

Bideford Forest Investment

Statement of Investment Policy and Objectives (SIPO)

Table of Contents

Background	1
Description of the Scheme	2
Roles and Responsibilities	4
Investment Objectives	4
Investment Policies & Special Management Requirements	5
Investment Performance Monitoring	7
Compliance Monitoring.....	7
SIPO Review	7

Background

The Bideford Forest Investment is a registered managed investment scheme (Scheme) under the Financial Markets Conduct Act 2013 (FMC Act).

Purpose of a SIPO

A SIPO is the vehicle for clearly articulating the investment objectives and parameters of the Scheme. The SIPO establishes the foundation for the accountability of the Manager of the investment. The authority to implement the SIPO is expressed in the Deed of Scheme Management. This, along with the Deed of Scheme Management, Limited Partnership Agreement and the Constitution of the General Partner (**Governing Documents**) are available on the Disclose Register. www.companiesoffice.govt.nz/disclose.

Licensed Manager

Forest Enterprises Limited (FEL) is the licensed manager (Manager) of the Scheme - licence number FSP37784. The Manager has contracted out forestry management functions to Forest Enterprises Growth Limited (Forestry Manager), the parent company of the Manager. The Forestry Manager has the specialist expertise, and business relationships, to undertake the forestry work, including the coordination and supervision of the field work relating to the Bideford Forest.

Manager's Investment Philosophy

FEL is licensed under the FMC Act to manage Managed Investment Schemes (excluding managed funds) which are primarily invested in forestry assets. FEL is responsible for performing the functions for which responsibility is attributed to it as manager under the FMC Act including administration of the Scheme and prudent management of the assets. The skills, expertise and experience of FEL and the Forestry Manager are critical to the returns generated by the Scheme.

The Manager's philosophy, as a professional manager of forestry investments and in collaboration with the Forestry Manager, is to establish and manage high quality Pinus Radiata plantation forest on the land to the best international standards. This is aimed at maximising the profitability of the investment. Returns will be generated from both forestry-related activities and the trading of carbon units. It is also a fundamental objective of the investment to enhance the environmental aspects of the land through the promotion of activities that ensure the forests are grown and harvested legally and sustainably, combat climate change, increase biodiversity, and enhance soil conservation, clean waterways, and wildlife habitats.

Licensed Supervisor

Trustees Executors Limited (TEL) is the licensed supervisor (Supervisor) of the Scheme - licence number FSP37383.

Custodian

TEA Custodians (Forest Enterprises) Limited is the custodian of the Scheme (Custodian). The Custodian is a wholly owned subsidiary of the Supervisor and is responsible for holding the property of the Scheme on trust for investors in the Scheme.

Fees Payable

The Manager and Supervisor are entitled to fees for the services they provide to the Scheme and to reimbursement for certain expenses as set out in the Governing Documents.

Effective Date

This SIPO takes effect from registration of the Scheme.

Availability of this SIPO

The most current version of this SIPO is available on the Disclose Register at www.companiesoffice.govt.nz/disclose.

Description of the Scheme

Investment in Forest Owning Business

The Bideford Forest Investment comprises a limited partnership registered under the Limited Partnerships Act 2008 called Bideford Forest LP. There is one general partner in Bideford Forest LP which is a registered company under the Companies Act 1993, called Bideford Forest GP Limited.

Investors in the Bideford Forest Investment have limited partnership shares, plus beneficial ownership of an equal number of corresponding company shares in the General Partner which are held in bare trust for the Investors by the GP Share Trustee in accordance with the Deed of Scheme Management.

Investment in the Scheme is an investment in a forest owning business for one rotation of the trees, subject to preserving the value of the land for the next rotation by replanting trees after harvest.

The Scheme comprises 843 hectares more or less of land located in the Bideford region, and approximately 665 hectares of Pinus Radiata plantation trees established on the land. The primary return from the investment will arise from selling carbon units, the planned harvest of the trees when mature, together with the subsequent sale of the land and any replanted trees.

The financial return from carbon units earned by the Scheme under the Emissions Trading Scheme (ETS) will be produced by the progressive sale of carbon units so long as the Manager, in its commercial judgement, deems the financial return from selling the carbon units is better than the return from harvesting the trees. Regardless of whether the better return is from selling carbon units or harvesting the trees, the investment will be wound up in 2051, when the land will be sold together with the remaining trees as standing timber.

