



## Agenda – Independent Advisory Panel

Date, Time & Location:	Wednesday 19 June 2019, 9:00am – 3:00pm, Monarch Room, Level 11, Willeston Conference Centre, 15 Willeston Street, Wellington
Panel members:	Rodger Finlay (Chair), Rosie Mercer, John Sproat, David Wilson, Sarah Brown, Neville Harris, Charlotte Severne
In attendance:	Robert Pigou, David van der Zouwe, Glynis Mussen, Jane Frances, Jerome Wyeth, Karyn Stillwell, Nerissa Wallace
Attendees via telephone conference:	Richard Westbury, Dipankar Ganguly, Eliot Linforth-Hall, Eleanor Green, Nick Hough, Joan Ng, Murray Beatson, Yen-Ting Liu, Jared Humm, Jason Hall, Aaron Hape, Paul Swallow, Isabella Radovanovic
Apologies:	John Rae

AGENDA ITEM		PRESENTING AND/OR ATTENDING	ACTION
<b>1. MEETING ADMINISTRATION</b>			
1.1.	Unrelated to [REDACTED]	[REDACTED]	[REDACTED]
1.2.	Unrelat [REDACTED]	[REDACTED]	[REDACTED]
1.3.	Unrelated to [REDACTED]	[REDACTED]	[REDACTED]
1.4.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
1.5.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
<b>2. HEAD OF PDU UPDATE</b>			
<b>3. PROPOSALS FOR PGF FUNDING</b>			
3.0.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
3.1.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
3.2.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
3.3.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
3.4.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
3.5.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
3.6.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
3.7.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
3.8.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
3.9.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
3.10.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]
3.11.	Unrelated to NZFFP [REDACTED]	[REDACTED]	[REDACTED]

ACTION KEY: R = RESOLUTION N = NOTE D = DISCUSS C = COMPLETE I = INFORMATION

	Unrelated to [REDACTED]		
3.12.	<a href="#">N.Z. Future Forests Products Ltd</a>	Murray Beatson	D
3.13.	Unrelated to NZFFP [REDACTED]	[REDACTED]	■
3.14.	Unrelated to NZFFP [REDACTED]	[REDACTED]	■
3.15.	Unrelated to NZFFP [REDACTED]	[REDACTED]	■
<b>4. VERBAL UPDATES</b>			
4.1.	Unrelated to NZFFP [REDACTED]	[REDACTED]	■
4.2.	Unrelated [REDACTED]	[REDACTED]	■
<b>5. GENERAL BUSINESS</b>			
5.1.	Unrelated to NZFFP [REDACTED]	[REDACTED]	■
The next IAP meeting will be held on Tuesday, 16 July in Kaikoura The next RED Minister meeting will be held on Wednesday, 26 June in Wellington			

PROACTIVELY RELEASED



### 3.12 N.Z. FUTURE FOREST PRODUCTS LTD

PGF Application		For: Review (Decline recommended)	
<b>Applicant:</b>	N.Z Future Forest Products Limited ('NZFFP')	<b>Pipedrive ID #</b>	#Co
<b>Entity Type:</b>	Company	<b>PGF Funding Sought:</b>	\$15,000,000
<b>Region</b>	Unrelated to NZFFP (ultimately, if the Unrelated to NZFFP – post a positive feasibility study, and Unrel – proceeds) at	<b>Total Project Value:</b>	\$Commerci total. <ul style="list-style-type: none"> <li>• Stage 1 Feasibility Study \$15,000,000</li> <li>• Stage 2 Commercial \$Commerc ti</li> </ul>
<b>Tier:</b>	1 - Regional	<b>Co-contribution rate:</b>	0% for Stage 1, Feasibility Study (but 0% if Stage 2, Commercial is included)
<b>Sector:</b>	Wood Processing	<b>Funding Structure:</b>	Loan
<p><b>We recommend that the IAP:</b></p> <p>a) <b>Review</b> the application for a loan of \$15,000,000 from the PGF in relation to the completion of a feasibility study, to be undertaken by Commercial (an international consultancy), to confirm the viability and bankability of NZFFP's proposed Commercial Information</p> <p>b) <b>Note</b> PGF has been requested to fund Co % of the cost of the feasibility study (with NZFFP investing \$Com into Stage 2, relating to the required Commercial).</p> <p>c) <b>Note</b> NZFFP has requested a loan – Free and Frank Opinions</p> <p>d) <b>Note</b> NZFFP is a newly incorporated company; Free and Frank Opinions</p> <p>e) <b>Note</b> Free and Frank Opinions</p>			

Free and Frank Opinions

**Proposal:**

NZFFP intends to establish New Zealand as the Commercial Information in the Asia-Pacific region, maximising the country's natural competitive advantage in forestry and wood processing, and repositioning it as a critical supplier within the low carbon economy of the future.

