



**Gresham House**  
Specialist investment

# See the wood for the trees

**Why Irish pension funds should look at  
forestry as an asset class**

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27 September 2024



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# Today's agenda

## 1 Why Forestry?

- Investing in productive forestry
- Sustainability characteristics

## 14 Why Now?

- The global investment picture
- Investing in Ireland and beyond

## 21 Our Approach

- Introduction to Gresham House
- Q&A





An aerial photograph of a vast, dense forest of evergreen trees, likely spruce or fir, covering a mountainous landscape. The forest is interspersed with green meadows and clearings. The lighting is bright, suggesting a sunny day, and the overall scene is lush and green. The text is overlaid on the left side of the image.

# Why Forestry?

Investing in productive forestry



# Poll one



**Does your pension scheme include a current allocation to forestry as an asset class?**

# Poll two



Has your pension scheme considered, or is it considering, allocating to forestry as an asset class in the future?

# A core alternative asset class

## Core drivers of forestry investment:

- 1** Potential for attractive long-term returns
- 2** Portfolio diversification
- 3** Inflation protection
- 4** Sustainability

The long-term outlook for Forestry remains strong, driven by **three key megatrends** that underpin the potential for long term attractive returns...

# Strategic reasons: why forestry?

## Strong returns<sup>1</sup> and diversification



Forestry has outperformed traditional asset classes



Low correlation to other asset classes with inflation protection



Multiple and growing revenue streams



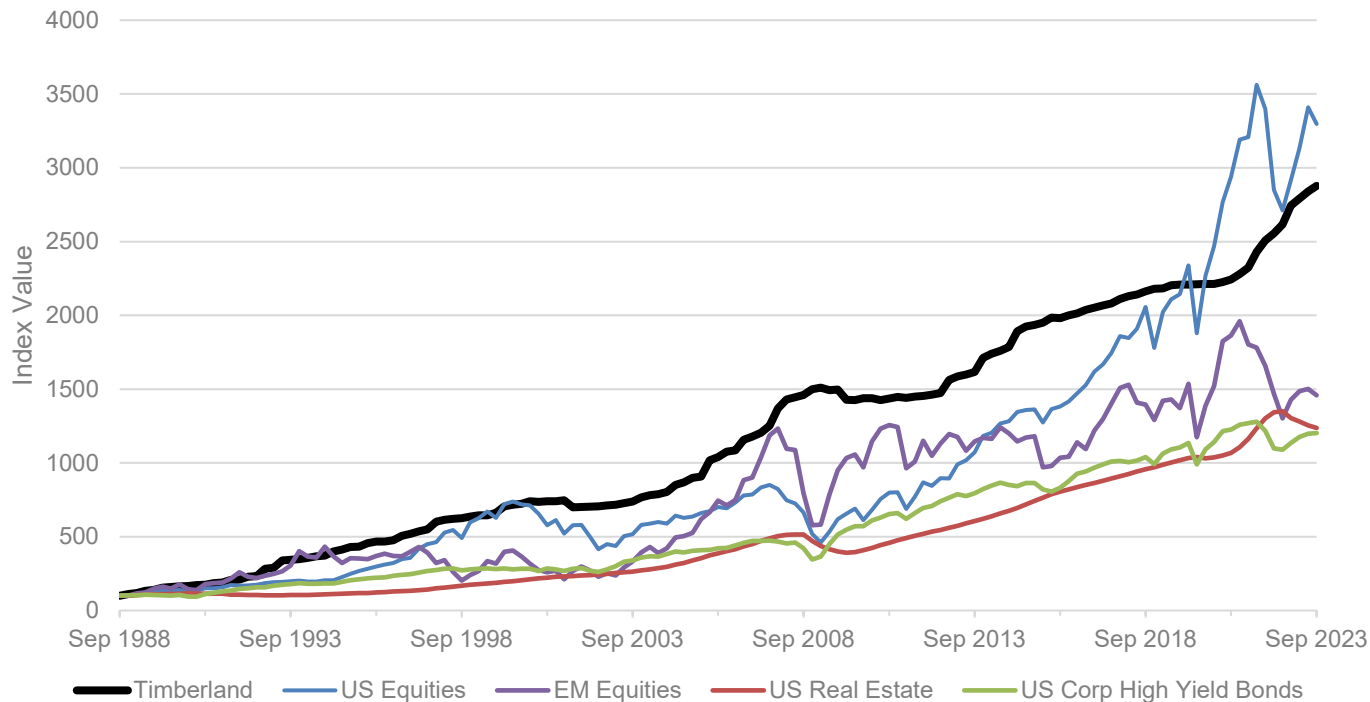
**Past performance is not a reliable indicator of future performance. Capital at risk.**

1. The Timberland NCREIF has outperformed global equities (MSCI World), MSCI Emerging Market Equities, US Commercial Real Estate (NCREIF) and S&P 500 (ex. Dividends) on an absolute basis from 1988-2023. The NCREIF Timberland Index, being the oldest and most widely used index in the forestry industry, is used as a proxy for the timberland asset class. See slide 9.