Scheme Property and Permitted Assets

In accordance with this SIPO, the Scheme will actively invest in Scheme Property that comprises primarily:

1. Land;
2. Trees; and
3. Carbon units.

(the **Primary Assets**)

These assets will be purchased with a mix of debt and contributions from investors. See "Ability to Borrow" below.



The Scheme will also actively invest in Scheme Property that comprises:

1. Any other assets which relate directly to or arise from investment in the Primary Assets to generate additional revenue, for example licences permitting farmers to graze stock or beekeepers to maintain hives on the land.
2. Cash deposits with registered New Zealand banks.
(the **Secondary Assets**)

Limitation on Investments

The Scheme may not actively invest in any assets other than those listed above as the Primary and Secondary Assets. However, the Scheme Property will also include, from time to time:

1. Contributions of money by the Investors in the Scheme;
2. Money borrowed or raised for the purposes of the Scheme;
3. The rights, and any proceeds from claims, arising under insurance policies arranged in respect of the land, trees and any other Scheme Property;
4. Any other asset arising from the Business of the Limited Partnership; and
5. Income and property derived, directly or indirectly, from the Primary Assets, the Secondary Assets, contributions, money, or other property referred to above.

(the **Other Scheme Property**)

Investment Generates Primary Financial Return then Concludes

The investment is structured to generate its primary financial return from both the trees and the carbon units and achieve the following –

1. sale of carbon units generated from post-1989 forest trees;
2. harvest of the post-1989 forest trees to the extent harvest has not been limited by the sale of carbon units attributable to the trees, or alternatively it is financially viable to purchase carbon units to enable harvest of the trees;
3. the completion of harvest of the pre-1990 forest trees;
4. distribution of the harvest proceeds to Investors (net of all harvest costs);
5. the sale of any other saleable assets (such as standing timber or replanted trees);
6. at the conclusion of the Investment, the sale of the land and distribution of the proceeds to Investors (net of all costs); and
7. then the winding up of the partnership and distribution of any remaining cash to Investors.

To meet resource consent conditions, and ETS and other legal requirements, the harvested land may be replanted whilst harvest is on-going and prior to the sale of the land. In this event the land will be sold together with these areas of replanted trees and the sale price will reflect this.

Investment Strategy

The Scheme's investment strategy is to implement the Forest Management Plan on the land to maximise the value of the trees for eventual harvest, to maximise the value of carbon where practicable, and distribute the proceeds to Investors.

It is proposed to apply two silvicultural regimes consistent with maximising the return from the forest balanced with some diversification in the type of logs that will be produced. Harvest is the primary strategy for the Clearwood Regime (mainly Pre-1990 forest land). For the Framing Regime (mainly Post-1989 forest land), the primary strategy is the sale of carbon credits earned by growing trees, and the secondary strategy is harvest if investment returns are greater from harvesting than selling carbon credits.

Given the nature of the Scheme's primary assets (land, trees and carbon units) and its unlisted ownership structure, the Scheme has a long-term investment horizon. It is planned to wind up the Scheme in the year 2051.

FEL has inhouse expertise in forestry valuation and financial modelling to develop and amend the investment strategy. The investment strategy will be based on achieving the highest possible return for Investors with an acceptable level of risk. The investment's actual performance will be regularly measured against this strategy in the Annual Report of the Scheme.



Roles and Responsibilities

Licensed Manager – Forest Enterprises Limited

The Manager is responsible for and has the authority to manage the investment as expressed in the Governing Documents. In summary, this authority is broad reaching subject to operating within the forestry management plan (Plan) as that is defined in the Governing Documents (for establishment, management and harvest of the forest), and obtaining the consent of the Limited Partners (Investors) for any material changes - refer to *Investment Policies & Special Management Requirements* on page 5 for further details on the Plan.

Licensed Supervisor – Trustees Executors Limited

The Supervisor is responsible for supervision of the Manager and the Scheme, including –

1. Acting on behalf of the Investors in relation to the Manager and any contravention of the Manager's issuer obligations; and
2. Supervising the performance by the Manager of its functions and the financial position of the Scheme; and
3. Holding the Scheme's assets, or ensuring the Scheme's assets are held by the Custodian.

