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# Forestry-Based Carbon Investments: Navigating a Rapidly Growing Sector

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## Introduction

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Corporate climate action has progressed rapidly since the 2019 United Nations' Climate Change Conference in Madrid (COP25). Spurred by a desire to reduce their carbon emissions footprints, many companies and institutions have begun purchasing carbon offsets ("carbon credits") in the voluntary carbon market (see call-out box). Naturally, this growing market for carbon has led many financial actors to offer products to institutional investors. Many of these products seek to provide a competitive financial return through *nature-based carbon-dioxide removal*. Forests are an ideal source of such removals and during the last two years we have witnessed the introduction of a wide array of forest-based carbon mitigation offerings.

### Voluntary vs. Compliance Carbon Markets

There are two types of markets for carbon offsets:

**Compliance Markets** are a response to government mandates to limit greenhouse gas emissions through the creation and trading of carbon offsets. New Zealand, the European Union and California, for example, each host their own compliance carbon credit markets.

**Voluntary markets** are private exchanges of independently registered, third-party verified, carbon credits which buyers acquire to meet their own carbon emission targets. Voluntary credits are not purchased to meet regulatory or legal requirements.

A case in point is a large U.S. investment manager with US\$52 billion under management, which formed a joint venture with a leading carbon offset developer in 2021. The joint venture's goal is to acquire forestland to develop carbon offset credits that will be sold in the voluntary market to generate financial returns.<sup>1</sup> As of this writing, this carbon project developer already had purchased 52,000 acres of forests in upstate New York. This transaction occurred in April 2022 and was followed by the acquisition of another 29,000 acres in the Upper Peninsula of Michigan in October of 2022. Then, in November, it announced the high-profile acquisition of a large timberland manager (commonly known as a TIMO<sup>2</sup>), which manages 1.7 million acres of U.S. forestland valued at US\$1.8 billion. This acquisition will go into the joint venture's carbon development portfolio.

It is not just carbon developers who are pioneering in this new investment sector. Traditional timberland asset managers also are offering carbon-offset dedicated products. Last year, J.P. Morgan Asset Management purchased a large timberland

manager for the expressed purpose of supporting its sustainability goals and tapping into growing investor demand for climate-based solutions. Soon thereafter, the J.P. Morgan-owned TIMO announced a Forest & Climate Solutions Fund II that will employ a strategy of developing verified carbon assets (VCAs). This new fund's fundraising objective is US\$3.0 billion.

Other timberland managers have announced, or are considering offering, funds focused on forest-carbon. Interestingly, a number of these offerings, including the two examples mentioned above, carry attractive targeted internal rates of returns in the range of 10% to 12% (nominal). This range is measurably higher than expected returns from traditional equity-based investments in timberland assets. Relying mainly on the

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<sup>1</sup> Wall Street Journal, "Wall Street Firm Makes Wager on Carbon-Offset Forests" (October 12, 2021)

<sup>2</sup> TIMO is shorthand for Timberland Investment Management Organization



income generated from the timber harvests, traditional timberland investments in developed markets, such as the United States, typically run closer to 4% to 6% real (which translates to 6% to 9% on a nominal basis).

It is natural to ask whether a carbon-focused forestry investment can offer returns that are superior to traditional timberland investments. In this paper, we address that question and explore when it may be appropriate for investors to invest in forest carbon strategies – in lieu of – or combined with – traditional forest assets.

## Expanding Market for Forest Carbon

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Before addressing the applicability of forestry-based carbon investment, it is helpful to first understand what is driving the extraordinary growth in carbon credit markets. The key catalyst is the broad adoption among organizations operating within the private sector to establish and meet *net zero* commitments. Net zero is a target a company sets based on its net greenhouse gas (GHG) emissions profile. Net zero is achieved by fully

eliminating or offsetting one's GHG emissions through a variety of mitigative measures. While companies can make significant progress toward reducing their GHGs by changing their processes and how they do business (such as using electric vehicles or powering their offices and factories with renewable energy) some emissions are unavoidable and need to be canceled or "offset." This is most often accomplished by purchasing carbon offsets (i.e., credits). One carbon offset represents the removal and storage (sequestration) of one metric ton of carbon-dioxide or equivalent greenhouse gas (symbolized as mtCO<sub>2</sub>e).



