

## A Message From The Minister



Growers in managed investment plantations have financed more than 70 per cent of the half million hectares of new plantations established since the Plantations 2020 Vision strategy was launched in 1997. I expect such investment to continue building the resource to support more plantation-based industries that will benefit not only regional communities but the whole nation.

For plantation investment to continue to be competitive and attractive, investors must have confidence in the industry, the projects and the managers. Initiatives such as this Investors' Guide and its companion Disclosure Code for Afforestation Managed Investment Schemes contribute to that confidence, and complement the investor protection provided by the disclosure and compliance requirements of ASIC and the product rulings program of the ATO.

I congratulate Australian Forest Growers and its special branch, Treefarm Investment Managers Australia, for their initiative and commitment to strong self-regulation. I urge potential investors to use this Investors' Guide to help evaluate the information provided in the company offer documents.

Senator the Hon Ian Macdonald  
Minister for Fisheries, Forestry and Conservation

### Australian Forest Growers

Australian Forest Growers (AFG), formed in 1969, is the national association representing and promoting private forestry and commercial treegrowing interests in Australia. AFG members grow trees for timber and other products and benefits, on small and large holdings, on farms, in plantations, and in private native forests. Members include farmers and foresters, urban dwellers with rural land, small block holders, plantation investors and investment companies, researchers, consultants, tree and equipment suppliers, industrial forestry companies, and tree enthusiasts.



### Treefarm Investment Managers Australia

Treefarm Investment Managers Australia (TIMA) is a special self-funded branch of AFG representing the interests of managed investment plantation companies and their many thousands of small-scale growers. TIMA's main focus is national plantations policy and the provisions of Corporations Law and Tax Law that govern the managed investments sector.



### Contact for both AFG and TIMA

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**Q** Where do I start when comparing a number of forestry investments?

**A** Right here.

AFG, together with TIMA, the Association of Consulting Foresters, government agencies, and the financial planning industry, have developed the AFG Disclosure Code for Afforestation Managed Investment Schemes.

When a Product Disclosure Statement (PDS) for a forestry managed investment scheme complies with that Code and carries the 'tick' logo, you can be sure that:

1. you will find all the information you need to make an informed choice within that document,
2. the information is clearly and consistently presented to make comparison easy.



**Q** That's fine, but what questions should I be asking?

**A** That's easy too.

We've prepared this short guide to the questions you need answers to. Use this guide to help you when reading a forestry PDS. You can be confident the questions will be answered in a PDS displaying the compliance logo.

### Important references

- Australian Forest Growers website: [www.afg.asn.au](http://www.afg.asn.au). Click on 'Code', for...
  - **Investors' Short Guide to Afforestation Investment (e-copy)**
  - **AFG Disclosure Code for Afforestation Managed Investment Schemes**
  - **Code Compliance Register**
- Australian Securities and Investments Commission website: [www.asic.gov.au](http://www.asic.gov.au), for Corporations Act references and ASIC policy statements
- Australian Taxation Office website: [www.ato.gov.au](http://www.ato.gov.au), for Tax Law references, tax rulings, fact sheets, etc

# The 8 key areas to look at...

## 1. Formal requirements

Managed Investment companies must comply with the Corporations Act 2001. They should also comply with non-regulatory requirements if they are to meet their responsibilities with respect to due diligence. Answering the following questions will help to determine whether a company is meeting its legal responsibilities.

- Does the scheme have an Australian Registered Scheme Number (ARSN)? Does the Responsible Entity (RE) hold a current Australian Financial Services Licence (AFSL)? Does the PDS contain a summary of the Scheme Constitution and Compliance Plan?
- Does the PDS display a numbered AFG Code Compliance Logo, indicating certification under the AFG Disclosure Code for Afforestation Managed Investment Schemes?
- Does the scheme have a Product Ruling issued by the Australian Taxation Office? If not, does the PDS indicate why? If not, how does the PDS address the Non-commercial loss provisions of the tax law, and do you need to obtain a separate Private Binding Ruling?
- Does the product disclosure statement (PDS) indicate that the scheme satisfies or will satisfy all the relevant statutory requirements of Australian corporations law and tax law and applicable State codes of forest practice?
- Has the company received certification under any non-statutory national or international standards (eg ISO, sustainable forest management, forest valuation, risk management)?

## 2. Company Profile

The managed investment company must have the capacity to competently manage the project for the duration of your investment. Answering the following questions will help you establish the management company's credentials.

Is the project manager a public company? Is it also the recognised Responsible Entity (RE), or has it engaged a separate RE (not common)? Who are the key personnel responsible for establishing and managing the project, and what are their qualifications?

- Does the RE have adequate levels of expertise and experience available to manage an afforestation managed investment scheme? Does the RE have ready access to relevant professional consultants and research organizations? How has the company performed in managing existing or previous projects? Has the company satisfactorily demonstrated its commitment to the afforestation investment industry?
- Does the managed investment company have sufficient financial backing to support the scheme? Is this demonstrated in the most recent audited accounts presenting company assets and liabilities?

## 3. Description of the Managed Investment Scheme

An afforestation managed investment scheme is an investment activity that has particular defining features. Investors become plantation 'Growers' engaged in a managed primary production business by entering management contracts via a product disclosure statement. The Grower pays tax on assessable income derived from harvest proceeds, and is also entitled to deduct the non-capital business expenses incurred in establishing and managing the plantation. It is essential that potential investors understand this type of investment activity.

### How the scheme works

- Does the PDS clearly explain the actions the RE must take to operate and manage the afforestation scheme? (For example: identifying and securing suitable land; preparing the sites; accepting Grower applications; planting, tending and harvesting the trees, and marketing their products.)

