



NewForests

CLIMATE DISCLOSURE REPORT

March 2020



Climate change poses an existential threat to the global economy and is a driving influence in responsible investment. New Forests¹ has a fiduciary obligation to manage climate risks and opportunities across our forestry investment portfolio.

Atmospheric carbon removal, climate mitigation, and landscape resilience will become increasingly important drivers within the forestry sector. We aim to position our business and the investments we manage to benefit financially from these sector shifts. In 2020, New Forests committed to climate neutrality as a business – whereby we will be net neutral in our greenhouse gas (GHG) emissions as a business. We also introduced our Climate Action Plan, which raises ambition to pursue net carbon removals through our investment programs, including developing and pursuing a science-based target for our forestry investment portfolio.

In support of our climate commitment, this report is New Forests' first public disclosure that uses the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD).² Through the TCFD recommendations, we seek to provide consistent and informative disclosures on the material financial impacts of climate-related risks and opportunities to our business. In this report, we describe how New Forests integrates climate risk and opportunity analysis both in our business strategy and in our role as an asset manager. We use the TCFD framework's structure of Strategy, Governance, Risk Management, and Metrics with a focus on New Forests and our processes and approach. The report does not reflect disclosures from our assets currently under management; however, our Climate Risk and Strategy Work Plan, which was initiated in 2019, aims to achieve full alignment with TCFD, which would enable appropriate fund-level climate disclosures in the future. While TCFD implementation will require continual improvement and further analysis over time, we hope these disclosures prove useful to our shareholders, clients, and employees in generating a shared understanding of how New Forests is proactively positioned to navigate the climate-related changes that may affect our business and the investments we manage. We hope to collaborate with others to encourage forestry investments that support natural climate solutions (NCS) and a circular bioeconomy at a scale that is meaningful to address the climate crisis.

¹ The report refers to New Forests Pty Ltd ("New Forests") and its subsidiaries.

² Task Force for Climate-related Financial Disclosure (2017). See <https://www.fsb-tcfd.org/publications/final-recommendations-report/>.

Contents

Strategy	2
Governance and Risk Management	8
Metrics and Targets	11
New Forests' Climate Action Plan	13
Appendix 1 - Assessment of Risks and Opportunities	15

Strategy

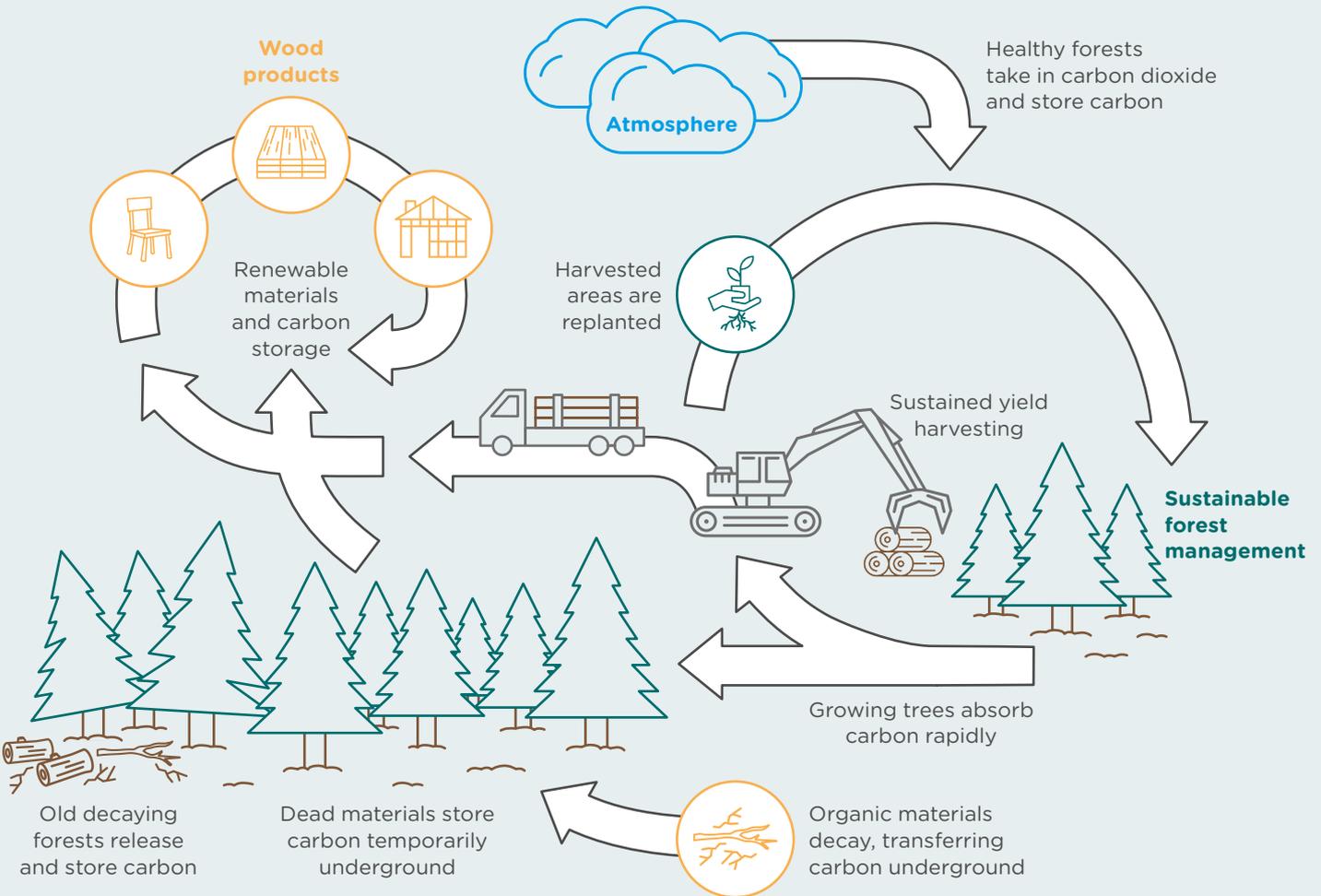
Climate-related opportunities and forestry investment

New Forests' vision is for forestry to become a leading sector in the transition to a sustainable future. The deep connections between the forestry sector and climate change are central to this vision, and sustainable forestry and NCS are both essential to any climate mitigation pathway that can achieve the goals of the Paris Agreement. While this disclosure report focuses on climate, there is increasing recognition of the need to understand the impacts and risks businesses impose on nature and biodiversity, as well as the nature and biodiversity related risks and opportunities that businesses themselves face. Climate and biodiversity are both included in New Forests' vision. This vision drives our business planning and strategy, making climate change, climate impact, and other environmental and social impacts central considerations for our business.

Forests and the carbon cycle

As trees grow, they take in carbon dioxide via photosynthesis, releasing oxygen and storing carbon in their biomass.

As a result, the world's forests contain more than twice as much carbon as is found in the atmosphere today. Furthermore, production forests that are managed on a long-term sustainable basis can be climate-positive or climate-neutral in terms of sequestration and storage of carbon over time, particularly when the carbon stored in wood products, such as lumber used in home construction, is accounted for.³ As trees are harvested, replanting and growth of young stands create a carbon balance across the forest. Harvested wood materials also retain carbon, which can be stored in a range of end-products, for extended periods of time. Other materials, such as paper products, can be recycled as part of the circular bioeconomy.

