

# Investing in Sustainable Timberland

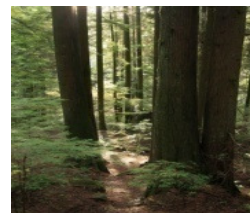
Savoy – Baur en Ville, Zurich

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**EBG Capital**

Environmental Investments



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# Takeaways for investors



## Unique Asset Class

- Sustainable returns, portfolio diversification, inflation & recession protection, strong fundamental drivers, environmental & social benefits



## Value Drivers

- Choice of assets, purchase price, quality of integrated timber management and hence selection of local partners



## Right Timing

- Window to access quality assets and experienced local managers at attractive terms



## Critical Skills

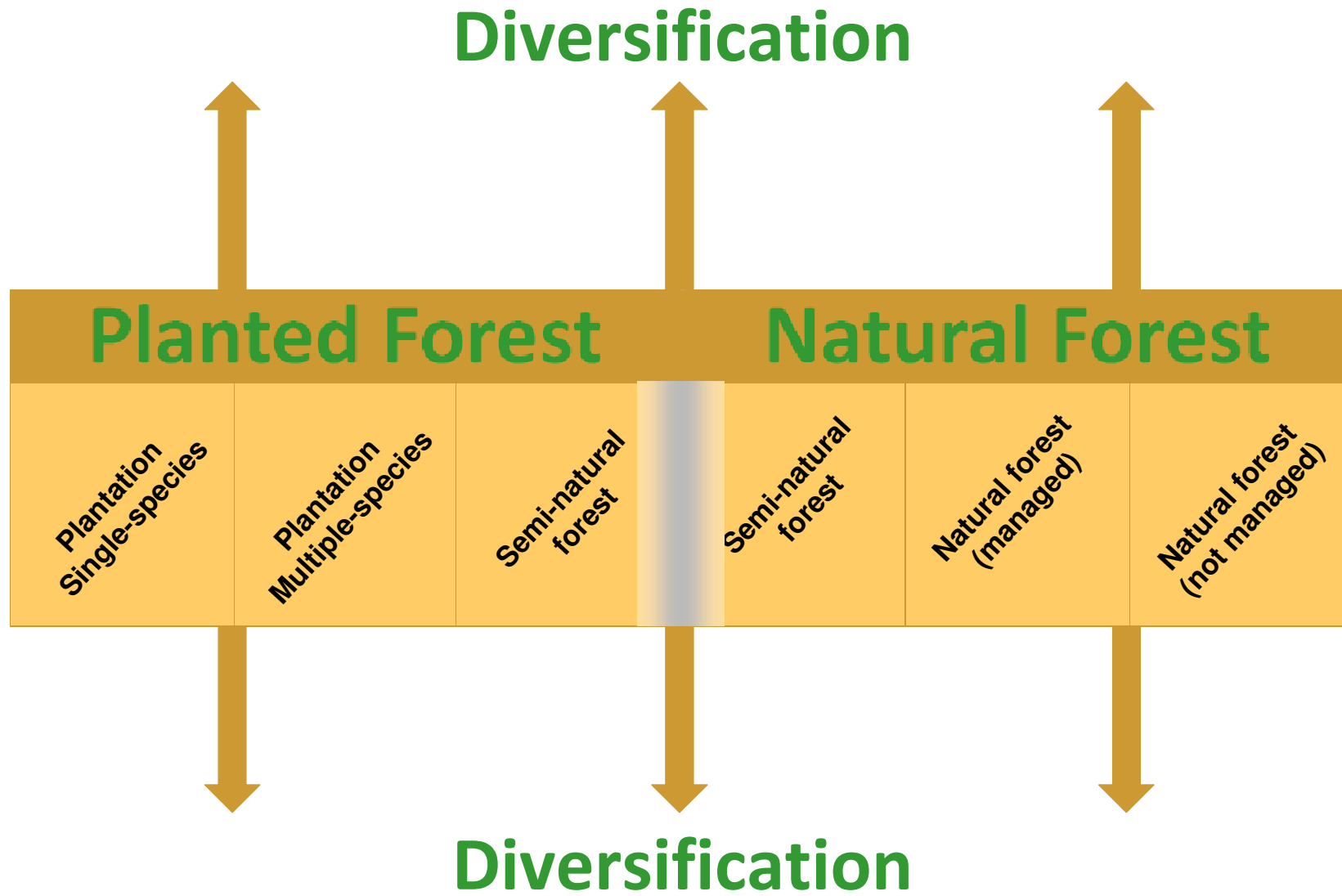
- Integrated alternative investments and hands-on timber management, sustainability and emerging markets expertise



## II - Investment Case



# Grouping timberland assets



Source: Waka

# From plantations and natural forests to timber products



Teak plantation, Costa Rica



Araucaria plantation, Australia

Acacia mangium plantation, Borneo



Protected Brazil nut tree, Brazil

Selangan batu tree, FSC-certified forest, Malaysia



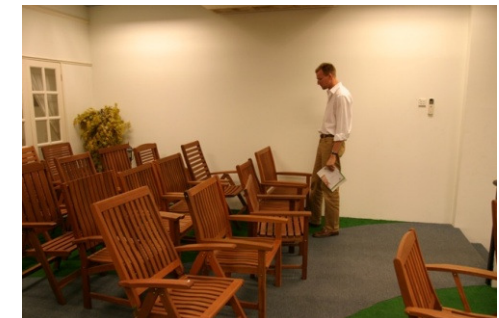
Harvesting, FSC-certified forest, Brazil



Massaranduba (FSC) fence-posts, Brazil



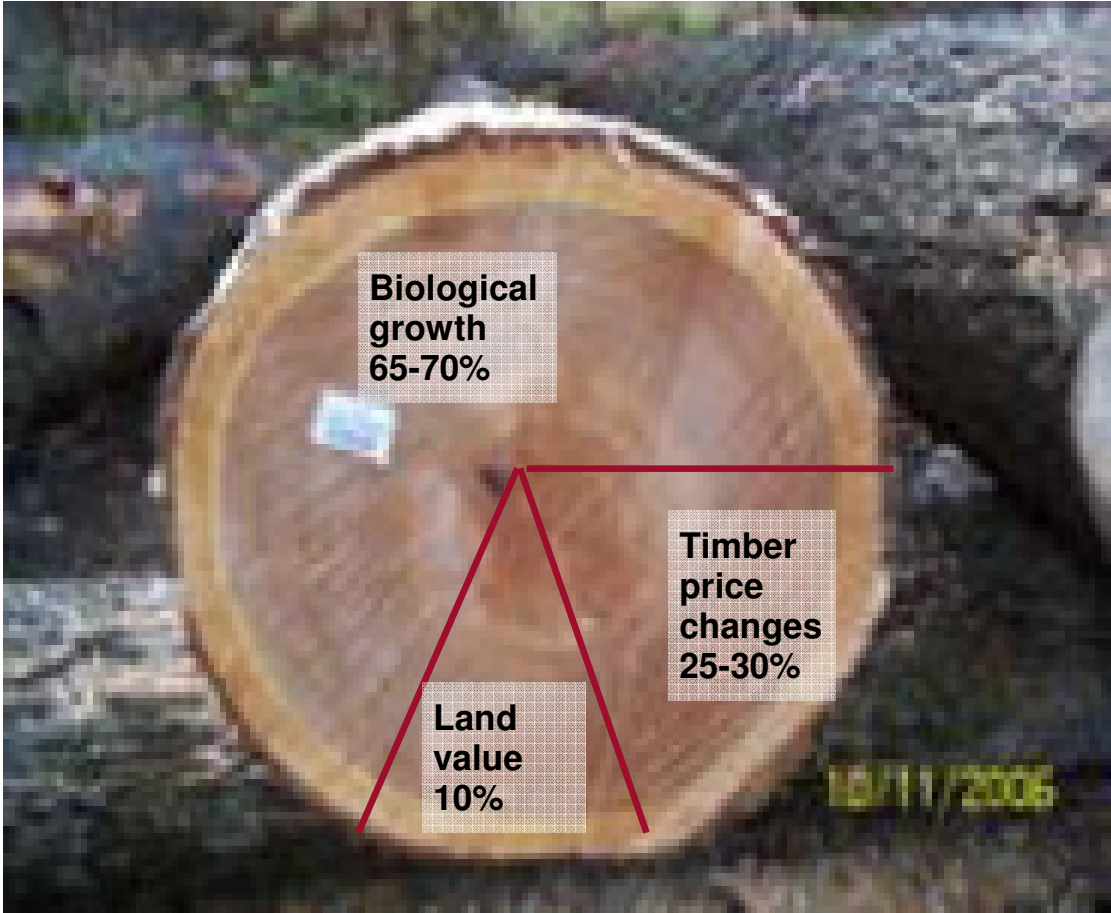
Offcuts from lesser known species (FSC) for hammocks, Brazil



