



Awatea Forest Fund

Statement of Investment Policy and Objectives (SIPO)

Roger Dickie (N.Z.) Limited

1 March 2022

1. Description of the Fund

The Awatea Forest Fund ("Fund") is a managed investment scheme registered under the Financial Markets Conduct Act 2013 ("FMCA"). The Fund was established under a trust deed ("Trust Deed") between Roger Dickie (N.Z.) Limited (the "Manager" or "RDNZ") and Covenant Trustee Services Limited (the "Supervisor"). The Trust Deed governs the Fund.

RDNZ is the manager of the Fund. The Manager is responsible for ensuring that the Fund is managed in accordance with the objectives and policies outlined in this SIPO, the FMCA, and the Trust Deed. The Manager has outsourced forestry management functions to Forest Management (NZ) Limited ("Forestry Manager"), a related party of the Manager.

The Supervisor is the licensed supervisor of the Fund. The Supervisor is responsible for supervising the Manager's performance of its functions.

Awatea Forest Fund Trustees Limited (the "Custodian") is the custodian of the Fund. The Supervisor has appointed the Custodian to hold title to the assets of the Fund on behalf of the Investors. The Supervisor holds the shares in, and has appointed the directors of, the Custodian.

Units in the Fund ("Units") are held by investors in the Fund ("Investors"). Each Unit is of equal value and confers an equal interest in the Fund. RDNZ offers new Units to Investors under a continuous issue Product Disclosure Statement ("PDS").

The Fund invests solely in forestry assets (as defined below), and has been established to develop and hold a diversified forestry investment portfolio.

The Fund has no fixed term. The Fund may be terminated in accordance with the Trust Deed.

2. Investment Objectives, Strategy and Philosophy

Investment objectives

Forestry, by nature, is a long-term investment. The primary objectives of the Fund are to, over time:

- source, acquire and establish a diversified portfolio of forestry assets throughout the proven forest growth and infrastructure areas of New Zealand by investing in freehold real property and other authorised forestry assets;
- manage those forestry assets with the intention of generating regular returns to Investors (and, where appropriate, distributing those returns to Investors) through granting leases of the right to harvest the trees, trading carbon credits, and other forestry-related activities; and
- to the extent returns are not distributed to Investors, increase the net asset value of the Fund and as a result generate capital growth in the value of Investors' Units.

Over time, the Manager intends to grow the Fund's portfolio by acquiring approximately

5,000 hectares of New Zealand forestry assets.

A secondary investment objective of the Fund is to enhance the environmental aspects of the land through the promotion of activities that benefit the prevention of climate change, increase biodiversity, and enhance soil conservation, clean waterways, and wildlife habitats.

The Manager targets a long-term average return for the Fund (after all fees and costs but before tax) of between 7% and 10% per annum. This is not a forecast return, and the Manager does not guarantee that this target return will be achieved.

Investment strategy

The Manager's strategy in respect of the Fund is:

- To invest, in the ordinary course of business, in freehold real property and other authorised forest assets (either directly or via forestry investment vehicles ("Forestry Funds")) to create, over time, a diversified forestry portfolio.
- To leverage the Manager's experience, and public and private networks, to source and acquire quality forest assets that meet the objectives of the Fund.
- To manage the Fund and the revenue-generating activities of the Fund in a way intended to allow the Manager to make distributions to Investors while maximizing the returns (cash and capital) of the Fund.

In pursuing the above strategy, the Manager has all of the powers to manage and administer the Fund set out in the Trust Deed and the FMCA, including to (without limitation):

- Purchase, lease, take on, hire, or otherwise acquire any real or personal property for forestry purposes, or any rights, privileges, or easements over or in respect of any such property (including the creation or grant of forestry rights), and sell, lease, or dispose of any of them in such manner and subject to such terms and conditions as determined by the Manager in accordance with the Trust Deed.
- Carry on or grant leases of forestry rights to others to carry on the business of forestry on those properties, including tree farming and silviculture, and managing, operating, harvesting, processing, marketing and selling forests and trees of all kinds.
- Register, deregister, manage, buy, sell, lease or surrender New Zealand Units (carbon credits) in the New Zealand Emissions Trading Scheme ("ETS") or other related scheme.
- Borrow monies upon the security of any real and personal property or part thereof upon such terms and conditions set out in the Trust Deed and this SIPO.
- Place monies awaiting investment on fixed or floating rate deposit.
- Invest in Forestry Funds and other authorised investments.
- Manage, develop, sell, lease, or otherwise deal with or dispose of any property or other asset acquired or held by the Fund.
- Undertake such further or other business or operations as the Manager considers appropriate in all the circumstances and which complies with the Trust Deed and the conditions of RDNZ's managed investment scheme manager licence.

