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6 September 2021

FORESIGHT SUSTAINABLE FORESTRY COMPANY PLC

Proposed initial public offering on the London Stock Exchange via an Initial Placing, Offer for Subscription and Intermediaries Offer

Foresight Sustainable Forestry Company PLC (the "Company"), an externally managed investment company that will invest in UK forestry assets, today announces its intention to undertake an initial public offering ("IPO") on the Main Market of the London Stock Exchange, by way of an initial institutional placing, offer for subscription and intermediaries offer for a target issue of up to 200 million new ordinary shares (the "Ordinary Shares"), in aggregate, at an initial issue price of 100 pence per Ordinary Share (the "Initial Issue").

Company Highlights

- Foresight Sustainable Forestry Company PLC was incorporated in the United Kingdom on 31 August 2021 as an externally managed investment company and will invest in UK forestry assets. The Company's investment objective is to generate an attractive net total return for shareholders over the longer term, comprising capital growth and aperiodic dividends, targeting sustainable impact through predominantly investing in sustainably managed commercial forestry assets including afforestation assets. The Company intends to carry on business as an investment trust.
- The Company will target a net asset value total return of more than CPI + 5% per annum on a rolling five-year basis once substantially invested.
- The Company estimates that the IPO proceeds will directly enable c.4 million tonnes of carbon sequestration from the atmosphere from new afforestation planting. The Company will seek to make a direct contribution in the fight against climate change through forestry and afforestation carbon sequestration initiatives and will seek opportunities to preserve and enhance natural capital and biodiversity across its portfolio.

The Investment Manager

- The Company is to be managed by Richard Kelly and Robert Guest of Foresight Group LLP ("Foresight Group"), a leading infrastructure and private equity manager.
- As investment manager, Foresight Group has been tracking the UK and European forestry sector as an investment target since 2016 with the aim of leveraging its sustainable infrastructure expertise to develop its investment capability in the sector. During the course of 2019, Foresight Group utilised its extensive research to formulate its forestry investment strategy, including developing its investment criteria, acquisition strategy, valuation methodology and by developing key relationships in the sector.

- This investment strategy was then successfully implemented during 2020 and 2021 via the Foresight Inheritance Tax Fund ("FITF"). Foresight Group has managed the acquisition of, or holds exclusivity over, 11,700 hectares of UK forests and afforestation opportunities valued at circa £130 million (the "Seed Assets"), observes an annual forestry deal flow of over £300 million, and has a strong live pipeline of forestry investment opportunities in excess of £125 million.
- IPO investors will be investing alongside the Foresight Inheritance Tax Fund (which will be a cornerstone shareholder of up to 29.99% of the issued share capital).

The Board

- The Board of the Company will comprise Richard Davidson (Chairman), Josephine Bush, Sarika Patel and Christopher Sutton who together provide a broad, complementary skill set and knowledge base for the Company.
- The Company's prospective Chairman, Richard Davidson, has a near 20-year track record investing in UK forestry. Since his first forest purchase in 2004, Richard has been heavily involved in the management of his own Scottish forestry investments, including the planning and design of several new planting projects. In addition, he is a partner in TFP, one of the UK's largest private forestry owners and between 2016 and 2018, Richard was the chair of the investment committee for Gresham House Forestry.

Richard was formerly a Partner and Manager of the Macro Fund at Lansdowne Partners and prior to that was a Managing Director and investment strategist at Morgan Stanley, where he worked for 15 years. He is currently the Chairman of two investment trusts, Miton Global Opportunities plc and Aberforth Smaller Companies Trust plc and is the Convener (Chairman) of the investment committee for the University of Edinburgh, managing the investments of the third largest university endowment in the UK.