Garden furniture (FSC certified mix of hardwoods), Malaysia

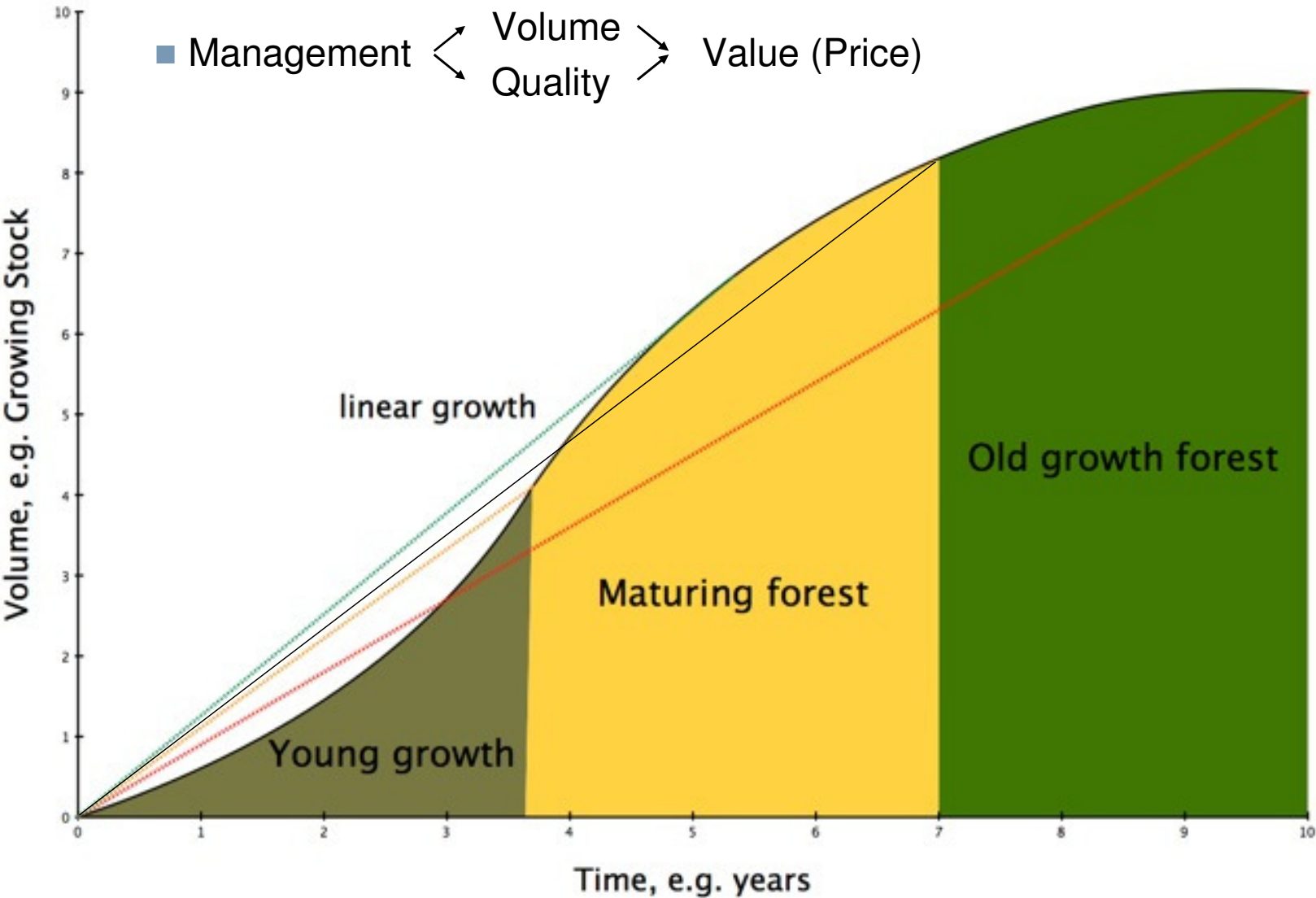


# Unique revenue components



Source: Waka, ITTO, Standard & Poors

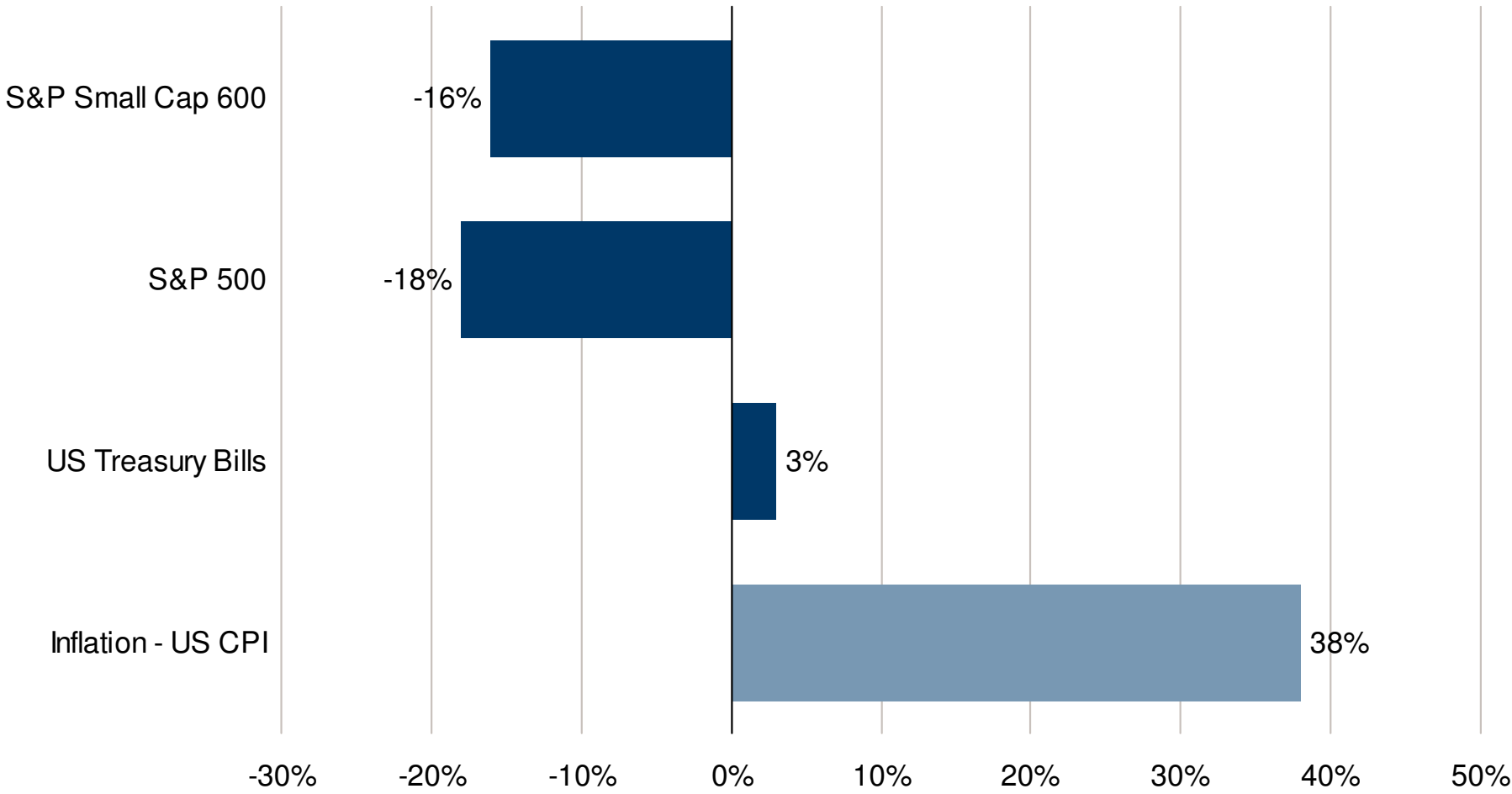
# Optimizing production: particular non-linear curve for