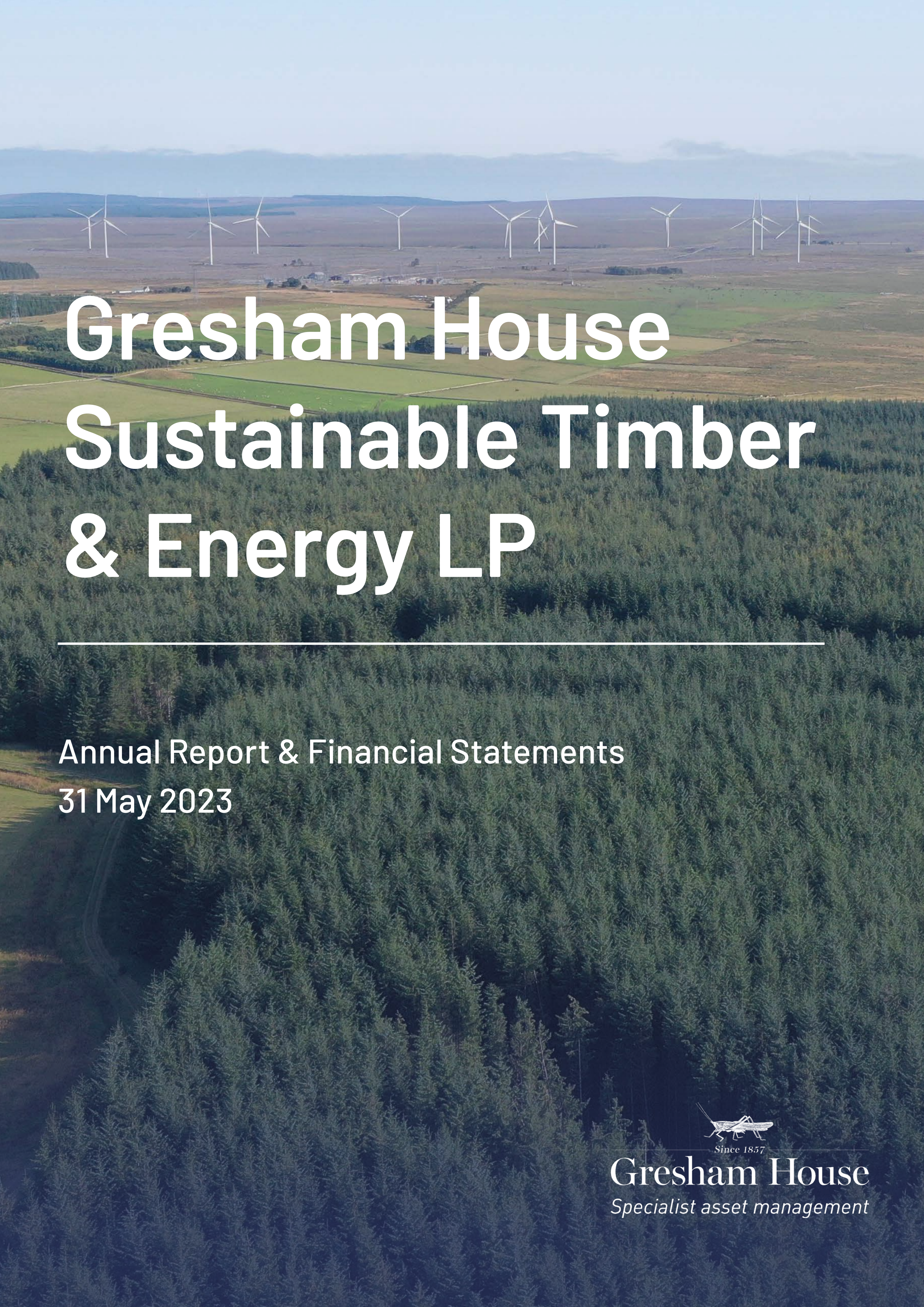


Gresham House Sustainable Timber & Energy LP

Annual Report & Financial Statements

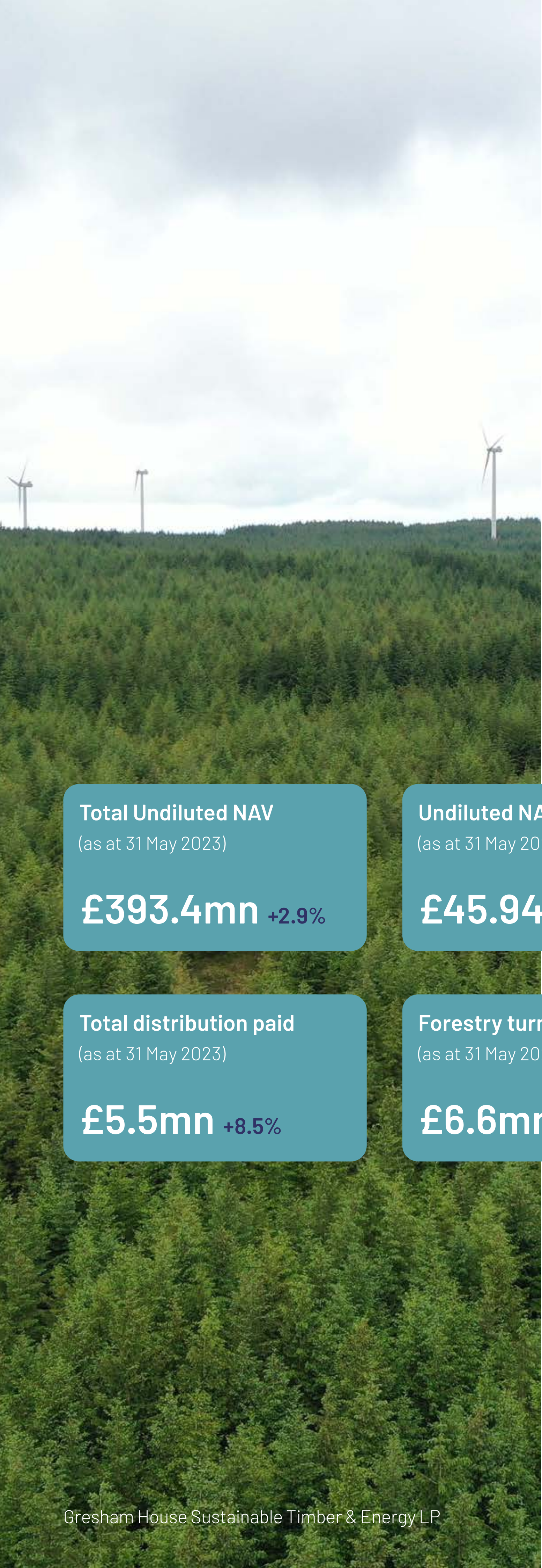
31 May 2023

Since 1857

Gresham House

Specialist asset management

Contents



Highlights

- Overall the LP's strategy delivered a total return of 4.3% during the year.
- The LP's Net Asset Value (undiluted) increased by £11.1mn to £393.4mn, or £45.94 per Partnership Share.
- Profits from the renewable energy portfolio were significantly higher than budgeted due to the rises in power prices. This provided the Manager flexibility to reduce timber harvesting and preserve timber resource.
- The combined financial performance enabled the General Partner to authorise the planned distribution to Limited Partners in full.
- Overall, the LP recorded a £1.2mn profit after paying a distribution of £0.64 on all Partnership Shares as planned.

Total Undiluted NAV
(as at 31 May 2023)
£393.4mn +2.9%

Undiluted NAV per share
(as at 31 May 2023)
£45.94 +2.9%

Undiluted Total Return (blended all share classes)
(as at 31 May 2023)
4.3%

Total distribution paid
(as at 31 May 2023)
£5.5mn +8.5%

Forestry turnover
(as at 31 May 2023)
£6.6mn -31.1%

Total profits received from renewable energy assets
(as at 31 May 2023)
£4.5mn +84.4%

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Annual Report

Manager's Report

Executive summary

The Manager is pleased with the overall performance of Gresham House Sustainable Timber and Energy LP for the 12 month period to 31 May 2023. The LP delivered a 4.3% total return to Limited Partners, inclusive of the 1.4% distribution which was paid to all Limited Partners in May 2023.

During the year the LP experienced mixed trading conditions which presented challenges but also provided opportunities to actively manage the portfolio to adapt to market conditions. Following many years of outperformance from the LP's forestry portfolio, it was the LP's renewable energy portfolio which outperformed during the year, driven by the rise in power prices which produced significant increases in the level of income from these assets.

The increase in profits from the renewable energy portfolio have come during a period of subdued demand for timber and relative weakness in timber pricing. In response to this the Manager chose to reduce harvesting from the budgeted levels to preserve timber which will continue to grow in volume and be sold when the timber markets are more buoyant.

The forestry portfolio benefitted from a marginally positive revaluation (3.0%), which largely reflected the biological growth in the crop during the year, replanting undertaken on areas harvested in previous periods, and capital expenditure investment into the assets. UK forestry values have been generally flat due to wider macro-economic uncertainty and rising risk free rates of return. The combined effect of the movements in forestry and renewable asset values resulted in an increase of £9.9mn to the revaluation reserve.

Cash flows generated from the renewable energy assets were £4.5mn, 27% above budget of £3.5mn, and 84% higher than the previous year (2022: £2.4mn), reflecting the increases in energy prices received for the generation of electricity from the underlying assets. Although power prices are substantially below their peak of December 2022, they still remain considerably higher than was envisaged upon acquisition of the renewable energy assets. Therefore, the Manager expects the renewable energy portfolio to continue to deliver high levels of cash flow relative to the valuation weighting. The profits from the 12.8% of NAV of the renewable energy portfolio amounted to 81% of the total distribution paid during the year (2022: 48%).

Revenue from the forestry portfolio was 50% below budget at £6.6mn (Budget: £13.1mn) primarily due to a combination of:

i Postponement of £3.4mn of timber compensation which was expected to be received for the construction of a wind farm at Cowans Law, which is now expected to be received in the 2023/24 and 2024/25 financial years.

ii The deferral of approximately £2.8mn of the budgeted timber sales due to a softening of timber demand during the period.

The increased profits from the renewable energy portfolio combined with the brought forward cash balance from the previous year provided flexibility to defer the sale of 60,000 tonnes of planned timber sales into a subdued market. The Manager intends to remarket this volume to achieve better prices at a later date.

In March 2023, the Manager submitted an offer on behalf of the LP to acquire 2,000 additional shares in Gresham House Solar Distribution LLP (SDLLP) which were being offered for sale from an existing investor through a tender process. Following a closing date for offers, the vendor partially accepted the LP's offer (with the balance being sold to a higher bidder) and subsequently 1,437 secondary shares in SDLLP were acquired cum-dividend in April 2023 for £1.66mn, utilising the LP's debt facility. Based on the price offered, the additional investment is expected to exceed the LP's return hurdle and enhance the LP's free cash flow from renewables in line with the stated strategy.

As at 31 May 2023, the LP's allocation to forestry is 88.0% (2022: 86.3%) and the allocation to renewable energy has slightly increased to 12.8% (2022: 12.3%) which remains comfortably within the maximum 20% allocation to renewables permitted under the Limited Partnership Agreement.

Overall, the LP recorded a profit during the year (before revaluation gains) of £6.7mn (2022: £7.8mn) prior to payment of the £5.5mn distribution to Limited Partners (2022: £5.1mn).

At the year end, the LP had a closing cash balance of £2.7mn. The Manager intends to maintain a prudent level of cash as working capital as a precautionary measure due to recent volatility in the timber markets.

The LP continues to deliver on its investment objectives and maintains a fully invested, asset backed position, with relatively low levels of gearing. The Manager believes the portfolio is well positioned to trade through any variable market conditions.

Total return 2022/23

The total return on all Partnership Shares was 4.3% (2022: 23.8%), or £1.93 per Partnership Share, comprising a distribution of £0.64 per Partnership Share and an increase in Net Asset Value of £1.29.

		% of beginning NAV
Beginning (undiluted) NAV per share	£44.65	
Ending (undiluted) NAV per share	£45.94	
Increase in NAV per share	£1.29	2.90%
Distribution per share	£0.64	1.43%
Total return per share	**£1.93**	**4.33%**

*Rounded to two decimal places

All Partnership Shares rank pari passu and are eligible to receive the target annual distribution, which was paid as planned in May 2023.

Net Asset Value

The NAV of the LP increased by £11.1mn during the year to £393.4mn (2022: £382.4mn) or £45.94 per share. The diluted NAV after deduction of the carried interest liability as at 31 May 2023 is £380.4mn, or £44.42 per share.

Revaluations of the LP's portfolio as at 31 May 2023 resulted in an increase of £9.9mn to the revaluation reserve. This represented a like for like increase of 3.0% on the existing forestry portfolio, and a 4.0% increase on the renewable energy portfolio. The remainder of the NAV increase was generated by the surplus on the profit and loss account, which increased by £1.2mn as a result of the year's trading operations.

Fund performance

To date, all share classes have performed well and have outperformed the LP's target return of 7%. The diluted blended internal rate of return (IRR) to 31 May 2023 is 14.1% (2022: 15.0%).

Share class	Since	IRR (undiluted)	IRR (diluted)
Founder	May to August 2010	14.9%	14.6%
A	August to October 2010	13.6%	13.3%
B	August 2011 to February 2012	13.9%	13.5%
C	February 2014 to November 2014	14.0%	13.6%
D	September 2018 to January 2019	16.6%	16.1%
All	Blended across all share classes	14.4%	14.1%

It should be noted that the IRR for "D" Partnership Shares is based on a shorter holding period, whereas the IRR for the other share classes span a longer time horizon and are therefore a more representative average of the long term returns generated by the LP.

Returns are stated net of all costs, including fund raising costs, costs of acquiring properties and fund management costs. The diluted NAV represents the returns after deduction of the carried interest share to the Special Limited Partner, FIM Executives LP, based on the LP's performance to date. The undiluted return represents the return to Limited Partners before any carried interest is deducted. No carried interest has been paid to the Special Limited Partner, although the performance to date should be properly considered with the carried interest taken into account.

Partnership Shares are expected to qualify for 100% Business Property Relief of Inheritance Tax, once held for two years.

LP's strategy

The Manager maintains optimism with regard to the long term prospects of the LP. The key fundamentals underpinning this view are:

- the medium to long-term outlook for timber prices is positive, due to the emerging increase in global consumption of wood and the finite global supply;
- the renewable energy investments are expected to continue to benefit from increases in power prices, and are projected to continue to deliver long-term, index-linked cash flows to the LP; and
- the increasing emphasis on the environmental and sustainability credentials of investments.

The business strategy remains to service as much as possible of the planned annual distribution from cash flows generated by the renewable energy assets and rental income, leaving the timber resources to add volume and value for the long term. This will allow the Manager to maximise timber prices and minimise harvesting so that the LP benefits from a continued rise in timber prices and forestry values.

The Manager continues to believe that a larger fund increases liquidity for investors, provides economies of scale and a more diversified investment portfolio, thus minimising investment and concentration risk.

Macroeconomic update

The Manager continues to monitor the challenges presented by the macroeconomic environment, such as volatility in commodity markets including the timber and energy markets. Fuel price and general cost inflation (including labour) have increased costs for forestry operations, but this has not materially impacted the profitability of the LP's forestry portfolio.

The sharp rise in power prices, whilst slightly increasing expenditure within forestry operations, has been more than mitigated by the LP's asset allocation strategy, as the higher power prices are expected to generate enhanced earnings from the renewables portfolio.