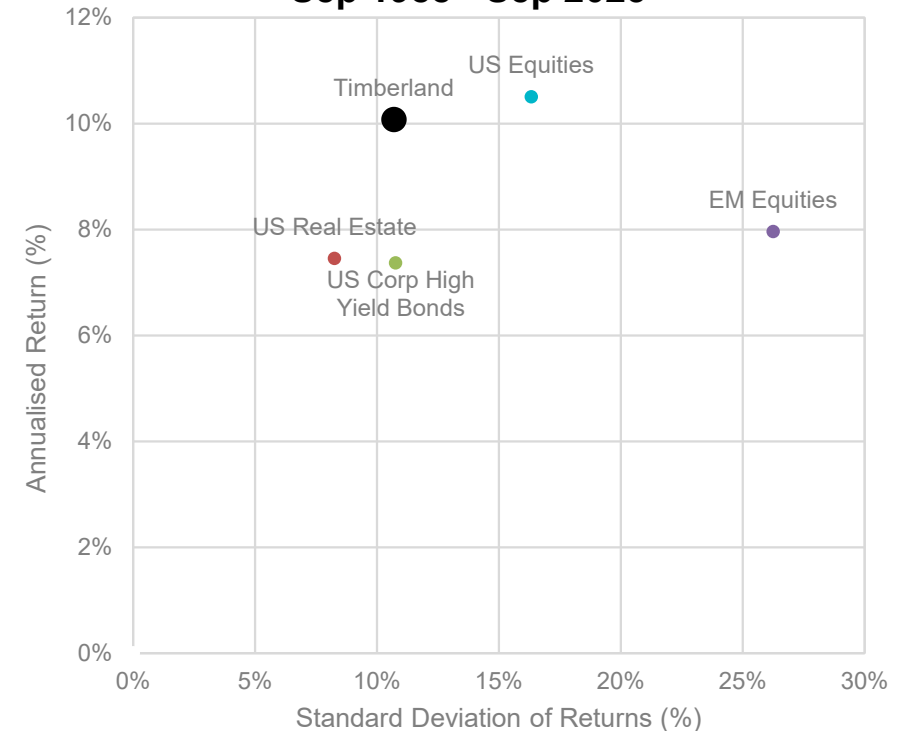


# Attractive risk and return profile

**Total Returns  
Sep 1988 - Sep 2023**



**Risk Return Profile  
Sep 1988 - Sep 2023**



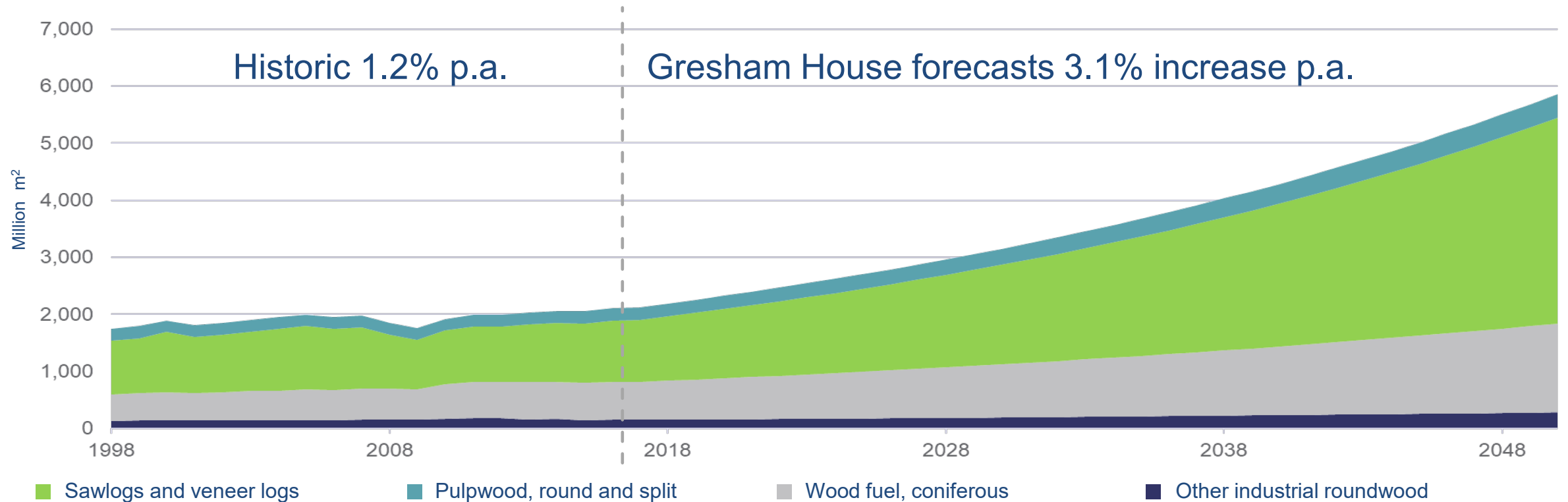
Past performance is not a reliable indicator of future performance. Capital at risk.