each forest, species, region and site



Source: Waka

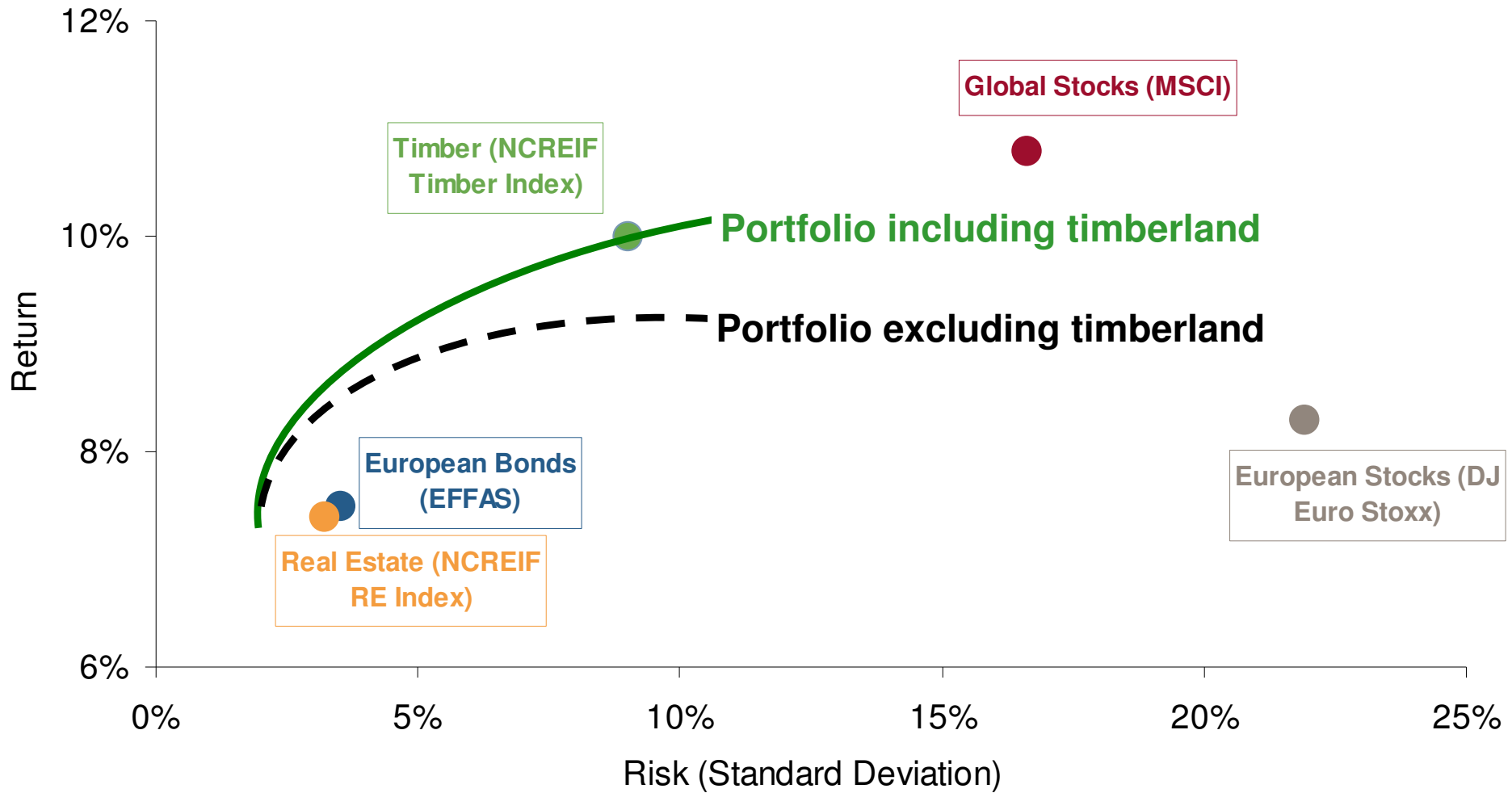


# Low correlation with traditional asset classes and inflation hedge ...



Correlation between NCREIF and respective other indexes  
Source: Ibbotson & Associates, 2007