The elevated levels in UK inflation have seen the Bank of England continue to increase interest rates and these are anticipated to remain above recent historic levels for the foreseeable future. The material rise in the risk free rate has resulted in a reduction in transactional activity in the UK forestry market, with a lower volume of sales compared to previous years. However, the transactions that have occurred have shown resilient valuations and investment grade forestry assets have not been trading at significant discounts.

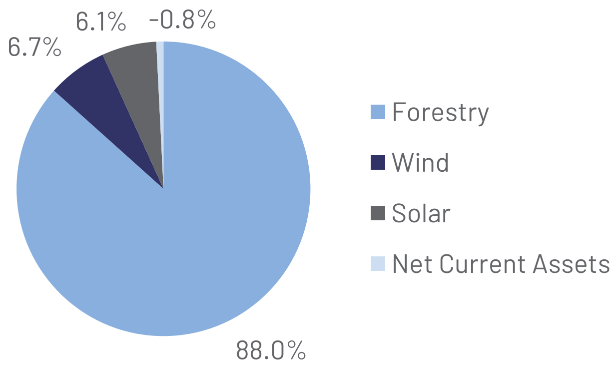
The use of long term timber prices applied in the valuation of forestry assets has minimised the impact of subdued timber prices on the valuation of the LP's forests. As forestry purchasers in general employ low levels of gearing, the rise in interest rates has not caused a material downward movement in asset valuations which may be experienced in other real estate asset classes.

Based on prevailing economic conditions, the Manager expects to be in a position to maintain the planned distribution policy. This is partly due to the increasing proportion of the distribution to Limited Partners being covered by the renewable energy dividends and distributions received from the LP's portfolio, which allows the Manager to manage timber price risk by curtailing harvesting.

Should market conditions and/or power prices significantly deteriorate, the Manager would not intend to sell the LP's timber into a depressed market as this is not in the long term interests of Limited Partners. This may impact the future distributions paid to Limited Partners.

Portfolio allocation

The LP is invested in a balanced portfolio with the following asset allocation as at 31 May 2023:



Shares in issue

A total of 8,563,495 Partnership Shares are in Issue.

Share class	No of Shares
Founder	2,588,275
A	1,161,952
B	1,540,730
C	1,873,915
D	1,398,623
Total	**8,563,495**

The LP is closed to new subscriptions. The Manager expects that a wind farm development will become operational on Cowans Law forest during Q4 2023. As a result c.16,000 additional shares will be issued to the Limited Partners who contributed the forest to the LP as part of the clawback agreement as detailed on page 30.

Gearing

The LP has a maximum exposure to gearing of 20% permitted under the Limited Partnership Agreement. The Manager has defined gearing as the equity at risk (indirect debt) from the renewable energy portfolio, and direct debt held at the fund level.

The Manager has secured a debt accordion facility with Barclays Bank plc to provide the LP with a facility to borrow up to £20.0mn of direct debt. This facility will be used to purchase value-enhancing assets where suitable opportunities arise. The Manager will only draw down the loan facility where the LP is forecast to generate sufficient profits over the coming years to repay the interest and gradually reduce the principal.

As at 31 May 2023, total debt was £36.5mn representing 9.3% of NAV. This includes direct and indirect exposure to debt held by the underlying Special Purpose Vehicles which own the LP's renewable energy interests.

During the year, the Manager drew down £6.9mn from the debt facility with Barclays Bank plc to purchase additional shares in SDLLP and to partially finance four value enhancing forestry assets. The remaining £29.6mn of gearing comprises equity at risk from the LP's renewable energy investments.

Interest payments for the direct debt during the year were £0.2mn.

Post Balance Sheet updates

In July 2023, the Manager reduced the Barclays debt facility by £0.6mn using cash held by the LP. The LP's gearing as defined above reduced to 9.1% of NAV as a result of this repayment.

Performance Summary

	2022/23 Budget (£mn)	2022/23 Actual (£mn)	2021/22 Actual (£mn)
Total turnover	13.1	6.6	9.6
Operating costs	(5.3)	(2.4)	(2.6)
Administrative and other expenses	(1.7)	(1.8)	(1.6)
Operating profit	**6.1**	**2.3**	**5.4**
Interest receivable	0.1	0.2	0.0
Interest payable	(0.2)	(0.2)	0.0
Share of profit from Group undertakings	3.5	4.5	2.4
Profit for the year	**9.5**	**6.7**	**7.8**
Distribution	(5.7)	(5.5)	(5.1)
Profit for the year after distribution	**3.8**	**1.2**	**2.8**

* Rounded to 1 decimal place

Forestry portfolio

Total turnover for the year amounted to £6.6mn (2022: £9.6mn), of which £5.5mn (2022: £8.6mn) was generated through timber sales (see table below).

Timber Sales 2021/22 and 2022/23:

	2021/22 Actual	2022/23 Budget	2022/23 Actual
Timber sales	£8.6mn	£8.1mn	£5.5mn
Average price (£/tonne)	£71.2	£48.1	£50.0
Area (hectares)	280.5	441.8	270.0
Tonnes	120,456	169,007	109,022
Tonnes/hectare	429	383	404
Total revenue (£/hectare)	**£30,589**	**£18,381**	**£20,207**

Weak demand from timber processors during the year caused a reduction in standing timber prices and accordingly the Manager chose to defer the sale of several timber contracts which were budgeted to be harvested during the year due to sub-optimal prices being offered.

There were however opportunities presented through regional discrepancies of demand and specific timing circumstances which allowed the Manager to achieve acceptable prices on some of the tenders offered. This ability to offer a range of crops across a variety of locations is a key strategic advantage of the geographic diversification within the LP's asset base and can be capitalised on to achieve superior results in challenging markets.

In the context of low timber demand, the LP achieved a very respectable average timber price of £50 per tonne. Although this represents a decrease from the previous year (2022: £71), it was slightly ahead of budgeted expectations which had been based on more recent timber market activity. The differential to the previous years price was also due to a higher proportion of lower quality, small roundwood crops being offered for sale due to the reduction in demand from housebuilders for construction grade timber which was in high demand in 2021/22 as industries returned from COVID-19 lockdowns.

Wind farm leases on forestry land generated rental income of £0.9mn during the year (2022: £0.8mn) from three operational wind farms at Penmanshiel, Craignane and Kirtleton South, and one wind farm that is consented and in development, Cowans Law.

Forestry expenditure (recorded within Operating Costs) was £2.2mn (2022: 2.3mn). Replanting was implemented as required, maintaining the value in the forestry portfolio. Replanting is undertaken with improved productive conifers where appropriate to enhance growth rates and value over the next rotation.

Renewable energy portfolio

The LP's cash inflows from its renewable energy portfolio were ahead of budget at £4.45mn (2022: £2.4mn) due to the rise in power prices and strong power price fixes during the period, despite output (for the wind farms) being below budget. The results for FY2023 are as follows:

	2021/22 Actual	2022/23 Budget	2022/23 Actual
Gresham House Solar Distribution LLP	£1.45mn	£1.45mn	£2.64m
Gresham House Wind Energy 1 plc	£0.90mn	£1.87m	£1.35mn
Gresham House Wind Energy LP	£0.06mn	£0.19m	£0.46mn
Total	**£2.41mn**	**£3.51mn**	**£4.45mn**

A summary of total output during the year from the LP's share of renewable generating entities is shown below:

	2022/23 Output (MWh)		
	Budget	Actual	Variance %
Wind farms	268,143	236,984	-11.6%
Solar parks	55,198	57,262	+3.7%
Total	**323,341**	**294,246**	**-9.0%**

Overall, the energy generation from the wind assets was below budget in part due to low wind speeds over the period, but also due to some technical issues at the sites. Energy generation from the solar assets was above budget, offsetting part of the lower operational output from the wind farms. Production figures are based on the output as at 31 May 2023 from the five wind farms in which the LP holds interests, and nine solar parks.

Financial Results 2022/23

Income Statement

Turnover

Total turnover decreased by 31.1% to £6.6mn (2022: £9.6mn) due to a reduced amount of timber harvesting, as turnover was managed to provide only sufficient funds for the annual distribution and also for working capital and small-scale acquisition opportunities.

Turnover comprised the following:

	2022 (£mn)	2023 (£mn)
Forestry operations	8.7	5.5
Other income (e.g. wind farm rents)	0.9	1.0
Total turnover	**9.6**	**6.6**
* Rounded to 1 decimal place		

Other operating income

Wind farm rents are expected to increase over time as progress continues to be made in the construction of two wind farms and due to increases in wind farm rental terms.

The Manager continues to receive enquiries from wind farm developers looking to agree Options to Lease the LP's land.

The terms of these arrangements are negotiated to ensure that the LP's share of future profits from potential wind farm development is maximised.

Operating costs

Operating costs were £2.4mn (2022: £2.6mn) which was below budget, primarily due to deferred forestry expenditure and budgeted crop maintenance operations not being required.

Administrative expenses

Administrative expenses were £1.8mn during the year (2022: £1.6mn). This includes the Gresham House Management Fee of £1.4mn (2021/22: £1.3mn), which was rebased to 0.5% of NAV following the independent valuation as at 31 May 2021 and is adjusted annually by CPI + 1% during the years between independent valuations.

Income from renewable energy interests

Renewable energy cash inflows increased by £2.0mn to £4.5mn due to increased energy prices during the period, as previously noted.

Profit for the year before revaluation

Profit for the year before revaluation was £6.7mn (2022: £7.8mn) which, after the payment of the distribution of £5.5mn (2021/22: £5.1mn), generated a retained profit of £1.2mn (2022: £2.8mn).

Balance Sheet

The LP's NAV increased by 2.9% to £45.94 per Partnership Share (2022: 22.2% increase to £44.65). This was due to a revaluation surplus of £9.9mn (2022: £66.6mn) and the £1.2mn profits increasing the profit and loss reserves.

The forestry portfolio value increased by 4.9% (£16.2mn). This includes £7.3mn of forestry additions in the year as well as £8.0mn of revaluation gains and £0.9mn of capital expenditure additions . The renewable energy interest valuations increased by £3.6mn or 7.6%, which were positively impacted by increases in power prices. This includes the £1.7mn additional investment in Gresham House Solar Distribution LLP in the year as well as revaluation gains.

Increase in net assets:	Amount (£mn)
Change in value of the forest portfolio	16.2
Less new acquisitions	(7.3)
Less capital expenditure	(0.9)
Net increase in value of forest portfolio from 1 June 2022	**8.0**
Increase in value of renewable energy interests	3.6
Increased allocation to SDLLP	(1.7)
Total revaluation surplus	**9.9**
Movement in profit and loss reserve	1.2
Increase in net assets	**11.1**

Based on the current NAV the LP has the ability to employ up to £78.7mn of debt and remain within the LP's permitted gearing level of 20% of NAV. Based on the current exposure of £36.5mn as at 31 May 2023, the remaining gearing available is c.£42.2mn.

Budget 2023/24

The budget for 2023/24 has been prepared on the basis of the existing forestry and renewables portfolio as at 31 May 2023.

The Manager is budgeting for the LP to generate total turnover of £14.3mn (2023 Actual: £6.6mn) comprised as follows:

	Budget (£mn)	2023 Actual (£mn)
Forestry operations	11.5	5.5
Timber compensation	1.8	N/A
Rental income (including wind farm rents, option payments and sporting rents)	1.1	1.0
Total forestry revenue	**14.3**	**6.6**

* Rounded to 1 decimal place

The increase in planned harvesting activity will ensure that best silvicultural management practices are being followed. This is especially important in several mature woodlands, including Glenswinton and Laggish, where commencement of the harvesting programme is needed to stop the crop from becoming over mature and potentially declining in value. To date, the Manager has secured acceptable terms for c.36% of the 2023/24 planned harvesting income.

The Manager remains in close contact with Community Windpower, the developer of Sneddon Law Community Wind Farm, which is primarily located on the Partnership's property of Cowans Law. Planned harvesting of the crop is currently forecast to be undertaken in two phases during Q4 2023 and Q4 2024. Therefore, the Manager has budgeted to receive half the forecast timber compensation during the coming financial year however, this will be subject to market conditions and negotiations with the developer.

As a result of the above, operating profit is budgeted to increase to £6.3mn (2023 Actual: £2.3mn).

The LP is also budgeting to receive higher cash inflows of £7.7mn from the renewable energy assets (2023 Actual: £4.5mn).

This will result in a budgeted profit for the year of £13.8mn (prior to payment of the planned distribution) (2023 Actual: £6.7mn).

	2023/24 Budget (£mn)
Total turnover	14.3
Operating costs	(6.1)
Administrative and other expenses	(2.0)
Operating profit	**6.3**
Interest receivable	0.2
Interest payable	(0.4)
Share of profits from Group undertakings	7.7
Profit for the year	**13.8**
Distribution	(5.9)
Profit for the year after distribution	**7.9**

*Rounded to one decimal place

The budgeted distribution payable is forecast to be £5.9mn (2022/23 Actual: £5.5mn). This is predicated on a payment of £0.69 per Partnership share using the latest Bank of England forecast inflation data.

This level of forecast profit will provide the Manager flexibility to defer timber sales in the event that an acceptable price is not received. It will also provide options to reduce the LP's gearing, make small scale acquisitions and maintain a prudent cash balance.

The Manager aims to increase the previous year's distribution by Consumer Prices Index (CPIH) + 1%, therefore the amount payable will be dependent on the prevailing rate of CPIH.

