Valuation, financial disclosures and financial reporting

Forestry Australia - 2025 forest carbon summit

National Press Club, Canberra

April 2025

Forest valuation – why the interest?

Australian forests

- Established technical and commercial expertise
- Sound, established and observable timber markets
- Robust business and legal environments
- Opportunities for investors to enter and exit
- Historical investment performance
- Now an important asset class for superannuation and other investor types

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Australia's Sovereign Wealth Fund

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AIMCo (Alberta Investment Management Corporation) is a high-performing investment manager that finds the best opportunities from around the world and delivers results. We are one of Canada's largest and most diversified institutional investment managers and are responsible for the investments of pension, endowment and government funds in Alberta.

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APG Asset Management manages assets worth €569 billion (as of year-end 2023) on behalf of four funds

AXA Investment Managers

MEAG

A Munich Re company

National Employment Savings Trust

(Nest – UK's largest workplace pension @ >33% workers)

Stephen O'Neill, CFA, Nest's head of private markets said *(emphasis added)*

"We've been exploring ways to include **natural capital investments** in our portfolio as we continue to **diversify** our private markets allocation, take advantage of complex and scarce investment opportunities, and to **decarbonise** as we move closer to **net zero targets**,"

"Timberland ticks all of these boxes," he stressed.

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Timberland as an asset class

The interests in forest as an investment

- Can offer stable returns, often in the form of regular income and appreciation
- A hedge against inflation
- Diversification to investment portfolios
- Aligning of financial, environmental and social benefits
- Actively addressing climate change and biodiversity challenges
- Often support regional economic activity

Attractive features of timberland investments

- On-going long term expected demand for wood products due to population growth; demand for low or stored carbon emission building materials
- Limits to potential to make available additional wood supply, indicating a generally tight long term wood supply-demand balance
- Investors seeking to decarbonise their portfolios or see opportunity in monetarising carbon stock and yield in the forestry supply chain
- Potential for long-term risk adjusted returns
- Generally strong competition for securing assets where capital is seeking to be invested in timberland assets

Forest valuation approaches in Australia

- The Australian Forest Valuation Standard (AFVS) – A Standard for Valuing Commercial Forests in Australia (2007, reformatted 2012) was developed to provide professional and sectoral interpretation to the formal standards applied to forest valuations in Australia.

- Around 2012 the New Zealand Institute of Forestry (NZIF) commenced a partial revision of its 1999 Forest Valuation Standards, the workgroup comprising cross Tasman industry representatives and consultants.

