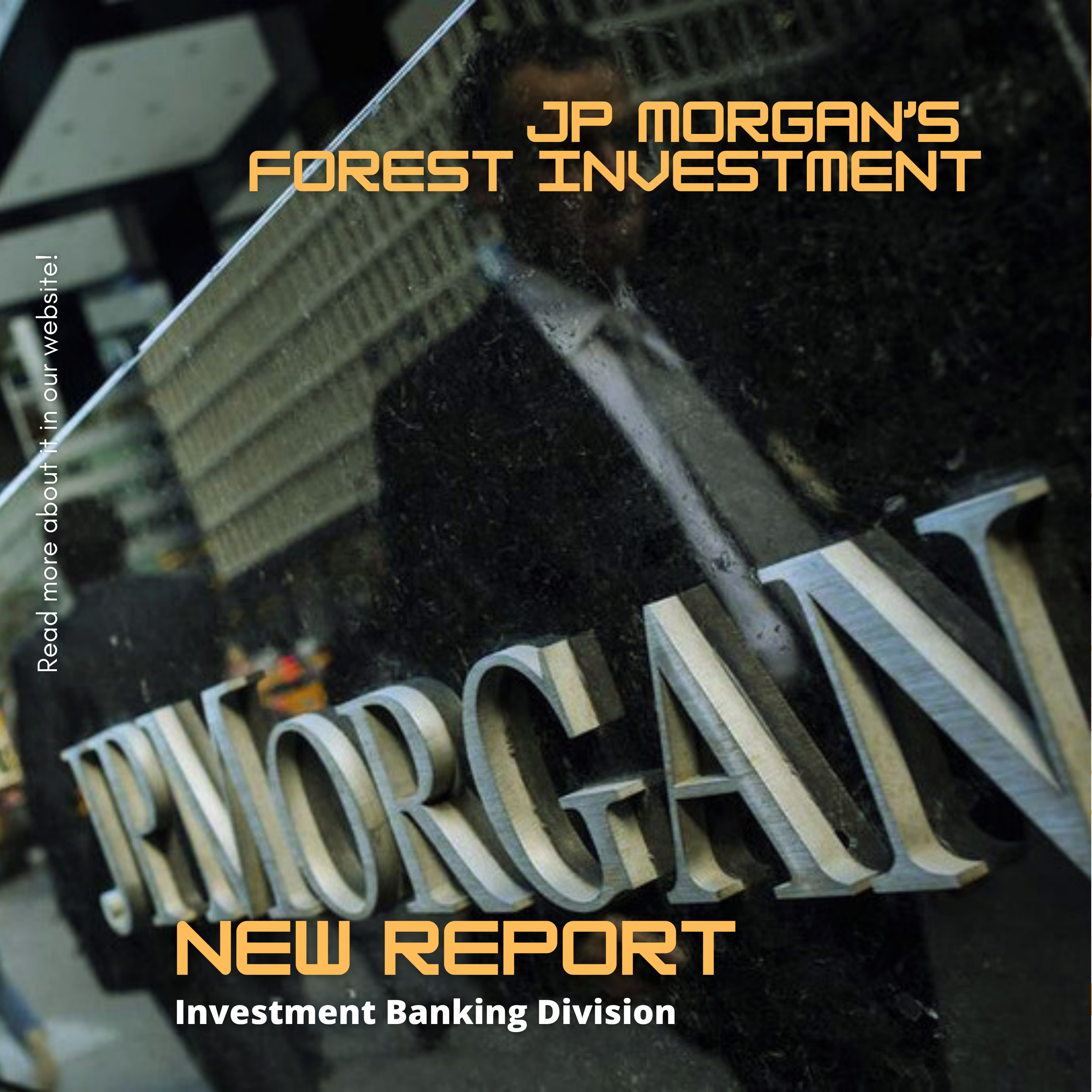
JP MORGAN'S FOREST INVESTMENT



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NEW REPORT

Investment Banking Division

JP Morgan's Forest Investment

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1. What is forest investment?

Forest (or timberland) investment is an alternative form of investment related to putting money into forests and forested land for financial gain.

This practice includes, in particular, buying and managing forested properties, investing in timberland or timber-related companies, or participating in forest-based financial instruments such as Timber Investment Management Organizations (TIMOs) or timber Real Estate Investment Trusts (REITs), which are the major owners of timberland.