Statement of cash flows	2023/24 Budget (£mn)	2022/23 Actual (£mn)
Cash flows from Operating Activities		
Net cash flows from operating activities	6.3	1.8
Cash flows from Investing Activities		
Purchase of forest properties and disposals	(2.0)	(7.3)
Capital expenditure on the forestry portfolio	(1.4)	(0.9)
Investment in renewable energy assets	-	(1.7)
Cash flows from Financing Activities		
Net Interest Receivable/(Payable)	(0.3)	(0.1)
Bank loan	-	6.9
Bank loan repayment	(2.0)	-
Distributions from renewable energy assets	7.8	4.5
Distribution paid	(5.9)	(5.5)
Net increase/(decrease) in cash	**2.4**	**(2.3)**

Overall cash movement	2023/24 Budget (£mn)	2022/23 Actual (£mn)
Opening cash	2.7	5.0
Net increase/(decrease) in cash	2.4	(2.3)
Closing cash	**5.1**	**2.7**

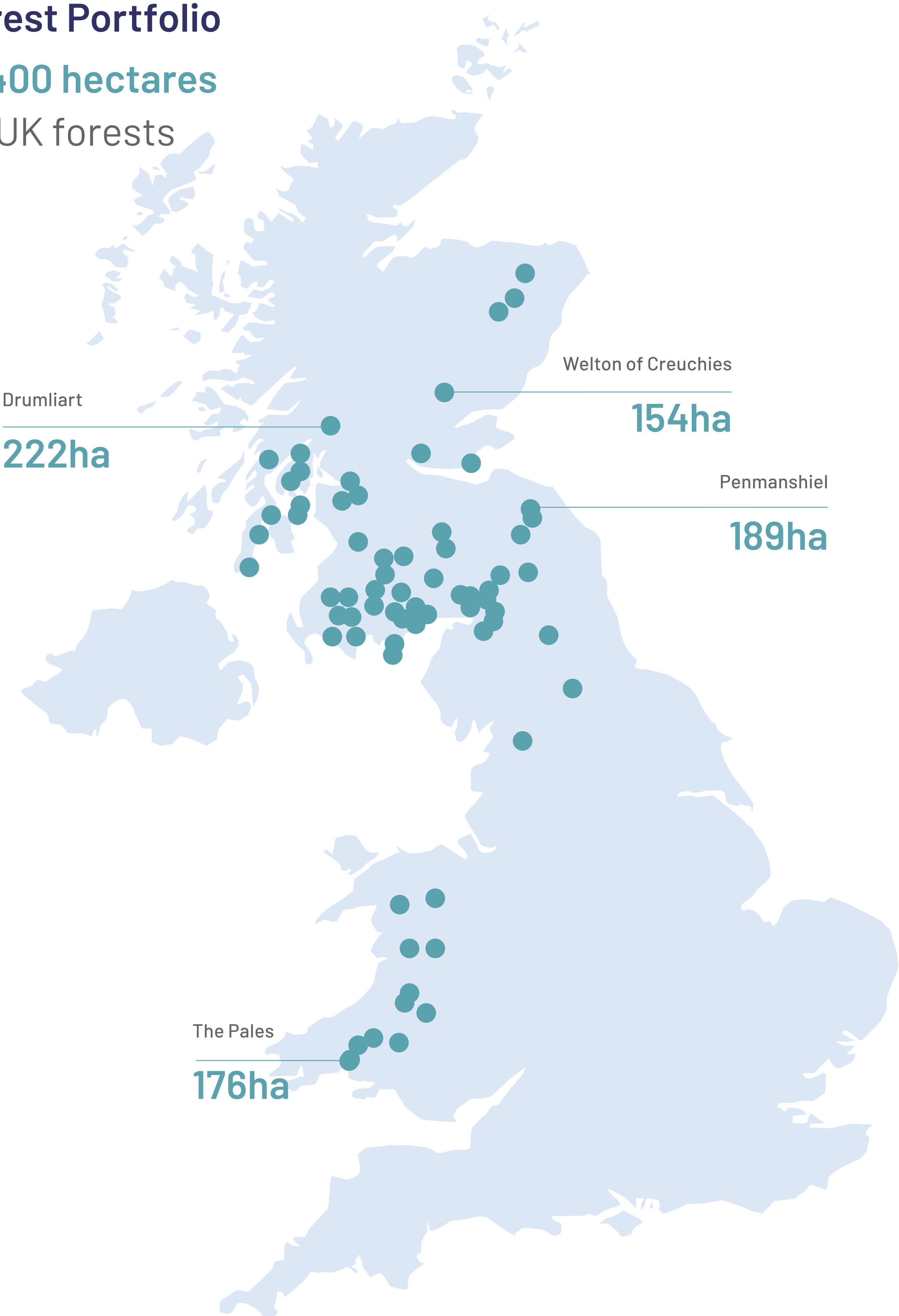
The Manager is budgeting to generate a cash surplus during FY2023/24. These funds have been initially allocated towards:

- Paying down direct debt within the Limited Partnership to reduce the interest cost;
- Purchasing a value enhancing asset adjacent to a property currently owned by the Partnership; and
- Increasing the working capital held by the Partnership above around 1% of NAV to provide greater flexibility and increase resilience.

Forest Portfolio

17,400 hectares

70 UK forests



Portfolio overview

As at 31 May 2023, the forest portfolio (including the wind farm leases) was internally valued at £346.2mn (2022: £330.0mn). The forestry value equates to 88.0% of the LP's net assets (2022: 86.3%).

The value of the forest portfolio (including wind farm leases) increased by 3.0% during the year on a like for like basis (i.e. excluding properties that were acquired during the year).

There were four forest acquisitions during the year at a total cost of £7.3mn, which was partially funded through a £5.2mn draw down of the LP's debt facility and the remainder from the LP's cash reserves. All of the acquisitions directly adjoin existing forests owned by the LP and are judged to provide synergistic value through land aggregation benefits.

Airies Forest is a productive mid-rotation property adjacent to the LP's Artfield which will add value through combining the two properties to form a larger complex. It includes a small area of mature crops to be harvested and provide timber income in the near future. This property is also being considered by a developer for the future extension of Artfield wind farm.

Fron Isaf is a small add-on area of land suitable for new planting adjoining the LP's Meidrim Forest in south Wales. This property contains good quality, fertile land which has already been partially planted during the year with improved planting stock in order to produce very high yield class conifers. The acquisition also provides alternative access options to Meidrim and resolves some boundary issues.

High Cuildrynoch is located on the west coast of Scotland and directly adjoins the LP's forest Low Cuildrynoch. The combination of these two forests will add value and provide economies of scale through combining the two properties to form a larger complex.

Additionally the freehold interest of the underlying land at Daill Forest (which has been occupied under a leasehold by the LP) was acquired from the freeholder, and consequently the lease of the crop to the LP has been terminated due to the acquisition of the freehold interest. The addition of the freehold land to the leasehold crop value is expected to deliver a synergistic gain compared to the value of the two assets when owned separately. The Manager is pleased to have converted one of the LP's leasehold interests into a freehold forest.

A summary of the properties added to the portfolio during the year is as follows:

Location	Weighted average age	Area (ha)
Airies Forest	16	131
Fron Isaf	N/A	9
High Cuildrynoch	33	232
Daill (freehold)	N/A	137
		509

Forestry portfolio characteristics

The forest portfolio consists of 17,400 hectares across 70 properties.

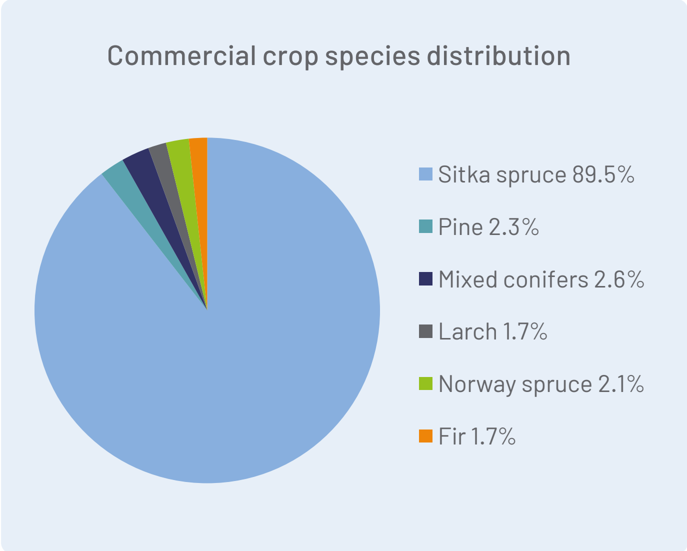
The portfolio continues to provide geographic diversification across Scotland, North England and Wales, and comprises a high yield class, large scale and well-located commercial forestry portfolio of significant scale.

The commercial crop area consists of 90% Sitka spruce (the UK's most productive species). The balance comprises alternative commercial conifer species and land which has recently been harvested and is due for restocking.

The total portfolio now includes 12,650 hectares of commercial crop area, of which 6,303 hectares are over 30 years of age (2022: 6,400 hectares), and some 2,139 hectares over 40 years (2022: 2,093 hectares).

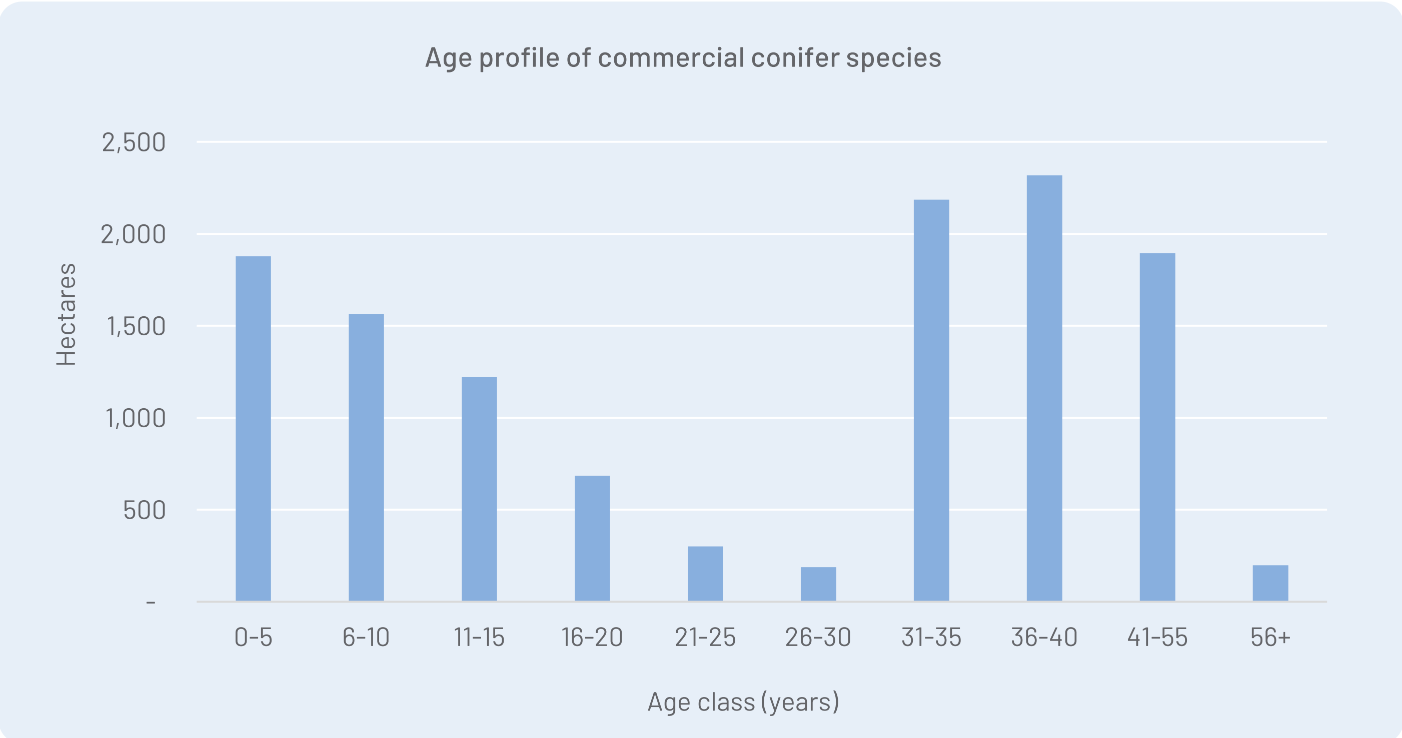
This mature crop provides the LP with significant flexibility to generate revenue from timber harvesting as required, with felled areas being replanted with stock from genetically improved sources.

The Manager continues to investigate the potential uses and environmental benefits of the unplanted areas owned by the LP, with a view to maximising the environmental and social benefits that this area provides. Current examples of these initiatives include peat bog restoration, and clearing of rides for public access. Additionally, forests also include native and mixed broadleaves which provide biodiversity as well as habitat for wildlife and natural ecosystems.

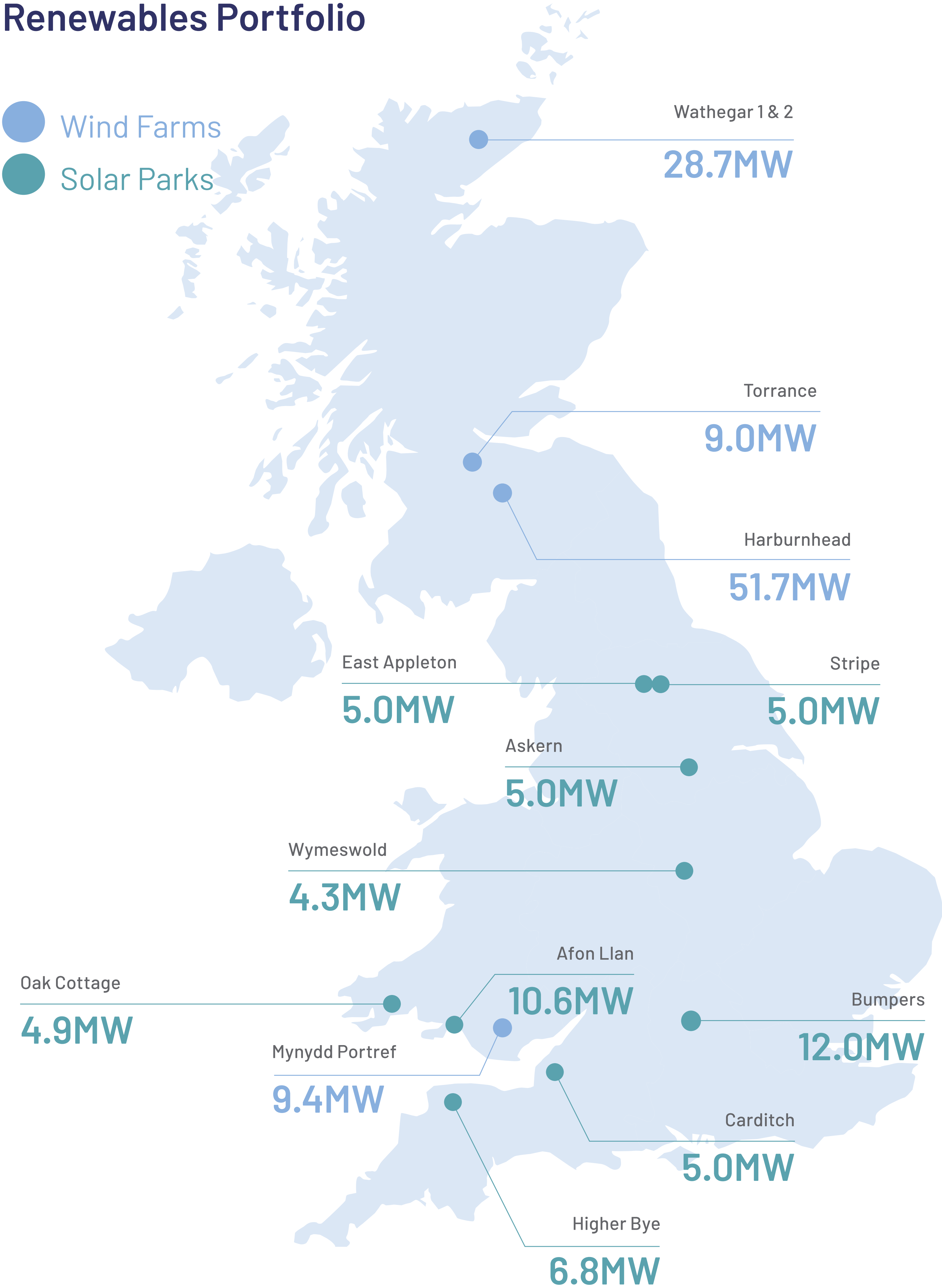


The weighted average age of the commercial crop remains at 25 years, distributed as per the bar chart below.

Across the UK there is a relatively low availability of conifer crops aged between 20 to 30 years due to limited planting occurring during the 1990's following changes to the tax treatment of planting costs from 1988. While the Manager remains ready to acquire such opportunities as and when these become available, the strategy to mitigate this shortfall is to ensure there are surplus crops at the next available age bracket to the area of low supply, so that harvesting of older crops can be spread across this period.



Renewables Portfolio



Wind farm leases

Value: £13.2mn (2022: £13.2mn)

The LP benefits from five wind farm leases.

Three operational wind farms on Craignane, Penmanshiel and Kirtleton South, and the wind farm in construction at Cowans Law, are budgeted to produce a combined annual rental income for the LP of £0.9mn next year.

Sneddon Law Community wind farm, a renewable energy development which is primary located on the LP's forest at Cowans Law, previously experienced delays in construction. The developer, Community Windpower, completed the work required to satisfy the planning conditions in the prior year. Infrastructure works commenced during Q4 2022 with Vestas turbines arriving on site from Q2 2023.

