STRICTLY PRIVATE & CONFIDENTIAL

# Par Forestry Partners LP

INFORMATION MEMORANDUM

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# Par Forestry Partners LP

WARNING: The content of this promotion has not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA"). Reliance on this promotion for the purposes of engaging in investment activity may expose an individual to a significant risk of losing some or all of any amounts invested. Making an investment in the Fund may expose an investor to a significant risk of losing all of the property or other assets invested.

## IMPORTANT NOTICES

If you are in any doubt about the contents of this confidential information memorandum (this "Memorandum"), you should consult an appropriate professional adviser who specialises in advising on the acquisition of interests in unregulated collective investment schemes.

### Status of this Memorandum and Authorised Recipients

The contents of this Memorandum are strictly private and confidential and intended only for the recipient to whom this Memorandum was issued. This Memorandum is directed solely at persons with sufficient means and/or investment experience to allow them to bear and make an informed assessment of the risks associated with an investment of this type.

This Memorandum is issued by Par Fund Management Limited (the "Manager") to provide information in respect of Par Forestry Partners LP (the "Fund"). The Manager is authorised and regulated by the Financial Conduct Authority (the "FCA") with reference number 485668. The Fund is structured as a Scottish limited partnership and Par Fund Management Limited is the initial investment manager of the Fund.

The Fund is an unregulated collective investment scheme for the purposes of FSMA and a Non-mainstream Pooled Investment ("NMPI") for the purposes of Rule 4.12 of the FCA's Conduct of Business Sourcebook ("COBS 4.12"). The Fund is not authorised or otherwise approved by the FCA. Accordingly, promotion of the Fund in the United Kingdom is restricted by statute and by the FCA Rules. The contents of this summary have not been approved by any "authorised person" for the purposes of sections 21 or 238 of FSMA. The Fund cannot be promoted to the general public in the United Kingdom, but information on the Fund may be issued or distributed in the United Kingdom by an "authorised person" (as defined in FSMA) in circumstances where it is exempt from the general restriction imposed on authorised persons in the financial promotion of unregulated collective investment schemes under sections 21 and 238 of FSMA.

This warning is given pursuant to the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the "CIS Exemption Order") and the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Financial Promotion Order"). The communication to which this warning relates is exempt from the general restriction contained in Sections 21 and 238 of FSMA on the communication of invitations or inducements to engage in investment activity or participate in unregulated schemes because it is made only to:

a) Investment Professionals as defined in article 14 of the CIS Exemption Order and article 19 of the Financial Promotion Order;

b) Certified Sophisticated Investors as defined in article 23 of the CIS Exemption Order and article 50 of the Financial Promotion Order (for those purposes a person is a "Sophisticated Investor" if he or she has a current certificate in writing signed by an authorised person to the effect that he or she is sufficiently knowledgeable to understand the risks associated with participating in unregulated schemes and who has himself or herself signed a statement in those terms set out in the orders);

c) High Net Worth Companies, unincorporated associations etc. as defined in article 22 of the CIS Exemption Order and article 49 of the Financial Promotion Order;

d) A High Value Trust as defined in article 22 of the CIS Exemption Order and article 49 of the Financial Promotion Order;

e) An association of High Net Worth or Sophisticated Investors as defined in article 24 of the CIS Exemption Order and article 51 of the Financial Promotion Order; or

f) A person to whom the communication may be made under the FCA's Conduct of Business Sourcebook by reason of that person being a professional client or a partner in Par Forestry Partnership 1 LLP.

In addition, COBS 4.12 permits promotion of NMPIs to Certified High Net Worth Investors and Self-Certified Sophisticated Investors, as defined in COBS 4.12.6 and COBS 4.12.8 respectively.

Any person who does not fall within a category listed immediately above should not rely on this document and will not be permitted to invest in the Fund.

## Reliance on this Memorandum

The placing of interests in the Fund is being made solely pursuant to this Memorandum. Any information (whether oral or written) regarding the Fund that is not contained in this Memorandum or the Partnership Agreement should not be relied upon in considering whether to apply for an interest in the Fund. To the fullest extent permitted by law, but subject at all times to the rules of the FCA and to the requirements of FSMA, no representation or warranty is made regarding the information contained in this Memorandum.

This Memorandum contains a summary of the principal terms of the Partnership Agreement. The description does not purport to be complete and is qualified in its entirety by the actual text of the Partnership Agreement. In the event that the description in this Memorandum is inconsistent with or contrary to the terms of the Partnership Agreement, the Partnership Agreement will prevail. Copies of the Partnership Agreement under which the Fund is constituted are available to prospective investors on request.

This Memorandum does not purport to offer legal, tax, accounting or investment advice to prospective investors. It is the sole responsibility of potential investors proposing to apply for an interest in the Fund to inform themselves of and to take their own professional advice regarding:

a) the legal requirements relating to the acquisition of such an interest within the countries of their nationality, residence, ordinary residence or domicile;

b) any foreign exchange restrictions or exchange control requirements to which they might be subject on the acquisition, disposal or transfer of such an interest; and

c) the income tax and other taxation consequences which might be relevant to the acquisition, holding or disposal of such an interest.

Prospective investors should note that (i) existing laws, and (ii) taxation levels, bases and applicable reliefs may change or may be interpreted adversely to the Fund or its investors.

Prospective investors should not subscribe for interests in the Fund unless they are satisfied that they have asked for and received all the information that they consider they need to evaluate the merits and risks of the proposed investment.

The delivery of this Memorandum does not imply that the information it contains is correct as at any time subsequent to the date printed on the front cover of this Memorandum or, where information is expressed in this Memorandum to be accurate at a particular date, such date.

## Risk Warnings

An investment in the Fund will involve a high degree of risk. Investment results may vary substantially over time and there can be no assurance that the Fund will achieve any particular rate of return. An investment in the Fund will be illiquid. An investor should not assume that there will be any way to realise or sell their investment prior to the winding up of the Fund. When reviewing the track records and other historical performance data in this Memorandum, prospective investors should bear in mind that past performance is not indicative of future performance.

Prospective investors should note that most of the protections under FSMA do not apply to membership of the Fund and that compensation under the Financial Services Compensation Scheme may not be available.

Certain information in this Memorandum may represent or be based upon forward-looking statements or information. The Manager has taken reasonable care to ensure that such statements and information are based upon reasonable estimates and assumptions. Forward-looking statements and information are, however, inherently uncertain and actual events or results may differ from those projected. Undue reliance should not therefore be placed on such forward-looking statements and information.

Interests in the Fund are only suitable for investors who are able to bear the loss of some, or even the whole, of any amount invested and who have no need for immediate liquidity in their investment. Investors should refer to Part 4 of this Memorandum for further information on risk factors and potential conflicts of interest.

Investors who sign up to the Liquidity Mechanism and opt to acquire further Partnership Interests will be risking more capital than their initial commitment.

## Conflicts of Interest

The relationship between the Fund, the Manager, the Operator, the General Partner, any other Associate or Connected Person of the Manager or any of them and their respective clients may give rise to conflicts of interest. Investors should refer to Part 4 of this Memorandum for further information on risk factors and potential conflicts of interest.

## Restrictions on Distribution

Unless the Manager determines otherwise, in its sole and absolute discretion, investments in the Fund are not available to persons or entities resident outside the United Kingdom.

The distribution of this Memorandum and the placing of interests in the Fund is restricted in jurisdictions outside the United Kingdom. This Memorandum does not constitute an offer or solicitation to any person in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it would be unlawful to make such offer or solicitation. Without prejudice to the generality of the foregoing, neither this Memorandum, nor any copy of it, may be taken or transmitted into the United States of America, Canada, Australia, Republic of Ireland, South Africa or Japan or into any other jurisdiction where it would be unlawful to do so. A failure to comply with this restriction may constitute a violation of relevant local securities laws.

## Confidentiality

The information contained in this Memorandum is confidential and is intended only for the person to whom it is addressed. It is not transferable and is not to be reproduced, disclosed, transferred or distributed to any other person, in whole or in part, except with the prior written permission of the Manager. By accepting delivery of this Memorandum, each prospective investor agrees to keep confidential this Memorandum and the information contained in it.

## Restrictions on Investor Rights of Redress

Investors in the Fund may not be covered by the Financial Ombudsman Service (FOS), should they have a complaint about the Fund, or by the Financial Services Compensation Scheme (FSCS).

Contents

## Key Parties and Advisers

| | |
|---|---|
| GENERAL PARTNER | Par Forestry (General Partner) Limited<br>3a, Dublin Meuse<br>Edinburgh EH3 6NW |
| FOUNDER PARTNER | Par Equity LLP<br>Exchange Tower<br>19, Canning Street<br>Edinburgh EH3 8EH |
| MANAGER | Par Fund Management Limited<br>3a, Dublin Meuse<br>Edinburgh EH3 6NW |
| OPERATOR | NCM Fund Services Limited<br>7, Melville Crescent<br>Edinburgh EH3 7JA |
| FORESTRY ADVISOR & MANAGER | Scottish Woodlands Limited<br>Research Park<br>Riccarton<br>Edinburgh<br>EH14 4AP |

# Introduction

## Investment Opportunity

Commercial forestry as an investment asset class has demonstrated attractive long-term investment returns. UK forestry generated an 8.9% annualised total return over the twenty two year period 1993 – 2014 according to the IPD UK Annual Forestry Index) as part of a diversified portfolio, offering tax advantages and the potential to enhance returns through incremental non-forestry uses of land. Increasing focus on carbon capture and on biomass for uses such as wood-fired boilers has supplemented traditional sources of demand for timber, such as the paper and building materials industries. Certain forestry assets may also provide for amenity or sporting opportunities and value and may be made available for investor use.

The Fund, as a pooled subscription vehicle, has been established to offer investors the opportunity to access this asset class on a cost-effective basis, with the potential to benefit from a diversified portfolio of forestry plantations and the economies of scale available to larger operators. The Manager will consider opportunities to acquire assets with energy-related or other such development opportunities. Investors with existing forestry assets which the Manager considers suitable for the Fund may also be offered the opportunity to contribute such assets into the Fund in part or full exchange for a Fund subscription.

## Investment Mandate

The Fund has been formed to invest in commercial forestry plantations (or land considered suitable for a commercial forestry plantation) situated in the United Kingdom. The Manager will look to generate returns both from the cultivation of trees and, where practicable, from the exploitation of alternative uses for land acquired. The Fund also expects to access certain off market assets through its partnership with Scottish Woodlands acting as the Fund's forestry acquisition advisors.

## Investment Returns

Forestry investment entails a long-term commitment with a view to capital returns. There are various costs involved in the on-going management of plantations (in addition to expenses incurred by the Fund) and no expectation of significant regular income unless holdings are leased for renewable energy production. Capital gains can be realised through the harvesting and sale of mature timber, with the underlying land sold subsequently, either bare or replanted, or through the sale of land with standing timber. The Fund may therefore see irregular but substantial capital receipts before the end of the Fund's expected life, but the timing and quantum of any such receipts is uncertain.

## Geographic Scope

The Fund will invest solely in land located in the United Kingdom, primarily or entirely in Wales, the north of England and Scotland. It is expected that the centre of gravity of the Fund's portfolio will be in Scotland but that will be subject to the availability of suitable assets for purchase during the course of building up the Fund's portfolio.

## Management Style

The Manager has an active management style and will maintain close involvement with the Fund's forestry operations through our relationship with Scottish Woodlands, drawing on our combined contacts from within the forestry industry, renewable energy industry and other relevant sectors to drive value.