Many private and institutional investors, such as pension funds, charitable funds and university endowments, can exploit those companies to invest in timberland as a way to diversify their portfolio.

TIMOs indeed, are financial management groups which act as brokers for institutional investors in order to find, acquire and manage the most suitable properties for their clients and to achieve a satisfactory return for the investors. REITs, instead, are companies that own and manage income-producing real estate and together with commercial real estate, they also possess timberland.

2. Economic rationale of forest investing

When considering investment in sustainability, the question that often arises is "Why are seemingly unrelated companies doing this?" One possible explanation is greenwashing, where companies promote themselves as sustainable even if their actions don't match their claims. This misleading practice can make it difficult for consumers to identify truly sustainable companies. However, when it comes to forest investments, they are real investments and not just a form of greenwashing.

While some may argue that companies invest in forests solely to improve their reputation and appeal to environmentally-conscious consumers while continuing their non-eco-friendly practices, this isn't always the case. While establishing a reputation as a responsible business with strong values, such as sustainability, is one reason for forest investments, it's important to note that it's not the only reason that motivates companies to commit to such investments. There are other factors that motivate such investment choices as well.

2.1 Main benefits of forest investments

From a business perspective, forest investments offer long-term benefits that come from a variety of sources. Firstly, there are the profits that can be generated from the sales of sustainable products obtained from the woodland. In addition, timberland assets, which were once undervalued, are increasingly recognized for the various benefits that can be derived from their ownership, such as carbon sequestration, ecosystem services, and potential for sustainable income. As a result, owning a woodland is likely to lead to capital gains on the asset in the long run. The appreciation of timberland assets is a relatively new phenomenon, and therefore, it presents a valuable investment opportunity for businesses that prioritize sustainability and long-term profitability.

Moreover, forests are good portfolio diversifiers since they are not correlated with the traditional financial markets (stocks and bonds) as their return is generated through biological growth and they tend to be a good hedge against inflation.
Indeed, timberland is an asset which value tends to rise accordingly to inflation rather than staying stagnant like many other investments.
Furthermore, timberland is a good store of value since it is not affected by market volatility or business cycles.

However, perhaps the most significant benefit for companies is carbon offsetting. This refers to the practice of investing in environmental projects to offset the company's emissions and avoid regulatory fines. Timberland, indeed, represents a direct investment in biological carbon removal as 2.6 billion tons of carbon dioxide, about a third of the CO_2 released by burning the fossil fuels, is absorbed and stored by forests every year.
Companies can also purchase carbon credits from other businesses to compensate for their emissions, therefore, owning a forest creates carbon credits which could be a source of income too.

2.2 Other implications of sustainable investments

As the environment will continue to gain importance in society, sustainable investments are predicted to become the dominant concept in the investment world. While this shift is still in its early stages, it's clear that companies' sustainability levels will increasingly impact their valuation and ability to raise capital. As a result, people will become more interested in investing in sustainable companies, which will drive up their prices and overall valuation. Therefore, forest investments offer a promising opportunity for those seeking long-term returns while also promoting ecological responsibility.

However, forest investment also carries risks, such as natural disasters like wildfires or insect infestations, fluctuations in timber prices, and regulatory changes. It is important for potential investors to carefully research and assess the potential risks and rewards of forest investment before making any decisions.

For all those reasons, the practice of investing in timberland has experienced a jump in the last decades. To mention a few numbers to better understand the relevance of this type of alternative investment, according to the UGA Center for Forest Business, the global timberland market value in 2006 was about 400 billion dollars, of which 230 billion in the United States.

3 Regulation and Incentives for investing in forests

In recent years, there has been growing interest in investing in forests and timberland, driven by both financial and environmental considerations.
In particular, the management of private forestland aims to achieve multiple objectives, with a

crucial one being the encouragement of forest regeneration to sustain timber production. In order to guarantee the occurrence of regeneration following timber harvesting, various states have implemented laws that utilize a combination of regulation and incentives.

State regulation is one of the most widely used method of private forestland control. Indeed, some forms of direct regulation seek to ensure that property is reforested after deforestation.

In addition, offering financial incentives is a successful strategy for directing private activity. In the United States, providing tax incentives for afforestation is a popular approach to encourage the growth and maintenance of forestland areas. Those vary depending on the jurisdiction and the specific regulations governing forest investment in that area.

