

Ngatawhai Group Forest Limited Partnership

Statement of Investment Policy and Objectives (SIPO)

Table of Contents

Background	1
Description of the Scheme	2
Roles and Responsibilities	2
Investment Objectives	3
Investment Policies & Special Management Requirements	4
Investment Performance Monitoring	5
Compliance Monitoring	5
SIPO Review	5

Background

The Ngatawhai Group Forest LP is a registered managed investment scheme (Scheme) - scheme number SCH12683.

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 other 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.

Manager's Investment Philosophy

The Manager's philosophy, as a professional manager of forestry investments, is to select suitable Land and establish and manage high quality Radiata pine plantation forest on the Land, aimed at maximising the profitability of the investment at harvest. This will ultimately create satisfied Investors, who together with their family and associates, will seek further forestry investment opportunities.

Licensed Supervisor

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

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

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 909 hectares more or less of Land located in the Ngatawhai region, and approximately 627 hectares of Radiata pine plantation Trees established on the Land. The primary return from the investment will arise from the planned harvest of the Trees when mature and the subsequent sale of the Land and any replanted Trees.

Scheme Property and Permitted Assets

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

1. Land; and
2. Trees.

(the **Primary Assets**)

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.
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 all proceeds from claims, arising under all 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 the Trees), and then conclude following -

1. the completion of harvest of the Trees and distribution of the harvest proceeds to Investors (net of all harvest costs); and
2. the sale of the Land and distribution of the proceeds to Investors (net of all costs); and
3. the sale of any other saleable assets (such as the replanted Trees), then the winding up of the partnership and distribution of any remaining cash to Investors.

To meet resource consent, Emission Trading Scheme, 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.



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 (for establishment, management and harvest of the forest), and obtaining the consent of the Partners (Investors) for any material changes - refer to *Investment Policies & Special Management Requirements* on page 4 for further details on the Plan.

At all times the Manager remains responsible for the Scheme, however the coordination and supervision of the field work relating to the Land and Trees is contracted by the Manager to the Manager's parent company, Forest Enterprises Growth Limited (FEG). FEG has the specialist expertise, and business relationships, to undertake this work.

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.

Investment Objectives

Investment Objectives – Primary Assets

The investment focus is on the Primary Assets of the Land and the Trees as they contribute most to the investment return.

Trees

Of the two Primary Assets, the Trees are projected to contribute the largest 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 maximise the eventual return from the harvest of the Trees by undertaking industry best practice silviculture operations identified as being able to add value to the Trees; and
2. To maximise the return at harvest by using industry best practice harvest methods identified as being able to add value; and
3. To contract with quality service providers able to add value to the silviculture and harvest activities; and
4. To harness the scale and common interests of the investment with those of other investments managed by the Manager to maximise the investment return.

Land

The Land is the second of the two Primary Assets. In large part, the value of the Land is determined by the return on the Trees 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 reinstated 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. 616 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 (the main primary asset). 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 asset attached to the Land (the tree) is detached from the Land, converted into a log, and the log converted into material amounts of cash. From this cash 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 Supervisor. 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 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. The disposal of some or all of the Primary Assets prior to the conclusion of harvest requires a supporting special resolution of Investors.

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, mainly the Trees via the harvest of the Trees.

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 from the harvest 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 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.



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 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.

