Brazil Fund Bets Big on Eucalyptus Trees as Crises Roil Stocks

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- Claritas's tree funds have returned 17.5% a year since 2008
- Firm currently working on project to start third forestry fund

With Brazil's economic and political crises roiling the nation's financial markets in recent years, investors have searched far and wide in hopes of hitting upon a money-making venture immune to the turmoil.

Claritas Investimentos, a Sao Paulo-based money manager, has found just the thing: eucalyptus trees. It began snapping up forestry land in Brazil and selling the pulp produced by the trees during an earlier period of upheaval -- the tumult that rocked global markets in 2008. And the bet has paid off handsomely. Its two tree funds with 635 million reais ($177.8 million) in combined assets have delivered average annual returns of 17.5 percent since 2008, according to Claritas, as pulp prices soared 42 percent from the lowest level in over a decade in 2009. Brazil's stock market, meanwhile, has saddled investors with average losses of 4.7 percent.

Claritas is now seeking to start a third such fund to withstand Brazil's longest recession in more than a century. The company, which has 3.5 billion reais of assets under management and counts local pension funds among its clients, grows eucalyptus trees in the Brazilian states of Mato Grosso do Sul, Minas Gerais, Bahia and Tocantins, where it owns a 130,000-hectare (320,000-acre) farm.

"These are assets that grow all year long, no matter if there is a crisis or not," said Helton Lopes, a forestry engineer hired by Claritas three years ago to help manage the funds.

From Claritas's office on Av. Brigadeiro Faria Lima in Sao Paulo's main financial district, Chief Executive Officer Carlos Ambrosio and Lopes map out parts of the country where they believe it's viable to grow the trees. They sell the pulp to Brazilian companies like Suzano Papel e Celulose SA. The pulp-exporting giants have been among the biggest beneficiaries of the 38 percent plunge in Brazil's currency over the past two years. The currency was down 0.3 percent this week.

Suzano didn't immediately reply to an e-mail and phone call seeking comment on its pulp purchases.

Latin America's biggest country offers certain advantages, according to Ambrosio. For one, eucalyptus trees in Brazil take five to seven years to reach a size that allows them to be harvested. That compares with a seven to 10-year average in the U.S. and more than 15 years in Europe. Brazil also gets plenty of rainfall and boasts sophisticated bio-engineering technologies, Ambrosio said.

"We aimed to come up with a diversification alternative for international and institutional clients," he said in an interview at the firm's office. Claritas initially considered investing in soy and sugarcane, "but the crops ruin if you don't pick them. That doesn't happen with timberland. If the economy is not doing well, you simply don't cut the tree down. They will continue growing."

Claritas isn't alone. Last year, Brazilian investment bank BTG Pactual SA opened an $860 million fund to invest in forestry assets in the country and other parts of Latin America. In 2012, Sao Paulo-based Lacan Invesmentos started a 200 million reais fund to invest in similar assets.

Claritas's Lopes said the firm's third tree fund, which will have about 300 million reais in assets, will focus on the southern part of Brazil.

"The forest produces," he said. "But you have to know how to manage it well. It takes knowledge and dedication."

There's a mountain of iron ore sat right on China's doorstep. Stockpiles at ports have climbed above 100 million metric tons, offering fresh evidence of increased supplies in the world's top user that may hurt prices.

The inventories swelled 1.6 percent to 100.45 million tons this week, the highest level since March 2015, according to data from Shanghai Steelhome Information Technology Co. The holdings, which feed the world's largest steel industry, have expanded 7.9 percent this year, and are now large enough to cover more than five weeks' of imports.

Iron ore has traced a boom-bust path over the past two months after investors in China piled into raw-material futures, then changed course after regulators clamped down. While mills in China churned out record daily output in April to take advantage of a steel price surge, production in the first four months was 2.3 percent lower than a year earlier. Port inventories in China may continue to increase, BHP Billiton Ltd. forecast this week.

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"There's a lot of optimism actually that steel demand in China will increase," Ralph Leszczynski, the Singapore-based head of research at shipbroker Banchero Costa & Co., said by phone. "It's a bit of an 'if' as the economy is still quite fragile," he said, calling the rise in port stocks "probably excessive."

The raw material with 62 percent content rose 2.7 percent to $54.89 a dry ton on Friday, according to Metal Bulletin Ltd. Prices have tumbled 22 percent since peaking at more than $70 a ton in April, paring the gain so far in 2016 to 26 percent.

China Imports

Imports by China increased 4.6 percent to 83.9 million tons last month from a year ago, according to customs data. The port holdings, which peaked at 113.7 million tons in July 2014, are above the five-year average of about 94 million tons. Last year, China imported 953 million tons, official data show, or about 18.3 million tons a week.

Goldman Sachs Group Inc. has warned that supply growth will accelerate this year, potentially feeding a glut and driving the commodity back to $40 by year-end. In April, miners in Australia including BHP, Fortescue Metals Group Ltd. and Roy Hill Holdings Pty shipped 37.7 million tons through Port Hedland, up 6.5 percent from a year earlier.

Port stockpiles in China, which have risen in 2016 even as demand rebounded, may continue to increase through the rest of the year, Vicky Binns, vice president of marketing minerals at BHP, told a conference in Singapore on Thursday. The expansion in low-cost seaborne output may go on to exceed demand growth in the short to medium term, Binns said.