- Josephine Bush was a senior partner at EY for 14 years specialising in the renewable energy sector. She built and led the UK and Ireland Renewables Tax Practice, led on market leading transactions such as structuring for the IPO of several environmental yieldcos, and developed latterly the EY global renewables business plan. She was a member of the Ernst & Young Power and Utilities Board and UK&I Governance Board. Josephine is a non-executive director for, and Chair of the Audit, Risk and ESG committee of Vulcan Energy Resources Ltd (AUX listed), a non-executive director of Net Zero Now Ltd and a member of the investment committee of Gresham Houses' sustainable infrastructure fund. She founded a not-for-profit, Sustainability & You, to raise awareness of climate change challenges and opportunities. She is a qualified solicitor, and chartered tax advisor, as well as earning the CFA ESG investing qualification and a sustainable finance certification. She is a fellow of the Royal Geographic Society.
- Sarika Patel is a business leader with nearly 30 years' experience in a mixture of public and private organisations. She is a Chartered Accountant and a Chartered Marketer. Previously a partner at Zeus Capital, Sarika has been on a host of public and private sector boards. Sarika is non-executive director and Chair of the Audit Committee of Aberdeen Standard Equity Income Trust plc and a non-executive director of Sequoia Economic Infrastructure Income Fund Limited. Sarika is also currently Chair of Action for Children, one of the UK's leading charities for children, and a Board Member of the Office for Nuclear Regulation where she chairs the Audit, Risk and Assurance Committee.
- Christopher Sutton was a Director of James Latham plc from 2005 until 2019. Quoted on the AIM Market of the London Stock Exchange, James Latham, which was established in 1757, is one of the UK's largest independent trade distributors of timber, panels and decorative surfaces. Christopher is currently the Chairman of Timber Development UK (a merger between the Timber Federation and the Timber Research Development Association). He is also a non-executive commercial director of UNWASTED, a start-up company using recycled cardboard to manufacture products for use in the construction sector. Christopher also acts as a commercial board adviser to, and ambassador for, the National Forest Company.

The IPO

- The Prospectus for the proposed IPO is due to be released in October 2021 and the close of the Initial Issue is expected to take place in November 2021. The Company expects to apply for admission of its Ordinary Shares to the premium listing segment of the Official List of the Financial Conduct Authority and to trade on the London Stock Exchange's main market for listed securities. The Company intends to carry on business as an investment trust.

- Jefferies International Limited ("Jefferies") is acting as Sole Sponsor, Global Coordinator and Bookrunner in relation to the IPO.
- Foresight Group's retail sales team will be leading on the retail marketing of the launch and will be working closely with PrimaryBid and Rothschild & Co., who will be advising on the intermediaries offer. It is intended that the shares will be available on the main UK retail platforms for those interested investors.
- The Company will uniquely offer the attractive investment characteristics of UK forestry and afforestation in a direct and liquid format, available to the everyday investor.

Richard Davidson, prospective Chairman of Foresight Sustainable Forestry Company PLC, said:

"Foresight Sustainable Forestry Company's Board of Directors is pleased to be able to bring this significant investment opportunity for both institutional and retail investors to the equity capital markets. Forestry provides a compelling investment opportunity, meeting investor requirements on climate, sustainability and ESG issues, inflation protection properties, and portfolio diversification. Over the long term, managing a portfolio of forestry assets is generally low risk, driven by growth in both volume and value as the trees mature. We expect the significant shortfall in timber in the UK to push up timber prices in the coming years and are delighted to have Richard and Robert to manage the portfolio on behalf of shareholders, overseen by a strong independent Board."

Bernard Fairman, Executive Chairman and Co-Founder of Foresight Group, said:

"For some years now Foresight, as one of a very few significant players in this sector, has been looking to scale up its forestry investments in an appropriate structure for a wide range of investors to participate in and this LSE Main Market listed sustainable forestry company launch represents the next development in that journey. Forestry is a real asset, and a natural and growing store of value, independent of the economic cycle and if ever there was a time for the world to embrace investment into more trees, this is it. In the UK, we import the vast majority of our sawn timber requirement, a situation which is not sustainable. The UK and global economies are re-opening and demand for timber is pushing significantly ahead of supply. There is an enormous drive for us all to use more sustainable building and other products. With international recognition that sustainable forestry and afforestation can play a vital role in combatting climate change through net CO2 emissions reductions, we truly believe that this is very much a fund of its time."

