

Form ADV Part 2A: Firm Brochure



NEW FORESTS INC.
27 September 2019

This brochure provides information about the qualifications and business practices of New Forests Inc. ("New Forests" or the "Adviser"). If you have any questions about the contents of this brochure, please contact our Chief Compliance Officer ("CCO") at +1 (415) 321-3300. The information in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission ("SEC") or by any state securities authority.

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Additional information about New Forests is also available on the SEC's website at: www.adviserinfo.sec.gov.

Item 2: Material Changes

No material changes have been made since the last filing of New Forests' Form ADV Part 2A on December 5, 2018. This Form ADV Part 2A, however, was updated to reflect New Forests' regulatory assets under management as of June 30, 2019.

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Item 4: Advisory Business

New Forests primarily provides investment management services to pooled investment vehicles (each a “Fund”) and managed accounts. The Funds and managed accounts are collectively the “Clients”. New Forests focuses on implementing investment strategies in sustainable forestry and environmental markets, particularly related to forest carbon markets, and conservation finance.

New Forests was founded in 2007 and is wholly owned by New Forests Pty Limited, which is based in Australia.

The Adviser provides investment management services to each Fund pursuant to the terms of the relevant Fund’s governing documents (e.g. offering document, limited partnership agreement, investment management agreement or other similar agreements). Investors in the Funds do not receive investment management services tailored to their individual needs.

As of June 30, 2019, New Forests managed approximately \$332 million in regulatory assets under management on a discretionary basis for Clients.

Item 5: Fees and Compensation

Compensation received by the Adviser from the Clients is generally fees based on a percentage of an investors committed or invested capital and/or a performance-based fee. The amounts are agreed upon in advance with the Client. Management fees are generally charged quarterly in advance. Any monitoring or consulting fees received by the Adviser in connection with an asset will generally offset the management fee.

In addition, Clients will pay other fees and expenses associated with the organization and operations of the applicable Fund. Each Fund’s governing documents and Client advisory agreements specify its fee schedule and details relating to types of fees and expenses that may be paid by the Fund.

Item 6: Performance Based Fees and Side-by-Side Management

New Forests may charge performance-based fees to its Clients. The existence of a performance-based fee could theoretically incentivize New Forests to manage Client portfolios in a riskier manner; however, New Forests mitigates this risk by ensuring that it is managing its Clients in accordance with stated investment objectives. In addition, the performance-based fee is only paid once a hurdle rate of return has been received.

Item 7: Types of Clients

New Forests currently provides investment advice to Funds and managed accounts. The Fund investors are typically comprised of trusts, estates, pension funds, foundations, endowments, and other such legal entities. The initial minimum investment in a Fund is generally \$10 million, although New Forests or its advisory affiliates may waive or reduce this amount at its discretion, as applicable.

Item 8: Methods of Analysis, Investment Strategies and Risk of Loss

New Forests' investment strategies include direct investment in high-carbon value U.S. timberland and project finance of forest carbon offset projects on third-party forests. New Forests targets both appropriate risk-adjusted returns for institutional client portfolios and measurable environmental, social and/or climate impact in its investments.

New Forests identifies high-carbon value timberland investment opportunities through proprietary geospatial and carbon modeling analytics, in addition to more traditional origination channels. Acquisition due diligence emphasizes rigorous underwriting of asset inventory, forecast log yields, operating costs, local log market conditions and forecast carbon offset yield in the California regulatory carbon market.

Asset operations focus on operational improvements, optimizing total return from log sales income, carbon offset income and inventory growth until forest assets deliver a maximum sustained yield of high value timber.

The asset disposition process is governed by the client's investment term and investment objectives. New Forests regularly monitors market conditions and makes divestments or divestment recommendations to investors at such times as are required by an investor or are viewed by New Forests as optimal for maximizing returns to Clients.

New Forests' U.S. Special Purpose Committee is chaired by Dr. David Brand (CEO) and includes Mr. David Brentlinger (independent member), Mr. Charl Pienaar (non-executive director), Mr. Mark Rogers (Managing Director, ANZ), and Ms. Radha Kuppalli (Managing Director, Investor Services). The Special Purpose Committee meets as and when required to discuss prospective investments. Prospective investments are evaluated independently, with regard to sector exposures, the Client's mandate and portfolio, and, in the case of multiple investments for an individual investor, having regard to other investments managed by New Forests for that investor.