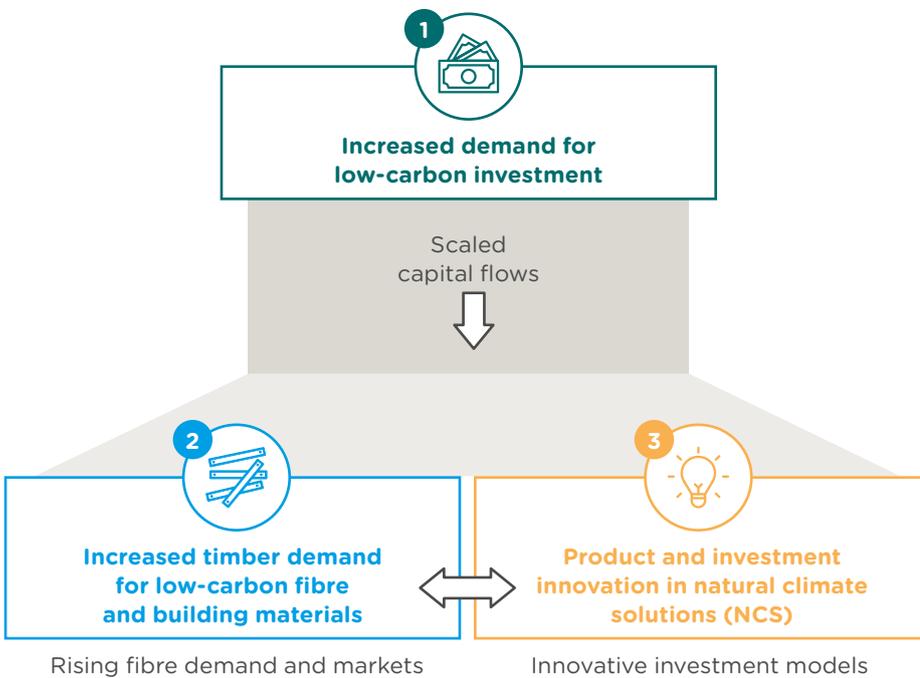


3 The Nature Conservancy (2019). The Forest Economy and Climate Change: A Review of Greenhouse Gas Mitigation in Europe's Forests and Forest Products.

New Forests' business strategy anticipates increasing risks from climate change, with physical risks to forestry assets being the primary threat. But we also believe there are positive opportunities for the forestry sector in the global transition to a zero-carbon economy.

Key trends affecting our business include changes in climate regulations and increases in demand for sustainable materials and sustainable investments. New Forests is positioned to benefit from positive feedback cycles linked to these three trends, as described in the figure below.

With an ongoing cycle of carbon sequestration and storage – both in sustainable forest products and in the forest itself – forestry investments align with a low-carbon economy, with particular opportunities in the growing circular bioeconomy. Such investments may also benefit from carbon pricing, if they can increase the amount of carbon stored in biomass over time. New Forests anticipates sustainable forestry investments will meet the emerging requirements for green finance and sustainable investment. For example, under the EU Sustainable Finance Taxonomy, forestry investments only qualify as sustainable if they include forest certification and GHG accounting. When considering the overall life cycle for timber and wood fibre products, it is also important to consider downstream emissions associated with transportation and timber processing. Innovations and operating efficiencies throughout the sector will continue to deliver emissions reductions along the entire supply chain while also contributing to the long-term storage of carbon in durable wood products.



1 Increasing demand for low-carbon investments and net zero investment strategies provides capital flows for the expansion of the forestry sector and NCS.

2 Rising timber demand for traditional and new wood products reinforces positive pricing trends and market diversification for wood fibre.

3 Product innovation and investment in NCS create new low-carbon investment opportunities, generating a positive cycle of investment and return comprised both of financial returns and climate outcomes.

The circular bioeconomy

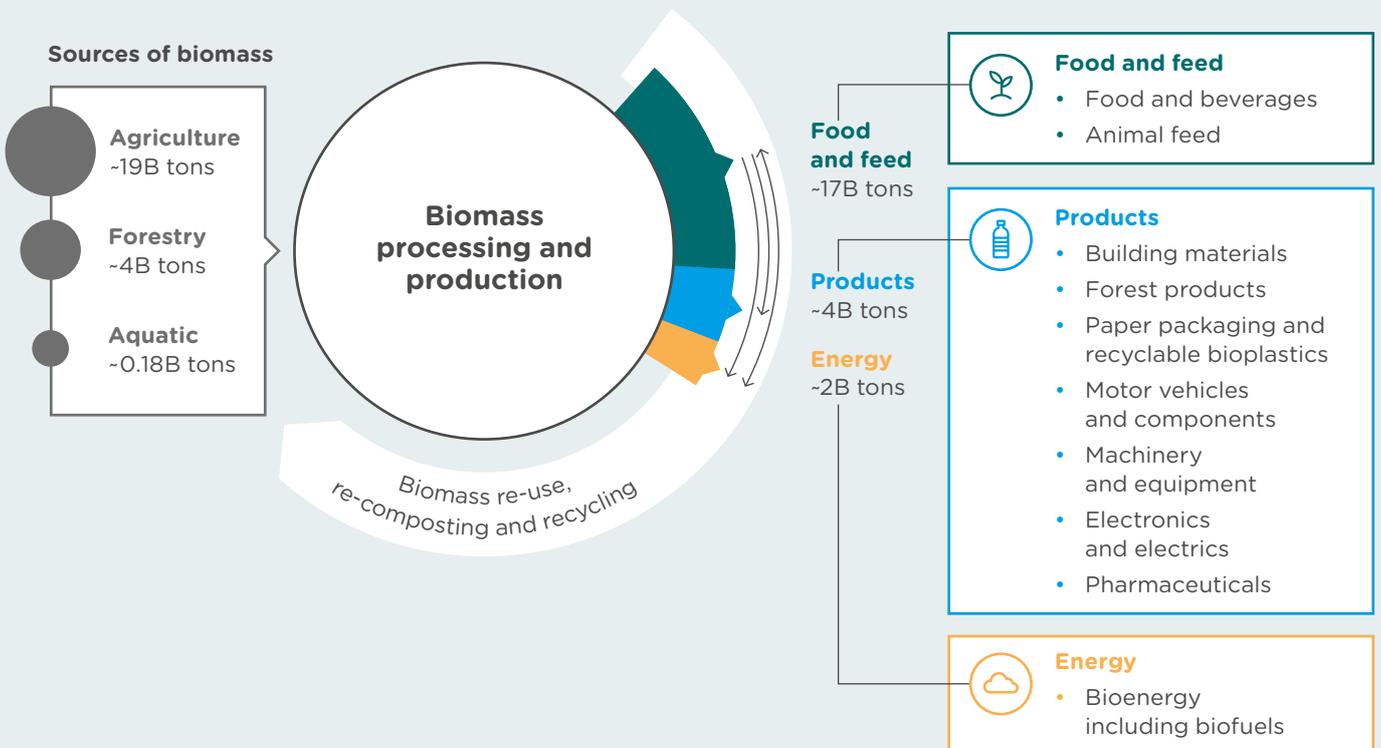
A bioeconomy uses biological resources as the production input; in a circular system, these resources are renewable, being sustainably managed, recovered, and reused as much as possible.

The forestry sector is one of three sources that can supply the bioeconomy with the biomass needed as inputs. In the circular bioeconomy, biomass is used to produce a broad range of goods and services, and upon end-of-use, these products are reused, re-composted, and organically recycled.

