

FINANCIAL TIMES  
International Financial Advisor

# Get money to grow on trees

With forestry now supplying much more than just planks of wood, it is becoming a useful alternative investment. **Anna Bawden** reports

It evokes images of tree hugging hippies, who want to get in touch with nature. But sustainable forestry goes far beyond conservation and is proving to be a highly profitable business.

Recent developments look likely to improve demand for sustainable forestry further. Forests play an active part in water purification, curbing the effects of global warming, limiting flood damage and promoting biodiversity. 'Carbon credits' can be used to offset countries' commitment to reduce greenhouse gas emissions under the 1997 Kyoto agreement on climate change. These can be bought by investing in a range of sources such as forestry projects in developing countries.

Michael Jenkins, executive director of Forest Trends, an international forestry association, says that carbon

forestry could be worth \$20bn annually and purifying water through forestry \$4bn per year. He says: "We are rapidly moving into a period where we think of forestry not as a commodity but as a range of services."

Services such as carbon credits and water purification improve returns on investment in forestry. Mr Jenkins says where returns from forestry are typically 8-10 per cent, revenue from carbon credits and water purification pushes up returns to about 15 per cent.

Investment opportunities in forestry vary greatly. IFAs can select from investing directly in a reforestation project or can choose from a private equity or collective investment scheme (CIS).

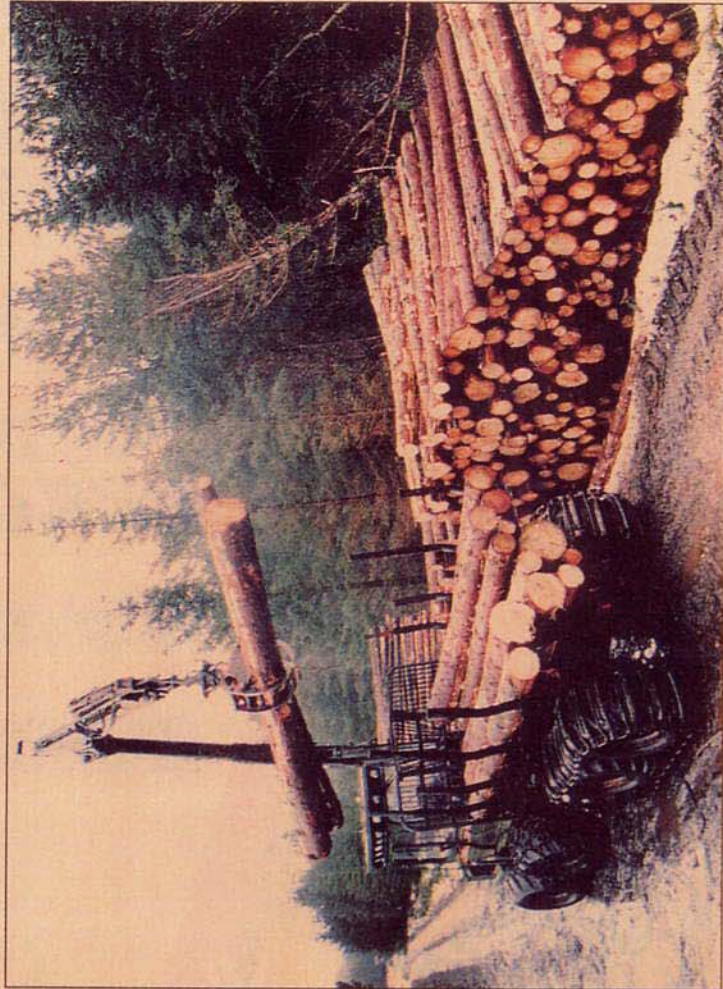
There are certain advantages to forestry funds. However, they are mostly unregulated in the US, which

considers forestry to be an asset class in its own right. Still, CIS are an easy way of investing in forestry. They also have lower minimum investments than private equity or direct investment in forestry.

Forestry Investment Management (FIM), is a UK-based company which has a range of CIS and segregated accounts. Investments in the former start from \$14,000 and the latter from \$215,000. FIM has \$121.7m in assets under management. The CIS and segregated accounts are sold through IFAs. FIM has links with approximately 2000 IFAs. Although denominated in sterling, Richard Crosby Dawson, managing director, says there has been considerable interest from Sweden and the US in FIM's products. To date investors have made 5 to 6 per cent compound growth on their initial outlay.

Private equity funds offer opportunities to make greater returns. For a considerably higher minimum investment (from about \$1m), UHNWIs can expect to make returns of somewhere between 13 and 17 per cent, although sometimes returns can exceed 25 per cent.

Global Environment Fund is a private equity company which invests in a number of sustainable environment projects. Global Forest Products South Africa is its reforestation project generating \$60m in revenue annually. As the minimum initial is \$1m to \$2m, most investors are institutional, but Jeffrey Leonard, president, says a num-



Logging on: timber can be a very tax-efficient investment

ber of individuals have invested. Interest in Global Forest Products has been worldwide. Mr Leonard says: "Demand has been so great that we are launching a forestry mutual fund in early 2002, so investors with less than \$1m can have the chance to invest too."

The mutual fund will be domiciled in the US and offshore. The offshore fund is being set up to meet the huge demand from European HNWIs. "Demand has been biggest in Europe," says Mr Leonard.

The Hancock Natural Resource Group (HNRG) also uses private equity

to invest in 3m acres of timberland in the US, Canada, Australia, South America and New Zealand. Currently AUM are \$2.6bn. Investments start at \$5m so are for UHNWIs or institutions only. HNRG aims to increase returns by taking advantage of the demand for carbon credits through the creation of a carbon pool. For about \$4000, HNWIs can invest directly in Roger Dickie New Zealand, 60 per cent of investment in forestry is tax deductible. In the UK, private forestry does not incur any capital gains tax, inheritance tax or income tax.

Investing in forestry in Panama is up to 100 per cent tax deductible and investment return is tax free. In New Zealand, 60 per cent of investment in forestry is tax deductible. In the UK, private forestry does not incur any capital gains tax, inheritance tax or income tax.

Perhaps tree hugging is advisable after all.

## Contacts

### Forestry Agencies

Forest Trends, US: tel. +1 202 298 3000, [www.forest-trends.org](http://www.forest-trends.org)  
Forest Stewardship Council, US: tel. +1 202 342 0413, [www.fscus.org](http://www.fscus.org)

### Providers

United Nature Inc, Panama: tel. +507 223 1953, [www.unitednature.com](http://www.unitednature.com)  
Global Environmental Fund Management Group: tel. +1 202 789 4500, [www.globaleenvironmentfund.com](http://www.globaleenvironmentfund.com)  
Hancock Natural Resources Group, Australia: tel. +61 298 84 8202, [www.hnrg.com.au](http://www.hnrg.com.au)  
Roger Dickie New Zealand: tel. +64 6 346 5329, [www.rogerdickie.co.nz](http://www.rogerdickie.co.nz)  
Forestry Investment Management: tel. +44 1451 844655, [www.fimital.co.uk](http://www.fimital.co.uk)