The Interview – Paul Brosnan, IFS Asset Managers: “Timber investments have consistently outperformed other asset classes over the past 20 years”

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Paul Brosnan, marketing director of IFS Asset Managers and a director of the newly-launched International Forestry Fund, says rising timber prices in the jurisdictions in which the fund owns portfolios is not only good news for investors but will help raise awareness of forestry as an attractive, secure and predictable asset class for those interested in socially responsible investment.

GFM: What is the background to your company and funds?

PB: The International Forestry Fund is a joint venture between Helvetia Wealth, which specialises in private banking and asset management for a sophisticated private and institutional client base, and I.F.S. Asset Managers, which was established in Dublin in 1997 and specialises in forestry asset management.

Helvetia Wealth (Liechtenstein) is the investment fund manager and distributor of the International Forestry Fund and has CHF1.1bn in assets under management following a number of acquisitions in the UK, Germany and Ireland. Helvetia Wealth’s head office is in Zurich and the company has offices in Berlin, Dublin, Glasgow, Hamburg, Kilkenny, Liechtenstein, Mauritius and London.

I.F.S. Asset Managers, the forest asset manager to the fund, currently manages more than EUR100m in forestry assets on behalf of 18,000 private and corporate clients in Ireland and has generated solid returns over the past 13 years from a series of 27 Irish Forestry Funds ranging in investment duration from 10 to 30 years.

GFM: What is the structure of your fund?

PB: The International Forestry Fund is an open-ended professional fund registered in the British Virgin Islands. The fund aims to provide shareholders with attractive long-term returns by focusing on a pure biological growth strategy with a diversified global portfolio of managed forestry assets.

Over the past decades timber has not just delivered relatively stable and attractive returns for investors but consistently outperformed other asset classes over the past 20 years. Demand is increasing steadily, especially in Asia, due to population growth and industrial expansion.

The International Forestry Fund is committed to sustainable and socially responsible managed timber plantations that generate solid returns for its investors whilst remaining cognisant of its corporate, social and environmental responsibilities.

Because of the low correlation to other asset classes, timber investments also help to reduce the portfolio risk to investors. Besides environmental and ethical aspects and attractive returns, one of the most compelling reasons to include timberland investments in a long/mid-term portfolio is the ability to enhance the risk/return characteristics of the total portfolio. In addition timber is an excellent inflation hedge and makes good investment sense because its returns are equal to, or better than comparable risk/return investments.

The board of the International Forestry Fund includes former Irish prime minister Bertie Ahern as chairman as well as myself, IFS managing director Trevor McHugh, Helvetia Wealth chairman Ottmar Ruoff and Peter Howe, managing director and head of trading at Helvetia Wealth.

I co-founded the Irish Forestry Funds in 1997 and am marketing director of IFS Asset Managers. I began my career in corporate finance in Australia and commercial finance in Britain before establishing businesses in central Europe and in Belfast. I am also managing director and chairman of the Irish Forestry Funds.

The International Forestry Fund has acquired a 370-acre existing commercial forest in Falkirk, Scotland and is finalising due diligence on two large portfolios of commercial plantations in Ireland and two tropical hardwood forest portfolios in Panama, which are expected to be concluded over the coming months.

GFM: Who are your key service providers?

PB: The fund’s administrator is Argonaut and its independent forest management consultant and valuation agent is Forest Enterprises, both of County Dublin. Our BVI legal adviser is Maples & Calder, our auditors and tax advisers are Deloitte & Touche, our bankers are Ulster Bank in Dun Laoghaire, and the company secretary is SHR Corporate Services in Road Town.

GFM: How and where do you distribute the funds? What is the profile of your current and targeted client base? What is the split of your assets under management between institutional and private clients?

PB: We distribute our funds across Europe through offices in Hamburg, Glasgow, Zurich, Berlin, Dublin, Kilkenny and Liechtenstein. The targeted client base is European pension funds, family offices and asset managers, but initially we are focusing on private and pension clients. We expect the eventual split to be 80 per cent institutional and 20 per cent private clients. At present we have a higher proportion of private pension clients, for whose benefit we have also launched the International Forestry Fund unit trust.

GFM: What is your investment process?

PB: The fund’s local forest managers inform the forestry asset manager of potentially suitable plantations and land banks. These properties are then subjected to a detailed sylvicultural assessment by the independent forest management consultant to ensure congruence with the objectives of the fund, while the forestry asset manager engages with the fund’s legal team on title matters so that a proposal can be presented to the board.

The due diligence process includes a risk analysis covering geopolitical, legal, social responsibility objectives and environmental issues. This process is designed to deliver a suitably balanced diverse portfolio of productive forestry that meets the fund’s objectives.
Subject to approval by the independent forest management consultant, a proposal from the forestry asset manager to acquire the assets is then put to the board of directors, and if it approves the site is then acquired.

GFM: How do you generate ideas for your funds?

PB: The concept behind the International Forestry Fund is largely based on the series of 27 Irish

Forestry Funds launched by I.F.S. Asset Managers over the past 13 years, which have generated average compound returns of around 9 per cent. The International Forestry Fund is the culmination of six years of strategic research and development.

