

# Red Carpet Into Finnish Forestry

Stockholm (HedgeNordic) – This autumn, the Finnish fund management company FIM launched the FIM Forest fund or “FIM Forest” targeting professional investors in Sweden. The fund invests in plots of forest land in different parts of Finland. Quality verification is carried out in co-operation with local specialists; one of these is Innofor Ltd, a company managing forests across Finland – including methods such as Continuous Cover Forestry, which avoids clearcuts.

In an interview with HedgeNordic, Innofor’s board director, Marcus Walsh, shares his views on why he believes Finnish forest is a good investment. He tells us why it is currently an opportune moment to buy and how Innofor ensures that the forests are dealt with efficiently while adhering to the high ethical standards required by investors when it comes to exploiting natural resources.

## **Vast forest areas put out for sale become opportunities**

According to Walsh, it is currently an opportune moment to buy Finnish forest if you are a larger player. Large plots of forest land are currently being sold off by Finnish companies wishing to free up cash for investments elsewhere.

“The fact that large plots of Finnish forest are put out for sale relates to American trends. In the US, the big timber, pulp and paper companies converted their forest holdings into cash already 10-20 years ago, seemingly with good results. The same phenomenon is now appearing in Finland”, Walsh explains, continuing: “The selloff does not mean that these players view it as a bad investment, but they want to free up cash for other investments.”

“This creates significant opportunities for a company like FIM. Through cooperation with us at Innofor, the most interesting plots can be identified using our long-standing network of local contacts. At the same time, we can get these forest lands at a good price given that we buy in large quantity. Forestry is a volume business, the larger plots you buy, the better your business prospects overall, including future timber sales and maintenance costs.

## **An interesting long-term investment**

Walsh says that Finnish forest is a strategic asset to hold for the long term. The return on Finnish forest assets has been superior to other low-risk investments during the last ten years, he argues. “If you look at the value generated from owning plots of forest in the central parts of Finland as well as taking into consideration the development in timber prices, a forest investment has generated 4,6 percent annually. This is significantly better than European bonds, even adjusted for inflation”. According to Walsh, there are reasons to believe that Finnish forest will continue to show stable growth to low risk also going forward.

“Independent of the economic development, trees will continue to grow and generate timber. At the same time, the demand for timber is on the rise at the expense of metals and plastics. The Nordic markets ensure a stable timber market given its mature paper and sawmill industry.” There are also other commercial values in these forests besides timber, Walsh argues. “The commercial values beyond timber are expected to increase over time. Hunting is already a significant value driver, but other activities such as nature tourism, mushroom and berry picking and other recreational activities are growing in popularity and economic significance.”

## **Ethical deforestation of utmost importance**

To ensure efficient logging coupled with high social and environmental standards, Innofore emphasises whenever possible a method called “continuous cover forestry” or CCF. The method generally removes 30-60% of tree volume at a time rather than chopping down entire areas. This is a much better way to exploit forest and create value from the investment, Walsh argues. “Using CCF creates a better net return over time since it leads to lower costs and at the same time generates better timber quality. When an area is chopped down entirely, a large part of the revenue generated is earmarked for replanting the forest and taking care of young trees over the next decades. In contrast, CCF management generates a steady income every 20 years or so over a 100-year period. The method also limits the impact of deforestation on other non-timber linked commercial and social activities such as nature tourism and recreation, thereby creating return potential elsewhere – a win-win situation”, Walsh concludes.