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By Rudy Ruitenberg - June 10

Sustainable Equity Partners is seeking to raise \$500 million for a new forestry and timber fund that the private-equity firm says can generate annual returns of 20 percent or more.

Investors have committed about \$100 million since marketing of the fund began in January, Shawn Johansen, director of investor relations at Sustainable Equity, said today at the Jetfin Agro industry conference in Geneva.

The firm manages about \$85 million in assets, including more than 2 million acres of forest in Brazil's Amazon region, and average annual returns have been 23.8 percent over a 17-year period, according to Johansen. The new fund has attracted institutional investors and "high-net-worth individuals," he said.

"In our conservative estimate, we should be able to get 20 percent-plus" returns from the fund, Johansen said in an interview. "We feel that the opportunities are there."

Sustainable Equity is about 70 percent invested in South America, while Central and North America make up around 20 percent and 10 percent, respectively, the director said. The new fund will probably have a similar profile, he said.

"We're looking for eight or nine investment opportunities of about \$40 million apiece," Johansen said. Projects may be in the Amazon region in countries north of Brazil, he said, without providing details.

State Rules

The firm conducts no logging in Brazil, instead extracting non-timber products including plant oils, latex and fruit from the forest, according to the director. Government regulation to protect tropical forests is increasing, he said.

"The forest will be there when we are finished, intact,"

Johansen said. "New regulation makes it more difficult for competitors to come into Brazil and operate effectively, thus creating additional barriers to entry."

Non-timber forestry and related businesses, including a company that makes cosmetics from natural ingredients, account for about 80 percent of Jersey, Channel Islands-based Sustainable Equity's portfolio, according to Johansen.

The firm also logs soft wood in the U.S. and extracts timber from Central America that has been felled by hurricanes, he said. Timber accounts for about 20 percent of investments, according to the director.

Sustainable Equity owns its land, avoids using debt to buy properties and refrains from investing in equities or other publicly traded securities, Johansen said. The firm assumes a yield on land holdings of between 12 percent and 14 percent to calculate its returns, he said.

Adding timber assets to an investment portfolio increases returns, lowers risk and provides a hedge against inflation, according to Johansen.

"We're not beholden to the whims of the market," he said.

"We like it. In 2008, when the market went off a cliff, our return was 21.1 percent."