The circular bioeconomy addresses the challenges associated with increased consumption. While the global population has doubled in the last 50 years, resource extraction has tripled, contributing to the climate crisis, biodiversity loss, and resource scarcity. A circular bioeconomy could alleviate resource supply

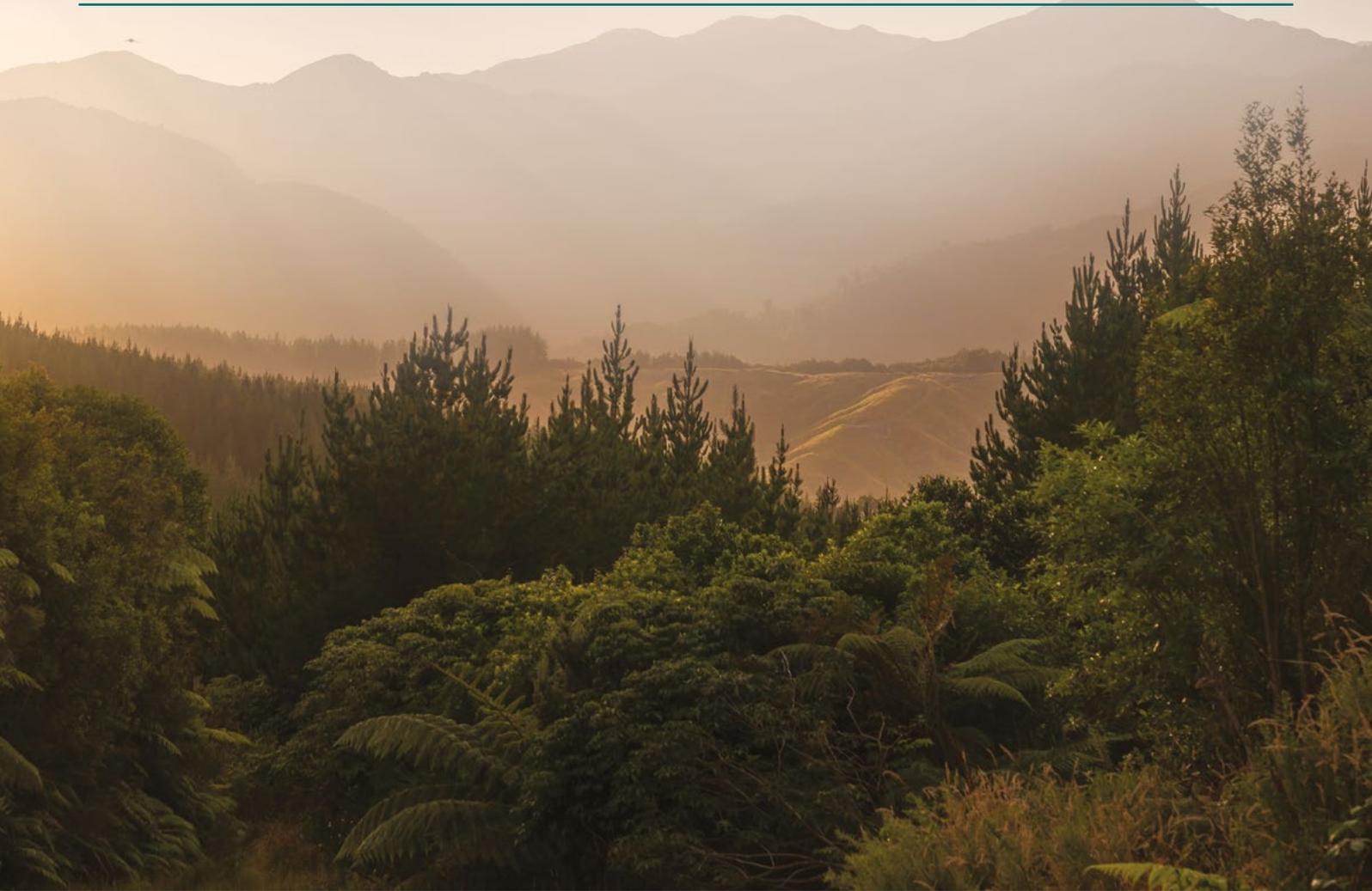
concerns, minimise waste, reduce fossil fuel consumption, and relieve pressures on land usage. A circular bioeconomy also makes a strong business case; it allows companies to enter new markets and customer segments, mitigate regulatory and societal risks, provides a competitive advantage, and leads to innovations across the supply chain.

The World Business Council for Sustainable Development (WBCSD) estimates the bioeconomy represents a \$7.7 trillion opportunity through 2030. As a WBCSD member and participant in its Forest Solutions Group, New Forests supports the expansion of a circular bioeconomy. By investing in sustainable forest production and promoting diversification and innovation in timber markets, our business helps drive a circular bioeconomy that both aligns with positive climate action and positions the forestry sector to benefit from the transition to a low-carbon future.



Source: WBCSD CEO Guide to the Circular Bioeconomy, 7 November 2019.

Graphic sources: Eurostat: OECD report 2018: Freedonier WU Vienne: WBCSD: BCG analysis: Member companies.



New Forests' investment strategies have the potential to bring capital to forestry-based climate change mitigation, adaptation, and resilience solutions. New Forests' regional investment strategies promote positive climate actions. Here are just a few examples:

- Our US Carbon Forestry strategy, informed by proprietary analysis to target high carbon value properties, monetises carbon sequestration through the California emissions cap-and-trade market, effectively combining carbon finance with timber harvest revenue.
- Our investment program in Southeast Asia includes a mandate to undertake additional climate mitigation activities, such as environmental restoration, reforestation, and avoided deforestation, as part of forestry investments that combine production and conservation.
- Our investments in Australia and New Zealand participate in carbon markets via the New Zealand Emissions Trading Scheme and the Australian Carbon Climate Solutions Fund.

