

## What has the last decade told us about the institutional timberland investment universe?

Built on data in IWC's proprietary investment management system, MIRA, and IWC's ongoing discussions with investors and timberland investment management organizations (TIMOs) over the past decade, this article provides insights and trends within the timberland investment universe and TIMO opportunities since 2007.

### **Institutional timberland investable universe nears USD 200 billion, TIMOs represent over a quarter**

Based on internal analysis and data from Forisk Consulting, IWC estimates the total investable timberland universe for institutional investors to be USD 178 billion, with almost half of the timberland assets located in the United States.

Looking at the 20 largest TIMOs by assets under management (AUM), as of the end of 2017, they managed over 13 million hectares of timberland assets on behalf of institutional investors. The combined value of these holdings was approximately USD 50 billion, and 70% were in the US.

IWC believes that aggregating the largest TIMOs' AUM provides a good indicator of institutional investments across the asset class. However, it is IWC's opinion that it tends to under-represent institutional holdings, especially outside the US for the following reasons:

- The largest TIMOs are almost exclusively based in the US and their exposure is generally tilted towards their domestic market
- Smaller and non-US managers are not included
- Institutional investors in some regions, such as Europe, have direct exposure to the asset class, i.e. they rarely use TIMOs.

### **Blind pool commingled fund structures are slowly being disregarded**

As presented in our December 2015 newsletter, institutional investors have different options to invest in timberland. As the asset class and its investors mature, it is IWC's experience that the private equity commingled fund structure is slowly being moved away from. We are now seeing an increased interest in targeted opportunities, where investors know which specific asset(s) they are investing into, in opposition to a blind pool.

As shown in Figure 1 on the following page, IWC is aware of 350 timberland investment opportunities that have been offered by TIMOs to institutional investors between 2007 and 2017, both years included (this article excludes investment opportunities focusing on retail investors or direct investments).

During this 11-year period, combined fundraising equity size for TIMO investments was just short of USD 59 billion, but actual capital committed is estimated to be significantly lower, at around USD 25 billion. An interesting point to note is that on average, targeted equity has decreased through time; only USD 23 billion was offered in 2012-2017 (6 years) vs. USD 36 billion in 2007-2011 (5 years). This could indicate some restructuring of the TIMO industry, and especially the disappearance of TIMO "wannabees" in most recent years.

Please note that the opportunities are presented in the calendar year that IWC initially became aware of them, but it may take several years to raise capital and have a closing, if the funds are successful at all.



20 largest  
TIMOs AUM  
USD 50 billion

Estimated institutional  
timberland investments  
USD 100 billion

Estimated institutional  
timberland investable  
universe  
USD 178 billion

### Definitions

Emerging Markets:  
Africa, the Amazon  
region, Asia and Russia

Multi-regional:  
Targeting at least two  
geographies.

Figure 1 also illustrates that the number of co-investment opportunities and separate accounts offered by TIMOs to our clients has increased over time, while the number of primary funds has decreased. We believe this to be a direct answer to the clients' changed preferences mentioned previously. Furthermore, one will note that there has been an increase in the number of secondary opportunities registered, as a result of some investors' increased liquidity needs or the wish to rebalance their portfolio. Consequently, several brokers are now dedicating resources to the asset class.

Common among all of targeted primary funds (or separate accounts), co-investments, and secondary opportunities are the required forest and market expertise to assess the underlying timberland assets. As IWC is able to evaluate and benchmark underlying asset-specific assumptions and risks, we believe we are in a unique position to support investors.

### Mature investment regions are still favored

With regards to investment geographies, by far most investors still prefer established geographies compared to other available options with what seems to be a refocus on the US and

Oceania (Australia and New Zealand) after the global financial crisis and the devaluation of certain currencies a few years back. Figure 2 illustrates that since 2007, the US has remained the preferred target investment region also from a TIMO offering perspective, and this trend has increased over the period.

