

# New Forests' Approach to Climate Risk Management

February 2024

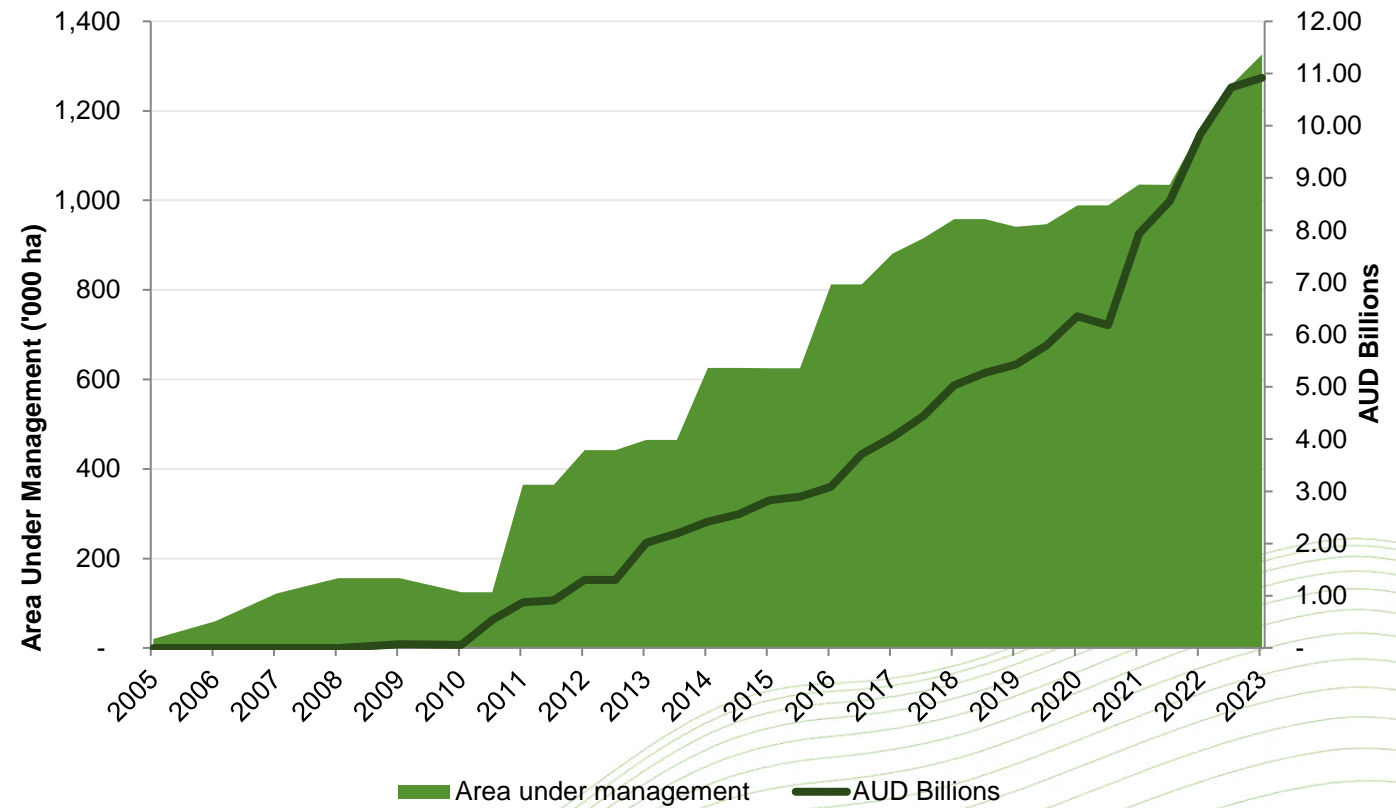
PRI Climate Risk (APAC)



# About New Forests

Founded in 2005 to manage institutional forestry investments, New Forests is now the world's second largest private forestry investment firm,<sup>1</sup> investing in both the productive use and long-term stewardship of forests and land through sustainable real assets investment.