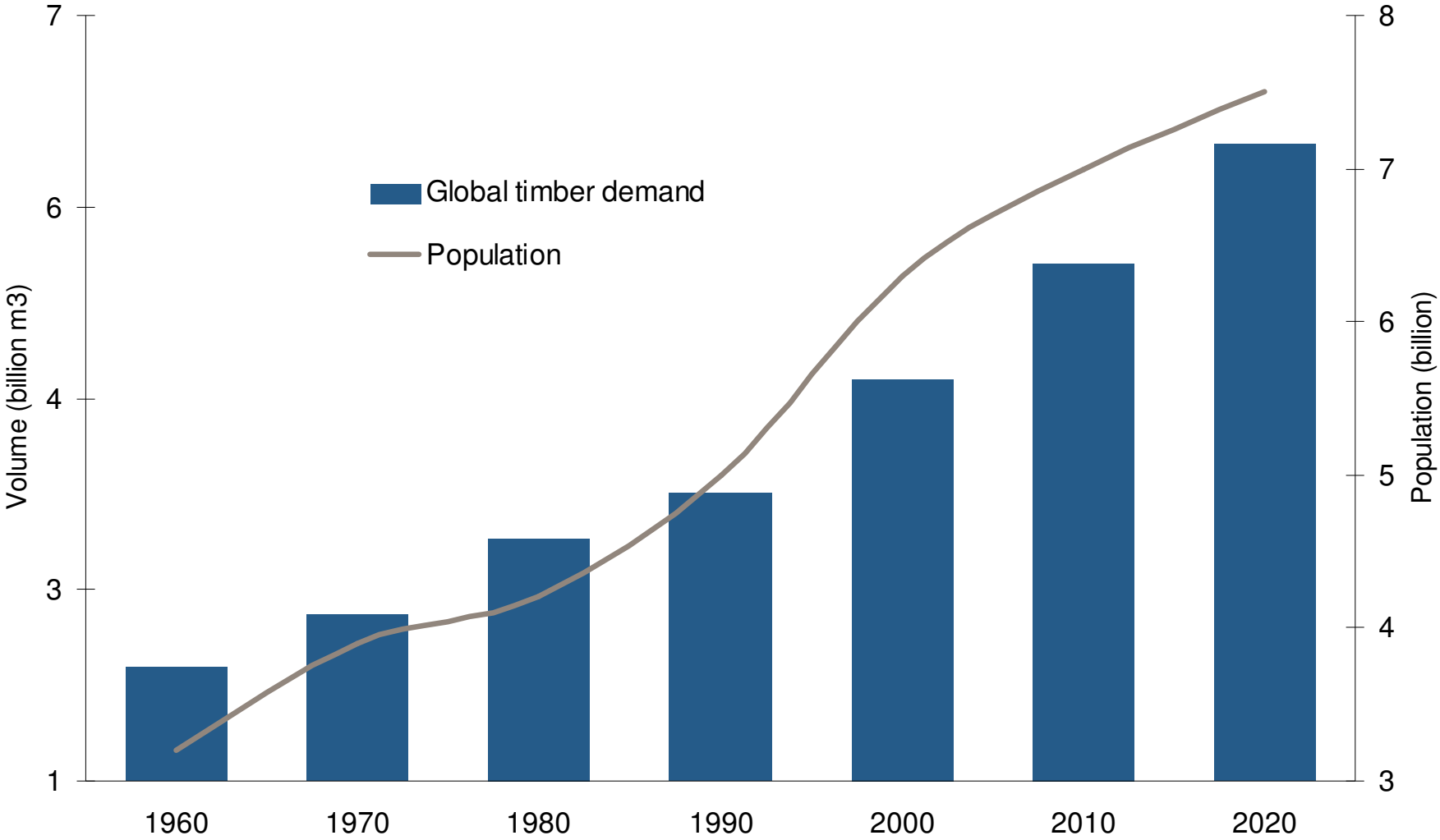
# ...result in enhanced portfolio efficiency



Source: IWC, 2007



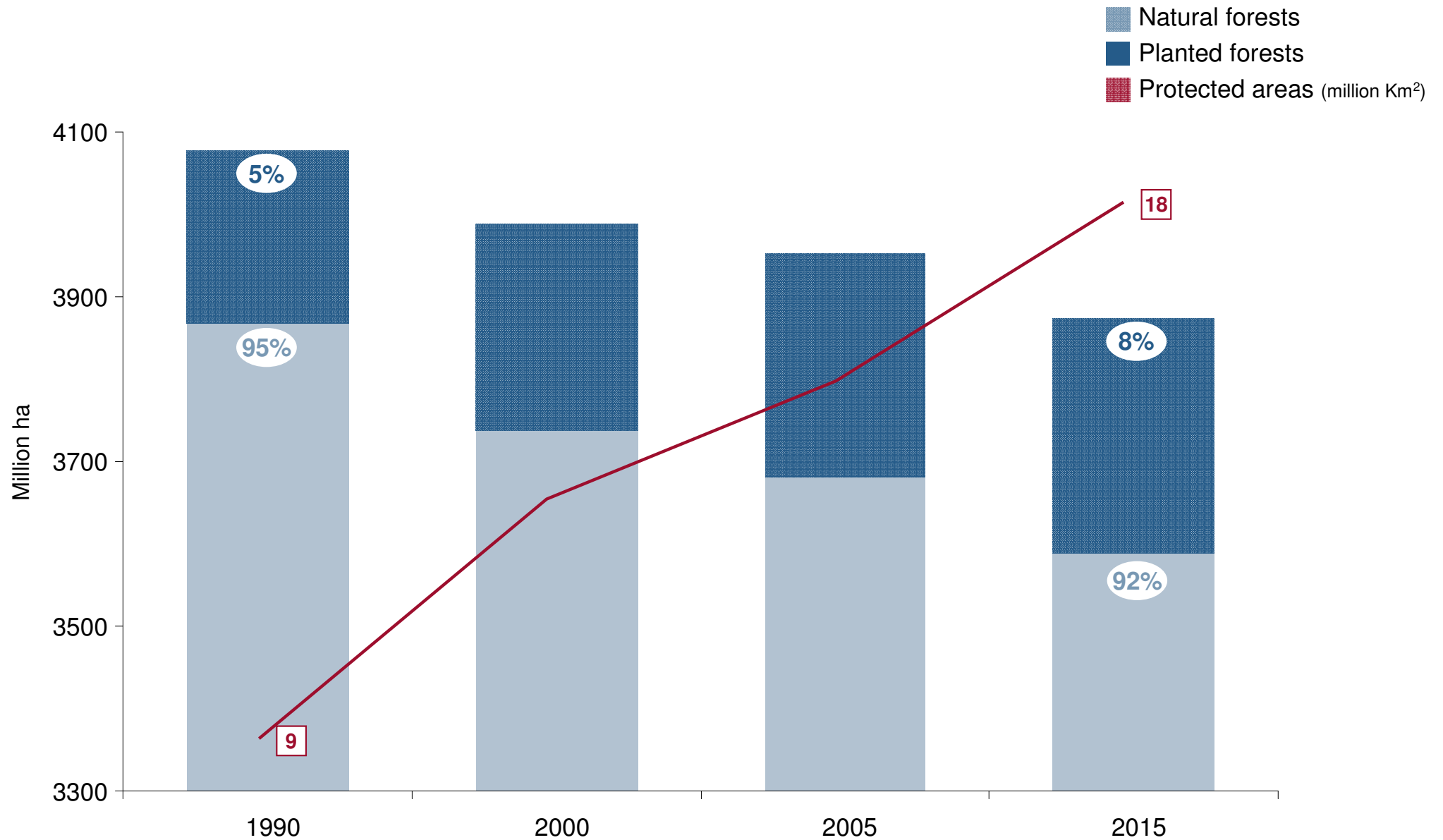
# Increasing demand triggered by population growth and rise in income ...