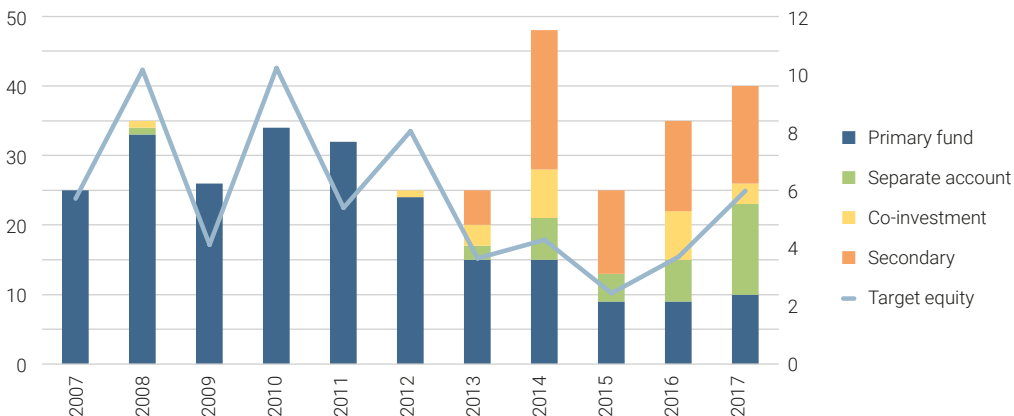
### The triple constraint: scope, schedule, and cost

Another interesting trend which is worth noting, is that more investors want to keep the high-quality assets in their portfolios and not be forced to divest of these and reallocate the money into what could be a competitive environment. Consequently, there is an increased interest in longer term structures or even perpetual ones, also referred to as evergreens. Such structures do present some challenges in finding the proper fee and incentive schedule to ensure the long-term alignment of the investor(s) and the manager.

Finally, as some investors are moving towards internalizing asset management and continue to explore cost reducing measures, the place and role of TIMOs, how they add value, especially in evergreen structures, are being increasingly discussed.

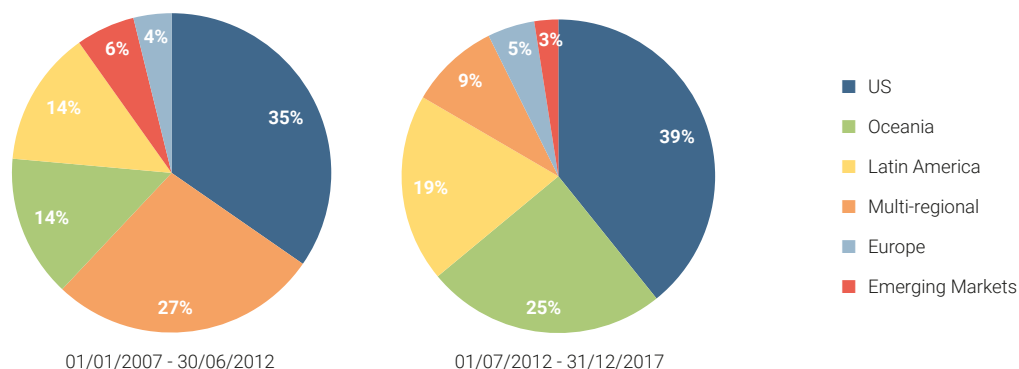
**Figure 1**

Number of TIMO opportunities by type (left axis) and aggregate target (fundraising) equity (right axis, USD billion) per year.



**Figure 2**

TIMO opportunities offered by investment geography in percent.



# IWC's Natural Business Growth

With over 25 years of international experience in timberland investing, we decided in 2017 to grow our services to include agriculture as an asset class. This organic growth of our business was made through the alliance of IWC with AG-Advice ApS, which has 25 years of agriculture management experience.

## Why venture into agriculture?

With an asset class valued at USD 8.4 trillion, crop production expanding threefold over the past 50 years, and projected increase of food demand by 70% by 2050, there is a strong business case to invest in agriculture. Moreover, the asset class exerts:

- Exposure to several global mega trends
- Excellent assets/liability match with institutional investors
- Attractive cash yield and capital preservation attributes.