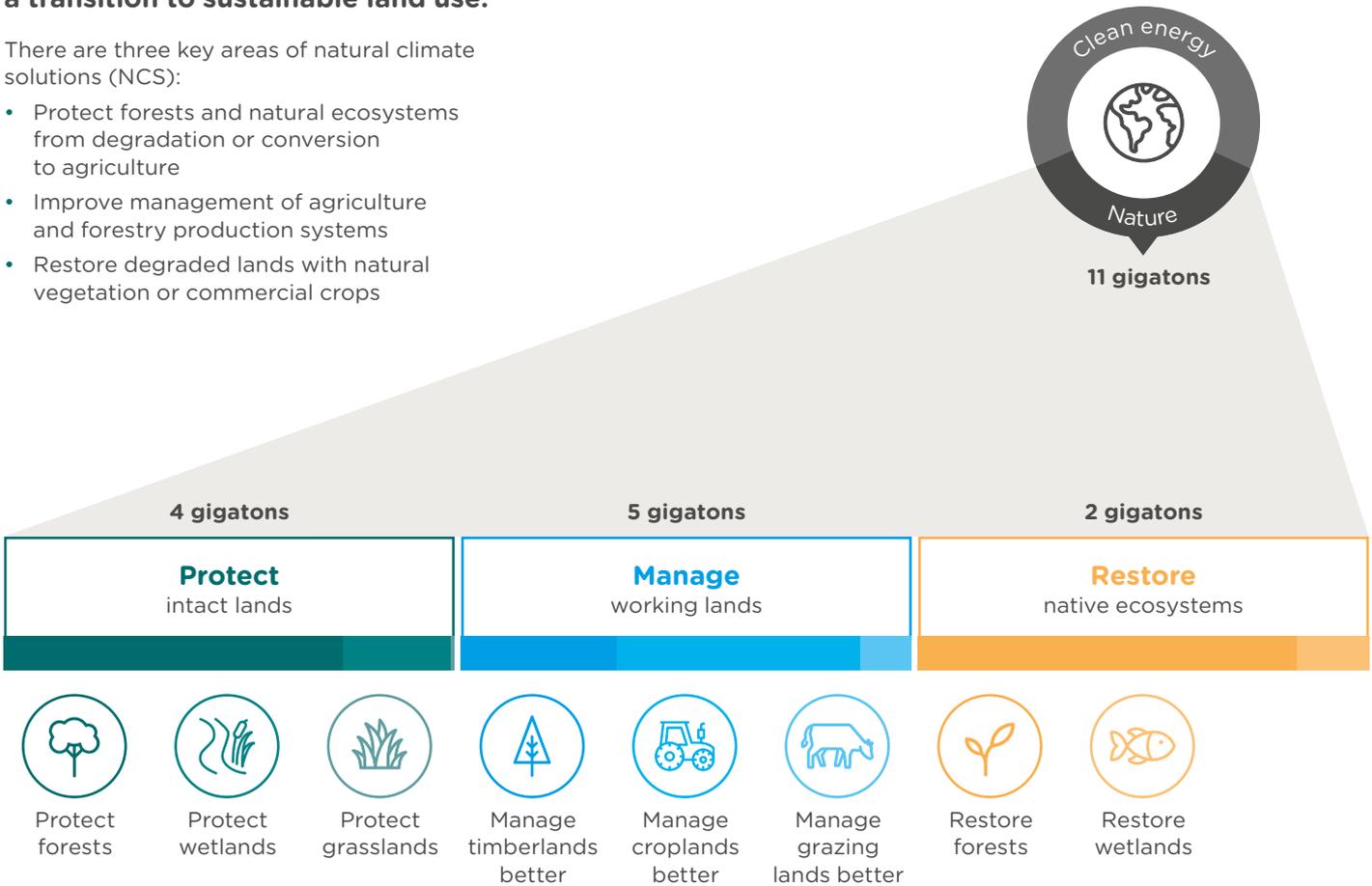
New Forests participates in membership associations and networks that are aligned with climate action and the realisation of sustainable investment opportunities for the forestry sector. This participation supports our business strategy and our investments by providing opportunities to both share lessons learned and stay abreast of climate-related trends and policy issues. Through membership in Ceres and its Investor Network on Climate Risk (US focused), the Investor Group on Climate Change (comprised of members from Australia and New Zealand), the Asia Investor Group on Climate Change (Asia focused), and the Principles for Responsible Investment, New Forests engages with our investor-peers to accelerate the role of sustainable forestry in the transition to a low-carbon economy and in the rise of NCS as investments. New Forests undertakes activities to generate information that can better aid in climate risk management and resilience. These include participating in regional and national forest industry associations, engaging with policymakers, collaborating with scientific researchers, and promoting R&D and industry collaboration across our portfolio. Activities and memberships such as these support effective climate risk management and inform our evaluation of climate-related scenarios and the opportunities they present.

Natural climate solutions

Protect, manage, restore – a transition to sustainable land use.

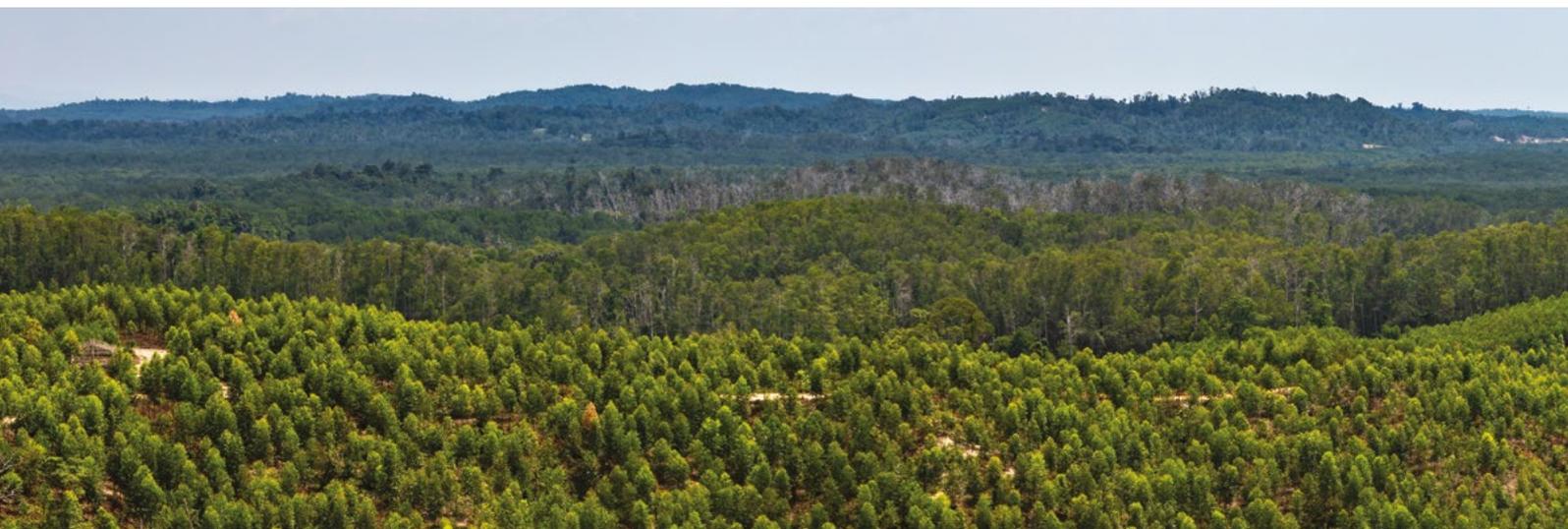
There are three key areas of natural climate solutions (NCS):

- Protect forests and natural ecosystems from degradation or conversion to agriculture
- Improve management of agriculture and forestry production systems
- Restore degraded lands with natural vegetation or commercial crops



Annual global greenhouse gas emissions are approximately 43 billion tonnes of CO₂e. NCS can remove approximately 25-30% of global annual emissions.

Graphic adapted from: Griscom et al. (2019). *Global Change Biology*, "We need both natural and energy solutions to stabilize our climate." Available at: <https://doi.org/10.1111/gcb.14612>.



Climate scenarios and resilience

Understanding the potential impacts of climate change on forests and forest product markets informs New Forests' outlook for the forestry sector in a low-carbon economy.

As forestry investors in a carbon-constrained world, we are better able to anticipate and manage for the likely transition and physical impacts of climate change while capturing net benefits for our business and investment.

New Forests promotes climate resilience by combining top-down investment strategy considerations with a bottom-up approach for asset management, in which existing investments are managed for climate risks and resilience as part of our overall risk management framework, as described in the next section. New Forests' approach to asset management is informed by significant climate risks. Examples include:

- Supporting regional forestry research into climate change impacts, adaptation, and opportunities;
- Implementing asset-level adaptation projects to address climate-related risks and to capture climate opportunities;
- Integrating climate scenarios for projected positive and negative impacts on biological growth, production costs, and product revenues in asset and portfolio financial models; and
- Considering the evolving local, national, and international frameworks for climate policy and their implications across our investment programs.