### Nature of the Grower's interest

- What is the nature of a Grower's investment in the scheme? (For example: allotment size; duration of project; agreed rights and obligations of the Grower and manager; what the Grower owns or has an interest in; what can be sold or transferred, etc.)

### Land tenure

- What steps have been or will be taken to acquire and secure the land? Who owns the land? What is the relationship between the landholder, the RE and the Grower? Does the investor have a lease, a licence or a forestry right?
- How does the scheme ensure the Grower has security in the land for the duration of the project? How is the investor protected in the event of the landowner selling the land?

### Risks and risk management

- What are the significant known and anticipated risks associated with the project? Is there a discussion of the likelihood and consequences of the risks occurring? How will the RE prevent, minimise and manage risks that are within its control?

### Financial structure

- Does the PDS clearly explain what fees the Grower will be charged over the full life of the project for what purpose – establishment, management and maintenance, harvesting, marketing, and unexpected costs? How is GST applied? Are the fees expressed in consistent terms? Are they sufficient to cover the costs of the project? Do Grower fees match the expected outcomes of the project?
- The effect of ASIC Policy Statement PS170 "Prospective Financial Information" has been to discourage plantation management companies including forecast returns in their PDSs. How does the PDS indicate potential returns to Growers? Is there a commentary about the factors and variables affecting potential returns? Does the company offer a mechanism for Growers and their advisers to do their own estimation of potential returns?

## Fees and benefits

- Does the PDS disclose the commissions, fees and benefits the RE has agreed to pay others to help develop and promote the scheme? Have these been included in any guidance about potential returns from the project? [In turn, financial advisers and those selling these investments must be appropriately licensed, and must disclose the commissions and benefits they receive from the sales.]

## 4. Forestry Operations

The Grower must be confident that the managed investment company is competent to conduct the forestry operations that are integral to the project. Answering the following questions should increase your confidence in the operation of the project.

- Does the PDS provide a comprehensive description of the whole chain of forestry operations – establishment, maintenance and management, harvesting and marketing – that are the purpose of the project?
- Does this description include an explanation of the physical attributes of the scheme – intended location, site quality and selection, tree species, growth rates, products, etc – and the science on which these are based?
- Does the PDS provide a report by a qualified Independent Forester? Does the PDS also provide report/s by independent experts who are specialists in other parts of the forestry production chain (eg, harvesting, marketing, product potential)?

## 5. Independent Forester's report

A report from an Independent Forester should provide a comprehensive briefing on the afforestation project to potential investors. Some of the broader issues, such as processing and logistics, market outlook and product potential, may be addressed by other independent experts.

Does the Independent Forester's Report contain information about the following?

- a) Verification of the forester's qualifications and relevant experience, and an explanation of the relationship with the management company.
- b) Suitability of the selected species with respect to region, site, products and markets, and estimated growth rate.
- c) Land selection criteria (eg, slope, soil quality, rainfall, previous land use, distance to markets, etc), and the means of verifying that these have been complied with.
- d) Forest establishment and management operations (in detail) required to achieve the nominated growth rate over the proposed rotation, and the proposed maintenance and monitoring program.

- e) Processing and logistics (eg, proposed harvesting and processing options, existing and proposed regional infrastructure, road quality and access, accessibility to mills and ports).
- f) Domestic and export market outlook and product potential for all the plantation produce; rotation length with respect to markets; and project estimates of forest yields, product prices and potential grower returns.
- g) The managerial capability and technical competence of the RE and project manager, and the infrastructure, technology and systems they employ, to carry out all project operations and successfully complete the project.
- h) Manager's long-term establishment program/plans in the region.
- i) The ongoing role, if any, of the Independent Forester.

## 6. Products and markets

Because of the long-term nature of afforestation projects, it is essential for the potential investor to be confident that there will be a market for the harvested products. Answers to the following questions may be covered in the main body of the PDS or in a report from an independent expert.

- Does the PDS contain a marketing strategy for the project's forest produce? Does that strategy enable the company to respond to changing markets, if relevant to the project?
- What are the target domestic and export markets, how certain are they (eg, are there arrangements already in place for the forest products?), and what are the current product prices and returns, if available?
- How will Growers be kept informed on market trends and any changes to the marketing plan?

## 7. Corporate governance

The afforestation managed investment company is accountable to Growers with respect to the afforestation project. This includes performance reporting and provision for dealing with Grower dissatisfaction. The management company is also accountable to the community at large for the impacts of the forestry operations. Answering the following questions will increase your confidence in the management company's commitment to good corporate governance.

- Does the PDS explain how the company monitors and ensures its compliance with internal policies and standards and with external mandatory and voluntary standards, including the ATO Product Ruling? Does it explain company policy on social and environmental governance, how it engages with stakeholders and the community, and how it minimises and manages potentially adverse social and environmental impacts?

- Does the PDS provide information about: the auditors of the scheme and compliance plans, and timing of inspections; monitoring of the growth, health and management of the plantation; quality assurance and certification; and mediation and dispute resolution?
- What means will the company employ to report to Growers on all the relevant matters they need to know about in order to effectively monitor their investments?

## 8. Comparing Projects

The Disclosure Code for Afforestation Managed Investment Schemes provides guidance to scheme managers to help streamline the information provided in company product disclosure statements. This enables Growers to compare projects more easily.

Several factors besides financial returns are important to consider when comparing projects. These factors include:

- corporate management;
- business strategy and corporate resources;
- product sales and marketing;
- silviculture;
- application of funds and costs;
- investment structure;
- product disclosure statement assumptions;
- risks and risk management;
- taxation; and
- financial returns.  
(Internal Rate of Return (IRR) is the preferred method of calculating and comparing financial returns. The AFG website (Code) provides worked examples of IRR outcomes for three common models of afforestation projects.)

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# Check for the tick!

Investors' Short Guide to Afforestation Investment