All investing involves a risk of loss. The risks listed below do not necessarily include all the risks associated with an investment with New Forests and are not intended to be presented in any assumed order of priority.

Valuation Risk

Timberland assets encumbered by forest carbon offset projects under the California cap and trade system are new, and few appraisals of forests encumbered by such carbon projects exist. Property appraisers will typically use both comparable sale and discounted cash flow techniques to determine asset valuation estimates. The discount rates applied in the valuation of carbon forestry assets will vary based on several factors. Appraisers may apply higher discount rates to carbon offset revenue until such revenue becomes more customary and widely recognized in the timberland market.

Absence of Liquidity and Public Markets for Assets

Investments will be illiquid assets. As such, there will be no readily and rapidly available liquidity mechanism to dispose of any of the assets held by a New Forests' Client account at any time. In addition, the realization of final value from any investments will not be possible or known with any certainty until the Client's assets are sold.

Borrowings

New Forests' Clients may borrow funds from third party institutional lenders to make acquisitions or for working capital purposes, and such borrowings may be on a secured basis. If the income from investments is not sufficient to meet its

expenses, including its debt service obligations, the Client may be unable to repay such indebtedness and such lenders may exercise their rights against the assets of the Client, in which case there may not be sufficient funds after payment of all amounts due such lenders to pay any distributions and investors may lose the value of their entire investment.

Currency Exchange Risk

The functional currency of the Client accounts is U.S. dollars, and, as such, will value its investments in U.S. dollars and a majority of the timberland investments will be in the U.S. However, to the extent investments are acquired in Canada (as permitted under the investment strategy, with certain limitations), and to the extent such investments are unhedged, the value of the non-U.S. dollar investments will fluctuate with U.S. dollar exchange rates as well as the asset value changes of such non-U.S. dollar investments in local markets.

Lack of Diversification

Each Client portfolio is subject to certain restrictions on the size and type of its investments and intends to focus on timberland assets and carbon assets. Other than such restrictions, investors have no assurance as to the degree of diversification that will be achieved in its investments either by geographic region, asset size or asset type. It should be noted that geographic diversification is not a primary objective of the Adviser as New Forests intends to focus on investments in California, the Pacific Northwest, the Great Lake States, Appalachia, and the U.S. South. New Forests may participate in a limited number of investments and, as a consequence, an investor's aggregate return may be substantially affected by the unfavorable performance of even a single investment. New Forests' ability to diversify its risks will depend upon a variety of factors, including the size, characteristics, type and class of the timberland and high-value carbon timberland available for acquisition, and the competition for those investments during the term of the Client. New Forests may not be able to make investments that would provide a desired level of diversification.

Availability of Suitable Investments and Competition for Investments

The identification of attractive investment opportunities is difficult and involves a high degree of uncertainty. There can be no assurance that the Adviser will be able to identify and complete investments that meet stated investment objectives or that the Adviser will be able fully to invest a Fund's capital commitments. Furthermore, the Adviser may encounter competition in connection with its selection of investments from other providers of investment capital, some of which have greater financial and other resources than New Forests and may be competing for acceptable investments with traditional paper and forest products companies, public and private timber investment management firms and funds, governmental entities and preservationist groups, some of which may have similar investment objectives or different tolerance for risk. There can be no assurance that there will be a sufficient number of suitable investments available to New Forests or that the investments made will generate the target returns.

Non-Controlled Investments

Some of the Adviser's investments may be made in joint ventures formed for the purpose of investing in timberland. While unlikely, New Forests may not own a controlling interest in some of these investments and they may not be managed by New Forests or an affiliate. Those investments may involve risks not present in other types of investments, such as the possibility that the joint venture vehicle or other investors in the commingled vehicle have economic or business interests or goals inconsistent with those of the Client. Actions taken by those persons may subject the investment to liabilities in excess of, or other than, those contemplated by the Client. It may also be more difficult for New Forests to sell its interest in those investments. In situations of shared control over an investment, deadlocks could result that could adversely affect the investment's return or value.

