



NewForests

2014 Sustainability Report

Contents

Message from the CEO	3
Introduction	4
New Forests	5
The New Forests Group of Companies.....	5
Governance	5
Investment Strategies	6
Sustainability at New Forests	10
Responsible Investment	11
Social and Environmental Management System.....	13
Sustainability Targets	15
Third-party Certification and Standards	16
Social and Environmental Impacts	20
Biodiversity	22
Climate and Carbon	28
Communities	31
Environmental Productivity and Land Use.....	35
Moving Forward Together	37

© New Forests 2015. This publication is the property of New Forests and may not be reproduced or used in any form or medium without express written permission.

The information contained in this publication is of a general nature and is intended for discussion purposes only. The information does not constitute financial product advice or provide a recommendation to enter into any investment. This publication has been prepared without taking account of any person's objectives, financial situation or needs. Before acting on this information, you should consider its appropriateness having regard to your objectives, financial situation or needs. Past performance is not a reliable indicator of future performance. You should consider obtaining independent professional advice before making any financial decisions. The terms set forth herein are based on information obtained from sources that New Forests believes to be reliable, but New Forests makes no representations as to, and accepts no responsibility or liability for, the accuracy, reliability or completeness of the information. Except insofar as liability under any statute cannot be excluded, New Forests, including all companies within the New Forests group, and all directors, employees and consultants, do not accept any liability for any loss or damage (whether direct, indirect, consequential or otherwise) arising from the use of this information. It is your responsibility to be aware of and observe the applicable laws and regulations of your country of residence.

The information contained in this publication may include financial and business projections that are based on a large number of assumptions, any of which could prove to be significantly incorrect. New Forests notes that all projections, valuations, and statistical analyses are subjective illustrations based on one or more among many alternative methodologies that may produce different results. Projections, valuations, and statistical analyses included herein should not be viewed as facts, predictions or the only possible outcome. Before considering any investment, potential investors should conduct such enquiries and investigations as the investor deems necessary and consult with its own legal, accounting and tax advisors in order to make an independent determination of the suitability, risk and merits of any investment.

New Forests Advisory Pty Limited (ACN 114 545 274) is registered with the Australian Securities and Investments Commission and is the holder of AFSL No 301556. New Forests Asset Management Pty Limited (ACN 114 545 283) is registered with the Australian Securities and Investments Commission and is an Authorised Representative of New Forests Advisory Pty Limited. New Forests Inc. has filed as an Exempt Reporting Adviser with the Securities and Exchange Commission.

1 April 2015

Cover photo: A woman tending to acacia seedlings at the Acacia Forest Industries nursery in Sabah, Malaysia

Message from the CEO

The New Forests' 2014 Sustainability Report reflects our mission as a business to generate excellent returns for our clients while also creating positive and lasting benefits to the landscapes and communities in which we invest. New Forests will reach its 10th anniversary in 2015, and we have grown to be a diverse and successful business. However, our investment programs and management of assets can always improve, whether through applying new technologies; implementing new management and planning systems; investing in the capacity and skills of our partners, service providers and employees; or simply by being focused on what is important.

This report reviews our business, how we integrate sustainability and concepts of responsible investment into our work, and our performance since our last Sustainability Report. Our company has adopted the concept of shared value as a reflection of our aspiration to integrate our clients' needs with the needs of the communities where we operate. This means that we seek to generate commercial returns and benefits to both.

New Forests now manages substantial assets across a variety of geographies. We have extensive plantation forestry holdings and timber processing facilities in Australia, New Zealand and Southeast Asia. We also manage a range of environmental and ecosystem assets including forest carbon offset projects, wetlands and stream mitigation banks, biodiversity banking, and nutrient pollution credits in the United States and Malaysia. We recognise that forests produce both goods and services. There is increasingly a view that managers like New Forests need to think about landscapes—that is, promoting the diversity of conservation and production functions that occur in space and time at a regional scale. The landscapes where we have invested often include a tapestry of intensive timber plantations, agriculture, areas of native vegetation, watercourses and wetlands, infrastructure and communities. The management of these landscapes produces economic activity, employment, cultural, spiritual and recreational benefits, clean water, carbon storage, and habitat and biodiversity conservation.

New Forests' overall sustainability framework includes board level policies, a commitment to the Principles for Responsible Investment, an internal social and environmental management system, and a commitment to independent certification systems and compliance systems at an operating level. As our business has grown we have continued to refine and strengthen our overall responsible investment management systems. The company also held a two-day workshop in 2014 to look at how we could strengthen our sustainability program and further embed sustainability in all parts of our business.

As you read through this report I hope you will find both useful insights into how responsible investment and sustainability principles flow into the forestry sector and some good examples of how New Forests as a company is addressing some specific issues and finding opportunities in operating within a responsible investment philosophy. I hope you enjoy the report.

Sincerely,



David Brand

Founder and Chief Executive Officer, New Forests Pty Ltd

Introduction

New Forests was established in 2005 as an asset management business specialising in forestry and environmental markets. Today, the company is a leading forestry investment management organisation headquartered in Sydney, offering three regional investment strategies led by funds management teams in Sydney, Singapore, and San Francisco. New Forests is at its core a company built on the premise that investing in forestry assets can produce financial returns for our clients while conserving and safeguarding ecosystem services that provide vital social and environmental benefits.

New Forests has now produced publicly available sustainability reports since 2012, and we have an ongoing commitment to continual improvement in our sustainability programs. Through our reporting, we aim to provide transparent and accurate information about our progress and performance in the areas of responsible investment and sustainability. New Forests believes that social and environmental impacts can be material to the value of investments, and therefore this information is highly relevant for our company's shareholders and our clients. However, we also recognise that the social and environmental impacts of our investments are important to other stakeholders including the people who live in communities that are affected by our investments, the workers and families of workers who are employed directly or indirectly by our investment activities, the general public, governments, and civil society.

This report includes an overview of New Forests, an introduction to responsible investment activities, a review of our sustainability program performance and targets, and a discussion of our material social and environmental impacts. In keeping with emerging best practice in sustainability reporting, we present this information in the broader context of our business and the environmental, social, and economic contexts in which we operate.

New Forests is moving its reporting to align with the calendar year, and so this report covers activities from the end of our last reporting period (30 June 2013) through 31 December 2014. The report includes the activities related to the New Forests group of companies and the investments we have managed during this time period.

7,848 hectares of wetlands and stream mitigation banks

791,060 California Carbon Offsets issued in 2014

Nearly 3 million tonnes of certified timber produced

8% of land under permanent protection

395,316 hectares of certified plantation forests

398 hectares of native reforestation

113 kilometres of streams restored

92 million tCO₂e is stored in plantation trees

21% of land managed as protected area

New Forests

New Forests is an investment manager offering leading-edge strategies in forestry, land management, and conservation. Founded in 2005, we offer institutional investors targeted opportunities in the Asia-Pacific region and the United States and have approximately AUD 2.5 billion in assets under management and manage over 615,000 hectares of land and forests. Our assets include timber plantations, rural land, and conservation investments related to ecosystem restoration and protection.

The New Forests Group of Companies

Our specialised investment teams in Sydney, Singapore, and San Francisco give us local insight and capabilities while maintaining consistent corporate services across the business in the areas of fund administration, governance, research, sustainability, communications, and investment analytics. New Forests' international presence now includes a group of seven wholly-owned subsidiary businesses and 48 employees across offices in Australia, New Zealand, Southeast Asia, and the United States.¹



Governance

New Forests is committed to conducting business in a responsible and ethical manner. We have in place a governance and compliance framework driven by regulatory compliance (including for the company's Australian Financial Services Licence); funds management governance, administration, and operational control systems; and a Social and Environmental Management System. Key aspects of New Forests' approach include company policies and procedures, risk management systems, and regular compliance training.

New Forests has continued to grow its governance systems, and we have increased our resourcing in this area. The risk management and compliance team works closely with New Forests' governance bodies, which work across the business to promote ethical and responsible decision making; recognise and manage risks; maintain fiscal responsibility; lay a solid foundation for management and oversight; and ensure the company makes timely and balanced disclosures. This governance approach is also closely linked to the involvement of senior management and New Forests' Board of Directors in ensuring our business' success, including our commitment to responsible investment.

¹ As of 20 March 2015.

Investment Strategies

New Forests' investment strategies take into account a long-term view of economic and market trends and emphasise positive environmental, social, and economic development outcomes. We concentrate on buying well and then steadily adding value through productivity enhancements, market development, and a focus on commercial management. Our investments support the allocation of capital into long-term, sustainable forest and land management as well as commercial management of ecosystem services.

Australia and New Zealand		AUD 2.2 billion ²
Australia New Zealand Forest Fund (ANZFF)	New Forests' first timber fund closed in 2010. The fund is fully invested and comprises a portfolio of more than 250,000 hectares of Australian softwood and hardwood as well as the Timberlink Australia Pty Ltd sawmilling, sales, and distribution business.	Sustainable forestry
Australia New Zealand Forest Fund 2 (ANZFF 2)	New Forests' second round fund in Australia and New Zealand reached a final close in March 2014. The fund is partially invested and has a portfolio of hardwood and softwood assets located in both Australia and New Zealand.	Sustainable forestry
Southeast Asia		USD 170 million ³
Tropical Asia Forest Fund (TAFF)	This is the first institutional investment fund dedicated to sustainable forestry in Southeast Asia and it closed in 2013. The fund is currently being invested.	Sustainable forestry
United States		USD 36 million ⁴
Eco Products Fund (EPF)	This fund is co-managed with Equator LLC. The fund has invested in US-based mitigation banks, forest carbon offset projects, and a biobank in Sabah, Malaysia.	Mitigation banking, Forest carbon, Voluntary biobank
Forest Carbon Partners (FCP)	Forest Carbon Partners finances and develops forest carbon offset projects for the California carbon market. FCP works with family, industrial, and tribal landowners to create carbon offset projects that deliver real financial value – increasing and diversifying revenue for timberland owners.	Forest carbon

In the following sections we provide an overview of New Forests' three regional investment strategies and discuss key achievements in the business during the reporting period, covering from 1 July 2013 to 31 December 2014. During this time, New Forests' total assets under management increased by over 30% to AUD 2.5 billion.