Loblolly pine plantation in South Carolina bordering a small lake.



At last count, more than 600 U.S. companies have declared targets to reduce their carbon emissions over the next three decades or sooner.<sup>3</sup> Of these, 42 percent of the Fortune 500 companies have set net zero goals.<sup>4</sup> Some examples include the energy company, Chevron, which has established a goal of being carbon neutral by 2050 for Scope 1 and Scope 2 emissions (see call-out box). Meta Platforms (formerly Facebook) also has made a commitment to net zero through Scope 3 by 2030. Honeywell, a global conglomerate, has declared its intention to reach carbon neutrality in its operations and facilities by 2035.

A strong business case can be made for why companies and corporations are choosing to set carbon neutrality goals and to purchase carbon credits as part of their GHG reduction and mitigation strategies. Reducing a firm's carbon footprint can help its *environmental, social and governance* (ESG) ratings.<sup>5</sup> These ratings can help an organization maintain or bolster its "social license" to operate or otherwise conduct business, by affirming to its customers and its shareholders, vendors and partners its objective to be recognized as a responsible corporate citizen. A high ESG rating can therefore support a company's stock price and its access to capital markets.

### Exponential Growth in Voluntary Carbon Market

When companies choose to reduce their carbon footprint, they typically purchase offsets from the voluntary carbon market. Given the surging interest among businesses across all sectors and industries to work towards net neutrality, the voluntary carbon market has seen explosive growth in the last several years. According to Ecosystem Marketplace, a research and analysis organization that tracks carbon markets, between 2020 and 2021, trading of carbon credits on the voluntary market exchanges increased from US\$520 million to US\$2 billion – a quadrupling in volume. In total, 156 million units of carbon credits were purchased during this time frame. Furthermore, additional increases in demand are expected in the years ahead. The global energy company, Royal Dutch Shell, for instance, predicts that demand among corporations for voluntary carbon credits could exceed 2 billion by 2030 (Figure 1).<sup>6</sup> A similar forecast also was produced by the consulting firm, McKinsey & Co.<sup>7</sup> Reaching that level

#### Scope 1, 2 & 3 Emissions

These are labels used to define different levels of greenhouse gas emissions produced by organizations.

**Scope 1:** Carbon released directly by the organization.

**Scope 2:** Emissions caused from the energy purchased by the organization (such as the electricity used to power its offices and/or facilities).

**Scope 3:** Emissions made indirectly across the organization's value-chain – both upstream and downstream (such as the gas used by its employees to commute to work).

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Classifications created for the GHG protocol by the World Resource Institute and the World Business Council for Sustainable Development

<sup>3</sup> Wall Street Journal, "Carbon-Credit Surplus Could Soon Turn to Shortage" (September 24, 2022)

<sup>4</sup> Van Butsic of Carbon Direct. "The Business of Decarbonization: Forest Offsets and Corporate Climate Strategy" Session. *Who Will Own the Forest?* Conference 2022 (Portland, Oregon)

<sup>5</sup> ESG represents the good behavior a corporation should adopt in order to be good stewards of the environment and uphold their social contract to their employees and communities.

<sup>6</sup> Shell Global, *Exploring the Future of the Voluntary Carbon Market*, 2021.

<sup>7</sup> Wall Street Journal, "Carbon-Credit Surplus Could Soon Turn to Shortage" (September 24, 2022)



of demand for voluntary market credits implies an average annual growth rate of 33% for the remainder of the decade.

