



Small Managers - BIG ALPHA - Report 83



Timberland as a breath of fresh air in the portfolio

B. G., Opalesque Geneva:

Timberland investment involves investment in land that produces timber. There are benefits to such investments as demand in wood and lumber products tend to rise

over the long term and are not directly linked to other market forces. Steady growth is one of the reasons why timberland is used to diversify a portfolio and as an inflation hedge, [according to](#) Investopedia. There are millions of acres of timberland in the U.S. that are owned by pension funds, charitable trusts, individual investors, and universities.

Among the managers of this natural real asset is [Southview Timberland Investments](#), based in Atlanta, GA, which acquires, manages and disposes of investment-grade timberland properties on behalf of its investors and partners in the southeast U.S. It has employed an opportunistic and value-added strategy with little to no debt or leverage for about 30 years, averaging an IRR of 12% to 15% in the last 20.

The firm has recently launched its first fund structure, the Southview Timberland Fund, and is looking to expand its pool of capital.

“We have a strategy that’s already working,” co-managing director John Brenard tells Opalesque. “We have a certain threshold of properties that we’re able to acquire between my business partner and me and our network because we’ve been doing friends and family deals for a long time. But we want to go after the larger timberland packages that come to market. That is why we’re seeking a broader pool of capital to acquire these larger assets and manage assets on a larger scale.”

John Brenard will present his fund during our next **webinar** on January 16, [Small Managers BIG ALPHA Episode 13](#) (details below).

Timberland investment

A timberland investment refers to acquiring and managing a forest as an asset to generate a financial return. The Southview Timberland Fund’s generates its yield from various activities, with harvesting timber being the most significant contributor.

The financial returns come from the biological growth of trees, harvesting timber, timber prices, land

appreciation and other non-timber incomes. The longer the trees grow, the higher the income yield. For example, a 12-year-old tree would yield moderate income and be used for paper and particle boards. But a 24-year-old tree would yield high income and be used for dimensional lumber and plywood products.

The typical timberland investment hold period for Southview investors will be from 5 to 10 years.

Timberland as a hedge

Direct investment and access to this real asset are difficult for most investors. But once investments are secured, timberland can be used as a hedge as it offers low volatility and uncorrelated returns.

From 1991 to 2021, timberland returned 8.9% (annualised) with a standard deviation, a measure of the relative riskiness of an asset, of 6.8%.

Timberland Returns vs. Public Markets (1991-2021)			
Asset Class	Annualized Return	Standard Deviation	Sharpe Ratio
Timberland	8.9%	6.8%	0.91
U.S. Fixed Income	5.7%	3.9%	0.79
U.S. Equities	11.0%	15.7%	0.53
U.S. REITs	7.9%	18.9%	0.28
Global Commodities	0.4%	23.7%	-0.09

Source: Bloomberg Finance L.P., NCREIF, JPMAM. Data as of September 30, 2021. Indexes: S&P 500, NCREIF Timberland Index, NA REIT Index, BB US Aggregate Bond Index and S&P GSCI Commodity Index. It is not possible to invest directly in an index. Past performance does not guarantee future results. For illustrative purposes only. Estimates, forecasts and comparisons are as of the dates stated in the material.

Timberland is negatively correlated with most traditional asset classes, including stocks and bonds.

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The health of the forest

There is also the sustainability aspect of investing in timberland which can be part of the natural climate solution.

“At Southview, we take a holistic approach to managing our timberland,” says the manager. “We understand that the health of the forest is not only essential for the environment but also for the long-term success of our investments. As part of our management operations, we implement sustainable practices such as selective logging and reforestation. We also regularly monitor our properties for any signs of disease or pests and take action to address any issues that arise.”

Managing risk through selection process

The risks of investing in timberland include fire, insects, disease, weather, financing for fertilizers, seedlings, pulpwood and others, land use regulations, green certification and social pressures.

“We follow a rigorous selection process before acquiring a timberland property on behalf of our investors,” says the manager. “The age classes and health of the trees, soil types, proximity to sawmills, and many other factors that affect the likelihood of a positive outcome for our investors are all considered. In other words, we do as much as possible to de-risk the investment. This is all made possible due to our experience operating in the Southeast for the last several decades.”

Southview Timberland Investments is run by the two co-founders: John Brenard, who has worked at J.P. Morgan and Wells Fargo Advisors and several start-ups and takes care of operations and finance, and Terry Myers, who has been engaged in the acquisition management and monetisation of timberland properties for more than three decades and who takes care of timberland operations and acquisitions.

Upcoming Webinar

Small Managers - BIG ALPHA Episode 13

Episode 13 of this ground-breaking webinar series presents you with another carefully screened panel of smaller and/or emerging alternative investment managers worth taking a look at.

In one hour, you'll meet them all, get to know their top quartile strategies, and - since this an interactive session - can ask your questions.

When: Tuesday, January 16th at 11 am ET

Who:

- Bas Emmerig, founding partner and PM, Savin Investment Partners
- John Brenard, managing director and founder, Southview Timberland Investments
- Nico Cordeiro, CIO, Strix Leviathan
- Neal Berger, Founder/Chief Investment Officer of Eagle's View Asset Management

Free registration: www.opalesque.com/webinar/