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Forestry Funds Can Beat Bond Yields Without the Volatility of Stocks

By Barbara Wall and Erika Kinetz

If you crossed a long-term bond with a bank deposit and a stock, you might get a forestry fund. This is an investment that runs roughly 10 to 30 years; offers a likely return a bit below that of equities but well above a bank account, and is not subject to volatile fluctuations. In some cases, there also may be governmental incentives, including tax benefits, and initial investments can run as low as \$1 ,000.

If all goes well, a forestry fund takes its pooled investments, buys land, plants a crop of trees and waits. A couple of decades later, the trees and land are sold at a price that typically provides an annual profit in the range of 10 percent to 12 percent, about what you might expect from the stock market.

If all does not go well, fire, wind or disease could harm the crop, or it could mature at a time of low timber prices . In the last case , shareholders could wait to harvest the trees at the cost of extending their investment. In a worst scenario, the fund could at least sell the land.

Most of the funds are structured as unit trusts in the American sense, meaning investors buy into a fixed portfolio that is held until it matures; afterwards the assets are sold and the proceeds distributed to the unitholders. A few of the offerings are exchange-listed closed-end funds.

Ireland is reputed to have the best tree-growing conditions in the Northern Hemisphere, which could explain why so many forestry funds have sprung up there. Irish Forestry Funds PLC, for example, is a group of s companies set up by Paul Brosnan. a forestry specialist. The minimum investment is 500 pints (\$579) which represents one preference share in a forestry fund. In theory, the shares can be freely traded up to when the forest matures, but these funds are not listed on any stock exchange, so there is no real market for them. Irish Forestry's Web site does list shares investors are seeking to sell.

The funds have a life span of about 30 years, the length of time it will take for the chosen tree species — mostly Sitka spruce — to provide a viable timber crop, Mr. Brosnan said. The fund will then be wound up and all profits distributed to preference shareholders. Under Irish law, profits from commercial forestry are exempt from income and corporate taxes, as are capital gains on the trees sold. Irish Forestry receives grants from Dublin and the European Union to help with planting costs and the administration of the plantations, Mr. Brosnan said.

More than 6,000 investors, some from Japan, New Zealand and the United States, have put money into Irish Forestry since the first fund was offered in 1997. Approximately 60 percent of investors are younger than 45.

Generally speaking, the older the fund, the greater the projected returns. ‘ Land-price increases have cause projected returns to fall in each consecutive fund,’ Mr. Brosnan said. “The rate of return is largely dependent on the amount of timber that can be sold at the end of the fund. The less land that is purchased. the less timber that is produced.”...