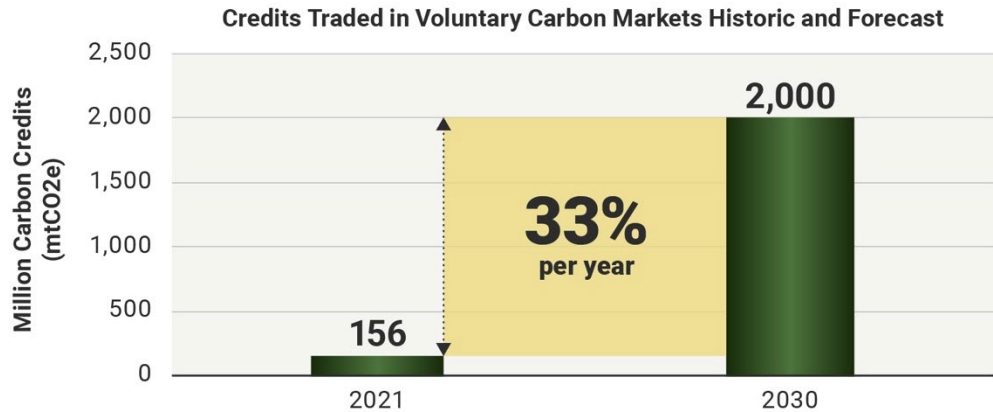


Figure 1. Sources: Ecosystem Marketplace, Shell Global

### Favorable Market Demand for Forestry-Based Credits

While demand for carbon credits is growing at an extraordinary pace, there are only a limited number of ways credits can be produced. Currently, carbon offset credits in the voluntary market largely come from two sources: (a) renewable energy projects that replace fossil fuels; and (b) forest absorption projects that emphasize carbon capture and storage through net tree growth. Of the two, credits produced from forestry-based projects are gaining in favor among buyers because they offer a valuable basket of additional environmental and social benefits. In fact, forestry-based carbon projects represented nearly two-thirds of the value of all carbon credits sold in 2021.<sup>8</sup>

## Competitiveness of a Forest Carbon Strategy

As organizations strive to meet their climate goals, some market analysts believe the voracious demand for carbon offsets has the potential to generate a sustained increase in credit prices. Based on that assumption, many of the forestry-based carbon investment offerings circulating in the market today target aggressive round-trip returns of 10% or higher. Such returns would be 100 to 300 basis points higher than the typical targeted return profile of the types of timberland funds offered by TIMOs. This raises the question of whether forest-based carbon investments can sustainably generate returns superior to those of traditional forestry investments. Answering this question is challenging and it requires analyzing regional timberland investment markets and their unique dynamics and performance outlooks.

### U.S. Pacific Northwest and South

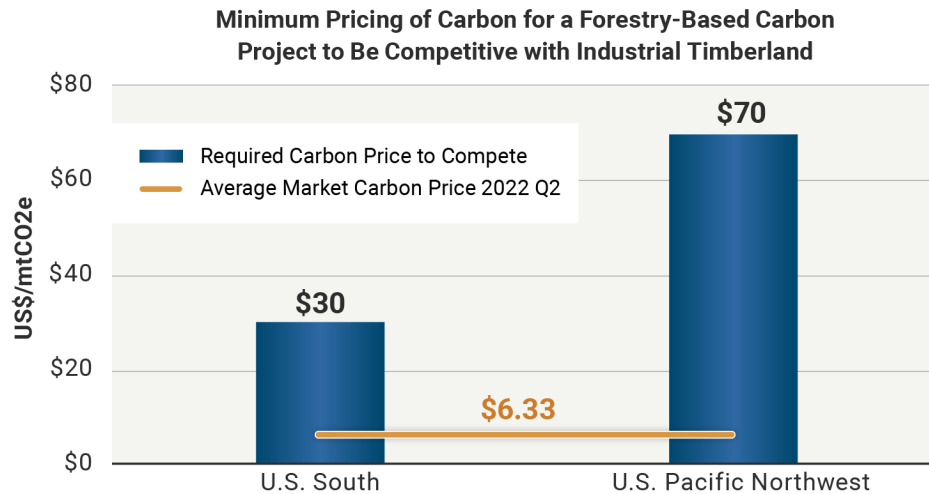
There is no investment track record of developing forest-based carbon credits to satisfy the demands of companies seeking to meet net-zero-emissions objectives. Consequently, there is no definitive answer to our question of whether forest-based carbon investments can outperform traditional forestry investments.

