



# Can private investment support sustainable forestry, climate action and community development?

**David Brand, CEO, New Forests Pty Ltd**

Presentation to MegaFlorestais, February 2021

# Important Note

© This presentation is issued by and is the property of New Forests Pty Ltd (“New Forests”), and is intended for the sole use of its clients, consultants, and other intended recipients. It should not be forwarded to any other person. The presentation is strictly confidential and proprietary information and may not be reproduced or used in any form or medium without New Forests’ express written permission.

This presentation is dated 15 February 2021. Statements and data are presented only as of the date of this presentation unless otherwise stated. New Forests is not responsible for providing updated information to any person.

The presentation is intended for discussion and illustrative purposes only and does not represent advice or a recommendation to enter into any investment. This presentation does not constitute financial product advice nor is it an offer to buy or sell, nor a solicitation of an offer to buy or sell, any security or other financial product. If applicable, this presentation is subject to the terms and conditions set forth in the final fund disclosure documents and the final fund investment documents, which are available upon request. This presentation does not purport to contain all the information a person may require in relation to its content matter. Prospective investors are not to construe the contents of this model as legal, tax, investment, financial or other advice. Each prospective investor should consult its own advisers as to the legal, business, tax and other related matters concerning any investment.

The information contained in this presentation may include financial and business projections that are based on a large number of assumptions, any of which could prove to be significantly incorrect. New Forests notes that all projections, valuations, and statistical analyses are subjective illustrations based on one or more among many alternative methodologies that may produce different results. Projections, valuations, and statistical analyses included in this presentation should not be viewed as facts, predictions or the only possible outcome. Past performance is not an indicator of future performance.

New Forests Advisory Pty Limited (ACN 114 545 274) is registered with the Australian Securities and Investments Commission and is the holder of AFSL No 301556. New Forests Asset Management Pty Limited (ACN 114 545 283) is registered with the Australian Securities and Investments Commission and is an Authorised Representative of New Forests Advisory Pty Limited (AFS Representative Number 376306). New Forests Inc is registered as an investment adviser under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). Registration with the SEC does not imply any specific or certain level of skill or training.





## About New Forests

- Founded in 2005 to manage institutional investments in the forest sector
- Head office in Sydney; 80 employees in Australia, New Zealand, Singapore and San Francisco
- Managing investments in approximately USD 5.0 billion of assets including over 950,000 hectares of forests and rural land, timber processing facilities, infrastructure and conservation investments across Asia-Pacific and USA
- Clients are pension funds, reinsurance companies, medical benefits trusts, etc.
- Company mission is strongly oriented to sustainable forest management and role of forests in addressing climate change

# Institutional Investment in Forestry

*About \$100b has been invested in forestry, but 90% is in the United States, Australia and New Zealand—that may be changing*

- Institutional Investors include Pension Funds, Insurance and Re-Insurance companies, Medical Benefits Trusts, Sovereign Wealth Funds, Foundations and Endowments—approximately \$70trillion
- Many of these investors control \$100s of billions of dollars and can be considered ‘universal investors’ because they invest across the entire global economy
- They design portfolios of investments to meet their future liabilities—pensions, insurance payouts, medical costs, government initiatives, etc
- Forestry has been seen as a ‘real asset class’ alongside real estate, infrastructure and farmland
- Forestry has attractive characteristics of low risk relative to returns, cash yield, and low correlation with other assets
- Main issue for investors has been limited size of forestry asset class—all investible forests in the world would represent a fraction of the value of Manhattan real estate—is it worth the time and effort to invest in these scarce assets?



