



Gresham House

Olly Hughes and David Gardner

Forestry: The backbone of natural capital investing

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More than half of global GDP is moderately or highly dependent on nature. As institutions seek to bridge financial gains and sustainability, Olly Hughes, Managing Director, Forestry, and David Gardner, CIO, Forestry, share how the Gresham House team deploys its track record and philosophy in active forestry to generate outsized returns, mitigate risks and support the environment in this natural capital asset class. An asset class that offers long-term, stable returns with low correlation to traditional assets, blending financial resilience, environmental benefits and inflation protection.

Could you outline your investment philosophy in relation to natural capital and forestry?

Olly Hughes: At Gresham House, our philosophy is focused on building diverse portfolios with the long-term goal of offering perpetual yield and a strong return to our investors through an active approach to managing the assets we hold.

In forestry, we prioritise the sustainable management and expansion of timber production through afforestation, ensuring economic, social and environmental viability. Our approach includes responsible harvesting strategies to maintain and enhance existing forests while implementing value-added initiatives to maximise long-term returns.

Could you expand on your investment approach?

David Gardner: The long-term nature of forestry is reflected in our approach focused on climate risks, with conviction around climate change.

We build balanced portfolios with differentiation across markets, currencies, growing conditions and species.

We focus on UK, Europe, Australia, New Zealand and the US – well-established, relatively low-risk investment regions with temperate climates offering good growing conditions and as much resilience as possible to climate

change. These investment regions have a strong supply-and-demand outlook, robust legal systems and land tenure, low political risk and interference. Here, we hold deep expertise in adding value to the core return by matching species to land type and creating economies of scale by consolidating fragmented land.

Are there other ways in which you create value for investors?

Olly Hughes: Beyond the core asset value, we actively manage assets by enhancing core value with higher business opportunities. We maximise value creation beyond simple harvesting through land use for wind farms, flood control and water quality initiatives and considering restructuring portfolios to sell assets on higher return bases.

From a sustainability perspective, we focus on conservation and the wider ecological environment to optimise the potential to generate a net gain in biodiversity and a subsequent value enhancement.

What exactly is the investment opportunity in forestry?

Olly Hughes: First, forestry is uncorrelated to other asset classes, specifically equity and debt. This comes from an ability to harvest the trees when wanted, not on a forced annual basis. Second, our investments are



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based on the conviction of a growing supply/demand deficit in construction timber, projected to triple by 2050. A very restricted supply base for an asset with a long duration growth cycle means the supply/demand deficit will continue to grow, driving up timber prices.

What is driving this significant demand you are describing?

David Gardner: Global housing shortages, exacerbated by population growth and urbanisation, are driving demand for building materials, as well as climate change policy pushing more timber use to reduce emissions linked to construction.

Cut timber can lock in carbon for a long time depending on its use. To meet their Paris Agreement targets, many countries have committed to reduce construction-

linked emissions, which make up to 30 per cent of their total emissions. An efficient way to do this is to replace high-intensity carbon materials such as concrete, steel and aluminium with a carbon-positive material like wood, increasing its role in construction.

Meanwhile, products such as cross-laminated timber and glulam are making inroads in both commercial and residential properties. Plus, we're starting to see more fibre being used in wider array of chemical production processes to replace traditional hydrocarbons.

How are you approaching these trends and using them to the advantage of your clients?

David Gardner: We are building forestry investment portfolios and supplying a greater level of timber for

the long term and report consistently and transparently on our approach. We aim to support complex regulatory frameworks, like TCFD (Task Force on Climate-related Financial Disclosures) and TNFD (Taskforce on Nature-related Financial Disclosures) through our Forest Charter with associated KPIs.

What does the return profile in forestry look like?

David Gardner: Core returns in forestry are generally around eight to ten per cent, depending on the risk profile of the regions included in a portfolio. In the US, one of the largest investment markets, the risk-return profile is less compelling. We focus on markets where we can add up to two to three per cent through additional active management, reaching a twelve per cent return by maximising natural capital values through adding things like renewables cash flows and strategic land sales to the core forestry investment.

What are the sustainability benefits of forestry?

Olly Hughes: The main benefits are carbon sequestration, biodiversity gain and social benefits such as water storage to prevent flooding.

Flooding, for example, can be addressed by returning trees to the catchment area. If there is an opportunity to forest land in a flood-control area, we see a potential return – for investors and the climate.

On sustainability, concerns linked to monocultures, biodiversity and deforestation persist. Can you dispel any of these myths?

Olly Hughes: The general myth is that commercial forests are 100 per cent monocultures. None of our forests are wall-to-wall monocultures. We plant 50 to 60 per cent of commercial species that are well-understood to meet market needs and reduce pressure on natural forests and then focus on species diversification that drives biodiversity and lowers risk. We invest heavily in baselining, measuring and enhancing biodiversity within our sites and have undertaken research that proves biodiversity can increase where grassland is converted to forestry.