**Commercial Information**

However, the PDU notes that significant work and research is still to be undertaken – much by the feasibility study.

The application requests Co % funding for a 'bankable' feasibility study (to be undertaken by Commercial) for the proposed Commercial Information; to include the commercial, technical and financial elements of the Comm with two site options in Commercial Commercial Information. It will map proposed markets Commercial Information

PGF funding of \$15m for a \$15m feasibility study cost (Stage 1) has been requested, and following stage 1 the applicant will then invest \$Com into Stage 2, effectively being the Commercial, and completion of the balance of the Commercial work.

**Free and Frank Opinions**

The PDU has since sought further clarification from the applicant on this point, to confirm that their position is now that, of the \$15m cost for the feasibility study, they are proposing that they would fund C % (\$Com) – with the request of the PGF to now fund the balance of \$Com; and, in relation to the Commercial other pre-Commercial of \$Com, they would now also fund C % (\$Co) – with the PGF being asked to consider funding C % of those costs (ie. \$Comm). Their confirmation on this point is awaited. Free and Frank Opinions

Assessment against the PGF criteria:		
<b>Eligibility Criteria</b>		
As noted, the request relates to a feasibility study to confirm the viability (or otherwise) of the proposed project <b>Free and Frank Opinions</b>		
<b>Productivity Potential</b>		
<p>As indicated by the applicant, NZFFP's proposed <b>Commercial Information</b> will increase economic productivity by increasing both the volume and value of economic goods produced in the region and underwriting the expansion of <b>Commercial</b> operations. They also note that NZFFP's work with <b>Commercial Information</b> has the potential to significantly increase the productivity of New Zealand's national forest estates over time as it reverses the trend of raw log sales in favour of industries that require different log grade specifications to produce <b>Commercial Information</b>.</p> <p>It is also noted that NZFFP's <b>Commercial</b> will produce <b>Commercial Information</b> solutions aimed at <b>Commercial Information</b> in the construction industry and thereby minimising global CO2 emissions.</p> <p>However, the feasibility study, to which this application relates, will not provide direct benefits in line with PGF criteria.</p>		
<b>Policy objectives and regional priorities</b>		
No clear evidence of regional support and provided. However, this could be available dependant on the outcome of the feasibility study.		
PGF Criteria	Assessment Commentary	Rating (0✓ to 5✓)
<b>Link with fund and government outcomes</b>		
Creates permanent jobs	<ul style="list-style-type: none"> <li>As indicated by the applicant, NZFFP's proposed <b>Commercial Information</b> business would have the potential to generate significant sustainable jobs throughout the supply chain, in general and for Māori. However, the feasibility study, to which this application relates, will not.</li> </ul>	✓
Delivers benefit to the community	<ul style="list-style-type: none"> <li>As above ... but the feasibility study, to which this application relates, will not.</li> </ul>	✓
Increased utilisation and returns of Maori asset base	<ul style="list-style-type: none"> <li>Potentially, yes ... but the feasibility study, to which this application relates, will not.</li> </ul>	✓
Enhanced sustainability of natural assets	<ul style="list-style-type: none"> <li>Potentially, yes ... but the feasibility study, to which this application relates, will not.</li> </ul>	✓
Mitigation of climate change effects	<ul style="list-style-type: none"> <li>Potentially, yes ... but the feasibility study, to which this application relates, will not.</li> </ul>	✓