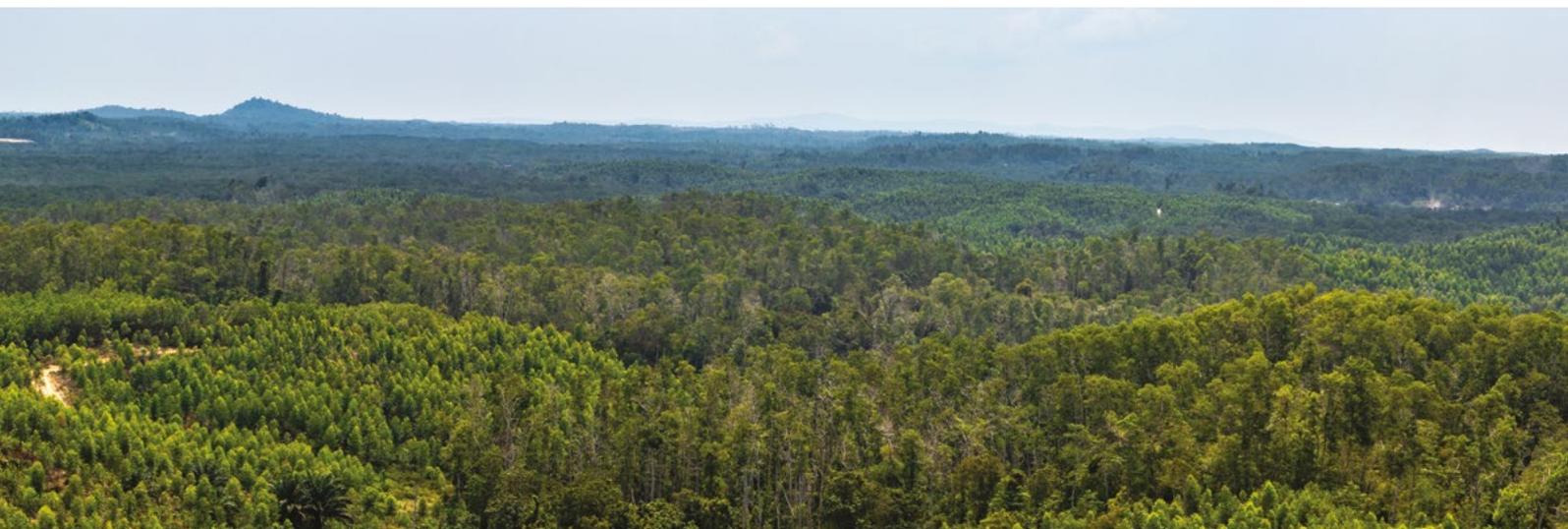
As part of New Forests' commitment to implementing the TCFD recommendations, we intend to develop standardised approaches to support analysis of climate scenarios and resilience for all assets under management in FY20 and FY21.

TCFD integration in asset management

As part of New Forests' Climate Risk and Strategy Work Plan, the company commits to integrating the TCFD recommendations in asset management, seeking to build on the existing corporate policies and procedures that support the management of climate-related risks and opportunities at the asset and fund levels.

- During FY20, New Forests initiated a pilot focused on the Australia New Zealand (ANZ) investment program, which includes three active funds and co-investments. Our aspiration is to develop a focused toolkit that supports New Forests and our forest management partners in establishing risk tolerances and mitigations appropriate for each material climate risk parameter, to define relevant asset-level metrics, and to provide guidance on how scenario analysis may be applied at the asset level. The inclusion of these considerations will become standardised in the annual strategic asset planning cycle.
- By the upcoming year end (30 June 2020), a Climate Disclosure Report template will be created, with the objective of creating pilot disclosure statements that describe material risks and opportunities and report on the agreed metrics.
- Results from the ANZ FY20 pilot will be reviewed to inform improvements and the roll out of TCFD integration in all investment programs.

Given commercial sensitivities, New Forests does not intend to make asset or fund disclosure reports public. We will continue to report on our climate impact and progress toward targets, aggregated at the fund level, in our corporate Annual Sustainability Report.



Governance and Risk Management

Board and management's role in oversight and assessing climate-related risks and opportunities

New Forests' Board and Executive Committee recognise that forestry investment solutions are critical to addressing the climate crisis. Relevant climate-related risks and opportunities are reviewed by the Board through the business planning and strategy review process. New Forests' Executive Committee is responsible for the implementation and monitoring of the business plan and for strategy development on an ongoing basis.

Identifying and managing climate-related risks and opportunities

Principal climate-related risks and opportunities arise in the asset management function for the capital we deploy and the investments we manage for our clients. Climate-related opportunities are considered in strategic asset planning, which typically follows an annual cycle for review, budgeting, and execution. These are largely driven by wood fibre and carbon market opportunities, but they may also include additional climate positive activities such as increasing biological growth, supply chain efficiency, and/or operating efficiency, and engaging in environmental restoration and conservation projects that promote ecosystem resilience.

Climate considerations feature throughout the New Forests policies and procedures that support asset management. New Forests' Social and Environmental Management System (SEMS) requires the identification of significant environmental risks; it also requires that operational management controls be in place to manage those significant risks. Operational controls include applying responsible forest management practices to achieve



high-quality, third-party forest management certification for all production forestry investments. Additionally, New Forests' Sustainable Landscape Investment (SLI) framework is used as the company's environmental, social, and governance (ESG) and impact management tool. It includes an integrated view of land use planning, ecosystem services, productivity, shared prosperity, risk management, and governance. The SLI framework incorporates climate impact reporting as well as metrics on factors that can support climate positive asset management.

Climate-related risks are integrated into New Forests' enterprise risk management (ERM) framework, such that significant policy, market, and environmental risks related to climate change are monitored and discussed. The ERM is guided by the risk appetite statement endorsed by New Forests' Board of Directors and includes regular reviews of risks at the New Forests corporate level, as informed and supported by fund-level and asset-level risk assessment and management. Each risk is assigned a risk rating and tolerance, with stated mitigations and residual risk ratings determined. The ERM includes a workbook-based climate risk assessment tool that is applied as part of due diligence and investment appraisal, as well as a dedicated component

focused on key risk parameters that span transition and physical risks. The assessment results are documented and considered in investment decisions. During asset management, the ERM requires that asset risk registers be developed and regularly maintained as part of active management. New Forests' management of climate-related risks spans from financial risk mitigations (such as insurance for tree crops), to ensuring local property management strategies include operational risk mitigation, through to stakeholder engagement in industry and policy forums.

R&D is a core contributor to climate risk management in forestry. Examples of R&D that support climate risk management include modelling localised impacts on forest growth and timber characteristics and creating silvicultural strategies that support more resilient forest management. In addition, application of R&D and silvicultural studies and analyses can inform mitigation strategies and adaptation. By lowering potential physical vulnerability to climate risks and enhancing the adaptability of assets to changing physical and market conditions, R&D and continual improvement in silviculture also support asset valuation and value preservation.



Climate-related risks, opportunities, and impacts

The world's forests face real and rising physical risks from climate change. But there are also specific opportunities arising from climate finance and the need to invest in mitigation, adaptation, and resilience. The graphic below summarises New Forests' assessment of the most material short-, medium-, and long-term transition and physical risks as related to forestry investment. Our assessment of time scale considers issues affecting near-term management of assets and our ability to invest capital, our ability to add value to investments during a typical closed-end fund holding period, and the long-term planning extending through the higher end of the range of forest management cycles for the types of forests we manage (tree rotations across our portfolio range from as little as eight years in the tropics to more than 80 years in the semi-natural managed forests of the US).

