Gresham House
Specialist investment

Sustainable investment update: Forestry

April 2024

Real Assets

Our range of real asset investment products provide protection from inflation through proven, long-term sustainable, asset-backed investments.

In many cases, they also provide the potential for uncorrelated returns to equity markets as well as diversified sources of income.

How we integrate ESG

Our Real Asset investments sit within the Sustainable and Impact categories of our Spectrum of Capital. ESG factors are assessed from a risk and opportunities perspective to generate at least market-level investment returns. Our funds also aim to actively contribute towards solutions to some of the largest environmental and societal challenges and produce positive real-world outcomes.

ESG integration into the investment process for our Real Assets

1. Sourcing

Sustainability considerations are integrated from the point of investment product design and in the initial sourcing of new investment opportunities.

2 Initial Appraisal

ESG risks and opportunities are considered at this stage. This may lead to further investigation at Due Diligence stage. If certain risks are unlikely to be managed or mitigated, we may not proceed.

3. Due Diligence

The ESG Decision Tool and stakeholder meetings, including with specialised consultants, ensure our teams assess material ESG risk or opportunities to be managed or that could drive value.

4. Investment Appraisal and Acquisition

A summary of ESG findings are included in Investment Committee papers. This will include proposed action plans to mitigate or capitalise on ESG factors.

5. Ongoing management and asset operation

Plans developed at the Appraisal and Acquisition stage are implemented by our teams. All assets are managed in line with relevant sustainability requirements or standards for the asset class.

Forestry

Gresham House is the largest sustainable productive forestry investment manager in the UK.[1]

Our 40+ year track record in Forestry management makes us the ninth largest natural capital manager globally.[2]

We manage 193,000 hectares of primarily softwood forests in the UK, Ireland, Australia and New Zealand, but we are increasingly expanding our activities to other geographies and focusing on afforestation using as great a diversity of species as possible.

We also invest in international carbon forestry where trees are grown and managed for the generation of carbon credits.

Real world outcomes	2022	2023
Scope 1&2 GHG emissions (tCO_2e)	38,942	43,221
Scope 3 GHG emissions (tCO_2e)	45,435	50,427
Carbon intensity (Scope 1,2&3 tCO_2e/£mn invested)	24.6	31.5
Area under management (ha)	175,000	193,000
Total trees planted[3]	9,114,000	6,419,000
Of which were new trees	*2,367,000*	*1,714,000*
Of which were trees planted for restocking	*6,746,000*	*4,706,000*
Estimated carbon sequestration of forests under management (tCO_2)[4]	1,870,000	1,874,000
Carbon stock in standing inventory (tCO_2)	41,816,000	41,135,000
Forests certified as a percentage of area (%)[5]	88	83[6]
Certified timber sold (tonnes)	1,157,900	1,557,000
Area of land managed for biodiversity (%)	13	18
Area of land managed for conservation (%)[7]	NA	5

Our Forestry assets offer solutions to key sustainability challenges:

- Timber can support the decarbonisation of residential and commercial construction through the production of renewable building materials.
- Sustainable forest management can also provide wider ecological co-benefits, such as carbon sequestration and storage, and biodiversity gains through improved habitat connectivity.
- Investment in sustainable forestry and afforestation, under strict sustainability certification standards, may help to contribute to the avoidance of deforestation of natural forest, ensuring that an ever larger portion of the world's future timber demand is met by harvesting trees grown in forests that are sustainably managed.

1. By area under management. Forestry Journal, 2022
2. IPE research Jan/Feb 2023
3. Reduction in tree planting driven by lower levels of harvesting in 2022
4. In 2023 we reviewed our carbon methodologies and changed to align with the most current and widely accepted techniques and guidelines from the Intergovernmental Panel on Climate Change (IPCC)
5. Certification figures cover UK and Irish discretionary funds
6. Difference in 2024 is as a result of increase in new planting area. New planting is not eligible to be certified until later in its life. We target 100% of our properties to be certified when of sufficient maturity
7. In 2024 we updated our Woodland Manager Questionnaire to separate out land managed for biodiversity and that managed for conservation. The Questionnaire excludes those properties not managed for forestry, such as windfarms

Outlining our commitments to sustainable forest management in our forest charter

Sustainable forest management is about managing forests to meet our clients' financial and wider investment objectives while also managing the social and environmental impact and dependencies of the assets.

The consideration of long-term sustainability risks and opportunities, including those relating to climate change and biodiversity loss, is a crucial aspect of our management approach.

We commit to managing all our forests sustainably in line with, or beyond, international standards. Our charter summarises the core principles and criteria underlying these standards and the commitments we make regarding sustainable forest management at Gresham House.

The following case studies demonstrate how we manage our forests in line with our charter commitments across the following areas:

- Forest products & services
- Climate change
- Biodiversity & ecology
- Forest protection
- Income & employment
- Communities & people

Case study: modern woodland creation at the Fasque Estate

In October 2021, Gresham House completed the acquisition of c.800 hectares (ha) of land for woodland creation on the Fasque estate, near Fettercairn in Aberdeenshire.

Since the acquisition, 336 hectares of native productive conifers (Scots pine) and 78 hectares of Norway spruce have been planted, while 47% of the land is being managed primarily for the conservation or enhancement of biodiversity. Fasque is the largest Scots pine scheme in the Grampians, aiding the reforestation of Scotland's native pine forest

Today, the site is a multispecies plantation that will provide an evergreen resource of sustainable timber production, biodiversity benefits, as well as income, employment and leisure for the local community.

Communities and people

We believe that sustainable forest management requires engagement, not just with those who live close to the trees, but the wider population that enjoy woodlands for recreation, leisure and tourism activities.