Philosophy

The Manager's investment philosophy in relation to the Fund is to make long term forestry investments in a sustainable and environmental manner, while maximising overall returns to Investors and minimizing exposure to investment risk.

3. Authorised investments

The Fund's authorised investments are any assets resulting from the activities referred to in the 'Investment strategy' section above (referred to in this SIPO as "forestry assets"), including the forests/trees, land, forestry rights, bank deposits and other fixed interest securities, New Zealand units, interests in Forestry Funds, and any other assets which relate directly to, or arise from, investment in and ownership of the Fund's land and forests (for example, existing dwellings on the land and selling or granting leases of forestry rights or selling land used in forestry activity). There are no limits on the proportion of each type of asset the Fund can invest in.

4. Target forestry asset allocations

Within 3 years of the initial launch of the Fund, the Manager intends for the Fund to invest in the following types of forestry properties in the following proportions:

Type*	Description	Target forestry asset allocation
Greenfield Production Forestry (ETS 'Averaging')	Conversion of pastureland to forestry for the sale of carbon credits and production harvest.	50% to 80% of Total Assets (as defined in the Trust Deed)
Greenfield Permanent Forestry (ETS 'Permanent')	Conversion of pastureland to forestry for solely for the sale of carbon credits, no harvest.	0% to 20% of Total Assets
Brownfield Mature Forestry	Forestry which is within 10 years of harvest.	0% to 20% of Total Assets
Brownfield Early to Mid-Rotation Forestry	Forestry either in the state of cutover or aged 1 through to 10 years prior to harvest.	0% to 20% of Total Assets

* Including interests in forestry rights or leases of forestry rights granted or created in respect of the type of forestry properties.

The remainder of the Fund will be invested in other forestry assets, including carbon credits and cash.

It is anticipated that the Fund's forestry properties will be planted almost solely with commercial intent and include both exotic and native species, including:

- Radiata Pine: 70% to 95%.
- Other Exotic Softwoods: 0% to 20%.
- Exotic Hardwoods: 0% to 10%.
- Natives: 0% to 10%.

The above types and species reflect the Manager's current intentions in respect of the Fund. However, the Fund's actual asset mix at any time will depend on a large number of factors, including the availability of quality forestry assets for purchase, the amount of funds under management at any given time, the need to maintain the Fund's PIE status (see section below), and the time it takes for the Fund to reach the required scale. Given the long-term nature of the Fund, the Manager's target asset allocation may also change over time, including in response to changes in the industry or the economy more generally.

Accordingly, the above should be viewed as a general guide only, and are not limits on the nature or type of investments that may be made by the Fund, or on the proportion of each type of asset invested in, for the purposes of section 164 of the FMCA.

5. Investment policies

The Manager manages the Fund under the following key policies:

Process for the Acquisition, Establishment and Management of Forests

The Manager applies the following principles to the acquisition, establishment, and maintenance of forestry properties for the Fund:

- Quality and well-located land or tree crop fit for the purpose of forestry is selected by the Manager and due diligence is undertaken.
- If the results of due diligence are satisfactory to the Manager, it will enter into a contract for the purchase of the land or tree crop and will arrange for financing for the acquisition (including through borrowing).
- Independent forestry consultants are engaged to provide feasibility studies and treecrop and land valuations for the forests and land proposed to be purchased by the Fund. If the results of the feasibility studies and valuations meet the Manager's criteria, the Manager will proceed with the acquisition.
- Upon acquisition of land, the Manager will arrange for the Custodian to create a forestry right in respect of the land. A forestry right is established pursuant to the Forestry Rights Registration Act 1983, and grants a right to establish, maintain, and harvest, or maintain and harvest, a crop of trees on the relevant land.
- Each forest is established or replanted in species considered fit for the location, site and climate of the property, using proven tree stocks and silviculture for the chosen forest regime.

- The Manager ensures the forests are managed and maintained to industry standard levels through supervision and regular reporting from the Forestry Manager.
- The forests will be managed with careful consideration for the ETS or any other related scheme and for the risks involved with the participation in those schemes.
- The forests, or compartments of forests, will be grown for either production or permanent forestry purposes depending on the assessment of that land by the Manager and any independent consultant it engages.
- The Manager currently ensures that insurance is maintained over the life of the forest, including fire, windthrow and public liability. The Manager will continue this practice for so long as it considers doing so to be appropriate, taking into account the nature and scale of the Fund's operations and the availability and pricing of relevant insurance cover. The Fund may utilise group self-insurance or collective insurance arrangements, including with related parties, for this purpose.
- A lease of the relevant forestry right will be granted as the time of harvest approaches, and the Fund will receive lease payments from the lessee. It is anticipated that these leases will primarily be granted to the Forestry Manager.
- Growth modelling and plotting are used to determine the optimal time to harvest each forest. This is usually around age 26.
- The forests will be replanted after harvest.