Illustrations of the strong performance of Forestry relative to other asset classes. The NCREIF Timberland Index, being the oldest and most widely used index in the forestry industry, is used as a proxy for the timberland asset class.

Source: Bloomberg, NCREIF and US Treasury from 30 September 1988 to 30 September 2023. Indices are total return indices. The following indices are represented: Timberland (NCREIF), US Equities (S&P 500 | SPX Index), EM Equities (MSCI EM), US Real Estate (NCREIF Property), US Corp High Yield Bonds (Bloomberg CHY TR).

# Timber demand outlook

## Global industrial roundwood consumption growth



Source: FAO Forest Product Statistics 2018; Gresham House Global Timber Outlook 2020  
Read our full Global Timber Outlook: <https://bit.ly/gresham-house-gto>



# Sustainability characteristics



Trees absorb and store ('sequester') carbon as they grow, locking it up for their entire product life cycle.



Wood products supply a low carbon alternative to mined building materials and the carbon stays locked up in wood products over their lifetime of use



35% of all new planting sites are reserved for native broadleaves and areas of biodiversity enhancement - no other productive land use comes close to this level of commitment to conservation



Certified by FSC and PEFC which ensure timber is harvested and restocked in a sustainable way



Helps local communities with rural jobs and clean air



Trees have a positive impact on local climate and soils and help prevent flooding



Provides biodiverse-rich environments for local wildlife



Provides mental health benefits for local communities

# Poll three



**What do you as a Trustee consider the main risk/disadvantage to be, in allocating to Forestry as an Asset Class?**



# Forestry risks and mitigation

## Insured risks



### Fire

- Crops are generally only at risk up to ten years of age
- Should damage occur the site requires clearing and replanting



### Wind

- Crops are generally at risk from 20 years of age upwards
- From 35 years of age upwards, mature crops can typically be salvaged with no loss of value and minimal increased working costs



### Public liability

- All properties are covered by public liability insurance

## Uninsured risks



### Loss of production from pests or disease

- Can be mitigated through a portfolio providing geographic diversification, spread of age classes and sound, proactive management



### Regulatory change

- Potential removal of grants and premiums or other policy changes



An aerial photograph of a vast, dense forest of evergreen trees. The forest covers most of the landscape, with a few clearings and a valley visible in the foreground. The trees are a deep green color, and the overall scene is lush and natural. The text is overlaid on the left side of the image.

**Why now?**

**The global investment picture**



# Strategic reasons: why now?



## Underpinned by key megatrends



Global population growth and urbanisation



Housing stock shortage



Transition to a low carbon and green economy



## Capitalising on demand/supply imbalance



Anticipated demand growth driven by the construction industry and green economy



Historic low levels of commercial timber planting



Tightening regulations and controls limiting harvesting in natural forests

# Reason one: Urbanisation

## Urbanisation

- The global urban population is forecast to rise by 18% by 2030 and 52% by 2050<sup>1</sup>
- Driven by population growth and shift from rural to urban areas



1. Gresham House, Global Timber Outlook 2020



# Reason two: Housing shortage

## Housing shortage

- Housebuilding continues to underpin timber consumption with move to offsite construction
- Levels remain below long-term historical averages in all major economies
- CBI forecasts 52,000 new homes per annum needed here for the foreseeable future<sup>1</sup>



# Reason three: Decarbonisation

## Decarbonisation



- Increased use of timber in traditional markets continues with a higher proportion of timber used in new house building
- Masstimer is a more recent trend and is set to further increase wood demand. Masstimer enables high rise buildings to be made using engineered wood products
- Bio-based chemicals, produced in biorefineries from wood products will become the source of polymers and chemicals to displace fossil-fuel derived equivalents



