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## **Branching out Timber as a growing asset class**

"HE PLANTS trees to benefit another generation" said Caecilius Statius, a Roman comic poet. The sentiment remains admirable, but modern investors are putting money into trees to reap benefits in the nearer term. A growing number of rich individuals, endowments and pension funds are including timber as a "hard asset" in portfolios.

No wonder. Average annual returns on timber-meaning managed preserves that are eventually harvested-have outstripped those from leading global stock indices, property, oil and gold for the past decade. Worldwide, timber has attracted more than \$20 billion of investment from institutional investors. Advocates say managed timber reserves are good for the environment too, preserving biodiversity on lands that might otherwise be logged recklessly.

Investor interest is strongest in America, where imaginative university endowment funds have embraced timber along with other "alternative" assets. The trend has spread more recently to Europe. Phaunos, a new timber fund, raised \$115m when it listed in London last month. Investors backing it include the London Pension Funds Authority, F&C Asset Management, and a Swedish pension fund.

Trees typically take decades to mature, making them especially appealing to institutions, such as pension funds, which are looking for investments to offset long-term liabilities. Returns are not correlated with those on stocks, and yields are predictable. There are risks, of course. Foremost among them is potential exposure to any general economic downturn, which would tend to cut demand for wood, pulp and paper.

### **Trees can make a hedge**

As more money has moved in, returns on timber in developed markets have fallen, pushing investors towards other corners of the world. Actis, an investment firm that focuses on emerging markets, has a \$92m agribusiness fund with about one-third of its portfolio invested in or committed to timber preserves in Africa. These include a teak plantation in Tanzania, and a teak and hardwood plantation in south-west Sudan. "Even with 25 years of civil war, trees grow," says Michael Turner, a partner who manages the fund. Actis is considering additional timber assets into Kenya, Uganda, Zambia and Congo.

As "green" awareness rises around the world, timber looks more attractive than ever. It offers potential for tapping into the trading of carbon offsets, though any markets here are as yet immature.

Even governments with dodgy environmental records are being tempted by the potential gains from managed timber reserves. If can they

provide adequate conditions for investment-mainly, a respect for title, and for the law of contract-everyone will benefit. Once in a while, money really does grow on trees.

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