

CQuest Forestry Fund Limited Partnership

Investment Brief: Wednesday 19th March, 2025

9-12% p.a.*

*Target- internal rate of return (IRR)

This is an opportunity for wholesale investors to access a portfolio of forestry assets that aims to provide attractive long term returns from carbon and production forestry. The target internal rate of return (IRR) is 9-12% per annum over the investment's lifetime.

The objective of the CQuest Forestry Fund Limited Partnership ('CQuest Forestry Fund' or 'the Fund') is to invest in a portfolio of high-quality forestry assets, planted and registered in the NZ Emission Trading Scheme (ETS), to earn carbon credits and produce timber. The Fund's focus is to convert suitable bare land into production forestry. Afforested land may also be considered if it meets the Fund's investment criteria. The goal is to purchase up to 1,000 hectares in 2025 and expand to over 2,000 hectares over the next three years, as opportunities arise.

The offer for Units in the CQuest Forestry Fund is made following the success of the original CQuest partnership. While it was not our original intent, a successful sale of the original portfolio has been executed with an institutional buyer as the purchaser. This transaction delivered a \$1.50* return to investors for each dollar invested, within four years of the original investment date. This experience has proved that our team can effectively select properties for afforestation, undertake the needed property development and forest establishment, successfully manage ETS registrations and ultimately create a quality portfolio of forests.

Introducing CQuest Forestry Fund

The Fund has three key assets allowing flexibility to maximise investor returns – carbon credits, trees, and land.

The Fund's forests will sequester carbon, providing meaningful income from year 4 to 16 under the "averaging" approach within the ETS. The sale of NZUs is expected to provide cashflow from year 5 to 17. The Fund then expects to achieve a significant capital inflow when the trees are harvested at tree age of 25 to 35 years.

Why Carbon

After a period of instability in 2023, the carbon market

Investment Highlights

An opportunity to access target returns of 9-12% p.a. IRR from a high-quality portfolio of carbon/production forests.

- **Dual income streams:** from both carbon and timber production.
- **Potential for capital growth:** as the forests mature.
- **Potential for upside:** every \$10 change in the price of carbon credits could lead to a 3.0% - 3.7% p.a. change in returns in years 5-17.
- **Targeting high-quality asset portfolio:** aiming to acquire a portfolio of institutional-grade forests.
- **Proven track record:** MyFarm's first forestry syndicate is projected to return \$1.50* per \$1 invested within four years; experienced forestry management partner.

has stabilised¹. The upper end of the Fund's target returns are based on the NZ Government's ETS auction floor prices, starting at \$68² per NZU in 2025 and increasing to \$82 per NZU in 2029.

There is potential upside to this floor price. The government has limited NZU supply in 2025 to 6 million NZUs through its four ETS auctions, which is only expected to meet 30% of the estimated demand from emitters. This means the remaining demand for NZUs will have to come from forest owners or existing reserves. Future auction volumes are set to decline further which should also bolster the market. For the Fund, a \$10 change in NZU prices is forecast to result in a 3.0% - 3.7% change in annual returns during years 5-17.

* For first round investors dependent on final settlement contingencies.

Over the longer-term, deadlines for New Zealand's Paris accord emissions reduction targets are looming, with 2030 and 2035 commitment periods now coming into focus. It appears New Zealand will fall well short of these targets, potentially requiring the purchase of offshore NZUs to offset our poor rate of progress in reducing emissions. Onshore initiatives to cut or off-set emissions are likely to become increasingly important, potentially further increasing demand for NZUs.

Why Forestry

Forestry is a long-term investment, and is poised to benefit from a global transition towards a zero carbon economy. The use of wood and its by-products is anticipated to expand in various sectors, including construction, energy supply (biofuels), packaging, roading (as a bitumen substitute) and plastic alternatives. This increasing demand is expected to enhance the Fund's returns when the trees are harvested, or if we execute a sale of forestry cutting rights. While log prices have been suppressed since 2020, MPI's market outlook is looking more positive. Stimulus packages and regulatory changes in key markets are expected to improve demand and market access³.

Why Now

Regulatory settings and market dynamics have created an opportunity for the CQuest Forestry Fund to purchase suitable land at an attractive price.

Firstly, new regulations⁴ proposed to come into force in 2025 have created uncertainty and reduced demand for some Class VI properties. The proposed new rules will limit the amount of Class VI land that can be registered in the ETS to 15,000 hectares per year, with certain exceptions. Whilst announcing these regulations, the government indicated transitional measures for landowners who can demonstrate an intent to afforest prior to 4th December 2024. Through our partners, we have secured sufficient seedlings to afforest between 500 and 700 hectares of land. The Fund is also actively seeking properties with an intention to plant this winter.

Secondly, tighter overseas investment regulations and limitations around ETS forestry registrations are leading to reduced competition for bare land from overseas buyers. We believe this provides an opportunity for a more agile New Zealand owned structure, such as the CQuest Forestry Fund, to operate successfully in the marketplace.

Finally, pastoral farming which is the main alternative use for the Fund's targeted land, has weathered a sustained period of poor returns which has also depressed land prices and demand.

Consequently, there are fewer competitors for sub 1,000 hectare land that is either suitable for afforestation or recently planted. This situation presents a potential economic opportunity for the Fund as it aims to develop a portfolio of high-quality and productive forests.

Timelines

The Fund aims to raise \$7.0-13.6m of capital by the end of April 2025 to allow for the purchase and planting of up to 1,000 hectares of forest by the end of 2025. The Fund then intends to reopen for additional capital to continue to grow the portfolio as market conditions allow.

- **Offer Close:** 30th April 2025
- **Funds Due:** 20% of funds due on 30th April 2025; 80% of funds due with 20 days notice.
- **Minimum Investment:** \$50,000

How to Find Out More

To find out more or to request the full Information Memorandum, please contact one of the MyFarm Client Relations Team.

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Note: This Investment Brief is directed to persons who fall within the exclusions applicable to offers made to "wholesale investors" as set out in Schedule 1, clause 3 of the Financial Markets Conduct Act 2013 (FMCA). You can obtain further information on FMCA requirements, and whether you come within the exclusions and their requirements on our website: www.mylfarm.co.nz/can-i-invest

This offer described in this Information Brief is not suitable for retail investors.

¹ Carbon price | interest.co.nz

² Annual updates to emission unit limits and price control settings Ministry for the Environment

³ Situation and Outlook for Primary Industries | NZ Government

⁴ Farm to forestry rule changes for ETS - Inside Government NZ