### Traditional Timber Uses

The city of Helsinki built four similar five-storey apartment blocks, two in wood, two with concrete. The production of materials used in the timber buildings had a **74% lower carbon footprint**.<sup>2</sup>

### Masstimer

- Concrete **releases** 159 kilos of CO<sub>2</sub>
- Steel **releases** 1,240 kilos of CO<sub>2</sub>
- Aluminium **releases** 9,300 kilos of CO<sub>2</sub>
- Wood **absorbs** a net 1,700 kilos of CO<sub>2</sub><sup>1</sup>

18 floor Brock Commons Building



UPM's Biorefinery, Germany

### Bio-based Chemical

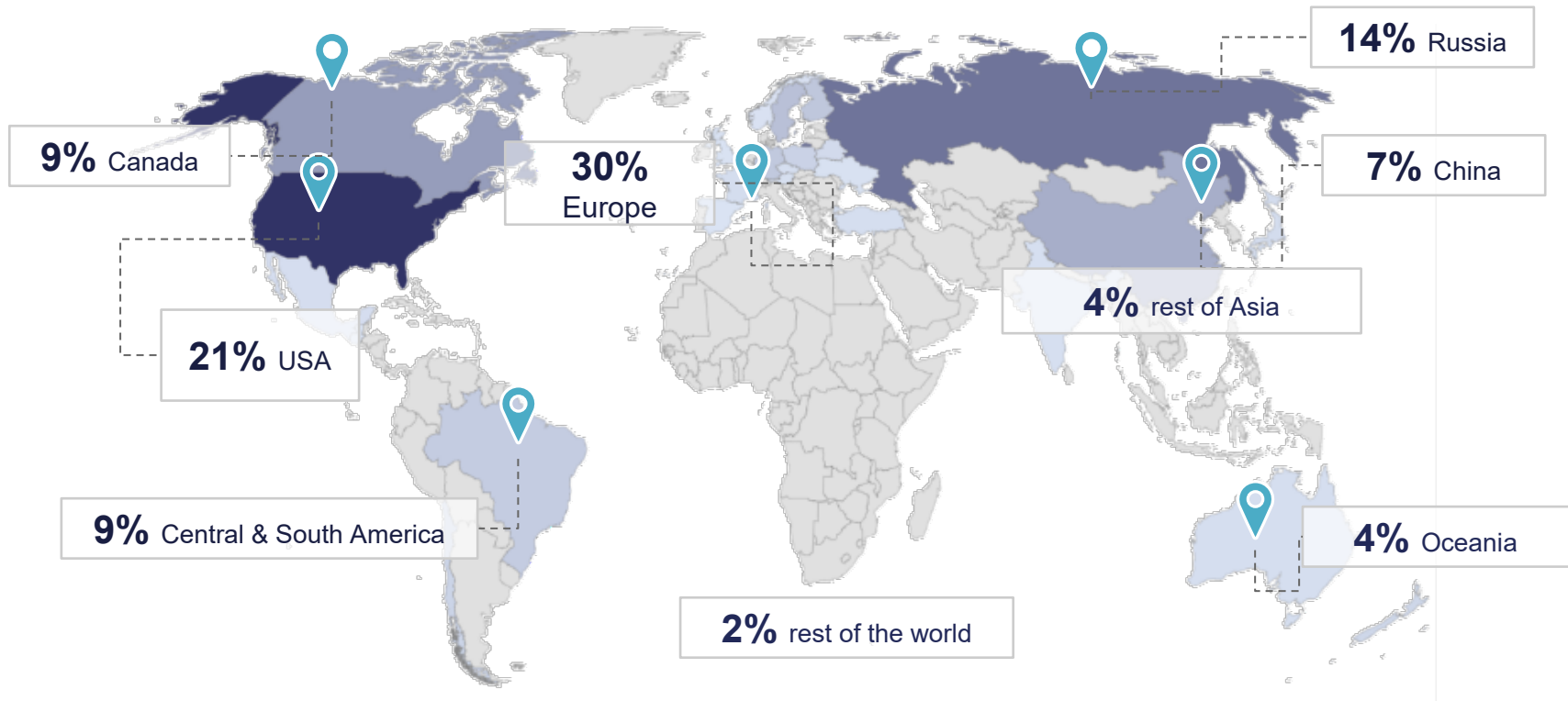
A recent announcement by UPM and Nokian Tyres marked the first large scale commercial use of lignin based compounds to replace traditional carbon black that comes from the incomplete combustion of heavy petroleum products.