Planting the Fasque Estate involved a consultation process integrating viewpoints from a wide array of stakeholders, including but not limited to:

- Fasque Estate
- Scottish Forestry
- Local Residents
- Historic Environment Scotland
- Walking groups

The consultation process was key in gaining local support for the scheme and no grievances were raised about the final design.

Forest products and services

Over 1.1 million timber-producing trees have been planted on the scheme at the Fasque estate since last year, 81% of which are native to Scotland. 220,000 tonnes of timber are expected to be harvested over the next 60 years from Fasque.

Biodiversity and woodland ecology

Nearly 70% of the land for woodland creation has been planted with native trees, which have coevolved to support surrounding ecological systems. These trees require less maintenance, while additionally supporting greater flora and fauna. [1]

There are three water features on the estate, as well as important grouse leks. Riparian zones of low-density native broadleaves have been created around these features, creating a dappled woodland which aims to improve the habitat for local animal populations, as well as serving hydrological functions.

Land use	Area (Ha)	%	UKFS req.
Internal open ground (IOG)	155	20%	>10%
Mixed broadleaves (MB)	212	27%	>10%
Norway spruce (NS)	78	10%	N/A
Scots pine (SP)	336	43%	N/A
Total	**781**	**100%**	

70%

of the land for woodland creation has been planted with native trees

1. Woodland Trust, 2020

Case study: modern woodland creation at the Fasque Estate (continued)

Climate change mitigation

At Fasque, Scots pine has been used in planting for its growth qualities on marginal land. Scots pine seeds selected from tree stands around the UK, predominantly from nurseries in North Scotland, have been used for their superior yield to improve sequestration rates.

240,000

tonnes of carbon will be captured over 80 years by the woodlands created at Fasque

It is estimated that just over 240,000 tonnes of carbon will be captured over 80 years by the woodlands created at Fasque.

Taking establishment emissions and timber harvesting into account, the planting scheme is expected to generate 128,270 carbon credits. This project has been registered with the Woodland Carbon Code.

Income and employment

We believe sustainable forest management demands engagement with local communities to deliver beneficial social and economic outcomes. A duty of stewardship underpins our approach, ensuring that all in-forest operations utilise local contractors, where possible, to guarantee the associated economic and social benefits for local communities.

At Fasque, all aspects of the planting process, including ground preparation, planting, fencing and deer management have been undertaken by Scottish contractors and the majority of the trees have been sourced from nurseries in the North of Scotland.

Forest protection

Effective forest protection is essential to preserve and improve the range of ecological, environmental and social benefits associated with woodlands. Throughout the planting design process many opportunities were identified to maximise the protection of the forest:

- Scots pine seeds were picked for their performance in higher temperate climates, reflecting estimates on 2050 climate conditions.
- Riparian zones were planted to improve the hydrological functions as well as create habitat areas.
- Deer fencing was erected to protect young crops from grazing damage.
- Local pest controllers were engaged to shield crops from harmful pest damage.

Case study: eDNA pilot study on the Scottish borders

Understanding how biodiversity responds to changes in land-use is critical for managing the impacts of afforestation at scale.

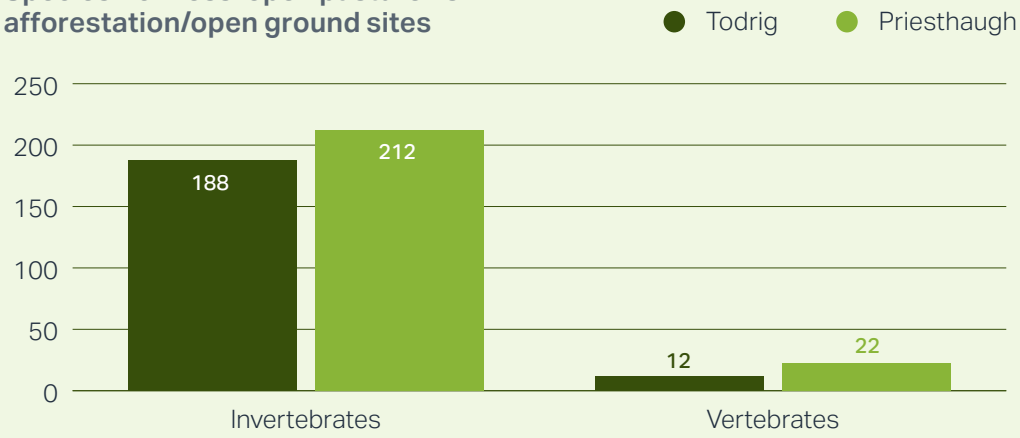
In 2023, our team undertook a study to explore the differences in patterns of biodiversity between open farmland that had been set aside for afforestation and mature, productive woodland.

The pilot study compared a potential afforestation site (open hill pasture) at Todrig and mature productive woodland at Priesthaugh, controlling for environmental co-variates such as soil, climate and water catchments.

Initial results suggest that aspects of biodiversity associated with open pasture are maintained within sustainably managed forests, alongside woodland species.

However, species richness (alpha diversity) across invertebrates, vertebrates and mammals was marginally higher at Priesthaugh than the open hill ground at Todrig, with over 212 species recorded.

Species richness: open pasture vs. afforestation/open ground sites



Contacts

Heather Fleming
Managing Director,
Institutional Business

h.fleming@greshamhouse.com

Ben Gunnee
Head of Institutional

b.gunnee@greshamhouse.com

Claire Glennon
Head of UK Institutional Sales

c.glennon@greshamhouse.com

Alastair Leather
Director, Institutional Distribution

a.leather@greshamhouse.com