



**INSTITUTIONAL INVESTMENT
IN SUSTAINABLE FORESTRY**



NewForests

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+ ABOUT NEW FORESTS

Investment management company servicing institutional and private equity investment clients

Headquartered in Sydney with offices in San Francisco and Kota Kinabalu (Malaysia)

25 staff

\$700 million in assets under management and committed capital

Reputation as a leader in sustainable forestry and ecosystem markets

Three focused investment strategies— Sustainable timber funds in Australia-New Zealand and SE Asia and Eco Products fund primarily focused on US regulated and voluntary environmental markets





INVESTMENT STRATEGIES

Timber Plus

- Core return from sustainable timberland investments with upside exposure to environmental markets (carbon, water, biodiversity)

Eco Products

- Direct exposure to regulated and unregulated environmental markets (e.g. terrestrial carbon, mitigation banking, nutrient trading)





INSTITUTIONAL INVESTMENT IN FORESTRY IN EMERGING MARKETS

- New Forests has undertaken research and environmental markets initiatives in Malaysia, Indonesia and Vietnam for four years
- Offering sustainable forestry investment strategy for SE Asia
- Key Points
 - Natural forest logging has been unsustainable and is in decline
 - Chinese demand is pushing further afield to Africa
 - Need to establish sustainable timber supply in regional plantations, including solid wood



+ EXAMPLE DEAL IN INDONESIA

- **Investment thesis:** Vertically integrated Indonesian company with commitment to FSC, seeking strategically aligned partner to expand sawlog/veneer grade plantation
- **Asset to purchase:** High quality plantations in a company with a regionally respected management team – transfer plantations into new company and purchase 60% equity interest
- **Negotiation context:** Bring equity investment, management expertise and access to environmental markets expertise





CHALLENGES FOR SUSTAINABLE INVESTMENT



Basic Due Diligence:

- Who are the counter-parties?
- What are the legal rights (eg licence or land title) and capacity to defend those rights?
- Are the assets properly described?
- What are the financial returns and tax –can all the model assumptions be verified?
- Social and Environmental Management System to identify key issues

:Sustainability Questions

- Can the investment be certified under FSC (eg 1994 rule)
- Are there local community issues and can they be resolved?
- What are the labor and employment standards?
- Are there potential liabilities from past actions?
- Have all government approvals been secured and have there been breaches of contracts and regulations?





CERTIFICATION AND SUSTAINABILITY



Forestry Investment can be attractive to investors committed to sustainability:

- Reducing net greenhouse gas emissions and maintaining or enhancing biodiversity
- Improving livelihoods & working conditions and recognition of indigenous rights

Third party verified sustainable forest management will add value to investments:

- price premiums and better market access
- lower project & political risk through reduction in social conflicts
- improved asset liquidity and lower risk-adjusted discount rates on exit
- lower cost and better access to debt especially from development banks
- improved access to licenses, permits or additional assets from host countries
- reputational risk reduction
- opportunities for operating efficiencies through better management systems



+ ADDING VALUE

- There is a critical need for capital to support sustainable timber supply –however returns should compensate for risks
- Management systems, planning, budgeting, best practice, etc. also reduces risk
- Support for certification and sustainability ethic can be a wider benefit for region
- Potential to add value with biobanking, REDD, and other environmental market add-ons
- Creating ‘brand value’ and attracting secondary investors at point of exit





THANK YOU



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