KAHEKA NO 1 FOREST PARTNERSHIP

MINUTES OF ANNUAL GENERAL MEETING
HELD AT NAPIER CONFERENCE CENTER AND THE PROPERTY
ON SATURDAY 28th APRIL 2018 AT 8:30AM

PRESENT
Andrew Templeton & Sarah Byrne, Browns Pines Limited (Geoff Brown), Clearwood Investments Limited (Peter Hancox), Derek Frost, Keith Brian Miller, Warren Edward Macdonald

ATTENDING
Steve Bell, Rory Bennison, Paul van der Vort, Richard Airey (Forest Management (NZ) Limited), Will Dickie, Richard Bourne, Grant Morris (Roger Dickie (NZ) Limited), Jeff Whitlock, Margaret Prince (Moore Stephens Markham's Waverley)

APPOINTMENT OF CHAIRMAN
Nominations were called for the position of Chairman for this meeting.
Derek Frost/Geoff Brown THAT Jeff Whitlock be appointed Chairman for this meeting.

CARRIED

APOLOGIES AND PROXIES
Clearly Rod Limited, Click Limited, Cranleigh Forests Limited, David Brougham, Deby Mills, Dereck Adamson, Edward Culley, Gail S Jansen, Glen Sylvan Limited, Guy Chilvers, Janet Isabel Reid, Martin Gelsen, Neil Bowman, Peter John Reardon, Roger Dickie (No 7) Limited, Stephen John Bentley, Susan Nicola Richardson, TWI No 2 Forestry Limited. Proxies were held for the above named, establishing a quorum for the meeting.
Warren MacDonald /Peter Hancox THAT apologies and proxies be sustained.

CARRIED

MINUTES OF THE PREVIOUS MEETING
The Minutes of the April 2017 general meeting had been circulated.
Peter Hancox/Warren MacDonald THAT the minutes be confirmed.

CARRIED

ARISING FROM THE MINUTES
Nil

REPORTS AND DRAFT FINANCIAL STATEMENTS
The reports from Roger Dickie, Forest Management (NZ) Ltd, PF Olsen's 2018 Tree Crop Valuation and the 2018 Draft Financial Statements were tabled and discussed.

PUBLIC LIABILTY INSURANCE
Derek Frost/Keith Miller THAT Public Liability Insurance be effected for $10 million.

CARRIED

ADMINISTRATION
Warren MacDonald/Andrew Templeton THAT the administrators' remuneration be at a rate of $378 (GST excl.) per month.

CARRIED

BUDGET/CASHFLOW
Warren MacDonald/Andrew Templeton THAT the Budget Cashflow Statement for the year to 28th February 2019 be approved.

CARRIED

It was noted the NZU sales shown in March are a drawdown of funds from the partnerships investment account where funds from the sale of NZUs are held. It is to cover the tax partners are required to pay on the sale of NZUs. It is also shown as a distribution, to partners, in April. Any further amounts shown on the NZU sales line during the year are not further sales but are draw downs from the investment account. The balance of funds remain in the interest bearing investment account (as shown in Financial Statements) to cover ongoing holding costs thus eliminating share calls as voted for in 2017.

It was stressed that with roadlining and harvest planning going on, figures were best estimates. There are a number of variables that can affect the cost and timing of activities, such as weather, availability of roading and harvesting contractors and crews etc.

GENERAL BUSINESS

Correspondence
Peter Hancox asked that the questions and answers that were circulated before the meeting were tabled and these formed part of the minutes. As attached.

Presentation
Steve Bell and Rory Bennison from FMNZ gave a harvest plan presentation and tabled a draft Cashflow forecast covering the years of harvest. *(the presentation and Cashflow can be viewed on your forest reports page of the website)* and there was a site visit with harvest manager Paul van der Voort and Q & A session in the field.