Turbine erection and full site takeover is planned for Q4 2023 at which point the harvesting programme, required to improve the wind flow to the site and as a part of the planning conditions, will commence. The Manager forecasts this will provide £3.4mn of timber compensation to the LP subject to final negotiations with the developer. A full case study on the development can be found on page 28.

Artfield Forest Wind Farm, located almost entirely on the LP's property of Artfield Forest, was granted consent for construction by the Energy Consents Unit on 10 February 2023. The developer, Statkraft, is in the final stages of financial planning with initial works expected to commence in the next 12 months. Once constructed, the LP will benefit from revenues derived from the energy generated by 10 x 6MW turbines. An extension to the project, incorporating the recently acquired Airies Forest, is currently being considered.

The LP's forest, Tangy, is subject to an ongoing lease and forms part of the planned repowering of Tangy wind farm. The developer is looking to commence civil works during 2024 with energisation of the repowered site planned for 2027. The Manager intends to agree an amendment to the current lease.

Renewable energy portfolio

As at 31 May 2023, investments in renewable energy generating assets totalled £50.5mn (2022: £47.0mn), 12.8% of the LP's net assets (2022: 12.3%).

Gresham House Wind Energy LP was internally valued as at 31 March 2023.

Gresham House Solar Distribution LLP and Gresham House Wind Energy 1 plc were independently valued by Jones Lang Lasalle as at 5 April 2023 and 31 May 2023 respectively.

These valuations have been incorporated into the LP's accounts based on the valuation recorded at their last year end.

The value of the holdings (excluding any additions during the year) in Gresham House Solar Distribution LLP, Gresham House Wind Energy LP and Gresham House Wind Energy 1 plc have increased (decreased) by -£0.3mn (-1.3%), £0.4mn (25.3%) and £1.8mn (8.0%) respectively during the financial year.

Wind farms

The LP has total wind farm investments valued at £26.4mn (2022: £24.2mn) in two wind farm holding entities, 6.7% of the LP's net assets.

Gresham House Wind Energy 1 plc
Interest 40.2%: Value £24.7mn
(2021/22: £22.8mn)

Gresham House Wind Energy 1 plc has an interest in four operating wind farms, detailed in Table 1 below.

Wind speeds across the UK during the financial year have been lower than anticipated. In addition, several technical issues resulted in turbines being offline for extended periods including a transformer failure at Wathegar resulting in T3 being offline from November 2022. It remains offline at the year end, with a likely return to service end August/early September 2023. Mynydd has also suffered several turbine faults.

The Manager will seek to recover lost income through a combination of claims under long-term maintenance contracts, manufacturer availability warranties and business interruption insurance.

Table 1 Gresham House Wind Energy 1 plc				
Site	Location	Turbines	Capacity	Turbine availability
Mynydd Portref	South Wales	11 x Gamesa 0.85MW	9.35MW	87.5%
Torrance	Central Scotland	3 x Siemens 3.00MW	9.00MW	98.2%
Wathegar	North Scotland	5 x Senvion 2.05MW	10.25MW	85.9%
Wathegar 2	North Scotland	9 x Senvion 2.05MW	18.45MW	95.8%

Gresham House Wind Energy LP
Interest 5.5%: Value £1.8mn
(2022: £1.4mn)

The LP has a 5.45% holding in Gresham House Wind Energy LP. Gresham House Wind Energy LP has a 50% interest in LDV Harburnhead Holdings Limited, which owns LDV Harburnhead Limited and operates the Harburnhead wind farm (see table 2).

Output for the underlying Harburnhead wind farm was below expectations during the year, hampered by low wind speeds, also T1 was offline for one month awaiting a busbar replacement and T8 offline for three weeks awaiting replacement blade bolts. The Manager will seek to recover lost income through a combination of claims under long-term maintenance contracts, manufacturer availability warranties and business interruption insurance.

Table 2 Gresham House Wind Energy LP				
Site	Location	Turbines	Capacity	Turbine availability
Harburnhead	East Scotland	22 x Enercon 2.35MW	51.7MW	96.9%

Solar Parks
Gresham House Solar Distribution LLP
Interest 38.1%: Value £24.1mn
(2022: £22.7mn)

The assets within the portfolio have good geographic spread and are performing well.

The underlying assets owned by Gresham House Solar Distribution LLP continue to exceed budgeted output due to high irradiance over the period.
Site specific events during the year to 31 May 2023:

- Askern – Module Warranty Claim – In December 2022, Anesco noted that many modules at Askern were starting to generate late. Following module testing on site, a module warranty claim was submitted to Trina (the module manufacturer) in February 2023. Trina has now accepted the warranty claim and will be providing new panels for the whole site, which will arrive in two batches in Q3 2023 and Q1 2024 and be installed by Anesco, a string at a time to minimise downtime, when they arrive.
- In January 2023, a limited module repowering exercise was carried out at East Appleton, removing 462 Trina 260w modules and replacing with 422 UKSOL 285w modules, to replace damaged modules and create spares for the portfolio.
- In December 2022, the LLP signed an Asset Purchase Agreement for the 28MW Harborough solar park located near Rugby, Warwickshire. Harborough will be the tenth asset in the portfolio and the largest to date with annual generation expected at over 26,000MWh, equivalent to almost half of the current portfolio output. Construction for the asset is underway and the site will be operational in early 2024.

All the solar parks, with the exception of Bumpers Farm and Afon Llan, benefit from Renewables Obligation Certificates (ROCs) for 20 years from their accreditation date and most have around five years' operational history. A summary of the solar parks held is shown in the table below.

All sites are fitted with top tier manufacturer solar panels and equipment with appropriate warranties and have long-term operation and maintenance agreements in place.

Site	Location	Capacity
Afon Llan	South Wales	10.61MW
Askern	North England	4.97MW
Bumpers Farm	South England	12.00MW
Carditch	South England	4.95MW
East Appleton	North England	4.98MW
Higher Bye	South England	6.79MW
Oak Cottage	South Wales	4.87MW
Stripe	North England	4.98MW
Wymesworld	Central England	4.28MW

In March 2023, the Manager submitted an offer on behalf of the LP to acquire 2,000 additional shares in Gresham House Solar Distribution LLP (SDLLP) which were being offered for sale from an existing investor through a tender process. Following a closing date for offers, the vendor partially accepted the LP's offer (with the balance being sold to a higher bidder) and subsequently 1,437 secondary shares in SDLLP were acquired cum-dividend in April 2023 for £1.66mn.

Market Review & Outlook – Forestry

Global timber market review

- Macroeconomic headwinds will continue to constrain European timber demand during 2023.
- Improving demand from China and the US may drive a recovery in global timber prices.
- Increasing European market share in the US and China will also likely improve resilience going forward.
- Gresham House expect that for the remainder of 2023 timber prices are likely to remain subdued, but that demand will recover in 2024.

There has been a change in the pricing methodology for US lumber futures, from a railcar of random length delivered to British Columbia, to a truckload of timber delivered to Chicago. The change has resulted in a wider range of participants and as a result is expected to reduce volatility. In June 2023 lumber futures increased by 13%, returning to a relatively strong level after declining during May 2023. The US housing market index continues its rising trend, with a 10% rise from May to June and a 77% rise since December 2022. Rising mortgage rates are seeing homeowners holding onto favourable rates and not moving and this has created a positive market for new home construction. With building permits also increasing, the outlook is positive and is seeing increasing timber demand. If prices continue to improve this will likely attract increasing imports from Europe.

China is the world's largest timber importer and a reduction in demand has impacted global timber prices. The World Bank found that China's GDP growth fell to 3% in 2022, from a 9% annual average spanning back to 1978. The Chinese economy is now opening up after abandoning their zero Covid policy. During the first half of 2023 lumber imports rose by 11.4%. With GDP growth forecast to return to around 5%, timber demand is expected to continue to recover. Following Russia's log export ban, log exports from Europe have increased, notably with Swedish exports increasing 66%. The anticipated improvement in demand is likely to have a positive impact on global timber prices.

European lumber demand declined during 2022 and the outlook is for demand to remain subdued. The European Central Bank raised interest rates to 4% in June and the forecast is for them to remain elevated into 2025. The rising costs of borrowing are reducing consumer confidence and construction activity. European sawmills are reducing production in line with demand, and in Germany log prices have fallen over 10% since Q1 2023.

Whilst Swedish lumber export prices increased slightly in May 2023, they reflect a flat trend after inflation is considered. The Swedish export price level for spruce lumber remains 38% below that of May 2022. Although, increasing market shares in the US and Chinese export markets provides a wider customer base and should improve the resilience of the European processors.

Global economic headwinds are causing higher inflation and a reduction in construction activity and consumer spending. This has a direct impact on timber consumption, but whilst the outlook remains challenging, the increasing popularity of timber as a sustainable building material will likely help reduce the impacts. Furthermore, increasing consumption from China and potentially the US, could drive a recovery in global timber prices.

UK timber market review

- UK standing timber prices fell in real terms during Q2 2023.
- Reductions in construction and consumer activity reduced timber demand.
- Demand for UK standing timber is expected to be low for the second half of 2023.

The Gresham House real standing timber price index graph shows that prices in South Scotland fell 7% in real terms in Q2 2023, after a 5% rise in Q1. In the other two regions, standing prices remain comfortably ahead of December 2022 levels, but also dropped in Wales (10%) and the west coast of Scotland (5%). The actual log prices were generally stable, but small reductions in small roundwood prices, coupled with high inflation, tempered the real standing index figures. Price levels were robust for much of the quarter, as sawmills remained optimistic that demand for end product could improve. However, the downward pressure at the very end of the quarter is expected to remain during the second half of 2023.

Whilst UK sawmills were not able to return to maximum production during Q2 2023, production was reasonable and typically around 90% of capacity. The volume of UK sawn timber imports remained relatively high during Q1 2023 and were 6% below Q1 2022. Swedish timber continues to dominate the UK market, representing 51% of the softwood imports during January to April 2023. With downward pressure from German markets and the potential for the Swedish price to soften, this could have a negative impact on UK prices in the second half of 2023.

UK timber demand is likely to fall over the coming months, as the seasonal demand for fencing and garden products slows. Many UK sawmills have been targeting these products due to poor demand and weak prices for carcassing timber. Carcassing timber demand is driven by the housing markets and so overall sawmill production is therefore likely to drop off during Q3/4.

The Builders Merchant Building Index shows that timber and joinery sales remained subdued, with May 2023 18% below that in May 2022. As the average 2 year fixed rate British mortgage rate hit a 15 year high of 6.66% in July, UK homebuilders are reporting a drop in demand for new homes. Barratt Developments reported demand had dropped by almost a third, with a 49% fall in first time buyers. The Construction Products Association have forecasted construction in 2023 to be 7% down from 2022, with private housing output dropping 19%. The longer term outlook is more positive, with modest increases expected in 2024 and 2025.

Gresham House concluded another strong quarter for standing timber sales, with 744k tonnes agreed in the first half of 2023. Nominal prices remained stable during the quarter, so with a challenging outlook for the second half of the year, we looked to secure client income whilst prices held. A significant spot sale of standing timber from Forest and Land Scotland in July has now created an oversupply of standing timber and we have seen significant downward pressure on sawlog prices. It is likely that log prices will remain low for the remainder of the year as the sawmills slow down production in line with end product demand. Although, the resulting reduction in coproducts and standing timber sales, may once again create strong demand for small roundwood. The government is likely to announce support for first time buyers and a recovery in new housing activity could stimulate timber demand in the new year.

Factoring in the increasing proportion of timber used in construction as a result of the drive to net zero, Gresham House considers that demand will recover in early 2024.

Long-term global supply and demand

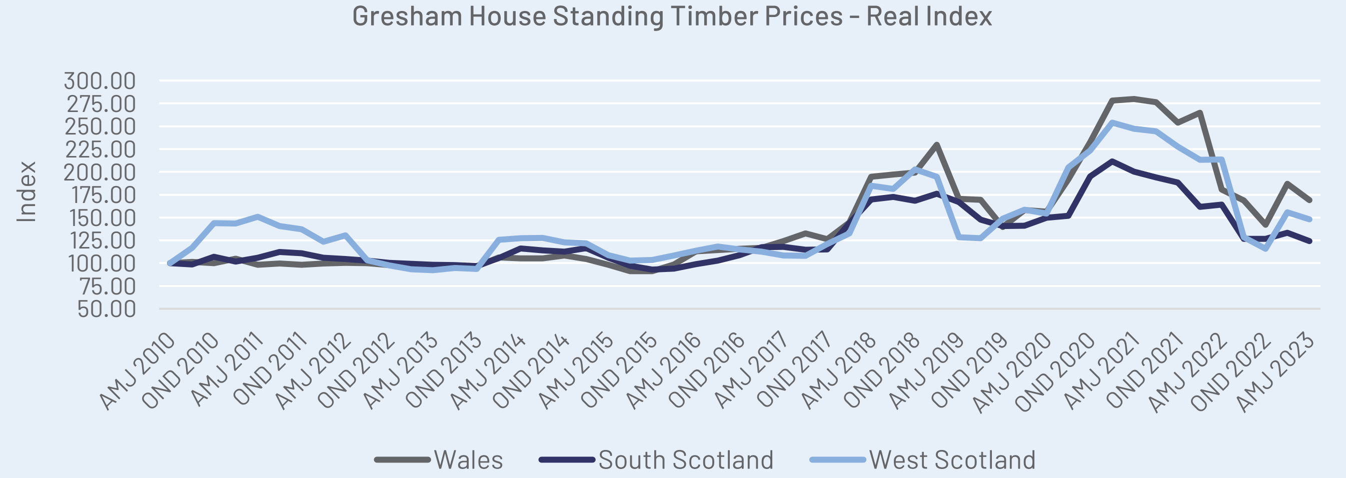
Long-term outlook remains positive

Despite the recent events of the pandemic and Ukrainian conflict, Gresham House still expects global timber consumption to rise by 3.1% per annum over the next 30 years. This will continue to be driven by urbanisation, decarbonisation and increased housebuilding. The World Bank predict global timber consumption to quadruple over the same period, driven by economic and population growth.

Globally, most countries have set significant targets to reduce carbon emissions towards net-zero by 2050. Timber will play a critical part in this transformation. The dual effects of urbanisation and decarbonisation will lead to more new homes and cleaner low carbon intensity buildings being built from timber. Wood will increasingly replace high carbon intensive steel and concrete.

Rising demand for timber is set against a constrained supply due to the long rotation length of the trees and competition for land use. This supply demand imbalance will result in increased timber prices over the medium to long-term. Commercial forestry remains an excellent diversifying investment, uncorrelated to other asset classes, offering inflation protection. It is underpinned by income from timber sales and the biological growth of the trees.

For further information please see our Global Timber Outlook.



Source - Gresham House data. The index is based on the standing prices calculated from the highest end product prices evidenced in Gresham House timber sales during the quarter. The standing prices assume consistent working/haulage costs and crop quality to show a transparent view of the effect of the market movements.

Market Review & Outlook – Renewable Energy

The cost of energy has become a widely debated subject over the last 12–18 months, since electricity costs started increasing at the start of 2022. Whilst they have fallen from their peaks in 2022, they remain elevated compared to historical levels.

The following are factors that have been driving prices in the UK energy market:

Changing mix of energy generation

Over the past decade, the UK has dramatically transformed its sources of electricity supply. In 2008, when the Climate Change Act came into law, around 80% of electricity came from fossil fuels. By 2022 the largest share of electricity came from low-carbon sources. This is set to continue with large increases in all forms of renewables being targeted.