- Approximately AUD 10.9 billion (USD 7.2 billion) in assets under management<sup>2</sup> including over 1.3 million hectares (3.2 million acres)<sup>3</sup> of land across the regions in which we operate.
- Regional investment strategies offering focused investment opportunities in real assets and natural capital, across developed and emerging markets.
- Head office in Sydney; 125+ employees across Australia, New Zealand, Singapore, the US and Kenya.



Our vision is to see investment in land use and forestry as central to the transition to a sustainable future.

<sup>1</sup> RISI (2022) Global Timberland Ownership and Investment Database.  
<sup>2</sup> The AUM number includes audited figures as at 30 June 2023 for ANZFF, ANZFF2, ANZFF3, FIT, TFT and EEL, and unaudited figures as at 30 June 2023 for LG, TCAT, AFIP, TAFF, TAFF2, and US Timberland Funds. The AUM also includes AUD 0.87 billion of committed uncalled capital from fund vehicles and managed funds.  
<sup>3</sup> Gross hectares under management includes a variety of land uses such as timber plantations, natural forest areas, agriculture, conservation areas, and carbon projects. In some carbon projects in the United States, New Forests manages carbon projects held on third-party owned land.

# Relevancy of Climate Change for the Land Sector

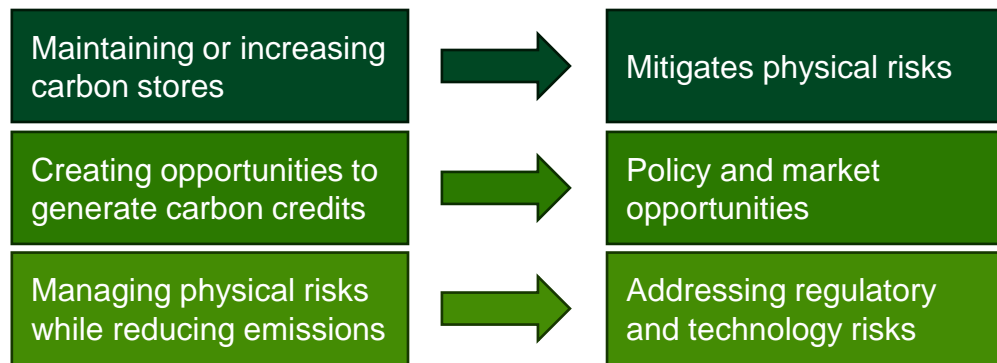
**While New Forests’ business is directly impacted by climate change-related risks, the land sector is also positioned to contribute to climate solutions.**

Land-based assets are uniquely positioned to contribute to climate change mitigation; natural climate solutions (NCS) can provide up to 1/3 of the mitigation needed to address global GHG emissions.<sup>1</sup>

New Forests’ approach to sustainable land management aims to:

- Increase carbon storage across assets under management.
- Scale carbon removals from growth and carbon stored in harvested wood products.
- Decrease emissions.

In turn, these actions mitigate the physical and transitional risks that land-based assets are exposed to.



<sup>1</sup> Griscom et al. (2019) *Global Change Biology*.

# Managing for Physical and Transitional Changes

Aligned with our vision, New Forests needs to manage climate-related risks and opportunities to support climate positive investments.

New Forests believes that investment into the land sector will evolve due to climate change impacts and the potential of NCS. Changes include:

1. Increased demand for low-carbon investments.
2. Increased timber demand for low-carbon fibre and building materials.
3. Product and investment innovation in NCS.

To prepare our business for these changes, we identified the most material categories of climate-related risks and opportunities.



## Physical



### Acute

- Extreme weather
- Forest fires
- Pests and disease



### Chronic

- Mean temperatures
- Precipitation pattern changes
- Rising sea levels

## Transition



### Policy

- Carbon pricing
- Regulation
- Timber legality requirements



### Market

- Changing perceptions of forestry
- Changing perceptions of carbon
- Growth in NCS



### Legal

- Disclosure requirements
- Legal requirements



### Technology

- Decarbonization
- Wood biomass energy efficiency
- Carbon removal technology



# Starting Our Climate Assessments

**New Forests began evaluating climate-related risks and opportunities in 2020 aligned with best practice.**

Based on the categories of risks and opportunities identified, New Forests focused on a bottom-up approach, identifying the risks and opportunities that are most material for our assets under management.

