the systematic identification of opportunities to support community objectives that align with, or are complementary to, sustainable forest management in the regions in which we operate. As forestry investors, we may be able to directly support community development through investment strategies that incorporate benefits agreements or shared prosperity objectives into core investment activities.

During 2019, the original outgrower program at Mekong Timber Plantations concluded, and a new program is in consultation and development. Acacia Forest Industries initiated its new community forestry program, enrolling inaugural participants.

#### Smallholders and Outgrowers<sup>18</sup> (individuals)

ANZFF	ANZFF2	ANZFF3	TAFF	US Carbon Forestry	Portfolio Total
0	260	0	16	0	276



### Acacia Forest Industries Launches Community Forestry Program

**In 2019, Acacia Forest Industries (AFI) officially began its community forestry program in collaboration with rural communities living within or adjacent to AFI's operational area on the Bengkoka Peninsula, Sabah, Malaysian Borneo.**

The goals of the program are to develop silvicultural skills, raise awareness about the importance of reforestation, and reduce rural poverty by providing alternative income. To prepare for the launch of the program, AFI hosted two multi-day training sessions in collaboration with World Agroforestry Centre (ICRAF) to provide guidance on successful forestry practices. The first training, in March 2019, focused on planting and maintaining eucalyptus trees. In June 2019, the second training taught participants about the benefits of organic fertiliser, cacao agroforestry, and honeybee domestication.

The community forestry program formally launched in July 2019,<sup>19</sup> when AFI and Jaire Bin Magandun, a leader of the Mangkapon Darat village, officiated over the first contract. By the end of 2019, AFI had signed a total of 18 contracts for a combined gross area of 67 hectares of community lands and had issued inaugural land use payments to their first eight contracts. Moving forward, community members will receive regular land use payments over the course of the growing cycle, as well as a portion of the final sale price of the logs harvested by AFI at the end of the cycle. After harvesting, participants will have the option to continue with the community forestry program or finance and develop their own plantation. Should the latter option take place, AFI would purchase and sell the mature trees. New Forests supports AFI in its ongoing efforts to diversify its community development programs and collaboration with local communities.

<sup>18</sup> Generally, smallholders have land holdings less than 10 hectares, while outgrowers enter into contracts with companies to grow and sell products, such as trees, on small parcels of personal land. Includes share farmers in Australia and New Zealand.

<sup>19</sup> Daily Review, 2019. [http://afisb.com.my/wp-content/uploads/2019/07/Michael-and-Jaire-showing-the-signed-MoU.-Eucalyptus-Pellita-trees-for-2000ha-in-Pitas\\_-\\_Daily-Express-Online-Sabahs-Leading-News-Portal.pdf](http://afisb.com.my/wp-content/uploads/2019/07/Michael-and-Jaire-showing-the-signed-MoU.-Eucalyptus-Pellita-trees-for-2000ha-in-Pitas_-_Daily-Express-Online-Sabahs-Leading-News-Portal.pdf).

### Employment and Livelihoods

Forestry investment supports employment opportunities, mostly in rural and regional areas where primary industries are major components of local economies. The table below reports on employment related to the operational management of our investments and does not include New Forests’ staff. Forest management certification and the IFC Performance Standards include criteria on workers’ rights. As investors become increasingly aware of the risks of modern slavery in supply chains, the use of forest certification and the IFC PS are important safeguards to help ensure business systems mitigate against the risk of modern slavery occurring. In 2019, New Forests commenced a review of modern slavery risks across our business and investment activities; risk review and gap assessment confirmed that New

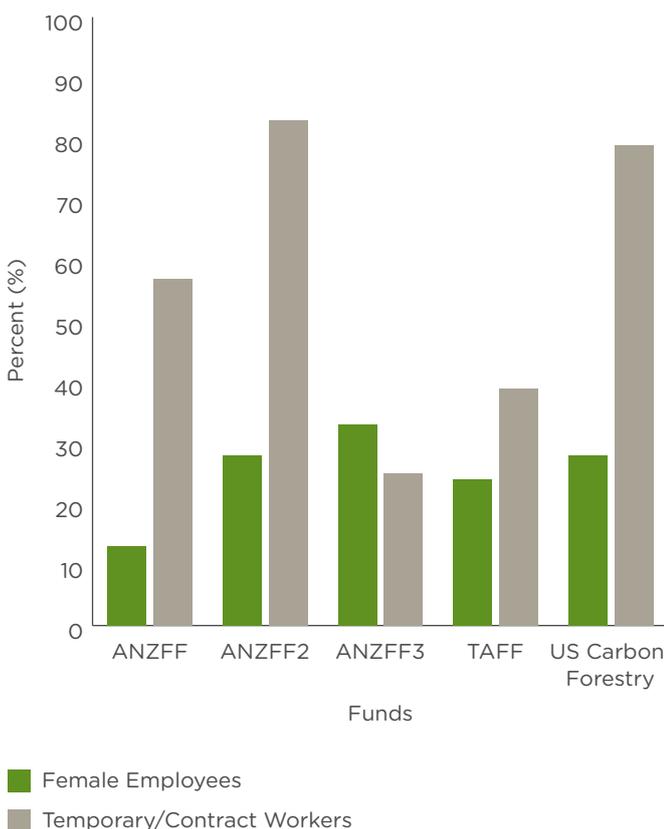
Forests’ Enterprise Risk Management (ERM) system, the SEMS, and our certification policies are key mitigants for potential risks relating to workers’ rights and modern slavery. In addition, the property management firms we work with and our portfolio companies undertake a variety of workforce development 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.