Source: FAO, World Bank Development Report



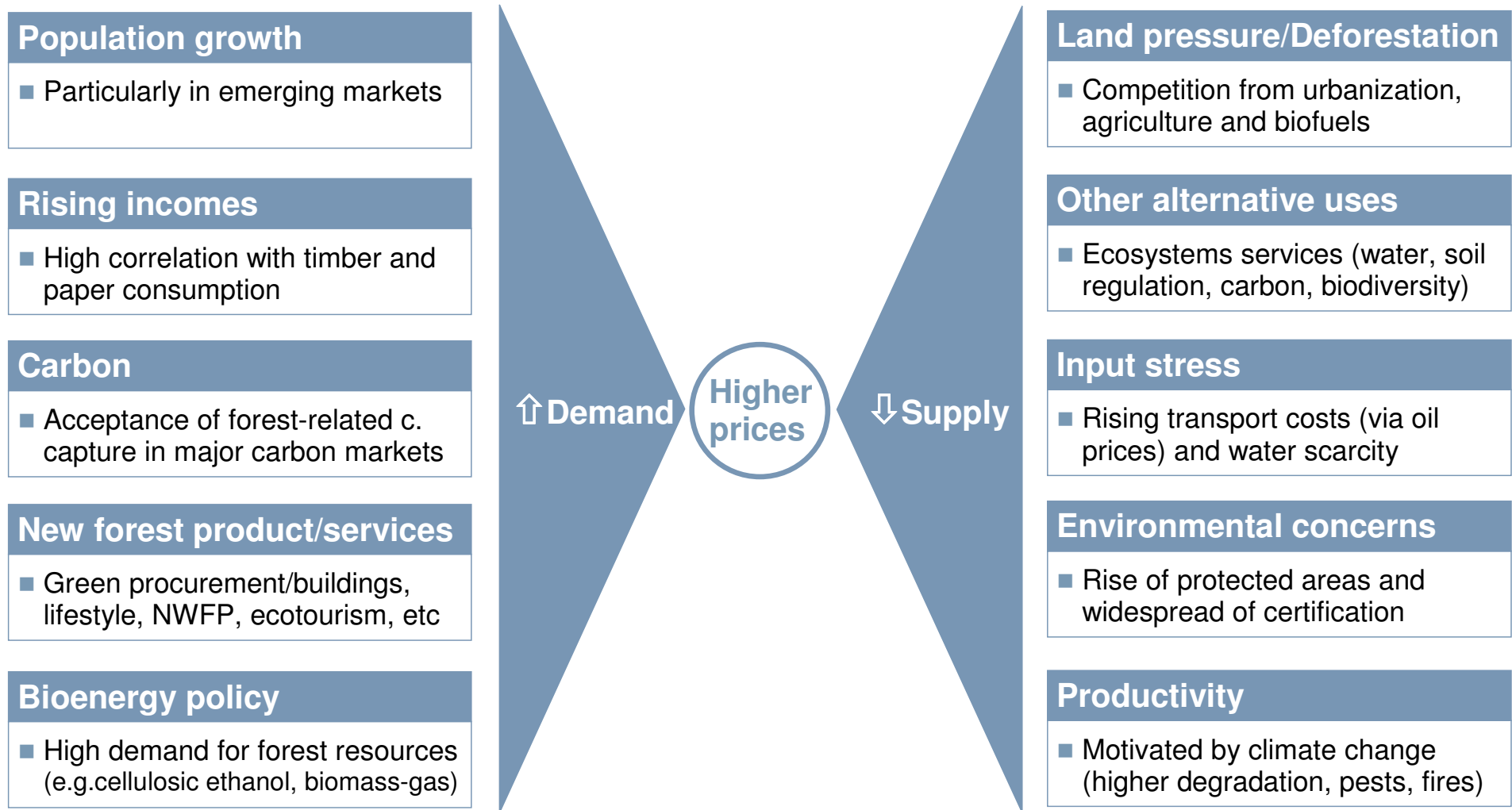
# ... and serious constraints on the supply side...



Source: WHO, USDA, FAO, UNEP World Conservation Monitoring Centre, EBGC



# ... will necessarily impact prices in the long-term

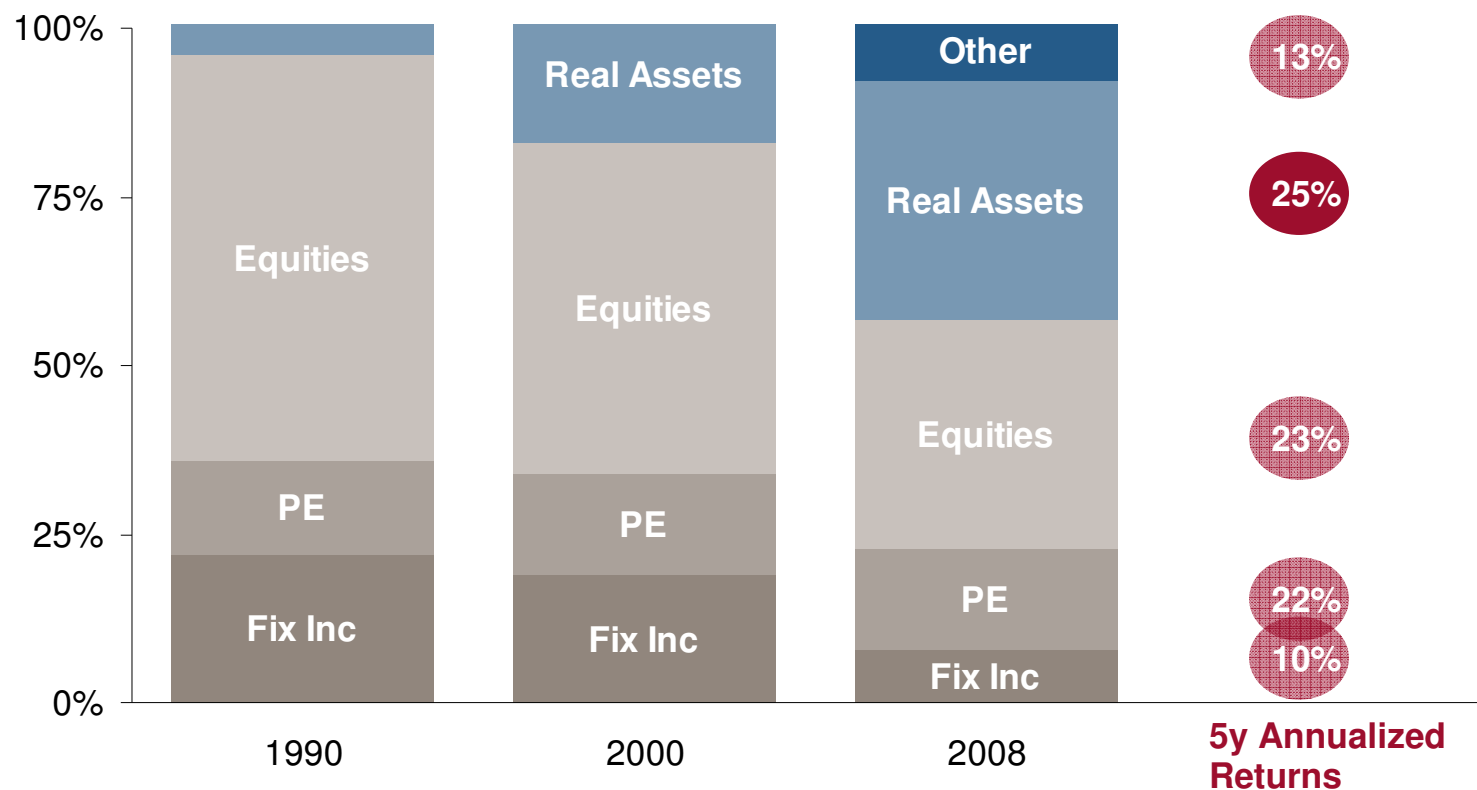


Source: World Bank, FAO, EBGC

# Timberland – an established investment in the US

- Real assets: shifting from US based sophisticated financial institutions to mainstream investors
- Timberland: US pension and endowment funds allocate up to 15% of total AuM
- > 85% of all timberland investment currently within the US

