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DAILY COVER

Want To Hedge Against Inflation? Buy A Forest

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Wealthy investors and institutions have committed $10 billion to timberland managed by Angela Davis. Ordinary folk have to settle for shares of timber REITs.

Invest capital and save the planet at the same time. Own a forest.

That's the selling proposition from Angela Davis, who, as president of Campbell Global in Portland, Oregon, oversees $10 billion on behalf of institutions and wealthy individuals. So far she has acquired 1.4 million acres of trees, the majority in the U.S., with some in Australia and New Zealand.

Do not expect from timberland the kind of action you'd get from a semiconductor stock. "Forest investors are typically not looking for high risk and high return," Davis says. What are they looking for? Four other things: a yield, an inflation hedge, a portfolio-stabilizing lack of correlation to the stock market and the environmental virtue that comes from taking carbon out of the air.

The yield comes naturally. Trees grow. Douglas fir, the money tree in the Pacific Northwest, is harvested at 45 years of age. A timberland property that contains tracts evenly distributed over the age spectrum will have an average age of 22. This means the wood that can be taken annually from mature trees comes to 4.4% of the total volume of wood in the forest.

That 4.4% botanic payout is the starting point for expected return. Log prices, sensitive to homebuilding demands, are extremely volatile, but over the long pull they, and the residual value of cleared land, should keep up with inflation. Add in inflation and a 7% nominal return is within reach.



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Angela Davis, president of Campbell Global in Portland, Oregon, gets help from 75 foresters overseeing 1.4 million acres of timberland.

Beyond that, Davis aims to beat the averages by astute management of the land. Her trees absorbed a net two megatons of carbon dioxide last year, generating salable carbon credits. She has 75 foresters on her staff. They keep

an eye on bugs and arrange for culling of compromised trees before the damage can spread. When blazes threaten, they bring in bulldozer crews for fire breaks.

An acre of Doug fir, left to grow and harvested in year 45, might yield 24,000 board feet of saw timber, worth $17,000 when it arrives at the sawmill. Sounds pretty good, given that forests in Oregon and Washington west of the Cascade Mountains can be had for $4,000 to $7,000 an acre.

But there is a long road between the standing tree and the sawmill's check. Landowners in the Northwest lose at least half their revenue to the cost of growing and harvesting wood. Trees must be felled with dangerous and expensive equipment, dragged up muddy and steep slopes with cables, cut into lengths, loaded onto trucks and hauled. Slash (limbs and broken pieces) must be burned or chopped.

Reforestation, done right, delivers better yield than would come from natural regeneration, but it's expensive. "You overplant, then thin, like carrots in a garden," Davis says.



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In the years between seedlings and harvest, a portion of the acres will have been lost to fires, floods, insects and disease. A fraction of the acreage–16% in a recent Campbell acquisition on the Olympic peninsula–cannot be cut because it's near a trout stream or an owl's nest. Bears must be bought off; they come out of hibernation so ravenous that they rip the bark off trees unless they are given food baskets.

A timber management company like Campbell (acquired in 2021 by JPMorgan Chase) has to be paid. Campbell doesn't disclose fees beyond saying it gets, in hedge fund fashion, a percentage of assets plus a performance bonus.

What's left for the investors? The ones who signed up for Campbell's recent $2.3 billion funding round deserve to call themselves contrarian. Although timberland has terrific years, such as between 1991 and the financial crisis, it has done poorly of late. Campbell doesn't release results for any of its partnerships, but you can look at publicly traded real estate investment trusts that own timberland. In the past decade they have delivered a pathetic 4% a year on average, vastly underperforming the stock market.

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