In total more than 5,500 full-time equivalent (FTE) jobs were involved in the operations of our investments in 2019, of which 2,786 were direct permanent FTEs of the companies and the remainder are subcontracted or temporary employees. The average percentage of employees that were female was 21% across all funds.

#### Employment (full-time equivalents)

	ANZFF	ANZFF2	ANZFF3	TAFF	US Carbon Forestry	Portfolio Total
Total Employees	643	125	3	1,997	18	2,786
Female Employees	85	35	1	471	6	598
Temporary/Contract Workers	838	602	1	1,256	68	2,765
Total Employees and Workers	1,481	727	4	3,253	86	5,551

#### Percent of Female and Temporary/Contract Workers by Fund



### Australian Forest Industry Introduces Diversity and Inclusion Charter

**In November 2019, New Forests signed onto the Australian Forest Industries Diversity and Inclusion Charter organised by the Australian Forest Products Association (AFPA).**

The Charter is a voluntary framework within the Australian Forest Industries to develop supportive and inclusive workplaces for people from diverse backgrounds. Some of the commercial benefits anticipated from adopting the Charter and enhancing diversity include increased productivity, efficiency, profitability, and resilience. Additionally, the Charter aims to create a positive image of the forestry sector as a diverse and skilled workforce that is reflective of associated communities. This includes attracting and retaining diverse talent, equal pay for equal work, flexible working arrangements, industry-level reporting, and understanding and responding to challenges hindering diversity or inclusion.

The Charter serves as a strong first step; New Forests hopes this will spark further conversations around equity and empowerment that push the industry forward. Read the full Charter here: <https://ausfpa.com.au/australian-forest-industries-diversity-and-inclusion-charter/>.



## Mekong Timber Plantations Ltd

### Young Worker Inclusion at Mekong Timber Plantations

#### **Mekong Timber Plantations (MTP) in Laos recently implemented a Young Worker Inclusion Program in partnership with the Center for Child Rights and Corporate Social Responsibility (CCR CSR), a social enterprise focused on child rights in Asian supply chains.**

As the first and only employer-initiated program in the Laos forestry sector aimed at protecting and managing youth workers, the program's mission is to ensure that:<sup>20</sup>

- MTP's impact on youth rights is positive and sustained throughout its forestry operations.
- A robust, sustainable child labour remediation system<sup>21</sup> is established and followed.
- A young worker recruitment procedure is created and implemented.

According to local social norms, young people experiencing poverty need to work to support their families financially; hence, many of them drop out from school.<sup>21</sup> At the same time, despite the legal working age in Laos being 15, many employers will only hire youths over age 18.<sup>22</sup> This contributes to a youth unemployment rate of approximately 41%. When looked at holistically, these factors lead into a vicious cycle of poverty. MTP's young worker policies strive to address this reality by providing safe, specific job opportunities for youth ages 15-17 and holding educational trainings. Additionally, the policies help prevent possible occurrences of child labour in the MTP operations.

To guarantee a safe work environment, MTP updated its recruitment and management procedures that define the young worker age range, set clear working hours, and mandate a letter from a parent, among other requirements. Similarly, MTP specified acceptable positions, as outlined in its "Guidelines on Young Worker Recruitment" policy. MTP also taught staff the importance of hiring and retaining young workers through regular support, equitable workplaces, rewards and recognition systems, and equal promotion opportunities. Overall, the management training had

a significant impact, as staff better understood young workers' unique needs and rights.<sup>23</sup> MTP will continue to review their policies and procedures to ensure young worker safety.

To facilitate young workers' education, MTP established a skill development system to provide trainings on soft skills, socialising, and other relevant topics, including a "Knowledge, Attitude, and Skills" training for both young people and supervisors as well as an introduction training to discuss development opportunities. The company aims to create a sense of belonging; generate broad understanding of young workers' rights (wages, hours, etc.); and create clear channels for grievances.

MTP aims to provide an environment where young workers can grow and develop skills that help promote their future careers, addressing poverty concerns at a regional scale.



<sup>20</sup> MTP Young Worker Management Guideline. December 2019.