## Harvard asset allocation and returns



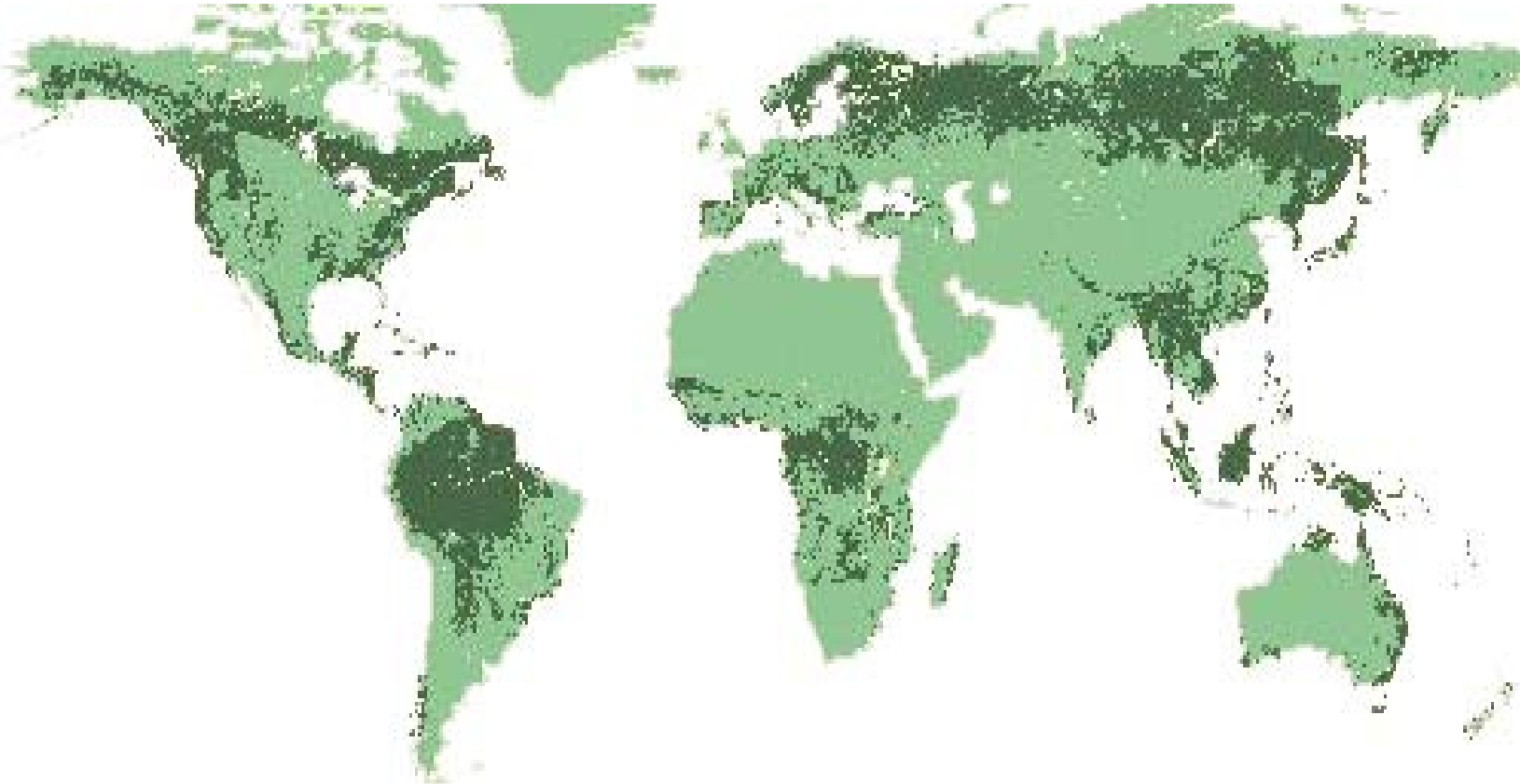
Source: Harvard Management Company, Annual Report 2008



# III - Opportunities for Professional Investors

# A globally spread but increasingly scarce resource

- Russia, Brazil, Canada, US and China account for more than half of the total forest area
- Forest products make up more than 2% of world GDP and global trade in primary wood products > US\$ 200 billion
- 12 million ha of forest are lost every year. Africa, South East Asia and South America provide the best environment for tree growth but account for >75% of total losses



Source: FAO.





# New growth markets

## Current value of forests



Small logs mainly for pulpwood

Logs for sawn wood

World cons. in 2005: 366 ml ton

World cons. in 2005: 660 ml ton

## Future value of forests

Forest for ecosystem services and carbon sequestration



Branches to bioenergy

Small logs mainly for pulpwood

Logs for sawn wood

World cons. in 2030: ??