The priority was to get baseline asset level data of our climate-related risks and opportunities to inform our climate strategy.

## Climate Risks and Opportunities

- Aligned with the TCFD recommendations.
- Built into annual asset strategic planning process.
- Piloted with an ANZ fund.
- Subsequent rollout to all investment vehicles.

## GHG Emissions and Carbon Removals Data

- Standalone data collection processes.
- Emissions – started with scopes 1 and 2 before adding scope 3 the following year.
- Removals – had been collecting scope 1 (growth), added scope 3 (harvested wood products).

Used to inform risk management, New Forests' interim net zero target, and investor reporting requests.

# Lessons Learned

**After two assessment cycles, we learned that we needed to adjust our approach to climate risk management in strategic planning.**

- The climate risk and opportunity assessment was too complex for our managers to make it decision useful.
- Need to engage across the business to obtain top-down and bottom-up support.
- Using bespoke, static climate models was going to require too much ongoing work for our internal staff (e.g., updating the scenarios to reflect current climate science, adding new regions, etc.).
- Climate risk needs to be integrated into holistic risk management process.



# Updates to Our Process

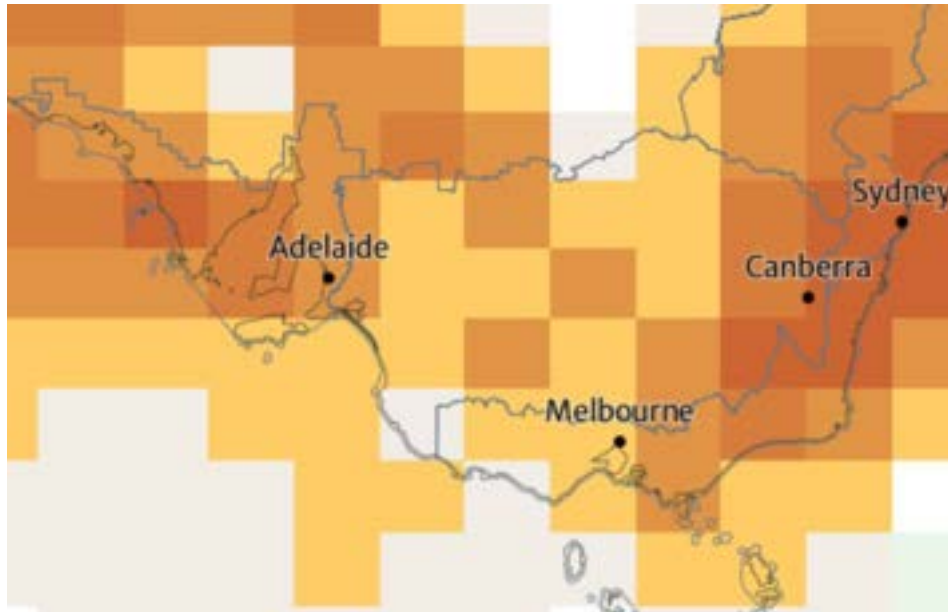
New Forests updated our process in 2023 to address the challenges identified:

1. Streamlined the climate risk and opportunity assessment to only relevant/required information.
2. Built the assessment around publicly available climate models and resources.
3. Updated the risk assessment to align with our Enterprise Risk Management framework that assesses and monitors all business-related risks and opportunities based on their consequence and the level of action needed to bring the risk within the company's risk appetite.
4. Held workshops with our internal staff and external property managers to communicate changes and the value of doing the assessment.
5. Updated our reporting format to our Board for top-down oversight.

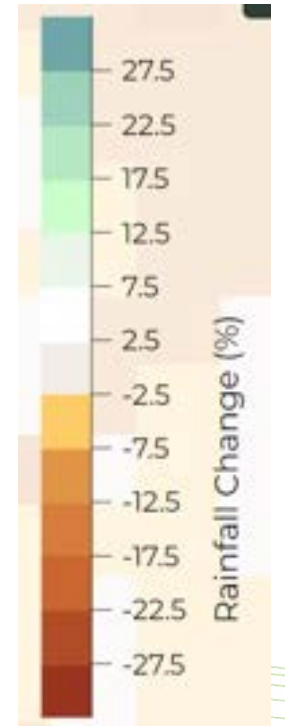
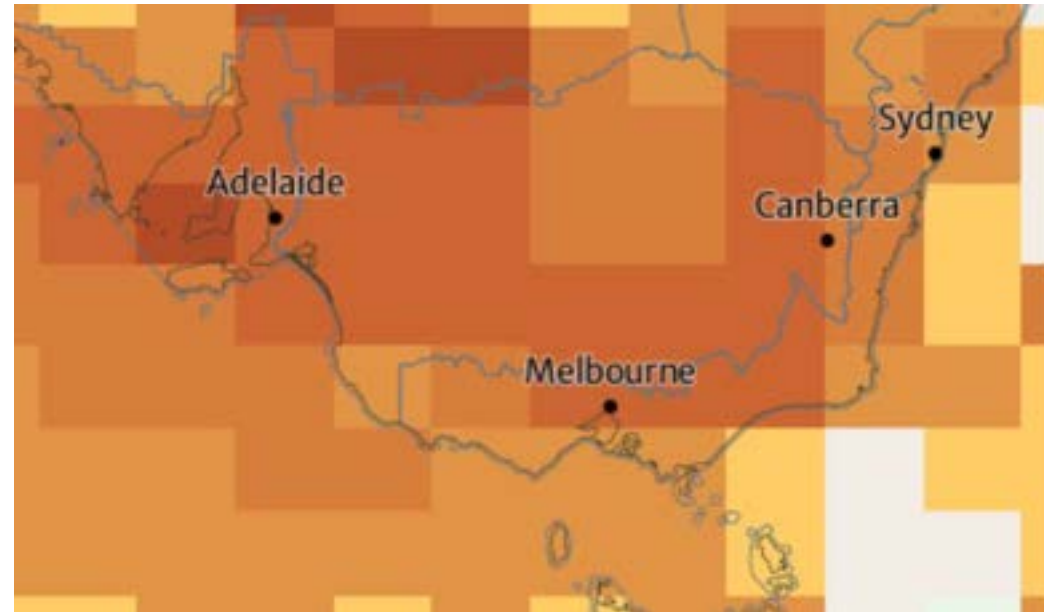
# Example: Rainfall Changes in the Green Triangle

Assessing annual percent change through 2030 compared to historical trends

RCP 4.5



RCP 8.5





# Climate-specific Assessment

New Forests seeks to align with the recommendations of the TCFD

## Contextualise the Risk

1. Risk title: annual precipitation decreases
2. Categorise: physical risk
3. Describe: annual decreases to precipitation could reduce growth rates
4. Causes: climate change
5. Consequences: decreased growth rates
6. Current controls: selective breeding program for drought-tolerant species
7. Financial impact: on assets and liabilities; moderate impact