Transition risks

New Forests sees transition risks centred around changing climate policy, which can present significant market implications relating to land use and GHGs. Given the ability of forests and land to be managed for negative emissions – with estimates that 30% or more of near-term global climate mitigation can come from NCS⁴ – there are opportunities for the forestry sector in the transition to a low or zero-carbon economy. There may be commercial benefits for forestry assets that are exposed to a carbon price as markets increasingly recognise the financial value of carbon storage and sequestration in forests. New Forests notes that emissions-intensive forestry supply chains or processes may restructure or adapt to account for transition risk. New Forests also identified transition risk impacts of climate change on the economies and communities of timber producing regions and on potential major geopolitical shifts and crises. These factors are considered when developing investment products, investment theses, and analyses of prospective investments.

Physical risks

Physical risks to forests from climate change are anticipated to increase. Risks range in scale from more localised exposure to potentially damaging effects, through to greater vulnerabilities of entire ecosystems to changing climate and weather in the long term. Specific risks include the changing occurrence of pests and disease, drought, flood, extreme storms (e.g. erosion, windthrow), and wildfires. Forest management to mitigate climate-related risks may call for adaptation of silvicultural practices, as well as technological interventions, to enable improved prediction and identification of extreme weather events. Financial measures, such as insurance to minimise losses, will also become key.

See Appendix 1 for more detailed description of significant categories of climate-related risks, their significance to New Forests' business, and the potential financial impacts related to these risks.

Summary of transition and physical risks for forestry investment

Physical risks		Transition risks			
					
Acute	Chronic	Policy	Market	Legal	Technology
<ul style="list-style-type: none"> • Extreme weather events • Rising sea levels • Forest fires • Pests and diseases 	<ul style="list-style-type: none"> • Mean temperatures • Long-term changes to precipitation patterns • Rising sea levels 	<ul style="list-style-type: none"> • Carbon pricing • Regulation for low/zero carbon goods and services • Regulations and changes to forest practices and standards • Timber legality requirements • Procurement policy 	<ul style="list-style-type: none"> • Changing perceptions of/favour for forestry • Changing perceptions low/zero carbon products • Growth in natural climate solutions 	<ul style="list-style-type: none"> • Climate risk disclosure requirements • Legal requirements or liability for climate impact 	<ul style="list-style-type: none"> • Decarbonisation and electrification • Advances in battery storage • Wood biomass energy efficiency • Carbon removal technology

4 Griscom et al (2017). Natural Climate Solutions, see <https://www.pnas.org/content/114/44/11645>.

Metrics and Targets

Climate-related reporting can support accountability and transparency regarding New Forests' aspirations to not only manage climate risks but to capture climate opportunities.

New Forests has publicly reported on climate factors via our sustainability reports since 2012, and carbon storage in forestry funds has been incorporated into this reporting since 2014. New Forests also reports on the volume of carbon offsets generated through its investments.

New Forests has reviewed the recommended TCFD metrics from the supplemental guidance relating to the Financial Sector (as relevant to our business as an asset manager) and the Agriculture, Food, and Forest Products Group (as relevant to reporting for our managed investments). Of these metrics, we aim to include those related to GHGs and land cover, given their materiality to the relative climate impacts of our business and of our managed investments. New Forests will develop more advanced metrics for climate risk, opportunity, and impact as part of TCFD integration into asset management.

GHG accounting

To increase alignment to the TCFD guidance, New Forests is improving its GHG accounting in FY20. We will expand from our prior bio-carbon focus on carbon storage and sequestration in managed investments to comprehensive GHG accounting. This will include our corporate operating GHG footprint (Scopes 1, 2, and 3) and estimates of the GHG footprint of our investment operations (Scopes 1 and 2, and bio-carbon). The new GHG accounting will be aligned to the TCFD recommendations and supplemental guidance but will require some customisation for use in the forestry asset class. The GHG accounting will use the generally accepted best practice of the GHG Protocol.⁵ In FY20, New Forests is supporting the improvement of the GHG Protocol by participating in the technical working group for the Carbon Removals Standard.⁶ This advancement is critical to demonstrate the true contribution of the forestry sector and forestry investments to climate change. New Forests anticipates the first disclosures using the new metrics and GHG accounting will be for the corporate FY20, with fund reporting to follow. This is anticipated to be published in a 2021 Climate Disclosure Report Update. Meanwhile, New Forests uses our Sustainable Landscape Investment framework to disclose related climate impacts and material issues related to forests and climate.

Climate metrics for managed investments

In this report we disclose 2019 performance for New Forests managed investments, reported at the fund level. Data pertain to the financial year that ended in 2019 for each fund. For more information, see New Forests' Annual Sustainability Reports.

Australia and New Zealand

New Forests' investment strategy in ANZ seeks to generate superior total returns to investors by establishing a diversified portfolio of forestry properties and forestry-related investments.

Australia New Zealand Forest Funds 1, 2, and 3 (ANZFF, ANZFF2, ANZFF3)

Southeast Asia

New Forests' strategy in Southeast Asia capitalises on the growing demand for long-term investment in sustainable plantation forestry in the region and the opportunity to align institutional investment with a shift toward responsibly managed, intensive timber plantations.

Tropical Asia Forest Fund (TAFF)

United States

Since launching its US business in 2007, New Forests has pioneered investments that integrate environmental markets and forest management.

Forest Carbon Partners (FCP)

Carbon Forestry – Separately managed accounts in New Forests' Carbon Forestry program

⁵ Greenhouse Gas Protocol. See <http://ghgprotocol.org/>.

⁶ See <https://ghgprotocol.org/blog/new-greenhouse-gas-protocol-standardsguidance-carbon-removals-and-land-use> for more information.

Carbon sequestration and storage in production forestry investments

Carbon stored in production forests represents an important bio-carbon sink that is managed as part of long-term sustainable forest management. The figures below include carbon dioxide equivalent stored in production areas of forestry estates. They do not include carbon storage in conservation areas or the ongoing carbon storage in durable wood products. Increases or decreases in forest area under management caused by acquisitions and dispositions can have a material impact on the total carbon stock reported here, and the figures should not be considered to represent a net annual emission or a net annual carbon removal, rather they reflect total carbon stock inventory at the fund level. New Forests is working to improve GHG accounting for our investments by supporting development of a new Carbon Removals Standard, which would support inclusion of biogenic carbon removals and storage. New Forests also aims to present data to clients and other stakeholders that separates out the effects of acquisitions and dispositions, thereby enabling improved understanding of the underlying drivers of change in climate impact.

	Units	ANZFF	ANZFF2	ANZFF3	TAFF	FCP ⁷	US Carbon Forestry	All Funds
2019	Million tCO ₂ e	64.5	51.3	1.6	3.0	N/A	14.8	135.2
Annual Change	Million tCO ₂ e	-0.8	8.9	N/A	-0.1	N/A	4	13.6
Annual Change	%	-1%	21%	N/A	-3%	N/A	37%	11%

Carbon projects and carbon credits

Carbon projects under management and number of credits issued as part of emissions trading markets.

	Units	ANZFF	ANZFF2	ANZFF3	TAFF	FCP	US Carbon Forestry	All Funds
Active Carbon Offset Projects	#	1	4	0	0	16	2	23
Carbon Credits Issued	Million tCO ₂ e	0	0	0	0	2.5	0	2.5

Changes in land cover and land use (area)

Changes in land cover and land use related to underlying highest and best use as well as long-term management objectives.