² Net Asset Value as at 31 December 2014.

³ Committed Capital as at 31 December 2014.

⁴ Includes Net Asset Value for the Eco Products Fund as of 30 June 2014 and Committed Capital for Forest Carbon Partners as of 31 December 2014.

Sustainable timberland investment in Australia and New Zealand

Timberland investment in Australia and New Zealand offers access to mature timber markets, well-established forestry management systems, and new opportunities from increasing Asian demand for wood products. Investors can be exposed to Asian growth while investing in a stable, low-risk business environment. New Forests is the largest timberland investment manager in Australia and has operated in New Zealand since 2005.

In December 2013 New Forests completed the final acquisition of tree crops on the Forestry Investment Trust (FIT) estate, which covers more than 250,000 hectares of plantations and land. With this acquisition significant value uplift was created through the removal of lease encumbrances on the land owned by FIT. Harvesting of the estate continues to ramp up, with exports of approximately 500,000 tonnes of hardwood woodchip in the 2013-14 financial year, expected to grow to one million tonnes in FY2014-15.

In February 2014 New Forests announced the final close of the Australia New Zealand Forest Fund 2 (ANZFF2) with AUD 707 million in committed capital. New Forests established and launched Forico Pty Ltd and manages a 175,000 hectare Tasmanian forestry estate purchased from the Receivers of Gunns Ltd in September 2014. This acquisition made New Forests the largest timberland investment manager in Australia.

Log pile and forwarder at a harvest site in Penola Plantations



Sustainable forestry in emerging markets of Southeast Asia

Tropical Southeast Asia is an emerging market for sustainable plantation forestry investment by institutional investors. Our Southeast Asian investment strategy focuses on certified plantation forestry with an emphasis on technological and silvicultural improvements and a rigorous approach to environmental and social values and good governance. With an eye toward future growth, New Forests manages the first dedicated institutional timberland fund in Southeast Asia.

Over the past 18 months New Forests has continued to manage the investment in a 15,000 hectare acacia plantation on the Bengkoka Peninsula of Sabah, Malaysia. This investment has included harvesting and marketing of timber both domestically within Sabah, as well as into markets in India, Vietnam, China, the Philippines, and Indonesia. The plantation is fully certified by the Forest Stewardship Council (FSC). New Forests has worked to strengthen community relations, to improve the quality of the timber plantation estate, and to develop a new strategic plan for the investment. New Forests has also been actively developing a set of further investments in Indonesia, Vietnam, Laos, and Cambodia. Overall we seek to invest in an international portfolio of timber plantation assets with exposure to a variety of timber species and markets.

New Forests continues to manage the Malua Biobank, a 34,000 hectare conservation investment in Sabah, Malaysia. The project began in a former logging concession in 2008 and operates under a Conservation Management Plan. The forest shows positive signs of regeneration and well-structured natural forest rehabilitation. Regular monitoring activities have also shown a reduction in illegal activities such as poaching throughout the reporting period. At the same time, wildlife sightings are on the rise, particularly for species that are sensitive to hunting and disturbance. New Forests is proud of these achievements and continues to advocate for biodiversity compensation mechanisms that can support forest rehabilitation as demonstrated at Malua.

Truck at Hijauan Bengkoka Plantations transports acacia logs to the log yard



Conservation forestry and ecosystem restoration in the United States

Forestry investment in the United States has evolved beyond traditional timber management to also encompass returns driven by conservation management strategies and the valuation of ecosystem services in growing environmental markets. New Forests' US business focuses on strategies related to conservation forestry, mitigation banking, and forest carbon offsets. We established the first institutional fund investing in both forest carbon and mitigation banking and have developed additional investment products that build on our track record.

The Forest Carbon Partners investment program made significant strides during the reporting period. In April 2014 New Forests announced that the California Air Resources Board (ARB) had approved the issuance of more than 700,000 tonnes of offset credits to the Yurok Tribe/Forest Carbon Partners CKGG Improved Forest Management Project. ARB offset credits can be used for compliance in the California greenhouse gas cap and trade program, and the project represents a significant milestone for Forest Carbon Partners, the Yurok Tribe, and the California cap and trade system – the project was the first forest carbon project to be developed, registered, and issued credits under the regulatory protocol.

As of the end December 2014, Forest Carbon Partners registered three projects on private and tribal forestlands in the United States, was issued nearly 800,000 million offset credits, and listed an additional six forest carbon offset projects for the California greenhouse gas emissions trading system.

The Eco Products Fund mitigation bank portfolio continued to mature over the quarter, with five mitigation banks located in the states of Indiana, North Carolina, and Texas. The fund reached an agreement to sign over the first of its banks to long-term stewardship through an agreement with a local land trust that will ensure ongoing conservation management and other lasting social and environmental outcomes from the site. This stewardship step is significant for demonstrating the successful life cycle of a mitigation bank, which culminates in long-term site preservation.

An FCP forest project area in Trinity County, California

Sustainability at New Forests

Over a nearly-ten year history, New Forests committed to a model of investment management that generates value through both commercial returns and positive environmental and social outcomes. We continue to strive to demonstrate our commitment through our actions and results. Over the years we have formalised and administered this sustainability approach through a complementary set of corporate-led initiatives with implementation taking place in all of our funds.

Today, New Forests' commitments to responsible investment – considering environmental, social, and governance (ESG) issues throughout our investment process and management of assets – and the implementation of our Social and Environmental Management System (SEMS) are the foundation for our sustainability programs, which continue to evolve as we look to opportunities to create shared value for our clients, our business, and society.

In August 2014 New Forests convened an internal two-day sustainability workshop on continual improvement in our sustainability programs. The workshop objectives included evaluating the performance and structure of our SEMS, identifying improvements that could be made within our corporate sustainability program, and management of ESG issues. The workshop also included a review of material ESG issues for our business and investments, which has informed the content of this report. Finally, the major goal of the workshop was to identify and discuss possible short-term and long-term sustainability objectives the company might pursue to better manage risks and take advantage of opportunities to enhance returns and grow our business. There was consensus and support for New Forests to ensure its business strategy is purpose-driven and includes the objective of creating shared value through investment management that promotes productivity, conservation, and enriches landscapes. New Forests is developing this shared value vision and will develop a set of leadership targets and goals that are driven by sustainable business opportunities.

Kangaroos graze at dawn at a Forestry Investment Trust plantation



Responsible Investment

New Forests has a duty to our clients – and ultimately to their beneficiaries – to ensure our investment process and asset management practices take account of ESG-related risks and opportunities. We believe these ESG factors are relevant to the value of each investment and that by evaluating and managing ESG issues in our investments we can seek more stable financial returns over the medium to long term. New Forests also believes that by being responsible investors we are able to meet our clients' needs to demonstrate their own integration of ESG, which is increasingly in demand by regulators, beneficiaries, and other stakeholders.

As the global population and economic output rises, our ability to produce the food, fibre, and fuel that are necessary for future generations is increasingly difficult. Compounding this is the challenge that much of intensified production of these goods has often come at the cost of environmental services that are vital for life. This combination of factors creates a specific opportunity for forward-looking investors to allocate capital to investments that target the sustainable production of goods like timber, natural rubber, and other commodities, while also ensuring their investments do not adversely affect environmental services, which are likely to be increasingly valuable in a nature-constrained world. More forward-looking investors are now increasingly seeking conservation investments, which promote the maintenance and enhancement of ecosystem services.

Ultimately, given the challenges outlined above, New Forests believes capital must flow toward land management systems that value both production and conservation functions. Through our investment strategies we address key sustainability opportunities and risks across both sustainable forestry and conservation investments. These investment strategies are supported by our own responsible investment approach that includes ESG at every step of investment management and that benefit from a growing global movement of responsible investment that enables collaboration with other investors and practitioners.

Principles for Responsible Investment

New Forests has been a signatory and member of the Principles for Responsible Investment (PRI) since 2010. We participate in annual reporting and assessment activities of the PRI, including voluntary pilot reporting, feedback, and workshop sessions. The PRI reporting and feedback program is an integral part of demonstrating accountability in responsible investment. To this end, we also make our PRI Responsible Investment Transparency Report directly available on our website. As the 2014 assessment was in pilot mode and at the request of the PRI to all signatories, New Forests has not published our Pilot Assessment Report for 2014. The results of the assessment were positive, with New Forests receiving a top A rating and performing well in all peer comparisons. It should be noted, however, that as there is no assessment supplement that includes unlisted forestry or conservation investments, PRI only evaluates our approach to responsible investment and not factors specific to the real assets or forestry asset classes.

As a key part of our promotion of responsible investment, New Forests continues to focus on increasing dialogue within the investment community around the opportunities for integrating responsible investment in real assets.

A New Policy Commitment to Responsible Investment

New Forests has operated under a Social and Environmental Policy since 2010. This policy was originally created together with the SEMS and was based around four guiding principles: responsible investment, third-party certification, transparency, and continual improvement. As a result of the SEMS Management Review conducted in 2014, and together with our evolving sustainability programs, New Forests' Board of Directors as of

March 2015 has adopted a Responsible Investment Policy that supersedes the Social and Environmental Policy. This updated policy is available on New Forests' website. This new policy builds upon New Forests' approach to responsible investment by creating a formal commitment to ESG integration, defining the scope and application of the policy, indicating the tools that should be used to implement the policy, and formalising a requirement for monitoring and review.