<sup>21</sup> Remediation system is currently being established; MTP is in conversation with CCR CSR.

<sup>22</sup> Community Youth Gain Skills through Laos Youth Inclusion Programme. CCR CSR. 2020.

<sup>23</sup> Report on Management ToT on Young Workers. May 2019.

## Industry and Supply Chains

Another important opportunity to enhance shared prosperity is through supporting processing industries and the creation of a vibrant forest products value chain. 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 safety training remains an important focus that goes hand in hand with skills development and leadership training. New Forests seeks to drive health and safety improvements through setting an expectation of implementing best practices, monitoring safety performance on a regular basis, keeping a constant focus on continual improvement, and supporting intervention when needed. Safety is discussed in the Risk Management section of this report.

### Operational Efficiency Through Supply Chain Collaboration

#### Four forestry companies operating in the Wairarapa region of New Zealand formed Log Distribution Limited, a joint venture company that commenced operations in April 2019.

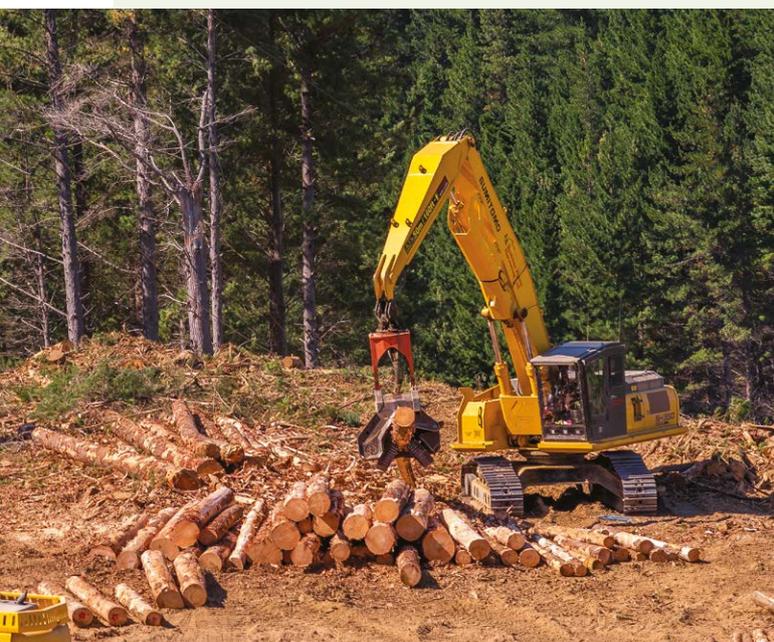
Two of the founding companies are entities managed by New Forests, Wairarapa Estate and Norsewood Estate, while the other founders are both New Zealand forestry management companies. The four companies collectively identified the opportunity

to improve the efficiency and safety of log export operations through increased coordination and scale. Log Distribution Limited aims to improve efficiencies in log export through the collaborative management of log marketing and shipping, marshalling and stevedoring, road and rail transport, and storage. The key sustainability benefits of the new company include:

- Reduced waste across the supply chain.
- Reduced reliance on road transport, enhancing safety in transport.
- Lessened congestion at CentrePort Wellington, enhancing safety.

A key focus of Log Distribution Limited's operations is to improve efficiency in log cartage across the southern part of New Zealand's North Island. This includes initiatives that will assist in alleviating bottlenecks in the supply chain, as local harvest levels are anticipated to steadily increase over the next five years. The company is based in Masterton and ships logs from the Wellington and Napier ports. As New Zealand's forestry harvest levels continue to grow, Log Distribution Limited will strengthen the regional supply chain and deliver benefits both to industry stakeholders and the broader community.

For example, the company is using rail rather than trucks to transport 75% of its daily tonnage from Masterton to Wellington. Replacing an estimated 6,000 truckloads and approximately 480 train movements amounts to large reductions in fuel usage, as rail is three times more fuel efficient than trucks,<sup>24,25</sup> and cuts GHG emissions by two-thirds.<sup>26,27</sup>



24 Nelder, Chris. "Rising Energy Costs May Usher in U.S. Freight Rail Revival." Scientific American. 22 October 2012. <https://www.scientificamerican.com/article/freight-rail-back-to-the-future/>.

25 The Maritime Executive. "Barge Transport Wins on Fuel Efficiency." 2017. <https://www.maritime-executive.com/article/barge-transport-wins-on-fuel-efficiency>.

26 US EPA "Freight Locomotive Emissions Overview." 2010. <https://archive.epa.gov/midwestcleandiesel/web/pdf/lis.pdf>.

27 Freightera. "Train vs. Truck Transportation." 2019. <https://www.freightera.com/blog/train-vs-truck-transportation-efficiency-cost-advantages-disadvantages-infographic/>.