Additionality		
<p>Adding value by building on what is already there</p>	<ul style="list-style-type: none"> <li>Potentially, yes ... but the feasibility study, to which this application relates, will not.</li> <li>NZFFP intends to establish New Zealand as the Commercial Information [redacted] solutions in the Commercial [redacted] region, maximising the country's natural competitive advantage in forestry and wood processing, and repositioning it as a critical supplier within the low carbon economy of the future. However, significant work and research is still to be undertaken – much by the feasibility study.</li> <li>The applicant believes that what they propose can be combined in a Commercial Information [redacted] and the resulting Commercial [redacted] will be Commercial Information [redacted]. As well as core supply from Commercial [redacted], NZFFP will also buy logs from Commercial [redacted] forest owners, support Iwi in planting and managing long-term afforestation to supply the Comm [redacted] and Commercial [redacted] from Commerci [redacted] calling at Commercial [redacted] from elsewhere in New Zealand, thereby reducing New Zealand's low margin log exports in favour of high margin Commercial Information [redacted].</li> </ul>	<p>✓</p>
<p>Acts as a catalyst for productivity potential in the region</p>	<ul style="list-style-type: none"> <li>Potentially, yes ... but the feasibility study, to which this application relates, will not.</li> <li>Input was sought by the PDU from Privacy of [redacted] (currently contracted to the PDU regional branch and with extensive knowledge of the wood processing sector in MBIE and NZTE), who provided comment, including the following:                      “Free and Frank Opinions [redacted]”</li> </ul>	<p>✓</p>
Connected to regional stakeholders and frameworks		
<p>Alignment with regional priorities</p>	<ul style="list-style-type: none"> <li>If the feasibility study is positive in its conclusions, and NZFFP's proposed Commercial Information [redacted] does ultimately eventuate, it would be well-aligned.</li> </ul>	<p>✓✓✓</p>
<p>Support from local governance groups (inc. Councils, Iwi/Hapu)</p>	<ul style="list-style-type: none"> <li>Support for such a processing operation, with the benefits as suggested by the applicant, would indicate support could be forthcoming.</li> </ul>	<p>✓✓✓</p>

Governance, risk management and project execution		
<p>Robust project management and governance systems</p>	<ul style="list-style-type: none"> <li>The overall project is still very much in its infancy, and in need of significant further research (the proposed feasibility study) to confirm its viability.</li> <li>Commerci appears capable, and the Commer timeframe is not unreasonable, considering the issues to be addressed in the feasibility study. However it is also noted that such Commercial Information require substantial transport infrastructure investment to operate effectively. Therefore, significant risks remain, not so much in relation to the feasibility project itself, but in relation to the funding for the overall processing plant on which Commercial Information would rely.</li> <li>Commerci appear well qualified to undertake the feasibility study, and those behind NZFFP also appear capable.</li> </ul>	<p>✓✓✓</p>
<p>Risk management approach</p>	<p>Appears appropriate. The applicant has indicated that the Board of NZFFP will oversee a 'phased approach' to project management, implemented by the experienced New Zealand engineering firm, Commerci. This will include breaking down the project into distinct, sequential steps.</p>	<p>✓✓✓</p>
<p>Future ownership / operational management</p>	<ul style="list-style-type: none"> <li>Detail to be confirmed.</li> </ul>	<p>✓✓</p>
Analysis of the benefits and costs		
<p>The proposed feasibility study will include Commercial Information</p> <p>Additionally, the study will map proposed beachhead markets (Commercial Information), technical options, optimal scales of production, level of integration across the value chain and precise budget requirements ahead of packaging the Commercial finance for Com.</p> <p>A number of technical decisions would still need to be made on the recommendation of the feasibility study. It is anticipated that the feasibility study will take Commerci to complete.</p> <p>The request relates only to this initial phase, involving the completion of a feasibility study, to confirm the viability, and bankability, of the overall project. Free and Frank Opinions</p> <p>The beneficiaries are primarily NZFFP, and its shareholders.</p> <p>The applicant has subsequently advised (in answer to the PDU's question as to why Crown Funding was required?)  <i>... "Given our backgrounds in feasibility &amp; project finance, we have undertaken extensive engagement with</i></p>		

**Commercial Information** regarding the project. This was a requirement of the NZFFP board before considering the PGF loan approach, given it will involve the company taking on debt obligations.

Three roadshows have been undertaken in September 2018, November 2018 and January 2019, which have given us a very accurate picture of **Commercial** for the project and what conditions will need to be satisfied in order to execute the **Commercial** (hence the pre-construction workstreams that we are currently undertaking and seeking assistance from the PGF for part of).”

The view of the PDU is that, approving this application would not be the best use of the PGF Fund.

### Financial Analysis

NZFFP is only recently incorporated and the company therefore does not yet have annual accounts. **Free and Frank Opinions**

There are no forecasts to be able to assess likely repayment ability, nor evidence to support a refinancing of the proposed **Commercial**.