## Fund Size

The Fund is targeting raising between £5 million and £10 million. The minimum size of the Fund is £2 million in Aggregate Commitments (i.e. the Fund will not be launched below that level) and has been set at a level intended to allow the Manager to build a diversified

portfolio of forests, but also to acquire sufficiently large properties so as to allow it to avoid the section of the market in which amenity purchasers operate, where prices per hectare are generally higher than for larger forests.

The indicative maximum size of the Fund is £10 million in Aggregate Commitments before any Borrowings, extendable to £12.5 million at the discretion of the Manager.

Fee Structure

The Manager is entitled to the following fees, payable by the Fund, in respect of cash subscriptions for partnership interests:

- 2% on Aggregate Commitments as an initial establishment fee;
- 1.5% per annum as a management fee, falling to 1% after conclusion of the three year Investment Period, calculated on Aggregate Commitments plus drawn down bank debt;
- 12.5% carried interest on returns to investors in excess of the amount invested, subject to achieving a hurdle equivalent to the average (current average is 8.9% over 22 years) total return of the IPD UK Annual Forestry Index over the lifetime of the Fund (or equivalent index if the IPD index is replaced or succeeded); and
- a wind down/liquidation fee of 2% of Aggregate Commitments.

The Fund will also be obliged to meet its other costs and expenses, including the costs of the Operator, audit and legal expenses, as set out in more detail in Part 3 of this Memorandum.

Fund Life

The Fund's anticipated Investment Period is three (3) years. It is intended that the Fund will thereafter operate for a further seven (7) years (i.e. 10 years in total from Initial Closing), extendable by up to two further one year periods with the consent of Investors. Circumstances where it may be appropriate to exercise one or both of the extension periods include where the Manager believes there are short-term reasons why it may be advantageous to wait to realise part or all of the portfolio.

Minimum Investment

The minimum investment is £50,000 per Investor investing in the Partnership as a Limited Partner and £20,000 per Investor investing as a Unitholder through the Unit Trust, subject to the Manager's discretion to permit other amounts.

Closing Dates

The Fund will commence on the Initial Closing. The General Partner will be able to accept commitments to the Fund at any time from the Initial Closing up until the end of the 3 year Investment Period and the Manager may set a number of Subsequent Closings following the Initial Closing. In order to balance equitably the interests of Limited Partners, Limited Partners admitted to the Fund at a Subsequent Closing will pay an equalisation payment to the Fund in addition to their subscription. The equalisation payment will reflect an interest charge for the benefit of investors from preceding closing(s). The equalisation payment is taxable in the hands of the investor receiving it as interest income. For the avoidance of doubt, the equalisation payment is for the benefit of investors from preceding closings and is not shared with the Manager or any other advisor. Other than in respect of the equalisation payments, Investors admitted to the Fund at a Subsequent Closing will participate in the Fund as if they had been admitted at the Initial Closing, including participation in any and all gains, losses and expenses of the Fund including fees due to the Manager.

## About Par Equity

### Par Equity

Par Equity is an Edinburgh-based investment firm established in 2008. Owned by its partners, it was formed to provide intellectual and financial capital to innovative young companies with high growth potential, adding value for the benefit of its investors. In addition to its venture capital activities, which include the management of Par Innovation Fund I LP and the Par Syndicate EIS Fund, it forms and manages funds focused on niche tangible asset classes, such as Par Residential Investments LP. As at the date of this Memorandum, over £23 million has been invested with Par Equity in a variety of companies and funds. Par Equity's management style is characterised by its hands-on approach and its focus on leveraging the skills, contacts and experience of its investor base, which includes successful entrepreneurs, professionals and business people.

### Relevant Experience and Track Record

Paul Atkinson, a founder partner of Par Equity LLP, is one of two designated partners of Par Forestry Partnership 1 LLP, a trading partnership investing in forestry and ancillary assets. With aggregate capital of £1.8 million, Par Forestry Partnership No 1 LLP has acquired four forests and successfully negotiated the optioning of part of one of them by a wind farm operator. Andrew Castell and Robert Higginson, also founder partners of Par Equity LLP, have experience of wind farms, including their development and construction, through their involvement in wind farm projects. All three will be closely involved in the management of the Fund.

### Regulatory

The Manager is authorised and regulated by the FCA. The General Partner, Par Forestry (General Partner) Limited, is a wholly owned member of Par and has no activities other than acting as general partner to the Fund.

### Co-Investment Relationships

Although the majority, if not all, of the forests acquired by the Fund are expected to be wholly-owned by it, the Manager will consider acquisitions with co-investors, or non-forestry developments in conjunction with partners. Such co-investment relationships will be approached on their merits on a case-by-case basis.

### Investor Liaison Group

The Manager will establish an Investor Liaison Group, drawn from Investors who are independent of Par Equity, whose responsibilities will include considering potential conflicts of interest and providing guidance to the Manager on their resolution. The Manager has drawn up conflicts and disclosure procedures intended to ensure that potential conflicts of interest are promptly identified and communicated to the Investor Liaison Group and to other Investors, as the circumstances require. The Investor Liaison Group will not have any role in the management of the Fund.

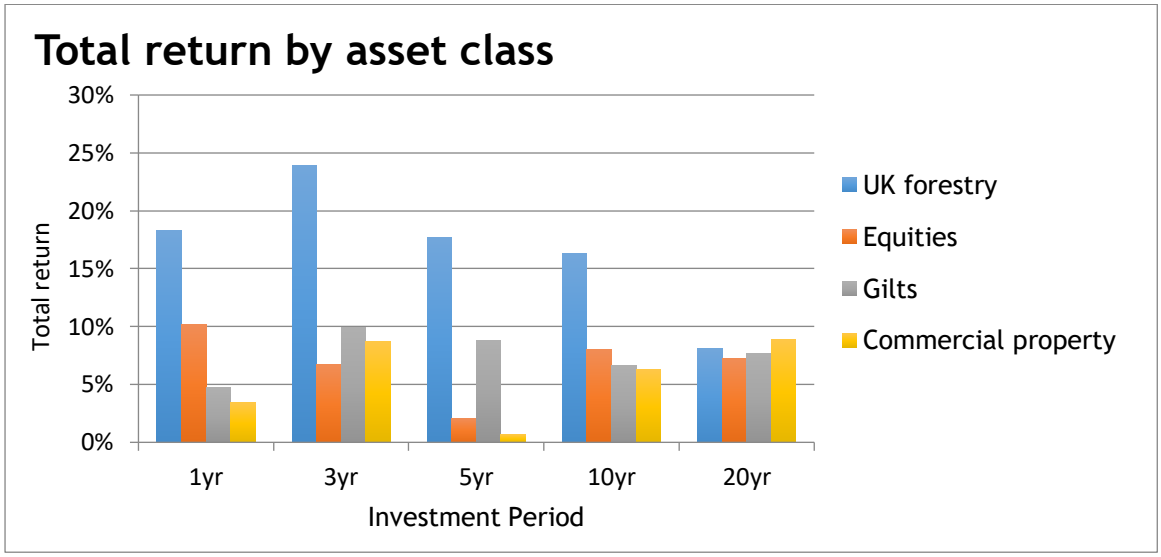
## Part 1: Investment Attractions

Investment activity involves a balance of risk and reward. This Part 1 sets out the Manager's views on the attractions of the Fund from an investment perspective. Part 4 contains the Manager's views of the key risk factors that may have a bearing on the performance of the Fund. Neither Part 1 nor Part 4 is an exhaustive statement of all the factors that may be relevant to an investment decision, and Investors are invited to undertake such further research and take such professional advice as they may require in light of their individual circumstances.

In summary, the Manager believes that the forestry sector represents an attractive investment for the following reasons:

- Forestry, as an asset class, offers diversification from other asset classes such as equities and fixed income;
- Strategically demand for timber as a building material and energy source is increasing;
- More active management of forestry land offers the potential to unlock further value through renewable energy projects or other such diversification; and
- The tax regime applicable to forestry has traditionally been attractive to high net worth individuals, as it affords various opportunities for tax planning.

The chart below shows returns over periods of 12 months through to 20 years (in each case to December 2014 on four asset classes – UK Forestry, Equities, Gilts and Commercial Property.




Source: UK IPD Annual Forestry Index

### Commercial Forestry

#### The UK Forestry Sector

Large-scale commercial forestry has been practised in the United Kingdom, to varying degrees of intensity, for almost 100 years, although large hereditary landowners have also managed forestry assets for centuries before that as part of the general management of their estates. Because it is sparsely populated and the land has few alternative uses, Scotland accounts for a major proportion of UK forestry and accordingly Scotland will be the Fund's primary area of focus, although many of the characteristics that apply to Scotland also apply to the north of England and to areas of Wales.

Recent decades have seen a steady increase in the acreage of Scotland given over to forestry and there continues to be a good supply of suitable land. Furthermore, the forestry industry in Scotland is now well established, with a reasonable supply of skilled foresters, often working through contracting companies, able to work the land.

Demand for Timber

Within the UK, accelerating interest in sustainable energy sources, a sector supported by government policy and investment, is one of the factors that continue to drive incremental demand for timber. The bulk of demand for forestry products continues to be for various construction applications, however.

Domestic demand for timber is not satisfied by domestic supply, therefore the pricing environment in the UK is influenced by the global marketplace and also exchange rates. High prices in the relevant currencies for overseas timber and/or exchange rate weakness for sterling will tend to drive increases in demand for, and thus prices of, domestically-produced timber, given constant levels of overall demand. Demand for timber remains strong in the emerging/developing economies, where population growth and increased prosperity are fuelling demand for construction. This has led to relatively high levels of global demand for timber in recent years, with a consequent beneficial effect on prices. The same factors can also lead to deterioration in the purchasing power of sterling against the currencies of such economies.

A "Grown in Britain" campaign has also helped to raise awareness of the green credentials of UK timber and its quality, which in turn has helped strengthen demand for domestic timber relative to imports. Nevertheless, with only around 40% of UK sawn softwood demand satisfied by domestic timber, there is plenty of room for further growth.

Government Interventions

The Forestry Commission was formed after the First World War as a consequence of the government's concern as to the resilience of UK timber supplies, which had been put under severe strain during the war. Government support for commercial forestry, through direct grants and fiscal incentives, has been fairly consistent and the government itself, through the Forestry Commission, has been a significant investor in forestry.

Government policy in respect of environmental issues has tended to stimulate the forestry sector in recent years. UK government subsidies for energy generated from biomass have increased demand for wood, which can be burnt in the form of woodchips or pellets. For example, E.ON's 44 megawatt biomass power plant near Lockerbie consumes some 475,000 tonnes of biomass annually, which in simple terms would represent the equivalent of felling approximately 1,200 hectares of typical mature Scottish forestry. In response to these market dynamics, the Scottish government is supporting new planting targets of 10,000 hectares per year. This is administered through the Scottish Rural Development Programme and embraces the best possible environmental and design practices as new forests are created. In addition to energy generation from biomass, the value of standing timber for carbon capture and $CO_2$ off-set purposes has also been influenced by governmental action.

Finally, the construction industry, particularly house-building, is a significant source of demand for timber and timber products. Any government stimulus of the house-building market can have a marked effect on demand for forestry products.

Economies of Scale

Most private investors acting alone look to purchase forestry assets with a value of between £100,000 and £500,000. Given the numbers of private buyers and the amenity value that many place on woodland, prices per hectare are materially higher than for larger plantations. Conversely, commercial-scale operations can be acquired at a more favourable per hectare rate and economies of scale also mean that they will typically have lower maintenance costs on a per hectare basis. Other examples of economies of scale that can

be achieved include reduction of machinery rental costs and administration costs on a per hectare basis. The Fund's strategy for acquiring land will be focused on two principal avenues: off-market purchases for cash and accepting forestry land in return for a partnership interest. Owners of smaller quantities of forestry land are expected to find this of interest, given the reduced concentration risk and the lower running costs (the reduced forestry management costs resulting from economies of scale are likely to off-set the incremental costs associated with administering the Fund).