Our Clients and ESG

Our clients have different approaches to responsible investment and different levels of expertise in forestry and conservation investment. This leads them to approach ESG issues with New Forests in many ways. As part of a review of our responsible investment programs in 2014, New Forests undertook an analysis of the role ESG plays in our relationships with institutional investors. We focused our efforts on current clients and evaluated due diligence documents, investor side letters, reporting requirements, and public information about our clients, including their websites, annual reports, and investment policies. Through this exercise, we hoped to summarise our clients' expectations for the incorporation of sustainability matters in their due diligence of New Forests, their requirements around how sustainability should be incorporated into the investment management process, and their desire for sustainability management to be an ongoing feature of client relationships. Understanding these factors should help us to align our responsible investment program with client needs and expectations.

OUR CLIENTS' SUSTAINABILITY APPROACHES - By the Numbers

82% - Ask explicit ESG questions or requirements in due diligence before investing

73% - Have publicly available commitments or policies on Responsible Investment

59% - Have demonstrated they monitor ESG issues in our investments

45% - Require specific ESG obligations in side letters

27% - Engage with New Forests on ESG management

27% - Request ESG information beyond our standard disclosures

27% - Have an impact investment or ESG-specific investment mandate

Social and Environmental Management System

New Forests' SEMS is a cornerstone of the company's approach to responsible investment. The SEMS is intended to ensure effective management of social and environmental issues related to New Forests' business. Our first version of the SEMS was approved and issued in February 2011 and set out a framework for the implementation of the SEMS across New Forests' investment programs. Over the past four years, New Forests has administered the SEMS across each of our investment funds, working with portfolio companies and property managers to ensure our investments are managed to high social and environmental standards. This is supported, wherever possible, by the use of third-party certifications and standards under our SEMS certification guidance.

It is important that the SEMS grow with New Forests' business and remain flexible to address the new and expanding ESG issues that we encounter as our investment programs develop. We use performance monitoring and a regular system of Management Review to ensure the SEMS stays applicable and relevant.

2013-14 SEMS Performance

New Forests conducts an annual internal audit for each of our funds subject to the SEMS. Each fund's SEMS compliance is based upon commitments made in a declaration document for each fund, which includes two complementary components. The first is a fund Certification Policy, which specifies targets for certification or accreditation with respect to legal and regulatory requirements, forest certification, third-party protocols or registration systems, and/or the use of performance standards. The second component of the declaration document is the Implementation Responsibilities, which provide guidance for the required social and environmental management activities that the portfolio teams should undertake in each part of the investment process.

Currently, New Forests has four funds subject to internal SEMS audits: ANZFF, ANZFF2, TAFF, and FCP.⁵ New Forests' Sustainability Manager conducts an internal SEMS audit annually with the participation of the portfolio management teams for each of the funds. Audits for FY2014 were conducted from May to September, with results continuing in an overall upward trend in compliance results. In total the audits assessed compliance with 91 applicable criteria for acquisitions and operational activities related to the SEMS and found 87 criteria with evidence of compliance (96%) and three with evidence that New Forests was working toward compliance based on available evidence (4%). There were no non-compliance findings. The strong compliance record indicates that the requirements of the SEMS are being effectively integrated into the management processes of each fund.

¹ EPF does not fall under the SEMS as it pre-dates the SEMS and the fund is not wholly managed by New Forests.

Radiata pine growing in Penola Plantations in Australia's Green Triangle region



2015 SEMS Outlook

As part of our commitment to continual improvement, New Forests completed a Management Review of our SEMS in 2014, the results of which will be integrated into New Forests' sustainability management approach in 2015. The Management Review process included consultation and feedback from across our business and provided a series of recommendations for improvements to the company's Board of Directors, including:

- Integrating SEMS obligations, monitoring, and internal audit functions with the company's new governance, risk, and compliance system that is being implemented throughout 2015;
- Updating the New Forests' Social & Environmental Policy in line with requirements from the ISO standard and to align with greater ESG commitments and the evolution of New Forests' business (this has now been turned into a Responsible Investment Policy);
- Creating expanded guidance for social and governance issues;
- Establishing a SEMS process for assets that fall outside of third-party certification requirements; and
- Clarifying existing procedures as needed to improve administration of the SEMS.

These recommendations were adopted in December 2014 and will be implemented throughout the first half of 2015. The 2015 revision of the New Forests SEMS is intended to align with other sustainability program and strategic objectives.

Adjacent pine and blue gum plantations form part of a mixed landscape



Sustainability Targets

As our business grows, New Forests' sustainability targets continue to evolve to encompass more sophisticated and ambitious goals in line with our overall business planning. In our 2013 Annual Sustainability Report, we published two key goals, and the table below provides an update on progress in meeting these targets.

FY14 Target Activities	Progress Report
<p>Develop a Sustainability Business Plan for the New Forests group of companies.</p> <p>This goal was designed to address New Forests' business growth, which brings with it new and more significant areas of social and environmental impact. We aimed to incorporate elements such as corporate responsibility, sustainability leadership in our investment industry, and delivering effective on-the-ground outcomes for our investments and stakeholders.</p>	<p>New Forests convened a two-day internal sustainability workshop to develop the company's position on a new sustainability plan and/or the improvement of existing systems. As a result of the workshop, New Forests has opted not to develop a separate business plan for sustainability issues, but rather to ensure that a corporate vision for sustainability is integrated into the corporate strategy work at the highest level. New Forests is currently in its FY15, and our sustainability programs are working to support a set of corporate development initiatives set forth in the current business plan (described below).</p>
<p>Increase engagement with clients, property managers, and investee companies to enhance monitoring and review of ESG performance.</p> <p>This goal focused on our role as an investment manager that can and should collaborate with other actors in our investment supply chain to assess and monitor ESG issue management and performance. We aimed to increase collaboration and enhance dialogue throughout the investment supply chain around key ESG issues to enhance the consistency and extent of ESG management efforts.</p>	<p>During the reporting period, New Forests has focused efforts to enhance engagement across each of the groups of clients, other investors, property managers, and investee companies. Some examples of engagement activities include:</p> <ul style="list-style-type: none">• ESG and responsible investment training with property management firms.• ESG due diligence collaboration and field trip with Tropical Asia Forest Fund clients.• Execution of work plan and follow up to ensure the SEMS compliance of portfolio company, Timberlink Australia.• Operational and ESG support to portfolio companies to support FSC compliance and address land encroachment issues in Malaysia.

Throughout 2015, New Forests will continue working toward the development initiatives from its corporate business plan update. The list below describes the initiatives that fall within the remit of the corporate sustainability programs. The items included are a combination of long-term, ongoing commitments as well as concrete deliverables.

Expansion of corporate sustainability program beyond SEMS compliance
Conduct a gap analysis of our SEMS and eventually migrate to an external review of our audit
Review achievements with our SEMS to date and evaluate what steps New Forests may want to take to improve and/or go "beyond SEMS"
Increase ESG engagement activities and involvement with PRI where possible
Demonstrate compliance with ESG-related investor requirements
Communicate ESG improvements, stewardship, and success stories
Complete annual Sustainability Report

Third-party Certification and Standards

Forest certification and other third-party certification schemes are important tools for responsible management of forests and other real assets. In addition to providing standards, reputable programs offer credible assurance and transparency for both timber markets and stakeholders. New Forests' SEMS sets guidance for the types of third-party certification schemes New Forests may use or be required to maintain for the investments we manage. In this section we provide a summary of the types of certification schemes and standards we currently apply to our investments and how we work to support these standards in their application, relevance to our investments, and general promotion of best practices.

Forest Certification

Forest certification schemes are a cornerstone of demonstrating good forest stewardship. They can also be important tools for investors, forestry asset managers, and portfolio companies. New Forests uses the Forest Stewardship Council⁶ (FSC) and its policies and standards as a key resource in responsible forestry investment. The FSC system offers internationally recognised, third-party certification of responsible forest management, and the standards can be used as risk management tools. For these reasons we have adopted FSC certification as a target across our forestry investment funds. We also use the FSC standard as a due diligence tool for assessing ESG risks and capacity when exploring possible investments.

In addition, New Forests' investments may be certified to other forest standards that are appropriate for local regulatory, market, and operational contexts. Several of our Australian assets are dual certified for FSC and the Australian Forestry Standard⁷ (AFS), which is a Programme for the Endorsement of Forest Certification⁸ (PEFC) endorsed standard and important for domestic timber markets. In October 2014 the Tropical Asia Forest Fund's investment in Malaysia, Hijauan Bengkoka Plantations, achieved compliance with the Sabah Timber Legality Standard (G100-188 v03 December 2011). This standard and certification support the due diligence requirements for legal compliance to the Sabah Standard as part of the EU's Forest Law Enforcement, Governance, and Trade program (EU FLEGT). The Timberlink Australia business has also put into place measures to comply with Australia's Illegal Logging Protection Act, which entered into force in November 2014 and requires Australian timber processors to ensure the responsible sourcing of the raw materials they process, aiming to eliminate illegal logging in Australian supply chains.

Forest Stewardship Council

As noted above, New Forests pursues FSC certification wherever applicable for our forestry investments. New Forests is committed to supporting and improving the FSC through active membership,⁹ and so we seek to be proactive in engaging with other FSC members and FSC-convened working groups. Key issues of concern to New Forests include the development of an Australian standard and ensuring that the Principles & Criteria remain inclusive of responsibly managed plantations.

⁶ See <https://ic.fsc.org/> for more information.

⁷ See <http://www.forestrystandard.org.au/> for more information.

⁸ See <http://www.pefc.org/> for more information.

⁹ New Forests Pty Ltd and New Forests Asia (Singapore) Pte Ltd are members of FSC International, and New Forests Asset Management Pty Ltd is a member of FSC Australia.

FSC Australia Standards Development Group

In 2014 FSC Australia created the Standards Development Group, which is tasked with developing a consensus position for an FSC Australian National Forestry Standard and has provided input to the international generic indicators in support of the FSC Principles & Criteria version 5. New Forests has a representative on this nine-person group and is closely involved with the standard development, consultation, and outreach efforts. In addition, New Forests provided financial resources to support the standards development process and policy efforts of the FSC Australia organisation. The development of the standard is ongoing and will be a significant milestone for responsible forestry management in Australia.