Third Party Property Managers, Greenfield Sites, Infrastructure, and Processing Assets Risk

Like any other business, the viability of forestry assets is reliant on the revenue, costs, and profitability of that asset. Variability in any of these factors will affect the value of an investment. In addition, the Adviser engages third party property managers in connection with the management of timberland and infrastructure/processing assets. To the extent the Adviser is unable to identify and engage experienced property managers in a particular geographic area for a commercially reasonable cost, the operations and revenues may be adversely affected. While the Adviser will only engage property managers and operators it believes to be reputable, there can be no assurance that the property manager or operator will observe standards or requirements set out in the relevant management or operating agreements. Any mismanagement of an asset by a property manager or operator or instances of fraud and other malpractices committed by the property manager or operator may materially and adversely affect performance returns.

Contingent Liabilities on Disposition of Investments

In connection with the disposition of an investment, a Client will be required to make representations and warranties about such investment to the purchaser. The Client may also be required to indemnify the purchaser of such investment to the extent that any such representations or warranties are inaccurate. These arrangements may result in the incurrence of contingent liabilities for which the Adviser may establish reserves or escrow accounts. These reserves or accounts (if any) may be insufficient to cover the liability. Furthermore, under the Delaware Revised Uniform Limited Partnership Act, each investor that receives a distribution in violation of such Act will, under certain circumstances, be obligated to recontribute such distribution to the Fund. In addition, the Adviser may require investors to return distributions made to them for the purpose of meeting their pro rata share of certain obligations of the Client (including any indemnification obligations) or liabilities, including those arising from the operation, sale or disposition of any investment, subject to certain limitations.

Possibility of Litigation

In the ordinary course of its business, New Forests or a Client may be subject to litigation from time to time. The outcome of such proceedings may adversely affect the value of the portfolio and may continue without resolution for long periods of time. Any litigation may consume substantial amounts of the Adviser's time and attention, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation.

Timberland with Carbon Projects - Specific Risks

Natural Timberland Risks

The Adviser's timberlands investment strategy will be exposed to many of the risks associated with investment in timberland, including risk of loss due to natural disturbance (wildfire, drought, disease or pest outbreaks, or other natural disasters); harvest and haul infrastructure and cost risk; and weather-related constraints on operability. Global temperatures may increase in a manner that will impact the portfolio assets including by increased risk of drought and fire, or increased storm activity, which can damage soil and increase the rate of erosion of topsoil. In addition, invasive pest species may be facilitated by such climate change.

Timber Sector Economic Risks

The success of New Forests' timberlands investment strategy will be based in a large part on the general economic demand for timber, including the log or pulp market demand and price risk. For example, the demand for most timber suitable for sawing into lumber depends on the level of construction, repair and remodelling activity occurring in the general economy. The price of wood products may fluctuate unpredictably over time. A slowdown in construction and

related industries is likely to reduce demand for timber, resulting in a reduction in revenues. Wood substitutes and lower quality wood products may increasingly compete with higher quality sawtimber, which may also reduce demand for higher value timber reflected in portfolio investments. Additionally, if paper recycling were to become more widely practiced, reduced demand for new paper made from pulpwood could result. Also, there may be market fluctuations in discount rates placed on cash flows from U.S. timberland assets. Finally, at the end of a Fund's term, the disposition of investments may be more difficult than for other types of funds, as the number of entities that purchase and invest in timberland is small relative to other asset classes and among such entities.

Offset Demand Policy Risk

Demand for forest carbon offsets under the California protocol for applicable forest projects is driven primarily by forestry and associated cap and trade regulations. These laws and regulations may change at any time by state or federal executive, legislative or judicial action, which may result in potential adverse consequences for offset demand and/or pricing, and the operating results and financial performance including substantial costs and burdens of compliance with such change in law or regulation. In June 2018, the incoming government of Ontario announced its intention to withdraw from the Western Climate Initiative. If such withdrawal is successful and permanent, the Adviser expects such development would have an adverse impact on offset demand in the 2020s and offset prices starting in 2022.