A STANDARD FOR VALUING
COMMERCIAL FORESTS IN AUSTRALIA

VERSION 2.1

THE INSTITUTE OF FORESTERS OF AUSTRALIA

IFA

A PUBLICATION OF THE INSTITUTE OF FORESTERS OF AUSTRALIA LIMITED,

ASSOCIATION OF CONSULTING FORESTERS OF AUSTRALIA DIVISION

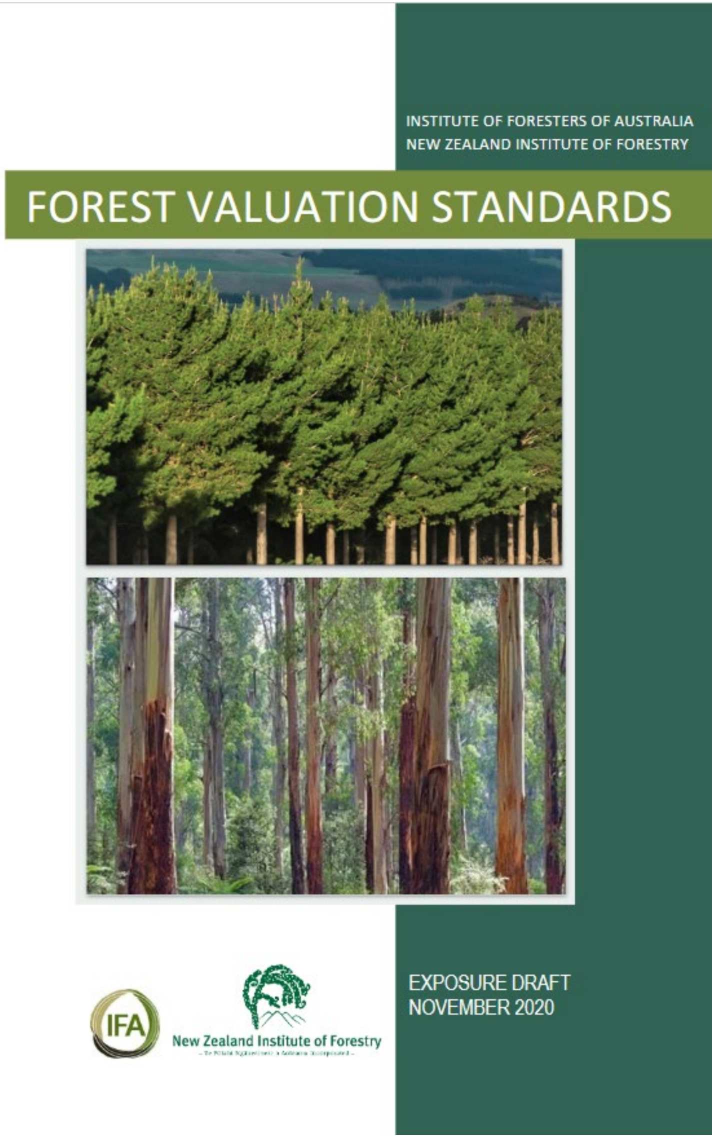
JULY 2012

Forest valuation approaches in Australia

- An IFA Valuation Sub-committee was convened in September 2016, with Terms of Reference including a standing Sub-committee of the IFA be created with the purpose of promoting and managing updates to the AFVS.
- In late 2017 an invitation to the IFA was received from Professor Bruce Manley, on behalf of the NZIF Forest Valuation Working Party to align on a joint ANZ standard.
- In April 2019 an exposure draft of the partially revised NZ Forest Valuation Standard was released.
- An Australian exposure draft, based on 25 chapters of the New Zealand document, was released in late 2020 with FWPA funding, and public consultation closed in January 2021.

Forest & Wood Products Australia

- The remaining 10 chapters were prepared and revised by Forestry Australia through 2022 and 2023.
- Both countries are preparing exposure drafts in relation to valuing carbon.



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Forest valuation approaches in Australia - next steps

A. Finalise a Joint Australia-New Zealand (ANZ) Forest Valuation Standard (JANZFVS)

- Peer review of seven chapters revised or updated by the NZIF Forest Valuation Working Group
- Prepare a Australian Standard for Carbon Valuation exposure draft, open for public commentary, and then finalization
- Provide access for finalized and exposure drafts of JANZFVS via Forestry Australia website

B. Explore alignment and harmonization requirements in respect to Climate Related Financial Disclosure Standards (released in 2024, with specific mandatory reporting beginning 1st January 2025) and forest valuations

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IFA and NZIF VIII

Key elements of Australian forest carbon valuation approach

Key elements

- Concerned with valuing carbon sequestration by the tree crop as determined through the ACCU Scheme
- Recognises ACCUs issued pursuant to a carbon project are a regulated financial instrument
- Carbon to be reported separately to the tree crop and to the land

Practical aspects

- ACCU methodology determinations guide the valuation, noting methods can be periodically updated or revised (including FullCAM)
- Issued ACCUs are not part of the forest valuation

- ***Forest value:***

  = Land value

  + current tree crop

  + future crop value

  + carbon

  + other sources of value

Effect of carbon on forest valuations

Carbon can make a material impact on a forest valuation

- Tree crop only cashflows are based on a significant upfront expenditure (i.e. land purchase, crop establishment) followed by long periods (i.e. 15-28 years) of crop maintenance prior to receiving a material amount of revenue
- Carbon markedly foreshortens this cashflow with carbon revenue often fully received with 15 years of establishment
- General market observations expect significant uplift in carbon prices through the 2030s, largely on the back of various regulations and organizational policy expectations

Valuation issues to note

- Carbon as part of the plantation is a new component of valuations
- Carbon interests largely operate within a regulated but formative market
- Due to the permanence obligations, carbon could arise as a contingent liability for some forest estates
- Market observations of the treatment of carbon, and the interface with the tree crop and land, is evolving markedly
- The risks and uncertainty of the carbon component of value will be viewed differently to the other forest valuation components

The need for robust forest valuations

- A viable asset class attracts capital from informed, sophisticated and long term investors
- Investors are required to report regularly on performance
- Forest valuations are an integral part of investor reporting
- Valuation standards are critical to the credibility of forests as an asset class
- The integrity of valuation standards is underpinned by professional insights and sound independent frameworks
- Standards aren’t static and need to evolve as markets evolve, notably carbon markets

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