

THINK FOREST

A changing financial landscape

Historically, the financial sector has allocated little capitals to forestry: limited profits from raw material production (wood) and relevance of services non-rival, non-excludable services (public goods)

→ Relatively few philanthropic investments (donations)

Recent developments have changed this landscape: two major drivers

Demand side: an informed civil society

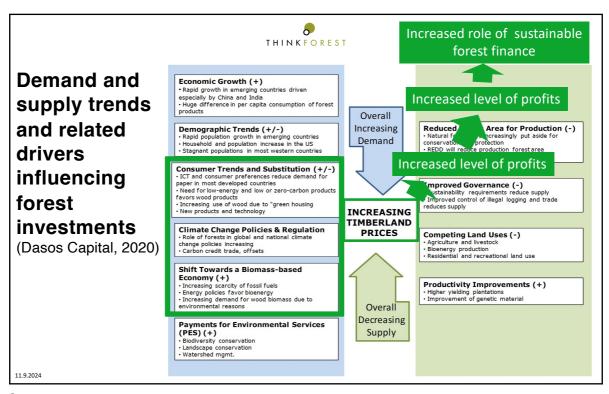
Supply side: values awareness and threat of potential erosion of reputational value by companies

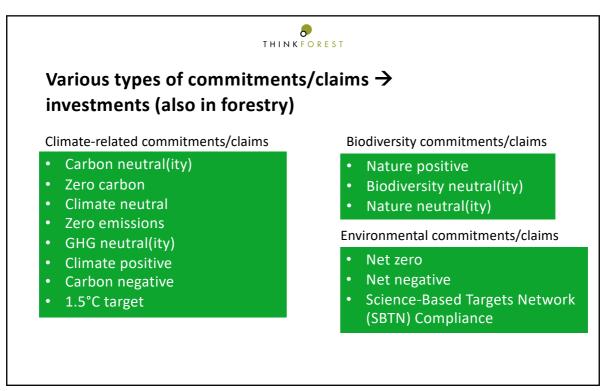


a push for investments including biodiversity protection, climate change mitigation and adaptation and, more recently, land restoration



Sustainable investments/ finance







Different meanings of sustainable finance/investments

Sustainable investin, like sustainable finance, is an umbrella term:

- Investments that take into account of environmental, social and governance (ESG)
 criteria
- Investments aligned with the SDGs
 or, more operationally, investments that are aligned with some criteria and indicators defined by public authorities (Taxonomy) or private ones

A more specific approach is taken with the terms "green investments", which are usually aligned with Do No Significant Harm (DNSH) principle and criteria related to environmental aspects, but have also a positive effect on the environment

An even narrower perspective is that of "climate, biodiversity or conservation investment/finance": more specific targets

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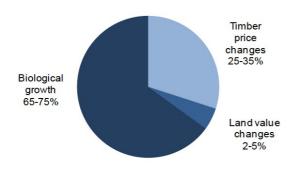


Investments in all types of forests have unique challenges compared to other forms of investment (Binkley et al., 2001; Carroll, 2003;

Hua et al., 2022; Lundgren, 2005; Lutz, 2004; Mortimer, 2009; Toppinen et al., 2012)

Positive aspects:

• **Diversified revenue components**: rising real prices for timber and forest land, biological growth (although generally very slow)



Historical sources of timberland return Source: The iInternational Woodland Company 2009



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Positive aspects:

- **Diversified components** of the revenue: increasing **real prices** of wood and of forest land, **biological growth** (even if generally very slow)
- Inflation hedging: forest returns are generally positively correlated with inflation
- Returns on forest investments are less correlated with returns on other financial assets →
 portfolio strategies
- Presence of generally **positive environmental externalities**; forest investments can improve green credentials → reputational value for investors

Negative aspects:

- Relatively long-term investments (return is linked to the growth cycle of trees)
- Presence of disruptive factors (e.g. storms, fires, pests, floods) ← more frequent extreme events
- Presence of local and international **stakeholders** → transaction costs