Carbon Price Risk

Forest carbon offset credit prices can be volatile. No specific sale prices or revenue is guaranteed. Like the log markets or any commodity market, prices for California carbon offsets have been, are, and will remain volatile. Prices will vary with actual greenhouse gas emissions in California, the number of allowances issued under the cap, and the supply of offset credits, among other factors. Forest carbon offset credits will compete in an open marketplace with other types of offset credits, including but not limited to credits produced from agricultural methane projects and projects destroying ozone-depleting substances.

Carbon Offset Project Obligations

Registering a forest carbon offset project under the California protocol for U.S. forest projects imposes certain obligations on the owner of timberland, subject to the offset project. This includes, but is not limited to, maintaining a certain level of inventory on the project area for 100 years from the date of offset issuance, a liability for early termination of the project, certain requirements related to sustainable timber harvest and natural forest management, and long-term monitoring and maintenance obligations.

Environmental Protection

New Forests intends to implement a variety of sustainable management practices and will use commercially reasonable efforts to ensure that management of all timberland satisfies the criteria of New Forests' Social and Environmental Management System, which includes certification from Sustainable Forestry Initiative®, Forest Stewardship Council®, or the reasonable equivalent certification. With respect to the sustainable management of timberland, regulations and standards may change, which may require additional capital expenditure or increased operating expenses.

Environmental Liability

In addition to laws that regulate forestry operations and environmental protection, owners and operators of real estate may have liability for the clean-up and remediation of contaminated land and waters (including groundwater) that are found to pose a threat to human health or the environment. The Adviser will seek to understand and quantify the risk of such potential liability through environmental site assessments, but there is no assurance that the Adviser will be successful in assessing and avoiding any such liability.

Item 9: Disciplinary Information

New Forests and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a Client or investor's evaluation of the company or its employees.

Item 10: Other Financial Industry Activities and Affiliations

New Forests Advisory, Inc.; Tropical Asia Forest Fund Holdings Limited (or TAFF Holdings Limited); Shasta Cascade Timberlands GP LLC, New Forests FCS GP LLC, and New Forests US Timberlands LLC serve as the General Partner to different New Forests' Funds.

New Forests Asset Management Pty Limited ("NFAM") is an affiliated investment adviser based in Sydney, Australia and provides New Forests and the Funds with key operational and support services such as finance, fund accounting, investor services, marketing, and legal, risk and compliance.

New Forests Pty Limited is the parent company and wholly owns New Forests Inc.

New Forests Advisory Pty Limited is an affiliated investment adviser based in Sydney, Australia. New Forests Advisory Pty Limited is registered with and regulated by the Australian Securities and Investment Commission.

New Forests Asia (Singapore) Pte. Limited is an affiliated company based in Singapore.

New Forests may also provide additional services or products. New Forests will provide certain project related services for compensation by working with family, industrial and tribal landowners to evaluate forest land; and identify ways to increase carbon sequestration on their properties to be able to generate carbon offset credits, which can be sold under the California cap and trade system. New Forests also buys forest land in various phases of growth, and sells carbon offset credits generated from the trees, as well as sells the timber that are harvested from trees. Any compensation received by New Forests for such services or products will be paid to the relevant Fund that owns such land as an investment.

Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

New Forests has adopted a written code of ethics that is applicable to all employees and is predicated on its fiduciary obligations to investors and obligations under the U.S. federal securities laws. Among other things, the code of ethics requires New Forests and its employees to act in investors' best interests, abide by all applicable regulations, prevent and mitigate any conflicts of interest, avoid even the appearance of impropriety, and pre-clear and report on certain personal securities transactions. New Forests' restrictions on personal securities trading apply to employees, as well as employees' family members living in the same household. The Chief Compliance Officer (CCO) administers New Forests' code of ethics. A copy of the code of ethics is available upon request.

New Forests' Funds do not invest in public securities. However, situations could arise where the Funds' investments could engage in material business transactions with publicly traded companies in the timber and forestry industry. As a

result, New Forests has placed limited restrictions on certain employee personal securities transactions, it maintains a restricted list containing a list of issuers of public securities and/or securities that employees may not invest and has implemented a pre-clearance policy for certain transactions. The CCO monitors all employee personal trading activities.

Item 12: Brokerage Practices

Based on New Forests' investment activities in real assets and other forms of private transactions, New Forest does not anticipate investing in publicly-traded securities. However, New Forests maintains written policies and procedures to address potential issues related to trading.