<sup>8</sup> Mark Wishnie of Landscape Capital. "The Business of Decarbonization: Forest Offsets and Corporate Climate Strategy" Session. *Who Will Own the Forest?* Conference 2022 (Portland, Oregon)



Nevertheless, we do have a couple of valuable data points that provide insight into this topic. First, Finite Carbon, a major North American carbon project developer, reported at a recent industry conference that carbon prices need to be higher than \$70 a ton for a forest carbon project to be competitive in the U.S. Pacific Northwest.<sup>9</sup> For the U.S. South, carbon prices need to be higher than \$30 a ton.

Figure 2. Sources: Finite Carbon, Allied Offsets



The Pacific Northwest and the South are the two largest timberland markets in the United States and therefore are the most prominent regions for forestry investment. According to Timberlink, a consulting firm that advises institutional timberland investors and that closely tracks market conditions, 55% of global timberland investments (by value) are held in these two regions alone.<sup>10</sup> However, carbon prices in the voluntary market currently are not high enough to drive forestland owners to switch from managing their assets for commercial timber production to producing forest-based carbon credits. To illustrate this point, we note that the price of carbon credits sold in the voluntary market in the second quarter of 2022 averaged \$6.33 a ton (Figure 2).<sup>11</sup> Meanwhile, although high-quality forestry-based credits can earn significant premiums, these average prices fall well short of what would be required to make the returns they generate competitive with those that can be produced from managing a forest primarily for harvest revenue.

### U.S. Northeast and Lake States

A second source of comparative information relates to the other two geographically prominent, timberland investment regions in the United States: the Northeast and the Lake States. A major carbon developer, Anew (formerly Bluesource), reported that a forest landowner in the Northeast can expect to earn \$30 to \$55 per acre, per year from developing carbon credits over a 10-year period.<sup>12</sup> This range increases to \$35 to \$70 an acre for forestland owners operating in the U.S. Lake States (see Table 1). This translates into cash yields of

<sup>9</sup> Steve Baczko of Finite Carbon. "What Constitutes a High-Quality Carbon Offset? Perspectives from Across the Value Chain" Session. *Who Will Own the Forest?* Conference 2022 (Portland, Oregon)

<sup>10</sup> Timberlink, *Price* (Dec. 31, 2021)

<sup>11</sup> Allied Offsets. Sourced from Wall Street Journal, "Carbon-Credit Surplus Could Soon Turn to Shortage" (September 24, 2022)

<sup>12</sup> Anew/Bluesource. Forest Landowners Association webinar, "A Turnkey Forest Carbon Development."



roughly 2%-4% for the Northeast and 5%-11% for the Lake States. In both cases, Anew assumed an average carbon credit price of \$18 a ton.

Table 1. Estimated Range of Income from a Typical Forest-Based Carbon Project in the Northeast and Lake States

U.S. Forestland Region	Average Net Proceeds <sup>12</sup> (10Yr, \$/acre)	Total Proceeds	Market Price of Timberland (\$/acre)	Annual Cash Yield from Carbon Credits	10-Yr Distributed Value to Paid-In Ratio (DVPI)
Northeast	\$30 - \$55	\$300 - \$550	\$1,418	2.1% - 3.9%	0.21 - 0.39
Lake States	\$35 - \$70	\$350 - \$700	\$630	5.6% - 11.1%	0.56 - 1.11

\* Market Price of timberland sourced from the NCREIF Timberland Property Index (2022 Q2). Income estimated based on an average carbon credit price of \$18/ton.

### Assumptions and Risks

Based on these estimates from Finite Carbon and Anew, forest carbon projects are likely to generate modest returns at current carbon prices. In order to achieve double-digit returns, forestry-based carbon funds must achieve higher average prices in the future. This, however, would entail investors assuming additional risk. Here are three sources of risk that can cause a forest-based carbon investment strategy to fall short of its return targets:

1. **Policy:** Shifts in policy, regulation, or accepted practice
2. **Technology:** Rapid advances in carbon mitigation technology
3. **Buyer Preference:** Changes in the buying patterns of carbon credit end-users

“In order to achieve double-digit returns, forestry-based carbon funds must achieve higher average prices in the future. This, however, would entail investors assuming additional risk.”