We structure the harvesting of our forests to enable each forest to evolve into a multigenerational environment with different areas of diversity, creating a mosaic of species.

Further, timber from plantations is an effective way to take the pressure off natural forests. We carefully balance production with conservation in a calculated approach.

Through active management, investments can achieve commercial, social acceptability and conservation goals. Beyond the investment, we make a concerted effort to integrate with communities, creating rural employment and engaging local stakeholders to ensure forestry projects benefit both investors and society.

Carbon credit sales have also come under much scrutiny. What is your approach?

David Gardner: Some of this negativity stems from the uncertainty over the origin of those carbon units. We focus on regulated over unregulated markets and on reduction over avoidance credits. We create carbon credits in a careful way through afforestation to ensure we can demonstrate clearly how carbon units have been generated and that they are backed by sustainable forests.

What are the most prominent risks in forestry and how do you manage and mitigate against these?

David Gardner: The core risks break down into physical risk, such as storms or fires, and biological risk, such as pests and diseases. Physical risks can be insured against. Biological risks can be mitigated through active management and diversification across geography, species and age.

The most fundamental economic risk in forestry stems from the long-term investment horizon, which we mitigate through high-quality management, alongside our robust understanding of the underlying assets and deep sector experience.

Unlike agricultural asset classes that are harvested annually, irrespective of market or price, the optimum timber harvest period can be in the range of ten to fifteen years, which offers the benefit of aligning harvesting timing with market cycles.

To delink forestry from other market risks, we do not vertically integrate our services unless it adds value to the timber. Having no debt allows us to hold assets during periods of economic downturn and take advantage of price rises.



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Additionally, we use AI in fire control and deploy drone technology and satellite data for remote sensing over large areas of land. This technology enhances our ability to understand the assets, their biodiversity and manage the portfolio more effectively and sustainably.

To conclude, what differentiates you from other managers in natural capital and forestry?

Olly Hughes: We define ourselves as highly active managers, unlike most passive large-scale portfolio owners. We diversify over suitable geographies and add value beyond the core asset, consequently creating several revenue streams. Besides Europe, we focus on Australia and New Zealand in an asset class often associated with North America, and we have built the skills required in these markets over 40 years.

In Europe, we build clusters of forests into portfolios of meaningful scale to add strategic value – including higher business use opportunities, such as wind farm development or carbon credit value or biodiversity or breaking up portfolios to sell assets.

We truly prioritise sustainability. We focus on longer rotation cycles where more carbon can be locked up in forests and subsequent wood products, targeting the construction industry versus short-duration products with no such values.

And we look at how to maximise investor returns from climate change mitigation, for example, how much carbon can be sequestered for each dollar invested.

Gresham House

Founded in 1857, Gresham House is a specialist alternative investment manager focused on delivering financial returns for clients by investing in long-term global themes shaping our future. Within these themes, Gresham House offers sustainable investments across a range of strategies, with expertise covering natural capital, infrastructure, real estate and strategic equity.

About Gresham House

With assets under management of GBP 8.7 billion globally*, including GBP 3.4 billion in forestry, Gresham House's distinctive investment proposition and approach sets it apart from the competition. Recognised as a top ten natural capital manager by value, Gresham House is the seventh largest forestry investment manager in the world and provides its clients with a platform of financial return-generating natural capital assets with established track records. These include sustainable forestry, sustainable agriculture, carbon forestry and biodiversity creation.

Investment themes

Gresham House partners with its clients to help them achieve their financial and sustainability objectives by investing in key megatrends:

- **Natural capital** – providing its clients with access to a platform of return-generating land-based and climate-positive assets with established track records
- **Energy transition** – supporting its clients' decarbonisation ambitions and the global transition to net-zero carbon emissions
- **Social impact** – investing in a range of assets that provide benefits to people, from broadening digital access to providing affordable housing options, as well as local or regional investment solutions
- **Growth capital** – directing capital into small and growing businesses that aim to generate long-term growth as well as driving productivity gains

Investment approach – forestry

Gresham House's forestry division invests in new woodland plantations and established sustainable commercial forestry across the UK, Ireland, Australia, New Zealand and Northern Europe – investment regions with temperate climates that will be resilient to climate change in the future, with robust legal systems, low political risk and strong land tenure, deep timber markets and strong supply/demand prospects.

Afforestation is a core strategy for the division and plays a critical role in carbon sequestration, reversing biodiversity loss and enhancing natural capital alongside a myriad of other public externalities.

Gresham House intends to improve the world's natural resource base through the sustainable management of forest assets. Rigorous monitoring and reporting of assets are designed to drive impact decisions across the company's forestry strategies, ensuring that strong financial returns are delivered alongside sustainability objectives.