	Units	ANZFF	ANZFF2	ANZFF3	TAFF	FCP ⁷	US Carbon Forestry	All Funds
Commercial Reforestation*	Hectares	8,061	8,229	55	2,073	N/A	1,585	20,003
Environmental Reforestation**	Hectares	0	42	0	556	N/A	0	598
Reversion ^{8***}	Hectares	760	34	0	0	N/A	0	794

*Includes new planting and replanting areas intended for commercial forestry production.

**Includes restoration with native species on areas not intended for commercial forestry production.

***Area reverted from plantation forestry back to agricultural land use. See footnote 8 for more information.

7 Forest Carbon Partners holds no interests in the production forestry areas, and so items related to carbon storage in production forests as well as changes in land cover are not applicable to these funds.

8 Reversion area refers to area that changes from forest cover to non-forest cover. New Forests does not engage in conversion of natural forest to plantations or to non-forest. Reversion as reported here refers only to areas that had been plantation forest and which were not replanted after harvest, typically for a change of land use back to agricultural usage. Agricultural reversion may include re-establishing pasture for livestock grazing as well as establishing agricultural crops. New Forests uses reversion guidelines that are applied by property managers to develop a responsible reversion plan for each property while taking into account the environmental and social values that may be provided by the property.

New Forests' Climate Action Plan

New Forests believes in a world where the forestry sector is leading the transition to a sustainable future. For this to happen, we also believe forestry must create climate positive outcomes.

Through our Climate Action Plan, we will advance climate ambitions in our business, in the broader forestry sector, and in the investment portfolios of our clients. We will demonstrate investable pathways to transition the forestry sector from its history as a net emitter to one where forest management, restoration, and the sustainable use of wood products all support increased carbon removals. Our Climate Action Plan will work toward pursuing a science-based target for our forestry investment portfolio, aiming for consistent carbon removals over time in line with pathways required to achieve the aims of the Paris Agreement.



We will be a climate neutral business.

Challenge:

To date, business contributions to net climate neutrality have been insufficient to address global concerns.

2020 - Measure and report the GHG footprint (Scopes 1, 2, and 3) of our business operations and achieve climate neutrality.

2021 - Set emissions reduction targets for our business operations.



We will work collaboratively to ensure that forestry is recognised as a climate solution.

Challenge:

Corporate and investment GHG accounting frameworks do not accurately capture the role of carbon removals by forests and carbon storage in durable wood products.

2020 - Advance forestry GHG accounting through collaborative working groups and pilot GHG footprinting of investment operations.

2021 - Pilot the Carbon Removals Standard for the GHG Protocol.



We will demonstrate investable pathways to transition the forestry sector from a net GHG emissions source to a source of net carbon removals.

Challenge:

Forestry and land use must transition from emitting 24% of GHGs to date to providing 30% or more of future climate mitigation.

2020 - Work with clients to embed forestry investment in net zero commitments.

2021 - Report the climate impact of our investment portfolio, using holistic GHG accounting.

2022 - Develop a science-based target for our forestry investment portfolio.

We will be transparent and accountable to stakeholders through climate impact reporting and integration of best practice in climate disclosure.

In addition to our Climate Action Plan, New Forests will continue to implement our efforts for full alignment with the TCFD recommendations with a focus on improvements in climate scenarios and metrics appropriate to our forestry investment business. New Forests must also remain committed to placing climate change as a central consideration in our strategy and risk management activities. We will maintain and improve practices to identify and mitigate climate-related risks and opportunities in our investment strategies and investment portfolios. This will require further work on understanding the physical and financial impacts of climate change on forests and the environment and society, leading to richer analyses of climate scenarios.

We encourage other businesses and investors to set their own climate goals and to join us in our aspirations for forestry to generate climate positive outcomes. Feedback, questions, and opportunities for collaboration should be directed to info@newforests.com.au.



Appendix 1 – Assessment of Risks and Opportunities

Climate-related risks (1) may affect New Forests' business and strategy, with direct potential financial impacts to revenue, costs, market position, and reputation, or (2) may affect the assets, investments, or funds managed by New Forests, with secondary potential financial impacts to New Forests' investment management business, e.g. to fees and investment performance.

Negative financial impacts may include decreased asset value, increased costs, decreased revenue, and changes to market positioning and competitive advantage. Conversely, the management of climate-related risks and opportunities may also present financial benefits. Positive financial impacts may include increased asset value, decreased costs, increased revenue, and changes to market positioning and competitive advantage. The information that follows describes the potential outcomes of climate-related risks that can drive these financial impacts in relation to New Forests' business.

Physical Risk

Acute physical risks including extreme weather events, rising sea levels, forest fires, pests, and diseases.

Potential Impact on New Forests

Acute physical risks may affect the asset management requirements, strategies, and investment performance of New Forests' assets under management. The resulting impacts present financial implications to New Forests in relation to management fees, performance fees, and ability to attract clients and capital. Acute physical risks to New Forests' business and strategy have lower likelihood and severity but may present short-term financial implications.

Negative financial impacts from:

- Loss of asset (e.g. decreased timber volume, burned forest)
- Increased operational expenditure on restoring asset (e.g. replanting, remediation)
- Loss of business continuity (e.g. operational shutdowns)
- Disruption to supply chain, impacting upstream or downstream operations
- Inability to insure assets at reasonable cost or diminished insurance benefits
- Expenditure for enhanced readiness for extreme events (e.g. firefighting equipment, increased operating costs for fire season preparation)
- Increased insurance premia and/or discount rates for exposure to physical risk
- Volatility of timber supply/demand, timber prices, and forestry sector supply chain in response to acute events

Positive financial impacts from:

- Acquiring assets resilient to, or diversifying away from, acute physical risk
- Managing assets for adaptation and resilience to acute physical risk
- Managing assets for increased operational resilience to business continuity and supply chain disruptions
- Exposure to subsidies and/or insurance for businesses exposed to climate risk
- Insurance rate discounts and/or lower discount rates for managed climate risk and effective mitigation of physical risks
- Short to medium-term timber price increases in response to forestry sector supply chain disruption following acute events

Physical Risk

Chronic physical risks including increases to mean temperatures, long-term changes to rainfall patterns, and sea level rise.

Potential Impact on New Forests

Chronic physical risks may affect New Forests' investment strategies and asset management requirements, strategies, and investment performance of New Forests' assets under management. The resulting impacts present financial implications to New Forests in relation to management fees, performance fees, and ability to attract clients and capital.

Negative financial impacts from:

- Decreased forest productivity due to environmental conditions
- Expenditures required to mitigate changed climatic conditions (e.g. modification of thinning schedules to help stabilise stands against drought, storms, and disease, and increased spending on roading due to storms and increased rainfall)
- Costs for restoration and mitigation of chronic risks
- Loss of productive area and/or changes to stocking rates and timber volume to adjust inherent physical fire risk (e.g. wider fire breaks, green thinning, lower stocking)
- Increased insurance premia and/or discount rates for exposure to physical risk
- Competition for land due to changing environmental conditions and/or changes to highest and best use
- Failure to integrate climate risk or insufficient data to adequately incorporate climate risk into due diligence and asset management, which erodes competitive positioning and fails to accurately price risks
- Structural changes to timber supply/demand, timber prices, and forest sector supply chain in response to evolving environmental, geopolitical, and market conditions

Positive financial impacts from:

- Business opportunities in adaptive and resilient forestry strategies
- Increased forest productivity due to environmental conditions (e.g. extension of growing season, increased photosynthesis)
- Decreased operating costs from implementing adaptation and resilience strategies
- Decreased insurance premia and/or discount rates for implementing physical risk mitigation
- Competition for land due to changing environmental conditions and/or changes to highest and best use
- Ability to integrate climate risk into due diligence and asset management, which supports competitive advantage and accurate risk pricing
- Structural changes to timber supply/demand, timber prices, and forest sector supply chain in response to evolving environmental, geopolitical, and market conditions

Transition Risk

Policy-related risks including carbon pricing, incentives and/or regulation for low/zero carbon goods and services, regulations and changes to forest practices, standards, and timber legality or procurement.

