

Timber investments: Bringing diversification benefits & reliable cashflow

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Interest in timber investments is strong; at a time when interest rates are low and there is uncertainty over the eventual end of quantitative easing (QE) institutional investors are keen to diversify portfolios and enhance them with alternatives. Timber investments are 'classic' real assets in the sense that they generate income while at the same time offering a degree of protection against inflation. The low correlation between timber investments and equity markets is another important factor – particularly at the moment.

An investment in forest areas offers two potential earnings sources: from the sale of timber as a renewable commodity and from the increase in the value of the land. The growing demand and shortage of supply are enhancing value, as every day forests are being cleared to make way for agricultural land or building space. In the USA, in particular, forest investments have risen in value - in some cases noticeably - in response to this. However, it is not always possible to acquire title in forested areas. In Brazil, for example, this has inhibited the involvement of foreign investors. An alternative is to lease forest areas for timber cultivation.

Demand for timber as a commodity is strong throughout the world as it is profiting from macro trends such as global population growth and greater prosperity in the emerging markets – most notably in Asia. Of course, demand for timber is subject to fluctuations – in the financial crisis, demand receded and this led to a drop in timber prices. However, a positive trend is still clear over the long term, partly due to the fact that the supply of timber cannot simply be raised at the drop of a hat.

We see promising possibilities for investment in the forests of the Americas. Countries such as Uruguay and Brazil offer the prospect of above-average returns. North America has a long tradition of timber cultivation and, thanks to its close proximity to the timber-processing factories and sales markets, is an exceptionally interesting investment target. In the emerging markets, significantly higher returns can be generated, albeit at a higher investment risk. Aquila Capital is currently examining projects in the USA and South America. A share interest was also recently acquired in Australia.

Although there are risks associated with forest investments, in our view they are manageable. Losses due to forest fire, storm damage or bark beetle are statistically low in cultivated forest areas and these risks can also be insured against. Other uncertainties include the timber price as well as in harvest costs, the weather and any currency developments. Political risks can be mitigated by careful asset selection.

With diversification benefits and on-going cashflow generation, we anticipate growing interest in timber investments as part of a wider, real asset allocation.



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About Aquila Capital

Established in 2001, Aquila Capital is a leading provider of alternative and real asset investments. The firm focuses on distinctive areas of investment that are supported by macroeconomic fundamentals and offer the potential to generate uncorrelated, above average returns on a sustainable basis. Concentrating on these areas, Aquila Capital draws on the expertise of highly qualified, independent investment teams to generate a long-term edge.

Aquila Capital is part of the Aquila Group, headquartered in Hamburg with investment management and operations in nine offices including Zurich, London, Frankfurt and Singapore. The Group currently has over 250 staff and EUR 7.2 billion assets under management. For more information, visit: www.aquila-capital.com.

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