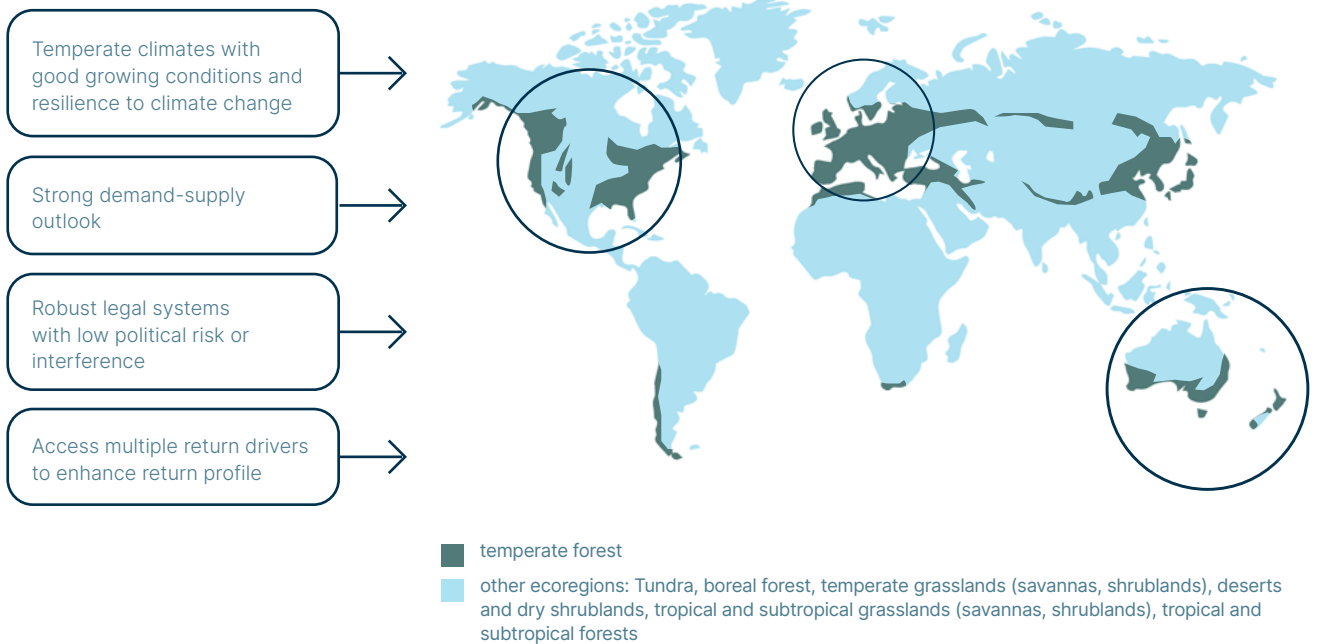
As a truly active manager the team delivers returns from timber sales, carbon sequestration, carbon credit sales and capital growth from land and trees.

Fund structures

Gresham House offers a range of ways to access asset classes including direct investments, managed accounts and comingled long-term funds, to suit the portfolio

Gresham House philosophy

To build a diverse portfolio that includes a range of different forests with the long-term goal of offering a perpetual yield from sustainable timber harvesting and replanting and the potential for the creation of carbon credits.



Source: Gresham House, as of June 2025. For illustrative purposes only. Adapted from Olsen et al., 2001.

construction needs of institutional investors. Risk is mitigated by investing through established fund structures – predominantly closed-ended funds – and via a portfolio of assets. Through direct investments alongside its funds, Gresham House offers professional investors the opportunity to increase exposure to specific sectors and regions of choice on a deal-by-deal basis.

Key facts

Forestry funds

The team offers investors access to forestry funds, delivering return from nature capital.

Forestry team

Gresham House draws on 40+ years' expertise in forestry investment and employs a team of 35 dedicated forestry

specialists who closely collaborate with the company's infrastructure professionals to offer a sustainable value proposition.

The forestry team is led by Olly Hughes, Managing Director of the Forestry division at Gresham House and David Gardner, CIO, Forestry.

Olly Hughes has 25 years' experience working in the finance sector focused on real assets strategies.

David Gardner has 30+ years' expertise and is a specialist in international forestry investing and asset management with a background in developing and managing forestry and forest carbon asset-backed portfolios.

*As at 31 December 2024.

Publisher

Universal-Investment-Gesellschaft mbH
Europa-Allee 92-96
60486 Frankfurt am Main
T. +49 69 71043-0
E-mail: select@universal-investment.com

Photos

Adam Rowley

Contact**Fund Distribution Team:****T. +49 69 71043-2712****E-mail: VE.fund-distribution@universal-investment.com**