Foresight Group

Foresight Group was founded in 1984 and is a sustainable, diversified asset manager. With a long-established focus on ESG and sustainability-led strategies, it aims to provide attractive returns to its institutional and private investors from hard-to-access private markets. Foresight Group manages over 350 infrastructure assets (accounting for 90% of Foresight Group's AUM) with a focus on solar and onshore wind assets, bioenergy and waste, as well as renewable energy enabling projects, energy efficiency management solutions, social and core infrastructure projects, and sustainable forestry assets. Its private equity team manages regionally focused investment funds across the UK, supporting 125 SMEs at the end of June 2021. Foresight Group operates from 12 offices across the UK, Europe and Australia with an AUM at end of June 2021 of £7.8 billion. Foresight Group has a strong track record of managing listed investment companies and is currently the manager to two such entities, Foresight Solar Fund Limited and JLEN Environmental Assets Group Limited, with combined assets under management as at 30 June 2021 of £1.1 billion.

Forestry: Investment Opportunity Highlights

Investors and companies are currently facing an inflection point, with calls for action on climate change becoming more urgent by the day, sustainability and ESG considerations further gaining in importance, and the risk of inflation increasing through deglobalisation, supply chain bottlenecks, and monetary response to COVID-19. In addition, 2020 saw the highest correlation across asset classes and geographies in two decades^[1], introducing higher volatility into investment portfolios.

Forestry provides a unique investment opportunity, meeting investor requirements on climate, sustainability and ESG issues, inflation protection properties, and portfolio diversification. Forestry is a real asset and a natural and growing store of value, independent of the economic cycle. The Company's returns are expected to be more than CPI + 5% per annum on a rolling five-year basis, based on the NAV once substantially invested. The returns are created by the capital appreciation of the underlying asset freeholds and cash yield, which is generated by the sale of timber from the harvesting of mature forest compartments, the value of carbon units, opportunistic leases to renewable energy developers and ecotourism.

Why UK Forestry?

- Exacerbated supply and demand imbalances along with favourable climatic suitability make the UK a highly attractive destination for commercial forestry.
- The UK is one of the least forested countries in Europe (13 per cent. forest cover versus a European average of 46 per cent.) and global demand for timber products is expected to quadruple by 2050^{[2],[3]}.
- Forestry is an asset class with strong inflation-beating characteristics and low correlations to other asset classes, as well as to power prices.

- Long-term macro-economic factors are expected to drive a material capital appreciation opportunity enhanced further by the opportunity to participate in the value investors will receive from owning voluntary carbon credit units afforded by investment in afforestation assets.
- A truly sustainable asset class with exceptional sustainability and ESG credentials.

Why Now?

- Participating in the IPO directly contributes to combatting climate change through the sequestration of over 4 million tonnes of carbon^[4].
- Rapid expansion in corporate net zero pledges with demand for carbon units forecast to increase by up to 100X by 2050 is expected to deliver annualised double-digit growth in the price of voluntary carbon credits until 2030.
- New UK Government grants and support for afforestation drive step change in investment opportunities.

Why Foresight?

- Established sustainable infrastructure and real estate investment specialist that manages £7.8 billion, the majority of which is within sustainable infrastructure assets, including forestry^[5].
- Managing c.£1.1 billion in two Premium-listed investment companies trading at a premium, with consistent payments of growing dividends⁵ and strong active asset management.
- Attractive seed portfolio, assets under exclusivity and proprietary investment pipeline as well as significant cornerstone investment.