1. New Zealand Forestry Owners Association - Forestry Facts and Figures 2018  
2. Wood - Building the Bioeconomy - European Commission - October 2019



# Finite supply of accessible timber

## Global softwood production



- Global industrial softwood timber is sourced from temperate forests in the northern hemisphere
- Growth rates of softwood species range from 30-100 years before the timber is ready for harvesting
- Afforestation and replanting will not increase supply of mature timber in the medium term



An aerial photograph of a vast, dense forest of evergreen trees. The forest is composed of many small, conical trees, likely spruce or fir, covering a large area. In the center of the image, there is a valley or a clearing with a mix of green grass and some scattered trees. The lighting is bright, suggesting a sunny day, and the overall color palette is dominated by various shades of green.

# The Irish opportunity



# Market opportunity in Ireland

**The outlook for Irish forest values is strongly positive driven by the global timber supply and demand imbalance and an attractive grants and premiums scheme to encourage and support afforestation.**



With its wet, maritime climate and good soils, Ireland is perfectly positioned to develop and grow its forestry industry with historic growth rates being some of the fastest in the developed world



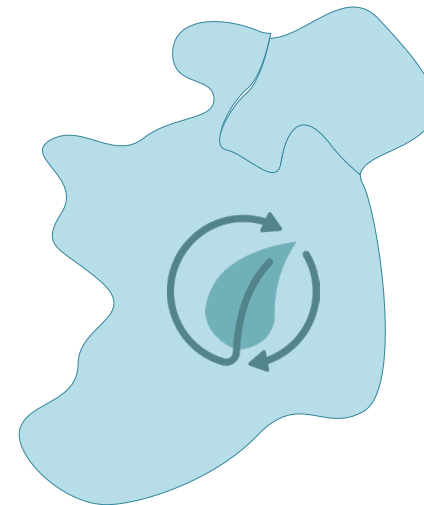
Ireland is among the least forested nations in the EU, forest cover was around 11%, compared with the EU average of almost 40%<sup>1</sup>



Privately-owned forestry assets in Ireland are highly fragmented (average size 8.6 hectares)<sup>2</sup> supporting unique value creation opportunities for experienced managers to aggregate assets into larger scale portfolios



The timber output from Irish forests is processed by a modern and highly-efficient sawmilling and wood processing sector, which is well invested and has significant growth capacity



**770,000ha**  
of productive conifer  
resource<sup>2</sup>

**8.6ha**  
average lot size<sup>2</sup>

1. Eurostat, 2021

2. Mark McAuley, Director of IBEC's Forest Industries Ireland (FII), Irish Times, 2019

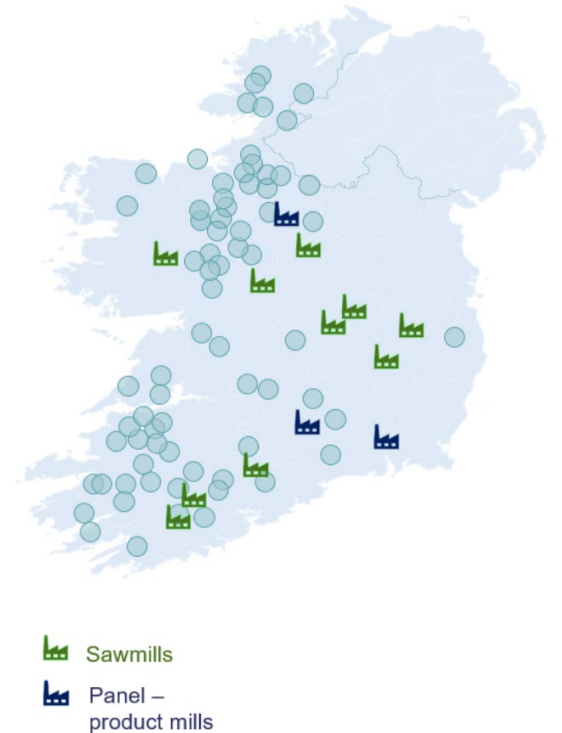
# Irish processing sector

- The UK is the world's 2nd largest importer of wood products per capita
- Irish mills enjoy toll-free, tariff-free access to this market
- The Irish processing sector is highly developed and equal to the best in Europe
- 6 large sawmilling groups and 3 panelboard mills process all timber output from Irish forests
- The primary markets for sawn timber are Ireland and the UK. Panelboard output is exported all over Europe and beyond.

Image: Balcas, Enniskillen



Image: SmartPly, Waterford





# Irish policy support for afforestation

Governments recognise the crucial role that forestry plays both in sequestering CO<sub>2</sub> from the atmosphere and providing timber to replace building materials that generate high CO<sub>2</sub> emissions, such as concrete, steel and aluminium.