Buying and Managing Forestry Land

Commercial forests in the United Kingdom tend to be planted with Sitka spruce, a variety of conifer that is suited to the northern British climate, requires close planting and is relatively fast growing. Other species may be planted in small numbers, for example to create shelterbelts. It takes between 30 to 40 years from planting to harvest, depending on factors such as species and site conditions, and within that period the growth rate of trees varies. The return characteristics of unplanted land or land with immature timber are reflected in the price paid for such land, which is typically about half that paid for land with standing timber between 21 and 30 years old and less than a third of the typical cost of land with standing timber over 30 years old. This reflects the fact that there is a significant variance in cash flow requirements depending on the maturity of the forest purchased. Unplanted land may require work before saplings can be planted, planting itself costs money (albeit significant grant assistance is available) and then there is an on-going cost of managing and maintaining the plantation.

To smooth cash flows across a portfolio of assets (or a single, larger forest) most larger assets have a combination of different ages of trees which helps to manage the cash flow demands as income from harvesting can be used to finance planting and maintenance costs. Grants for new woodland planting can amount to over £2,000 per hectare, with typical planting costs at a similar level or often slightly less, resulting in a small income surplus over a ten year period. Maintenance costs depend on factors such as the size and location of plantations and the negotiating power of the plantation owner or manager, whose buying power may be a factor if using external contractors.

Returns from Forestry

Forestry is not of itself an activity that lends itself to producing a regular income. Cash inflows are generated from the sale of timber and, in the context of an investment horizon of ten years, receipts from the harvesting and sale of timber are likely to be irregular, albeit material. The bulk of cash inflows are likely to arise from the disposal of forestry land, which is expected to take place in the final third of the Fund's planned life. For land with few, if any, alternative uses, the value of underlying land is in effect an estimate of the future value of timber grown on it and of its ability to sustain successive crops of trees.

According to the Forestry Index, the overall return from UK forestry assets was 18.4% in 2014. Annualised returns over 3 years, 5 years and 10 years to 2014 were 17.3%, 21.0% and 18.8% respectively (these returns comprise income from timber sales, capital appreciation of standing timber and capital appreciation of land, less costs). The long term (December 1992 – December 2014) annualised return on the UK IPD Annual Forestry Index was 8.9%. It should be noted that profits on sale of standing timber are free of tax, although gains on underlying land are liable to capital gains tax. Income from the sale of felled timber is free of income and capital gains taxes.

## Non-forestry Uses of Forestry Land

The acquisition of forestry land can bring with it opportunities from non-forestry usage. This can be complementary to the core activity of cultivating trees, or it can involve a partial displacement of forestry activities. Although these opportunities cannot be relied upon and may be of low value (particularly if there is an opportunity cost involved, in terms of forestry revenues foregone), incremental revenues have the potential to add value across

the portfolio by defraying operating expenses or possibly generating a modest operating surplus.

Renewable Energy

Within the UK as a whole, but particularly in Scotland, there has been a significant expansion in renewable energy generation. This trend still has some way to go, in terms of government commitments to clean energy targets. Within the various forms of renewable energy, the two-generation methods most compatible with forestry land are on-shore wind and hydro-electricity.

On-shore wind farms, although controversial, are still one of the more deliverable and viable forms of renewable energy generation and the sparsely populated uplands often suitable for forestry can also be suitable for wind farms. Although many prime sites have now been developed, or optioned/acquired for future development, there is still scope to profit from development or, potentially, to initiate it:

- It is often easier to expand an existing wind farm than to develop a new one, both from a planning perspective and from a cost perspective, as existing infrastructure such as access tracks and grid connection are already in place. For example, the previous fund, Par Forestry Partnership 1 LLP, has negotiated an option with a commercial wind farm operator whereby the operator may extend its existing wind farm to the Ravenscroft site owned by that fund. If this option is exercised, Par Forestry Partnership No 1 LLP will stand to receive rental income from the wind farm, based on a share of generation revenues. These will depend on the wind and the applicable rate of subsidy, but total annual revenues (including subsidy) from electricity generation for a 3MW turbine would typically be of the order of £750,000 to £1 million. A rent set at 5% of generation revenues could therefore realise between £37,500 and £50,000 *per* annum, per turbine.

- Although some wind farms are located entirely on land owned by the developer, such that access tracks for construction and maintenance and cable runs for grid connection are not on adjacent landowners' property, many wind farms are not. It is customary to pay landowners whose land is required for access tracks and cable runs during the life of the project. As an example, the average annual rent payable for access and cable runs on a real project looked at recently is of the order of £40,000.

There are few large-scale hydroelectric developments in gestation, as the vast majority of viable projects were identified and completed during the second half of the twentieth century. The focus is turning increasingly to smaller-scale developments, including micro-hydro schemes of around 100kW capacity. As with wind, the geography of much forestry land is suited to hydroelectric generation. Simplistically, the electricity that can be generated is a function of volume of water passing through a watercourse and the vertical distance it falls before it reaches the turbine. Within a portfolio of large forestry plantations, it is possible that there will be some micro-hydro opportunities. In addition, as with wind farms, there is scope for smaller revenue opportunities from wayleaves.

Other Opportunities

Remote areas of the UK still suffer from poor mobile communications connectivity and are trailing the rest of the country in terms of high-speed broadband, digital television and digital radio. Government targets, however, mean that there will be a continuing focus on addressing this issue. This is being done in a variety of ways, but almost invariably new infrastructure is required. As with renewable energy sites, rental income opportunities are expected to arise from this requirement, such as from masts, cable runs and local Wi-Fi networks (although many of these tend to be community initiatives, where there is limited opportunity to extract a commercial rate of return).

Although Sitka spruce and other coniferous tree plantations are typically densely planted and inhospitable to wildlife, sensitively planted woodlands that include an element of

deciduous trees and/or native conifers can also provide a habitat for wildlife, including game such as deer, pheasant and partridge. Small amounts of revenue can be generated from sporting rights where this is the case, although equally this might be an area of personal interest to Investors.

## Funds Versus Stand-alone Investment

Analysis of transactional data relating to forestry land in the United Kingdom shows that the price per hectare tends to have an inverse relationship to the amount of land involved. At the small end of the market, price distortions arise as individual buyers are prepared to reflect amenity value in what they will pay for land. As the amount of land conveyed as a unit increases, the universe of potential buyers falls and concentrates around commercial operators. An individual seeking exposure to this asset class therefore faces the choice between buying relatively expensive land on a stand-alone basis, or participating in a pooled subscription vehicle that should have much better buying power.

This buying power is also relevant when it comes to contracting for services, whether these are professional services or in relation to forestry management. The Fund is expected to be able to secure a better deal across its portfolio than an individual would, on a per hectare basis.

A further factor to take into account is the portfolio effect, where the risks and rewards of a larger portfolio tend to be concentrated around the middle part of the distribution curve – ownership of a single plantation can yield a relatively wide range of returns within a given probability range. Ownership of a portfolio of interests in a number of plantations will reduce the volatility of returns – in other words, it will be less likely (when compared to single plantation ownership) that a very bad or a very good out-turn will be experienced.

It is the case, however, that a pooled subscription structure, such as a fund, introduces risks not experienced by a sole proprietor. An overview of key risk factors, including those relating to fund structures, is set out in Part 4 of this Memorandum. These include the lack of flexibility that results from a structure whose life is determined by the Partnership Agreement and the desires of the relevant majority of Limited Partners, whereby individual Limited Partners may find that their wishes are subject to majority rule.

## Tax

Commercial forestry offers a number of potential advantages for UK taxpayers. The principal advantages are:

- Forestry is an eligible trade for which capital gains tax roll over relief can be applied, but only on the underlying land values;
- Income from the sale of timber is exempt from tax;
- 100% Business Property Relief from inheritance tax is available on qualifying assets following two years of ownership of partnership interest;
- Payments received under forestry grant schemes are tax-free; and
- Gains arising from appreciation in the value of standing timber (but not forestry land) are exempt from capital gains tax.

The taxation of commercial forestry is discussed in greater detail in Part 5.

## Investment via the Unit Trust

The Manager has formed the Unit Trust to provide an alternative to investing in the Fund as a Limited Partner. Subject to certain terms and conditions, investors may subscribe for units in the Unit Trust, which will itself be a Limited Partner. A detailed description of the Unit Trust is contained in a separate document, available from the Manager on request.

# Part 2: Information on the Fund

## Investment Objectives and Strategy

### Overview

The Manager's objective on behalf of the Fund is to acquire commercial forestry plantations with standing timber, as well as (potentially) land suitable for planting. Plantations will be held during the life of the fund, although in some cases mature timber will be harvested. Simply put, as trees grow, so does their value (all other things being equal). In addition, however, the Manager will seek to identify and realise opportunities to add value from non-forestry sources. In particular, opportunities to profit from renewable energy generation will be sought out, although other opportunities may also arise, such as carbon offset.

### The Investment Process

The Manager will maintain relationships with land agents, commercial forestry contractors, corporations requiring land for carbon off-set and certain landowners, with a view to ensuring that opportunities to buy (relatively) large plantations are quickly identified. It will also offer owners of smaller portfolios of forestry land the opportunity to contribute their plantations to the Fund as an in specie contribution in exchange for a corresponding partnership interest.

Each potential acquisition will be assessed in terms of acquisition costs, on-going maintenance costs, harvesting costs and so on, as well as in terms of the ultimate sale potential of timber (standing or harvested) and the potential resale value of the land. Alternative and complementary land use potential will also be evaluated.

Forestry land that is acquired will be managed as a portfolio and, as the Fund begins to approach its liquidation phase, timber and/or land will begin to be disposed of.

## Investment Criteria

### Geography

The Fund will purchase forestry land located within the United Kingdom. In practice, most or indeed all acquisition opportunities are likely to be found in Scotland, the north of England and Wales.

### Size

It is a feature of the forestry sector within the United Kingdom that commercial-scale forestry plantations tend to sell at a lower price per hectare than amenity forests, where buyers are more numerous and where amenity value can be a relevant factor in terms of price paid per hectare. The Manager will therefore focus on larger plantations.

### Species Planted

For the most part, the Manager expects to focus on plantations where the majority of trees will be robust, fast-growing species – most usually Sitka spruce. There may be value in more traditional native woodland species in certain circumstances – where, for example, land included in a purchase is topographically unsuited to commercial forestry operations because large-scale extraction is impractical, but where native species could be planted with a view to realising their value in carbon capture/off-set.

### Non-forestry Opportunities

Although the UK Government has demanding targets for renewable energy generation, the Scottish Government has set still more ambitious targets, seeking to capitalise on Scotland's perceived benefits of low population density and low land values outwith the Central Belt, particularly in areas where there are few alternative uses for land beyond agriculture and recreation. There is continuing significant investment in on-shore renewable energy generation projects, most notably in wind and hydro-electricity. The Manager will therefore

assess prospective acquisitions for potential non-forestry opportunities that may exist, either directly, such as through potential for development of small-scale hydro-electric plants or wind farms, or indirectly, such as through potential for charging third parties for use of the Fund's land for communications (e.g. mobile 'phone masts), access to neighbouring generation projects or for cable runs from such projects.

Although of minimal financial value, where sporting potential exists the Manager will consider making the Fund's land available to Limited Partners for sporting purposes.