Emissions Trading Scheme (ETS)

- Each eligible forest may participate in the ETS or any related scheme.
- The Manager may register, deregister, manage, buy, sell, lease or surrender New Zealand Units (carbon credits) in the ETS or other related scheme.
- The forests will be managed with careful consideration for the ETS or other related scheme and for the risks involved with the participation in those schemes.

Distributions and Cash Reserves

Part of the Fund's objective is to acquire and to manage investments of the Fund with the intention of generating returns (operating profit) to the Fund.

The Manager does not intend to make any distributions to Investors until after the Initial Lock-up Date (as defined below), although it may, and its discretion, make distributions prior to that date.

It is the Manager's intention to review the Fund's position every six months, beginning 30 June 2024, and to make distributions to Investors from the operating profit of the Fund (net of any adjustments) if the Manager considers doing so to be commercially sustainable. Adjustments to the operating profit may be made for such reasons as building cash reserves (including to fund the operational and investment activities of the Fund), meeting working capital requirements, funding an acquisition, repaying bank borrowings, or funding redemptions. The Manager may also borrow for the purposes of funding distributions.

The terms of the Manager's current distribution policy (which can change from time to time) are set out in the PDS.

Redemptions and Third-Party Sale of Units

Redemptions of Units are not generally available prior to the end of the second full financial year after the launch of the Fund (i.e. 31 March 2024) or such other date determined by the Manager (“Initial Lock-up Date”). After that date, the Manager may (but is not required to) offer quarterly redemptions of Units. The Manager may also (but is not required to) allow withdrawals in cases of financial hardship at any time.

If offered, redemptions will be limited to the Quarterly Available Funds, which will be:

- 1% of the Adjusted NAV (as defined in the Trust Deed) per quarter; or
- any other amount determined by the Manager from time to time having regard to the future requirements of the Fund (which may be greater or lesser than 1% of the Adjusted NAV).

The Manager may suspend or otherwise restrict redemptions at any time in accordance with the Trust Deed, including if the Manager considers that the payment of redemptions could compromise the Fund’s ability to meet its other payment obligations.

Investors may also transfer their Units to another person in accordance with the Trust Deed. No pre-emptive rights apply to sales of Units, and, if requested, the Manager may assist by facilitating the sale of Units to its wider investor base (known as the ‘Secondary Market’). There is no established or guaranteed market for such sales.

Borrowing

The Fund has the ability to borrow in accordance with the Trust Deed. For the purposes of clause 18.3a of the Trust Deed (Limitations on Borrowings), the following limits currently apply to borrowing on behalf of the Fund:

- 1) Acquisition borrowing: The Fund may borrow for the purposes of acquiring forestry properties, provided that Total Borrowing (as defined below), does not exceed 50% of Total Assets.
- 2) Working Capital borrowing: The Fund may borrow for the purposes of funding the day-to-day expenses of the Fund (including for the purposes of funding distributions, redemptions or fees), provided that:
 - a) the principal moneys borrowed and outstanding under this paragraph 2) does not exceed 20% of Total Assets at any time; and
 - b) Total Borrowing under paragraph 1) and 2) does not exceed 50% of Total Assets.

For the purposes of the above, “Total Borrowing” means the aggregate of the principal moneys borrowed and outstanding in respect of the Fund or secured against the Fund’s assets at the time of the borrowing plus the principal moneys proposed to be borrowed.

Borrowing parameters apply. Should a policy or banking condition be at risk of being breached, the Manager shall look to raise additional capital via issue of Units. The above borrowing limits may change in the future.

Interest Rate and Hedging Policy

The fixing of borrowing rates reduces the risk profile of the Fund. Because of the nature of the Fund's intended borrowing and the volatility in cashflow, the Fund is likely to carry only a small portion of fixed interest rate hedging.

Related party transactions

- The Manager has adopted policies in relation to related party transactions and conflicts of interest.
- Each director and employee will act in the best interest of the Fund and the Investors of the Fund in relation to any related party transactions entered into or proposed to be entered into in relation to the Fund.
- The Manager conducts all transactions with related parties of the Fund in accordance with the restrictions set out in the FMCA (including in relation to any acquisition of any interests in a Forestry Fund that constitutes a related party transaction for the purposes of the FMCA – see below).
- Under the FMCA, the manager of a managed investment scheme (and any investment manager, administration manager, or other person to whom the manager has contracted some or all of its manager functions) is prohibited from entering into a transaction that provides for a related party benefit to be given.
- However, the FMCA provides an exemption for related party transactions if
 - the manager notifies the supervisor of the scheme of the transaction, the related party benefits given under that transaction, and the key terms of the transaction; and
 - either:
 - the transaction is 'permitted' in accordance with the FMCA and the manager certifies to the supervisor to this effect; or
 - the manager obtains the supervisor's consent to the transaction. That consent can only be given where the supervisor considers it to be in the best interests of Investors, or it is approved by (or contingent on) approval by a special resolution of affected Investors.