Soft Dollar Benefits

New Forests does not utilize soft dollars and does not currently maintain, nor does not anticipate entering into, any soft dollar arrangements.

The Selection of Transaction Counterparties

New Forests engages reputable third-party vendors and makes such selection based on quality of service, expertise and reputation, and cost.

Best Execution Reviews

On at least an annual basis, New Forests' CCO and senior executives evaluate the service providers utilized by New Forests' Funds as part of the asset acquisition and disposition process. New Forests has sought to make a good-faith determination that its vendors and other chosen counterparties provide investors with good services at competitive prices.

Client Referrals

This is not applicable to New Forests.

Allocation of Investment Opportunities

Prospective investment opportunities originated by New Forests are allocated among investors in accordance with New Forests' then current investment queuing policy and contractual obligations of applicable constitutive documents. In practice, this typically means that investment opportunities are allocated to the investor (which may include commingled funds) with the oldest account that includes an investment policy that matches the investment opportunity.

Item 13: Review of Accounts

Clients under New Forests' management are monitored on an ongoing basis by members of the U.S. Management Committee. The Management Committee members review each account in detail on at least an annual basis, as well as in connection with each annual investor meeting. On at least a quarterly basis the Management Committee members review several reports that are designed to ensure that Funds are operating in accordance with stated investment objectives, identify Funds that are outside the expected ranges for returns, and identify opportunities for operational improvement. Reviews of Funds will also be triggered if the market, political, or economic environment changes materially.

Investors receive reports on at least a quarterly basis and audited financial statements annually.

Item 14: Client Referrals and Other Compensation

New Forests may, from time to time, enter into an arrangement with a third-party placement agent to solicit investors in the Funds. Such placement agent will receive compensation from New Forests in an amount equal to a portion of the investment advisory fees otherwise payable to New Forests from the Funds in respect of the investors solicited by such placement agent. However, such compensation will not increase the amount of fees that are charged by New Forests to such investors.

Item 15: Custody

New Forests' affiliates currently serve as the General Partner or Managing Member of the Funds. As a result, New Forests indirectly has access to Client accounts and is deemed to have custody over the Funds' assets.

All New Forests Funds' cash and securities are held in custody by unaffiliated banks or other qualified custodians. New Forests has implemented practices and controls to ensure the safeguarding and protection of the Funds' assets. Fund investors will not receive statements from the custodian. Each Fund is also subject to an annual audit by an independent public accountant registered with and subject to inspection by the Public Company Accounting Oversight Board. The audited financial statements are prepared in accordance with generally accepted accounting principles and distributed to each investor or member within the period specified by each Fund's respective Limited Partnership Agreement or Investment Management Agreement.

Item 16: Investment Discretion

New Forests maintains investment discretion over all Clients. Investment discretion is granted to New Forests pursuant to the Client advisory agreements or Fund governing documents, and investors authorize such discretion by way of entering into a subscription agreement with the relevant Fund.

Item 17: Voting Client Securities

Given the nature of New Forests' investment strategy and assets held by its Clients, New Forests does not anticipate that its investments will require proxy voting. To the extent that an investment requires New Forests to vote proxies on the behalf of its Clients, New Forests will ensure that it carefully evaluates each vote and makes voting decisions consistent with its fiduciary duty and in the best interest of its Clients.

The CCO or designee will review, no less frequently than annually, the adequacy of New Forests' proxy voting policies and procedures to make sure they continue to be reasonably designed in light of New Forests' investment activities.

A copy of New Forests' proxy voting policies and procedures, as well as its voting record, is available upon written request by contact our CCO at + 1 (415) 321-3300.

Item 18: Financial Information

New Forests is required to disclose whether it requires or solicits prepayment of more than \$1,200 in fees per client, six months or more in advance. New Forests does not require or solicit prepayments of more than \$1,200 in fees from clients, six or more months in advance.

In addition, New Forests is required to disclose any financial condition that is reasonably likely to impair its ability to meet contractual commitments to investors. New Forests does not have any disclosures pursuant to this Item. In addition, New Forests has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to meet the contractual commitments to investors.