# Investment Strategy is Shifting in Forestry

*Climate Change will come to dominate*

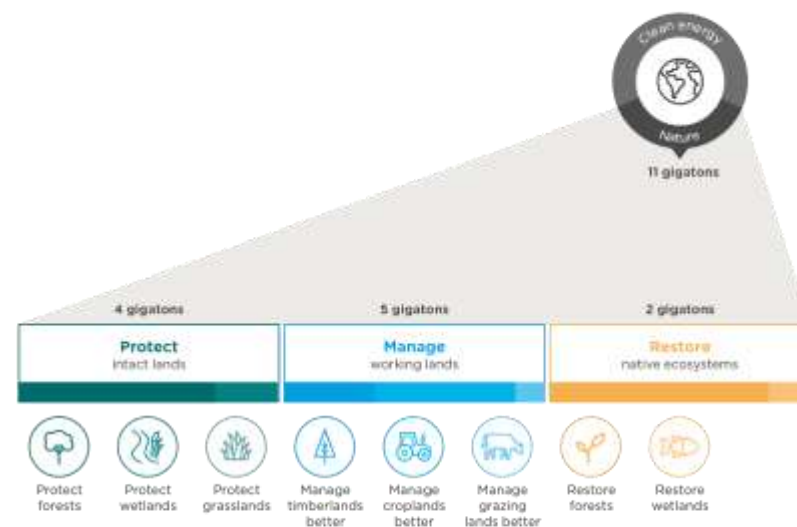
- Interest in the forestry sector is increasing because of the rising demand for decarbonization of the global economy
- Europe, the UK, the USA, Canada, Japan, Korea, New Zealand and China have made net zero commitments
- Thousands of corporations have pledged to net zero, and the oil and gas majors are seeking to transition their businesses
- Investors controlling \$trillions of dollars have made the commitment to align their investments with the Paris Agreement goal of Net Zero by 2050.
- This is a significant opportunity for the forestry sector worldwide
- Two key areas are of interest to investors:
  - The role of forests and land use in reducing emissions and increasing ‘removals’ of CO2 from the atmosphere
  - The transition to a circular bio-economy



# Natural Climate Solutions

*Sustainable Forestry and Agriculture, conservation and restoration are now seen as central to climate change mitigation*

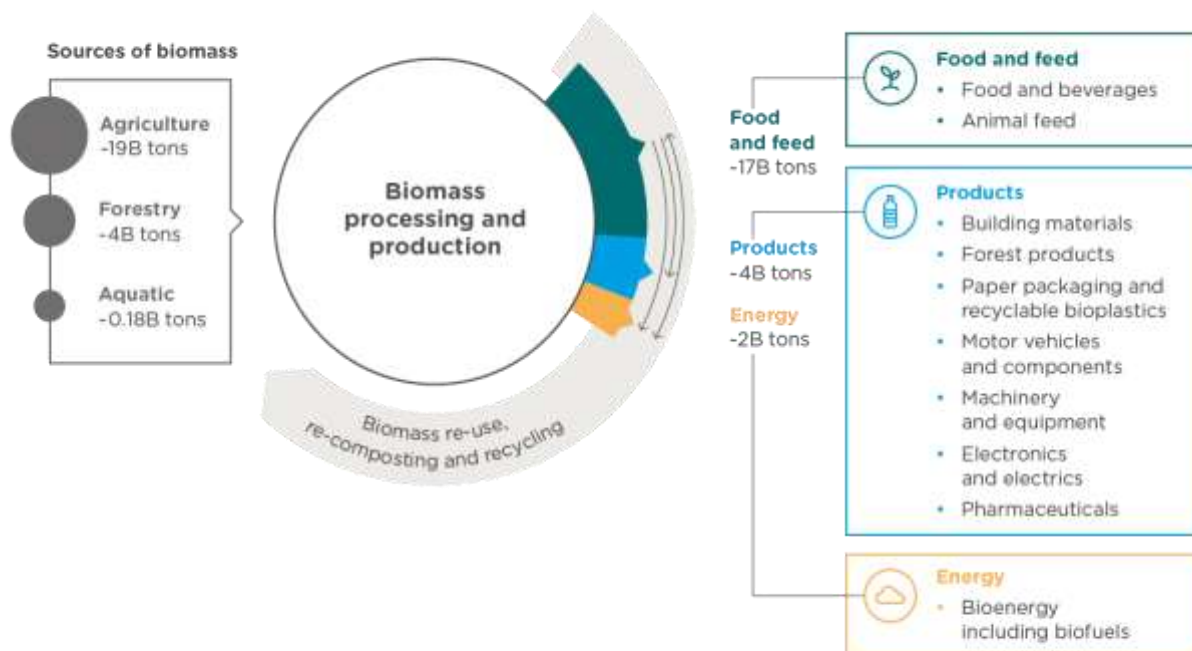
- Deforestation, degradation of ecosystems, and agriculture represent 25% of global emissions
- This represents 10b tonnes of CO<sub>2</sub> equivalent per annum—this needs to be urgently reduced
- Restoration and sustainable forestry and agriculture can also absorb CO<sub>2</sub> in vegetation, soils and peatlands—goals of several billion tonnes per annum by mid-century
- Collectively this is a bigger transition than the shift from fossil fuels to clean energy



