

Timber is Important Investment Class

SEPTEMBER 2006 - In maintaining its policy of diversifying the Commonwealth's giant pension fund, the Pension Reserves Investment Trust (PRIT) Fund includes a timber allocation within its assets.

The decision to enter the timber market came in late 2001. At that time, the Pension Reserves Investment Management (PRIM) Board, which oversees the PRIT Fund, looked at the timber experience of other large state funds. In addition, the Board noted that the nearby Harvard University endowment fund, the largest such fund in the country, had invested ten percent of its fund in timber with positive results.

After interviewing several timber managers, the Board selected Forest Investment Associates (FIA) of Atlanta, Georgia and the Campbell Group of Portland, Oregon to be PRIM's two managers.

FIA concentrates in the Northeast and Southeast regions of the United States. Southern pine is the dominant species in the Southeast. It is used typically to make pulp for the paper industry or lower quality framing lumber. The Northeast market is much smaller and consists of a wider range of trees including high value specialty woods such as cherry and oak.

Campbell concentrates in the Pacific Northwest where the high value tree in that region is Douglas Fir, which is used primarily to produce high quality dimensional and structural timber.

Timber investments have performed very well for PRIT, with an annualized return of over 15% since inception. West coast timber returns have been especially strong with southern pine sluggish over the past year. The current value of PRIT's timber is \$1.5 billion, about 3.5% of PRIT's total fund.

"Timber is an interesting asset class," said PRIM Board member Ralph White. "I haven't had time to do a site visit, but Lou Canlas (Chief

Investment Officer) and Tim Schlitzer (real estate and timber analyst) make regular due diligence trips, meeting with our managers and getting a good look at the forest tracts we own and the harvesting process.”

Canlas had special praise for Perry Hagenstein who was appointed to the Real Estate and Timber Committees two years ago by PRIM Chairman Tim Cahill. In his private life, Hagenstein is a consultant on timber and natural resources to government, industry and private organizations.

“Perry has given freely of his time to accompany us on site visits,” Canlas said. His expertise in the knowledge of the timber business is invaluable.”

“When Perry responds to questions in his quiet unassuming way at our Board meetings, you can hear a pin drop,” added White. “It’s like that old radio ad, ‘When E.F. Hutton speaks, people listen.’”

Haverhill Pioneere Timber Investmen

The Haverhill Retirement Board, under the advice of then-Board member Vaughn Guertin, voted many years ago to include timber as an asset class for the Haverhill system. The Board then hired Global Forest Partners (GFP) of West Lebanon, NH as a global timber manager. The current value of Haverhill’s timber is \$8.9 million or about 5.9% of the fund’s total value.

“We’ve been earning over 10% (timber) on an annualized basis,” said Kathy Gallant, administrator of the Haverhill Retirement Board. “In addition to the U.S. we’ve owned timber in Brazil, Uruguay, New Zealand and Australia. Vaughn Guertin was our timber expert. He was very knowledgeable and stayed on top of our investments.” Guertin is now fully retired and no longer a member of the Board. Wainwright Investment Counsel serves as Haverhill’s timber consultant.

In an interview with Vaughn Guertin, he explained that he first became interested in timber as an asset back in 1988 after talking with officials of the New Hampshire Retirement System.

"New Hampshire had a history of steady market returns on its timber investment that was as good as stock returns. We talked about further diversifying our investments at the Haverhill Retirement Board and decided to put around five percent in timber," he said.

"Over the years timber investing has been an interesting educational experience for me. The Board told me to go ahead and be the point man on timber, which meant that I was expected to be the due diligence person on making site visits. It was an education that I couldn't have gotten in a classroom. For example, on a trip to a plantation in South Australia, I learned that the climate is such that trees similar to pine grow to maturity in 10 years compared to pine in the U.S. taking 18 years to mature.

"I also became aware of the economics of timing in harvesting trees. As my experience developed I was able to feel comfortable in dealing with our managers, the woodsmen who work in the forests and the mill owners. Since retiring as a Board member, those are the things I miss the most."

Another system, the Middlesex Regional Retirement System, a \$665 million fund, has had a small allocation in timber since February 2001. Like Haverhill, the Middlesex Retirement Board also utilizes Global Forest Partners as its manager.

"We currently have about \$3 million in timber," said Melissa Cunningham, director of investments at Middlesex. "Its annualized returns have been in the ten percent range, but as an asset class we're remaining conservative at this time." Middlesex also has Wainwright as its consultant.