## Why IWC?

IWC's initial focus within agriculture is on farmland investments in Europe, primarily in Denmark, Romania and the Baltic region. Our strategies are either buy-and-lease or own-and-operate. The investment team consists of Jesper Brunhøj Jensen (AG-Advice's founder who has over 25 years' experience in the sector – see Jesper Brunhøj Jensen's biography below) and Dennis Lanther (due diligence). Together with a strong backbone of IWC's experience and resources servicing institutional investors, the Agriculture Investment Team will provide unique sourcing capabilities, in-house hands-on farming experience, and long and deep experience from both buy-side and sell-side in performing due diligence on a broad spectrum of assets.



***IWC's investment management system, a comprehensive proprietary database***

Information is key to IWC's investment process and ongoing services, so we have invested and continue to develop a firm-wide proprietary investment management system, called MIRA, powered by eFront. MIRA is a comprehensive database of timberland investment information, ranging from asset-level data, to historical fund financial performance, to managers, to strategies offered, and to investors in the asset class. MIRA supports:

1. Information flow and reporting as data is readily available allowing ad hoc queries, standardized reports, and interactive dashboards
2. Investment decisions or recommendations by being able to benchmark assumptions and identify supply and demand dynamics, development in timber prices and in transaction prices.

#### **MIRA includes data from:**

- 370+ timberland opportunities
- 70 investments undertaken comprising over 200 properties
- 1,300+ appraisals.



## IWC has welcomed three new professionals



### **JESPER BRUNHØJ JENSEN, Director of Agriculture Investments**

Jesper joined IWC in April 2017 and is responsible for the execution of IWC's agriculture strategy.

Jesper is an educated farmer with more than 25 years of experience in agriculture in countries such as Denmark, the United States, Romania, Latvia, and Lithuania. Jesper has substantial experience with investment management, investment consulting, fundraising, asset management, farm management, farm supervision, trade with commodities, project planning, land acquisition, due diligence, project execution, budgeting, farm development, cost optimization, and financial management. Starting in 2008, Jesper has been CEO and co-founder of a large arable farm in Romania. During his tenure, Jesper developed the farm operation from scratch and in 2011 sold his shares in the company to an investor. Following the farm project in Romania, Jesper joined Aquila Capital as their Global Head of Cropping and Representative Eastern Europe. Aquila is a Germany-based investment firm managing funds in agriculture and renewable energy. After his career with Aquila Capital, Jesper joined Ingleby Farms as their Country Manager in Europe. Ingleby is a Danish-based firm managing agriculture in nine countries worldwide.



### **CRISTINA-ELENA IVAN, Business Development Assistant**

Cristina joined IWC in April 2017 as a Business Development Assistant supporting business development and new client relations.

Cristina has a M.Sc. in Management and a M.Sc. in Research in Psychology from Lund University, Sweden. Before joining IWC, Cristina has worked for Danske Bank, the largest bank in Denmark and one of the leading financial enterprises in northern Europe. There she worked as an internal consultant focused on process improvement and optimization. Cristina also has experience within the field of sustainability and within the wholesale of agricultural and plantation products.



### **SILVIA KOLEVA-PANCHEVA, Client Relations Assistant**

Silvia joined IWC in March 2017 as a Client Relations Assistant supporting client related requests as well as cross-organizational projects, including ESG reporting.

Silvia has a M.Sc. in Environmental and Resource Management from the University of Southern Denmark and a M.Sc. in Business Management from the University of Economics-Varna (Bulgaria). Before joining IWC, Silvia has been employed in Novo Nordisk supporting cross-organizational projects and key indicators reporting, among other tasks. Silvia has also an international client relations experience from the recycling industry (an Austrian-Bulgarian joint-venture), where she has occupied various supply chain and business development roles.



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