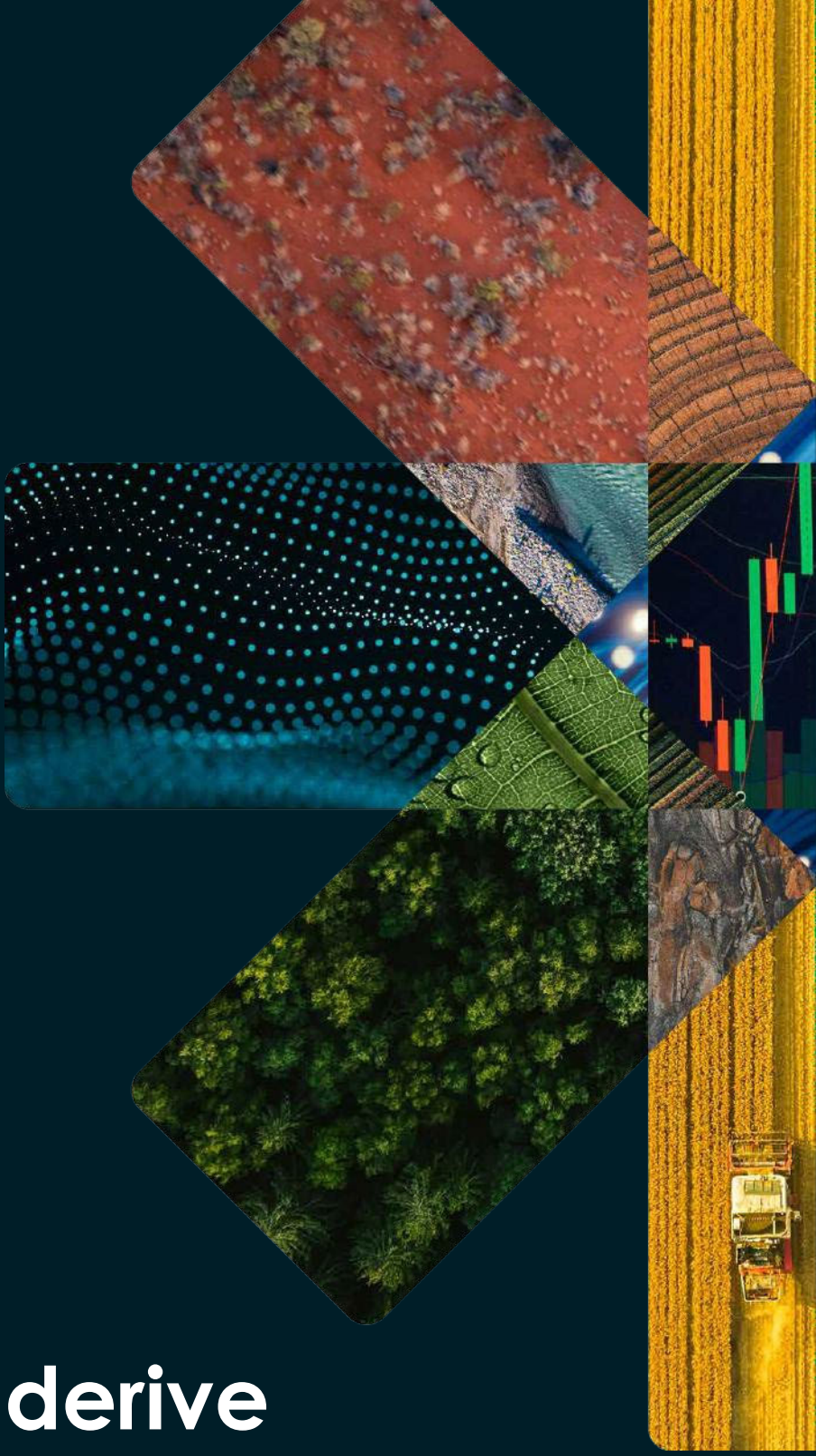
NEWFORESTS

*Natural Capital Investing. Advanced



How do you derive returns from Forestry?

NEWFORESTS

Return Drivers of Forestry

Forestry investment involves the ownership and active management of forest land and the standing timber growing on it. Returns can be generated through biological growth, active forest management, timber-price movements, land appreciation and, ecosystem services such as carbon and biodiversity.

Biological growth is at the heart of the forestry investment model. As trees mature, they increase in volume and can move into larger, higher-value product categories. This means that the standing forest can increase in both quantity and quality over time, before the timber is harvested and the accumulated value is converted into cash.

Forest managers can influence this process through decisions made across the rotation. Species selection, planting density, seedling quality and site preparation help determine the productive potential of a forest. As trees grow, management activities may include thinning, pruning, fertilisation, vegetation control and the monitoring of pests, disease and forest health. These interventions are intended to improve timber growth, quality and resilience, while potentially increasing the proportion of timber that can be sold into higher-value markets.

Harvest Timing

A distinctive feature of forestry is the ability, in many circumstances, to adjust the timing of harvest. When timber prices are weak, a manager may be able to leave trees standing, allowing them to continue growing rather than being forced to sell immediately. This creates a degree of flexibility that is generally unavailable in agriculture, where mature crops ordinarily need to be harvested within a particular season.

Revenue is ultimately realised through the sale of timber. Standing timber may be sold to a third party through a stumpage arrangement, under which the buyer assumes responsibility for harvesting and transportation. Alternatively, the forest owner may manage harvesting and deliver logs directly to a mill or port. The second approach can capture more of the value chain, but it also brings greater operational, logistical and cost exposure.

Creating Value

The value realised from each tree also depends on its end use. Higher-quality sawlogs may be directed into lumber, construction materials, plywood and engineered wood products. Smaller or lower-grade timber may be used for pulp, paper, packaging, tissue, textiles, biomass energy or other bio-based applications. Active merchandising, which directs each log to an appropriate market, can therefore be an important contributor to overall returns.

In addition to timber income, investors may benefit from changes in the value of the underlying land. Land value can be influenced by productivity, location, infrastructure, market access and alternative land uses. A diversified forestry portfolio may also spread risk across different regions, species and forest age classes, helping to stagger harvesting activity and reduce dependence on a single market or point in the timber cycle.

Carbon credits and other ecosystem services may provide supplementary revenue where appropriate methodologies and market conditions exist. For most traditional forestry strategies, however, these revenues remain an enhancement to the underlying timber investment rather than its principal return driver.

In this way, forestry combines patient ownership with active management. Returns are built progressively through biological growth and improvements in timber quality, then realised through harvesting, market access, land value and carefully selected additional revenue opportunities.