Productive woodland creation is the process of planting and establishing trees on unplanted land to create new forestry



Policymakers in Ireland have set a planting target of 440mn trees by 2040, around 22mn trees p.a.<sup>1</sup>



Ireland has an attractive grants and premiums scheme to encourage and support afforestation<sup>2</sup>



New planting schemes benefit from grant payments which offset approximately 95% of total planting costs<sup>3</sup>



Grants and premia on afforestation sites are payable for up to 15 years<sup>2</sup> supporting high levels of cash yield over the life of an asset



1. Irish Times, Ireland plans to plant 440mn trees by 2040, August 2019

2. Irish Government, forestry grant schemes

3. Gresham House estimates



An aerial photograph of a vast, dense evergreen forest. The trees are a mix of dark green and lighter, yellowish-green, suggesting different species or perhaps the effect of sunlight. The forest covers a valley floor and slopes. In the center, there's a small clearing or valley floor with some lower vegetation. The overall scene is lush and green.

# Why Gresham House?

Our approach



# Specialists in alternatives

Gresham House is a specialist alternative asset management group, providing funds, direct investments and tailored investment solutions, including co-investment.

## Real assets



## Strategic equity



€10.4bn (£8.8bn) AUM<sup>1</sup>



1. Gresham House as at 30 June 2024



# The Gresham House difference

## Value creation

- Active land management
- Accessing multiple return drivers
- Unlocking overlooked value

# 1

## Risk mitigation

- Focus on low-risk countries and high-quality assets
- Diversification in sites, species and markets

# 2

## Sustainable focus

- Sustainability throughout the investment cycle
- ESG commitments in Forestry Charter
- Strategy enhances biodiversity

# 3

## 13%

average annual returns since inception<sup>1</sup>

## 7<sup>th</sup>

Largest global forestry manager<sup>2</sup>

## 40 years'

experience in forestry<sup>3</sup>

**Past performance is not a reliable indicator of future performance. Capital at risk.**

1. Long-term annual returns (net of all fees and costs) from four long-established Gresham House forestry funds/portfolios from 2008 to 31 December 2023. Performance for individual products are available on demand and blended performance may not be representative of any one product.

2. IPE Real Assets, January/February 2024 (by AUM).

3. Incorporates time prior to Gresham House acquisition of Aitchesse Ltd in November 2015, and FIM Services Ltd in May 2018. Source: Gresham House, IPE Research January 2023.



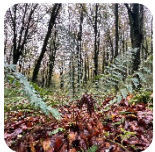
# Gresham House Forest Charter

Our Forestry Charter commitments seek to protect and enhance the long-term value of our forests and protect our license to operate by maintaining respectful and beneficial relationships with all stakeholders. Our Charter goes beyond the requirements of independent certification.



## Forest products and services

- Ensure 100% of timber sold is certified to international standards
- Generate reliable and transparent carbon credits



## Biodiversity and woodland ecology

- Maintain, conserve and enhance biodiversity
- Protect priority habitats and species



## Income and employment

- Target accident-free workplaces
- Promote fair and diverse working conditions and discrimination-free workplaces



## Climate change

- Increase carbon sequestration and reduce operational emissions where possible
- Protect high carbon stock land



## Forest protection

- Avoid deforestation
- Minimise use of pesticides and fertilisers
- Maintain or enhance hydrological functions



## Communities and people

- Engage with local communities
- Protect rights of local communities, including indigenous people, and historic sites
- Provide public recreational and educational access

