Anglican Financial Care
Te Maru Mihinare

Pricing Policy: Forestry and Forestry Land

August 2023

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1. Background

The financial statements of The New Zealand Anglican Church Pension Board Entities trading as Anglican Financial Care (AFC) are prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) and comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate for profit-oriented or public benefit entities. Investments in forest crop and forest land are measured at fair value in accordance with NZ IFRS.

NZ IFRS defines fair value as an estimate of the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

The New Zealand Anglican Church Pension Board (NZACPB) holds the investments in forest and forest land in trust for the beneficial owners, being the entities invested in this asset class. NZACPB is registered as a participant in the NZ Emissions Trading Scheme. Carbon credits (NZUs) earned as the trees sequester carbon are recognised at historical cost and are not subsequently revalued to fair value.

2. Objective

The objective of this policy is to:

- describe the approach taken to measure the fair value of forestry crop and forest land investments held by NZACPB for the entities invested in this sector; and
- describe the approach taken to measure the value of carbon units held.

3. Valuation principles

This policy approaches valuation with reference to two key aspects:

- The valuation methodology to be used; and
- The frequency with which valuations are undertaken.

4. Methods of forest crop valuation

The following are valuation methods that NZACPB may apply depending on the age and status of the forest crop. A forest crop is typically harvested at between 25 and 35 years.

Forest crop valuation is determined by an expert third party valuer, currently Morice Ltd, Property Forestry Valuers and Advisors.

Cost based valuation

When the forest crop is very young (generally less than 3 years), a cost based valuation method is employed. This method results in the development costs of the newly planted forest being used as a proxy for the value. Costs are compounded to reflect inflation and cost of finance.

Expectation value approach

The expectation value method applies discounted cash flow modelling whereby estimated log revenue at harvest together with periodic costs incurred through to harvest are assessed and then the net cash flow is discounted back to the date of valuation. The discount rate is assessed at least annually and reflects market transactions.

This method is generally applied for forest crops older than 5 years.

Hybrid compounding / discounting approach

The hybrid method uses a combination of the cost compound method and the expectation approach for trees that are generally less than 5 years. This method wholly applies the cost compound approach for very young trees and then an increasing weight to the expectation method valuation outcome (and corresponding diminishing weight to the cost compound valuation outcome) as the trees age until attaining the age at which the expectation value method is fully applied.

Valuation for sale purposes

In the event that NZACPB determines to sell either the forest (land and crop) or just the forest crop, the investment would need to be valued in accordance with NZ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under this standard, the assets are to be measured at the lower of carrying amount and fair value less costs to sell.

An independent valuation for sales purposes would be obtained which would evaluate market transactions to determine a value.

5. Forest land valuation

The land valuation is determined by an expert third party valuer, currently Morice Ltd, Property Forestry Valuers and Advisors.

A market valuation approach that considers the highest and best use of the land is applied for determining the value of forest land. Land is valued in a hypothetical cutover state suitable for planting and reflects comparable sales.

6. Valuation of carbon credits (NZUs)

NZUs earned as the trees sequester carbon are measured at historical cost which is nil. A liability for NZUs to be repaid on harvest exists. Where NZUs held are insufficient to cover the estimated NZU liability, a liability at the NZU price relevant at valuation date will be recognised.

In the event that the NZACPB purchases additional NZUs, these are also measured at historical cost. NZUs are not subsequently revalued to fair value.

7. Hierarchy of fair value

Fair value is an estimate of the price that would be received to sell an asset. This can be obtained through a variety of approaches which may utilise information from various sources. The reliability or quality of this information as inputs into the process of estimating fair value has been categorised into a hierarchy under NZ IFRS (specifically in NZ IFRS 13 – Fair Value Measurement).

This hierarchy of inputs, in descending order, is set out below. The inputs used in estimating the fair value of forest crop and forest land investments fall within level 3.

Level 1:
Quoted prices in active markets for identical assets or liabilities (high reliability and good specific information). The best evidence of fair value comes from quoted prices in active markets – a market is considered active if transactions occur at a frequency and in such volume to provide pricing information on an ongoing basis. Such a market may be a recognised stock exchange.

Level 2:
Other market-observable inputs (i.e. other than quoted prices) that are observable either directly or indirectly (medium reliability and good information). Other market-observable inputs include but are not limited to: interest rates; credit spreads; and pricing for comparable investments trading in active markets.

Level 3:
Non-market-observable inputs (lower reliability and requires use of general or alternative information). Non-market-observable inputs represent the least independent and reliable approach in determining fair value due to their subjectivity.

8. Independent third party valuers

Where an independent valuation is required, an external valuer will be engaged. Prior to engagement, the valuer must be assessed for suitability in a number of areas including, but not limited to: relevant qualifications; experience; capacity to undertake the work; reputation; and independence. Independent valuations are prepared in line with the relevant accounting standards and relevant legislation.

9. Frequency of valuations

All fair values are updated as frequently as required and as practicable, allowing for any restrictions in the availability of data and any other constraints.

Currently both forest crop and forest land are independently valued on an annual basis. Between annual independent valuations, the fair value will be increased where there is expenditure incurred on forest crop development or maintenance, or on land improvements.

As the forest ages, valuation frequency of the forest crop will increase ultimately to quarterly at approximately 15 years of age.

10. Consistency of valuations

The valuation methodology is applied consistently across all portfolios wherever possible. The valuation approach is also applied consistently between financial periods. A change in the valuation approach is only made if the manner in which the assets are held changes (for example from held to maturity to held for sale or vice versa). Any change must be documented and approved as required.

11. Reporting

Management must report to the Investment Committee, on the following matters:

- Any material change in applicable Financial Reporting Standards that affect the valuation of NZACPB's investments;
- Any change in NZACPB valuation policies;
- Any departure from the valuation approaches outlined in this policy;
- Any disagreement with the fair value of an investment, determined through the relevant valuation approach outlined in this policy, which results in a material difference.

12. Legislative Compliance

At all times NZACPB must ensure that all relevant legislation is complied with.

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