Harvest reports, clearfell payments and timing of same
Partners were shown an example of a clearfell 'Harvest Report' that will be sent monthly once clearfell commences. Prior to clearfell partners are sent monthly 'Activity Report'. It was pointed out that logs harvested in January are paid for by the exporter at the end of February. The manager then has to check and reconcile all figures, have it signed off with the Statutory Supervisor, with disbursements made to partners within the first two weeks of March – along with the corresponding January Harvest Report and disbursement schedule.

Tax
Jeff Whitlock from Markham's Accountants (the partnerships accountant) commented that harvest income in some cases can be spread back over the 3 previous years as well over the harvesting years. Jeff stressed that as everyone's situation is different partners should take accounting advice – sooner rather than later. *(note: Jeff can be contacted at Markham's Wanganui and Waverley)*

Post harvest options
What happens after harvest is an often asked question and was a key discussion point at the 2017 RDNZ Harvest and Beyond conference.

Each winter the harvested area will be replanted from harvest receipts. This maintains and enhances the value of the land asset. To leave it unplanted would see the property revert to weeds and devalue significantly.
During the last year of the harvest, partners will need to vote re the future of the partnership and forest.

Options are:

1) To continue for another rotation for partners beneficiaries.
2) To sell the newly planted forest and dissolve the partnership.

If the majority wish to sell then the property will be listed for sale. Bearing in mind it will likely take time to find a buyer for the newly planted forest.

If the majority want to retain the asset for their beneficiaries, then those who want to retire from the partnership can offer their share of the land and newly planted forest for sale.

Firstly - to the other partners under the pre-emptive rights rule
Secondly - on the secondary market to new investors.
RDNZ facilitates the secondary market.

Second rotation
One of the concerns that partners have is that they do not want to commit their beneficiaries to future payments / share call
To overcome this, the suggestion is to leave a small portion of harvest income per ha in the partnership. This amount will vary from forest to forest. The funds will be invested in a bank account and drawn on to fund the next rotation.

Most forests are still holding a significant number of liability free NZUs – currently trading at $21.00 with many pundits advocating further upside in future years. These NZUs are in reality an unbudgeted bonus as they were not factored in to the original Cashflow and income from the sale of these could be used to fund the next rotation.

As well, because the land your forests are on is post 1989 the carbon sequestered during the next rotation could be leased thus giving another income stream to contribute to the holding costs.
In essence the next rotation would be fully 'pre-funded' with minimal harvest income having to be retained.

Pre-funding a forest is not new as we have already done it with two forests (Granity Forest Ltd and Woodleigh Forest Ltd) and has worked. A Wanganui forest at the end of harvest has adopted the model.

This 'pre-funding' arrangement would allow partners to leave a totally unencumbered, fully funded asset their beneficiaries – children, grandchildren or favourite charity. A great legacy.

If on the other hand the majority vote to sell the newly planted forest, then the pre-funding model would ensure the forest was funded until such time as a buyer can be found. Rather than sell immediately after harvest it may be better to wait until the new crop is well established – say age 5.

It was stressed the decision as to the future of your forest is still a few years away. However, it is appropriate to discuss possible options.

MEETING CLOSED: 3:00pm

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Chairman
Kaheka No 1 Forest Partnership 2018

24th April 2018

Hello

Below are some recent questions from Peter Hancox who is a partner in your partnership. Our answers are included.

I am annoyed about this and other correspondence from Peter Hancox for the following reasons.

1. All of his statements and questions both in writing and at meetings include the insinuation and sometimes allegations that the staff of RDNZ and FMNZ are not open and transparent and imply they may in fact be dishonest with the activities they carry out on behalf of the forest partnerships.

2. His statements and allegations made on the floor at meetings and in writing are almost always totally incorrect and are raised in such a way as to be unsettling for both partners and our staff. Of course mistakes are made from time to time but the transparent way our organisations work, combined with audits every year and recently the much closer involvement of the Statutory Supervisor on behalf of the Financial Markets Authority mean that there is full and open transparency in all activities associated with all forests and partnerships.