# Example of our approach: The Irish Strategic Forestry Fund LP

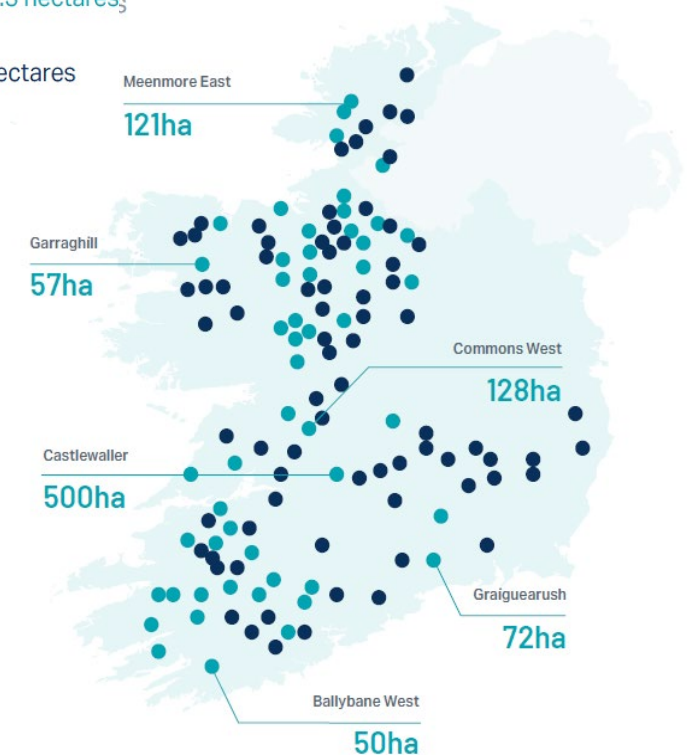
- **Launched in December 2022**
- **Partnered with best-in-class woodland manager (Coillte)**
- **Aggregation of privately-owned, forests and mobilisation of the timber resource**
- **Rapidly building a portfolio of assets diversified by:**
  - Ownership type: harvesting rights for short-term cash generation; Freehold assets for long-term value creation
  - Age class: mature assets (within 5 years of clearfelling), semi mature assets (thinning stage), bare land for new woodland creation
  - Species: productive conifers for financial returns with native woodland for long-term retention
  - Geographic: assets in every province to mitigate against impact of localised weather/fire events
- **All the forests are open to the public, increasing the community & Public engagement with the resource**

Freehold properties: 2,186.3 hectares,

80 Forests

Harvesting rights: 2,805 hectares

81 Forests



The Irish Strategic Forestry Fund LP



# Example of our approach: The Irish Strategic Forestry Fund LP

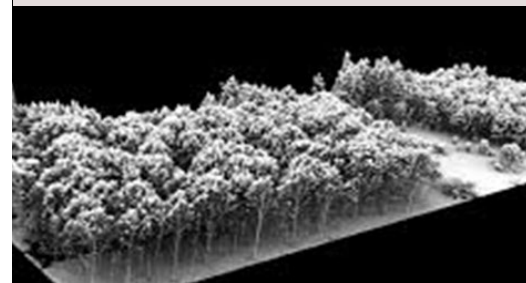
## Acquisition due diligence in partnership with the Woodland Manager (Coillte)

- **Climate scenario modelling to ensure site**
  - species suitability against future climate scenarios
- **Detailed inventory of standing crop**
  - access to historic satellite imagery to look back at crop development
  - Lidar and drone assessment complements ground-truthing
- **Comprehensive environmental screening – NHAs, SACs, SPAs**
- **Detailed woodland management plans to operate the entire portfolio against pre-determined objectives**

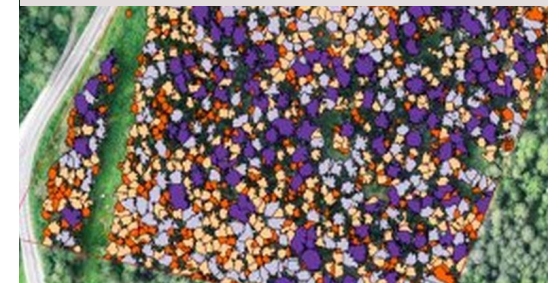
*Extensive use of Satellite imagery and aerial photography*



*Lidar 3D scan*



*Crown delineation & species detection*



# Poll four



**Would your Pension Scheme  
now consider an allocation to  
Forestry as an Asset Class in  
the future?**



# Poll five



**Where do we send the paperwork?!**

# Conclusion

Forestry has proven an attractive alternative asset class for long-term investors.

Benefitting from the value of a naturally growing sustainable commodity and the security of ownership of the underlying land - with the advantage of a flexible harvesting income window.



## Long-term returns

- Biological growth
- Global timber demand and prices
- Carbon credit demand
- Land value appreciation
- Higher business uses (telecoms and wind farms)



## Portfolio resilience

- Positively correlated to inflation
- No obligation to harvest trees if markets are depressed - Trees can be left to grow, increasing in both volume and value



## Portfolio diversification

- Little/no correlation with most mainstream assets
- Inherent diversifying properties



## Sustainability features

- Trees absorb and store ('sequester') carbon
- Good forest design enhances biodiversity
- Certified by FSC and PEFC which ensure timber is harvested and restocked in a sustainable way