Inflation hedge

Recently bond yields have risen significantly, with the UK's breakeven yield more than a percentage point ahead of the US, implying strong anticipation of 'expected' inflation in the UK. UK money supply has grown by 12% from £2.5 trillion to £2.8 trillion in the year to February 2021, whilst the UK's real GDP fell by 1.6% in Q1-2021 and is 8.8% lower than pre-pandemic levels^{[6],[7],[8]}. In economic theory, increasing the money supply faster than real output causes inflation as the growing pool of capital acquires goods/services that are not supplied at the same rate, putting upwards pressure on prices.

UK commercial timber prices have historically outstripped inflation, offering an inflation hedge during current times of unprecedented monetary and fiscal policy.

Returns and diversification

UK forestry investment returns were impressive over the decade to the end of 2017, with annualised returns of 11.6%, 13.6% and 15.7% across 3, 5 and 10 year periods^[9]. Strong performance in UK forestry assets for the period 2017 to 2020 has also been experienced, with compound annual growth in asset values of 16.9% during that time frame^[10].

Compared with renewable energy, forestry offers attractive, risk-adjusted returns that are uncorrelated to power prices and versus real estate, forestry offers uncorrelated returns. These low correlations are driven by average annual biological tree growth of 3% to 4%, regardless of economic cycles.

Carbon sequestration

The Company estimates that the IPO proceeds will directly enable c.4 million tonnes of carbon sequestration from the atmosphere from new afforestation planting to support the fight against climate change^[11]. For each tonne of carbon sequestered (net of the buffer), a carbon unit is expected to be generated in accordance with the Woodland Carbon Code ("WCC"). Foresight expects to execute a strategy for WCC units that generates maximum sustainability credentials and value for Company shareholders. Future fundraising by the Company after the IPO proceeds are deployed has the potential to enable material further carbon sequestration via additional afforestation.

ESG benefits

In addition to the contribution to the fight against climate change, properly planned and managed commercial forest properties offer other ESG benefits^[12]:

- Protected areas of rich natural habitat and biodiversity;
- Clean water benefits;
- Soil erosion, flood and landslide resilience;
- Supporting rural jobs;
- Supporting the UK economy through trade of timber; and
- Active engagement, enabling educational and health benefits for local communities.

Additionally, proper active management of forestry enables recognition by the Forest Stewardship Council ("FSC") and Programme for the Endorsement of Forest Certification ("PEFC"). FSC certification indicates compliance with the highest social and environmental standards on the market. PEFC is an international, non-profit, non-governmental organisation which promotes sustainable forest management through independent third-party certification. Both certification programmes aim to protect forests and ensure the timber is responsibly sourced.

The Company expects to achieve and will aim to exceed the requirements of compliance with the EU Green Taxonomy and Article 9 of the Sustainable Finance Disclosure Regulation ("SFDR").

The Company will directly contribute to five of the United Nations Sustainable Development Goals ("SDGs"):

Goal 3 (Health, Wellbeing); Goal 6 (Clean Water, Sanitation); Goal 12 (Responsible consumption/production); Goal 13 (Climate Action) and Goal 15 (Life on Land).

The Company is expected to qualify for the London Stock Exchange's Green Economy Mark at Admission, which recognises companies that derive 50% or more of their total annual revenues from products and services that contribute to the global green economy. The underlying methodology incorporates the Green Revenues data model developed by FTSE Russell, which helps investors understand the global industrial transition to a green and low carbon economy with consistent, transparent data and indexes.

Foresight Group will apply its Sustainable Investment Criteria when making investments and in the period of management following investment to ensure that these (and the carbon sequestration) characteristics and attributes within the Company's forestry portfolio are maximised. In addition, Foresight Group, as investment manager will report on its compliance with sustainability and ESG on an annual basis.

The Seed Assets

The Seed Assets currently comprise 34 assets, diversified in age, project type and geography, currently valued at circa £130 million. The Seed Assets extend across c.11,700 hectares (equivalent to c.29,000 acres), with 86 per cent. by area located in Scotland, 9 per cent. in Wales and 5 per cent. in England.