3. His actions take up a lot of our staff time. One year ago our partners voted overwhelmingly in favour of a resolution proposed by me to take some money off the table and sell half of our NZUs. Of the more than 2,000 partners who voted Mr Hancox was one of about 5 who voted against the resolution. In January this year he also took up a lot of staff time with more unfounded and incorrect allegations about the, by then completed carbon sales.

Recently I was told by one of his fellow partners they had received 13 unsolicited emails from Mr Hancox, I apologise to those of you who may have received the same.

We have suggested if he has ongoing issues that he call a meeting of partners or bring forward resolutions to a duly notified meeting, however he has declined to do so and seems to prefer writing letters.

Mr Hancox appears to be continually unhappy with the way his forest partnerships are run. Our secondary market is very active and we have a number of parties interested in buying Partnership Interests in semi mature forests. I will be suggesting to him that he take advantage of this opportunity and market his Partnership Interests. The outcome could be a win for all parties.

Regards Roger Dickie

Kaheka 1

AGM 28th April 2018 Questions asked of RDNZ management by Peter Hancox (partner)

(a) As of the date of partners having to advise RDNZ of proxy voting and/or attendance at the AGM, no RDNZ financial reports for the 2017-2018 financial year had been received by 'partners'. **Please advise why these reports are repeatedly late in arriving? How can 'proxy' voters make 'informed' decisions?**

This is a timing issue brought about by the fact that we want to hold the meetings in April before the cold of winter arrives and the short time available between the Feb 28th balance date and the AGMs. This has not changed since the inception of the partnership. The reports are *not* as you state *"repeatedly late in arriving".* In regard to your comment *"How can 'proxy' voters make 'informed' decisions?* On the 3rd April Partners received formal notice of meeting, agenda and budget. Accompanying this was the statement *"Partners are advised the budget is included with the agenda and Proxy; however, you may wish to wait for the Financial statement and reports before voting, these will be distributed shortly."* The draft financial statements were distributed on 18th April as soon as they arrived from the accountants. Plenty of time for partners to send in their proxies for the meeting.

(b) Resolution 2 of the 2017 AGM (that " The managers be instructed to sell up to 50% of the Liability Free NZUs at no less than $15 per NZU **and the proceeds be distributed to the partners** ") has not been complied with, **please advise why?**

This resolution does not have a 'comply by date' so we are unsure how you can say that it has not been complied with. The reality is that RDNZ staff have been working hard to collect partners' bank account details. It is not practical to distribute the money until the majority of the partners have provided their bank details. We have now received the majority of the bank account details and can therefore make the payment.

(c) re (b) above: Payment of the above is budgeted for March 2018, but no payment has been received. **Please advise why?**

This is an incorrect statement; the budget forecasts the payment of this money in April 2018.

Previous correspondence to partners stated that we would make payment prior to the AGMs in April. This is correct we will make payment to partners before their AGMs.

(d) The 2018-2019 Budget shows income ($278,896) from 2017 sales of Kaheka1 NZUs as March 2018. **Please advise where this money has been and how much bank interest it has generated and where the 'bank interest' is? (maybe $3,000-$4,000???)**

The budget shows the money coming in to the Partnership account in March and being distributed in April. The money comes in from each individual partnerships term deposit where the money has been held.

As the NZUs were sold the money from each transaction was deposited in the RDNZ ETS account. Markhams then calculated the interest earned while it was in this account and the money and interest was then transferred into each partnerships term deposit account.

The term deposit earns interest between 3.76% and 1.5% depending on the term. Your partnership current account earns 0.75%. All interest earned has gone directly back to your forest partnership.

(e) An email from Grant Morris 'Kaheka No1 Forest Partnership Bank Details for Harvest Payment' dated 18th Jan 2018 states "KH1 14,720 NZUs sold to date resulting in $274,534 in the bank". $274,534 divided by 14,720 equal's $18.65 average price and also indicates that the units were sold in Sept-Oct 2017. **Please advise just when the NZU's were sold.**

The NZUs were sold in 37 tranches from 5th July 2017 to the 23rd January 2018.