World cons. in 2030: 1075 MTOE

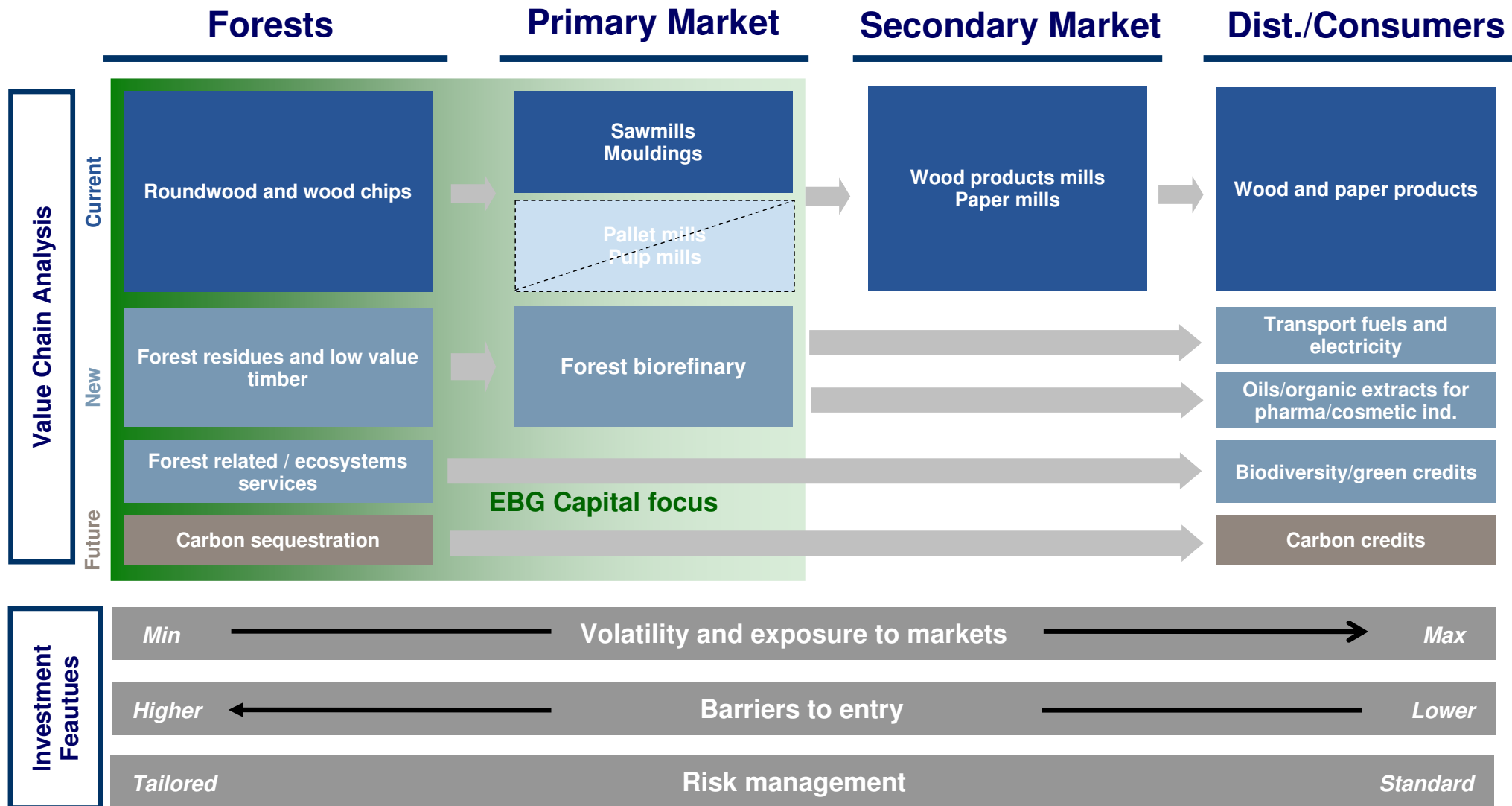
World cons. in 2030: 746 ml ton

World cons. in 2030: 1115 ml ton

Source: FAO, State of World Forests 2009, EBGC



# Along the timber value chain, upstream and select adjacent downstream operations appear most attractive



# Window of opportunity to get access to attractively priced assets and experienced local managers

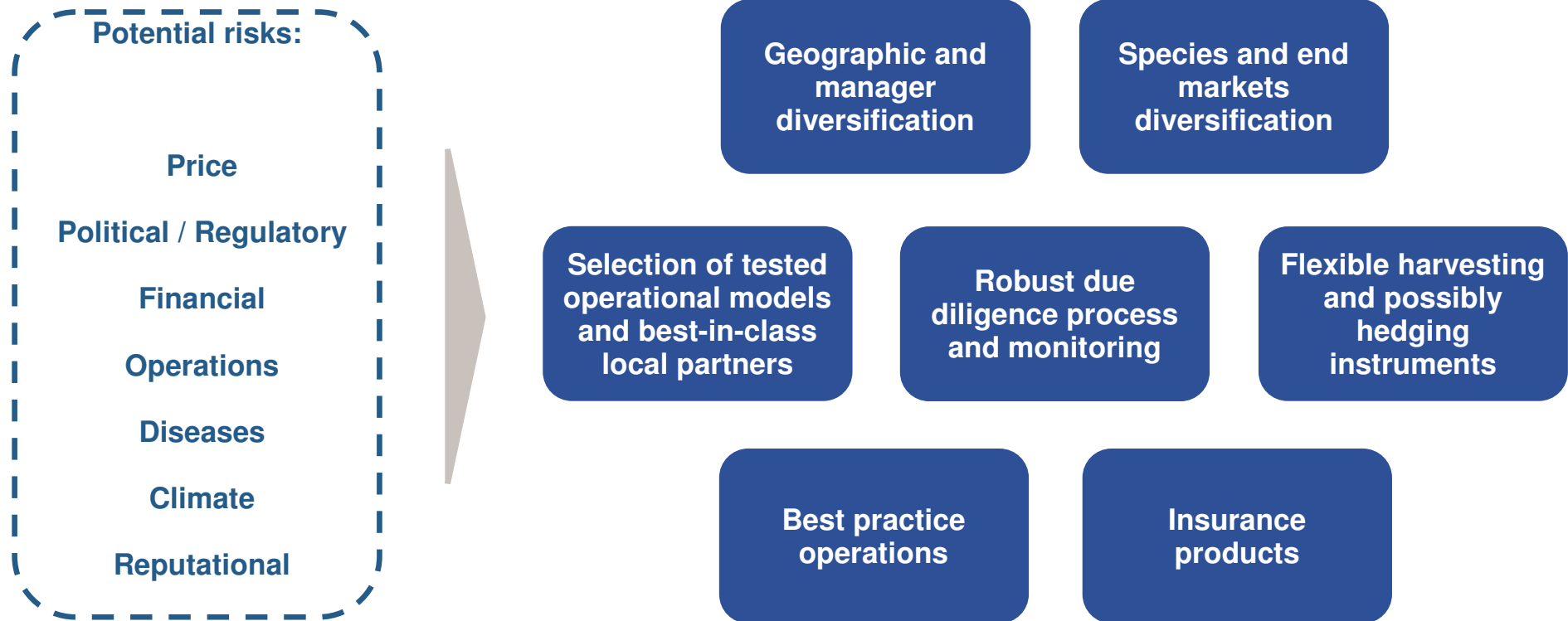
- Limited amount of investable timberland assets and experienced investment managers
- Recent financial crisis led to a decline in prices for timber and – to a lesser extent – timberland assets



FOB prices in constant 1990 US\$ per cubic meter  
Source: ITTO



# Mitigation of risks



# Diversification and attractive niche markets help mitigate volatility and create value for investors

Species	Type	Market Size <sup>a)</sup> mln m <sup>3</sup>	Prices <sup>b)</sup>	Gross Returns <sup>c)</sup>	Avg Volatility <sup>d)</sup>
			US\$ / m3 – 1998 - 08		
Eucalyptus - Brazil	Softwood - Planted	784	<p>CAGR: 0,3%</p>	7-15%	2,68
Teak - Myanmar	Hardwood "Commodity" - Planted and Natural	45	<p>CAGR: 3,9%</p>	12-20%	2,26
Ipé - Brazil	Hardwood "Premium" - Natural	11	<p>CAGR: 4,0%</p>	16-28%	2,09