Shift from coal to gas

Coal production in the UK has been declining since the 1960s and all coal fired power stations have either closed or are due to close by 2024. Today, around 40% of electricity is generated by gas-fired plants and 22 million households rely on gas for heating. In terms of supply, the volume of gas we extract from the North Sea reserves is falling. This leaves the UK more exposed to international gas prices, especially at this time given the Russian gas crisis.

Increase in renewable generation capacity

Renewable technologies today account for a larger share of the total electricity generated. The biggest growth area has been offshore wind, but all forms are expected to grow significantly to meet climate change targets. The biggest growth area has been Offshore wind at 12GW of capacity in 2022 with the aim to grow this significantly by 2030, and close to doubling onshore wind and solar generation on the same timescales.

Role of low-carbon nuclear

Nuclear plays a key role in the UK's low-carbon generation mix. Unlike intermittent renewable energy, it provides continuous, predictable base load energy. However, the UK's nuclear fleet is ageing. All but one of the UK's current reactors are due to be decommissioned by 2030 and the new plant at Hinkley Point C (HPC) is not due to come online until 2027. The long term agreed strike price for HPC is well over £100/MWh and inflation linked for 35 years, so is set to be an expensive source of supply.

Energy storage

Energy storage is a growing sector which currently (at the end of 2022) made up 0.9% of the UK's energy mix and is essential if the UK wants to reduce its reliance on fossil fuels. Currently there is 2.0GW of battery storage installed in the UK which is forecast to grow to 14.1GW1 by 2030.

Security of supply

Historically, the UK has been relatively self-sufficient when it comes to energy, but as coal is phased out and North Sea oil and gas reserves reduce, the UK has had to import more gas. Given the current geo-political concerns, security of supply is something the UK Government wants to ensure, hence its desire to see more renewable generation and to wean the country off fossil fuel imports.

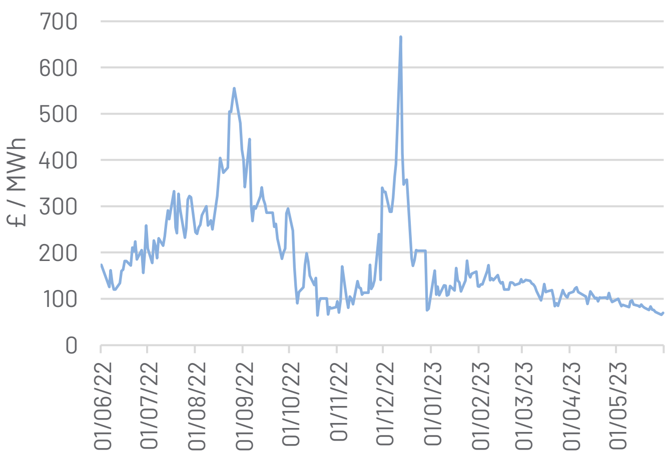
Growing supply from interconnectors

The UK also imports (or exports) electricity directly from (or to) neighbouring countries via undersea interconnectors, depending on respective power prices at home and abroad. This supply is forecast to increase over the next few years to meet growing demand and to make the whole European electricity system more robust.

Even though the UK now has a broad mix of energy sources to draw on, gas is still the dominant fuel and therefore tends to set the price for electricity. The European Union has a similar, if not greater, reliance on gas and globally there is growing demand for gas. It is this dominance that results in the value of gas influencing the price of electricity. The government is looking at how energy markets can be reformed in the future, (Review of Electricity Market Arrangements (REMA)) but this is in early stages and it is likely to take many years before any changes are implemented.

The last 12 months have seen unprecedented high electricity prices in the UK (and elsewhere), driven by low gas storage levels and high gas prices, high carbon prices, lower than normal renewables generation due to low wind speeds and the conflict and uncertainty created by Russia's invasion of Ukraine, and its impact on Europe's gas supply. Electricity prices over the last 12 months have risen from their long-term historic levels of £40-£50/MWh, and whilst there have been some periods with sharp spikes over £600/MWh, prices in the last few months have fallen to around £100/MWh as set out in the graph below.

Mitie Day Ahead Power Prices
1 June 2022 to 31 May 2023



Source: Mitie Day Ahead Prices

Looking forward, the Manager believes the following factors support electricity prices at current or even higher levels:

- Restricted gas supplies. Even though gas-fired generation is responsible for approximately 40% of the UK's electricity, gas remains the most dominant fuel. This is due to its widespread domestic use, heating the majority of UK homes, as well as businesses. As well as supply from the North Sea, demand is met by liquefied natural gas (LNG) shipments. In the past, the UK could have met increasing winter demand by increasing output from the UK's own domestic supplies in the North Sea, but reserves are dwindling, so this is no longer possible;
- Gas storage. When the Rough Storage facility (a depleted gas field in the North Sea) was closed in 2017 because it required too much investment to keep it operational, the UK lost 70% of its gas storage capacity. In October 2022, Centrica who own the Rough Storage facility announced it was re-opening following significant engineering upgrades over the summer.
- Carbon prices. Carbon prices are likely to remain high due to the high demand as climate change commitments ramp up across Europe;
- Unseasonal weather patterns will continue to have an influence on the supply/demand balance; and
- Geopolitical tensions with Russia, the Middle East, and China all add upwards pressure to gas prices.

Over the long term, the Manager believes that the continued increase in electrification in everything from transport to heating may still be underestimated in long-term power price forecasts, which along with other positive fundamentals, should help maintain high power prices longer term, although shorter term prices may drift lower.

Many of Gresham House Sustainable Timber & Energy LP's underlying renewable assets, are underpinned by subsidies (Renewable Obligation Certificates (ROCs)), so whilst projects are impacted by volatile power prices, revenue is supported by inflation backed subsidies, providing substantial downside protection in these uncertain times.

Carbon Sequestration Report

The total estimated carbon already stored in the LP's forestry portfolio to 31 May 2023 is c.4,550,000 tonnes. The total annual sequestration of carbon dioxide by the forestry portfolio is projected to be approximately 202,000 tonnes for the year ending 31 May 2024, a 4.5% increase from the previous year partly due to additional forest acquisitions.

The data on the following page shows the estimated carbon capture calculations from the LP's forestry portfolio.

The total carbon sequestered by the forestry portfolio per Partnership Share to 31 May 2023 is estimated to be 532kg (0.53 tonnes). Over the coming year, to 31 May 2024, each Partnership Share is expected to sequester 24kg (0.02 tonnes) of carbon.

Additionally, the LP's share of energy output from the renewable energy investments was c.75,200MWh during the year ended 31 May 2023, resulting in approximately 10,300 tonnes of carbon being offset through emissions prevention from polluting energy sources.

The total carbon offset to date by the LP's wind farms and solar parks is estimated to be 134,000 tonnes.

For comparison, the total carbon emissions sequestered or offset by the LP during the year is equivalent to the carbon emissions released from approximately 1.1 billion car miles.

Generation of carbon credits

A small area of c.10 hectares of previously unplanted land at the LP's forest Loch Crongart was identified as being suitable for afforestation and was planted under a grant-funded application and subsequently registered with Markit, the registry for the Woodland Carbon Code. At present, the validation process is ongoing. Over the coming years, the Manager expects the LP to generate verified carbon credits from this scheme, which should carry financial value.

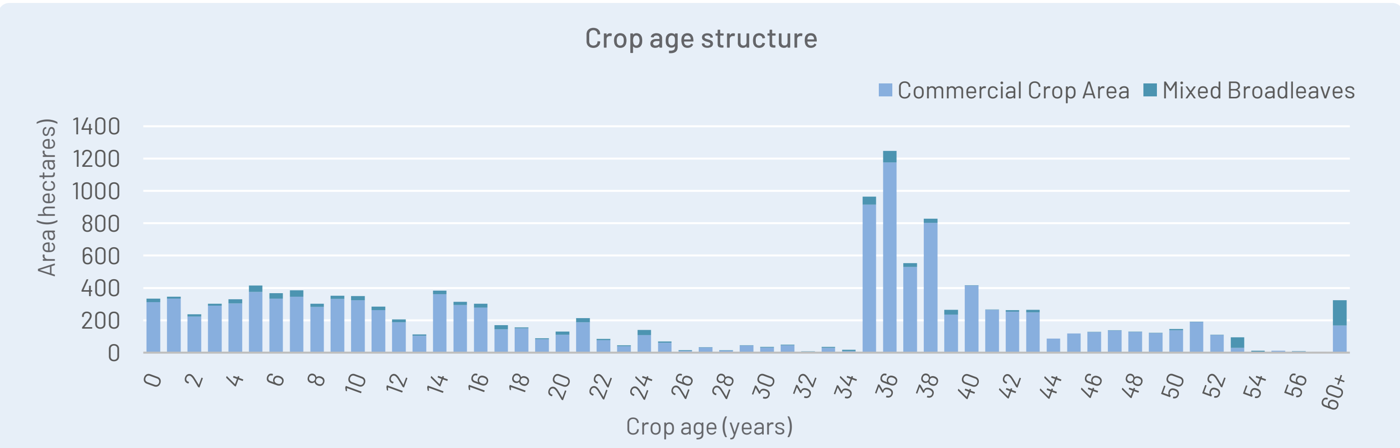
Two other new planting schemes of larger scale, Letrault and Stuckenduff and Mains of Collithie, are also planned to be submitted for carbon credit registration in due course.

Results from carbon captured analysis of the Gresham House Sustainable Timber & Energy portfolio:

Current carbon calculations:	
Total carbon captured (tCO_2) =	4,553,965
Total carbon captured per year (tCO_2) =	201,724
Total Portfolio shares =	8,563,495
Portfolio Contents at 31/05/2023:	**Hectares:**
Sitka spruce	11,050
Norway spruce	264
Japanese larch	107
Hybrid larch	96
European larch	6
Scots pine	139
Lodgepole pine	149
Douglas fir	185
Mixed conifer	322
Grand fir	6
Noble fir	20
Western red cedar	2
Commercial conifers	**12,346**
Mixed broadleaves	1,014
Integral open ground	2,762
Restock sites	307
Unplantable land	959
Water	12
Total	**17,400**

Relative carbon results:	
Carbon captured per share (tCO_2) =	0.5318
Carbon captured per share per year (tCO_2) =	0.0236
Total tonnes sequestered per CCA (incl. MB) ha =	341
Tonnes per year sequestered per CCA (incl. MB) ha =	15

Comparables:	
Car miles this year	1,111,216,618
Four-bedroom detached new builds	85,924



Environmental, Social and Governance – Case Study

Cowans Law

Cowans Law forest forms part of the wider Whitelee Forest Complex located c.15 miles southwest of Glasgow. The forest was purchased by FIM Timber Growth Fund II in 2004. Subsequently, the asset formed part of an in specie transfer on formation of the Partnership in 2010.

Forestry

The forest was primarily planted during the early 1970s comprising mainly Sitka Spruce due to the wet ground conditions and variable soils. Harvesting of the most vigorous and highest yield class trees took place between 2006 and 2013. Each coupe was subsequently restocked with improved crop which has performed well to date.

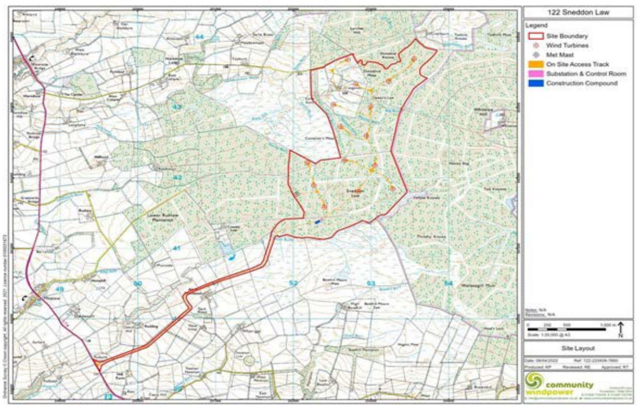
Wind Farm

Initial discussions to locate a renewable energy development on Cowans Law Forest commenced in the late 2000s, around the same time that the adjacent Whitelee wind farm was commissioned and started generating power. Subsequently, Sneddon Law Community Wind Farm was approved for construction by East Ayrshire Council in October 2014. The development consists of 15 wind turbines, each with a tip height of 130 metres resulting in a total installed capacity of 30MW.

Unfortunately, the project suffered several delays to the construction with the council ultimately issuing a "Stop Notice" to halt further works. In order to satisfy the conditions imposed by the council, the developer was required to install mains water supplies for nearby properties at great expense. After this action was taken, site works were able to recommence.

The wind farm development will provide a range of benefits to a variety of stakeholders:

- Supporting Local Business – At all points during development but particularly during the construction phase, wherever reasonably practicable, local contractors have been engaged. RJ McLeod was awarded the main contract to undertake civil engineering works.
- Carbon Offsetting – Renewable energy generation through wind farms offsets the need to produce power from traditional, non-renewable sources such as coal and gas. Sneddon Law Community wind farm is estimated to offset around 50,800 tonnes of carbon dioxide per year, playing an important role in the UK's goal towards net zero emissions and generating enough electricity to power 29,600 homes.
- Securing Energy Supply – With the war in Ukraine leading to sharp increases in the demand and price of oil and gas, governments throughout Europe are looking to reduce their reliance on these commodities and expedite plans to become more self-sufficient. Scotland's newly launched National Planning Framework 4 is a spatial strategy which positively affirms the need for more renewable energy to take advantage of the UK's windy, maritime climate.
- Secure and Increasing Income – the Low Carbon Contracts Company, a business wholly owned by the Secrecy of State for the Department of Energy, has confirmed that the subsidy secured by the developer to underpin this project has been put on hold until energy is generated.
- This is due to the previous delays being considered force majeure events. At present, the strike price for the Contract for Difference is around £92/MWh meaning that Limited Partners will benefit from an uplift in rental income from around £150,000 per annum to £200,000 per annum once operational. A further increase is expected to be realised in 2027 due to the lease agreement containing staged increases in rental terms.
- Community Benefits – Local community residents will benefit from a Community Benefit Fund which receives an annual contribution of at least £2,750 per MW of installed capacity. The funds from this scheme will be awarded to projects that:
  - Enhance the quality of life for local residents;
  - Contribute to vibrant, healthy, successful and sustainable communities; and
  - Promote community spirit and encourage community activities.
- Additional Opportunities – The developer is considering an application for a Battery Storage facility on Cowans Law. Co-location is encouraged to help provide energy during periods of higher demand when the wind is not blowing.



Sneddon Law Community Wind Farm is now under construction, with the main infrastructure work complete and turbine installation due to be completed in 2023. A timeline of the work is shown below:

Under the terms of the Limited Partnership agreement, Limited Partners who were members of FIM Timber Growth Fund II are entitled to receive additional Founder Partnership shares once Sneddons Law Community Wind Farm is operational. The estimate value of the renewable energy lease is £2.7mn. Once operational, the Manager will issue around 16,000 additional shares which represents a small dilution of 0.19%.

	2022				2023				2024			
Activity	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Forestry Infrastructure Harvesting												
Civil Engineering Works												
Turbine Installation												
Turbine Commissioning												
Forestry Harvesting to Improve Wind flow												

Business Strategy

Investment objectives

The investment objectives of the LP are to invest in sustainable UK commercial forestry and up to 20% of the NAV in renewable energy generating assets, to achieve a balance between income and capital growth, with gearing to be restricted to a maximum of 20% of net assets. As noted previously, the LP is currently 88.0% allocated to forestry and 12.8% to renewables, with the negative balance being net working capital. The Manager will consider rebalancing the portfolio with additional renewable energy assets should suitable opportunities arise but does not intend to dispose of forestry assets to finance the rebalancing.