The Seed Assets comprise both existing standing forestry and afforestation. 52 per cent. of the Seed Assets are mature standing forestry assets (extending across c. 6,100 hectares); and 29 per cent. of the Seed Assets are afforestation projects, that will be planted (extending across c. 3,450 hectares). The remaining 19 per cent. being mixed assets that contain some existing forestry co-located with afforestation projects (extending c. 2,150 hectares). The age profile of the Seed Assets is diversified, including compartments that are being actively felled and a significant amount of unplanted afforestation land. Once all assets are accounted for, the weighted average age of the Seed Forestry Assets is 15 years.

There are over 80 hectares of Sites of Special Scientific Interest designated land in the Seed Assets, most of which is designated as ancient woodland. It is the intention of the Company that this will be retained and treated in accordance with its designation. There are also multiple cases of assets containing Special Areas of Conservation, relating to waterways bisecting or bordering an asset. These include protected habitats for otters and Atlantic salmon and will again be treated in accordance with its designation by the Company. In all cases, the Company will explore methods and activities that will not only preserve but enhance designated areas, through an active asset management approach. The company will explore partnerships with market leading ecological and bio-diversity specialists to support enhancement activities.

All planted assets contain at least the Forestry Commission's necessary amount (1 per cent.) of Long-Term Retention and Natural Reserves stands. All assets are managed to PEFC and FSC standards and are expected to qualify for certification by both standards. For existing forestry acquisitions, it is anticipated that this will be gained within 12 months of acquisition. For afforestation acquisitions, this will be gained as soon after planting as possible.

The Seed Assets are planted with a variety of species. More than 10 commercial species are used across the sites, and a wide variety of natural broadleaves are selected in each case, dependent on which species best suit the landscape.

Investment pipeline

Foresight Group has identified a number of specific opportunities in line with the Company's investment policy which are either, (i) under active discussion with the relevant counterparties, or (ii) likely to be available for sale within the 12 months following Initial Admission. This pipeline represents a total potential investment volume for the Company of £125 million.

As such, with the Seed Assets and investment pipeline, it is anticipated that the full maximum proceeds raised at IPO would be deployed well within 12 months.

Launch timing

The Prospectus for the proposed IPO is due to be released in October 2021 and the close of the Initial Issue is expected to take place in November 2021.

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^[1] Bloomberg, Mar 2020, *Investors are herding together like never before in virus rout*; Bloomberg, Jun 2020, *JPMorgan warns on market correlations at 20-year highs*.

^[2] Forestry Statistics 2020.

^[3] World Bank

^[4] Based on WCC calculator. Assumes that the c.40% allocation to afforestation projects is sold and reinvested in new afforestation projects every 8 - 12 years. Carbon is sequestered over a 55-year period following the planting of each new afforestation projects. Assumed on an investment trust size of £150 million at IPO.

^[5] As of 30 June 2021.

^[6] Bloomberg Breakeven Yield Indices, Accessed 30th April 2021.

^[7] Bloomberg: UK Money Supply M4, Year to February 2021.

^[8] ONS - GDP First Quarterly Estimate, UK: January to March 2021.

^[9] MSCI - IPD UK Forestry Index, Results for the year to 31st December 2017.

^[10] Source data: 2017, 2018, 2019 and 2020 UK Forest Market Reports and Appendices, Tillhill and John Clegg & Co / Strutt & Parker. CAGR measured on a weighted average GBP per commercially stocked Hectare basis from transaction data.

^[11] This is the equivalent of offsetting the carbon footprint of 128,000 UK individuals for a year. Assuming 7.8 tCO₂ / person / year (from the Committee on Climate Change 6th Carbon Budget).

^[12] Forestry Commission, Social and environmental benefits of forestry, November 2004.

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