Investment Objectives

Investment Objectives – Primary Assets

The investment focus is on the Primary Assets of the land, the trees and carbon units as they contribute most to the investment return. The primary objectives are to:

1. Protect and increase the value of the trees by successfully undertaking the Plan; and
2. Ensure that the Plan is completed to a high standard, attending to necessary forest development and maintenance to infrastructure such as roads.

Further details on these objectives follow below.

Trees

The trees are projected to contribute a substantial portion of the investment return. The return generated from the harvest of the trees is enhanced by the silviculture operations performed on the trees (pruning and thinning operations), plus the quality of the harvest management.

The investment objectives for the trees are –

1. To produce pruned timber from the harvest of the pre-1990 trees by undertaking industry best practice silviculture operations that add value to the trees;
2. To recognise the value in the carbon units attributable to the post-1989 trees by undertaking industry best practice silviculture operations for framing timber which means thinning of the post-1989 trees but no pruning in order to maximise the carbon stored in the trees.
3. To maximise the eventual return from the harvest of the post 1989 trees if harvest has not been limited by the sale of carbon units attributable to the trees, or if the economic return from harvesting is greater than the purchase of carbon units to enable harvesting;
4. To maximise the return at harvest by using industry best practice harvest methods identified as being able to add value;
5. To contract with quality service providers able to add value to the silviculture and harvest activities; and
6. To harness the scale and common interests of the investment with those of other investments managed by the Manager to maximise the investment return.



Carbon Units

The investment objectives for the carbon units are –

1. To cost effectively grow post-1989 trees intended to generate revenue from carbon unit sales; and
2. To sell carbon units earned on the post-1989 trees so long as the economic return in doing so is greater than harvesting the trees; and after careful consideration of the implications under the ETS in selling the carbon units.

The Manager will arrange for the Land's registration under the ETS and will claim the Scheme's entitlement to carbon units. The Manager will arrange for carbon units to be sold for the benefit of the Scheme where practicable and profitable. The Manager will also perform all associated functions relating to those carbon units as agent for the Limited Partnership in the interests of the Scheme.

Land

In large part, the value of the land is determined by the return on the trees and carbon units as the land use is not easily changed, irrespective of the potential for greater economic return from an alternative land use.

This is because –

1. The impact of the trees on the land is material. Return to pasture is not easily achieved because of the presence of the stumps, the status of the soil biology and the absence of any infrastructure (fences and buildings etc). Addressing these impacts is achievable but at a material cost.
2. Harvest of the trees is a permitted activity under the regional plan provided a similar plantation of trees is replanted on the land within 18 months of harvest. To harvest without this replant obligation requires a resource consent which may or may not be given in respect of some or all of the land depending upon its susceptibility to erosion, which is a factor of its geography and soil type. Consent for land use activities is at the discretion of the regional authority and consent conditions are subject to periodic review.
3. Approximately 127 hectares of the land is classified as Pre-1990 Forest Land under the Climate Change Response Act 2002. Change of land use from forest is allowed only after the deemed carbon emission from the removal of the trees is accounted for. This is achieved by surrendering acceptable carbon units representing the deemed carbon emission. This represents a potentially material cost in addition to the cost arising under point 1 above.

The investment objective in respect of the land is therefore achieved by maximising the return from the trees, together with minimising anything which diminishes the value of the trees, or the ability to use the land for forestry purposes.

Investment Objective – Secondary Assets

Although the investment focus is mainly on the Primary Assets (and within these assets on the trees), material value can, on occasions, be added to the investment return from the Secondary Assets.

Return from Other Secondary Assets

The opportunity to generate a return from the other Secondary Assets is always being considered by the Manager. The opportunity is not always focused on a material financial gain. Sometimes the focus is on cost sharing, control of weeds (grass), and reciprocal rights (of access). The measure of the potential financial return must be after accounting for all of the costs, especially the indirect costs e.g. damage to trees or tracks and harvest roads.

Investment Policies & Special Management Requirements

Forestry Management Policy in the Plan

The forestry management policy is expressed in the Plan. The Plan is defined in the Governing Documents.

The Plan may change to reflect change in forestry industry best practice, or the status of the trees. Any material change to the Plan requires a supporting report from the Forest Auditor and a special resolution of the Investors, if the required contributions will increase to any material extent.



Role of Forestry Auditor

The forestry management, plus the harvest management, are audited by the Forestry Auditor who is an independent forestry expert. The Forestry Auditor reports to the Supervisor and also to the Investors.

