Investor Perspectives: Criteria and Issues in Supporting Indigenous Forestry Projects
June 4, 2002  Vancouver B.C.
Renewable Resources LLC

Renewable Resources LLC, with offices in Boston and Auckland, NZ, is the forest investment arm of Grantham, Mayo, Van Otterloo & Co. LLC.

Our team of seasoned professionals is skilled in the evaluation, acquisition, and management of both natural forests and plantations. We have made forest investments in New England, the Pacific Northwest, the U. S. South, Australia, New Zealand, Chile, Uruguay and Brazil.

Since joining GMO, we have created a broad and diverse portfolio of timber investments. We currently have 110 clients, 8 partners, and five Timber Funds. Current committed or invested assets exceed $300 million.
Grantham, Mayo, Van Otterloo & Co. LLC

Summary
Independent firm founded in 1977
81 investment professionals in Boston, London, San Francisco and Sydney, over 225 employees worldwide
$26 billion of assets under management

Representative Clients
- **Universities**: Columbia, Duke, Harvard, Michigan, Princeton, Stanford, Swarthmore, University of Pennsylvania, University of Virginia, Yale
- **Corporate Pension Funds**: Bell Atlantic, Campbell Soup, Citgo, Corning, GTE, Kodak, 3M, Sprint
- **Foundations/Charitable Organizations**: Brookings, Chicago Symphony, Fresh Air Fund, Lincoln Center, Mellon, Metropolitan Museum of Art, World Wildlife Fund
- **International Organizations**: World Bank
What is a Timber Investment?

• In timberland investments, returns are generated either from tree farming or from managing natural forests.

• Tree farms are artificially established forests which are intensively managed for wood production. They are characterized as capital, management, and technology intensive, and are managed on an “even age” basis.

• Managed forests are natural forests that have been managed less intensively, or selectively, over a long period of time. They require “all age” management regimes, with flexible, stand specific prescriptions. Management costs per acre are minimal, natural regeneration is relied on (rather than replanting after clear cutting), and long-term in-growth is the major source of return.
Returns from both types of forests come from:

• Value of the standing trees (stumpage)
• Biological growth (increase in volume)
• In-growth (trees’ growth into higher-valued product classes)
• Increases in product prices
• Land value increases (including potential conversion to highest and best use)
• Other income sources (leases, carbon credits)
What is a Timber Investment Management Organization?

• A Timber Investment Management Organization functions as the intermediary between investors and their timberland investments.

• A TIMO’s primary responsibilities include finding, analyzing, and acquiring investment-grade properties, and then, translating the investor’s objectives into forest management activities that will optimize those objectives.

• The TIMO oversees the foresters who sell the investor’s timber and work in the investor’s forest. It is the TIMO’s responsibility to insure that capable, trustworthy foresters manage the land and that all expenses are scrutinized.

• A TIMO must keep their investors informed about market trends, valuations, and developments within the industry.
Low Correlation With Equity Markets

This chart shows timberland’s performance relative to other asset classes market beta. The asset class plots well above the mean regression line, which means timberland’s return profile exceeds all of the other financial assets classes depicted above. In short, when the market is down timberland tends to be up, which causes it to function as an effective, counter-cyclical hedge.
Timber: A Good Hedge in Bear Markets

![Graph showing the comparison between Southern Pine and S&P 500 Index over time. The y-axis represents the price index (1910 = 1), on a log scale, ranging from 0.1 to 100.0. The x-axis represents years from 1910 to 2000. The graph illustrates that timber prices have generally followed a similar trend to the S&P 500, with both showing significant fluctuations over time.](image-url)
Toropapa Joint Venture

Management Plan: This joint venture is with a local Maori Trust. The plan includes full liquidation of the existing timber over a 14 year period. The Maori Trust retains its interest in the underlying land, and replants.

Toropapa is located west of Hawkes Bay (Napier), New Zealand.
Joint Venture Asset Management Company

- Define priorities/establish management plan
- Oversee budget/divide returns

Forest Investment Management organization
- Capital
- Security
- Knowledge

Community organization
- Ownership/control
- Security
- Knowledge
Defining the Forest Asset

- Mapping
- Timber inventories and allowable cut
- Rapid environmental assessment
- NTFP, Carbon baseline/inventory
- Agrosystem Rapid Participatory Diagnostic (DRPA) and a Stakeholder Appraisal
Brazil Fund Community Development Activities Schedule

Year 1

Community and Forest Assessment: assets, conditions, and needs
Form alliances with local NGOs, government, social institutions, and communities

Year 2

Develop rural cooperatives around farinha and castanha production and marketing
Develop tree and other crop nurseries at strategic locations
Seed improvement project
Open computer literacy school (democracy training incognito)
Assist woodworking school development
Maternal health project
Year 3

Farmer education program

Product improvement of farinha and castanha (quality, sanitation, packaging, marketing, etc)

Agricultural diversification and crop improvement

Rural drug program

Sanitation program

GA builds local sawmill for rough cutting

Micro-loan program

Develop local wood products industry plan

Develop community forest management plan

Year 4

Homebuilding program

Ecology training program
Year 4 (continued)

Local forest management
Develop direct markets for castanha
Develop woodworking businesses
Children’s health program

Year 5

Expand micro-loan program to intermediate loans
Build regional markets for agro-forestry products
Men’s health program
Elementary education program (teacher training, materials, attendance, etc.)
Build locally owned sawmill
Develop new agro-forestry products (fruit juices, premium coffee, etc.)
Build centralized processing for agro-forestry products
Year 6

Build direct markets for agro-forestry products
Build markets for locally made wood products
Develop rural transportation system

Year 7

Develop rural high school program
Develop university access program
Develop communal ownership program for significant assets

Year 8

Transfer part ownership of Gethal facilities to local owners (long-term loans)
Transfer other assets to community (long-term loans)

Year 10

Follow-up studies and plan development for problem areas
Forest Asset

Preservation forest
Sustainable Harvest
Native species plantation

Harvesting Operations
Conversion Facility
Planting Operations

Community based
Public/private partnerships

$/m^3
$/m^3
$/ha
Forest Asset

Preservation forest

Sustainable Harvest

Native species plantation

Operating entities collateralize
Contracts to obtain financing

$/m^3

$/m^3

$/ha

Community based Public/private partnerships

Harvesting Operations

Conversion Facility

Planting Operations
“It seems that when the government wants to it can assert that the forests of the province do, indeed, belong to the people”

Ben Parfitt, North of Caution