Management

The Manager will take into account the likely costs of managing plantations, in terms of access for planting (if applicable), maintenance and harvesting.

Maturity

The Manager will seek to construct a portfolio of plantations offering, in the aggregate, a blend of maturity of trees. It is expected that, on sale of plantations, the majority will be sold with standing timber and so only a minority of sale proceeds accruing to the Fund will be derived from felled timber and related products (such as brash for biomass). The maturity of plantations (and land suitable for planting but as yet unplanted) will therefore be considered as part of the overall planned portfolio mix at the time of acquisition.

## Valuation

All assets will be professionally valued as part of the acquisition process. The Manager will arrange for periodic revaluations of the Fund's portfolio, through a combination of desk-top reviews and on-the-ground inspections. The Manager will also investigate the potential for a more technology-driven approach (via a portfolio company of the Par Syndicate) as a means of supplementing traditional valuation techniques. Should a valuation be requested pursuant to a transfer of a partnership interest, the Manager will recover a cost contribution from the relevant Investors.

## Exit

Although many of the long-term fundamentals would seem to support a continuation of an environment where owners of commercial forestry assets enjoy positive returns, this is a cyclical asset class and the timing of sales will need to be considered in that light. The Manager will seek to time the liquidation of the Fund so that, as far as possible, assets are not dumped into a soft market, nor in such a rush as to depress market prices. To that end, a relatively long winding-up period, with the flexibility to extend the Fund's life by one or two additional years, is seen as important.

## Role of the General Partner and of the Manager

The General Partner will be responsible for ensuring that the Manager is remunerated and will be allocated a priority share of profits of the Fund, as described in more detail in Part 3 of this Memorandum, from which it will pay the Manager and settle other operational expenses of the Fund.

The Manager will be responsible for operating the Fund and identifying suitable investment opportunities. The Manager may commission specialist advisers in respect of potential investment opportunities, but is ultimately responsible for such advisers, for entering into negotiations on behalf of the Fund and for all acquisitions and disposals of Fund assets. Specifically, the Investment Committee, which will be established and maintained by the Manager, will authorise all acquisitions, will make key decisions relating to the on-going management of assets and will also authorise all disposals.

## Part 3: Fund Structure and Costs

The following is a summary only of the principal terms of the Fund and is not intended to be a complete description of those terms. It must be read in conjunction with, and is not intended to be a substitute for, the Partnership Agreement.

Size of Fund

The initial maximum size of the Fund will be limited to Aggregate Commitments of £10 million (including amounts payable out of the assets of the Fund, such as fees payable to the Manager), although the Manager may extend this maximum to £12.5 million should Investor demand warrant it. The Manager is entitled to accept Commitments that represent in aggregate less than £10 million, subject to a minimum of £2 million in aggregate. The targeted Fund size is a gross fundraising of between £5 million and £10 million.

Structure

The Fund is a Scottish limited partnership.

The Manager

The Manager is Par Fund Management Limited, a Scottish private limited company, which is authorised and regulated by the FCA with reference number 485668 and as such is subject to the UK regulatory regime laid down in the Financial Services and Markets Act 2000 and the FCA Rules. For the purposes of the Alternative Investment Fund Managers Directive, Par Fund Management Limited is registered as the Alternative Investment Fund Manager for the Fund. The Manager is, via an intermediary holding company, wholly owned and controlled by Par Equity LLP.

The Manager also manages Par Innovation Fund I LP and the Par Syndicate EIS Fund, which invest in venture capital opportunities relating to innovative small companies with high growth potential, and Par Residential Investments Fund I LP, which invests in residential property. The Manager also has a number of high net worth private clients who invest in venture capital opportunities on a self-advised basis. These activities do not, in the Manager's view, represent a conflict of interest with the Fund.

The Operator

The establishment, promotion, operation and winding up of a Collective Investment Scheme ("CIS") constitute regulated activities. The Fund constitutes a CIS for the purposes of FSMA. Consequently, a person authorised under FSMA must conduct these activities. Although the Manager is authorised to undertake these activities, it believes that appointment of a specialist operator is in the best interests of Limited Partners. Accordingly NCM Fund Services Limited, a Scottish private limited company, which is regulated and authorised by the FCA with reference number 183732, has been appointed as Operator under an Operator Agreement to carry out all such activities.

The Operator acts for over 150 funds with gross assets of over £2 billion investing in different asset classes such as property, private equity, venture capital, family limited partnerships and commodities.

Further details on the Operator are set out in Appendix III.

Custodian

The Manager may appoint a custodian from time to time to hold assets of the Fund or where appropriate it may ask the relevant solicitors to hold its documents of title.

The General Partner

The General Partner is Par Forestry (General Partner) Limited, a Scottish private limited company and a wholly owned subsidiary of the Manager.

Minimum Commitment

The minimum Commitment to the Fund by each Investor directly in the Partnership will be £50,000 and by an investor in the Unit Trust will be £20,000, subject to the discretion of the Manager to accept Commitments of lesser amounts. Each Commitment will comprise a capital contribution to the Partnership.

Founder Partner Commitment

The Founder Partner has a limited partnership interest in the Fund that entitles it to the carried interest return described on page 8 and page 20.

Closings

The Manager will target an Initial Closing with Commitments of not less than £2 million. The Manager may hold subsequent closings provided that the Final Closing will be no later than three years following the Initial Closing. Subsequent Investors admitted at any closing after the Initial Closing will be treated as if they had invested in the Fund at the Initial Closing and will participate, pro rata to their respective Commitments, in investments made and fees and expenses incurred by the Fund from the Initial Closing. Subsequent Investors will also pay an amount equal to interest at 2% above 6 month LIBOR on the amount invested running from the date of Initial Closing to the date of investment. The equalisation of capital and income accounts on admission of Investors at subsequent closings may result in some volatility in the tax position of individual Investors where the interval between the Initial Closing and the Final Closing spans a number of tax years. The Manager expects that following the Final Closing, provided there are no material changes to the UK tax regime during the period concerned, the effects of this volatility should broadly cancel each other out. The management of the portfolio and the generally tax-efficient nature of holdings of commercial forestry should further mitigate any negative tax consequences.

Investment Period

Commitments may be drawn down to make investments, pay fees, expenses, liabilities and indemnities as well as for other purposes at any time during the Investment Period. Following the end of the Investment Period, Investors will be released from any further obligation to advance any undrawn balance of their Commitments, except to the extent necessary to pay fees, expenses, liabilities and indemnities of the Fund or to complete contracts entered into by the Fund prior to the end of the Investment Period.

In no circumstances will an Investor be required to advance to the Fund an aggregate amount that exceeds its Commitment.

Drawdowns

During the course of the Investment Period, the General Partner will draw down cash in respect of Investors' Commitments in instalments as and when required to acquire assets, pay expenses or advances of priority profit share on behalf of the Fund.

At Initial Closing and each Subsequent Closing, the General Partner will draw down from Investors an amount equal to at least 5% of each Investor's Commitment.

The balance of Commitments will be drawn down, as and when required, on not less than ten business days' written notice and investors will be required to advance the amounts requested to the Fund by the due date. Subject to the discretion of the General Partner in exceptional circumstances, late payment of drawdowns will incur an interest charge of 3% in excess of the Bank of England base rate, which will form part of the income of the Fund for the benefit of all Investors.

Investors investing through the Unit Trust will be asked to advance their entire Commitment at the time of entry to the Fund and such amount will be drawn down shortly thereafter into the Partnership.

Term

The term of the Fund will be ten years (seven years from the end of the three year Investment Period) but may be extended upon the recommendation of the Manager with the Ordinary Consent of Limited Partners, for up to two further one-year periods.

The Fund will terminate early on the occurrence of certain events, including:

(i) the bankruptcy, insolvency, dissolution or liquidation of the General Partner;

(ii) the agreement to such termination with the Special Consent of Limited Partners;

(iii) the date which falls 10 business days after the date on which any person who is not a shareholder of the Manager on the date of this Memorandum acquires a controlling interest in the Manager unless Limited Partners by Special Consent have determined before that date that the Fund should not terminate by virtue of that change of control; and

(iv) the removal of the General Partner in the circumstances described under the heading "Removal of the General Partner, the Manager or the Operator" in this Part 3.

Transfer of Units in the Unit Trust

Units in the Unit Trust are freely transferable at any time, provided such transfer would not give rise to adverse tax or regulatory consequences for the Fund.

Liquidity, Transfer of Partnership Interests and Distributions

Subject to the consent of the General Partner, partnership interests may be transferred in whole or in part to (1) other Limited Partners and/or (2) third parties on a willing buyer and willing seller basis.In addition, there will be a Liquidity Mechanism to try to facilitate sales of deceased partners' interests whereby the Fund will attempt to facilitate that sale (where triggered by the executors of a deceased partner who opted into the Liquidity Mechanism at the date of initial investment) by offering the interest at a 5% discount to other Limited Partners who opted into the Liquidity Mechanism. There is no binding obligation on a deceased partner's estate to trigger the mechanism or on other Limited Partners to buy.

There will therefore be two classes of Limited Partners:

- Limited Partners who have opted into the Liquidity Mechanism ("Underwriting LPs")
- Limited Partners who have not opted into the Liquidity Mechanism ("Non-underwriting LPs")

A Non-Underwriting LP may only transfer his interest in the event that (1) the General Partner agrees and (2) there is a willing buyer at an agreed price.

An Underwriting LP will have the option to transfer his interest either:

- in the event that (1) the General Partner agrees and (2) there is a willing buyer at an agreed price; or
- on his death if his estate choose to trigger the Liquidity Mechanism, to offer his partnership share at a 5% discount and there are other Underwriting LPs willing to buy it at that price (again subject to the consent of the General Partner).

In the event that more than one Underwriting LPs exercise their option to acquire a deceased partner's interest, the interest will be allocated to each of them *pro rata* to their commitments to the Fund. The transfer will be effected at a 5% discount to valuation. Further details are set out below under the heading Liquidity Mechanism. Neither the General Partner nor the Manager shall be entitled to any fee or commission on a transfer effected through the Liquidity Mechanism.

The Manager will charge each of the transferor and the transferee 1% of the value of any partnership interest transferred as an administration fee for effecting such transfers (other than transfers effected through the Liquidity Mechanism) as described under the heading "Arrangement and Winding-up Fees" below.

In certain circumstances (and separate to the Liquidity Mechanism), such as on the death of a Limited Partner, the General Partner may seek to buy out (buy back) the partnership interest of the deceased member, subject to an over-arching requirement that such a transaction must not be detrimental to the interests of the Fund or the Limited Partners as a whole. In practice, this means that such a transaction is likely to see the partnership interest being redeemed at a discount to net asset value. Any such redemption is within the discretion of the General Partner and does not alter the terms of the Partnership Agreement, which specifies that no Limited Partner will have the right to require the Fund to make any distribution or to require the Fund to permit it to withdraw from the Fund any amount which represents monies drawn down by the Fund.

In the ordinary course, there will be no liquid market for partnership interests or for Units in the Unit Trust and Investors should expect to see the majority, if not all, of their capital retained within the Fund for over ten years, with a final receipt of monies on wind up of the Fund due after at latest twelve years. The Manager may, in its absolute discretion, make distributions of income and capital at any time where those represent profits of the Fund or where otherwise permitted by law but expects that income and capital proceeds are likely to begin to become available for distribution to any material degree only in the final three years of the Fund's planned life. Distributions of capital and income will be made after satisfying any expenses and liabilities of the Fund and subject to payment of the Management Fee.