Outcomes from the 2014 FSC General Assembly

In September 2014 the FSC held a general assembly, which is a meeting of voting members convened every three years. Among the outcomes of the general assembly were two successful motions that are materially relevant to New Forests' investments.

Motion 7¹⁰ approved wording changes to Criterion 6.9 on conversion of forests to non-forest uses. This will rectify a challenge that New Forests and other investment managers face when trying to economically rationalise land use and convert non-commercial existing plantation areas to non-forest use. The change is intended to convey that if the land was a natural forest immediately prior to plantation establishment, then the plantation may not be converted to non-forest use, whereas if the site was previously in a non-forest use (e.g. agriculture), then the site may be converted back to a non-forest use. The outcome of Motion 7 will help New Forests have greater management flexibility within the FSC standards without restricting the amount of land that can be converted back to agricultural use or sold. The change of wording may also be relevant in some Asian investments, because it provides flexibility to improve future site selection or to revert areas to local community usage or mixed agroforestry.

Motion 12¹¹ requires the fast-tracking of a review on policy in relation to plantations. This review will address the practical implications of the cut-off date for forest conversion. The "1994 rule" prohibits a company from being FSC certified if it converted forest to another land use after 1994. Although this may seem straightforward, the FSC definition of what constitutes a forest leaves room for interpretation. This unclear and subjective view of "what is a forest" makes it difficult to define what is and is not forest conversion. This in turn makes it difficult for investors like New Forests to determine if a plantation is eligible for FSC certification. Another challenge of the 1994 rule is that it effectively excludes a significant area of plantations from entry into the FSC, thereby limiting the organisation's reach. Another aspect of the policy review will focus on Criterion 6.10, which allows certification of post-1994 plantations if a majority or total ownership change has occurred. New Forests believes that Criterion 6.10 is important for the future of responsible plantation management as it enables new forest owners to improve the management and sustainability of plantation assets. This is true throughout the Asia-Pacific region, where significant areas of post-1994 plantations and degraded land occur.

IFC Performance Standards

The IFC Performance Standards (IFC PS) form an international benchmark for identifying and managing social and environmental risks and impacts, and are designed to help avoid, mitigate, and manage risks and impacts as part of sustainable business. New Forests uses the IFC PS as a component of our SEMS, in particular for assets where the standards can provide an additional risk management tool because of risk profile, the investment context, or the asset type. Together, the IFC PS cover all major areas of social and environmental management that can be material for investment risk and asset performance. In addition,

¹⁰ Motion 7 is available at: <http://ga2014.fsc.org/motion-updates-166.motion-07-changes-to-the-pc>

¹¹ Motion 12 is available at: <http://ga2014.fsc.org/motion-updates-168.motion-12-fast-tracking-the-implementation-of-motion-18-from-ga-2011>

the IFC PS have related sector-based technical Environmental, Health, and Safety Guidelines, including for Sawmilling and Manufactured Products, Board and Particle-based Products, Forest Harvesting Operations, and Pulp and Paper Mills. The technical guidelines provide an additional resource and tool for management of social and environmental risks. New Forests applies the IFC PS to investments in processing assets and to higher risk investments, such as plantations in emerging markets. In general, the guidelines align with the FSC standards, but in some cases the IFC PS may provide additional guidance to supplement FSC or be used in cases where FSC certification is not possible.

Throughout the reporting period, New Forests worked with the team at Timberlink Australia Pty Ltd, our first timber processing investment, to ensure that the company's systems and operations were compliant with the IFC PS. Given that investment was made into an existing company with a long operating history, New Forests opted to work with the senior management team to complete a gap analysis and review against the IFC PS and to create an action plan for closing the gaps. This included regular reporting to the Timberlink Board of Directors, and focused on opportunities to streamline social and environmental risk management through the company's Safety, Health, Environment, and Quality system (SHEQ). The process aligned with the revision of the SHEQ to encompass both of Timberlink's two sawmill sites, one in Tasmania and one in South Australia. The SHEQ revision also involved an update to internal audit procedures that support the management system requirements of the IFC PS. In addition, Timberlink will include bi-annual sustainability reporting to the company's board as part of the company's commitment to continual improvement and management review. Overall, as the first investment to complete the process of demonstrating compliance with the IFC PS, the Timberlink Australia investment represents a milestone for New Forests' SEMS and provides valuable learning that will be used to monitor sustainability in the asset and support IFC PS compliance in other New Forests investments.

Environmental Standards and Certifications

It is New Forests' approach that all environmental assets in which New Forests invests under a regulated regime must achieve compliance with social and environmental requirements as defined under the prevailing regulatory framework. In general, New Forests' investments in environmental markets should follow regulatory standards where available and only follow voluntary standards where no regulatory standard is available. However, in some cases the use of a voluntary standard may have commercial advantages or offer additional social and environmental safeguards if the regulated market is not well established or lacks rigorous safeguards. Currently, most of New Forests' investments or projects to commercialise ecosystem services are based on regulatory standards and programs, including improved forest management projects for the California cap-and-trade scheme, wetlands, stream, and nutrient banks under US mitigation banking rules, and water trading under government schemes in Australia. New Forests also manages the Malua Biobank, which is a conservation finance investment targeting biodiversity habitat restoration in Southeast Asia. As there is no applicable standard, the project is managed to a Conservation Management Plan with oversight by an Advisory Committee composed of NGO and academic specialists.

California Forest Carbon Offsets

New Forests' Forest Carbon Partners investment vehicle offers forest carbon offset project finance and development services to private forest landowners across the US. New Forests manages all aspects of project evaluation, development, registration, and credit sales, delivering improved timberland revenue to landowners and a reliable supply of high-quality offsets to California compliance buyers. All FCP projects target the regulated California compliance market, and so project development utilises the California Forest Offset Protocol for all new projects. Some early action projects may transition from other regimes already approved by the California Air Resources Board. New Forests successfully registered the first project to be wholly developed using the California regime's Forest

Offset Protocol, achieving registration, verification, and credit issuance. The FCP investment team has also successfully navigated other market firsts by registering the first projects on Native American fee land as well as Native American trust land (in 2015). These achievements are significant for growing the carbon market as well as supporting sustainable land management goals of Indian tribes seeking to improve forest management with the support of conservation finance.

Mitigation Banking

New Forests manages a portfolio of five mitigation banks in the US. All of these banks are accredited with mitigation banking instruments approved by the regulators within the US Army Corps of Engineers. While mitigation banking does not have a single project standard to use as a performance standard, the regulatory system on which the industry is based requires rigorous analysis, management, and monitoring of environmental impacts throughout the lifecycle of the mitigation bank. Significant planning and analysis go into the design and approval of a mitigation bank. These plans are approved in the entitlement of a mitigation bank, which is when the mitigation bank becomes legally operable through a mitigation banking instrument, which prescribes management measures.

New Forests' mitigation banks have continued to meet their required monitoring milestones through the reporting period and have passed regular monitoring assessments by the relevant agencies. The regulatory system and government oversight provide assurance that New Forests' wetland and stream banks meet high environmental standards for performance and achieve their intended outcomes.

The Pineywoods Mitigation Bank includes temperate forest and wetlands in Southeast Texas



Social and Environmental Impacts

In this section, we report on New Forests' management approach and impacts relating to material sustainability issues facing our business in the areas of biodiversity, climate/carbon, communities, and environmental productivity and land use.

Monitoring the social and environmental impacts of our investments is an important part of responsible business. By understanding the impacts of our business we can seek investment solutions that support positive social and environmental outcomes alongside economic returns. We want our impact monitoring and reporting to be useful and delivered in a context that is informative and relevant for our stakeholders. New Forests has identified a set of impact metrics using the Impact Reporting & Investment Standards (IRIS) developed and managed by the Global Impact Investing Network (GIIN). The metrics were selected for their relevance to material social and environmental impacts of New Forests' investments.

In total, New Forests manages more than 615,000 hectares, of which 378,377 hectares were in planted commercial timber crops as of December 2014. A total of 450,553 hectares is classified as sustainably managed on the basis of forest and land area that is in third-party certification schemes (FSC and/or PEFC) as well as all conservation investments.

IRIS Metric ¹²	Metric ID	ANZFF	ANZFF2	EPF	FCP	TAFF	All Funds
Hectares of Land Under Direct Control (inc. portfolio companies and property managers)							
Planted		252,967	114,115	-	-	11,295	378,377
Sustainably Managed	OI6912	259,574	114,115	7,848	-	19,169	400,707
Total Directly Controlled	OI5408	335,319	203,538	7,848	-	19,169	565,875
Hectares of Land Under Indirect Control (inc. third-party land)							
Planted	PI7403	-	-	-	-	-	-
Sustainably Managed	OI6912	-	-	34,000	15,846	-	49,846
Total Indirectly Controlled	PI3789	36	-	34,000	15,846	-	49,882
Total Land Managed		335,356	203,538	41,848	15,846	19,169	615,757

On the following page, we present metrics that cover conservation, restoration, and production characteristics and activities across New Forests' funds. In the rest of this section, we describe the context for these metrics and provide additional detail about key activities. Case studies are provided in the coloured text pages.

¹² Note: New Forests has reworded the metric names for clarity: the full IRIS Metrics are Land Directly Controlled: Sustainably Managed (OI6912); Land Directly Controlled: Total (OI5408); Land Indirectly Controlled: Cultivated (PI7403); Land Indirectly Controlled: Sustainably Managed (OI6912); and Land Indirectly Controlled: Total (PI3789).