## Scenario Analysis

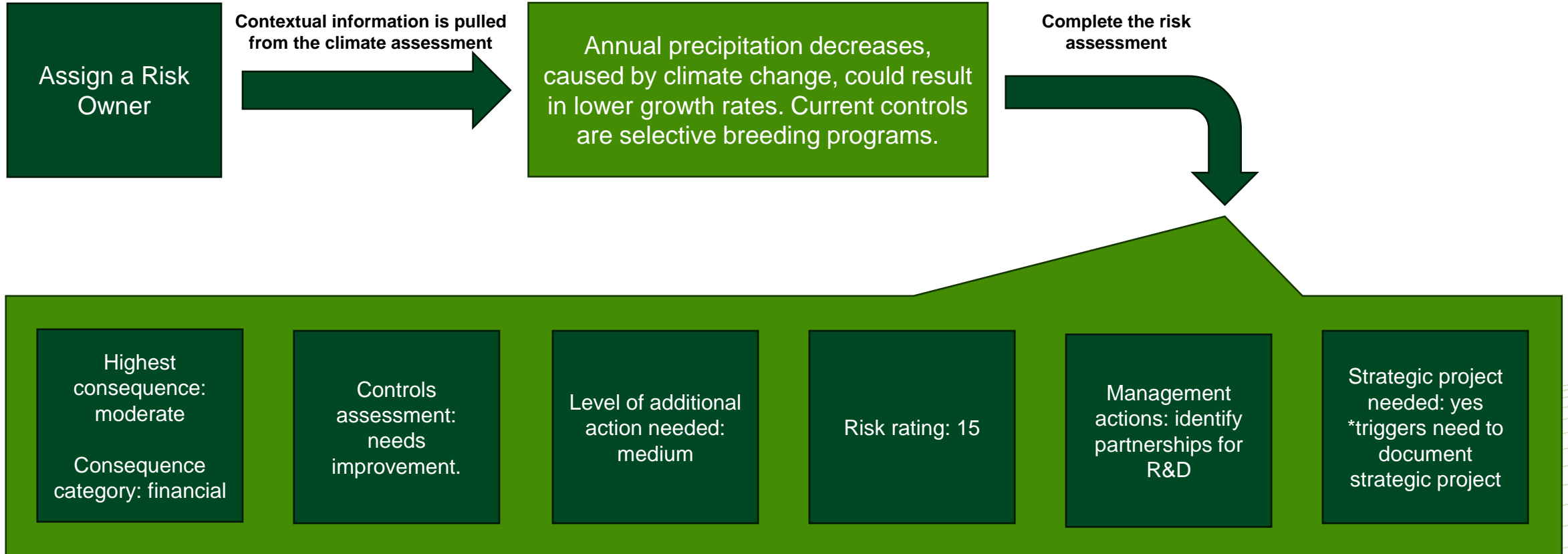
- RCP 4.5 assessment: consequence increases to minor consequence; current controls are sufficient.
- RCP 8.5 assessment: consequence increases to moderate consequence; current controls are not sufficient.
- Timescale assessment: consequences likely to get worse in the future.

## Strategy Alignment

- Strategic project assessment: Strategic project required needed to address the increasing risk; partner with other stakeholders for R&D program to improve genetics related to drought tolerance.

# Integrate Climate with Other Risks

Climate risks are assessed alongside all other risks using New Forests' standard risk approach.



# Implications for Management

**Managing climate-related risks and opportunities positions New Forests to better prepare for climate-related changes for land-based assets and advance our vision.**

The asset level risk registers, including climate-related risks, are communicated to management boards quarterly to track the effectiveness of controls and progress against strategic projects.

Asset and investment vehicle-related risks are also rolled up to the New Forests risk register to be managed at the group level.

GHG emissions, carbon storage, and carbon removals data is communicated to stakeholders to demonstrate New Forests' progress towards climate positive asset management by decreasing emissions and increasing removals.



# Ongoing Climate Commitment

**New Forests is a member of the Net Zero Asset Managers Initiative (NZAMI) and as such is committed to achieving net zero emissions by 2050 or sooner.**

New Forests used the Net Zero Investment Framework (NZIF) as the basis of our interim target; we set targets under two of this methodology's categories.

## Engagement

By the end of 2024, 100% of New Forests' financed emissions will be subject to direct engagement.

## Portfolio Coverage

By 2030, 50% of New Forests' AUM in comingled funds will be achieving net zero or aligned with a net zero by 2050 pathway.

Our interim net zero target includes fossil fuel-based emissions only. The NZIF does not allow for the inclusion of removals in target setting. The upcoming draft GHG Protocol Land Sector and Removals Guidance may further define how removals should be calculated, reported, and integrated into net zero strategies.



# Next Steps

**Climate risk assessment requires an iterative approach based on evolving best practice, business needs, and climate models.**

1. Climate risk assessment:
  - a. Updating how asset-level risk registers inform fund risk registers.
  - b. Integrating climate- and nature-related risks and opportunities.
  - c. Considering how to build climate-related risks and opportunities into financial models.
2. GHG emissions and carbon removals accounting.
  - a. Automating data collection.
3. Net zero
  - a. Implementation across investment vehicles.

New Forests is committed to continual improvement and aligning our climate strategy with best practice in support of a climate positive future.





For more information, please contact New Forests' Sustainability & Impact team:

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