Some examples of subsidies are lower tax rates on income derived from the sale of timber, tax deductions for reforestation, and forest management expenses. Approximately forty states in the US possess laws that reduce property taxes for forested property and they are known as Forest Cropl Laws (FCL).

The legislative purposes behind encouraging long-term, sustainable management of private woodlands in order to enhance soil protection and the stimulation of wood production. Forest crop laws are intended to counteract, to a certain extent, the economic pressure on private landowners to harvest their forest too early, or not to invest in forestry at all.

4 JP Morgan's Forest Investment

At the end of January 2023, J.P. Morgan Asset Management's Campbell Global unit acquired about 250,000 acres in the Southeastern USA for approximately $500 million1. This is the first ever investment of JP. Morgan in forest investment and the first of its kind in the banking sector.

Campbell Global is the Forest Investment company of J.P. Morgan and as of December 31, 2021 manages $5.5 Billion and 1.7 million acres (0.7 million hectares) in the US, Chile, Australia and New Zealand2. The fund is also specialized further in Core Timberland Markets (especially in high-growth demand regions, such as China and India). They invest on behalf of pension funds, foundations and their institutional investors and, within the US, control numerous commercial forests in Mississippi, Oklahoma and Arkansas. The objective of the company is not merely to produce wood, but mostly to use the trees' carbon capture capabilities as instruments to be traded to both listed and private corporations that are willing to improve their ESG score. Companies that acquire this type of financial product actively improve their ESG, since their carbon footprint diminishes. Campbell Global is truly an exceptional player in the industry, having been involved in forest investing for over 35 years and having managed a total of 5.3 million acres (2.1 million hectares).

J.P.Morgan Global Alternatives is the alternative investment arm of J.P. Morgan Asset Management has more than 50 years of experience in alternative investments and currently manages a total of $216 Billion across real estate, private equity, private credit, hedge funds, infrastructure, transportation, timber and liquid alternatives3. As a consequence, the latest forest investment, although appreciable, does not, together with other investments of similar nature, constitute a considerable quantity of the alternatives' total assets under management. On the other hand, J.P. Morgan is the first bank, whose Asset Management arm invested in forest investments and they are therefore leading the way in what seems to be a potentially broad source of future revenue for the bank's institutional investors (mostly pension funds) and high net-worth individuals.

This recent acquisition of the 250,000 acres consists of one of J.P. Morgan's alternative investments and as Anton Pil states, head of the alternative for J.P. Morgan Asset Management, "for large timberland purchases, carbon is an integral part of the valuation, just as timber is," demonstrating that the operation's main focus is not set on logging, but actually on carbon offsetting. Furthermore, Corp. CEO Eric Cremes said "Sellers are choosing to wait until there are some signs of a recovery in housing starts and lumber demand to bring properties to the market", suggesting that timber deal-making in the rest of 2023 may decrease, as sellers hold out until more favorable prices in the end markets occur. Creams further added: "Also, we suspect sellers might be holding back as carbon potential is becoming a bigger and bigger deal"1. Indeed, forest investments are considered reliable sources of revenues in terms of carbon offsets, as the latter is in increasingly short supply, but highly demanded by companies.

Instead of profiting from the logging of trees, as Kristin Kallegris Rowland, global head of alternative investments at J.P. Morgan states, "for timber investors, there has been a transformation in the ability to generate income from trees while they grow: rather than waiting to get paid (for the timber), they can now get paid to wait". This signifies a considerable shift in how forest investing is perceived. Large corporations, helped by banks, have been purchasing lots of forests for decades, resulting, very often, in devastating consequences for the regions in question and the environment as a whole. If banks follow suit with J.P. Morgan, then they can start being perceived as institutions that are actively holding deforestation and aiding the environment, resulting in a better popular image of the bank.

The latest investment in the Southeastern US is of considerable importance in J.P. Morgan's goal of further asset diversification and of identification as a pioneer environmentally friendly Banking institution. The biggest bank in America just opened itself a further field in which it set to reign.

5 Other financial institutions follow similar strategies

5.1 Forest investments

JPMorgan however, is not the only company looking in the direction of these new opportunities. In November, Oak Hill Advisors LP, a subsidiary of T. Rowe Price Group Inc. which is best known as a corporate debt-investor, took a bet by investing in a similar idea. Oak Hill Advisors had a similar plan to JPMorgan's, which included investing a large sum in forests, with the goal of reducing carbon offsets, and using logging as a revenue stream. They initially planned to invest

$500 million, but then were able to secure a $1.8 billion dollar deal which bought them 1.7 million acres of forest.