Liquidity Mechanism

Limited Partners have the opportunity to register their interest in the Fund's Liquidity Mechanism at the time of their initial subscription by confirming they wish to do so on the application form. In the event of death, the executors of an Investor who has registered his interest in the Fund's Liquidity Mechanism are entitled to opt to trigger an offer round of their partnership interest at a 5% discount to other partners who registered their interest in the Liquidity Mechanism, which partners where such option is triggered then have the option to buy that entitlement. Where more than one partner wishes to buy the interest it shall be allocated pro rata to the relevant partners' Commitments to the Fund. There is no obligation to trigger the Liquidity Mechanism or to buy any partnership interest offered round.

The purpose of the Liquidity Mechanism is to try to provide for an exit event so that a deceased Investor's estate is able to realise an investment in the Fund for cash. However, in order to preserve the inheritance tax reliefs, there must not be a binding contract for the sale of a deceased partner's estate and therefore the disposal of the interest is subject to the exercise of the requisite options and cannot be guaranteed. Investors who do not sign up to the obligations of the Liquidity Mechanism will not be entitled to the benefits of the Liquidity Mechanism. A deceased Investor's estate has the option to dispose of the interest via the buy out mechanism but it is not automatic or compulsory (i.e. the estate may choose to remain invested in the Fund). For the purposes of determining the sale price under the Liquidity Mechanism, the net asset value shall be based on the most recent annual valuation as determined by an external valuer appointed by the Manager or, if requested by the seller, a more recent valuation by a valuer approved by the Manager and at the seller's expense.

doInvestors who opt in to the Liquidity Mechanism may be committing more than their initial Commitment and should be aware that they may be required to acquire further interests in the Fund at relatively short notice (the General Partner will endeavor to give at least 20 days notice of any Liquidity Mechanism call). It is intended that any acquirors under the Liquidity Mechanism are advantaged because of the pricing at a discount to net asset value. In addition Investors who do not opt in to the Liquidity Mechanism do not necessarily have the option to be bought out.

However, there remains the risk that an Investor who opts in to the Liquidity Mechanism may acquire additional Fund interests at a time that does not suit him or her. Commitments under the Liquidity Mechanism are capped at 20% of the Investor's aggregate Fund Commitment and so, while the intention is to try to provide a cash realising exit event for deceased Investors, the amount of cash within the Liquidity Mechanism is limited to the aggregate commitments which are honoured. It is possible that the Liquidity Mechanism will become exhausted before the end of the lifetime of the Fund and so in later years it may cease to function. Although, there remains the possibility that the General Partner will exercise the option to acquire a Limited Partner's interest.

It should be noted that the Liquidity Mechanism applies at the Partnership level and Unitholders in the Unit Trust do not have access to the Liquidity Mechanism.

Diversification

Aggregate investments by the Fund in any one property may not exceed 20% of Aggregate Commitments and Borrowings, determined by reference to the value of the relevant investment on the date on which the Fund acquired that investment.

General Partner's Priority Profit Share

Under the terms of the Partnership Agreement and the Management Agreement, the General Partner is entitled to receive a priority share of profits of the Fund from which it is responsible for paying Management Fees to the Manager. The General Partner shall be solely responsible for payment of Management Fees to the Manager from the amounts received by it and no further charge shall be made to the Fund in respect of the Management Fee. To the extent that the General Partner incurs expenses on behalf of the Fund that are not recognised in the Fund's own income and expense account, the General Partner shall also be entitled to recover a further priority share of profits equal to the amount of expenses incurred. If in any period there are insufficient profits in the Fund's income and expenditure account to permit the priority profit share to be allocated in full to the General Partner, the Fund shall make an advance of the necessary amount of priority profit share to the General Partner. Such advances are not repayable to the extent that, on a winding up of the Fund, there are insufficient profits to allocate to the General Partner.

Establishment Costs

The Manager will charge the Limited Partners an establishment fee of 2% in respect of their Aggregate Commitments from which it will meet the costs and expenses of establishing the Fund, including legal and other professional fees and the set-up costs charged by the Operator (effectively capping the liability of the Fund for the establishment costs).

Annual Management and Operator Fees

Until the end of the Investment Period, the Manager will be entitled to receive a management fee (paid as a priority share of profits through the General Partner) equal to 1.5% *per annum* of Aggregate Commitments plus drawn down Borrowings and payable quarterly in advance. After the expiration of the Investment Period, the Manager will be entitled to receive a management fee equal to 1% *per annum* of the aggregate drawn down Commitments plus drawn down Borrowings.

The Operator will be entitled to receive an annual fee of the higher of £6,000 or 0.1% of aggregate drawn down Commitments, subject to an annual inflationary increase. This fee will be payable quarterly in advance.

Arrangement and Winding-up Fees

Arrangement fees will be payable to the Manager in respect of transfers and part-transfers of partnership interests. This fee will be borne as to 1% of the value of any partnership interest transferred by each of the transferee and the transferor – that is, the total fee payable to the Manager will be 2% of the relevant partnership interest.

On liquidation of the Fund, a winding up fee of 2% of Aggregate Commitments will become payable to the Manager on the Fund being wound up. A minimum liquidation fee of £5,000 will be payable to the Operator. The Fund will also be responsible for meeting the other costs and expenses of winding-up the Fund, including the liquidators' and legal and other professional fees.

Distributions and Carried Interest

The Manager may exercise its discretion to make distributions of any available income to investors on a twice yearly basis (although it should be noted that any income accruing to the Fund is likely to be intermittent in nature and small in amount and so is likely to form part of the General Partner's priority profit share or, if greater, to be retained to off-set the Fund's operating expenses) and may make distributions of capital proceeds from the disposal of underlying Fund assets after the relevant amount becomes available for distribution but it should be noted that distributions of amounts representing contributed partnership capital will generally be prohibited by law prior to the liquidation phase of the Fund. Such distributions will be made in the following order:

(i) first, to the Limited Partners in repayment of an amount equal to their Aggregate Commitments;

(ii) second, to the Limited Partners in payment of the Hurdle;

(iii) third, 1% to the Limited Partners and 99% to the Founder Partner until the Founder Partner has received, excluding any amounts received by it under (ii) by virtue of being a Limited Partner, an amount equal to 12.5% of the profits distributed under (ii) and (iii) at that point;

(iv) thereafter, 87.5% to the Limited Partners and 12.5% to the Founder Partner.

Other Costs

The Fund will be responsible for all expenses, obligations and liabilities incurred in connection with the management and operation of the Fund, including ongoing fees and expenses of the Operator (see Appendix III), lawyers, auditors, accountants, consultants, valuers and other professionals incurred in connection with the acquisition by the Fund of investments or proposed investments which do not proceed to completion, the sale of investments by the Fund, all litigation-related and indemnification expenses, the costs of insuring the Manager and any investments, and preparing any reports and valuations which the Manager is required to provide to the Limited Partners.

The General Partner and the Manager will each be responsible for its own routine administrative expenses including its respective overheads, salaries, employee benefits and travel expenses.

Exclusivity and Amendment of the Partnership Agreement

The Manager will not commence marketing, or act as the primary source of transactions for, a new investment fund targeting the same or similar investment opportunities as the Fund prior to the earliest of:

(i) the date on which 75% of Aggregate Commitments have been invested or committed for investment (including reasonably anticipated expenses of the Fund);

(ii) the end of the Investment Period; and

(iii) the termination of the Fund.

The General Partner will be entitled to amend the Partnership Agreement with the written consent of Limited Partners by a Special Consent provided that no such amendment may be made if it would impose on any partner in the Fund an obligation to make any payment to the Fund in excess of its Aggregate Commitment or which would otherwise materially affect

the rights and interests of any of the General Partner, the Manager or the Limited Partners, without the consent of the person who would be adversely affected by that amendment.

Indemnification

The Indemnified Persons, being the Manager and the General Partner, will be indemnified out of the Fund's assets (including undrawn Commitments) against any claims or liabilities made by third parties that are incurred by the Manager and/or the General Partner in carrying out their duties to the Fund. An Indemnified Person (other than a member of the Investor Liaison Group) will not be entitled to that indemnity to the extent that the relevant claim or liability results from such person's fraud, gross negligence, wilful misconduct or material breach of the Partnership Agreement. A member of the Investor Liaison Group will not be entitled to that indemnity to the extent that the relevant claim or liability results from his fraud, wilful misconduct or bad faith. The Manager and the General Partner shall be entitled to obtain directors and officers insurance covering the Indemnified Persons, which will be paid for out of the assets of the Fund.

Investor Liaison Group

The Manager will establish the Investor Liaison Group and will invite Limited Partners to put themselves forward to serve as members. The General Partner will refer qualifying material, actual or potential conflicts of interest between the Fund and the Manager or Operator (or any connected party thereof) to the Investor Liaison Group for its consideration.

The Investor Liaison Group will also provide guidance to the General Partner to the extent that the General Partner requests it to do so and will generally review the performance of the General Partner and the Manager, but shall not be empowered to take any decision requiring the consent of Limited Partners under the terms of the Partnership Agreement. The Investor Liaison Group shall not be entitled to take part in the operation or the management of the Fund or to provide investment advice or carry on any activity which would be a regulated activity for UK regulatory purposes.

The Investor Liaison Group will act by simple majority and shall appoint one of its members to be the chairman. The General Partner will convene meetings of the Investor Liaison Group at least twice each year and forthwith following its referral of any conflict of interest to the Investor Liaison Group. The Fund will reimburse on request each member of the Investor Liaison Group for any reasonable out-of-pocket expenses incurred by that member in attending any meeting of the Investor Liaison Group, but membership of the Group shall be unremunerated.

Responsible Investment Policy

The Manager supports the view that as a responsible investor it should seek to incorporate environmental, social and corporate governance ("ESG") factors into its investment analysis and decision-making processes. The Manager believes that responsible management of forestry is inherently positive in terms of environmental considerations, subject to due regard being paid to factors such as habitat preservation and species diversity.

Removal of the General Partner, the Manager or the Operator

Following the second anniversary of the Initial Closing, Investors may vote to remove the General Partner. A resolution to remove the General Partner requires Special Consent. Under the terms of the Investment Management Agreement, the appointment of the Manager will automatically terminate on the removal of the General Partner. In the event of the removal of the General Partner, the Manager will be entitled to compensation equal to the management fee payable in the year immediately preceding the year of the removal and will remain entitled to any carried interest achieved in respect of investments made prior to the date of removal subject always to the hurdle being achieved. The Operator's appointment may be terminated under the terms of the Operator Agreement.

Borrowing, Guarantees and Hedging Policy

The Partnership may incur Borrowings to fund investments or its running costs up to a maximum of 30% of net assets of the Partnership. The Manager, on behalf of the Partnership, may from time to time elect to fix the interest rate payable on some or all such Borrowings or otherwise hedge the Borrowings. The Partnership may, where the Manager believes it is in the best commercial interests of the Partnership as a whole, give such guarantees in connection with its investments as the Manager deems appropriate, provided that the aggregate Borrowings plus aggregate liability under any guarantees given does not exceed the borrowing limit specified at the start of this paragraph.

Default

In the event that a Limited Partner defaults in making a drawdown and fails to remedy its default on or before the expiry of 30 days' notice from the Manager by making payment of the amounts due, together with late payment interest (calculated at the rate of 3% above the base rate of the Bank of England), the Manager may, in addition to any other rights which it may have, cause such defaulting investor's entitlement to share in the profits of the Fund or any return in excess of his Commitment (or the final value of that Commitment if the Fund has made a loss) to be forfeited. Thereafter the rights of the defaulting Limited Partner will be limited to the right to repayment, upon termination of the Fund, of an amount in cash equal to the lesser of:

(i) the aggregate amount of his or her Commitment actually advanced to the Fund; and

(ii) the amount to which the relevant person would have been entitled upon termination if he, she or it had invested in the Fund as a Limited Partner investing on the last day of the Investment Period in aggregate the actual amount he, she or it actually did put into the Fund.