Portfolio management

The Manager continues to implement the strategy of limiting harvesting and managing expenditure on the forest estate whilst maintaining an operating surplus. The surplus, combined with cash receipts from renewable energy investments and rental income from wind farm leases, is planned to deliver sufficient net profit to meet the target distributions to Limited Partners.

With a positive medium to long-term outlook for timber prices, harvesting of the LP's timber resource will continue to be minimised, subject to operational requirements. The Manager will continue to actively manage the portfolio in order to add value as appropriate.

The Manager will consider using gearing where it is appropriate to take advantage of any potential investment opportunities that meet the LP's investment criteria and would add value to the LP.

The Manager considers that renewable energy assets continue to add flexibility and diversification to the LP's income streams and will seek appropriate opportunities to invest, up to the maximum of 20% allowed under the LP's investment objectives.

Distributions

The General Partner aims to authorise annual distributions based on £0.52 per Partnership Share from May 2017, adjusted by the annual CPIH plus 1%, on all Partnership Shares. The policy is designed so that Limited Partners will receive a real annual increase in their distribution payment.

In May 2024, this is estimated to be £0.69 per Partnership Share based on an assumed CPIH rate of 3.4% plus 1%. The assumed CPIH rate is based on the published Bank of England forecasts and is therefore subject to change. There is no guarantee that distributions will be made in full. The level of distribution will depend on the trading performance during the period and the financial position of the LP.

A significant proportion (approximately 70%) of the budgeted 2023/24 distribution payable to Limited Partners is expected to be generated by the income received from the renewable energy interests and rental income, allowing the Manager to tactically manage timber harvesting. As current short-term power prices are at record highs, the Manager has acted to lock in some of those prices, ahead of budget, such that future distributions and dividends from the renewable assets have increased security.

It should be noted that due to the increased proportion of renewables income the taxable proportion of the distribution has risen in recent years, and the Manager expects this proportion to continue to rise in subsequent years. The Manager is cognisant that this will impact many Limited Partners by generating a higher tax burden, however the Manager currently believes that this is justified by the benefits that the renewables income provides to the LP. This has enabled the General Partner to authorise all the LP's distributions in full in recent years, unlike other discretionary forestry funds which have seen reductions of 25%- 50% in recent years due to timber price volatility. The Manager will continue to consider this issue but currently does not plan to change the distribution policy.

LP duration

The First Termination Date is 31 May 2028. There is a right for Limited Partners to vote to extend this by one five year period, subject to 75% by value of those voting being in favour of continuing the LP at the AGM, following the year ended 31 May 2027.

The Final Termination Date is 31 May 2033, when it is currently planned that the LP will be wound up. The Manager will consider options to allow Limited Partners to maintain their IHT relief post the eventual Termination Date.

Forest certification

The Manager aims that all of the LP's forests will be certified to Forest Stewardship Council (FSC) standards. Currently 65 of the 70 forests are certified. The uncertified forests are either recent acquisitions or new planting schemes and the Manager intends for these to become FSC certified as soon as is practical.

Certification schemes provide a way of defining sustainable forest management, as well as third party independent verification that timber source meets the definition of sustainability. These schemes include a mechanism for tracing products from the certified source forest to end use, providing evidence that it is both legal and sustainable.

All timber harvested, together with the restocking and management of the forests thereafter will continue to be in accordance with the UK Woodland Assurance Standard (UKWAS) to ensure FSC certification of these forests.

Pest and disease

Pest and disease tend to have their greatest impact on slow growing or less vigorous trees. The Manager mitigates the risk in the following ways:

- By avoiding growing spruce on sites where it will be drought stressed, and by focussing on Sitka spruce which are grown on relatively short rotations of 35-40 years as compared to other species, such as larch of 50-60 years and pine of 75+ years. The shorter rotation length provides an element of in-built protection;
- Diversification within a portfolio, both in geographic locations and variable age classes in the crop help to minimise risk as disease tends to impact trees in specific locations and affect specific ages; and
- There is an industry wide active programme of genetically improving Sitka spruce. Such plants are now used routinely in the LP's restocking and new woodland creation. This makes it feasible to breed in resistance to disease, should one appear, which would have an economic impact on the productivity of Sitka spruce.

Administration

Ongoing Charges Figure

The Ongoing Charges Figure (OCF) for the year ended 31 May 2023 was 0.50% (2022: 0.52%). The management fee payable to the Manager was rebased to be 0.50% of the independently valued NAV as at 31 May 2021 and adjusts annually by CPI +1% until the next independent valuation in May 2024.

The OCF includes all recurring expenditure incurred by the LP, including management charges, recurring fees arising from renewable energy leases, legal and professional fees arising at the LP level, General Partner fees and other recurring overheads (audit, depositary services etc.). This is calculated as a percentage of the average of the opening and closing NAV of the LP.

The OCF excludes any non-recurring expenditure including promotion fees due to the Manager in relation to fund raising, transaction fees due on the acquisition and disposal of investments and one-off fees to the Manager arising from renewable energy options and leases.

Advisory Committee

The Advisory Committee is made up of four members who are either Limited Partners or representatives of Limited Partners of the LP.

There were no matters which required the Manager to consult with the Advisory Committee during the year.

Under the terms of the Limited Partnership Agreement, the Manager is not able to continue with a course of action should the Advisory Committee not waive any potential conflict of interest associated with it.

Liquidity

During the year 110,485 Partnership Shares were sold. This represented 1.3% of the total shares in issue at the year end.

The average purchase price was £42.80 per Partnership Share, a 0.6% discount to the opening diluted NAV of £43.05.

Issuance of new Partnership Shares in the LP

There was no change in the number of Partnership Shares during the year.

In accordance with clause 8 of the Limited Partnership Agreement, Limited Partners who were members of a trust that contributed a property to the LP at formation, and still hold "Founder" Partnership Shares as at the date a wind farm lease commences at that property, shall receive Partnership Shares in the LP equivalent to 40% of the net present value of the total estimated cash flows from this lease applying a discount rate of 10%.

The total value of such Partnership Shares will be allocated amongst the Limited Partners in the proportions they previously owned the wind farm property as members of the trust. The Manager will calculate the number of Partnership Shares to be allocated as at the date the lease commences or at the date the wind farm becomes operational (whichever is the later).

Limited Partners who were members of FIM Timber Growth Fund II, which contributed Cowans Law to the LP, shall receive Partnership Shares once the wind farm is fully operational, which is now expected to be in late 2023. The estimated number of shares to be issued is c.16,000, a dilution of c.0.2% (or £0.09p per partnership share).

Valuations

The LP's forestry portfolio (including wind farm leases) was internally valued by the Manager as at 31 May 2023 on a market value basis in accordance with the Royal Institution of Chartered Surveyors - Global Valuation Standards.

Market value is defined as:

"The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

Gresham House Wind Energy LP was valued internally by the Manager as at 31 March 2023.

Gresham House Solar Distribution LLP and Gresham House Wind Energy 1 plc were externally valued by Jones Lang Lasalle as at 5 April 2023 and 31 May 2023 respectively.

The LP's whole portfolio is subject to an external valuation every three years. The next external valuation is planned to be carried out on 31 May 2024. In the intervening period, the Manager provides an internal valuation as at 31 May.

Carried interest

Carried interest represents a performance fee due to the Special Limited Partner which is calculated at £13.0mn as at 31 May 2023 (2022: £13.7mn). This is calculated as 15% of returns generated in excess of the LP's target IRR of 7%. In accordance with the applicable accounting standards, this is not included on the Balance Sheet as a long-term liability. This is because no decision has been taken to confirm the timing of this payment and/or terminate the LP upon which point the carried interest would crystallise. To ensure Limited Partners are aware of the unpaid liability, the Manager reports a diluted NAV in order to ensure that Limited Partners are not provided with an inflated position of the LP value attributable to Limited Partners, which is calculated without deduction of the carried interest.

Report and financial statements

The results from the LP's investments in Gresham House Solar Distribution LLP, Gresham House Wind Energy 1 plc and Gresham House Wind Energy LP are not consolidated as the LP does not have management control over these entities.

Taxation and National Insurance Contributions (NICs)

The Manager issued Taxable Income Statements for the Tax Year 2022/23 to Limited Partners on 13 July 2023 providing details to be included on Limited Partners' tax returns for 2022/23.

The Taxable Income Statements are predominantly based on taxable income arising in the year ended 31 May 2022. Taxable income arose on the forest portfolio from rental income derived from the wind farm leases and sporting rents. The LP also received a small amount of taxable interest. However, the increase in solar and wind-farm income created an increase in taxable profits which was also reflected in these Taxable Income Statements.

Annual General Meeting

The Manager will hold an AGM during October 2023 and a Notice confirming the details will be circulated to Limited Partners no later than 25 business days prior to the AGM.

Alternative Investment Funds Managers Directive

The LP is classified as an Alternative Investment Fund (AIF) under AIFMD.

The main implication of this classification is that the LP has appointed IQ-EQ Depositary Company (UK) Limited (IQ-EQ) as it's provider of depositary services. IQ-EQ provides independent governance, oversight and cash monitoring services to the LP as required by AIFMD.

The Manager is authorised and regulated by the Financial Conduct Authority and has appropriate authorisations in place to operate the LP.

Potential Change of Control of the Manager

Gresham House plc announced on the 17 July 2023 that the Board was recommending a cash offer from Searchlight Capital Partners. Following approval of the Scheme of Arrangement at the shareholder meetings held on 30 August 2023, the next stage of this process will be focused on securing the relevant regulatory approvals and completion is expected at the end of this year, or early in 2024. When the takeover process has completed, Gresham House plc will apply to cancel the admission of its shares to trading on AIM.

Please be assured that this will have no impact on the day-to-day operations of Gresham House but we disclose this to keep Limited Partners updated on the status of the transaction.

Gresham House website access

Limited Partners are able to obtain details of their holdings in the LP including a valuation via a secure section of Gresham House's website.

https://secureclientportal.greshamhouse.com

Client satisfaction

The Manager is committed to ensuring the needs and expectations of clients are met at all times and would therefore welcome any suggestions to improve our service delivery.

E.C. Latter

Signed by Edward Latter

Investment Director and Fund Manager

On behalf of Gresham House Asset Management Limited, Manager

31 August 2023

Sustainable Investment Policy – Forestry

Meeting our Sustainable Investment commitments within our Forestry strategy

Gresham House has a clear commitment to sustainable investment as an integral part of its business mission. The purpose of this document is to set out the manner in which the commitments we have made at a group level to integrate ESG considerations throughout our business will be implemented within our Forestry investment strategy.

- We are committed to adhering to and improving on best practice forestry standards. Our commitments to sustainable forest management and sustainable investment practices are laid out in the **Gresham House Forest Charter ("the Charter")**.
  - The Charter defines the way we manage forests in relation to key forest ecosystem services and explicitly includes commitments relating to climate change, biodiversity, forest protection and forest products and services. It also outlines how[1] we interact with local communities and treat employees and suppliers.
  - We will not invest in activities deemed at odds with the commitments laid out in the Charter and apply the IFC exclusion list[1] to all our investments.
- We take steps to consult and understand the views, concerns and ambitions of our stakeholders in seeking sustainable outcomes from the investments we are involved in.
  - We recognise that as stewards of the countryside we have responsibilities in being a good neighbour in conservation matters, landscape visual amenity, and provision of recreational access where safe to do so, while avoiding negative impacts on local communities wherever possible.
  - We undertake good practice public consultation where new plantations involve change of land use and keep local communities informed of felling plans and other significant operational activities.
  - We engage industry stakeholders such as regulators, policy makers and industry associations to promote outcomes we believe to be in the interest of sustainable forestry and for our clients.
  - Our Forestry investment strategies align with national and international goals to increase tree cover as part of a climate change strategy and the promotion of timber as low-embodied-carbon material for building construction.
- We integrate Environmental, Governance, Social and Economic benefit considerations into our selection, evaluation, governance and management processes across the lifecycle of each investment.
  - Our investments are very long term and through our management approach we proactively set out to improve the value and lifespan of assets through sustainable forestry management.
  - All discretionary managed assets will align to commitments made in the Charter. This includes a commitment to certify all forests under management.
  - Our UK assets work to the UK Forestry Standard and are certified to the UK Woodland Assurance Standard (UKWAS) and international Forestry Stewardship Council (FSC) accreditation.
  - Our international assets are managed to relevant local standards and/or international standards including the FSC and the Programme for the Endorsement of Forest Certification (PEFC).
  - These standards provide a set of principles that we adhere to in our planning, management, felling and restocking cycles as well as the wider way in which we run our forest enterprises. Prior to investment, an analysis of how robustly an asset can meet these standards forms part of our Investment Committee decision making alongside other due diligence reports.
  - Management plans are drawn up for each asset, setting out clear management objectives spanning both commercial and ESG outcomes and how the asset will be managed to meet these within its given prevailing conditions. Performance measurements are integrated into the plans, which are subsequently reviewed on an annual basis.
- We drive rigour and consistency by applying our Sustainable Investment Framework and system, including clearly defined processes and expert tools and methods.
  - We have a clear understanding of the sensitivities, issues and opportunities to be managed across our forestry portfolio and have a framework (see next page) and processes in place to profile and prioritise these at the stages of the investment lifecycle where they are most relevant.
  - We screen all assets prior to acquisition using our proprietary ESG Decision Tool to ensure ESG considerations – both risks and opportunities – are fully assessed prior to investment. Where we decide to proceed with the investment, material ESG factors identified will be addressed as part of the management plan.

1. The International Finance Corporation Exclusion list defines the types of projects that IFC does not finance. ifc.org/exclusionlist

- We ensure our team understands the imperative for effective ESG management and is empowered and equipped to carry this out through management support and training.
  - Our team has significant specialist expertise, including professional qualifications from the Institute of Chartered Foresters (ICF), spanning both sustainable forestry practices and sustainable investment. We undertake regular relevant Continuing Professional Development (CPD) to keep our knowledge and outlook up to date and will continue to invest in developing our expertise and good practice in sustainable forestry asset management.
  - We retain long standing, trusted sub-contracted forest managers who are chosen for their expertise and commitment to meeting sustainable forestry standards, the objectives within our management plans and the imperative to maintain our assets, good neighbour relations and ultimately our long-term investment value.
- We conduct regular monitoring of ESG risks, opportunities and performance in our investments and over time will prepare comparative data analysis for reporting to our investors.
  - Our certified sites are independently assessed by FSC appointed auditors and in addition we conduct our own in-house auditing against agreed standards and management objectives.
  - We will actively monitor and assess key data related to sustainable forestry management, including the key metrics identified in the Charter, as an integral part of asset management plans and portfolio management, as well as the wider sustainability performance of the assets in our management, including any unavoidable local impact such as vehicle movements.
  - We aim to make an assessment of our wider positive impact in order to review our contribution to sustainable development, particularly meeting the challenge of climate change and relevant Sustainable Development Goals. Calculating the carbon sequestration of our individual assets and whole portfolio will form the core of this.
  - We will reassess our ESG risk, opportunity and performance profiling periodically and will report this to the Gresham House Sustainability Executive Committee for analysis and action as necessary.
  - Regular auditing will be carried out by the Sustainable Investment Team to ensure ESG processes applied by investment teams meet those laid out in this document and remain appropriate.
- We conduct our business activities in line with the UN-supported Principles for Responsible Investment, including an annual report of our progress towards implementation.
  - As signatories to the PRI we will complete comprehensive annual reporting within its required framework and use this to guide our own internal assessment of our performance and drive our results upwards.
  - We will continue to provide and promote sustainable forestry investments as a sound and accessible sustainable investment option to a wide range of investors.