## Risk Management

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

Integrating risk management throughout the commercial, environmental, social, and operational facets of our funds under management is central to our investment

management approach. Within the Risk Management theme, our SLI framework focuses on Risk Management Systems and Health and Safety. Of course, risk management is a broad governance concern, and New Forests seeks to ensure that risk management approaches in the investments we manage are appropriate to the nature and scale of the risks facing each investment and that these align with the risk tolerance established by New Forests.



## New Forests' Climate Risk and Strategy Work Plan

**Risk management has arisen as a critical business function supporting the global climate agenda, reinforced by the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and demand from the financial community to better understand and price climate-related financial risks.**

At the same time, TCFD has emerged as a tool for businesses to ensure climate risks are identified and managed using scenario analysis, metrics, and targets. In 2019, New Forests set out to review its practices, begin reporting using the TCFD recommendations, and launch our Climate Risk and Strategy Work Plan, with the following objectives:

- Establish company-wide understanding of the context of climate strategy, climate risk, and climate impact management and reporting.
- Develop a draft common climate risk assessment framework for application within asset management.
- Hold a climate risk and strategy workshop, the results of which inform the publication of a TCFD-aligned report.
- Increase climate mitigation ambition as a business and investment manager.

While climate issues have been a consideration in New Forests' business and strategy since our inception, the work plan sought to ensure these practices were reviewed against emerging best practice and that the company applied a consistent approach throughout our business. Climate change-related risks are integrated into New Forests' ERM framework, such that significant policy, market, and environmental risks related to climate change are monitored and discussed. The ERM is guided by the risk appetite statement endorsed by New Forests' Board of Directors and includes regular reviews of risks at the New Forests corporate level, as informed and supported by fund-level and asset-level risk assessment and management.

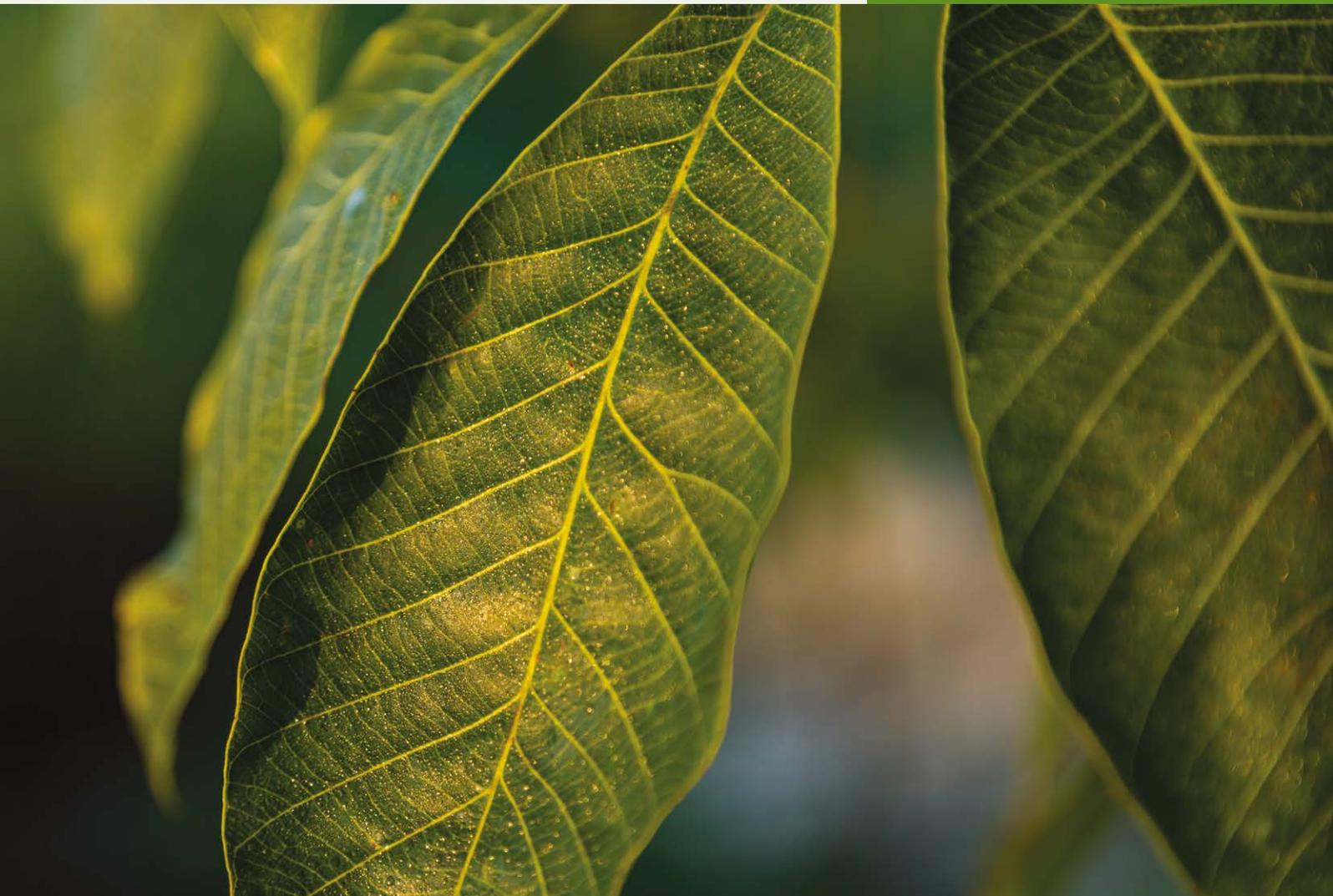
As forestry investors in a carbon-constrained world, New Forests believes we are positively positioned to anticipate and manage for the likely transition and physical impacts of climate change while capturing net benefits for our business and investments. As a result of the Climate Risk and Strategy Work Plan, New Forests has committed to pursue climate neutrality as a business and to pursue net carbon removals through our investment programs and the forestry assets we manage on behalf of our clients.