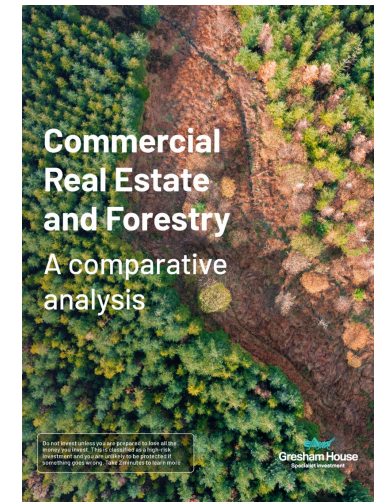
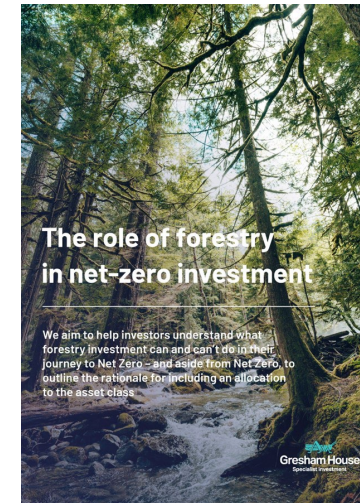
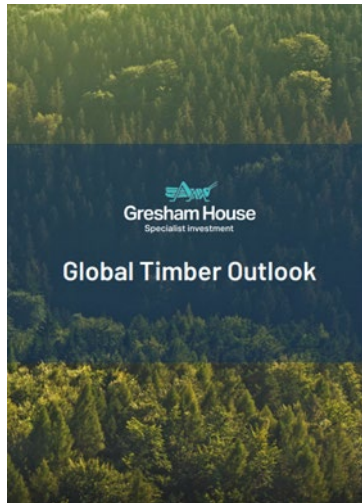


An aerial photograph of a vast, dense evergreen forest. The trees are a deep green color, and the forest covers most of the landscape. There are several clearings or meadows scattered throughout, particularly in the lower half of the image. The lighting suggests a bright day, with some highlights on the tree tops. The overall scene is a lush, natural environment.

Q&A



# Further reading





# Find out more

## Speak to a member of the forestry team



**Joe O'Carroll**  
Investment Director, Forestry

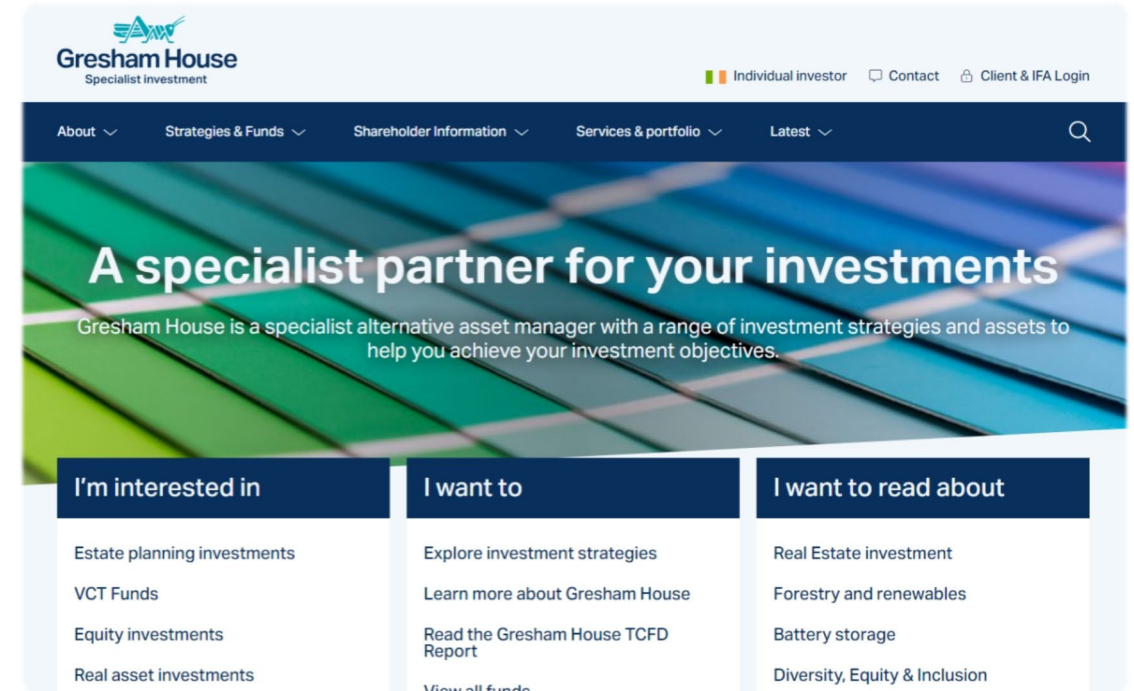
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