



# Investors supporting transformation towards sustainability in the forestry sector

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# Overview of New Forests



- Founded in 2005
- Managing forestry investment for institutional investment clients
- Currently managing more than US\$2 billion in assets in the Asia-Pacific region
- Head office in Sydney; 43 employees in Australia, New Zealand, Singapore, and San Francisco
- Managing over 450,000 hectares of land and forestry assets across the Asia-Pacific region and United States
- New Forests has generated excellent returns to our clients over 8 years, and has aimed to operate as a **leading sustainable and responsible investor in the forestry sector**

# What Differentiates New Forests?

## **Focused on Asia Pacific opportunities - Tropical Asia Forest Fund (TAFF)**

- Unique for a TIMO—headquartered in Sydney with an office in Singapore
- Largest forestland owner in Australia and active in markets throughout Australia, New Zealand, and Asia
- Providing investors with exposure to the integrated Asia Pacific regional timber trade—extensive experience in domestic and export markets

## **A leader in sustainable forest management**

- Investment team experienced in sustainable forest management and environmental markets; company-wide Social and Environmental Management System
- Member of Forest Stewardship Council (FSC) International and FSC Australia
- Signatory to United Nations Principles for Responsible Investment (PRI)

## **Forward Thinking**

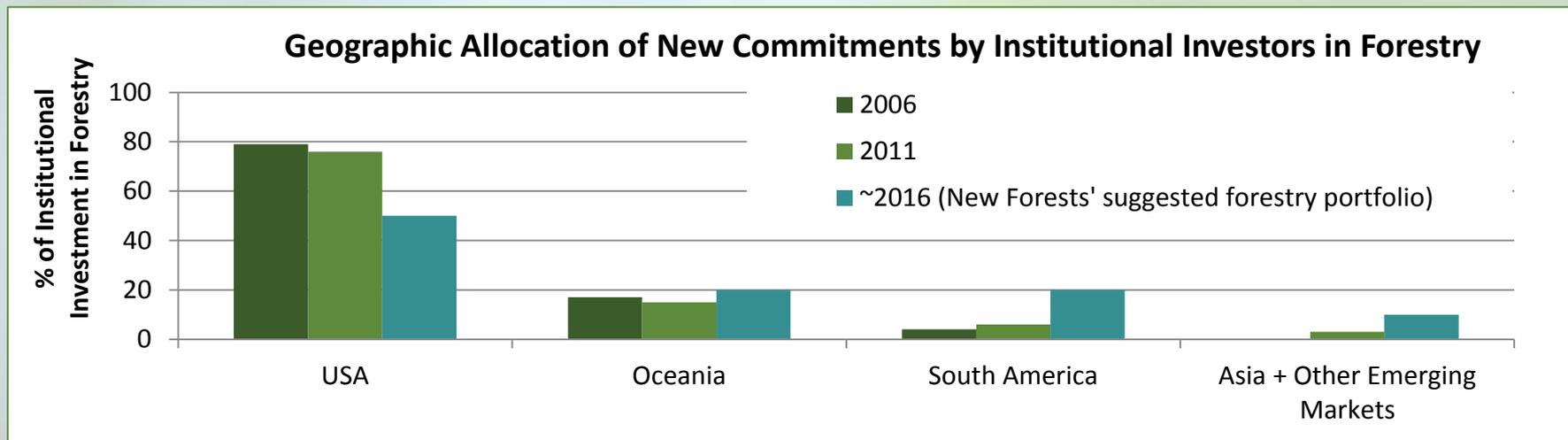
- Engaged with international NGOs, and participating in global initiatives including World Economic Forum Global Council, Aspen Institute, etc.

# Institutional Investment Capital Flows

- Forestry investors seek risk-adjusted returns that are based on market risk, currency, country risk, and other factors
- Investing in established plantations with established markets preferred
- As new investment opportunities in established markets decline, interest is rising in emerging markets, and new opportunities like energy crops

| Country              | Investible Assets* | Discount Rates (real IRR, pre-fees, pre-tax)* |
|----------------------|--------------------|---|
| USA/Canada           | \$75-85 B          | 6-6.5%  |
| New Zealand          | \$7-8 B            | 8-9%  |
| Australia            | \$7 B              | 7-9%  |
| Brazil/Uruguay/Chile | \$45 B             | 8-12%   |
| Asia/Africa          | \$8 B**            | 10-18%  |

\*\*If rubber and oil palm are included this could be \$150B



# Tropical Asia Forest Fund (TAFF)



4-year old clonal teak in Java

- New Forests' TAFF is an example of new emerging markets forestry fund
- Investing in Southeast Asia with priority for Indonesia, Malaysia, and Vietnam
- Attractive growing conditions, low costs, and close access to growing markets
- Investment team in financial hub of Singapore
- US\$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

# Social & Environmental Management

## Social & Environmental Management System (SEMS)

- New Forests' SEMS:
  - Implementation at fund level
  - Certification policy in place
  - Annual internal audit for each fund
  - Corporate progress tracked in Annual Sustainability Report and client reporting



## ESG Integration in TAFF

- Environmental, social, and governance (ESG) best practice will ensure TAFF contributes to:
  - Reduced greenhouse gas emissions and other forms of pollution
  - Maintenance or enhancement of high conservation value forests and biodiversity
  - Improvements in local livelihoods and safe working conditions
  - Recognition of indigenous rights

# New Forests - Innovating Markets



**MALUA BIOBANK**  
**IS AN INNOVATIVE ECO-INVESTMENT**  
**AIMING TO PRESERVE 34,000 HECTARES**  
**OF BORNEO'S RAINFOREST AND**  
**ENDANGERED ORANG-UTAN HABITAT**

New Forests established Malua BioBank in 2008 with seed investment from The Eco Products Fund.

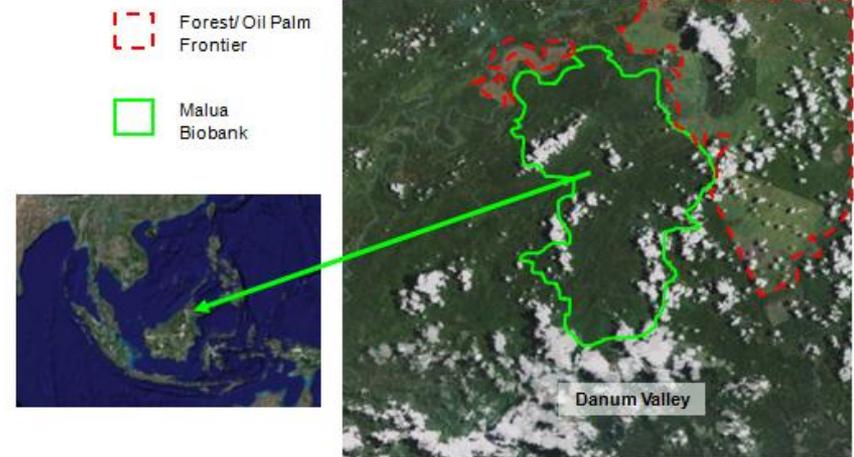
The project creates an alternative economic value for Borneo's rainforests and offers sustainability solutions for oil palm supply chain.

## 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



  
NewForests

# Environmental Markets Lessons Learned

## ■ Price signals work

- EU Emissions Trading Scheme (ETS) drove \$ billions into carbon funds and carbon companies
- US Mitigation Banking is a \$billion+ turnover industry
- Certification Market Access and (limited) price premiums

## ■ The finance and investment sector can facilitate change

- Investment funds created in related to the EU ETS, mitigation banking industry and others —creates liquidity to meet market needs
- Markets create transparency in pricing; futures and options create stability

## ■ Stability is necessary, but fine-tuning is also necessary

- Excessive allocations and unexpectedly huge offset supply have made the EU ETS unstable

## ■ It needs to cost more to remain outside rather than inside a scheme

- Lack of meaningful price premium has hampered most voluntary certification schemes (Market Access)
- REDD has struggled to have impact because private sector is disengaged and continues to operate on a business as usual basis

