

# Ngatawhai Group Forest Investment Supplementary Document

This document supplements the replacement Product Disclosure Statement (“PDS”) dated 27 September 2019 for an offer of shares in the Ngatawhai Group Forest Investment, being a limited partnership structured investment, offered by Forest Enterprises Growth Limited.

This Supplementary Document is to be read together with the replacement PDS, replacing the PDS dated 23 September 2019. This is the only supplementary document issued.

Dated 10 September 2020

This document and the PDS give you important information about this investment to help you decide whether you want to invest. There is other useful information about this offer on [www.companiesoffice.govt.nz/disclose](http://www.companiesoffice.govt.nz/disclose).

Forest Enterprises Limited has prepared this document in accordance with the Financial Markets Conduct Act 2013. You can also seek advice from a financial adviser to help you to make an investment decision.



# Ngatawhai Group Forest Investment

## Financial Information

Section 6 of the PDS contains Financial Information.

The share price is amended from \$48.63 per share to \$53.255 per share, or \$10,651 for each minimum parcel of 200 shares. This has arisen because the first Call due on 30 June 2020 has been made.

The total Investment Contributions for the period to 31 March 2020 were \$2,917,800 and the total Calls of \$277,500 due on 30 June 2020 have now been paid.

The audited Financial Statements and Annual Report to 31 March 2020 can be downloaded from the Disclose Register.

The principal assumptions in the Cashflow Projection on the Expected Life of the Investment are still valid. At the time the PDS was issued, 36-month average log prices to 30 June 2019 were used as the basis for projected harvest revenue. This translated to \$42,905 per hectare for all trees planted from 2012 onwards. If log prices were updated to 36-month average prices to 31 March 2020, the equivalent revenue per hectare would be \$42,678 per hectare. After balance date, spot prices for logs have reduced but the 36-month average is still at similar levels.

Set out on the following pages is the Key Information Summary from the PDS. This is updated to reflect the increased price for the minimum shareholding because the date for the first Call has now passed.

A further change to the Key Information Summary is the amendment to establishment net stocked area in the table in the Key Existing and proposed Scheme Property section, where establishment areas have been amended to reflect updated estimates of net stocked area which are around 15 hectares (2%) less than the original plan.

All section and page references in the key information summary refer to the PDS.



# 1. Key Information Summary

## 1.1. What is this?

This is an Offer of shares in Ngatawhai Group Forest Investment, a forest-owning **Managed Investment Scheme** (referred to as the 'Investment' or the 'Scheme'). Your money will be pooled with other investors' money and invested. The Manager of the Scheme, **Forest Enterprises Limited (FEL or the Manager)** invests the money in establishing and maintaining the forest assets for eventual harvest. FEL takes fees for this management. The assets and fees are described in this document. By investing in this Scheme, you are relying on the investment decisions of FEL and returns from the forest assets that the Scheme invests in. There is a risk that you may lose some or all of the money you invest.

Key terms and technical words in this **Product Disclosure Statement (PDS)** are defined or explained in the Glossary which can be found on pages 47 to 50.

## 1.2. Who manages this Scheme?

FEL is the licensed Manager of the Scheme. **Forest Enterprises Growth Limited (FEG or the Offeror)**, a related party of the Manager, is the Offeror of the shares in the Scheme. Refer to Section 10 *About Forest Enterprises Limited and Others Involved in the Scheme* from page 39 for further details.

## 1.3. What are you investing in?

### General nature of the forestry investment

The Scheme has been structured as a long-term contributory investment in 4 young **second rotation** forests in the Wairarapa region held to harvest when over 610 hectares of trees are mature.

The Scheme will conclude in around 27 years when the youngest trees are mature and harvested. The Investment return should commence in 19 years (around 2038) when the 2012 age class trees are harvested under the **Forest Management Plan** and continue for around 9 years until the remaining trees are harvested and Land sold.

A return on investment will be dependent on income generated from harvest of the Trees, sale of the Land and any replanted Trees on the Land at that time.

### Investment objectives and strategy of the Scheme

The Scheme's investment objective and strategy is to acquire the Land, complete the Forest Management Plan to maximise the value of the Trees for eventual harvest and distribute the proceeds to Investors.