(f) The Year Ending 2018 budget showed the NZU balance to be 30,789 units, the YE 2019 budget shows a balance of 14,195, therefore 16,594 units was sold in the YE 2018 year. The 2017 AGM resolution was to sell up to 50% of the NZUs while 53.9% were sold. **Please advise why more than 50% were sold?**

The 50% of NZUs were pooled together from all partnerships and sold. To continue running the forest, additional NZUs were sold as and when needed, as per previous years. However, for the 2018/19 year the money to operate the partnership is forecast to come from harvest receipts.

(g) Grant Morris advised on 18th Jan 2018 that 14,720 NZUs had been sold for $274,534, this means between the 18th Jan 2018 and the preparation of the 2019 budget, 1874 units were sold for $278,896 minus $274,534 equals $4,362 or just $2.33 per unit, while the NZU price during this period has been $21.00 or there abouts. **Please explain this discrepancy?**

As Grant advised, as of 18 January 2018, 14,720 NZUs had been sold for $274,534. There were two further transactions in January where a total of 174 further NZUs were sold. You are incorrect when you state that 1,874 were sold.

On the 19th of Jan there were two transactions. In Tranch 36 there were 125 units sold for $20.93 each and in Tranch 37 there were 48 units sold for $20.98 each.
In total there were 14, 894 units sold as part of the 50% NZU sell down as indicated in the FMNZ report.

(h) **Please explain the complete Partnership sales of NZU process, with dates, units sold, gross amount received, cost of sale(s) and to whom the units were sold ?**

The NZUs were sold in 37 tranches to seven different buyers from 5th July 2017 to the 23rd January 2018. These sales and receipts are audited twice, once when the Partnership is audited and again when RDNZ is audited.

(i) On the 8th Feb 2018, $176,114.47 from "Harvest Sales" was paid out to partners, less $490.00 for "Harvest Administration" advised by Grant Morris that the $490.00 was for 5 hours of RDNZ time @ $98.00 per hour for analysing and reconciling the harvest reports. Surely this work is completed by FMNZ and also very detailed by them in their reports that we pay for. **Please justify this amount and the time taken.**

As per your statement, this is for our office to receive and analyse the harvest activity in your Forest. We then have to provide information to the statutory supervisor and process the payment. It is for the additional time required to confirm that the reports are accurate. In truth it takes a lot longer than 5 hours and we now have 3 staff (Amanda, Abbey and Ingrid) who spend the first 10 days of the month going over these reports.

(j) ref (i) above: The bank transfer from FMNZ to RDNZ was on the 17th November 2017, therefore this money was held by RDNZ for 83 days. **Please advise where is the bank interest on this money?**

This is incorrect. There was no payment made to RDNZ on 17 November 2017.

The November 2017 disbursement schedule refers to the November harvest activity. As per the email sent out with that payment, the schedule is as follows.

Income from logs harvested in November, was paid to the forest managers at the end of December, and was then paid to the partnership account for payment to partners in early January. However our office was closed for Christmas and the payment happened in February.

Any harvest income is always paid directly from FMNZ to your partnership account.

The cover email implies that the payment from FMNZ was made to RDNZ however this is not correct, the payment goes directly to the partnership account and RDNZ reconciles these payments on behalf of the partnership.

(k) ref (i) above: There are 13 payments scheduled for YE 2019, **please advise if similar "RDNZ Administration payments" will be made on all of these scheduled payments.** (13x$490= $6370, - a lot of money)

This is the true cost of our staff to receive, reconcile and prepare payment for your harvest activity. There is also a significant amount of benchmarking to ensure the harvest is going as forecast and whether as the investment manager we need to make any changes to the timing or any other aspect of the operation. To put this in perspective, it is assumed that the 100ha of forest will be harvested per year, at $35,000 net per hectare this is $3,500,000 of income for partners. Our cost of $490 per month to ensure this is maximising partners returns, is minimal.