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European investors have shown increased interest in forestry in recent years because of its moderate risk profile and attractive returns, which include both income and capital gains. These returns have a low correlation with those of other financial assets, making it an effective portfolio diversifier, and its inflation-hedging attributes also provide capital preservation benefits.

Nevertheless, investors are still learning about the asset class and some of its most common misconceptions are discussed below.

- **Perception:** Forestry has dominated as an asset class and few opportunities exist for new investors, particularly in the United States.
  - **Reality:** Approximately 15 per cent of the world’s investment-grade forests are managed as institutional investments. On a market capitalisation basis, almost 25 per cent of the world’s investable timberland (an estimated $1.5bn) traded on the $12bn Lumberjack and $21bn (€30bn) out of a total of $92bn is in the US, which has the deepest, most diverse and highest valued land and timber markets in the world.
  - **By comparison,** Brazil, Chile, Australia and New Zealand combined represent less than 480mln of the world total. Only 67,000 hectares of forest are available for ownership in the US, only 20 per cent are currently owned by institutional investors. In short, opportunities still exist in the US market and any timberland investment program is likely to be strengthened by a US allocation.

- **Perception:** Forests are not environmentally sustainable.
  - **Reality:** Forests are natural assets that must be actively and sustainably managed to ensure that their investment potential is optimised. In the case of natural mixed-species forests, which are often found in cooler climates, such forests naturally support new growth and are managed to ensure that the new growth is of high quality.

- **Perception:** Global diversification is key to reducing risk.
  - **Reality:** Geographic diversification is important, but achieving it does not require owning timberland around the world. Portfolio risk can be reduced by 21 per cent by owning forests in five different countries. However, the same results can be achieved by investing in just five of the 21 sub-regions of the US South, which has the world’s largest investable land base with 35.2bn acres.

- **Perception:** Forests are less liquid than other alternative assets.
  - **Reality:** Forests are less liquid than other alternative assets.

**Key facts**

- **Timberland investments** have historically provided consistent, positive returns relative to its risk profile.
- **Returns** have outperformed many traditional asset classes, including stocks, bonds and real estate.
- **Timberland is a renewable and biologically growing asset class,** representing an array of advantages among alternative investments.
- **Timberland** is estimated that institutional investors and management houses — globally now even about $12bn in value.
- Of that amount, about $5bn is invested in the US, which represents in the world's largest producer and user of timber products.

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**ASSET CLASS**

With moderate risk and attractive returns, forestry’s profile has steadily risen. But there is still much to learn.