Limited financial information has been provided in support of the \$15m cost (and PGF loan requested) for the feasibility study.

### Commercial Information

The applicant has provided a draft term sheet, which provides an outline of the terms of the requested loan, with the PGF to be ‘secured’ by way of **Commercial**.

The loan of NZD15m would be split into two tranches as follows:

1. Tranche 1 – NZ\$ **Commer**
2. Tranche 2 – NZ\$ **Commer**

Bullet repayment of principal outstanding (including accrued interest) will be on the Final Repayment Date by conversion of the **Commercial** into **Commercial** in accordance with the **Commercial Information**

Without any financial detail provided, it is impossible to assess the value of the **Commercial**, and the security of a loan.

### Free and Frank Opinions

### Funding Arrangements

As noted by the applicant, the **Commercial** budget is expected to amount to between **Co** % of the project **Commercial**; and that, in addition to expenditure already incurred at the date of this application (c.USD **Co**, according to the applicant) on various aspects of the project, the **Commer** forward looking budget is as follows, broken down into PGF Loan Use of Proceeds (Tranches 1 and 2) and the Applicant’s directly funded items:



Cost Description:	TOTAL PGF LOAN NZ\$ (excl. GST)	Tranche 1 PGF LOAN NZ\$ (excl. GST)	Tranche 2 PGF LOAN NZ\$ (excl. GST)	Commercial Balance of Project Costs NZ\$ (excl. GST)
Initial Bridging Study Workstream Comme	Commer	Comme	-	-
Pre-feasibility Study Workstream Comm	Commerc	Commer	-	-
Feasibility Study Workstream Comm	Commer	-	Commer	-
Environmental Baseline Studies	-	-	-	Commer
Environmental & Social Impact Assessment	-	-	-	Commer
Modular Building Solution research workstream Commercial Information	Commerc	Commer	Commer	-
Customer Contract Origination Commerci	-	-	-	Commer
Customer Contract Execution Commerci	-	-	-	Commer
Joint Venture Contributions	-	-	-	Commer
Long-lead items deposit payments Commercial	-	-	-	Commer
Project Finance Preparation (consultant reports, upfront fees, legal structuring costs &c.)	-	-	-	Commer
Working Capital	\$Commer	Commer	Comme	Commer
<b>Sub Totals</b>	<b>\$15,000,000</b>	<b>Commerc</b>	<b>Commer</b>	<b>Commerc</b>
			<b>TOTAL BUDGET</b>	<b>Commerci</b>

The application indicates the following loan drawdowns:

#	Description	Payment criteria:	Invoice Value \$ (Exc. GST)	%	Invoice Date:
1	Pre-Feasibility Workstreams	On signature of the loan agreement	\$Commer	Co %	Commercial Information
2	Feasibility Study Workstreams	Successful completion and delivery of Pre-feasibility Reports	\$Commer	Co %	Commercial Information

**Free and Frank Opinions**

[Redacted content]

**Due Diligence and Ownership**

In view of the PDU recommendation to decline this application, due diligence has not been undertaken. However, as noted previously, NZFFP is a newly incorporated company.

The application notes that NZFFP, and its sister companies NZFFP Carbon Ltd and NZFFP Forests Ltd, are being established as a Commercial business in New Zealand, focused on:

1. Commercial Information

[Redacted content]

**Shareholders:**

Shareholder	%
Kinleith Continuation LP	60%
Henry Family	40%

The applicant has advised that Kinleith Continuation LP is a New Zealand-domiciled partnership with significant natural resources project development expertise with offices in London and Auckland; and that the Henry family have been involved in the New Zealand forestry and wood processing industries for over a century.

David and Brian Henry, of the Henry Family, have as their father, David Henry, who was the founder of the Kinleith Pulp & Paper Mill.

The PDU also notes that Brian Henry is well known to Minister Jones (and Deputy Prime Minister, Winston Peters) via the NZ First Party.