# Implications of the Rising Bioeconomy for the Forestry Sector

*Demand for sustainable, re-usable, recyclable, and renewable materials is rising.*

**Toward a  
Circular  
Bioeconomy**



Source: WBCSD CEO Guide to the Circular Bioeconomy, 7 November 2019.  
Graphic sources: Eurostat; OECD report 2018; Freedonier WU Vienne; WBCSD; BCG analysis; Member companies.

By comparison the world produces 10b tonnes of concrete,  
2b tonnes of steel and 400m tonnes of plastics each year -  
*How much of this could be substituted with wood and wood fibre?*



# The Forestry Sector and the Transition to a Bio-economy



Climate friendly products with substantial benefits:

- Lower embodied energy
- Substitutes for higher emission products



Fibre-based industries



Construction materials  
Engineered products  
Furnishings



Biomass  
Biochemicals  
Biofuels

## How does the forest sector contribute to the bio-economy?

- Systematic substitution of biomass-based materials for existing petroleum-based or high embodied energy materials (e.g. concrete and steel)
- Multiple opportunities are emerging in parallel:
  - Sustainable packaging
  - Cellulosic fabrics
  - New engineered wood materials and multi-story wood construction systems
  - Biochemicals and bioplastics
  - Biomass energy and fuels

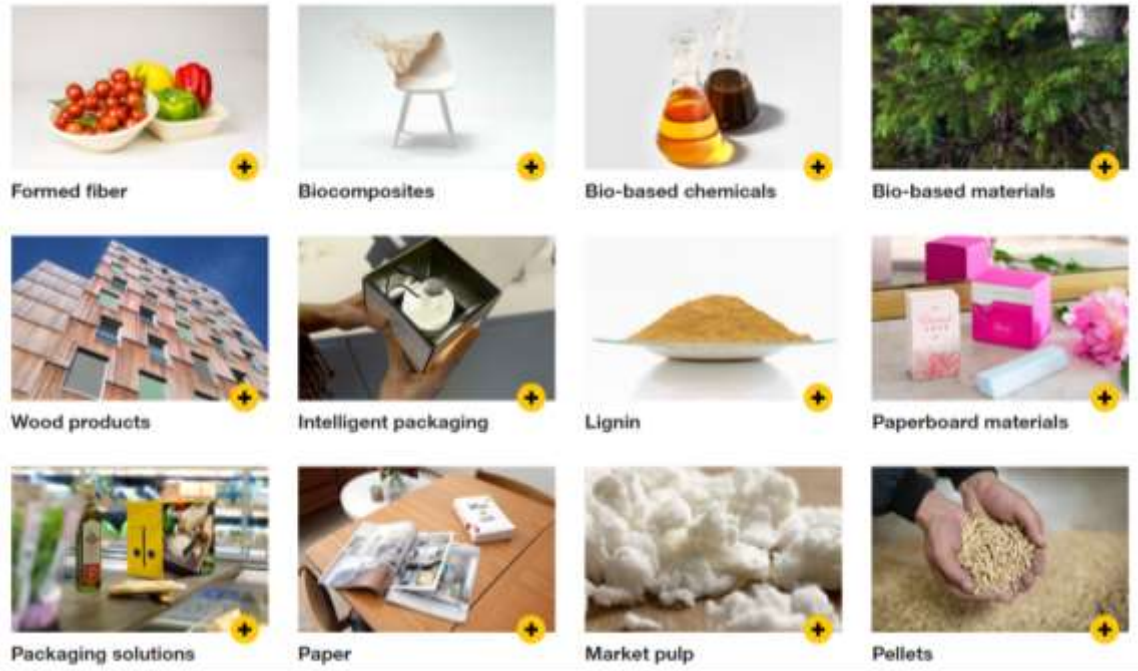




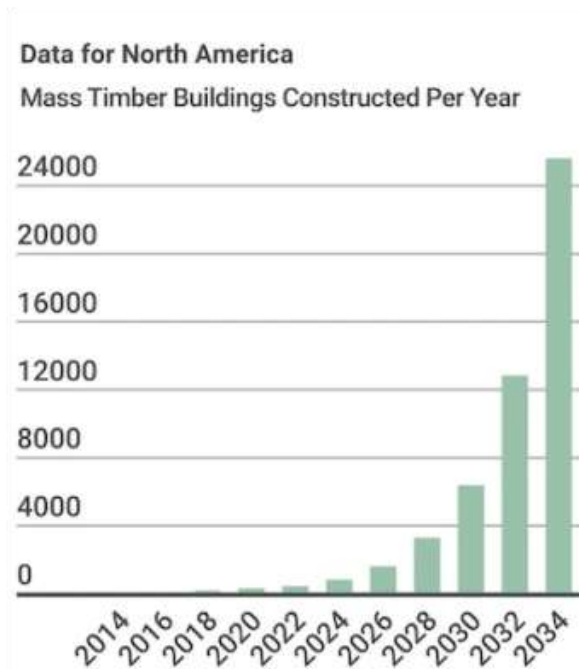
# Example: Stora Enso – The Renewable Materials Company

*Motto: “Anything made from fossil-based materials today can be made from a tree tomorrow”*

- Stora Enso is a leading example of a company leading the transition to a circular bio-economy
- 70% of the sales revenue of the company today is from products it did not make ten years ago.

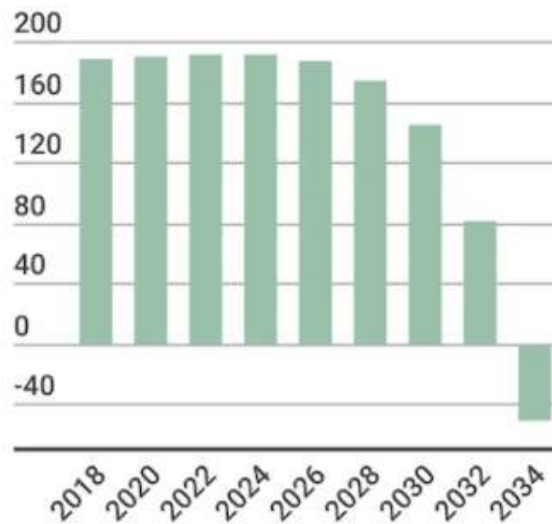


# Mass Timber Construction in the USA is expected to double every two years



Source: North American Mass Timber: 2020 State of the Industry

Carbon Impact In Millions Of Tons Per Year



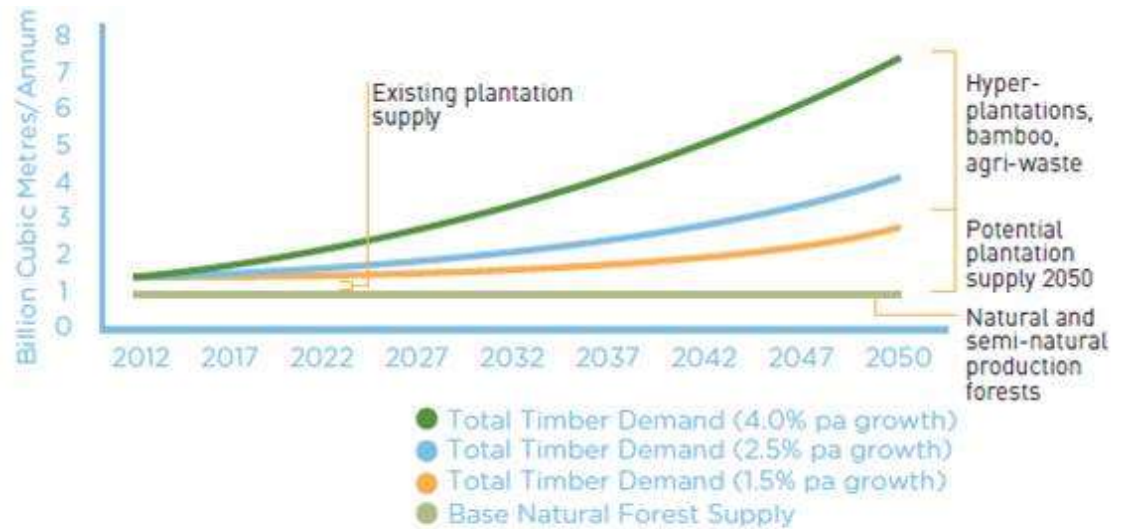
- Substantial increase from dozens of buildings per annum now to thousands by 2030's.
- Entire US construction industry could become carbon neutral by 2034
- Linked with the prefabrication trend, could be one of the most significant transitions ever seen in the construction industry



# Demand for Wood Fibre and Woody Biomass in a Bio-economy Transition

A substantial increase in demand for both climate change mitigation and biomass-based materials and energy will drive a need for expansion in reforestation and forest sector production.

