



PENSION OBSERVER

THE OFFICIAL PUBLICATION OF THE TEXAS ASSOCIATION OF PUBLIC EMPLOYEE RETIREMENT SYSTEMS

Timberland Rebounds; Augments Equities

By Chung-Hong Fu

The timberland investment sector is showing increasing strength after a stagnant period following the global financial crisis and the collapse of the domestic housing market.

According to the University of Georgia, in 2011, timberland assets valued at \$1.9 billion were transacted, a \$700 million increase from 2010. In addition, investors began seeking exposure to timberland and other hard assets to reduce systemic portfolio risk. These factors improved overall liquidity within

the asset class and led to improving investment dynamics.

On the end-use side of the equation, demand for timber also is growing as improving domestic and global economic conditions drive consumption of paper

and packaging products. Growth in the U.S. housing market, which saw housing starts grow by 30 percent annually through April, also has been a factor, leading to increased demand and pricing for lumber, paneling and flooring products.

The combination of these factors has been reflected in the recent performance of the asset class. The NCREIF Timberland Index returned 1.57 percent in 2011 — a considerable improvement over 2009 and 2010 when annual returns were negative.

(Continued on Page 7)



The Enhanced Power of Dividends

By Chris Corapi

Last year was marked by extreme volatility in the equity markets with spikes in macro risk distracting from fundamentals, inspiring significant groupthink and resulting in large intra-day movements into and out of equities. This dynamic also inspired record-high stock correlations; S&P 500 constituents are trading in lockstep like never before, and similar trends are also evident among mid- and small-cap names.

While this is not the best environment for fundamental investors looking for an information advantage, it is a great one for dividend-oriented portfolios. The investment public

Considering that interest rates are expected to remain low while equity markets deliver returns in the high single digits at best, demand for dividend-paying stocks should remain strong.

while equity markets deliver returns in the high single digits at best, demand for dividend-paying stocks should remain strong.

— especially the large portion of the population in or near retirement— is starved for yield in the low-interest rate environment. And after the flat equity market performance of the 2000s, professional investors are increasingly attuned to the important role yield plays in total return. Considering that interest rates are expected to remain low

Meanwhile, there's an argument to be made that more companies will begin to pay dividends or increase existing dividends given the record levels of corporate cash. While corporate balance sheet repair in the aftermath of the financial crisis was prudent, these bloated cash balances are yielding next to nothing in short-term investments and are acting as a drag on earnings. To maximize shareholder value, companies need to deploy

(Continued on Page 5)

MARK YOUR CALENDARS!

TEXPERS Summer Educational Forum

August 19 - 21, 2012

Grand Hyatt Hotel • San Antonio, TX

Saturday, August 18,
Certified Trustee Training
Plan Sponsors Only

Registration Open
TEXPERS Members-Only
eligible to attend


Timberland Rebounds: Auguments Equities

By Chung-Hong Fu
(Continued from Page 1)

With respect to asset class characteristics, the U.S. remains the world's largest and most diverse timberland investment market. Some investors continue to place capital in other established markets — like Brazil, Australia, and New Zealand — while others are pursuing specialized opportunities in more exotic locales — like Central America, Africa, Southeast Asia and Central Europe. However, most sophisticated institutions continue to view extensive involvement in the U.S. timberland market as the key to building a high-performing, risk-adjusted portfolio.

One domestic market that has been particularly attractive to investors has been East Texas. Approximately \$3.7 billion has been invested in the region during the last decade and institutions now own approximately 2.67 million acres in the state. East Texas has an active packaging and solid wood manufacturing base as well as very strong rural land markets because of the role outdoor recreation plays in the regional economy. It also is rapidly becoming a leader in the emerging wood-based bio-energy industry. To date, there are seven bio-energy facilities operating, or in various stages of planning, within the region. These projects are slated to produce nearly 900 megawatts of electricity and they will consume approximately 5.5 million tons of wood annually. By

comparison, the region's pulp and chip industries utilized 9.0 million tons of timber during the last 12 months. This means the growing bio-energy industry in Texas could increase regional wood demand by as much as 50 percent. One of the largest projects under construction is a wood fuel pellet mill. It will start-up in 2013 and use 1.1 million tons of wood fiber each year. The facility, which is owned by a German company, will produce 550 thousand tons of wood pellets, most of which will be exported to Western Europe.

The outlook for timberland is promising and investors who are patient and who employ investment strategies that have long-term orientations will be best positioned to benefit from their involvement in the asset class. 

Chung-Hong Fu is Managing Director, Economic Research and Analysis, at Timberland Investment Resources, LLC in Atlanta, Georgia.



By comparison, the region's pulp and chip industries utilized 9.0 million tons of timber during the last 12 months. This means the growing bio-energy industry in Texas could increase regional wood demand by as much as 50 percent. One of the largest projects under construction is a wood fuel pellet mill. It will start-up in 2013 and use 1.1 million tons of wood fiber each year.

www.texpers.org