### Policy Risk

Changes in policy, regulation and industry accepted practices can upend the carbon market in unexpected ways. For instance, tax breaks and/or subsidies could favor one climate-change practice or technology over another. A good example is the U.S. Inflation Reduction Act, which was signed into law in August 2022. The law raises the incentives for direct carbon-capture and storage (CCS) from \$50 a ton to \$85 a ton. Many carbon-capture projects that were not economically viable at \$50 could become viable at \$85 so this could promote competition for nature-based carbon removal strategies, like forestry projects.

Another unknown factor that could complicate carbon markets is how carbon is accounted for when it is stored in long-lived building products like lumber, plywood, and oriented strand board panels, which are used to construct homes and commercial buildings. If a framework could be developed to create carbon credits from



buildings constructed of mass timber<sup>13</sup> products, for instance, this would allow carbon offsets to be developed from timber harvesting rather than from the carbon storage in a standing forest. If such a scenario were to materialize, the growing demand for timber for building products will push up the price of logs and cause prices for carbon credits to retreat.



Construction of Timber Lofts apartment building at 331 S. 3<sup>rd</sup> St., the first Milwaukee mass timber construction. Credit: Urban Milwaukee.

### Technology Risk

Forest-captured carbon is obviously not the only source of climate mitigation. There is a great deal of capital pouring into new technologies that are designed to address the threat of climate change by removing carbon from the atmosphere.<sup>14</sup> Such technological advances will invariably lower the cost of generating carbon offset credits. If one or more of the emerging carbon extraction technologies that are currently under development achieves a level of cost competitiveness with forest-based carbon projects over the next few years, this is likely to weaken the economics of forest-carbon investments. To illustrate this point, at present, nearly 100% of the carbon projects utilized by Meta Platforms (formerly Facebook) to offset

that company's carbon footprint are nature-based. However, according to Tracy Johns, Carbon Removal Specialist at Meta, that figure could fall in the future to as little as a 50:50 split between nature-based and engineered solutions.<sup>15</sup>

### Demand Risk

Companies are under increased scrutiny with respect to how they are devising and implementing their climate change mitigation strategies. To avoid the risk of being accused of *greenwashing*<sup>16</sup>, they want to reduce emissions first before trying to buy credits to offset their emissions. More aggressive efforts to reduce emissions rather than to mitigate them through the purchase of carbon offsets also could reduce demand for carbon credits.

Furthermore, most of the trade in forest-based carbon credits comes from the voluntary market. Being voluntary, "willingness-to-pay" factors heavily into a company's purchasing decisions. Most companies will not pay for offsets if the practice undermines their profitability or puts their viability at risk. For these reasons,

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<sup>13</sup> Mass timber is the use of engineered wood products such as cross laminated timber (CLT) to create large multi-story buildings that can reach 6 stories or higher.

<sup>14</sup> Wall Street Journal, "Carbon-Capture Projects Are Taking Off. Here's How They Stash the Greenhouse Gas." (Oct. 28, 2022)

<sup>15</sup> Tracy Johns, Meta Platforms. "The Business of Decarbonization: Forest Offsets and Corporate Climate Strategy" Session. *Who Will Own the Forest?* Conference 2022 (Portland, Oregon)

<sup>16</sup> Greenwashing is to claim a higher level of environmental performance than is actually achieved. For example, buying carbon credits to allow a factory to keep polluting yet claim to be net zero is considered by some to be a form of greenwashing.





demand for carbon credits can quickly evaporate if prices climb too high. This “pain point” creates an effective ceiling for carbon prices. It is difficult to predict what that price ceiling would be for the rapidly developing carbon market, and this creates further uncertainty in relation to the planning of forest carbon projects.

## Pros and Cons of a Carbon-Focused Timberland Strategy

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Given the risks just outlined, forest carbon projects may not necessarily outperform timberland assets that are managed primarily for commercial timber production. