



Responsible Investment in Forestry

A primer on ESG-based, institutional
investment

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Shared Value Approach

Investing to create productive and sustainable landscapes to benefit our clients and the communities where we operate.



New Forests' investments encompass both production and conservation for long-term value. We invest in forestry, land, and environmental assets to provide attractive returns for our clients while contributing to positive outcomes for the communities where we operate.

To achieve this, our Sustainable Landscape Investment approach focuses on business, environmental, and social performance.



What Is Responsible Investment?

Responsible investment incorporates **environmental, social, and corporate governance** (ESG) factors throughout the investment process.

- Environmental
 - Climate change and resilience
 - Habitat conservation
 - Reducing pollutants
 - Energy efficiency
- Social
 - Worker health and safety
 - Local livelihoods
 - Diversity
- Governance
 - Disclosures
 - Conflicts of interest
 - Long-term objectives rather than short-term trade offs

Investment Screening

- Any key ESG problems?

Due Diligence

- Environmental risk
- Social concerns

Asset Management

- Managing risk
- Improving operations
- Reporting outcomes



Investors & ESG Risk Management

- Institutional Investors require sustainability policy, labour policy, corruption and bribery standards, use of certification and monitoring of performance standards
- Major consumer groups are increasingly demanding certification or product chain of custody documentation – it is the same for large investors
- Management systems, third-party standards, and governance frameworks support risk management, e.g.:
 - Forest Stewardship Council
 - IFC Performance Standards
 - ISO standards for environment
 - OH&S
 - Legal compliance

An investor visits a new rubber plantation.



CASE STUDY: Tropical Asia Forest Fund



Southeast Asia

How does responsible investment work in Southeast Asian forestry?



The first institutional timberland fund dedicated to investing in Southeast Asia

Tropical Southeast Asia is an emerging market for sustainable plantation forestry investment by institutional investors.

New Forests' Southeast Asian investment strategy focuses on certified plantation forestry with an emphasis on technological and silvicultural improvements.

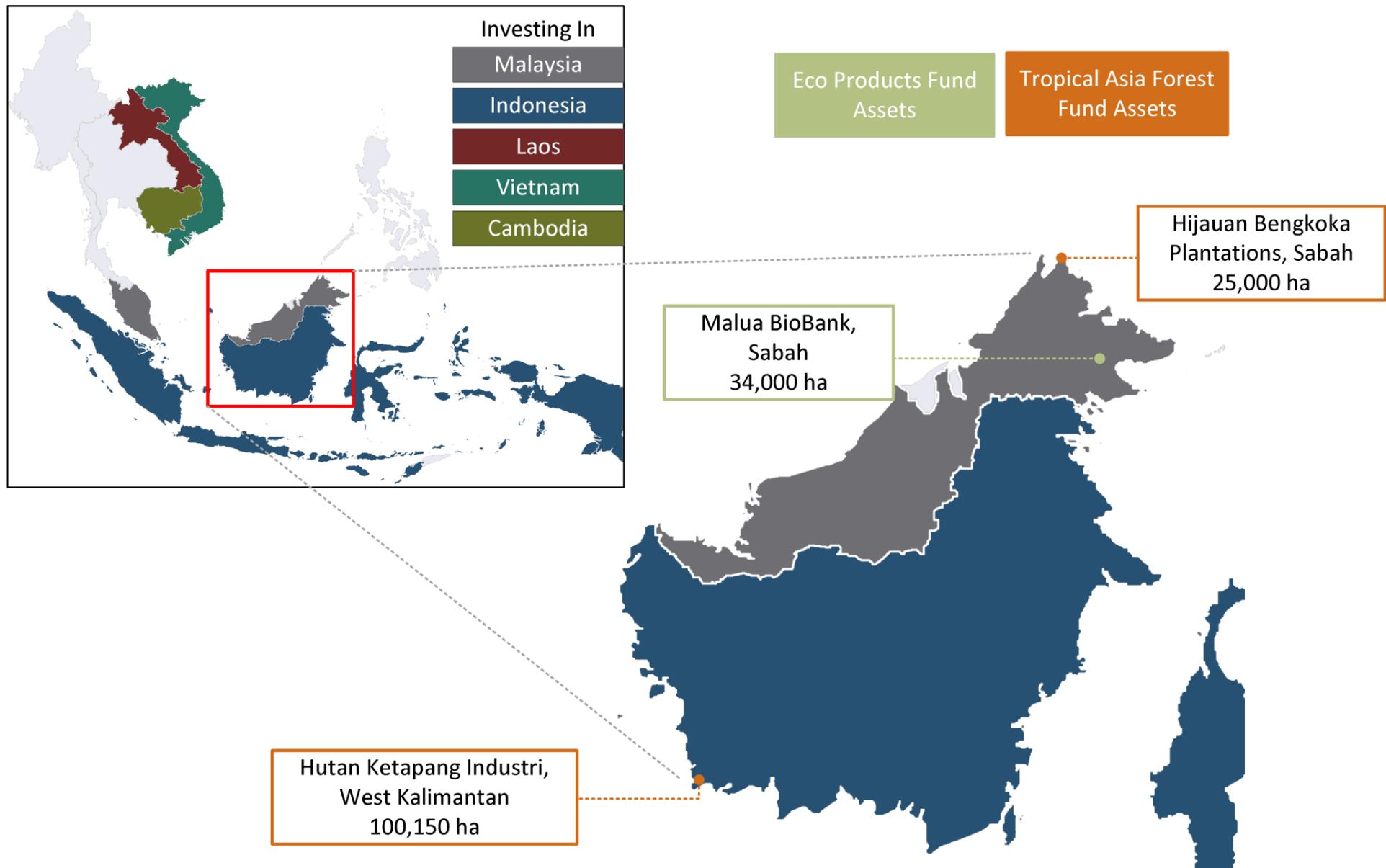
Our strategy seeks to capitalise on current trends in the Asian markets that present investment opportunities via joint ventures, partnerships with large conglomerates, and greenfield/brownfield opportunities.

New Forests' forestry expertise combined with social and environmental management credentials provides an attractive package for partnerships across Southeast Asia.

- **Tropical Asia Forest Fund**
 - USD 170 million
 - Final close in 2013 and currently being invested



Assets in Southeast Asia



Figures are gross hectares as of 31 December 2015.

Example Investment – Malaysian Plantation

Improving plantation company management to improve asset quality while bringing a dedicated focus to ESG management



- TAFF acquired a majority stake in a Malaysian plantation growing acacia and eucalyptus hardwood for both pulpwood and solid log markets.
- While the asset was already FSC-certified, New Forests addressed major certification risks through a rigorous social and environmental program following acquisition.



Due Diligence – Before Investment



- Objective is to understand the company, including risks and opportunities
- Identify risks and develop action plan
 - Indigenous rights and community consultation
 - Gap analysis with IFC Performance Standards
 - Assessment against FSC P&C
 - Land tenure
 - Environmental and social impact
 - Biodiversity assessment
 - Health and safety



We seek to make sure that the company can be managed responsibly to the standards that we and our clients have set, and we develop an asset management strategy to achieve this.

The ESG due diligence feeds into the full investment appraisal, and is communicated to the investment committee.



Operations - Environmental Management



Problem:

Production and use of natural resources outcompetes conservation and stewardship

Management Solutions

- Clarify land tenure and ownership to enable more long-term perspective
- Add value from certification and supply chain incentives – better market access
- Seek opportunities to value ecosystem services
- Operational management improvements
 - Wildlife and high conservation value area surveys and management
 - Monitoring programs (camera “trap” at left)
 - Reduced impact logging techniques
 - Better road infrastructure
 - Protection of conservation areas and buffers
- Investments can also provide opportunity to go above and beyond and support regional conservation goals



Operations - Social Considerations

Problem: Community engagement is complex and legacy issues create challenges; communities are often ignored and lack power