Source: Waka, ITTO, FAO

a) Calculation based on estimated global hectares and density

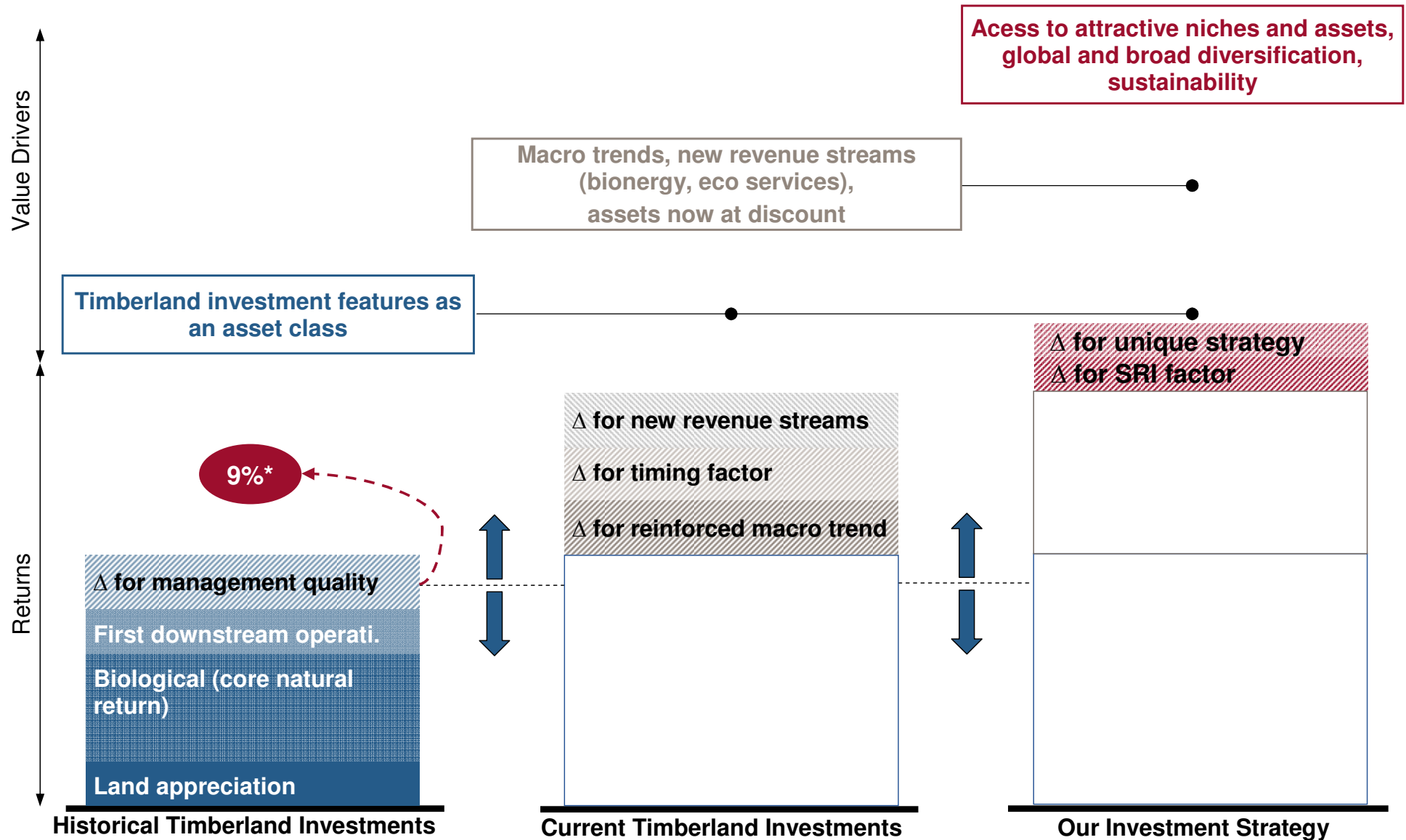
b) Prices and trend line

c) Indicative figures: Volume growth x wood price / land value (based on current explorations in Central & South America and South East Asia)

d) Planted Forest, Semi Natural and Natural Forest price volatility against regression line



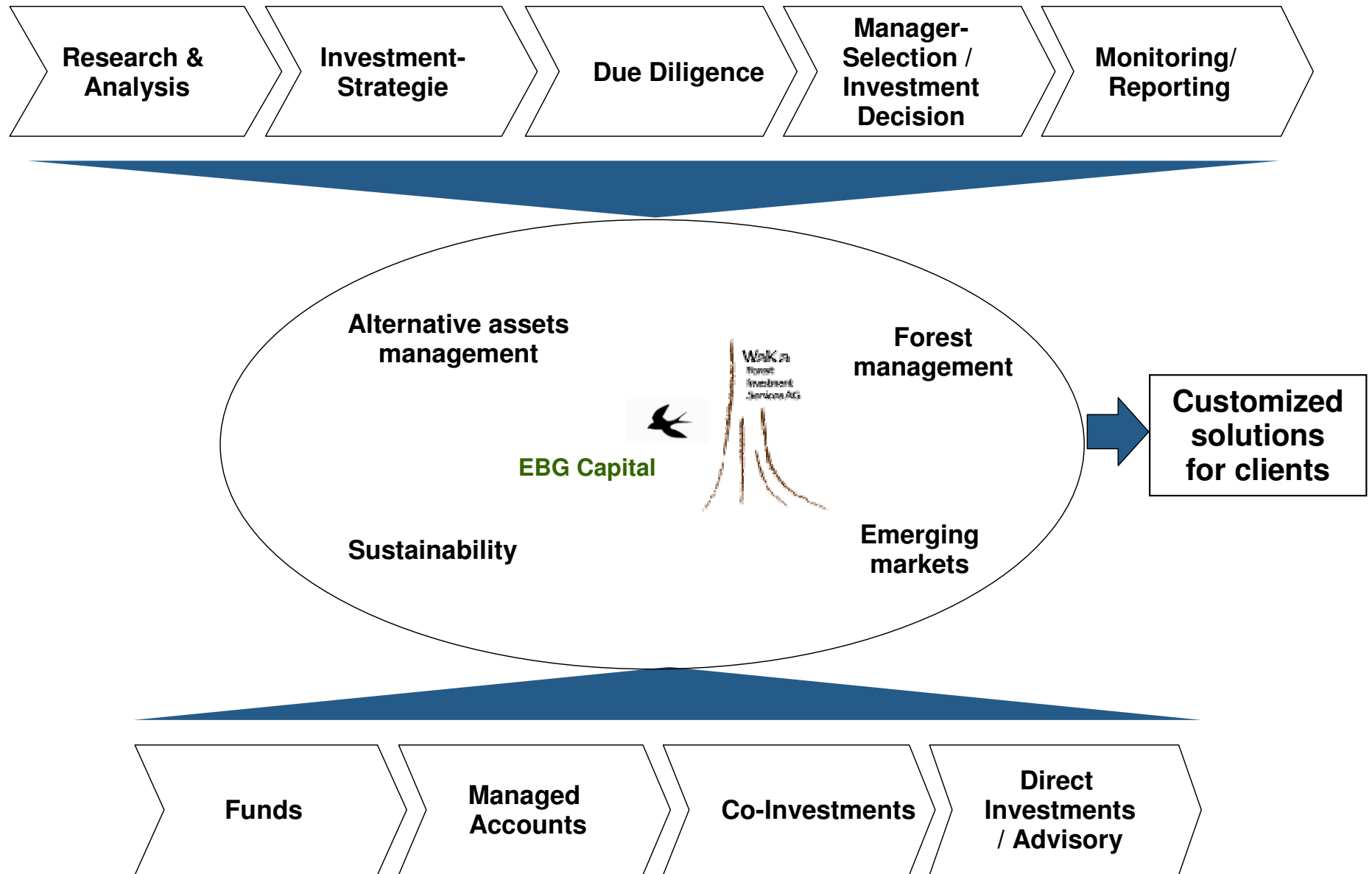
# A broad perspective, market insight and rigorous execution can create value for investors



\* NCREIF last 10 years, proxy for historical return of average timber manager in US



# Integration of skills, expertise, networks and passion is key



# Thank you



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