### Key existing and proposed Scheme Property

The main property of the Scheme is the Land (which is second rotation forestry land classified as **pre-1990 forest land** under the Climate Change Response Act 2002), plus re-planted trees (established or to be re-established). Refer to the table below which sets out the total area (in hectares) of each block of Land.

Block	Year Established													
	1998	2002	2003	2005	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Jacksons Creek	0.0	0.0	0.0	0.0	46.4	22.5	12.5	0.0	0.0	3.6	0.0	30.0	28.7	143.7
Ngatawhai	10.8	8.9	14.6	1.1	0.0	0.0	8.8	0.0	44.8	80.1	66.1	23.9	4.8	263.9
Seaview	0.0	0.0	0.0	0.0	0.0	42.1	17.2	0.0	0.0	0.0	24.9	17.1	35.5	136.8
Te Wharau	0.0	0.0	0.0	0.0	4.5	0.0	2.3	32.0	12.4	16.7	0.0	0.0	0.0	67.9
<b>Total Area (Hectares)</b>	<b>10.8</b>	<b>8.9</b>	<b>14.6</b>	<b>1.1</b>	<b>50.9</b>	<b>64.6</b>	<b>40.8</b>	<b>32.0</b>	<b>57.2</b>	<b>100.4</b>	<b>91.0</b>	<b>71.0</b>	<b>69.0</b>	<b>612.3</b>

Note: Although carbon sequestration is occurring in the forest, no carbon credits will be received by the Scheme under the legislation because it is classified as a pre-1990 forest land.

### Key source of borrowings used, or able to be used, in the future to acquire scheme property

The Scheme can borrow, and the Manager has arranged a term loan facility with the Bank of New Zealand (BNZ) which will be used to meet operating expenditure during the first year. An initial drawdown on the loan of \$385,000 will occur so there will be no Investor Calls until 30 June 2020. The maximum borrowings under the term loan is \$385,000.

In addition, the Manager has arranged an operating overdraft with the BNZ of up to \$40,000.



## 1.4. Key terms of the Offer

<b>Product on Offer</b>	Shares in a <b>Limited Partnership</b> and an equivalent number of beneficially held shares in a <b>General Partner</b> Company of the Limited Partnership.
<b>Minimum Number of Shares Available</b>	The Offeror offers 60,000 shares (the maximum number of shares available) for sale under this PDS.
<b>Minimum Initial Shareholding</b>	The minimum initial investment is 200 shares, but you can invest in any number of additional shares.
<b>Price per 200-share parcel</b>	\$10,651 (Additional shares being \$53.255 per share).
<b>Estimated Future Contributions (Calls) per 200-share parcel</b>	<p>The investment is contributory by nature. Calls are made each year to fund the current year's budget until the Trees are mature and ready for harvest.</p> <p>Calls per 200-share parcel are projected to average around \$1,011 per year from 30 June 2020 for 8 years, then drop to average around \$291 per year until harvest commences in or around 2038. Calls for different share parcel amounts will be pro rata to the 200-share parcel example.</p> <p>In addition, the annual \$60 <b>Investor Administration Fee</b> will be charged once per year regardless of the size of shareholding.</p> <p>Calls and timing will vary from the projections as a consequence of changes over time to the work program in the Plan and prices. These changes may be material although changes to the Plan that have a material cost impact are subject to Investor vote.</p>
<b>Failure to pay Calls</b>	Calls are due on 30 June each year to meet the annual budget. Failure to pay Calls would put the Investor in default and subject to forfeiture of their shares as per the <b>Governing Documents</b> .
<b>Intended Offer Opening Date</b>	7 October 2019
<b>Intended Offer Closing Date</b>	No fixed closing date. Closes when all shares have been sold.
<b>Further Details</b>	For further details on the terms of the offer, see section 5 – Terms of the Offer.

## 1.5. How you can get your money out

An investment in the Scheme (the Limited Partnership) is not redeemable on demand and there is no fixed date on which you may get your money out.

Your investment in these LP shares can be sold prior to harvest but there is no established market for trading these financial products. This means that you may not be able to find a buyer for your shares. However, Investors can arrange a private sale of their shares, or choose to offer their shares for sale on the secondary market operated by FEL.