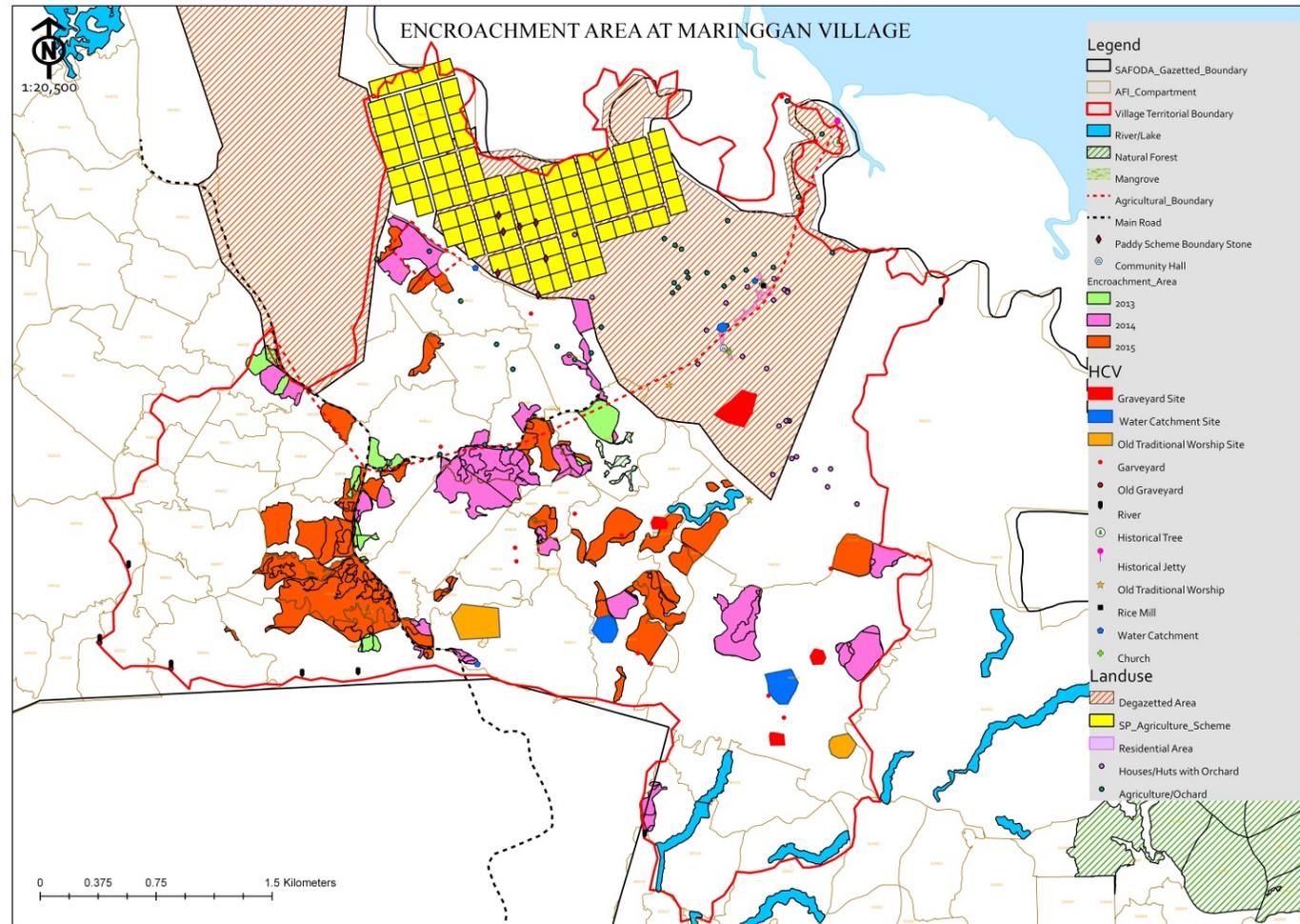
Management Solutions

- Addressing land encroachment by outsiders and supporting boundary demarcation and surveys
- Addressing incomplete prior process of consultation and engagement
- Social baseline study – used local NGO for study and now training and bringing on local graduates for phase two
- Currently in community mapping phase
- Creation of CSR committee with company and gov't agency partner
- Worker health, safety, training, and development
- Long-term opportunities through engagement, e.g. outgrower schemes and community partnerships



Community Mapping

Example village area map from initial phase of community mapping

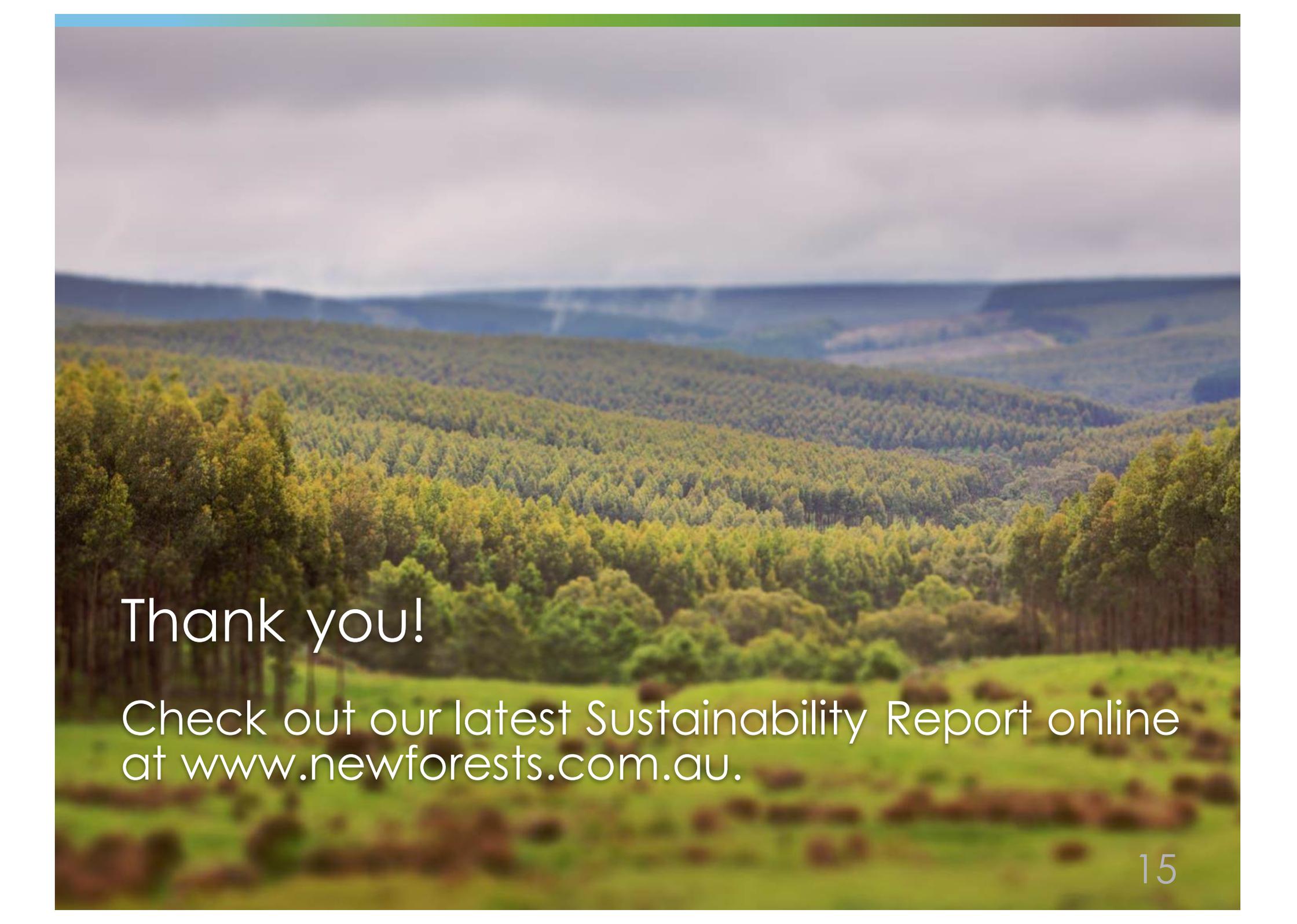


Conclusions



- Forestry investment has a long-term perspective, looking to increase the value of forests – this aligns with many strategic government plans
- More interaction among investors, forestry companies, and government can foster better understanding of opportunities and facilitate partnerships and joint ventures.
- Professional investors can offer expertise in managing:
 - Technical aspects of forestry and improved operations
 - Bring capital for R&D, resourcing, equipment, and CAPEX
 - Social and environmental management through international standards
 - Supporting improved corporate governance





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