Reports and Annual Meeting

The Manager will, within 180 days of the end of each accounting period of the Fund, send each Limited Partner a copy of the audited accounts of the Fund, which will be prepared in accordance with generally accepted accounting practice in the United Kingdom. These accounts will constitute periodic statements for the purposes of FSMA.

The Manager will send each Limited Partner within 60 days of the end of each six month period:

(i) unaudited accounts of the Fund; and

(ii) a report which summarises the activity of the Fund during that half year, including details of the assets of the Fund, any changes that have been made to the carrying value of such assets and the methodology used to assess valuation.

The Manager may withhold information about the Fund from one or more Limited Partners, other than the information referred to in the paragraphs above, under certain circumstances, including where a Limited Partner has not confirmed in writing to the Manager that it will keep that information confidential. The Manager will normally transmit this information by electronic means to ensure prompt receipt.

There will be an annual meeting of Limited Partners, at which the Manager's directors and other key staff with particular responsibility for the Fund will be present. The annual meeting will allow any formal business relating to the Fund to be conducted, as well as a more informal review of the Manager's conduct of the Fund during the year, intended to allow Limited Partners direct access to the Manager.

Responsibilities of the Manager

Under the terms of the Investment Management Agreement, the Manager will be the investment manager of the Fund and will be responsible for the day to day operations of

the Fund, including opportunity identification, commercial review, transaction planning and execution.

The Manager's responsibilities will include preparation and distribution to Investors of: all reports regarding activities of the Fund; the results of the Fund's investment operations; and of tax returns. The Manager will also be responsible for accounting and record-keeping of all cash flows from and to investors, the calculation and making of all draw downs and distributions, allocations of profits and expenses to investors, investor relation management, taking and responding to investor queries and information requests, including all ad hoc requests, and management of UK regulatory reporting and compliance. Certain of these functions will be delegated to the Operator.

# Part 4: Risk Factors and Potential Conflicts of Interest

## Risk Factors

An investment in the Fund may involve substantial risk arising from the structure and nature of the Fund itself, the nature of the assets it will hold and the reliance on the Manager to manage the Fund. In particular:

### Nature of Investment in the Fund

Investment results may vary substantially over time, and there can be no assurance that the Fund will achieve any particular rate of return.

The Fund is likely to commit funds to investments of a long-term and illiquid nature in the form of forestry land and standing timber. The timing of disposals of land and of harvesting and selling timber can be uncertain and the value achieved will be subject to prevailing market prices. Accordingly, the timing and quantum of cash distributions to investors is uncertain and unpredictable. Investors may not receive back the amount they invest.

Investors who fail to comply with a notice of drawdown may suffer significant financial penalties, which are set out in the Fund Agreement.

The Fund may, in relation to certain transactions, give warranties and/or indemnities to third parties. Consequently, it may need to apply assets of the Fund or drawdown additional monies from investors in the Fund to satisfy such contingent liabilities.

It is possible that a court may determine in the event of the Fund's bankruptcy that an investor is liable to return to the Fund any partnership capital repaid during the liquidation period. Such a return of funds may occur, in particular, in the event that the Fund is subject to litigation or where a warranty or indemnity given by the Fund is called on.

When reviewing the track records and other historical performance data in this Memorandum, prospective investors should bear in mind that past performance is not indicative of future performance.

The Fund is restricted by law from returning amounts representing partnership capital (but not surpluses generated from operations) prior to the winding up of the Fund and any partnership capital repaid during the liquidation period, prior to the final winding up of the Fund, may in certain circumstances fall to be paid back into the Fund.

### Sourcing of Investments

The success of the Fund depends on the ability of the Manager to locate, select, develop and realise appropriate investments. There is no guarantee that suitable investments can or will be acquired nor that investments will be successful, and, in the event of the failure of an investment, part or all of the value of that investment may be lost.

The Manager may be unable to find a sufficient number of attractive opportunities to meet the Fund's investment objectives. There is no guarantee that the Fund will be able to achieve full investment during the Investment Period and, accordingly, the Fund may ultimately make a more limited number of investments than it currently envisages. All other things being equal, a smaller portfolio is likely to have a statistically more risky profile of expected returns than a larger portfolio. The poor performance of a small number of investments could significantly affect returns to investors.

The Fund may face competition in seeking to make investments from other parties.

The assets in which the Fund invests may be adversely affected by global or local economic, political, environmental, health and safety or other factors beyond the control of the Manager or the Fund.

### Illiquidity of Interests in the Fund

Interests in the Fund may not be sold, assigned or transferred without the prior written consent of the General Partner and, in certain circumstances, such consent may be refused.

Investors will be committed to the Fund for at least ten years, and an Investor will normally be unable to withdraw from its investment in the Fund prior to the expiry of that period.

There is currently no recognised market for interests in the Fund, nor is such a market likely to develop. It may, therefore, be difficult for Investors to deal in their investment or to obtain external information as to the value of interests in the Fund or the degree of risk to which such interests are exposed.

Investments in forestry assets can be difficult to realise quickly and, due to the nature of the market for them, it may not be possible to establish their current value at any particular time.

Investors who opt in to the Liquidity Mechanism and opt to acquire further Partnership Interests are not just risking the amount of their initial Commitment but are also risking further amounts up to the additional amounts acquired.

Lack of Investor Control

Investors will have no opportunity to control the daily operations, including investment and disposal decisions, of the Fund.

The Manager

In certain circumstances, more particularly referred to in the Partnership Agreement and Investment Management Agreement, the General Partner, the Manager and others may be entitled to be indemnified out of the assets of the Fund for liabilities, costs and expenses arising in connection with services in relation to the Fund.

The success of the Fund will depend significantly on the ability of the Manager to source, develop and realise investments. There can be no assurance that the individuals who are currently employed by or otherwise associated with the Manager will continue to be employed by or associated with the Manager or to act on behalf of the Fund for the entirety of the life of the Fund, nor that suitable replacements can be found should they become incapacitated. The performance of the Fund could be adversely affected should the Manager cease to attract and retain people of sufficient calibre.

Tax and Regulatory Considerations

An investment in the Fund involves complex tax considerations which may differ for each investor, and each investor is advised to consult its own tax advisers.

Any tax legislation and its interpretation, and the legal and regulatory regimes which apply in relation to an investment in the Fund may change during the life of the Fund. Accounting practice may also change, which may affect, in particular, the manner in which the Fund's investments are valued and/or the way in which income or capital gains are recognised and/or allocated by the Fund.

One of the key attractions of forestry as an asset class is its advantageous tax treatment. If that treatment was altered or withdrawn then that could materially impact on the market for forestry as an asset which could result in significant value loss for the Fund. There can be no guarantee that the relevant government may not amend tax legislation in the future as exemplified by the alterations to the Feed-in-Tariff schemes.

Reliance on the Manager

Whilst the Manager will consult with outside experts about certain aspects of the Fund's business, the Fund will be managed exclusively by the Manager. Limited Partners will not be able to make investment or any other decisions on behalf of the Fund.

No Assurance Return Objectives will be Achieved

There can be no assurance the Fund's investment objectives will be achieved or that Limited Partners will receive any return on their investment in the Fund. The investment

performance of the Fund will depend in part upon general economic conditions and the condition of the forestry sector in particular, which are beyond the control of the Manager.

Political Risks

Part of the current appeal of forestry investments and their historical returns is related to the fact that for a number of decades successive governments have maintained a supportive tax and regulatory environment. In addition, and similarly, limited partnerships have enjoyed a relatively tax and cost efficient environment. As a Scottish limited partnership with proposed investments in England and Wales as well as Scotland, the Fund may be vulnerable to changes in that environment which might potentially be made by a number of different political bodies, now existing or in the future.

Lack of Liquidity of Fund Assets

The Fund's investments will be in the form of interests in relatively large parcels of land. Therefore, it is unlikely that there will be an active and transparent market for the interests held by the Fund. The Fund will, over time (but please see Nature of Investment in the Fund and Illiquidity of Interests in the Fund above in relation to timing), seek to liquidate its investments and return the net proceeds to Investors. The ability to liquidate such investments at an attractive valuation will be dependent upon such factors as the number of interested potential purchasers and the willingness of such potential purchasers to pay an appropriate price.

In addition, the Fund may from time to time borrow to fund the acquisition of assets, with the expectation that such Borrowings would be repaid from the proceeds of selling the assets concerned. There is the risk that insufficient sale proceeds could be generated to repay Borrowings, or that Borrowings would fall to be repaid before the relevant assets can be sold. Similarly, borrowing costs, such as interest and other charges, would require to be met from the Fund's available cash. To the extent that insufficient cash reserves are maintained, or operating income is insufficient to meet operating expenditure, the Fund many risk defaulting on its Borrowings with the potential consequence that lenders may elect to enforce accelerated repayment of debt, requiring fund assets to be realised at sub-optimal valuations.

Risk of Limited Number of Investments

There can be no assurance that the portfolio of the Fund will be adequately diversified against risk. The Fund will participate in a limited number of investments and, as a consequence, the aggregate return to an investor in the Fund may be substantially adversely affected by the unfavourable performance of even a single investment.

Competition for Potential Investments

The competition for attractive investments may be intense, especially during periods of buoyant market conditions or investor demand. There can be no assurance that the Manager will be able to locate and complete attractive investments or that it will be able to invest the assets of the Fund in full. However, Limited Partners will be required to maintain liquidity sufficient to respond to draw down notices on a timely basis.

Competing Investment Funds

Neither the Fund nor the Manager has interests in other funds that would be likely to compete for investment opportunities that the Fund would pursue. Through Paul Atkinson in his capacity as a designated partner of Par Forestry Partnership 1 LLP, a limited liability partnership which is now fully invested, the Manager has an existing involvement in the forestry sector. The Partnership Agreement of the Fund provides that the Manager and its affiliates will not commence marketing, or act as the primary source of transactions for, a new investment fund with similar investment objectives and policies to those of the Fund prior to the date on which 75% of Commitments have been invested or committed for

investment, the end of the Investment Period or the termination of the Fund, whichever event is the first to occur. After such time, the Manager may establish an additional fund or funds with investment objectives similar to the Fund, and such fund or funds may compete with the Fund for investments.

Limitation on Remedies; Indemnification of General Partner

Subject to certain limitations in the Partnership Agreement and the Investment Management Agreement, the Fund will indemnify the General Partner, the Manager and their respective affiliates against claims or liabilities in respect of their activities on behalf of the Fund. Accordingly, certain actions brought against any such party will be satisfied solely from the assets of the Fund, and the Fund will have no effective recourse against the General Partner or its affiliates except under the limited circumstances set out in the Partnership Agreement.

Risk of Bridge Financing

If the Fund makes an investment with the intent of refinancing a portion of that investment, there is a risk that the Fund will be unable to successfully complete such a refinancing. This could lead to the Fund having a long-term investment in an entity in an amount greater than desired by the Manager.

Natural and Environmental Risks

Forestry, like any other natural entity, is at risk to a number of natural and environmental factors. Disease has posed a serious risk to certain species of tree in the United Kingdom and disease could be particularly damaging to a forest where there is limited biodiversity as in most farmed or planted forests. In addition, the success of forestry is influenced by a number of environmental factors such as rainfall (both too much or too little), temperature, wind and soil quality, all of which may change over time. Wildlife may also pose a threat to forestry and changing government regulation on wildlife control and programs to introduce or reintroduce species may also alter the environmental conditions relevant for the success of forestry over time.