This will need to come largely from sustainably managed plantations in the southern hemisphere and tropics.



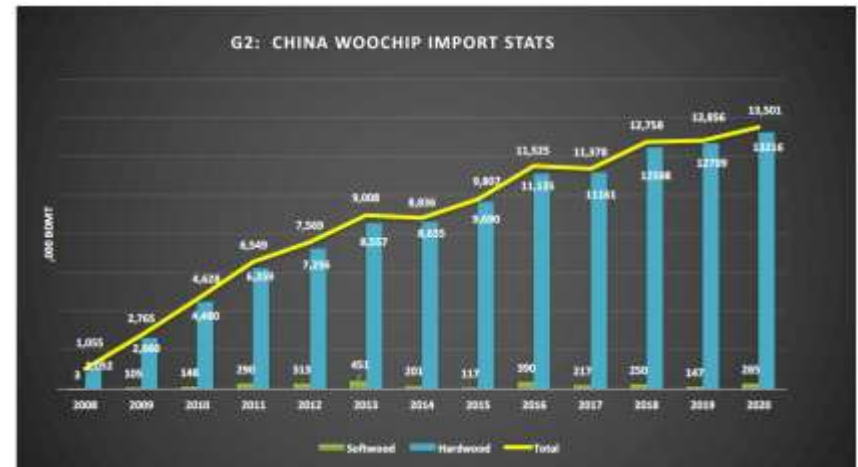
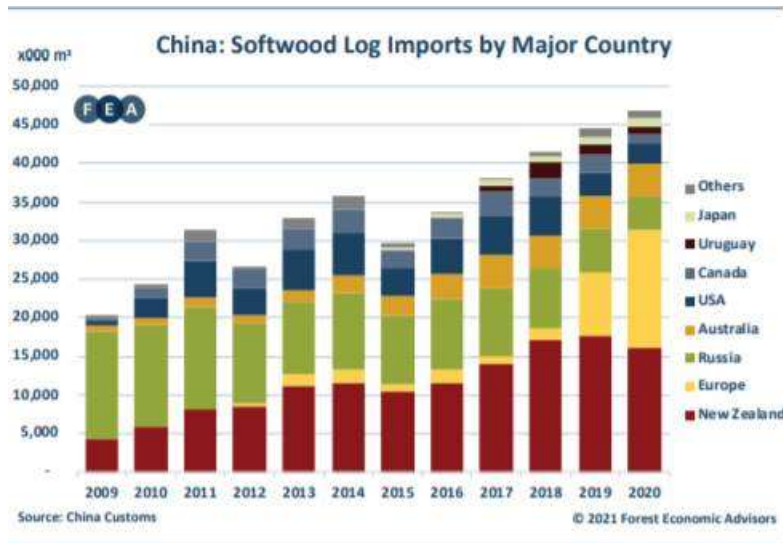
Source: WWF Living Planet Report 2014 and New Forests estimates.



# Example—Chinese Demand Growth

Chinese Softwood Log Imports have doubled since 2009

Chinese Woodfibre Imports have increased almost 5-fold since 2009



- Chinese demand growth has substantially restructured global timber markets.
- Imports of Lumber and Wood Pulp have risen even faster than logs and woodfibre
- Asia and Africa may be huge growth markets in the coming decades



# Climate Finance for Forests

*Multiple programs to create a carbon price signal in forestry are now operating*

There are opportunities for investors, but rules vary from scheme to scheme. Paris Agreement is 'bottom up'. New Forests has undertaken dozens of transactions in these markets