GFM: What is your approach to managing risk?

PB: IFS manage the forestry risk, while Helvetia Wealth manages the currency risk. The fund has the ability to hedge any currency risks where deemed appropriate by the investment committee.

Risks associated with investment in forestry mainly arise from fire, disease and wind. The experience of the directors will be used to mitigate these risks to the fund’s forest portfolio significantly and their impact is unlikely to affect the fund materially because of its geographically diversified portfolio with diversification of species, age of species acquired, end-use markets and currency diversification.

The fund is based on a pure biological forestry growth strategy and is asset-backed by the land and growing trees. The fund will not engage in monocultural planting which the directors believe is incompatible with its policy of socially responsible investment and which they deem to create a higher-risk environment for investors.

Risks associated with geopolitical, environmental and adverse legislative changes are considered prior to geographic selection and the fund assesses each jurisdiction to ensure that proper title can be attained. The fund does not acquire assets in jurisdictions where freehold land title is unavailable and avoids countries without stable democratic government.

GFM: What opportunities are you looking at right now?

PB: At present we are concentrating on delivering phase one of our strategy, which covers high-quality forestry asset acquisition in Scotland, Ireland and Panama. Phase two, for which preparations are already underway, will include acquisitions in Australia and New Zealand within the next two years.

Immediate opportunities include maximising the potential of currently held assets. With positive news emanating from the Scottish forestry sector, there are various opportunities to consider in that market.

GFM: What events do you expect to see in your sector in the coming year?

PB: We expect further increases in timber prices in Ireland, already up 40 per cent in some segments over the first quarter of 2010, and further strengthening of timber prices in Scotland as energy producers are forced to engage in co-firing with fossil fuels over the coming months and beyond. We also expect to see a smaller increase in tropical hardwood species as international markets recover, especially toward the second half of this year.

GFM: How will these developments affect your own portfolio?

PB: The net asset value is likely to be affected positively by the increase in timber prices in the jurisdictions in which the fund owns portfolios, which is not only good news for our investors but will also help raise awareness of forestry as an attractive, stable, secure and predictable investment asset class for those interested in socially responsible investment.

GFM: How do you assess investors’ current expectations?

PB: Investors have been somewhat shell-shocked by market events over the past few years, with traditional safe investment favourites such as commercial property, bank stocks and blue-chip equities falling from grace. The price of gold is a good indicator of market sentiment and the rush by investors to protect capital has been highly evident over the past few years. Similarly, investors’ focus on so-called real assets has seen significant capital flows to forestry investment, and this trend is likely to continue.

Investors’ expectations are now more realistic, with a greater focus on stable long-term growth rather than unsustainable, volatile bubble-market economics. There has also been a shift in investor expectations toward greater social awareness of the consequence of their investment actions and their impact on the environment.

GFM: What differentiates you from other managers in your sector?

PB: We are totally committed to delivering socially responsible capital appreciation for our investors through the implementation of our pure-biological strategy on a globally diversified forest portfolio using best professional forestry practice, a philosophy of sustainable responsible forestry investment. The track record of the directors of the fund and our combined vision proves us capable of delivering superior results to our investors.

The primary objective of the International Forestry Fund is to achieve a growth rate of between 7 and 10 per cent per annum for shareholders, by acquiring land for plantation forestry and reforestation, and also acquiring existing forests that it manages to an agreed set of plans.

A sub-objective of the fund is to help reduce the causes of deforestation and forest degradation by ensuring that its social objectives help to benefit stakeholders at a local and rural level to ensure greater protection of the forest resources, facilitating private investment in alternative livelihoods for forest dependent communities, and promoting efforts towards conservation and sustainable use of forests.

The fund follows a diversification strategy incorporating risk-reduction techniques and a focus on pure biological growth, excluding vertical or horizontal integration strategies. Geographic diversification includes forestry in Ireland, UK, Panama, Costa Rica, Australia and New Zealand; tree species diversification includes native and commercial tropical hardwoods and commercial softwood species; tree age diversification stems from the acquisition of existing forestry plantations; end-use market diversification is achieved through the different market uses of the various timber species; and currency diversification includes forestry holdings in euros, sterling and US dollars.

The fund has built relationships with local forest managers experienced in the selection, acquisition and management of forestry investments. As a further safeguard to investors, the fund’s board has also engaged an independent forest management consultant to perform sylvicultural operational audit functions covering all aspects of acquisition and ongoing management of forestry activities to ensure that best forestry practice is adhered to by local professional partners in all jurisdictions in which the fund operates.

GFM: How do you view the environment for fundraising over the coming 12 months?

PB: The directors are aware of the general effects on fundraising activities that global economic difficulties currently present and the opportunities that consequently arise for raising capital for globally diversified forestry assets. Forestry has a low correlation to the bond and equity markets and is a safe haven for investors seeking solid, stable and predictable capital appreciation in globally uncertain times.

Historically, forestry assets have weathered recession over the past 200 years and the fundamental market drivers for this ability to grow during difficult economic periods are more relevant than ever. The fund’s directors are optimistic about the fundraising environment over the coming year and are well positioned to take advantage of this opportunity to grow assets under management with new capital.

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