Money will be distributed to investors once harvest proceeds are received, expected to be from 2038 to 2047. It is anticipated that the Scheme will be wound up following the sale of the Land in 2047. Provided harvest and the sale of the Land occur according to the projected timetable, the investment term is approximately 27 years. See Section 5 *How the Ngatawhai Group Forest Investment Works* from page 20 for more information.

## 1.6. Key drivers of returns

The Manager considers that the most significant current and future aspects of the Scheme that will have, or may have, an impact on the Scheme's financial performance are:

- Future log prices
- Crop quality and yield at harvest
- Harvest and roading costs

The scale of the Investment, with a geographical spread through the Te Wharau district and a seven-year age class spread, should reduce the impact of any short-term impact of price changes. Furthermore, a robust Forest Management Plan, expertise in forestry management by the Manager and best practice silviculture contribute to the crop quality (and value) at harvest and to managing roading costs. Further information about the key drivers or returns and the key strategies and plans of the Manager in respect of those drivers can be found on page 12 Section 2 *Factors that may affect the financial performance and Investors' returns*.



## 1.7. Ngatawhai Group Forest Investment financial information

Returns will not be generated until harvest of the forests around 20 years away, so initially the most useful information is projected Calls each year that Investors pay starting on 30 June 2021. For each parcel of 200 shares, Calls per 200 share parcel are projected to be \$981 on 30 June 2021 and \$1,062 on 30 June 2022 plus the annual \$60 Investor Administration Fee paid once each year regardless of the size of shareholding. Calls per 200 share parcel will average around \$1,011 per year from 30 June 2020 for 8 years, then drop to average around \$291 until harvest commences in or around 2038.

### Financial Measures for Scheme borrowings

#### Gearing Ratios

Gearing Ratios tell you how much the Investment owes (debt) as a portion of what it owns (assets).

On acquisition of the 4 Forest Properties	0%
At 31 March 2020	13.0%
At 31 March 2021	12.3%

#### Interest Cover Ratios

Interest Cover Ratios tell you how much the Investment's net income exceeds interest on its loans (as a multiple). As there is no income other than unrealised forest crop fair value increases, the ratio is negative and of less relevance.

At 31 March 2020	-14
At 31 March 2021	-4

Further information on how these amounts are calculated is included from page 25.

Prospective financial information included in this PDS has been extracted from prospective financial statements prepared in accordance with the Financial Reporting Standard 42: Prospective Financial Statements (FRS 42), which are available on the Offer Register. The prospective financial statements to 31 March 2021 have been subject to a limited assurance engagement and an unmodified opinion has been issued by Baker Tilly Staples Rodway Audit Limited, a copy of which is also included on the Offer Register. Longer term Prospective Financial Information in accordance with FRS 42, not reviewed by Baker Tilly Staples Rodway Audit Limited, are also on the Offer Register.

#### Property and forest asset valuation

The LP (through the Custodian, TEA Custodians (Forest Enterprises) Limited) purchased the 4 forest properties that will form the property and assets of the Scheme on or about 6 September 2019. The value of those 4 forest properties, calculated on 9 August 2019 was:

Forest Property	Valuation	Value August 2019
Land & Improvements	Morice Ltd	\$1,892,000
Trees + Replanting Receivable	Cost + 3% p.a.	\$1,201,800
		<b>\$3,093,800</b>

The valuation is based on the objective mechanism where the Land component is based on independent land valuations carried out by a registered land valuer and the Tree component of the valuation is based on re-establishment costs incurred by the seller of the properties. For a more detailed explanation see *Acquisition of Key Property* on page 13 in Section 2.

## 1.8. Key risks of this investment

Investments in Managed Investment Schemes are risky. You should consider whether the degree of uncertainty about Ngatawhai Group Forest Investment's future performance and returns is suitable for you. The price of shares in the Scheme (including the annual Calls on such shares) should reflect the potential returns and the particular risks of these shares in the Scheme. FEL considers that the most significant risk factors that could affect the value of the Forestry Investment are:

<b>Crop Risk</b>	<p>The risk of unfavourable climatic events, disease and fire may cause failure of all or part of the Trees or the forest producing less volume and poorer quality logs at harvest.</p> <p><b>Mitigating Factors</b></p> <p>These risks are minimised by careful forest management. Insurance cover is in place to minimise the risk in respect of fire and wind related events. These are second rotation forests with proven history in growing the quantity and quality necessary for a successful tree crop.</p>
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<b>Market Risk</b>	<p>The risk associated with changes in supply and demand for <b>pine</b> logs over time resulting in changes in prices.</p> <p><b>Mitigating Factors</b></p> <p>The scale of the forests means that the main harvesting will occur over 9 years and this length of harvest will minimise the impact which cyclical periods of low prices may have on the return.</p>
<b>Operating Environment Risk</b>	<p>The risk that restrictions could be placed on harvesting and/or the cost of compliance increases, the risk of inflation, exchange rate fluctuations and changes in taxation rates and regimes.</p> <p><b>Mitigating Factors</b></p> <p>Improvements in harvesting technology and the increased mechanisation of harvesting are trends that are likely to continue to counter compliance cost increases. Cost inflation is likely to be mitigated by revenue inflation. Exchange rate changes and resulting prices changes will be mitigated by the length of harvest as above.</p>
<b>Counterparty Risk</b>	<p>Post-harvest, when the logs are sold, receivables owed to the Scheme which will at various times be held by counterparties such as the buyers of the logs or by FEG as the forestry manager under a <b>Forestry Management Services Agreement</b> with FEL. From this money, the harvest costs are paid, before the resulting net amount is passed back into the custody of the Scheme's <b>Supervisor</b>.</p> <p><b>Mitigating Factors</b></p> <p>FEG's marketing and shipping agents require irrevocable letters of credit for payment by overseas buyers. The risk of non-performance by FEG is low because under the FMC Act contracting out by the Manager does not affect the liability of the Manager which remains responsible for the performance of those functions under the Forestry Management Services Agreement. However, to mitigate against the risk of FEG becoming insolvent, the Manager and FEG will have in place trust arrangements over all forest harvest receipts for forests harvested by FEG under the Forest Management Services Agreement.</p>

This summary does not cover all of the risks. You should also read Section 7 *Risks to Returns from Ngatawhai Group Forest Investment* from page 32, and other parts in this PDS that describe risk factors.

## 1.9. What fees will you pay?

The table below summarises the fees and expenses that you will be charged to invest in this Scheme. Further information about fees is set out in Section 8 *What are the Fees?* from page 35.

The fees in the table are an estimate of fees to be charged to the Scheme in the periods indicated. Each individual Investor's share of these expenses will relate to their pro rata share of the Investment. For example, if an Investor purchases the minimum shareholding of 200 shares, the figures would be divided by 300 for the Investor's share (300 x 200 = 60,000 shares).

Set Up Fees		Ongoing Investment Fees & Expenses		
Manager and Associated Persons	Period to 31 March 2020	Manager and Associated Persons	Period Ended 31 March 2020	Year Ended 31 March 2021
Manager's Offeror Fee / Brokerage	\$120,000	Base Management Fee	\$15,980	\$17,564
Legal Fees	\$50,000	Forest Activity Supervision Fee	\$69,500	\$51,312
<b>Other Party Fees</b>		Non harvest Income Fee	\$0	\$0
Legal Fees	\$46,000	Investment Update and indicative Valuation Fee	\$3,300	\$3,300
Supervisor	\$5,000	Harvest Management Fee	\$0	\$0
PDS, Scheme Registration & FMA Levy	\$6,100	Investor Meeting Costs	\$500	\$5,000
Assurance Fees	\$7,900	Disbursements	\$5,000	\$5,000
<b>Total Fees</b>	<b>\$235,000</b>	<b>Other Fees and Expenses</b>		
		Direct Forestry Expenditure	\$335,091	\$248,961
		Supervisor's Fees	\$4,250	\$4,250
		Audit Fees	\$4,500	\$4,500
		Insurance	\$12,408	\$7,601
		Levies	\$0	\$0
		Rates	\$6,390	\$6,390
		Interest Charges	\$23,530	\$24,100
		Legal & Other Professional	\$0	\$0
		Contingency	\$5,500	\$0
		<b>Total</b>	<b>\$485,948</b>	<b>\$377,978</b>

## 1.10. How will your investment be taxed?

The Investment is not a portfolio investment entity (PIE). See Section 9 *Tax on* page 38 for more information.