## Conflicts of Interest

Through Paul Atkinson's membership as a limited partner, the Manager co-administers, but does not control, Par Forestry Partnership No 1 LLP, which has a very similar focus to the Fund, having acquired four plantations in the UK.

There may in the future be conflicts of interest between Par Forestry Partnership 1 LLP and the Fund where both entities wish to dispose of an asset at similar times (in which case there may be extra selling competition) or, in the event that the Par Forestry Partnership No 1 LLP is in the future wishing to buy additional assets (in which case there may be extra competition to buy). In the event of any material conflict, the Manager would refer the matter to the Investor Liaison Group.

# Part 5: Taxation

IMPORTANT NOTICE

The following is a summary of the expected UK tax treatment of the Partnership and its Limited Partners who are UK tax resident. The summary is based on professional advice received, but any person who is in doubt about their tax position, or is subject to tax in any jurisdiction other than the UK, should consult an appropriate independent professional adviser on the taxation implications of their investment.

## Taxation of the Partnership

The Partnership is treated by HMRC as a transparent body for the purpose of taxation, so that it is not liable to tax in respect of income and gains arising to it. Instead, the income and gains or losses are attributed to the individual Limited Partners, in accordance with the Partnership Agreement.

The Partnership is not responsible for settling tax on behalf of any of the Limited Partners, but may be required to provide a partnership tax return to HMRC, from which the information will flow to enable Limited Partners to complete their tax returns.

## Taxation of United Kingdom Resident Partners

A Limited Partner resident in the United Kingdom will be liable to tax in respect of the share of income allocated in accordance with the profit sharing arrangements noted in the Partnership Agreement (except "Income Tax" below).

If individual investors borrow in order to meet their commitment requirements, then as Limited Partners, they will not be entitled to tax relief for the interest paid.

Each Limited Partner will be treated as owning part of any underlying capital assets, in the same proportion as their capital contribution. Where a disposal is made, each Investor will realise a gain or loss on their share of the investment. Individuals who have chargeable gains may suffer capital gains tax at the prevailing rate. Corporate investors will suffer corporation tax on their gain, but may also benefit from indexation allowance to reduce the amount chargeable to tax.

As a partnership is transparent for tax purposes, the inheritance tax provisions are applied to each partner in accordance with their individual circumstances. A gift of an interest in the partnership by, or on the death of, an individual Investor may give rise to a liability to inheritance tax. Provided the interest in the partnership has been held for a minimum two year period and the underlying investments are qualifying assets, business property relief may be available to eliminate any liability to inheritance tax. In certain cases it may not be necessary for the partnership interest to be held for two years where there is a replacement investment.

## Taxation of UK Resident Individuals

This Memorandum sets out the tax considerations for UK resident individuals. Non-individuals, for example trusts, companies and institutional investors should seek separate advice. Further information is given below.

### Income Tax

Income from the commercial occupation of woodlands is outside the scope of income tax and accordingly no liability arises, although by the same token there is no relief against income in respect of any losses incurred. Interest on partnership cash reserves, however, is subject to income tax and so would flow through to individual partners' tax returns for assessment, as would income arising from alternative uses of the woodland, such as rent.

Where funds are borrowed in order to invest in the partnership there is no tax relief for interest paid.

Capital Gains Tax

Consideration for the sale of trees and timber by the occupier of commercial woodlands is exempt from capital gains tax and this exemption also extends to insurance receipts in respect of destruction or damage. The exemption does not extend to the underlying land (the "solum"), although if the partnership interest is held until death the capital gains tax liability will be extinguished. The solum may be a qualifying asset for the purposes of rollover relief and holdover relief.

Gains arising from the disposal of the solum will be subject to capital gains tax in the hands of the individual partners and will be taxable at either 18% or 28%, depending on the individual's level of income in the year of disposal.

To the extent that any gains are taxable, Entrepreneurs' Relief (resulting in gains being taxable at 10%) may be available on the sale of all or part of a partner's interest in the partnership. This is subject to lifetime limits, currently £10 million of gains per individual.

If a partner introduces capital to the partnership by way of personally owned woodland, rather than cash, the capital gains tax implications require to be considered. It is expected that there will be a disposal of part of the woodland to the other partners and at the same time an acquisition of part of the partnership's existing assets. Rollover relief may be available in these circumstances to extinguish part or all of any gain.

Inheritance Tax

Generally, an interest in a limited partnership will qualify for 100% business property relief, as does the commercial occupation of woodlands. To qualify, the interest or occupation must have been held/carried out for at least two years, although this may be relaxed if "replacement property" provisions apply. In order that the interest might qualify for business property relief, it is important that there should be no binding contract for the sale of the interest. In this regard, a requirement to sell to other partners of the partnership on retirement, and a requirement for the other partners to buy is regarded as a binding contract for sale.

To the extent that the partnership invests in non-commercial woodlands, for example, land which is let, there may be a restriction to the business property relief available. Should such opportunities arise the Manager will endeavour to preserve the existing reliefs where possible. This may involve an element of restructuring in order to secure the inheritance tax reliefs.

**Land and Buildings Transaction Tax**

Land and Buildings Transaction Tax (LBTT) replaced Stamp Duty Land Tax (SDLT) and applies to the purchase of land and buildings in Scotland from 1 April 2015.

A representative partner will complete the return, though partners remain jointly and severally liable for any LBTT due on a purchase. Partners who join the partnership after the acquisition of land are not liable for any LBTT due in relation to that purchase. In general LBTT is calculated on the actual consideration paid.

The table below gives the rates that apply for woodlands.

| **Consideration (£)** | **Rate** |
|---|---|
| | |
| Up to £150,000 | 0% |
| Over £150,000 up to £350,000 | 3.0% |
| Above £350,000 | 4.5% |

The rates are progressive so a purchase for £750,000 would be charged as follows:

£150,000 at 0%;

£200,000 at 3.0%;

£400,000 at 4.5%.

Special provisions can apply where a purchase is not at arm's length. In such cases market value will be substituted for the actual consideration.

**Stamp Duty Land Tax (SDLT)**

Where the partnership acquires property elsewhere in the United Kingdom SDLT will apply. The legislation is similar to LBTT though the rates of tax differ.

| **Consideration (£)** | Rate |
|---|---|
| | |
| £150,001 to £250,000 | 1% |
| £250,001 to £500,000 | 3% |
| Over £500,000 | 4% |

SDLT on non residential land and buildings is not a progressive tax. So once each threshold is passed the rate is applied to the whole of the purchase price.

## Value-Added Tax

There are also VAT issues for the partnership to consider, which Limited Partners should be aware of.

VAT Registration

Forestry operations will normally attract charges of VAT on expenditure costs, so owners of timber forestry are usually VAT registered to enable the recovery of VAT on these expenses. The current compulsory VAT registration threshold is where taxable supplies exceed £82,000 in a 12 month period, however it is possible to voluntarily register for VAT – which would be advantageous to recover VAT on costs. HMRC will normally accept voluntary registration from forestry businesses on the basis that the entity registering is an intended trader and there is an intention to make taxable supplies in the future. This is due to the long term nature of forestry which often involves long periods of expenditure without regular income. A consequence of registration is that VAT must be charged on all timber sales.

It should be noted that the VAT registration of the partnership would be entirely separate from any registrations of individual partners.

VAT Chargeable

If land is sold which contains standing timber which the buyer will be able to fell, the sale of the land in question is exempt from VAT. However the sale of timber itself is a standard rated supply (currently 20% VAT) and the grant or assignment of any right to fell and remove standing timber is also standard rated.

VAT Rates

Supply of firewood to the general public for domestic use as the final consumer is subject to the reduced rate of 5% VAT currently. For this to apply the firewood must be in the correct form and priced at an appropriate rate to be used as firewood domestically.

The sale of timber that has already been felled to a wholesaler is not considered as a supply for domestic usage and is therefore subject to the standard rate VAT.

Sale of Timber Businesses

Where a forest is sold it can be treated as a transfer of a business as a going concern for VAT purposes (even if no sales have been made of timber). This means that the sale can be outside the scope of VAT, provided certain conditions are met the most important of which is that the buyer is or becomes VAT registered as a result of the transfer and carries on the

same kind of business for a period after the purchase. This treatment can assist with cash flow as no VAT needs to be paid between the parties and will also save on SDLT as this is normally calculated on the VAT inclusive amount of the sale.

## Diversification

Although the opportunities to diversify from commercial woodlands may provide additional revenues, this may have an impact on the income tax, capital gains tax and potential inheritance tax liabilities arising from your investment in the partnership. The use of the land for non-commercial forestry activity may also impact upon the VAT treatment of the income and expenses of the partnership.

As an example, income from the lease of land for a wind farm is non-trading income from land and property and any profit is subject to income tax. Unlike the commercial occupation of woodlands, there is no specific exemption from capital gains tax on a future sale of the whole or part of the non-forestry land. Furthermore, the availability of business property relief from inheritance tax may be restricted. The extent of these changes will depend upon the scale of the non-forestry activity undertaken. However, should such opportunities arise, the managers will endeavour to preserve the existing reliefs where possible. This may involve an element of restructuring in order to secure the inheritance tax reliefs.

From a VAT perspective, the sale of land is exempt from VAT so this might affect VAT recovery on associated costs. An option to tax is available which turns the exempt land into a taxable one, allowing VAT recovery on professional fees and any associated costs. Where applicable, professional advice will be taken to consider these issues.

# Part 6: Other Matters

## Additional Information

Prior to any commitment being accepted, the Manager intends to provide each prospective investor the opportunity to ask questions and receive answers concerning the terms and conditions of the Fund and to obtain any additional information that the Manager may possess or can obtain without unreasonable effort or expense that is necessary to verify the accuracy of the information furnished to such prospective investor. Except for the Manager, no persons have been authorised to give information or to make any representations concerning this offering, and if given or made, such other information or representations must not be relied upon as having been authorised by the Fund.

Copies of the Partnership Agreement will be provided upon request.

## Data Protection

Potential investors should be aware that Par may hold and process personal data within the meaning of the Data Protection Act 1998 (the "DPA").

Personal data allowing Par to identify potential investors and verify their address for anti-money laundering purposes will be held and used, from time to time, to refresh the verification process as required by law.

Personal data allowing Par to classify potential investors as a qualifying investor for the purposes of the financial services legislation will be held and used, from time to time, in assessing whether such potential investors are able to receive from Par information relating to certain investment opportunities arising from the Fund.

To the extent that potential investors invest in the Fund, or any other fund managed by Par Fund Management Limited, further personal data may be held by Par for the purpose of administering such investment.

The fact of a potential investor's involvement as an investor in the Fund or as a member of Par's Advisory Panel may be disclosed to existing or prospective investee entities. Auditors, other professional advisers and sub-contractors may have access to personal data in respect of services carried out for Par, but in such cases Par shall take steps to ensure that no personal data is disclosed inappropriately. No personal data will otherwise be disclosed to third parties other than where required by law or regulatory provision, unless the potential investor agrees in writing that such disclosure may be made.

Under the DPA each potential investor has the right to require Par to provide him or her with a copy of the information it holds about him or her on computer and in some manual filing systems. This is known as the "right of subject access". If a potential investor files a subject access request, Par must deal with it promptly and, in any case, within 40 days of the date of receiving it. Par will send the relevant party a copy of the personal information it holds in relation to that party and certain other details of the processing it undertakes. Par is permitted to charge a fee of up to £10 for responding to a request.