Potential Impact on New Forests

Policy-related transition risks may affect the investment services that New Forests offers, particularly novel investment strategies and those integrating policy-driven revenues; these present financial implications for New Forests' revenue and ability to attract clients and capital. Policy-related transition risks may affect the operations, valuations, and related markets that influence investment performance of New Forests' assets under management, with financial implications for New Forests in relation to management fees, performance fees, and ability to attract clients and capital.

Negative financial impacts from:

- Exposure to carbon pricing risk (e.g. compliance obligations, carbon taxes) where assets cannot demonstrate net carbon removals
- Restrictions on the types of activities, projects, or locations that can generate carbon credits and/or restrict carbon property rights or transactions
- Restrictions on monoculture plantation forestry in favour of native vegetation
- Increased cost of energy, inputs, goods, and services (e.g. due to carbon pricing)
- Increased development and operational costs associated with enhanced forestry practices, regulations, and standards
- Regulatory requirements mandating sub-commercial ecosystem restoration, reforestation, or NCS
- Restrictions on use of timber and forest products (e.g. biomass energy, procurement restrictions) due to misinformation regarding understanding of sustainable sourcing requirements and methods
- Competition from other investment managers offering low/zero carbon investment products in response to policy developments
- Requirements for investment in climate-risk mitigation, including firefighting infrastructure and equipment

Positive financial impacts from:

- Exposure to carbon pricing where assets contribute to net carbon removals (e.g. carbon credit surplus)
- Lower cost and/or increased revenue from on-site renewable energy generation or supply of renewable biomass or renewable energy
- Lower costs and/or increased incentives for renewable energy, inputs, goods, and services
- Incentives for ecosystem restoration, reforestation, and NCS
- Enhanced operational and input efficiencies, avoiding cost increases or compliance costs
- Competitive advantage as a result of implementing enhanced forestry practices and meeting increased regulations and standards
- Ability to meet rising investment interest and/or regulatory requirements for sustainable financial products (e.g. qualifying under sustainable finance taxonomies, green finance)
- Increased demand for sustainable forest products, supported by recognition of renewable and circular benefits of bioeconomy
- Potential for competitive advantage in offering investment products that are aligned with climate change mitigation policies

Transition Risk

Market-related risks from changing perceptions of, or favour for, forestry, low/zero carbon products, and/or NCS.

Potential Impact on New Forests

Market-related transition risks may affect the implementation of and demand for investment services that New Forests offers, with financial implications for New Forests' revenue and ability to attract clients and capital. Market-related transition risks may affect the demand for goods and services produced via New Forests' assets under management, which presents financial implications to New Forests in relation to management fees, performance fees, and ability to attract clients and capital.

Negative financial impacts from:

- Loss of attractiveness of investment products and/or lower investment returns for failure to manage climate risk appropriately
- Lower demand for forestry investments and/or forest products if forestry is not viewed as a key part of the transition to a low/zero carbon future
- Competition from more diverse or well-capitalised players entering forestry development, reforestation, and forestry investment space and/or deploying NCS
- Lower potential pricing for forest and land use related carbon credits due to perceptions of impermanence or diminished value relative to other emissions reductions
- Structural changes in forest supply chain and forest products supply/demand that may affect relative attractiveness of assets based on species, geography, and cost structures of investments

Positive financial impacts from:

- Perceived leadership in climate risk management, supporting attractiveness of our financial products and services to investors who prefer low-carbon portfolios
- Ability to diversify client base and revenue models as increasing range of investors and corporates seek exposure to low/zero carbon opportunities
- Increased demand for forestry investments and/or forest products if forestry is increasingly viewed as a key part of the transition to a low/zero carbon future
- Higher potential pricing and/or demand for forest and land use related carbon credits as eligibility in voluntary and regulatory carbon markets increases (e.g. CORSIA)⁹
- Structural changes in forest supply chain and forest products supply/demand that may affect relative attractiveness of assets based on species, geography, and cost structures of investments

⁹ Carbon Offsetting and Reduction Scheme for International Aviation. See <https://www.icao.int/environmental-protection/CORSIA/Pages/default.aspx> for more information.

Transition Risk

Legal risks including liability surrounding climate risk disclosure, climate impact, and changes to insurability of assets.

Potential Impact on New Forests

Legal transition risks may affect the implementation of and demand for investment services that New Forests offers, including legal risks for New Forests' clients and New Forests' business; these present financial implications for New Forests' revenue and ability to attract clients and capital. Legal transition risks may affect target investments and the operations and related markets of New Forests' assets under management, which presents financial implications to New Forests in relation to management fees, performance fees, and ability to attract clients and capital.

Negative financial impacts:

- Legal burdens from compliance obligations related to reporting and/or management of climate-related risks and impacts
- Climate-related litigation
- Compliance obligations, taxes, or other costs mandated for GHG emissions
- Reputational damage from inadequate disclosure of and/or management of climate-related risks and impacts
- Inability to insure assets under management

Positive financial impacts:

- Efficiency and resilience initiatives reducing costs for mandated compliance obligations
 - Minimising risk of adverse legal judgments and fines through climate risk management and climate impact management
 - Business and investment strategies aligned to future shifts in legal requirements relating to climate-related risks and impacts
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Transition Risk

Technology-related risks including decarbonisation/electrification, advances in battery storage, and wood biomass energy efficiency.

Potential Impact on New Forests

Technology-related transition risks may affect the implementation of and demand for investment services that New Forests offers, with financial implications for New Forests' revenue and ability to attract clients and capital. Technology-related transition risks may affect target investments and the operations and related markets of New Forests' assets under management, with financial implications for New Forests in relation to management fees, performance fees, and ability to attract clients and capital.

Negative financial impacts:

- Required investment in low/zero carbon technology and/or upgrades, particularly for processing infrastructure and heavy equipment operations
- Disruption to markets, including in energy markets and forest product markets, by technological breakthroughs
- Breakthrough technology for carbon removals (e.g. scaling and commercialisation of carbon capture and storage), which decreases demand for NCS or makes NCS less cost competitive
- Difficulty in planning capital expenditure for projects facing technology risk or competition

Positive financial impacts:

- Opportunity to leverage technology to reduce costs and/or enable efficiency gains, including energy efficiency
 - Opportunity to leverage technology to diversify forest product markets, including biomass energy, engineered wood products, and biomaterials
 - Ability to meet climate-related policy and legal requirements through technological advances
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New Forests has international reach, with offices and assets in Australia, New Zealand, Southeast Asia, and the US. This gives us a global perspective combined with local expertise that allows us to understand and manage our assets more effectively. Wherever we operate in the world, our strength lies in our people and their drive to make investments that create the best possible outcomes. By investing with integrity and transparency we aim to generate strong returns while helping tackle some of the world's great sustainability challenges.

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