Offset Program	Current Pricing	Main Protocols	Market Features	Outlook
California incl. Quebec (Western Climate Initiative)	USD 13	Improved forest management across USA	Price floor rising annually reduces volatility	Extended to 2030 with supermajority in legislature
New Zealand Emissions Trading Systems	USD 30	Reforestation	Market price sensitive to recent lifting of price cap to about USD 36	Linked to NZ Gov't 2030 Target under Paris Agreement, but subject to revisions by future governments
Australian Emission Reduction Fund and Safeguard Mechanism	USD 12	Reforestation and extended rotations	Reverse auction with Government as primary buyer, but with increasing corporate secondary demand supporting market	Re-elected Coalition government has recommitted to funding of program, pressure on government to lift climate ambition
REDD+ and other voluntary credits including CORSIA	USD 3-5	Conservation, reduced impact logging, restoration and reforestation	Voluntary or Government contracts have been insufficient to support meaningful price; too many low quality projects	Task Force on Voluntary Carbon Markets seeking to increase credibility and transparency; CORSIA, major corporate commitments will drive demand

Current total market size is in the \$100s of millions per annum but forecast by McKinsey and the World Economic Forum to rise to \$50b per annum in 2030, and \$100s of billions per annum by 2050.



# Communities and Forestry Investment

*Forestry is transitioning from a Government-led to a Private Sector-led sector of the economy.*

- Historically, forestry was based on large reservoirs of government-controlled timber, supplemented with some private timber supply
- As most economic timber was exploited, there has been a shift towards private investment in forestry plantations
- Rising emphasis on sustainability and recognition that access to land depends on providing benefits to communities, and creating investment models based on 'shared value'
- Shared value is a concept where investors seek to create both appropriate investment returns and community development benefits as equal objectives
- Natural Climate Solutions, 1 trillion trees initiatives, corporate emissions reduction commitments will require substantial capital in reforestation
- Increasing opportunity to encompass conservation finance, community forestry and commercial forestry investment



# Large Scale Reforestation will only occur in partnership with Communities

System	Key Characteristics
<b>Out-grower Scheme</b>	Individual farmers are provided with trees to plant and have timber marketed by core forestry manager
<b>Agro-forestry</b>	Core forestry manager either leases land to plant trees or integrates trees with cropping and grazing systems
<b>Community Benefits</b>	Community partnerships where forestry manager shares profits or agrees community funding in return for land use
<b>Whole Farm Management</b>	Forestry manager provides a mix of revegetation and commercial forestry, providing carbon neutrality, land leasing and/or crop shares

*Much of the southern hemisphere and tropics has suffered from disputed land rights.*

- Uncertain or disputed land rights affects regional economies, and makes productive investment difficult
- Conflicts over land use lead to lack of capital and short-term behaviours
- New models to attract investment and benefit communities are emerging—out-grower schemes, agro-forestry, community benefit sharing
- While sometimes complex, these models are central to getting productive and sustainable land use systems in place at scale



# Blended Finance for Sustainable Forest Management

*Blended finance refers to structures where traditional equity investment is linked to concessional capital to deliver social and environmental co-benefits and to reduce risk*

Technical Assistance/  
Grant Facility

Equity Investment at  
Concessional Rates

Pay for Performance

Blended Equity and  
Performance Investment

First Loss Risk Capital

Anchor Capital

- Blended finance structures are used to address barriers to investment
- In the case of forestry and climate, blended finance offers potential to:
  - Catalyse additional finance
  - Overcome barriers to make more deals investable
  - Shift the risk-return profile of investments
  - Generate additional impact in investments
- Blended finance concepts are rapidly developing and being tested, largely in support of driving investment in emerging economies aligned with the Sustainable Development Goals.

An Example of Blended Finance is New Forests' Tropical Asia Forest Fund 2 which has institutional investors and DFIs as class A commercial investors; and corporate and foundation investors as Class B impact investors who support climate, biodiversity and community benefits, and buy carbon offsets





# Conclusions

- Conservation, sustainable land use and reforestation have a key role to play in addressing climate change — potentially 25-33% of mitigation by 2050.
- Two key elements are carbon sequestration and storage, and substitution of wood, biomass, and bio-materials for high emission or high embodied energy materials
- Investment Opportunities include:
  - Exposure to climate finance to increase returns
  - Forestry expansion in emerging markets linked to community social and economic benefit programs
  - New investment structures including blended finance and conservation finance to integrate conservation, production and community development
- Resilient sustainable landscapes are also central to adaptation to climate change





[www.newforests.com.au](http://www.newforests.com.au)  
[info@newforests.com.au](mailto:info@newforests.com.au)