Acquisition of interests in, or assets from, a Forestry Fund

The Fund may acquire interests in Forestry Funds, or acquire forestry property from Forestry Funds, from time to time.

The Manager will undertake due diligence on any proposed acquisition of interests in a Forestry Fund prior to acquisition, taking into account the particular fund structure and associated assets and liabilities.

The Manager will apply relevant principles outlined under 'Process for the Acquisition, Establishment and Management of Forests' above to any proposed acquisition of forestry property from a Forestry Fund, subject to any modifications the Manager considers necessary.

Where the relevant Forestry Fund is issued or managed by the Manager or a related party of the Manager, the Manager will comply with the restrictions set out in the FMCA in relation to that transaction, as outlined above. For this purpose, the Investment

Committee (see section 6 below) has established processes designed to ensure compliance with those restrictions.

Valuation Policy

The Fund's assets are valued in accordance with the Trust Deed. In summary, all directly owned property and forests of the Fund will be valued regularly by independent expert valuers.

- Land/property valuations will be conducted annually as at the financial year end. The valuer will perform a full valuation including inspection at least every three years, with desk top valuations carried out in between.
- Forest/treecrop/forestry rights valuations will be made in the following manner:
 - o the forest assets (including forestry rights) will be valued quarterly;
 - o the financial year end valuation will include full valuation for each property;
 - o quarterly valuations will involve desk-top analysis including updates for forest growth, log prices, carbon prices, and costs.
- NZ Unit (carbon credit) valuations will be valued quarterly and will use the daily close price on the last business (trading) day of that quarter.

Any interests in a Forestry Fund which are not listed on a financial product market will be valued based on either:

- the most recent unit price issued by the Forestry Fund; or
- where the Forestry Fund does not issue a unit price, the Fund's proportionate interest in the Forestry Fund, calculated by reference to the net equity of the Forestry Fund shown in the most recent financial statements of the Forestry Fund.

Taxation Policy

The Manager intends to register the Fund as a multi-rate portfolio investment entity ("PIE"), with the amount of tax that each Investor pays based on the Investor's prescribed investor rate.

To ensure that the Fund maintains PIE status, the Fund must, among other things:

- not hold voting interests in a company of 20% or more (unless that company is a PIE or land investment company, or other qualifying investment type, and subject to certain exceptions);
- ensure that 90% of the income is derived from a lease of land (i.e. rental income from unrelated tenants, including leases of forestry rights), interest, distributions and / or the proceeds from the disposal of property; and
- ensure that 90% of the asset value is held in either land (i.e. property assets), financial arrangements or rights or options to acquire property.

The Manager will manage the Fund, including in respect of the investment decisions it makes, with a view to maintaining the Fund's PIE status. See the PDS for more information on tax.

6. Investment Governance and Management

The Manager has established an Investment Committee, which is made up of senior managers of RDNZ and other persons appointed by the board of directors of the Manager ("Board") from time to time.

The Investment Committee is responsible for making investment decisions in respect of the Fund, in accordance with processes determined by the Investment Committee and approved by the Board from time to time.

The Investment Committee may recommend changes to the SIPO, which the Board will consider.

7. Investment Performance Monitoring

The Investment Committee provides regular reports to the Board, including:

- Accounting information over the period including a balance sheet and transaction details.
- Performance against financial covenants such as Loan to Value Ratio (as defined in the bank loan facility) and compliance with other bank covenants.
- Forecast financial information.
- Key Fund metrics.

The Manager's Compliance Officer is responsible for monitoring compliance with this SIPO. The performance against this SIPO is monitored quarterly in March, June, September and December against the limits and guidelines set in this SIPO. A report will be made available to the Supervisor after the review.

The performance of the Forestry Manager and any lessees of forestry rights is monitored, and is reviewed on an annual basis, by the Compliance Officer and the Manager.

8. SIPO Reviews and Updates

The SIPO will be formally reviewed each December or where a material change occurs in relation to the Fund which may cause the SIPO to no longer be appropriate for its purpose. That review will take into consideration the following factors (among others):

- Changes to the FMCA.
- Any changes made in best practice operations for forestry management, harvesting and marketing in New Zealand.

Any changes are approved by the Board. In accordance with the Trust Deed, the Manager will:

- obtain the Supervisor's prior approval of any proposed changes to the SIPO (which it cannot unreasonably withhold or delay); and

- provide Investors with at least one month's prior notice of any change in the SIPO, unless the Manager and the Supervisor agree the change is not material.

The latest SIPO is available on the schemes register at www.disclose-register.companiesoffice.govt.nz.