UN Sustainable Development Goals (SDG)

Gresham House supports the UN Sustainable Development Goals.

Taking the wider portfolio into account, we believe our Forestry strategy contributes to the following UN Sustainable Development Goals:

Group Management commitment

Our senior management team, including the Board and the Group Management Committee, are committed to the implementation of this policy and to making appropriate resources and support available to our team to do so. We will conduct a regular review of our approach and how well we are meeting our commitments and will update this policy accordingly.

Sustainable Investment Framework application

Our thematic sustainable investment framework is used to structure analysis, monitoring and reporting of sustainability issues and opportunities within the lifecycle of Forestry investments. We have made reference to forestry standards to identify within the framework where we believe we should be directing our focus towards sustainable outcomes and monitoring:

Environmental

Climate change and pollution	Natural capital	Waste management
Optimisation of carbon sequestration and stores; reduction in operational emissions; climate transition opportunities; pesticide minimisation	Optimisation of woodland biodiversity; protection of priority habitats and species; considered pest, disease, soil and water management approach	Sustainable management of waste arising from forestry operations

Social

Employment, health, safety and well-being	Marketplace responsibility	Supply chain sustainability	Community care and engagement
Workers' rights protected; commitment to discrimination free, safe and fairly-paid employment and employee training	Certification of forests in line with sustainable forestry standards; production of certified timber; transparent and robust carbon credit generation	Alignment of suppliers to our own sustainability commitments; alignment of woodland managers to certification standards	Good practice community relations and engagement; respect of local community rights; public access, education and recreation

Governance

Governance and ethics	Risk and compliance	Commitment to sustainability
Good forestry management practices; clear policies and accountability; ethical business conduct	Robust risk, compliance and auditing processes	Measurement and monitoring of key sustainability metrics; proactive management of potential negative ESG impacts

Sustainable Investment Policy - New Energy

Meeting our Sustainable Investment commitments within our New Energy strategy

Gresham House has a clear commitment to sustainable investment as an integral part of its business mission. The purpose of this document is to set out the manner in which the commitments we have made at a group level to integrate ESG considerations throughout our business will be implemented within our New Energy investment strategy.

Our New Energy investments are focused on three technologies: Wind, Solar and Battery Energy Storage. The strategy supports the shift from a world powered by finite resources to a new energy world powered by renewables in what is a rapidly changing energy landscape.

- We take steps to consult and understand the views, concerns and ambitions of our stakeholders in seeking sustainable outcomes from the investments we are involved in.
  - We include sustainable investing as an agenda item on a periodic basis in meetings with clients.
- We integrate Environmental, Governance, Social and Economic benefit considerations into our selection, evaluation, governance and engagement processes across the lifecycle of each investment.
  - Our New Energy investment strategy aligns with national and international goals to decarbonise energy generation and supports the move to a low-carbon economy as a transition to a net-zero scenario. It also supports local and national resilience in energy supply.
  - Our investments in assets are long-term and, where possible, we improve the value and lifespan of assets though extension of permissions and licences and the adoption of technology that increases and/or optimises renewable energy output without materially increasing land use or environmental impact.
  - We participate in community-led initiatives in order to contribute towards the local economy, help to improve biodiversity, and keep an open forum of communication with community stakeholders.
- We drive rigour and consistency by applying our sustainable investment framework and system, including clearly defined processes and expert tools and methods.
  - We have a clear understanding of the sensitivities, issues and opportunities to be managed across the investments in our portfolio and have a process to profile and prioritise these at the stages of the investment lifecycle where they are most relevant. Our sustainable investment framework (see next page) is used to structure our processes for completeness and consistency.
  - We screen all assets prior to acquisition using our proprietary ESG Decision Tool to ensure ESG considerations - both risks and opportunities - are fully assessed prior to investment. Where we decide to proceed with the investment, material ESG factors identified will be addressed as part of the management plan.
- We ensure our team understands the imperative for effective ESG management and is empowered and equipped to carry this out through management support and training.
  - Our team has significant expertise across the renewable energy investment cycle, spanning pre-construction requirements, construction phase, operation and wider marketplace impact, including regulation, legislation and policy change. We will continue to invest in developing our understanding, expertise and good practice in sustainable energy asset selection and management.
  - Prior to investment, we will review and take heed of the environmental aspects of an asset, in particular the Environmental Impact Assessment where relevant, and any other technical studies required to gain planning permission, as well as the process for public consultation. Opportunities for enhancing the environmental benefits and minimising the environmental impact of projects is often assessed as part of this process, through Habitat Management Plans and in line with planning requirements. If done, this analysis will form part of our investment decision making, alongside other due diligence reports.
  - Prior to investment and as part of ongoing asset management, we also consider the social impacts of our assets including supply chain risks and opportunities and engagement with stakeholders such as local communities. The safety of employees and contractors is of paramount importance for all our assets and is a key focus for ongoing management and monitoring. We will act to minimise any social risks and ensure compliance with relevant policies.

  - We retain long-standing trusted advisers who understand our commitments and needs and help us to deliver our goals, whilst maintaining our assets, and ultimately our long-term investment.

- We conduct regular monitoring of ESG risks, opportunities and performance in our investments and over time will prepare comparative data analysis for reporting to our investors.
  - We will re-assess our ESG risk, opportunity and performance profiling periodically and will report this to the Sustainability Executive Committee for analysis and action as necessary.
  - We actively monitor and assess key data related to sustainable energy generation and the wider sustainability performance of the assets we manage. In turn, we use these to review our contribution to sustainable development, particularly meeting the challenge of climate change and relevant Sustainable Development Goals.
  - Regular auditing will be carried out by the Sustainable Investment Team to ensure ESG processes applied by investment teams meet those laid out in this document and remain appropriate.

- We conduct our business activities in line with the UN-supported Principles for Responsible Investment (PRI), including an annual report of our progress towards implementation.
  - As signatories to the PRI we will complete comprehensive annual reporting within its required framework and use this to guide our own internal assessment of our performance and to drive our results upwards.
  - We will continue to provide and promote renewable energy investments as a sound and accessible sustainable investment options to a wide range of investors.

Group Management commitment

Our senior management team, including the Board and the Group Management Committee, are committed to the implementation of this policy and to making appropriate resources and support available to our team to do so. We will conduct a regular review of our approach and how well we are meeting our commitments and update this policy accordingly.

UN Sustainable Development Goals (SDG)

Gresham House supports the UN Sustainable Development Goals.

Taking the wider portfolio into account, we believe our Forestry strategy contributes to the following UN Sustainable Development Goals:

Sustainable Investment Framework application

Our thematic framework is used to structure analysis, monitoring and reporting of ESG issues and opportunities within the lifecycle of our New Energy investments as an aid to more consistent integration. We use expert tools to profile our prospective investments to identify the most material themes within the broader framework and where we believe we should be directing our focus towards more sustainable outcomes:

Environmental

Climate change and pollution	Natural capital	Waste management
Optimal contribution to low carbon energy generation in the UK	Visual impact and biodiversity management	Waste reduction and sustainable management of waste in construction, operation and decommissioning

Social

Employment, health, safety and well-being	Marketplace responsibility	Supply chain sustainability	Community care and engagement
First class H&S system; site safety policy	Maximum uptime and minimal local disruption	Robust policy relating to materials impact, quality and ethics	Good practice consultation; local investment strategy

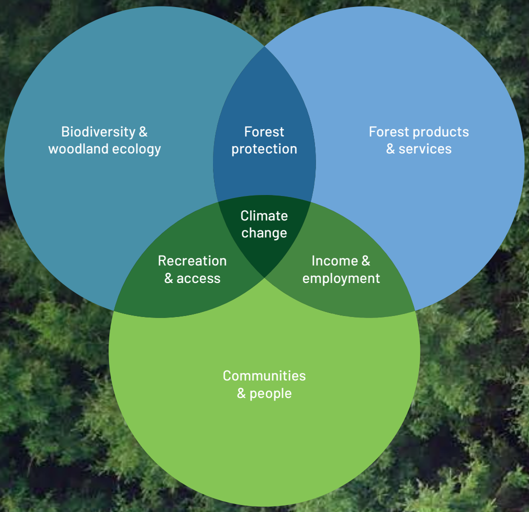
Governance

Governance and ethics	Risk and compliance	Commitment to sustainability
Governance good practice; strong business ethics management and culture	Robust risk and compliance management	Continuing enhancement of the portfolio and its impacts

Forestry KPIs

We commit to managing all our forests sustainably in line with, or beyond, international standards. Our proprietary Forest Charter shows the core principles and criteria underlying these standards which lead to the commitments that we make regarding sustainable forest management. The diagram below depicts how the environmental, economic, and social functions of forests and woodlands interact in support of one another, as defined by the UK Forestry Standard.

We use these categories to summarise our commitments in the Charter, reflecting our recognition of the importance of the interaction between these functions to the long term durability of the forests we manage on behalf of our clients. The Charter also confirms the Key Performance Indicators (KPIs) that we commit to measure and the activities we commit to excluding from our investments.



UK Forestry Standard - Balanced objectives[1]

- Environmental
- Economic
- Social

1. Gov.uk, The UK Forestry Standard

Income and employment commitments

0

Number of health and safety incidents recorded (includes Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR), Non- RIDDOR, Near Misses & Environmental Incidents)

0

Number of fatalities recorded

Forest protection commitments

2,126,825m^3

Standing timber inventory

109,022 tonnes

Timber harvest volumes

All figures stated as at 31 May 2023 and reflect performance over the prior financial year, unless stated otherwise.

Forest products and services commitments

109,022 tonnes
Timber harvest volume

100%
Timber sold that is certified

- tCO_2e
Carbon credits generated

- %
Carbon credits registered

Climate change commitments

4,553,965 tCO_2e
Carbon stock

201,724 tCO_2e
Total annual carbon emissions sequestered*

2,708 tCO_2e
Operational emissions

- kWh
Operational energy consumed

- %
Operational energy consumed that is renewable

1,372 ha
Area of peatland present

Biodiversity and ecology commitments

28%
Area of forest land managed for biodiversity

64% (11,151 ha)
Area of forest land allocated to a single species

7% (1,153ha)
Area of forest land allocated to native species

47
Number of biodiversity assessments undertaken

971 ha
Area of forest land with protected conservation status

8
Number of threatened species present on forest land

$20m^3$
Volume of standing and ground deadwood per hectare

Forestry certification & standards commitments

94%
Area of forest land certified to a third-party forest management standard

***For the year ending 31 May 2024**

Report of the General Partner

General Partner

The General Partner is Gresham House Forest Funds General Partner Limited, a wholly owned subsidiary of Gresham House Asset Management Limited.

Principal activity

The principal activity of the LP is the ownership of commercial woodlands for the production of timber and ownership of renewable energy assets for production of electricity.

Results for the year

The results for the year are shown on page 45.

The General Partner is pleased with the year's performance, providing a total return to all Limited Partners of 4.3% for the 12 months from 1 June 2022 to 31 May 2023.

Statement of General Partner's responsibilities

The General Partner is responsible for preparing this Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the General Partner to prepare accounts for each financial period which give a true and fair view of the state of affairs of the LP and its results for that period. In preparing those accounts, the General Partner is required to select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the accounts on the going concern basis unless it is inappropriate to presume that the LP will continue in business.

The General Partner is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the LP and to enable it to ensure that the accounts comply with the Companies Act 2006, as modified by SI 2008/569. It is also responsible for safeguarding the assets of the LP and therefore for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as the General Partner is aware, there is no relevant audit information (information needed by the LP's auditors in connection with preparing their report) of which the LP's auditors are unaware.

Finally, the General Partner has taken all the steps that it ought to have taken as a General Partner in order to make itself aware of any relevant audit information and to establish that the LP's auditors are aware of that information.

Signed by Stephen Beck

Director, Gresham House Forest Funds General Partner Limited

31 August 2023

Independent Auditor's Report

Opinion

We have audited the financial statements of Gresham House Sustainable Timber & Energy LP ('the LP') for the year ended 31 May 2023 which comprise the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Cash Flows and Notes to the Financial Statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the LP's affairs as at 31 May 2023 and of its results for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006, as modified by SI 2008/569.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the LP in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the General Partner's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the LP's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the General Partner with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The General Partner is responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the report of the General Partner and the Manager's Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the General Partner's report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the LP and its environment obtained in the course of the audit, we have not identified material misstatements in the General Partner's report or the Manager's report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Partners' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the General Partner

As explained more fully in the statement of General Partner's responsibilities set out on page 40. The General Partner is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the General Partner determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the General Partner is responsible for assessing the LP's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the General Partner either intends to liquidate the LP or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Our approach to identifying and assessing the risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, was as follows:

- the engagement partner ensured that the engagement team collectively had the appropriate competence, capabilities and skills to identify or recognise non-compliance with applicable laws and regulations;
- we identified the laws and regulations applicable to the LP through discussions with management, and from our commercial knowledge and experience of the client's business sector;
- we focused on specific laws and regulations which we considered may have a direct material effect on the financial statements or the operations of the LP, including the Companies Act 2006, taxation legislation, data protection, anti-bribery, employment, environmental and health and safety legislation;
- we assessed the extent of compliance with the laws and regulations identified above through making enquiries of management and inspecting legal correspondence; and
- identified laws and regulations were communicated within the audit team regularly and the team remained alert to instances of non-compliance throughout the audit.

We assessed the susceptibility of the LP's financial statements to material misstatement, including obtaining an understanding of how fraud might occur, by:

- making enquiries of management as to where they considered there was susceptibility to fraud, their knowledge of actual, suspected and alleged fraud; and
- considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations.

To address the risk of fraud through management bias and override of controls, we:

- performed analytical procedures to identify any unusual or unexpected relationships;
- tested journal entries to identify unusual transactions;

- assessed whether judgements and assumptions made in determining accounting estimates were indicative of potential bias; and
- investigated the rationale behind significant or unusual transactions.

In response to the risk of irregularities and non-compliance with laws and regulations, we designed procedures which included, but were not limited to:

- agreeing financial statement disclosures to underlying supporting documentation;
- reading the minutes of meetings of those charged with governance; and
- enquiring of management as to actual and potential litigation and claims.

There are inherent limitations in our audit procedures described above. The more removed that laws and regulations are from financial transactions, the less likely it is that we would become aware of non-compliance. Auditing standards also limit the audit procedures required to identify non-compliance with laws and regulations to enquiry of management and the inspection of regulatory and legal correspondence, if any.

Material misstatements that arise due to fraud can be harder to detect than those that arise from error as they may involve deliberate concealment or collusion.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the LP's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as modified by SI 2008/569. Our audit work has been undertaken so that we might state to the LP's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the LP and the LP's members as a body, for our audit work, for this report, or for the opinions we have formed.