5.2 ESG Actions

When it comes to environmental, social, and governance, or the so-called ESG issues, different banks tend to have different approaches. J.P. Morgan's approach to ESG, and more specifically its forest investment, is an original one. It is the first and so far only bank to purchase a forest in its efforts to offset its carbon footprint while also generating revenue. Some of J.P. Morgan's biggest rivals, like Goldman Sachs and Morgan Stanley, are staying on the safe side by taking more 'traditional' and well-tested actions as part of their ESG strategies.

5.3 Goldman Sachs perspective

Goldman Sachs is known to be one of the first financial institutions to acknowledge the threats imposed by climate change, as they established their Environmental Policy Framework more than 17 years ago today, back in November of 2005. Since then, the company has been consistent in meeting its goals, and is currently focused on achieving net-zero carbon emissions across its operations and supply chain by the year of 2030. Goldman Sachs has set some goals for the even nearer future as well, such as a 20% reduction in energy intensity for offices under operational control, extending their business travel Scope 3 (relating to emissions not produced by the company itself) carbon neutrality commitment to include hotel night stays, and establishing a green traveler program for their employees in order to minimize the environmental impacts of their business travels - all by the year of 2025. In 2020, the firm achieved its goal of sourcing renewable energy for 100% of its electricity needs, and is currently looking to build upon those results.

Once again by the year of 2025, Goldman Sachs plans for at least 80% of its renewable energy procurement to come from impactful long-term agreements, such as the 2019 long-term power purchase agreement with NextEra Energy Resources. The 1.0 megawatt solar carport system, which was installed in the new headquarters of Ayco Personal Financial Management in Cohoes, New York, represents the firm's first major large-scale on-site renewable energy project and is sufficient to provide for 60% of Ayco's new headquarter's power needs. Goldman Sachs has also executed two other PPA's in order to meet 100% of their energy requirements for their campuses in Bengaluru, India - a 50 MW solar power plant in the Chitradurga district of Karnataka, and a 10 MW wind energy project in the Belgaum district of Karnataka. All three power purchase agreements are a great sign of the company's progress in regards to their 2025 and 2030 goals.

5.4 Morgan Stanley perspective

Morgan Stanley is another global leader in the financial services industry which not only takes pride in its ESG initiatives, but is focused on integrating them into their core competencies. As of 2023, the company's sustainability goals for the future include mobilizing $1 trillion for sustainable finance and helping avoid 50 MM tons of plastic waste by 2030, as well as reaching net-zero financed emissions by the year of 2050. Morgan Stanley committed to its financial sustainability target two years ago, back in 2021, and aims at mobilizing the capital for environmental and social solutions that are in line with the SDGs, or Sustainable Development Goals, of the United Nations. In order to meet its ambitious goal, the company would have to increase its business activities in areas, such as renewable energy, green bond underwriting and clean-tech.

As far as the company's plastic waste avoidance plan goes, it is aimed at catalyzing solutions relating to SDGs 6 (Clean Water and Sanitation), 12 (Responsible Consumption and Production), and 14 (Life Below Water). Morgan Stanley plans on supporting innovators of transformative solutions in regards to plastic waste, and for this purpose, together with Solactive and ISS ESG, they launched the Future of Plastic Index at the beginning of 2021. The index is publicly listed and consists of global companies with leading performance in the innovation and implementation of plastic waste solutions and efficient material use.

Although Morgan Stanley's net-zero financed emissions goal is still far from its due date, the company has set 2030 interim targets for three sectors within their lending portfolio - "an important step in their continued journey toward net-zero by 2050", as commented by Morgan Stanley Chairman and CEO, James P. Gorman. The three sectors which the company is targeting are auto manufacturing, energy, and power, with emission reduction targets of -35%, -29%, and -58%, respectively. Morgan Stanley focuses on all three greenhouse gas emissions scopes for all three target sectors, as it is those three sectors that tend to be the most carbon-intensive out of the company's entire lending portfolio. So far, Morgan Stanley is headed in the right direction but the emission reductions across industries, upon which the success of the company's plan depends, are yet to take place.

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