The current leadership team overseeing the establishment and initial operations of NZFFP, as advised in the

application, are:

**David Henry, Director (NZFFP) and Partner (Kinleith Continuation):**

David is a New Zealand national and previously founded Medea Capital, a natural resources investment manager with offices in London and Singapore. He has over 15 years' experience in natural resources investments and finance across several institutions, specialising in mining and forestry. Prior to founding Medea, he established the Mining Capital & Consultancy business at Oriel Securities and before that was Vice President in the Mining Finance division of Société Générale in London and Sydney. He was analyst for the bank's principal investments book and sat on its Investment Committee from 2008. Before joining Société Générale, David worked for the Forestry & Primary Industries team at Bank of New Zealand and, before that, at Goldman Sachs IBWere.

**Brian Henry, Director (NZFFP):**

Brian is a New Zealand national and was admitted to practice as a Barrister & Solicitor in the High Court of New Zealand in 1975, working initially for the law firm of Wilson Henry (now Hesketh Henry), before entering private practice as a Barrister Sole, specialising in commercial litigation. He has been involved in the New Zealand funds management industry for the past 15 years and has a strong background in legal compliance and corporate governance. Brian was a director of the local holdings' companies of Medea Future Forest Products Fund No.1 and is responsible for corporate governance, OSH and ESG.

**Hon. Mike Rann AC CNZM, Director (NZFFP):**

Mr Rann served as Premier of South Australia from 2002–2011 where his significant achievements included job creation, investment in health & education, the expansion of the mining industry, and the growth of Australia's renewable energy industry.

**John Hepburn, CFA – Head of NZ Operations (NZFFP) and Partner (Kinleith Continuation):**

John is a New Zealand national and, prior to joining Kinleith Continuation, was an Associate Director at Medea Capital, focused on its New Zealand forestry strategy. Prior to this, he was an investment analyst at Stamford Associates in London, focusing on investment due diligence and fundamental portfolio analysis on behalf of institutional investors. Before that, he worked as a natural resources equity analyst for a London-based boutique investment bank and, prior to this, was at the ANZ Bank in their Auckland wealth management business.

**Jay Barrymore, CFA – Head of Sustainability (NZFFP) and Partner (Kinleith Continuation):**

Jay is a British national and, prior to joining Kinleith Continuation, was Head of Special Projects at Medea Capital. He led Medea's sustainability work responsible for driving social and environmental value creation across the portfolio. Jay has 13 years of investment experience, most recently as Managing Partner at Impact Investment Partners, an impact investment and advisory firm with offices in London and Mumbai. Jay is a CFA charterholder, and a graduate of University College London (UCL).

**Piers Hugh-Smith – Head of Research & Development (NZFFP) and Partner (Kinleith Continuation):**

Prior to joining Kinleith Continuation, Piers was an Analyst in the Special Projects team at Medea Capital and was involved in the firm's intellectual property investments and technology partnerships, where he sat on the advisory board of Argo Applied Technologies. Piers is a British and Australian national, and has studied a degree in Behavioural & Financial Economics. He comes from a background in professional sport.

**Dennis Gates, Head of Stakeholder and Land Management (NZFFP):**

Dennis is a New Zealand national and was admitted to practice as a Solicitor in the High Court of New Zealand in 1981. He has been in private practice as a solicitor since 1986 and is qualified as a Licenced REAA. Dennis has been responsible for the "on-ground" roll-up operations liaising with local landowners, district council, iwi and other community stakeholders. He graduated from the University of Canterbury with an LLB and the University of Waikato with a Bachelor of Social Science. The PDU searched for further information on Medea Capital and

limited public information was available.

**Risk Assessment**

The key risks to the PDU and proposed mitigations of this investment are as follows:

Type of risk	Risk description	Mitigations	Risk Rating L/M/H
Outcome of the feasibility study	Commercial Information [Redacted]	<ul style="list-style-type: none"> <li>Commercial [Redacted]</li> </ul>	Co
Procurement of Consulting Company	Commercial Information [Redacted]	<ul style="list-style-type: none"> <li>Commercial Information [Redacted]</li> </ul>	Co

**Consultation undertaken or implications:**

MPI (Privacy of Natural Persons [Redacted]); Triage Form completed. Recommendation: *"That the application be declined"*.

Free and Frank Opinions [Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

**Free and Frank Opinions**

*"The comments above reinforce a decline recommendation but it could be reviewed in the event a substantive and authoritative study provided evidence of demand that potentially could be economically meet from NZ."*

<b>Supporting proposal:</b>	No
<b>Appendices:</b>	MPI Triage attached
<b>Author of paper:</b>	Murray Beatson, Investment Director, PDU Investment Team

PROACTIVELY RELEASED