

Forest Enterprises 2015 Restructure

Forest Enterprises has Restructured

With effect from 1 April 2015, Forest Enterprises has restructured its business. The Forest Enterprises group now comprises two companies, a new company called Forest Enterprises Growth Limited and the existing company Forest Enterprises Limited.

Under the restructure, Forest Enterprises Growth Limited (FE Growth) is the holding company, and Forest Enterprises Limited (FEL) is now a wholly owned subsidiary company.

FEL now operates exclusively as the Manager of the Managed Investment Schemes (MIS Schemes), and all activities unrelated to the management of MIS Schemes have been transferred out of FEL to FE Growth.

Why was a Restructure Necessary?

Early in our planning to be licensed as an MIS Manager under the Financial Markets Conduct Act, we identified that it was appropriate, in fact necessary, to completely separate the MIS Management activities from all the other business activities that Forest Enterprises undertakes (or may wish to undertake in future).

This separation has left in FEL all the business activities usually found in a company which is an MIS Scheme Manager company. All business activities not usually found in an MIS Scheme Manager company have been transferred to FE Growth. The business activities transferred are all of the forestry services including harvest, plus other business activities which Forest Enterprises undertakes which are not directly related to the management of MIS Investments.

An important outcome of this split is that FEL (and the Investors and Investments managed by FEL) is now completely quarantined from the entrepreneurial activities Forest Enterprises currently undertakes (and plans to undertake in future).

Benefits to Investors of being Managed by Restructured FEL

1. Investments now being managed by a company operating exclusively to manage forestry MIS Schemes.
2. Investments now being governed by a Board of Directors with an independent Chair which has the management of MIS Schemes as their sole governance responsibility.
3. The MIS Scheme Managers license being applied for will be held by a specialist forestry MIS Scheme Manager.
4. The relationship with the Financial Markets Authority (the MIS Scheme licensing authority) is not confused (nor complicated) by business activities unrelated to that of an MIS Scheme Manager.
5. The registered financial accounts of FEL will correctly reflect the MIS Scheme Manager business activities.
6. The mandatory financial audit will not be complicated by business activities unrelated to that of an MIS Scheme Manager.
7. The MIS Scheme management is now more portable to another MIS Scheme manager in the event of the need (or Investor decision) to change manager.
8. The asset management services (forestry services) purchased from FE Growth will be transparent and able to be managed by FEL the same as those services purchased from third party service providers.

Benefits to the Investors of new FE Growth

1. FE Growth can enter into arrangements to provide the infrastructure necessary for the successful harvest and sale of the logs for the group of MIS Scheme forests managed by FEL which an MIS Scheme manager cannot (or should not) enter into. These contractual relationships can be long term and go way beyond the size and harvest timeframes of each forest, consequentially capturing economies of scale and the cost benefits, not otherwise possible.
Examples include -
 - a. Long term contractual relationships with logging crews and harvest road construction companies.
 - b. Long term contractual relationships with specialist forestry service providers such as Harvest Planners and Forest Inventory providers.
 - c. Long term contractual relationships with log export companies and domestic mills.
 - d. Long term contractual relationships with transportation companies, including KiwiRail.
 - e. Long term contractual relationships with Port companies to secure wharf space and with the owners of rail yard storage space.
2. FE Growth can borrow money to fund this infrastructure required for the MIS Schemes.
3. FE Growth can invest in land and trees for second rotation MIS Scheme investments, as part of facilitating the exit of existing Investors wishing to liquidate at the end of each investment rotation.
4. FE Growth can undertake forest management and harvesting for other parties to increase the scale of these business activities for the benefit of the MIS Schemes.

Beneficial Overlaps between the two Companies Unchanged

Notwithstanding the legal separation of FEL from FE Growth, the two companies continue to operate in most day to day respects as they have done since 1972 when the single Forest Enterprises Ltd company.

The two companies continue to operate from the same premises and use the same systems, plus FEL is providing the administration and accounting services for FE Growth. This will retain the current efficiencies, and therefore cost effectiveness, arising from sharing people and resources.

Historical Investor Focused Philosophy Unchanged

Forest Enterprises has always seen its role as 'standing in the shoes of the Investors'. Everything we have done as a company historically has always been challenged within the Company to ensure it did not create unacceptable and undisclosed conflicts of interest with this primary Investor responsibility focus.

This business philosophy has been carried over and reinforced in the restructured business because the separate governance structure of FEL, the MIS Scheme Manager, creates an additional level of scrutiny ensuring that this business philosophy is being applied.

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Managing Director
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