## Part 7: Definitions

In this Memorandum, unless the context otherwise requires, the following words and expressions have the meanings shown:

"Aggregate Commitment(s)" means the aggregate Commitment(s);

"Associates" means subsidiary undertakings or holding undertakings of the original undertaking or any subsidiary undertaking of any other holding undertaking of the original undertaking as such terms are defined in the Companies Act 2006 but also including in the definition of undertaking any entity which would have been an undertaking if incorporated or registered in the UK in the form most closely resembling its actual form and a holding undertaking (A) of a subsidiary undertaking (B) shall also include where A controls directly or indirectly more than 50% of the ultimate voting rights in B;

**"Borrowings"** means amounts advanced to the Fund by way of a loan;

"CIS Exemption Order" means the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (as amended);

**"COBS"** means the Conduct of Business Sourcebook, part of the FCA Rules;

"Commitment" means the aggregate capital contribution made or promised to be made to the Fund by a Limited Partner (excluding any equalisation payments or interest charge);

**"Connected Person"** means a person or entity who is connected or associated with the original person or entity through family, business or common control as defined in section 11B of the Financial Services and Markets Act 2000 (as inserted by the Financial Services and Markets Act 2000 (Amendment) Regulations 2009;

"Custodian" means such custodian who may be appointed from time to time by the Manager;

"Escrow Account" means the escrow account opened and maintained by the Custodian;

"Final Closing" means the date on which the Fund is closed to new Investors;

"Financial Promotion Order" means the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended);

**"Forestry Index"** means the IPD® UK Annual Forestry Index published by MSCI;

"Founder Partner" or "Par Equity" means Par Equity LLP, a Scottish Limited Partnership registered in Scotland with registered number SO301563 and whose registered office is at Exchange Tower, 19 Canning Street, Edinburgh, EH3 8EH;

"**Fund"** means Par Forestry Partners LP, a Limited Partnership registered in Scotland with registered number SL014006 and whose principal place of business is at 3A Dublin Meuse, Edinburgh, Midlothian EH3 6NW;

"FCA" means the Financial Conduct Authority, situated at 25 The North Colonnade, Canary Wharf, London E14 5HS;

**"FCA Rules"** means the rules of the FCA, as set out in the FCA handbook, as amended from time to time;

"General Partner" means Par Forestry (General Partner) Limited, a company registered in Scotland with registered number SC457844 and whose registered office is at 3A Dublin Meuse, Edinburgh, Midlothian EH3 6NW;

**"HMRC"** means Her Majesty's Revenue & Customs;

"Hurdle" means the average return on the Forestry Index over the relevant lifetime period, applied to drawndown Commitments and less amounts repaid to Limited Partners (or in the event that such index ceases to exist, the Substitute Index);

"Indemnified Persons" means the Manager, the General Partner, their Associates and their respective officers/directors, members, employees and agents entitled to be indemnified out of the assets of the Fund pursuant to the Partnership Agreement;

“Initial Closing” means an initial closing date determined by the Manager pursuant to the Partnership Agreement;

“Investment Committee” means the committee established by the Manager for the purpose of making investment decisions on behalf of the Fund;

“Investment Management Agreement” or “Management Agreement” means the agreement to be entered into between the Manager and the General Partner prior to the Initial Closing;

“Investment Period” means the period from the Initial Closing to the third anniversary of the Initial Closing;

“Investor Liaison Group” means the body of Investor representatives convened by the Manager;

"**LIBOR**" means the London Interbank Offered Rate;

“Limited Partner” or “Investor” means a limited partner in the Fund;

**“Liquidity Mechanism”** as described on page 20 and provided for in the Partnership Agreement;

“Management Fee” means the fees payable to the Manager by the General Partner or Fund pursuant to the Partnership Agreement and the Investment Management Agreement;

“Manager” means the investment manager of the Fund, Par Fund Management Limited, a company registered in Scotland with registered number SC338649 and whose registered office is at 3a Dublin Meuse, Edinburgh EH3 6NW, or its successor for the time being appointed as manager of the Fund in accordance with the Partnership Agreement;

**“Non-Underwriting LP”** as described on page 37;

“Operator” means NCM Fund Services Limited, registered number SC166074, of 7 Melville Crescent, Edinburgh EH3 7JA;

“Ordinary Consent” means a vote of Limited Partners whose aggregate Commitments represent over 50% of the aggregate Commitments;

“Par” means Par Equity and the PEH Group;

“Par Adviser” means a member of the Advisory Panel;

“Par Equity” means Par Equity LLP, a limited liability partnership registered in Scotland with registered number SO301563 and whose registered office is at Exchange Tower, 19 Canning Street, Edinburgh EH3 8EH;

“Par Syndicate” means the informal investor network co-ordinated by Par;

“Partnership” means Par Forestry Partners LP, a Limited Partnership registered in Scotland with registered number SL014006 and whose principal place of business is at 3A Dublin Meuse, Edinburgh, Midlothian EH3 6NW;**“Partnership Agreement”** or **“Fund Agreement”** means the limited partnership agreement under which the Fund is constituted;

**“PEH Group”** means Par Equity Holdings Limited, a company registered in Scotland with registered number SC337533 and whose registered office is at 3A Dublin Meuse, Edinburgh, Midlothian EH3 6NW, and its subsidiary companies and undertakings;

“Special Consent” means the consent of Limited Partners whose aggregate Commitments represent over 75% of the Aggregate Commitments;

**“Subsequent Closing”** means a closing following the Initial Closing, as determined by the Manager pursuant to the Partnership Agreement;

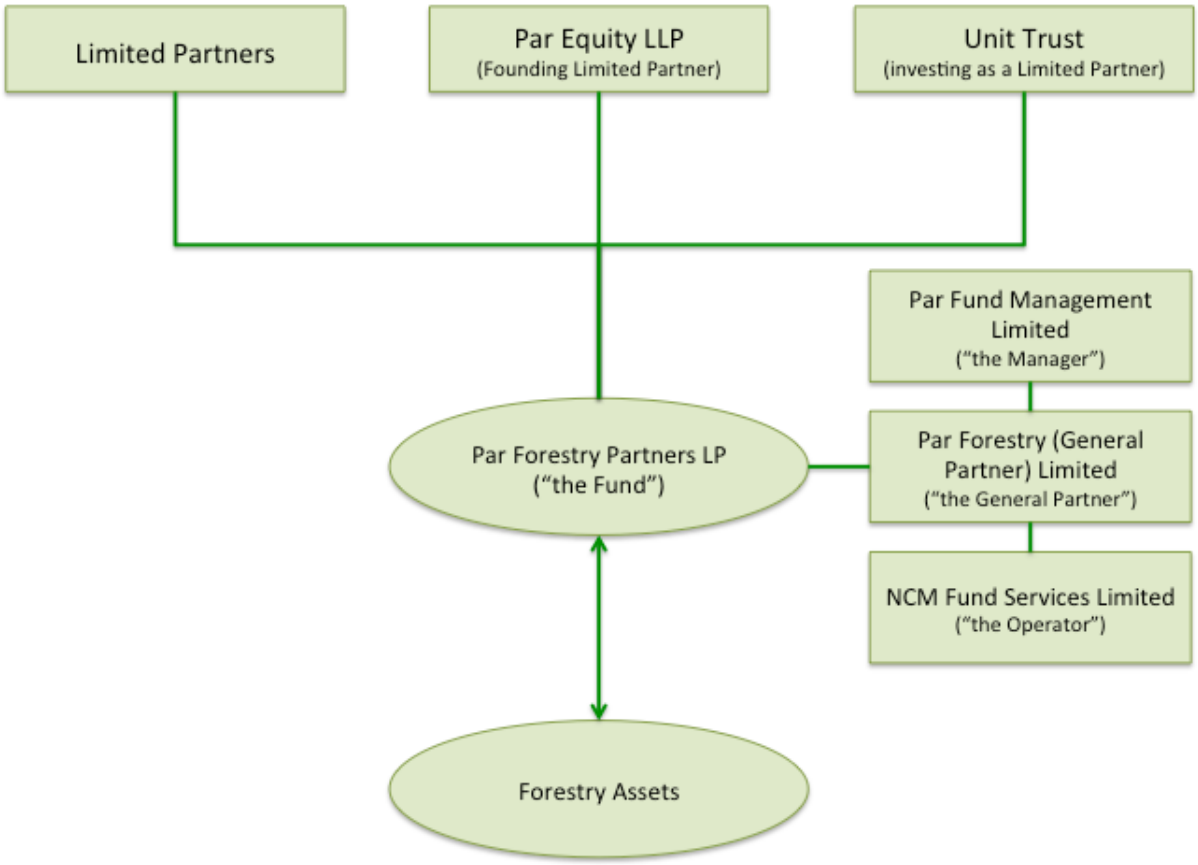
“Substitute Index” means such other index tracking the total return performance of general UK forestry assets as may, at the Manager’s discretion, be deemed to be a close substitute for the Forestry Index in the event that the Forestry Index is no longer compiled or otherwise becomes unobtainable. In the event that there is no appropriate substitute forestry index available, the total return on the FTSE Actuaries UK Conventional Gilts All Stocks Index for the relevant period will be deemed to be the Substitute Index;

**“Underwriting LP”** as described on page 37;

**“Unitholder”** means the holder of a unit in the Unit Trust relating to an underlying holding in the Partnership;

**“Unit Trust”** means the Par Unit Trust, established in 2013.

## APPENDIX I: Fund Structure



## APPENDIX II: Further Information

Appointment of the Operator

The Fund is classified under FSMA as an unregulated collective investment scheme. The establishment, operation and winding up of such a scheme are regulated activities under FSMA. The Operator has therefore been appointed to provide FCA-regulated administrative and secretarial services to the Fund. In consideration for providing such services, the Operator will receive the following fees and expenses (exclusive of VAT) from the Fund:

(a) Set up fee of £6,000;

(b) Operator's Fee of £6,000 or the 0.1% of aggregate drawn down Commitments, subject to an annual inflationary increase;

(c) £250 for every Fund meeting it attends;

(d) £100 for every application form it processes;

(e) if appointed as liquidating trustee in the winding up of the Fund, a fee of not less than £5,000; and

(f) all expenses and disbursements reasonably incurred by it.

The appointment of the Operator will terminate with immediate effect:

(a) if the Operator ceases to be authorised by the FCA under FSMA to provide the required services;

(b) on the termination of the Partnership in accordance with the terms of the Partnership Agreement;

(c) if the Operator commits a material breach which breach is not remedied within 20 Business Days;

(d) if the Operator is the subject of an insolvency event;

(e) if the General Partner or the Partnership is the subject of an insolvency event; or

(f) if any of the fees or expenses payable to the Operator pursuant to this Memorandum are not paid and such failure to pay is not remedied.

The appointment of the Operator can be terminated by either the Operator or the Fund (acting through its General Partner and subject to Special Resolution) by notice in writing.

Recourse to Financial Ombudsman Service and Financial Services Compensation Scheme

Neither the Manager nor the Operator will have a direct client relationship with Limited Partners. Accordingly, Limited Partners may not have direct recourse to either the Financial Ombudsman Service or the Financial Services Compensation Scheme.

The Manager and Operator each have a written procedure under the FCA Rules for the effective consideration and proper handling of complaints from clients. The Fund does not have a right of complaint direct to the Financial Ombudsman Service about any action or omission of the Manager or Operator. Further information about complaints against authorised firms is available from the Financial Ombudsman Service.

The Manager and Operator are covered by the Financial Services Compensation Scheme. The Fund may be entitled to compensation from the scheme if the Manager cannot meet its obligations. This depends on the type of business and the circumstances of the claim, and not the Fund's categorisation as a client. Further information about compensation arrangements is available from the Financial Services Compensation Scheme.

NOTES: