Investors supporting transformation towards sustainability in the forestry sector

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About New Forests

- Founded in 2005 to manage institutional forestry investments
- Managing more than AUD 2.5 billion in assets for institutional investor clients
- Head office in Sydney; 45 employees in Australia, New Zealand, Singapore, and the USA
- Managing over 615,000 hectares of forestry, land, and conservation investments across the Asia-Pacific region and the United States
There are five major trends affecting forestry investment

1. Global timber demand growing and markets restructuring to accommodate Asian demand
2. Shift to plantations and the declining role of the economic frontier of natural forests
3. Shifts in markets as pulp and paper demand flattens, while bioenergy, biofuels, and other bio-products are rising
4. Rising institutional ownership of timber plantations
5. Sustainability and the pricing of ecosystem services
The Investible Universe of Forestry Today

Major forestry investment regions can be classified as:
- Mature
- Intermediate
- Emerging

Government policies can drive or hinder the evolution of the industry.

Timberland Investment Universe by Region

USD Billion
- South Africa $3
- SE Asia $5
- Canada $7
- Australia $8
- New Zealand $14
- Other Latin America $20
- Brazil $35
- United States $100

Source: New Forests data, June 2015. NB: Does not include Europe.
The Need to Price Ecosystem Services

Markets set prices for timber products, but how do we value other benefits?

<table>
<thead>
<tr>
<th>Region</th>
<th>Value of Natural Vegetation</th>
<th>Dominant Agricultural Land Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>$500 (logging concession after primary harvest)</td>
<td>$20,000 to $25,000 (oil palm)</td>
</tr>
<tr>
<td>Brazil</td>
<td>$155 (Amazon frontier land)</td>
<td>$420 (grazing)</td>
</tr>
<tr>
<td>US South</td>
<td>$3500 (mixed timberland)</td>
<td>$6250 (cropping)</td>
</tr>
<tr>
<td>Australia</td>
<td>$1900 (woodland properties)</td>
<td>$4850 (mixed cropping/grazing)</td>
</tr>
</tbody>
</table>

- Forests provide not only timber, but many other benefits.
- Ecosystem services have not been priced and are disregarded in land conversion decisions.
- Leads to plantation and agribusiness industry using more land rather than increasing productivity per hectare.
- Policy in conflict with economic fundamentals is difficult to enforce on a sustainable basis.
Sustainable and Responsible Investment

- Investors now require sustainability policy, labour policy, corruption and bribery standards, use of certification, and monitoring of performance standards
- Consumer groups are requiring certification or product chain of custody documentation
- Governments are under pressure to create a business environment that will encourage investment and support competitiveness
Responsibility Investment in Forestry

Institutional investment can bring capital to transform forestry and support environmental markets – thus addressing global Environmental, Social, and Governance (ESG) issues and creating long-term value.
Tropical Asia Forest Fund (TAFF)

- New Forests’ TAFF is an example of new emerging markets forestry fund
- Investing in Southeast Asia
- Attractive growing conditions, low costs, and close access to growing markets
- Investment team in financial hub of Singapore
- USD 170 million fund closed in June 2013
- Combination of existing and “greenfield” plantations
- Environmental, Social & Governance (ESG) factors and environmental markets offer value-add opportunities
TAFF Investment Thesis

**Forestry in Asia is changing:**
- Originated from logging concessions in natural forests
- Low cost of timber from these concessions meant attractive returns were possible without operating efficiently or sustainably
- Global concern over rainforest logging and a demand for certification and sustainable forest management models are on the rise
- Fast-growing, high-quality, and responsibly managed plantation estates emerging as the basis for the future of the industry and will require significant capital

**TAFF will:**
- Acquire majority stakes in existing forestry enterprises with limited access to capital
- Upgrade and expand those businesses
- Inject new management to implement modern forestry systems and practices
- Obtain certification, access environmental markets
- Exit at a lower discount rate to trade buyers or institutional investors seeking to gain exposure to high-growth Asian timber markets
New Forests established Malua BioBank in 2008 with seed investment from The Eco Products Fund.

The project creates an alternative economic value for Borneo’s rainforests and offers sustainability solutions for oil palm supply chain.

**Unlocking Demand for Biodiversity**
- Roundtable on Sustainable Palm Oil (RSPO) compensation mechanism for past HCV clearance
- Forest Stewardship Council (FSC) compensation mechanism for past “downwards conversion”

**Further Investment Potential**
- Carbon value through proven methodology
- Impact or CSR investment to catalyze biodiversity market growth and establish sustainable brand value
Key Points in Summary

Forest sector needs enhanced finance for both timber production and ecosystem conservation

- Timber demand will continue to rise, and markets will evolve to encompass a range of new opportunities.
- Institutional portfolios have gone from 5% real assets in 2000 to 15% real assets today, and may reach 25-30% by 2025—huge inflow of capital for real estate, infrastructure, agriculture, forestry, etc.
- There is a need for regulations to be created to help support alternative land use and investments.
  - California carbon market exemplifies the power of regulation that can catalyze private capital to support conservation outcomes
- If investors require investments to be de-risked through regulatory support and third party certification; in turn they should accept low risk returns
Key Points in Summary

continued

- The great bargain or ‘end-game’ needs a financing source for conservation as well as production—this could include REDD+, biobanking, water rights, no net loss supply chains, etc.
- Social and community integration via benefit sharing, consultation, and governance models, and respect for traditional land rights will be core to good outcomes, especially in emerging markets.
- The value of ecosystem services must be created artificially via government regulation or industry self-regulation and market perceives this to be risky
Thank you!