Robert Kirtland
Senior Statutory Auditor

For and on behalf of:
Critchleys Audit LLP, Statutory Auditor
Beaver House
23-38 Hythe Bridge Street
Oxford
OX1 2EP

Date: 31 August 2023


02
Financial
Statements

Income Statement

	Notes	2023 (£)	2022 (£)
Turnover	3a	5,547,438	8,675,355
Other operating income		1,042,961	884,450
Total turnover		**6,590,399**	**9,559,805**
Operating costs		(2,426,711)	(2,591,291)
Administrative expenses		(1,841,753)	(1,583,342)
General Partner's share		(1,000)	(1,000)
Operating profit		**2,320,935**	**5,384,172**
Interest receivable		159,999	21,582
Interest payable		(214,292)	-
Income from Investments		4,450,959	2,413,689
Profit for the year before revaluation	4	**6,717,600**	**7,819,443**
Unrealised surplus on revaluation of Investments	5	9,850,373	66,566,390
Profit for the year after revaluation		**16,567,973**	**74,385,833**
Number of shares	9	8,563,495	8,563,495
Profit before revaluation per share		£0.78	£0.91
Statement of Comprehensive Income			
Profit for the year after revaluation		16,567,973	74,385,833
Total comprehensive income for the financial year		**16,567,973**	**74,385,833**

Balance Sheet

	Notes	2023 (£)	2022 (£)
Fixed Assets			
Investments	5	396,693,358	376,989,431
		396,693,358	**376,989,431**
Current Assets			
Debtors	6	2,519,692	2,096,411
Cash at bank		2,689,226	5,016,528
		5,208,918	**7,112,939**
Creditors: amounts falling due within one year	7	**(1,567,490)**	**(1,744,920)**
Net current assets		**3,641,428**	**5,368,019**
Creditors: amounts falling due after one year	8	**(6,890,000)**	**-**
Total assets less liabilities and net assets attributable to Partners		**393,444,786**	**382,357,450**
Represented by			
Limited Partners' capital	9	122,454,272	122,454,272
Revaluation reserve	9	252,306,732	242,456,359
Profit and loss account	9	18,683,783	17,446,819
Limited Partners' funds		**393,444,786**	**382,357,450**
Total Limited Partnership Shares	9	8,563,495	8,563,495
Net Asset Value per Limited Partnership Share (undiluted)		£45.94	£44.65

These financial statements were approved by the General Partner and authorised for issue on 31 August 2023 and are signed on their behalf by:

Stephen Beck
On behalf of Gresham House Forest Funds General Partner Limited, General Partner

Statement of Cash Flows

	Notes	2023 (£)	2022 (£)
Cash flows from operating activities			
Operating profit after depreciation		2,320,934	5,384,172
(Increase)/decrease in debtors		(423,280)	1,020,587
Increase/(decrease) in creditors		(177,429)	(139,483)
Net cash flow from operating activities		**1,720,225**	**6,265,276**
Cash flows from investing activities			
Purchase of forestry properties and capital additions	5	(8,172,686)	(2,021,876)
Interest in Gresham House Solar Distribution LLP	5	(1,680,868)	(1,518,621)
Disposal of part of a forest property	5	–	–
Net cash flow from investing activities		**(9,853,555)**	**(3,540,498)**
Cash flows from financing activities			
Interest received		159,999	21,582
Interest paid		(214,292)	–
Partnership shares issued	9	–	–
Bank loan drawdown		6,890,000	–
Bank loan repayment		–	–
Distributions received from investments		4,450,959	2,413,689
Distributions to Limited Partners	9	(5,480,637)	(5,052,462)
Net cash flow from financing activities		**5,806,029**	**(2,617,191)**
Net increase/(decrease) in cash		**(2,327,301)**	**107,587**
Cash at the start of the year		5,016,528	4,908,941
Cash at the end of the year		2,689,227	5,016,528

Notes to the Financial Statements

for the year ended 31 May 2023

1 Basis of Preparation

These financial statements have been prepared in accordance with applicable UK accounting standards, including Financial Reporting Standard 102 and Companies Act 2006.

The financial statements are presented in Sterling.

Going Concern

After reviewing the LP's forecast and projections, the General Partner has a reasonable expectation that the LP has adequate resources to continue in operational existence for the foreseeable future. The LP therefore continues to adopt the going concern basis in preparing its financial statements.

2 Critical accounting judgements and key sources of estimation uncertainty

As described in note 3d, forest properties are valued on an alternating internal and external basis in line with Royal Institution of Chartered Surveyors Global Valuation Standards. Forest properties are stated at fair value based on the valuation performed by an internal/external valuer with considerate experience in the location and category of property valued. The valuer used observable market prices adjusted as necessary for any difference, location or condition of the specific asset. Included in the value of forest properties are values attributed to wind farm leases entered into and these are valued from the date of commissioning based on the forecast rental income discounted at an appropriate discount rate

3 Principal Accounting Policies

a. Turnover

Turnover represents amounts receivable by the LP, net of value added tax. In respect of the ownership of commercial woodlands and the sale of commercial timber income is recognised when the timber is harvested, and the relevant invoice raised.

b. General Partner's share

The General Partner's share for the LP has been charged in the accounts at £1,000 for the year, as set out in the Limited Partnership Agreement.

c. Income from Investments

From 2018 onwards all such profits are recognised when distributions are received as no control is exercised over these entities.

d. Valuation of Investments

Forest Properties

Forest properties were internally valued at 31 May 2023 on the basis of their open market valuation on that date. The valuation is in accordance with the Royal Institution of Chartered Surveyors Global Valuation Standards. The valuation movement in the period will include the valuation of timber harvested.

Included in the value of forest properties are values attributed to wind farm leases entered into and these are valued from the date of commissioning based on the forecast rental income discounted at an appropriate discount rate.

Onshore Wind Farms

Four onshore wind farms owned by Gresham House Wind Energy 1 plc were externally revalued by Jones Lang Lasalle as at 31 May 2023. The onshore wind farms are valued on the basis of open market evidence to ascertain the appropriate discount rate. Each wind farm is valued using a Net Present Value (NPV) model using this discount rate.

The LP has a 40.2% holding in Gresham House Wind Energy 1 plc. These results have not been consolidated into these financial statements as the LP has no management rights over Gresham House Wind Energy 1 plc.

The Harburnhead wind farm, 50% of which is owned by Gresham House Wind Energy LP, was internally valued by the Manager at 31 March 2023 and included in the financial statements. The LP has a 5.5% holding in Gresham House Wind Energy LP. These results have not been consolidated into these financial statements as the LP has no management rights over Gresham House Wind Energy LP.

Solar Parks

The investment in Gresham House Solar Distribution LLP were externally revalued by Jones Lang Lasalle as at 31 March 2023. The LP has a 38.1% holding in Gresham House Solar Distribution LLP. These results have not been consolidated into these financial statements as the LP has no management rights over Gresham House Solar Distribution LLP.

4 Profit for the year

Profit for the year is stated after charging:

	2023 (£)	2022 (£)
Auditors' remuneration – audit services	14,147	12,780
Auditors' remuneration – tax compliance services	6,587	4,700
Auditors' remuneration – other services	–	1,250

5 Investments

	Forest properties (£)	Onshore Wind Farms (£)	Solar Parks (£)	Total (£)
As at 1 June 2022	330,000,000	24,249,102	22,740,329	376,989,431
Additions	8,172,686	–	1,680,868	9,853,554
Disposals	–	–	–	–
Revaluation	7,977,314	2,173,905	(300,846)	9,850,373
As at 31 May 2023	**346,150,000**	**26,423,007**	**24,120,352**	**396,693,358**

6 Debtors

	2023 (£)	2022 (£)
Trade debtors	2,169,196	1,761,481
Accrued income	173,683	169,836
Prepayments	176,813	165,094
	2,519,692	**2,096,411**

7 Creditors: amounts falling due within one year

	2023 (£)	2022 (£)
Trade creditors	820,254	1,181,050
Deposits and down-payments	69,972	-
Accruals and Deferred Income	248,658	190,606
Timber harvesting fees	37,833	26,816
Distributions to Limited Partners unpaid at year end	162,276	125,302
VAT	228,497	221,146
	1,567,490	**1,744,920**

8 Creditors: amounts falling due after one year

	2023 (£)	2022 (£)
Bank loan payable after one year	**6,890,000**	-

The bank facility is with Barclays Bank plc, agreed in July 2022. An initial loan amount of £4.3mn was drawn down in August 2022 and two additional drawdowns of £2mn and £590,000 were made in February 2023 and April 2023 respectively. Interest accrues at the Margin rate of 1.95% plus SONIA. This loan is secured by four properties and is repayable in July 2025.

9 Statement of Changes in Capital

	Limited Partners (£)	Special Limited Partner (£)	Revaluation Reserve (£)	Profit & Loss Account (£)	Total (£)
As at 1 June 2021	**122,454,172**	**100**	**175,889,969**	**14,679,838**	**313,024,079**
New Shares Issued	–	–	–	–	–
Revaluation	–	–	66,566,390	–	66,566,390
Profit for the year	–	–	–	7,819,443	7,819,443
Distribution	–	–	–	(5,052,462)	(5,052,462)
As at 1 June 2022	**122,454,172**	**100**	**242,456,359**	**17,446,819**	**382,357,450**
New Shares Issued	–	–	–	–	–
Revaluation	–	–	9,850,373	–	9,850,373
Profit for the year	–	–	–	6,717,600	6,717,600
Distribution	–	–	–	(5,480,637)	(5,480,637)
As at 31 May 2022	**122,454,172**	**100**	**252,306,732**	**18,863,782**	**393,444,786**

	2023 No.	2022 No.
Founder Limited Partnership Shares	2,588,275	2,588,275
"A" Additional Limited Partnership Shares	1,161,952	1,161,952
"B" Additional Limited Partnership Shares	1,540,730	1,540,730
"C" Additional Limited Partnership Shares	1,873,915	1,873,915
"D" Additional Limited Partnership Shares	1,398,623	1,398,623
Total Limited Partnership Shares allotted	**8,563,495**	**8,563,495**

10 Related Parties

Controlling Entity

The immediate controlling party is Gresham House plc due to its ownership of the General Partner, Gresham House Forest Funds General Partner Limited.

Related Party Transactions

Gresham House Asset Management Limited (GHAM)

Gresham House Asset Management Limited is the Manager of the LP. The accounts include the following amounts paid to Gresham House Asset Management Limited.

	2023 (£)	2022 (£)
Recurring fees		
Management charges	1,412,191	1,182,404
Management charge rebate on Gresham House Solar Distribution LLP	(40,247)	(61,076)
Timber marketing fees	109,127	194,584
Wind farm rent additional income fee	70,152	57,112
Sundry	–	–
Total recurring fees	**1,551,222**	**1,373,025**
Non-recurring fees		
Timber marketing and timber compensation	–	–
Wind farm option fees	2,613	2,899
Promotion fee on fund raising	–	–
Acquisition fees	210,950	29,717
Other	10,465	16,204
Total non-recurring fees	224,028	48,820
	1,775,250	**1,421,845**

Amounts due to Gresham House Asset Management Limited were £303,937 at 31 May 2023 (2022: £349,041) and £0 (2022: £626) to Gresham House Holdings Limited.

Gresham House Forest Funds General Partner Limited

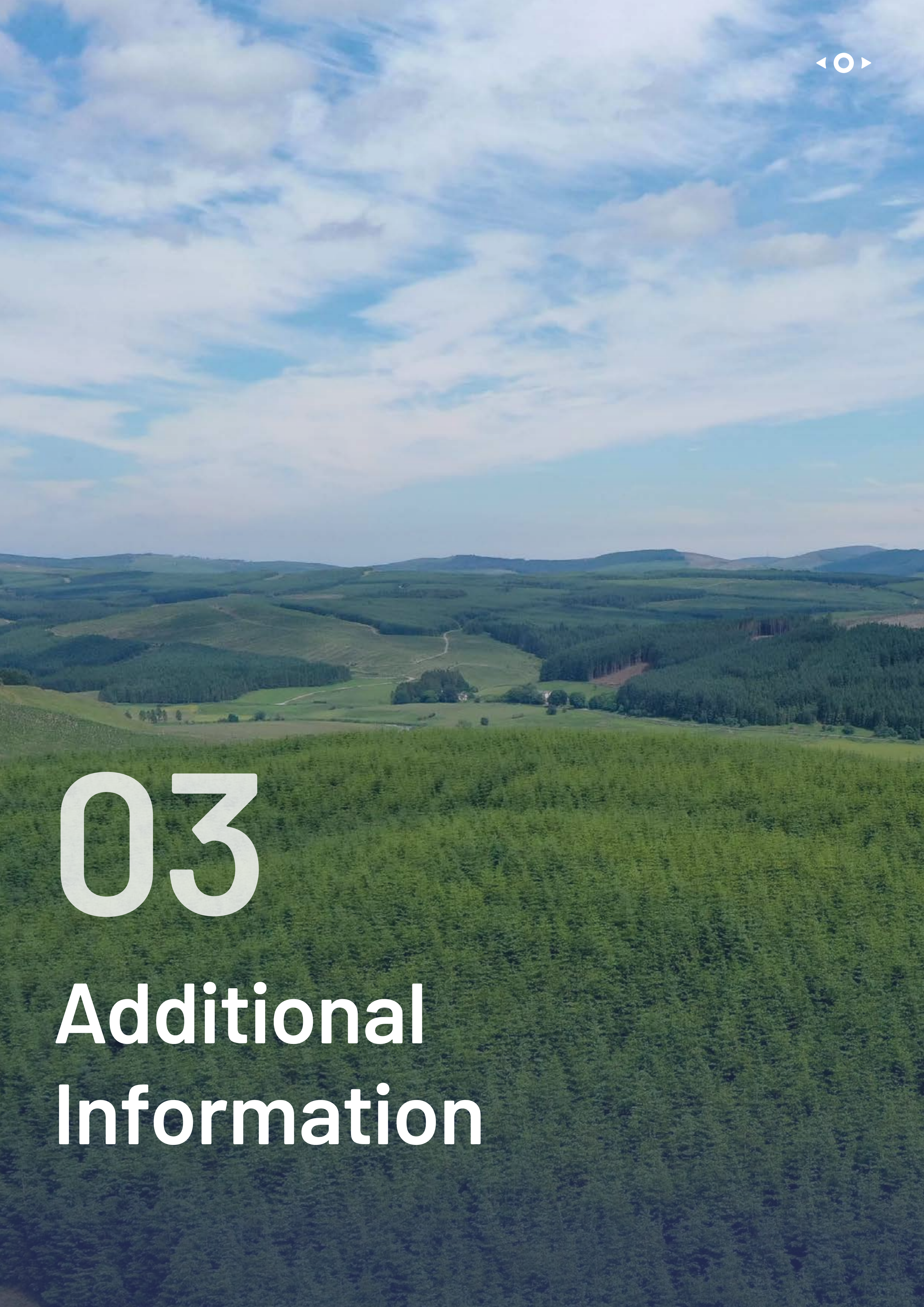
Gresham House Forest Funds General Partner Limited is the General Partner of Gresham House Sustainable Timber and Energy LP. A General Partner fee of £1,000 per annum is due to the General Partner by the LP.

FIM Executives Limited Partnership

FIM Executives Limited Partnership is the Special Limited Partner of Gresham House Sustainable Timber and Energy LP.

11 Post Balance Sheet Events

£590,000 of the loan balance was repaid in July 2023.



03 Additional Information

The Management Team

Please do not hesitate to contact a member of the management team if you wish to discuss your investment or provide any feedback on this report. Gresham House are committed to ensuring the needs and expectations of our clients are met at all times and would therefore welcome any suggestions to improve our service delivery.

Please see the website for more details on the team's professional experience:
www.greshamhouse.com/our-team

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Partnership Information

Limited Partnership Number

SL007703

Manager and Operator

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1 Des Roches Square
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Oxon
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General Partner

Gresham House Forest Funds General Partner Limited
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Solicitors

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Edinburgh
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Auditors & Tax Advisors

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Beaver House
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OX1 2EP

Bankers

Virgin Money, formerly Clydesdale Bank plc
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Depositary Services

IQ-EQ Depositary Company (UK) Limited
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London
SE1 9RA

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Since 1857

Gresham House

Specialist asset management