### Climate Disclosure Report 2020

See New Forests' *Climate Disclosure Report 2020* to learn more about our climate neutrality commitment and how climate is integrated in New Forests' strategy, governance, risk management, and climate impact monitoring and reporting.

[www.newforests.com.au/CDR2020](http://www.newforests.com.au/CDR2020)



### Risk Management Systems

Risk management is a critical enabler to successful investments. New Forests’ SLI indicators track the quality and nature of both risk management and occupational health and safety (OHS) systems in place for property managers and investees. In terms of risk management systems, we encourage the use of comprehensive systems that cover commercial, operational, ESG, and safety issues in an integrated fashion. The table below shows the percentage of investments in each fund that have operating-level risk management systems in place that cover all of these important aspects. New Forests believes it is vital to build on our current risk practices to achieve high social and environmental goals.

Importantly, all investments are covered by New Forests’ Enterprise Risk Management Framework. Through this framework, risk registers are developed for each investment with the involvement of property managers or investees, New Forests’ operations staff, and New Forests’ risk and compliance team. These investment-level risk registers inform fund-level registers, which are reviewed by New Forests’ Management Committees on a regular basis to support asset management functions.

#### Comprehensive Risk Management Systems (%)

ANZFF	ANZFF2	ANZFF3	TAFF	US Carbon Forestry	Portfolio Average
100	100	100	100	100	100

Table indicates the percentage of investments within each fund that have comprehensive risk management systems covering commercial, operational, ESG, and safety issues.

## Health and Safety

Ensuring the health and safety of all workers is a primary concern across the forestry sector. We recognise that employees of third-party property managers, investees, and contractors face day-to-day risks in forestry operations, transport, and processing. New Forests encourages and promotes implementation of best practices in health and safety as we strive toward having a “safety first” culture across our business and managed portfolio, and we therefore ensure that occupational health and safety are a consistent focus in asset management and governance.

New Forests monitors key safety data, and property managers and portfolio companies generally set safety targets appropriate to their operations. As part of regular monthly and quarterly reporting, standardised metrics are reported. These metrics are the result of a collaborative process that took place in 2018 and 2019 to harmonise safety reporting across New Forests’ investments. This meant tackling differences among regional levels of practice, regulatory standards, and operating contexts. Reporting also requires that there be a safety and reporting culture in place to accurately capture injuries, incidents, and near misses in a standard, consistent manner.

### Safety and Injury Frequency Rates (average per 1 million hours worked)

	ANZFF	ANZFF2	ANZFF3	TAFF	US Carbon Forestry	Portfolio Average
Lost Time Injury Frequency Rate (LTIFR) <sup>28</sup>	12	11	0	4	0	7
Medical Treatment Injury Frequency Rate (MTIFR) <sup>29</sup>	32	13	0	3	17	15



### Standardising Health and Safety Reporting

**New Forests undertook a standardisation of occupational health and safety (OHS) reporting across all global geographies in 2019, with connections to the SLI framework so that all definitions and reporting would be aligned.**

New Forests continues to engage with investees and property managers on OHS management and reporting to ensure that OHS is a priority for all operations and in the governance of all investments. Within the new standardised approach, the following are reported in all management committees at the asset level: Lost Time Injury Frequency Rate (12-month rolling); Year to Date Near Misses; First Aid Medical Treatment Injuries; and Fatalities or Permanent Disabilities. New Forests recognises that strong OHS management requires a culture committed to safety and the wellbeing of every worker.

28 Lost Time Injury Frequency Rate (LTIFR): the number of Lost Time Injuries (number of occurrences that resulted in a fatality, permanent disability, or time lost from work of one day/shift or more) occurring per 1 million hours worked.  
 29 Medical Treatment Injury Frequency Rate (MTIFR): the number of Medical Treatment Injuries (number of occurrences that were not lost-time injuries and for which first-aid or medical treatment was administered) occurring per 1 million hours worked.



## Governance

New Forests' governance framework is driven by the belief that good governance creates more valuable businesses. Our own corporate governance informs the approach we bring to the investments we manage, with New Forests' legal, risk, compliance, and company secretary teams supporting asset management activities. Our SLI framework focuses on three areas of governance that support New Forests' efforts to foster accountability and alignment with strategic objectives for each investment: Strategic Planning, Systems and Policies (including forest certification), and Management and Oversight. New Forests will continue to engage with property managers and investees to increase shared understanding of the governance indicators within the SLI framework and to work jointly towards best practice governance procedures in our investments.

## Strategic Planning

New Forests employs an annual strategic planning cycle for every investment we manage. The strategic planning process brings together core asset management activities into a single framework that enables consistent action, monitoring, and reporting. The components of strategic plans include Strategy and Strategic Projects, Operations, Risk, Budget, and Key Performance Indicators. The plans complement strategic models and are supported by asset description and resource information. This approach ensures consistent discipline in asset management across our investment programs while allowing for customisation to investment characteristics and operating environment.

## Systems and Policies

Forest certification and verifiable standards are important tools for responsible investment in the forestry sector. In addition to providing standards, reputable certification programs offer credible assurance 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.

### Forest Management Certification

#### Standards

- Forest Stewardship Council<sup>30</sup> (FSC<sup>®</sup>)
- Programme for Endorsement of Forest Certification<sup>31</sup> (PEFC)
- Assets may also participate in national timber legality systems and standards

#### Benefits

- FSC<sup>®</sup> and PEFC are internationally recognised
- May promote market access for timber products and/or price premiums
- Comprehensive frameworks support New Forests' monitoring and engagement on material environmental and social (E&S) issues in each asset

### IFC Performance Standards

#### Standard

- Best practices to help avoid, mitigate, and manage E&S risks and impacts for projects in emerging markets
- No established third-party verification, but third-party and internal audits and compliance ratings are possible

#### Benefits

- Comprehensive guidance for managing E&S risks and issues in all phases of project and systems development
- Assess and manage moderate- and high-risk plantation investments, high-risk infrastructure, or processing assets

### Environmental Markets Standards

#### Standards

- Both voluntary and regulatory standards and systems exist
- New Forests is active predominantly in regulatory carbon markets
- New Forests is undertaking feasibility studies and early project development for voluntary carbon market opportunities for assets in Southeast Asia
- Exposed to regulatory water trading and licences in Australia

#### Benefits

- Set standards for responsible production or for standardised quantification of environmental benefits
- Regulatory markets typically integrate stringent E&S requirements or "safeguards"
- Produce tradeable credits from ecosystem services

30 New Forests is FSC non-certificate license holder FSC-N002114. FSC<sup>®</sup> is dedicated to the promotion of responsible forest management worldwide. FSC is not responsible for and does not endorse any financial claims on investments.

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

## Management and Oversight

As a forestry investor, New Forests' governance approach focuses on suitability to the ownership structure for each investment and its strategic asset management objectives. In terms of board and operational governance, it is important to consider the structure of the investment and its implications for governance and oversight. The indicators reported here include Board Independence (only for investments with operating company boards), Code of Conduct, and Anti-corruption Training. New Forests also monitors reportable incidents, timeliness of governance and management reporting, and employee development and training.

### Management and Oversight Statistics

	ANZFF	ANZFF2	ANZFF3	TAFF	US Carbon Forestry	Portfolio Average
Code of Conduct - Employees (percent of investments for which the CoC applies to all employees <sup>32</sup> )	100	100	100	100	100	100
Code of Conduct - Contractors (percent of investments for which the CoC applies to all contractors <sup>33</sup> )	80	38	50	67	100	62
Code of Conduct - Oversight (percent of investments for which the CoC has senior management oversight)	100	100	100	100	100	100
Board Independence (percent of directors who are independent)	20	11	0	5	50	12
Anti-corruption Training (percent of employees trained)	57	40	50	80	0	41
Average Number of Governance Meetings Held per Investment	4	6	5	4	4	5

Most forestry fund assets in Australia and New Zealand are structured as real assets investments in managed trusts, where a Responsible Entity is the owner of the asset and New Forests acts as manager. In these cases, New Forests uses an "Operations Committee" as a proxy for a governance body at the investment level. These committees are typically comprised of senior staff of the property manager and New Forests and therefore do not have independent directors. Where the Australia and New Zealand investments are held by fund-owned vehicles, there is a company board.

The US Carbon Forestry investments have also adopted the Operations Committee model but are owned and managed under varying legal entity structures that sometimes require a board of directors. In these cases, independent directors may be appointed, typically at clients' discretion.

The Southeast Asian investments employ a private equity style investment approach, whereby the investment fund takes share ownership in businesses that operate forestry assets. In these cases, New Forests appoints directors in accordance with shareholders agreements for each investment.

<sup>32</sup> Includes part-time and full-time employees.

<sup>33</sup> Includes contractors, subcontractors, and casual and fixed-term, project-based, seasonal, or intermittent work performed.



## Embedding Governance-aligned Values into Brand and Mission

**New Forests welcomed Aratu Forests Ltd to the ANZFF3 portfolio in July 2019. Aratu is the largest ANZFF3 forestry asset and had been operating as Hikurangi Forest Farms since 1980.**

Onboarding an operating entity requires special care for the continuity of operations while also ensuring the strategic management and governance of the business align with shareholder expectations. In the case of Aratu, New Forests identified a fresh opportunity to establish a business brand, mission, and values that aligned with the new ownership.

New Forests worked with a local New Zealand public relations firm, Campbell Squared, and the company’s management team to establish a new brand, supported by well-defined mission and values. In developing the brand and supporting elements, New Forests sought to align aspirations for the investment with its responsible role in the New Zealand forestry sector. The name Aratu is a combination of two Maori words – ara meaning “path” and tū meaning “to stand.” The name captures the business’ intention as it is on a path to actively pursue improvement and manage for the long term, while it stands to protect and invest in its people. The use of Maori words signals respect for the Maori communities the company operates in and the personal and professional ties its staff and contractors have to these communities.

Importantly, the Aratu brand, mission, and values have been embedded throughout the business, including through oversight of its Board of Directors. Aratu Chair and New Forests’ ANZFF2 and ANZFF3 Operations Director, Matt Crapp, explained, “We bring the same values to the governance of Aratu as we expect in all aspirations of the business; it’s our duty as Directors to ensure the business is steadfast on its path to be the most responsible, effective, and efficient forest manager on the East Coast of New Zealand.”



### Aratu Mission:

To be recognised as the most responsible, effective and efficient forest manager on the East Coast.

### Aratu Values:

#### We protect and invest in our people

We seek to ensure that no one is harmed as a result of our operations. We invest in developing and upskilling our staff and contractors. We ensure our staff have fulfilling and challenging occupations in a safe and stimulating work environment.

#### We manage for the long term

We seek to ensure our business practices generate positive social, cultural, environmental and economic outcomes from the assets we manage, over multiple rotations.

#### Continuous improvement

We seek excellence through ongoing review and improvement.

#### We are active, open and honest

We seek to develop respect, integrity and trust with our staff, contractors, customers and the communities we operate in through active, honest and transparent engagement.

# Our Future

**New Forests' vision is for forestry to become a leading sector in the transition to a sustainable future. The interconnectedness of the forestry sector with business solutions to environmental and societal challenges is central to this vision. Our holistic approach to sustainability as a core value in our business drives our planning and strategy and is fundamental to our business practices and investment operations.**

New Forests was founded on the idea of forests as “natural infrastructure” for our planet, providing the services and goods that society needs to thrive. In the 15 years since our establishment, the world has come to increasingly recognise that business must help deliver solutions to ever-growing threats from climate change, biodiversity loss, and human population growth as well as the consequent rising pressure on natural resources. That is why our commitment to investing to create productive and sustainable landscapes – for the benefit of our clients and communities where we operate – is more vital today than ever.

There is a distinct opportunity for investment managers like New Forests to respond to global challenges with market-oriented solutions that pursue beneficial environmental and social impacts. As this opportunity grows, we are mindful that market responses are not without challenges and risks themselves. Investment will require careful management of ESG factors and a willingness to collaborate and partner for risk mitigation and more resilient outcomes. We must be accountable for the impacts of our business and investments. For New Forests, sustainability reporting and data-driven understanding of our impact is central to this effort, and as we further develop and integrate our SLI framework, we maintain a commitment to business excellence.





# SLI Metrics and Indicators Glossary

The following table provides a description for the SLI metrics and indicators used in this report. While the SLI indicators are designed as a fit-for-purpose tool for sustainable forestry investment monitoring, not every investment is included in the data reported for each indicator. All metrics are as per the reporting periods described in the About this Report section, unless otherwise noted.

## Productivity

<b>Gross Asset Area</b>	The gross area of land including all land and forest title and/or tenure types.
<b>Harvest Volume</b>	Volume harvested from the estate.
<b>Certified Harvest Volume</b>	Volume harvested from the estate from areas under active forest management certification.
<b>R&amp;D Expenditure</b>	Investment and expenditure in forest-related research, extension and development, and education.

## Land Use Planning

<b>Environmental Restoration Management Area</b>	Area of land managed for environmental restoration. Area included should be managed with a plan for intentional restoration of environmental values through specific management prescriptions.
<b>Environmental Markets Project Area</b>	Area listed and/or registered under one or more environmental markets projects, including carbon, mitigation banking, or other.
<b>HCV Types</b>	Based on guidance of the HCV Resource Network.
<b>Permanently Protected Area</b>	Area of land under a permanent mechanism for environmental protection and conservation, e.g., conservation easement, covenants. The protection mechanism must be legal in perpetuity.
<b>Conservation Zone or Protected Area</b>	Area of land managed for environmental protection and conservation. Includes land subject to legal land use restrictions set for the purposes of maintaining biological diversity and natural resources.
<b>Natural Forest and/or Remnant Vegetation Area</b>	Area of land that is predominantly under natural forms of vegetation and not used for cultivation. This area may include environments of varying naturalness and condition.
<b>Certified Area</b>	Area under third-party sustainability certification and managed on behalf of the investment and/or within certification held by the asset manager that includes forest and/or land management practices, e.g., FSC®, PEFC, Organic.
<b>Natural and/or Semi-Natural Production Forest Area (net)</b>	Area of natural forest and/or semi-natural forest that is managed for timber production.
<b>Planted or Regenerated Production Forest Area (net)</b>	Area of planted plantation and/or regenerated plantation that is managed for timber production. Includes planted forest and area naturally regenerated from planted forests and under timber production regime.
<b>Agricultural Land</b>	Area of land primarily used for agricultural production activities. Includes by lessees or share farmers. For the avoidance of doubt, does not include agricultural activities undertaken by communities on customary or community land in Asia.
<b>Commercial Reforestation Area</b>	Area of land planted for commercial forest management, i.e., from unplanted to planted/new establishment and including replanted areas.
<b>Environmental Plantings/ Reforestation Area</b>	Area of land (re)forested/(re)planted for conservation management.
<b>Reversion Area</b>	Area of land reverted from forest to non-forest or which has been harvested and will not be replanted to forest cover.

### Ecosystem Services

<b>Biodiversity Conservation Programs</b>	Active programs in place targeting the conservation or enhancement of biodiversity, including species-specific or habitat initiatives such as an HCV management plan, a program that targets species research or conservation, or a program that targets habitat condition improvements and restoration.
<b>Forest Carbon - Productive Area Carbon Storage</b>	Forest carbon stock in production areas of the forest estate.
<b>Forest Carbon - Annual Change</b>	Change in forest carbon stocks as at the end of the financial year compared to the prior financial year. Reported as net positive sequestration as a positive number and net emissions as a negative number.
<b>Carbon Offsets Issued</b>	Carbon offsets issued during the reporting period.
<b>Recreation and Cultural Services</b>	The company/asset provides access for recreation or cultural purposes, such as hiking, biking, horse-riding, motorised vehicles, camping, hunting, religious or cultural importance, nature viewing, tourism, birdwatching, etc.

### Shared Prosperity

<b>Smallholders and Outgrowers</b>	Number of participants engaged in outgrower, smallholder, and livelihood planting programs.
<b>Employees - Female</b>	Full-time equivalents of female employees, including part-time and full-time employees.
<b>Employees - Total</b>	Full-time equivalents of employees of the external manager, including part-time and full-time employees.
<b>Temporary/Contract Workers</b>	Full-time equivalents of temporary employees engaged by the external manager during the reporting period. Temporary employees include contractors, subcontractors, and casual, and fixed-term, project-based, seasonal, or intermittent work.
<b>Collaboration - Financial Contribution</b>	Value (financial) of collaborative industry development initiatives supported by the investment, e.g., industry associations, collaborative research, and best practice development.

### Risk Management

<b>Risk Management System</b>	Asset has an active risk management system that covers all aspects of the asset, including commercial, environmental, and safety.
<b>OHS System</b>	An Occupational Health & Safety system certified by a third party.
<b>Lost Time Injury Frequency Rate</b>	The number of Lost Time Injuries occurring per 1 million hours worked.
<b>Medical Treatment Injury Frequency Rate</b>	The number of Medical Treatment Injuries occurring per 1 million hours worked.

### Governance

<b>Anti-corruption Training</b>	Percent of manager's employees who have received training on anti-corruption and bribery policies and procedures.
<b>Code of Conduct</b>	A Code of Conduct or equivalent policy is in place that applies to all employees, contractors, and/or has senior management oversight.
<b>Board or Operational Committee Independence Percentage</b>	Percentage of the members of the Board or Operational Committee who are independent.
<b>Governance Meetings</b>	Number of Board of Director meetings (for investee companies) or Operations Committee meetings (as applicable) held.



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**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](http://www.newforests.com.au) or contact us at [info@newforests.com.au](mailto:info@newforests.com.au).

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New Forests is part of the Certified B Corp community, a global movement of people using business as a force for good.

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