IRIS Metric	Metric ID	New Forests' Funds
Type of Land Area		Forest land; Agricultural land; Water areas; Wetland
Conservation Priority Characteristics ¹³	PD3922 PD9009	<i>Ecology and Habitat:</i> Wilderness; Significant biodiversity; Critical habitat; Wildlife habitat; Land with shared boundaries to existing protected land
		<i>Public/Human Use:</i> Park, land for community recreation, and access to public lands; Natural or cultural features of outstanding/unique value; Open space; Working lands; Scientific value
		<i>Ecosystem Services:</i> Land that provides basic ecosystem services in critical situations; Land providing other ecosystem services
Ecosystem Services	PD8494	<i>Provisioning Value/Services:</i> Biological raw materials; Freshwater
		<i>Regulating Values/Services:</i> Maintenance of air quality; Regulation of climate; Regulation of water timing and flows; Erosion control; Maintenance of soil quality; Pest mitigation; Pollination; Natural hazard mitigation
		<i>Supporting Values/Services:</i> Habitat, Nutrient cycling; Primary production; Water cycling
		<i>Cultural Values/Services:</i> Recreation; Educational and inspirational values

IRIS Metric	Metric ID	Units	ANZFF	ANZFF2	EPF	FCP	TAFF	All Funds
Restoration and Conservation Activities								
Protected Land - Permanent	PI3924	ha	5,274	3,335	41,848	-	57	50,514
Protected Land - Total	PI4716	ha	5,273	75,998	41,848	6,412	383	129,914
Land Reforested ¹⁴	PI6885	ha	278	-	-	-	120	398
Streams Restored ¹⁵	PI4907	km	23	-	90	-	-	113
Ecological Restoration Management Area ¹⁶	PI9556	ha	113	-	41,848	15,846	-	57,807
Certified Forestry and Production								
Certified Area	New Forests	ha	194,761	181,386	-	-	19,169	395,316
Certified Timber Products Produced	New Forests	tonnes	2,387,317	200,000	0	0	334,000	292,1317
Trees Planted - Commercial	PI4127	ha	5,792	1,216	-	-	1,975	8,983
Carbon Storage and Credits								
Carbon Offsets Issued	New Forests	tCO ₂ e	-	-	-	791,060		791,060
Carbon Stored - Plantations	New Forests	tonnes	16,158,100	8,272,100	-	-	438,174	24,868,374
CO ₂ e Stored - Plantations	New Forests	tCO ₂ e	60,246,300	30,330,700	-	-	1,606,638	92,183,638

¹³ Conservation priority characteristics for each investment are described in detail in the forest management plans (forestry), offset project listing documentation (carbon projects), and mitigation banking instruments (mitigation banks).

¹⁴ Note: New Forests has only included lands that were reforested to native species and not intended for future harvest; i.e. natural forest restoration. This does not include areas of plantation that were replanted.

¹⁵ Stream restoration in EPF includes the full length of streams within the stream banks. Stream restoration in ANZFF includes streamside reserve restoration activities. Data not available for all funds.

¹⁶ Examples of ecological restoration management include native species planting for biodiversity habitat; removal of tree seedlings from streamside reserves; fencing of sensitive species habitat; and other activities described in this report.

Biodiversity

Biodiversity encompasses the diversity of genes within species, the diversity of species, and the diversity of the world's ecosystems. The maintenance of biodiversity is an important consideration in managing the forests we invest in and of the conservation projects we develop and manage. Our business involves managing a wide range of natural and semi-natural ecosystems and intensively managed plantation systems. As our investments are located in geographically and biologically diverse areas, our operational activities present a range of possible biodiversity impacts. Biodiversity management is explicitly included within all the third-party certification schemes and standards used by New Forests, including forest certification standards, the IFC PS, and regulatory standards for mitigation banking and carbon offsets. The principles, criteria, and requirements of these systems form a minimum standard for managing biodiversity across our investments.

High Conservation Value Areas

The High Conservation Value (HCV) approach¹⁷ is one of the leading tools for responsible land management and is a key component of New Forests' certification guidance and many sustainability standards schemes. The HCV approach was developed by the Forest Stewardship Council and assesses biological, ecological, social, and cultural values across six HCV types, covering a range of conservation priorities. Through the approach, outstanding or significant HCVs can be identified, managed, and monitored such that the HCVs are maintained or enhanced. In our forestry investments, HCVs are incorporated within forest management plans developed by property managers and portfolio companies. HCV areas are an important focus for maintaining and enhancing biodiversity values alongside commercial plantation forestry.

In Australia, HCV areas are managed in order to maintain and promote conservation values as part of the forest management plans for each estate. Within the Forestry Investment Trust estate one of the key activities throughout the reporting period has been ongoing fencing programs that help protect HCV areas by excluding livestock from areas where disturbance and grazing may adversely affect the area. PF Olsen (Australia) Pty Ltd as property manager has successfully secured additional financing to support the projects, which are targeting around 370 hectares of HCV protection through fencing regimes on six properties. In addition, the company has also engaged in improving conservation areas by removing wildlings and enforcing protection measures on areas of remnant vegetation, for example by seeking to eradicate illegal firewood clearance and uncontrolled access.

Also in Australia, streamside restoration activities in the Taswood Estate have shown significant achievements in promoting ecosystem function and conservation values. In the South Esk Catchment, the property management company Timberlands Pacific Pty Ltd has continued a multi-year effort to remove pine wildlings from streamside reserves; supplementary native eucalypt plantings are also completed in some cases. In the FY2014, approximately 107 hectares of streamside reserves were treated. This allows existing native vegetation to regenerate, and where needed additional native eucalypts are planted. The restoration area has significant scale and includes more than 23 kilometres of streams in 11 major catchments. The work was supported by a grant from NRM North, the regional natural resource management agency for northern Tasmania. The project is part of a regional effort to reduce sedimentation in the Tamar Estuary. These restoration and native plantings at the Taswood Estate are an important means to address problematic erosion in the region, and also reintroduce native vegetation corridors in the riparian areas. Under the restoration project, buffers of between 10 and 40 metres now border all major streams. These buffers stabilise stream banks and provide resilience against severe storm incidents. The restoration works at the Taswood Estate are part of an ongoing commitment to improve ecosystem function and support regional conservation initiatives.

¹⁷ See <http://www.hcvnetwork.org>.

Protected Areas

Across all of our investment funds, New Forests maintains more than 133,000 hectares of protected area, which represents nearly 21% of the area of land and forests we manage. The status of conservation areas can vary depending on the type of area, the management objectives, legal requirements, and long-term land use opportunities. Protected area status also depends on the management strategies in place and local context. New Forests makes a distinction between areas that are informally protected based on current management regimes and those that can be considered permanently protected based on easements, covenants, or regulatory restrictions and/or requirements.

In New Forests' Australian and New Zealand estates, we consider conservation of all HCV areas as part of FSC certification requirements, and remnant vegetation areas are treated as protected areas. This is owing to requirements to manage these areas for the maintenance and promotion of high conservation values and/or restrictions on the ability to use the land for plantation activities. In some cases, HCV areas may be considered permanently protected, particularly if the area is designated as a forest reserve or if there are legislative requirements to maintain the area as a set aside. In September 2014, the ANZFF2 fund and co-investors acquired a plantation estate in Tasmania, which includes around 75,000 hectares of set aside area. The vast majority of this area is native forest that had been previously logged and which will not be harvested under New Forests' management. The management company Forico is investigating sustainable management options to support the protection of this significant area of Tasmanian native forest.

In Southeast Asia, protected areas include government-classified forest reserves as well as long-term conservation areas that are included in HCV maps and operational plans. New Forests' largest contiguous protected area is the 34,000-hectare Malua Biobank located in Malaysian Borneo; the forest reserve in which the biobank is located was re-classified as a Class 1 protected forest designation in 2013, following investment by the Eco Products Fund that transitioned the forest from commercial logging to conservation management.

In the United States, protected areas are pivotal to the conservation investments we manage. Under the regulatory framework for California Carbon Offsets, all forestry projects in our Forest Carbon Partners portfolio have long-term conservation management requirements that protect the forest area. The mitigation banks managed as part of the Eco Products Fund likewise are protected under conservation easements and will be managed under long-term stewardship agreements with perpetual conservation objectives. In 2014 the first of the EPF mitigation banks was transferred to the management of the long-term steward, marking a milestone for the fund.

View across Forico's Surrey Hills estate, which includes both protected area and plantation



MITIGATION BANKS AND PERPETUAL CONSERVATION

Mitigation banking most often involves the restoration of environmentally degraded sites to provide wetland, stream, or habitat benefits. To ensure lasting ecological outcomes from mitigation banks, there is typically a requirement for long-term stewardship of the site. In September 2014 New Forests secured the first such agreement for one of the Eco Products Fund's mitigation banks through an agreement with the Red-tail Land Conservancy of eastern Indiana. The agreement will ensure the future protection and on-site management of the Central Indiana Mitigation Bank, a 29-hectare area of former marginal farmland that has been restored to natural seasonal emergent and wooded wetlands through hydrological works, native tree plantings, and conservation management. The fee title for the Central Indiana Mitigation Bank has now transferred to the Conservancy and long-term maintenance of the site will be supported by a perpetual trust funded by mitigation credit sales. Long-term stewardship arrangements are a vital part of ensuring that the mitigation benefits created by a mitigation bank are permanent and sustainable over the long run. We spoke with Barry Banks, Executive Director for the Red-tail Land Conservancy, to learn more about why his organisation entered into the new stewardship agreement and the importance of the Central Indiana Mitigation Bank in regional conservation efforts.

First, can you tell us a bit about the Red-tailed Land Conservancy?

The Red-tail Land Conservancy is a local, not-for-profit land trust with a mission to preserve, protect, and restore natural areas and farm land in east central Indiana while increasing awareness of our natural heritage. We began in March 1999 and to date hold title to 10 nature preserves and hold 19 conservation easements that permanently protect 2,450 acres (991 hectares).

What is the importance of the Central Indiana Mitigation Bank in local conservation efforts, and how does increasing the area of land you manage for conservation help?

This site is located at the northern end of a most significant glacial outwash valley that provides significant potential for hundreds of acres of wetland restoration. East central Indiana has lost 90% of our natural areas to residential, industrial, commercial, and agricultural development. Because of this huge loss of wildlife habitat, it is important to preserve what is left and start restoring natural areas, which will help maintain clean air and water.

How does stewardship of the Central Indiana Mitigation Bank help meet your strategic objectives?

Permanently preserving this site and all natural areas is the core of our mission...it's what we do. It's how we contribute to the quality of life of our community.

How will the Red-tail Land Conservancy manage the site over time?

We will allow the site to recover as a wooded wetland. Our main operational focus over time will be centred on continuing efforts to eradicate non-native plant species, which can be an ongoing concern in this area.

What are some of the benefits the local community can anticipate from your management of the Central Indiana Mitigation Bank?

Restoring natural areas helps maintain current levels of air and water quality. It enables us to offer opportunities to volunteers who will perform stewardship activities and thereby reconnect with nature.

New Forests would like to thank Barry Banks and the Red-tail Land Conservancy for their support and partnership in providing perpetual conservation management for the Central Indiana Mitigation Bank.

Wildlife Management

Management of wildlife populations is an important consideration for both forest management and conservation projects. There are opportunities to manage plantations and conservation areas for improved wildlife habitat and to support species conservation initiatives. It is also an obligation of responsible business practices to minimise and avoid any adverse wildlife impacts. Management of wildlife impacts is generally controlled for our forestry assets through the forest management plans and operating procedures in place as part of certified forestry operations.

Identifying Key Species

An important step in wildlife management is to first assess and identify the key species present in the management area. Typically, species will be identified as part of an environmental impact assessment or in order to meet standards requirements. In some cases, this may be more difficult than others, particularly where species diversity is high and includes rare and threatened species.

To improve understanding and management of wildlife in the area of the Hijauan Group in Sabah, Malaysia, in 2014 a new effort to ground truth and re-assess HCV areas was started with a focus on species identification. One of the focal areas included wetlands located in the north of the concession area, where the company together with experts from the Sabah Museum, completed a survey of priority wetland, stream, and riparian areas in order to re-classify HCV status and document species occurring in the area. The team found a total of 80 species in the survey, including five that are listed as vulnerable by the International Union for Conservation of Nature (IUCN). As a result of the project new management and monitoring recommendations were created in support of the company's commitment to maintaining or improving areas of conservation value.

Monitoring Activities

Once species are identified, responsible managers should seek to implement monitoring procedures, particularly where this can help improve understanding of the impacts of operations on species behaviour and habitat use. As a further example from our Southeast Asian investment program, the Hijauan Group also commenced an improved wildlife monitoring program in 2014. This program includes long-term wildlife monitoring using camera traps to capture images of wildlife in key operational and conservation areas. The areas were chosen based on recommendations of a strategic wildlife plan and will help assess patterns of species abundance over time and space. In 2014 six new camera traps were acquired for the program, and over the first six months to December 2014 nine sites were sampled. The cameras successfully captured 23 species, including 17 species of mammals, five species of birds, and one reptile species.

As the camera trapping program continues, the Environment Team will seek to include the whole operational area. The camera traps provide a very efficient way to supplement wildlife surveys. For example, the camera traps will be used for monitoring of rare, threatened, and endangered species in HCV areas, including the natural forest area known as Wasoi in the concession.



Securing a camera for wildlife monitoring at the Hijauan Bengkoka Plantations estate

KOALA MANAGEMENT IN PLANTATIONS

Koalas are an important and iconic part of the Australian landscape. The koala's food source is native eucalyptus forest, and over the past 15 years the expansion of hardwood plantations has led to koalas' population growth in some parts of Australia, particularly in the Green Triangle region of Victoria and South Australia. Concurrently, as a result of the general increase in koala numbers in the Green Triangle region, the likelihood of koalas being present in plantations has increased. Forestry companies are now implementing practices that minimise the impact on koalas from forest operations in both hardwood and softwood plantations. Koala protection requires a collaborative effort and planning at the regional level, as plantations are just one part of the mosaic landscape in which koalas may be present.

As a forestry investment manager, New Forests contracts with specialist property managers that are responsible for the operational management of our plantations. Together, we are committed to koala protection measures that include:

- Ensuring forest management and harvesting activities on our estate avoid injury and harm to koalas;
- Following the highest standards for koala management, including participating in a regional planning forum working to establish and implement best practice guidelines;
- Supporting the ongoing research and understanding of koala management issues in plantation landscapes; and
- Working closely and transparently with other stakeholders, including industry, government, and wildlife carers.

The koala management issues we face in our business present a unique opportunity for business, government, and public stakeholders to collaborate to address an environmental issue in need of innovative solutions. For example, on our estate in 2014, we commenced using specially trained dogs that sniff out koalas and support the work of trained koala spotting personnel. These efforts are part of a set of koala management steps taken to identify and protect koala populations in both silvicultural and harvesting operations. Over the long term, we hope the koala behavioural research we are supporting will help guide the continual improvement and efficacy of these protection measures.

Surveying a blue gum eucalypt stand in Victoria, Australia



Management Activities

Forestry and conservation investment include opportunities to engage in targeted wildlife management efforts that support responsible forestry and environmental compliance. New Forests also works with property managers and portfolio companies to improve wildlife habitat on our estate as part of an integrated landscape of conservation and production. Examples of stewardship projects identified or started during the past 18 months include:

- Fencing off conservation areas with sensitive or threatened species, such as the Sunset Frog in Western Australia – on the Forestry Investment Trust land, 45 hectares of frog habitat has been protected by fencing, which will prevent disturbance and damage from livestock;
- Restoring stringybark eucalypt habitat to promote conservation of the South-eastern Red-tailed Black Cockatoo, as described below;
- Behavioural study of the Wedge-tailed eagle in Tasmania to understand the relationship between eagle behaviour and forestry activities; and
- Behavioural study of koalas in plantations, along with other industry partners, to support enhanced koala management protocols.

Wildlife management and research activities like those above require strong support from the local property management teams, together with other stakeholders. New Forests believes these types of collaborations are important components of ensuring forest management and timber production helps support regional conservation goals and aligns with the interests of our clients and other stakeholders.

COLLABORATING TO RESTORE COCKATOO HABITAT

The South-eastern Red-tailed Black-Cockatoo (*Calyptorhynchus banksii graptogyne*, or “RTBC”) is only found in southeast South Australia and southwest Victoria. With an estimated population of only around 1400 birds, the RTBC is in danger of extinction. In 2014 and continuing to 2015, New Forests’ plantations in the Green Triangle are partnering with the RTBC Recovery Team to improve bird habitat on plantation conservation areas and support the research programs of the Recovery Team across the Green Triangle. The conservation projects on New Forests’ plantations address two of the RTBC’s key challenges from habitat destruction – restricted food supply and lack of viable nesting sites.

The conservation project commenced on the Penola Plantations softwood estate in 2014. The plantation managers, Timberlands Pacific, collaborated with the RTBC Recovery Team to enhance native vegetation and install nest boxes. This project focuses on stringybark habitat in three areas of native vegetation totalling 5.7 hectares. In total 150 stringybark seedlings were planted, which will be a future source of food seeds for RTBC and other native fauna. The seedlings are protected with mesh and plastic guards to safeguard the young trees from browsing by kangaroos. The team also installed 12 nest boxes made from natural hollow logs, which were kindly donated by Naracoorte Skyworks. These boxes mimic the natural tree cavity holes used by breeding pairs.

The 2014 restoration activities are just the beginning. Property managers will monitor the nest boxes and continue to record red-tailed black cockatoo sightings as part of their ongoing wildlife monitoring. The effort will also continue at another New Forests plantation in 2015.



Pair of Red-tailed Black Cockatoos
Photo courtesy of Bob McPherson.

Climate and Carbon

Carbon management has become a prominent conservation issue in the finance sector and is an increasingly mainstream investment consideration. There has been a steady and growing movement of institutional investors seeking to de-carbonise their portfolios. For example, some superannuation and pension funds have made announcements that they will divest from fossil fuel investments. Other institutional investors are taking a best-in-class approach and investing in low carbon indices to reduce the carbon footprint of their portfolios while maintaining cross asset class exposure and balance. The debate on de-carbonisation is going strong, and what is clear is that investors are recognising and beginning to manage the carbon risks of their investments. The forestry asset class may be particularly attractive to investors who are seeking to make climate positive investments.

New Forests' business addresses climate change impacts both directly and indirectly throughout each of our investment strategies. We have been active and early proponents of the inclusion of forestry-based activities in the response to climate change, advocating at policy levels ranging from state, to federal, to international. Beyond that, our investments have real and tangible impacts on terrestrial carbon sequestration and storage, which is essential for mitigating climate change. New Forests views our material climate change impact as being the storage and sequestration of carbon in the forests we manage as timberland investments and the carbon offsetting benefits of our forest carbon offset projects. In the following sections, we explore how our investments contribute to climate change mitigation and the quantified carbon impacts of our investments in 2014.

Carbon Storage in Plantations

In plantations, carbon is sequestered as trees grow and long-term storage benefits accrue both in the plantation and in harvested wood products. In this report, for the first time we provide a public statement of the carbon stored in our plantation forest investments. On page 21, we report on total carbon stored and carbon dioxide equivalent as at the end of December 2014, accounting for the amount of carbon stored in the plantation trees across our ANZFF, ANZFF2, and TAFF investments. We have used conservative assumptions in our calculations, which are built off of plantation estate models; for example, we have excluded remnant vegetation, native forest conservation areas, and residual biomass on site. In this way, the values are a conservative estimate of the cumulative carbon storage of each plantation's managed productive area. Note that the total carbon stored is not a net value or flux statement, i.e. it does not account for changes year to year. This carbon calculation is a first step in monitoring the climate related impacts of our plantation investments, and we aim to move toward an annual net carbon flow in the future.

A recently replanted area of pine in Penola Plantations



Forest Carbon Offset Projects

In forest carbon offset projects carbon benefits are verified and sold for use to help businesses meet emissions reduction goals and/or compliance requirements. New Forests has been active in forest carbon markets since our establishment in 2005. Currently, the company is only developing and managing carbon offset projects for regulatory carbon markets. All of our current projects are focused on the California carbon market, where the regulatory framework and market conditions provide a robust environment to support private investment in carbon offsetting activities. New Forests also monitors and engages with carbon policy issues in Australia and New Zealand, where government-run carbon markets can include forestry activities, and there is potential scope for our plantation estate to be managed jointly for timber and carbon values. In Southeast Asia we consider voluntary carbon markets where they may complement plantation management.

Forest Carbon Partners invests in the development of high-quality carbon offsets for the California carbon market. In addition to providing quantifiable carbon abatement, the projects financed through Forest Carbon Partners provide many associated co-benefits to landowners and local communities. 2014 was a momentous year for Forest Carbon Partners as the fund successfully saw its first project through registration, verification, and issuance of California Compliance Offsets (CCOs). This was a milestone for the California market overall as well, because this project was also the first-ever forestry project to be developed using the California regulatory protocol and developed completely within the new cap-and-trade scheme. The project is known as the Yurok Tribe/Forest Carbon Partners CKGG Improved Forest Management Project and encompasses 7,660 acres of Douglas-Fir and mixed hardwood forest near the Klamath River in Northern California.

During the reporting period, Forest Carbon Partners launched its second phase, which is an expanded investment program targeting over 100,000 acres of North American forests. As of December 2014, Forest Carbon Partners has registered three projects on private and tribal forestlands in the United States and has listed an additional six forest carbon offset projects for the California greenhouse gas emissions trading system. Forest Carbon Partners' first projects were issued nearly 800,000 CCOs in 2014.

MORE THAN COUNTING TREES – VERIFICATION OF CALIFORNIA CARBON PROJECTS

The goal of California's AB32 legislation is to reduce the state's emissions to 1990 levels by 2020. Forest carbon projects are one type of approved offset project that can help meet this goal. The California Air Resources Board (ARB) is the regulatory agency that administers the cap-and-trade program and has responsibility for the offset protocols, project registration, and ultimately, credit issuance.

The protocol is designed to ensure a high level of environmental integrity for all offsets that enter the California scheme. The regulator approves third-party verifiers who review projects on paper, in models, and in the forest. Sample plots in the forest are used to measure trees and account for growth over time, which can be converted into the amount of carbon dioxide equivalent (CO₂e) that has been stored in the forest over time.

Demonstrating that offset projects can meet the strong environmental and social criteria required by the protocol is no small task. Because carbon offsets must meet high standards for the California market, the verification process required third-party auditing of the project. All verifiers must be approved by the ARB.

The Yurok Tribe/Forest Carbon Partners project was the first forestry offset project to meet this hurdle, achieving verification and credit issuance in 2014. The ARB released a video about the verification process and how the protocol works, which was filmed in the forest at the Forest Carbon Partners project site on the Yurok Tribe's land in Northern California. To learn more about the project, the offset protocol, and verification process, see the video online at the following URL:

<https://www.youtube.com/watch?v=vleZXmuZ9Bw#t=166>.

TIMBERLINK SAWMILL UPGRADE – INVESTING IN EFFICIENCY

Timberlink Australia is a leading national supplier of timber products across Australia and is owned by New Forests' Australia New Zealand Forest Fund (ANZFF). The company operates two high-quality sawmills in Bell Bay, Tasmania and Tarpeena, South Australia that manufacture plantation pine products and are the primary customers for ANZFF's softwood plantations. In July 2013, New Forests and Timberlink announced the approval of a significant capex upgrade to the Tarpeena facility, which now totals an AUD 20.5 million investment plan spanning three years of upgrades. To support the upgrade –which will increase capacity and efficiency at the mill – Timberlink was awarded an AUD 7.8 million from the South Australian Government's South East Forest Partnership Program, which seeks to promote a viable and competitive timber sawmilling industry.

The Tarpeena upgrade will enable the mill to increase processing volume from 460,000 to 570,000 cubic metres annually while also improving productivity and lowering manufacturing costs. Improved energy efficiency and timber recovery mean that the business will waste less and create more.

As of December 2014, the upgrade was already halfway to completion and further installations took place over a shutdown at the Christmas break, including ground works for a world-class continuous flow kiln that reduces energy and allows continuous production thereby reducing wasted heat energy used in drying the timber. A new timber planer was also installed which will be the fastest, most energy and fibre efficient planer operating in the Australian market. In addition, a new fuel handling and extraction system was installed along with a new fuel shed. These elements increase the use of thermal energy to dry more timber while reducing greenhouse gas emissions. Other upgrades include new planers that optimise throughput in planing and enhanced wood flow systems. The end result will be a mill that runs more efficiently, produces more timber, decreases the waste of timber and heat energy, and has lower per-unit energy requirements.

The upgrade benefits not only the sawmill but also the Tarpeena community. More than 195 local contractors have worked on the project, and more than AUD 3 million has been reinvested into local businesses. The upgraded capacity of the plant will also mean increasing employment in the mill's full-time staff. The professionalisation and upgrade of the site means that the Tarpeena sawmill will be at the forefront of Australian sawmilling technology.

Investing in infrastructure and processing capacity is important for the viability and stability of forest supply chains. Timberlink Australia has distinguished itself as a premier provider of Australian-grown plantation timber products, dedicated to its customers and benefiting from the strong relationship between the forest resources and the mill.

Workers oversee the grader at Timberlink Australia as it sorts timber to meet product specs



Communities

Investing in forestry and environmental markets can present a range of issues of concern to local communities. The people who live in and near the assets we manage are key stakeholders in our business, because they may be employees, have traditional rights or uses of forestry areas, or be affected by operations like timber harvest, truck traffic, or pesticide usage. Communities may also be downstream water users or have dependencies on infrastructure and community services provided by our investments. As a core component of our SEMS, social considerations are identified and managed within all of our investments. Beginning with due diligence, we seek to identify potential or current social issues that may require risk mitigation or special attention in investment structuring and asset management. After we make an investment and throughout the ownership of an investment, New Forests seeks to support positive social outcomes for communities and other stakeholders. While our investment strategies may have very different types of impacts on local communities, we find engaging with local communities to be one of the most important management factors in all of our investment strategies.

Australia and New Zealand

In Australia, New Forests is now one of the country's largest timberland managers with more than 550,000 hectares of land and plantations under the ownership of investment trusts managed by New Forests. This effectively makes the company a significant private landowner in Australia,¹⁸ and in several local government areas New Forests would be the largest, or among the largest, landowners. As a major landowner, New Forests' management activities drive local employment, infrastructure, land taxes for local governments, and even innovation, research, and small business opportunities. Community engagement activities are principally undertaken by our third-party property managers and overseen by New Forests' Australian stewardship manager. These activities ensure our management is transparent and that appropriate disclosures are made in a timely and accessible manner.

As New Forests works has extensive operations across Australia, we encounter a variety of sustainability issues that are of high importance and impact for regional Australian communities, such as stable employment opportunities, land and food security, and the economic health of rural Australian communities. By undertaking high-quality forest management, we provide services such as pest and weed control, fire risk reduction, and fire management that promote environmental health and support regional safety and community objectives. These activities are well aligned with achieving positive forestry outcomes as well as being a good neighbour.

We believe that by managing forestry investments well, our business will continue to support local communities. For example, our two portfolio companies in Australia contribute to both direct and indirect employment, including more than 400 employees in the softwood sawmills of Timberlink Australia. Approximately 20 new jobs were created through an initiative to upgrade the Tarpeena sawmill, which will expand processing capacity by 25%. As another example, through our investment in Forico, acquired in September 2014, New Forests ensured continuity of employment for employees and provided security for the more than 150 contractors who provide services to the business. Additional infrastructure upgrades, such as the AUD 9 million Surrey Hills mill re-commission, and plans to ramp up planting, harvest, and haul will increase Forico's impact on local employment and indirect economic effects.

New Forests' ANZFF2 investment fund acquired assets in the North Island of New Zealand, commencing in 2014. This represented a re-entry of New Forests as an investment

¹⁸ Note that New Forests itself does not own land in Australia, but rather is the manager of investment trusts that own land and other assets.

manager into New Zealand. While these current investments are on privately-owned land, we recognise that Iwi populations of New Zealand are important traditional owners of much of New Zealand's forest and agricultural land. We believe our approach to community relations and social and environmental management are important as we continue to expand our investment footprint in New Zealand.

Southeast Asia

Inclusion of social strategies and community engagement has been a priority for our Tropical Asia Forest Fund since the fund's inception in June 2012. Many tropical timber plantations have indigenous and local communities living in or near them. Best practice includes the process of obtaining free, prior and informed consent (FPIC) from affected communities before establishing new plantations and ensuring local communities' rights are respected and upheld where plantation companies are already operating. The right to FPIC is recognised by intergovernmental organisations, international bodies, conventions, and international human rights laws, and there are a number of FSC-certified forestry operations in emerging markets that have obtained community consent. New Forests includes detailed legal review of land tenure and stakeholder consultation including with all relevant indigenous peoples' groups and NGOs as part of due diligence.

TAFF is the first fund dedicated to institutional investment in Southeast Asian plantations, and it is no surprise that we continue to encounter a range of social issues in potential investments. For example, issues identified in the pipeline assets through initial assessment and due diligence include lack of FPIC, unclear land tenure and land claims, illegal land appropriation by companies, encroachment into concession areas, poor communication and lack of engagement on behalf of the companies, corruption, and concerns about availability of forest resources for subsistence and commercial use. In New Forests' experience issues like these can usually be identified early and managed responsibly, but to do so requires extensive resources. The TAFF team includes a full-time ESG Manager, and we work together with local non-profits and consultants to address community issues in support of equitable and stable community relations. As an example, our initial TAFF investment into the Hijauan Group of Sabah, Malaysia has included management focus on community relations, land encroachment, and land use mapping. Through community engagement efforts such as this, responsible investment in the forest sector can align the interests of investors, including the stability and success of the investment, with the long-term interests of the communities that live in or near the forests that we manage.

A woman tapping rubber at a private rubber smallholder estate near the Hijauan Group



SETTING THE STAGE FOR ENGAGEMENT – SOCIAL BASELINE CASE STUDY

Community engagement is a top priority for New Forests' Tropical Asia Forest Fund. Since acquiring a majority interest in Hijauan Bengkoka Plantations (HBP) in 2013, New Forests has worked with the company and its partners to lead a collaborative community engagement program. This includes cooperation with Acacia Forest Industries (AFI), which is 50% owned by HBP and 50% owned by the Sabah Forestry Development Authority (SAFODA). Through this partnership, HBP, AFI, SAFODA, and New Forests seek to address longstanding community land tenure concerns in the region, to secure the plantation boundaries, and to work toward effective community engagement and development opportunities. Throughout 2014 the project worked through its initial phase, a social baseline survey, which has set the stage for further development planning and possible partnerships with communities.

Here we explore what the social baseline survey included and what's next for the community engagement program.

What's a social baseline survey?

The survey uses in-person interviews to gather information about communities' livelihoods, social structures, and land management practices. The survey was conducted by a team of local social scientists and the HBP and AFI community liaison officers. The information helps New Forests and the companies understand the village and household demographics at the start of our investment and will provide a basis for future community engagement and monitoring and evaluation.

How is the social baseline used?

The baseline was used to map the communities' livelihoods, how they are structured, their land management decisions, and possible vulnerabilities they face. The baseline survey and process was also an opportunity to foster trust and establish a working relationship with the communities. Finally, the process also allowed the companies to explain future plans for the plantation and how we would like the communities to be part of those plans.

Who participated in the survey?

The survey process is entirely voluntary and included interviews with village leaders and households. First, meetings of leaders from all communities in the area were convened so that the purpose, objectives, and timing of the survey could be presented. Then village visits and interviews were conducted. A staged approach was used so that all 63 villages were surveyed during 2014.

How will the plantation companies use the baseline information?

The survey process was important in understanding the community needs and concerns, establishing trust, and preparing for future working relationships with the communities. The information will be used in engagement activities that will build partnerships with the communities, which will help us with our future operational planning.

What's next for the community engagement program?

Throughout 2015, the program will move into an engagement phase, which will focus on participatory mapping that documents community land use locations and will improve understanding of current and future land use needs. Community perceptions of their rights to land use have not been well documented for the area previously, and this provides an opportunity for social inclusion in a new way that can support responsible management of the plantation and help communities secure their land rights.

United States

In the United States, the land-based footprint of both mitigation banking and forest carbon offset projects requires consideration of the role of these investments in local communities. The environmental markets projects we undertake and manage in the US must fit within regional land use planning goals and typically provide ongoing benefits to local communities through the provision of important ecosystem services. In some cases, the projects themselves deliver direct benefits through enabling communities to meet wider objectives for regional planning, recreation, development, and land use.

New Forests' Forest Carbon Partners investment program has continued its focus on partnering with private landowners, non-profits, and Native American tribes to develop forest carbon offset projects on US forestland. One of the key social benefits of FCP is the ability to provide conservation finance to communities seeking to fund long-term conservation management, secure open space, and protect natural ecosystem services that benefit direct users and local communities.

Throughout 2014 FCP successfully registered its first three carbon projects, two of which are projects with Native American tribes and one which is located on a family-owned forest, passed down through generations. New Forests also has two projects underway in the state of Maine with a New England land trust. These two projects include priority conservation areas that include coniferous and hardwood forests and provide habitat to iconic wildlife such as the bald eagle and black bears. Through our partnerships with these individuals, organisations, and communities, the FCP program supports community conservation goals as well as provides access to revenues that support sustainable economic development. Carbon finance provides these partners an important tool for enabling sustainable land management.



CARBON FINANCE AND THE ROUND VALLEY INDIAN TRIBES' PLANS FOR A HEALTHY FUTURE

New Forests' Forest Carbon Partners fund successfully registered a project with the Round Valley Indian Tribes in Northern California in 2014. The project encompasses 5,550 acres of Douglas-Fir and mixed hardwood forest on the Round Valley Indian Tribes' reservation in Northern California. By registering the Improved Forest Management project and selling carbon offsets in the California cap-and-trade system, the Round Valley Indian Tribes have made a commitment to maintain current forest carbon stocks and to manage the forest for both increased carbon sequestration and sustainable timber production. The project has generated significant revenue for the Round Valley Indian Tribes, assisting in the protection of their forest for future generations and supporting the Tribes' continued management of their ancestral homeland.

"This is an excellent opportunity for our Tribe to move ahead with economic development ventures and continue to improve our forest management systems" said James Russ, President of the Round Valley Indian Tribes. Joe Dukepoo, Round Valley Tribal Councilman who also served as the Round Valley Indian Tribes Vice-President during the development of the project, said, "We are proud to be a leading Tribe in the innovative carbon market that reinforces our goal of sustainable forestry to maintain levels of wildlife, native plants, fish, clean water, and reduced fire threats. This project is also in line with the Tribes' mission to ensure that our future generations enjoy the benefits of a healthy forest."

Forest Carbon Partners project site in Northern California

Environmental Productivity and Land Use

New Forests cares deeply about the efficient and productive use of the more than 615,000 hectares of forests and land under our management. The majority of our assets under management are timber plantations grown on sustainable harvest regimes that provide wood products that might otherwise come from native forests. In this way, we help alleviate pressure on native ecosystems while sustaining the production of goods.

Furthermore our investments use intensive plantation management that aims to improve plantation yields, health, and stability while also taking into account the sustainability of the plantation system. Professional forestry investment has increasingly adopted an approach to highest and best use (HBU) management that recognises that forestry may not always be the most economically beneficial use of land. In New Forests' Australian hardwood plantations, HBU analysis is used in determining a core forestry estate versus areas where we believe plantation forestry is not the most rational use of the land, based on a combination of economic, social, and environmental factors. For more information about the considerations in reversion planning, see the case study on the following page.

Conservation investments are growing worldwide as investors now recognise there can be a financial benefit from investing in the conservation of land. New Forests' investment program in the US is leading in this area, with a combination of mitigation banks and forest carbon projects that deliver value from the maintenance and promotion of environmental services, where these land uses represent the highest and best use of the land.

Ultimately, New Forests' investments must account for the context of land use competition and the need to enhance productivity on managed lands while protecting areas of high conservation value. We believe that over time land use must become increasingly rational from both a productivity and conservation standpoint, and we aim for our investments to demonstrate high standards of environmental productivity as well as play a role in sustainable, well-managed landscapes.

Australian plantations are often mixed with agricultural land, including pasture and cropland



REVERSION TO AGRICULTURE CONTRIBUTING TO PRODUCTIVITY IN THE LANDSCAPE

New Forests uses reversion, or the process of converting plantation areas back to previous land use, as part of seeking highest and best use across our Australian hardwood plantations. The decision to revert a property to agriculture is based on a combination of economic, environmental, and social factors, and is ultimately based on whether or not the property is suited to long-term plantation management. Reversion is now commonplace in forestry investment in Australia owing to the ongoing rationalisation of the hardwood estate, which expanded onto marginal plantation areas from the late 1990s into the 2000s.

Reversion can include a variety of management activities as part of preparing the property for agricultural use. The starting point for reversion ranges from underperforming or failed plantations to second rotation plantations that are in early states of regeneration, known as coppice, which is when a new tree stem grows from a stump after harvest. New Forests has tested several methods for reversion, taking into account cost effectiveness and managing social and environmental impacts of the reversion activities. The optimal reversion choice depends on the site and on the desired future land use. For example, one type of reversion uses ground-based spraying to halt coppice regrowth after harvest. This allows pasture to grow up around the stumps, which decay over time, and is a good choice for efficiently transitioning a harvested plantation site back to productive pasture for grazing. Another more intensive method for reversion is to remove the stumps entirely, which clears the site so that it can be prepared for cropping.

New Forests requires all reversion activities to be planned in accordance with applicable laws and regulations, as well as taking into account social and environmental factors. The process includes creation of a property-specific reversion plan that specifies reversion methodology, target outcomes, and maps the future land use on the property. The table below provides an example from one property in Western Australia. Over the reporting period, 27 properties totalling more than 7,500 hectares were reverted with property planning ensuring that more than 1,400 hectares of trees were retained. This is part of an approach to property and landscape planning that will support thriving agricultural enterprises and keep the benefit of trees in the landscape.

Reversion Case Study – Western Australia	
Site conditions	Low rainfall, underperforming tree crop, long haul distance to port. Analysis indicated highest and best use was in agriculture.
Pre-reversion condition	Approximately 1,100 hectares of blue gum tree crop, with poor growth and yield. Economic analysis indicated negative returns for harvest.
Environmental considerations	293 hectares of trees retained (around 25% of original tree cover) <ul style="list-style-type: none">- Buffers to wetlands and creeks- 50 m riparian buffer on a culturally-significant river- Trees maintained will provide shelterbelts for grazing crop and localised climate benefits
Social considerations	Cultural heritage analysis indicated that retaining a riparian buffer along a river with cultural significance would provide benefits by reducing disturbance, preventing erosion, and securing river bank integrity. These provide benefits to the downstream users.

Canola growing on the Forestry Investment Trust land after reversion



Moving Forward Together

New Forests is proud of our achievements in responsible investment and the positive social and environmental impacts that have been generated by our investments. As our business continues to grow, we are seeing stronger and more significant results now that we are managing forests and land at scale. We want to push ourselves and demonstrate progress against more ambitious goals. In particular we now seek to create shared value for our clients, the environment, and society – this is a challenge and opportunity for our business. We welcome feedback from and collaboration with our clients and other stakeholders, and we look forward to working together in this journey.

Contact MaryKate Hanlon (Manager, Sustainability & Communications)
mhanlon@newforests.com.au or visit us online at www.newforests.com.au, for more information.

The Malua Biobank protects and restores 34,000 hectares of Borneo's rainforest