Risk Management

Risk management is focused on the protection of the trees. In addition to the use of insurance, the Manager is required to use all other risk mitigation measures practical in respect of the forestry management and harvest management.

Special risk management measures are required at harvest, when the trees are felled, converted into logs, and the logs sold. From the sale proceeds the harvest costs are paid, before the resulting net amount is passed back into the custody of the Supervisor for the investment.

Cash Management

All cash arising from Investor Calls, or from the management of the Primary and Secondary Assets, is credited to a bank account in the custodianship of the Custodian. All cash which is surplus to the requirements of the Scheme (normally the cash arising from harvest), is distributed to the Investors at regular intervals determined by the minimum economic amount payable to the holder of a standard investment interest.

Ability to Borrow

The ability of the Scheme to borrow is prescribed in the Governing Documents. Any change to the prescribed borrowing requires a supporting special resolution of the Investors.

Contributory Investment

The Scheme is contributory by nature. The investment requires Investors to meet their share of the annual budget to undertake all work relating to the management of the Primary and Secondary Assets (including field work relating to the trees and the land), plus the costs arising from managing the investment.

This obligation on Investors manifests itself in one or more Calls for funding each year. More funding is required in the early years to meet the silviculture costs relating to the management of the trees. This funding is required unless the investment has sufficient cashflow arising from the management of the assets, which ordinarily only occurs when carbon units are sold or the trees are being harvested.

Calls are payable on the due date advised and non-payment places the Investor in default. Failure to act on a default can result in the compulsory sale of the Investor's shares in the investment.

Investment management decisions must therefore incur costs that are deemed appropriate and reasonable, and account for the consequences of the contributory nature of the investment.

Taxation Consequences of Investment

The Scheme is structured as a limited partnership which means that under New Zealand tax law, the limited partners (the Investors) are the point at which the taxation consequences of the forestry business crystallise. Consequently, all Investors must hold a New Zealand tax number, and account to the New Zealand Inland Revenue for their pro-rata annual forestry business taxable profit or loss.

Investment management decisions (and reporting), must therefore account for the taxation consequences on the Investors.

Disposal of Primary Assets

The disposal of the Primary Assets is intended to occur at the conclusion of the investment which is following the harvest of the trees.



Investment Performance Monitoring

The investment performance monitoring is undertaken by the Board of the Manager.

The nature of the investment is that the key determinants of performance only crystallise on the conversion of the Primary Assets to cash.

During the term of the investment, an indication of the performance of the investment is provided in the Annual Report by reporting of –

1. The Investors contributions (Calls paid) to date; and
2. The net cash currently projected based upon the assumptions expressed; and
3. The current indicative value of a share in the investment based upon the assumptions expressed.

The Investors' contributions to date are able to be referenced to the original and current projection for Investor contributions. The net cash projected from sale of carbon units and harvest is similarly able to be referenced to the original and current projection.

The harvest projections, and current indicative value calculations, are undertaken by the Manager.

Investors will also be advised of forest changes that impact on investment performance if they are material. These include, but are not limited to changes in :

- net stocked area,
- average stems per hectare,
- achievement of the silviculture objectives expressed in the Plan,
- projected volume per hectare at harvest.
- Changes in field measurement tables affecting Carbon generated in post 1989 area.

Compliance Monitoring

The Scheme's performance against this SIPO is monitored quarterly in March, June, September, and December against the limits and framework set in this SIPO. A report will be made available to the Supervisor within 10 working days of the quarter end.

Limit Breaks are any material breaches of the nature or type of investments that may be made in accordance with this SIPO. Limit Breaks reported to the Supervisor will also be reported to Investors. The timing of reporting to Investors will be agreed with the Supervisor, but in any event, full details must be included in the Annual Report to Investors.

SIPO Review

This SIPO is reviewed annually by the Manager to ensure it continues to be fit for purpose and to confirm the investment philosophy and strategies are current, relevant and effective. The forest management plan, prudent risk management and investment performance of the Bideford Forest will be taken into account in the annual review.

Any significant change to the land or trees which may affect the value of the Primary Assets or the projected return on investment will trigger an ad hoc review of the SIPO.

This SIPO may be amended or replaced by the Manager after consultation with the Supervisor. Any such amendment or replacement must be consistent with the Plan. Any material amendments would also be subject to an Investor vote. A copy of the updated SIPO must be uploaded to the Disclose Register within 5 working days after any change takes effect.

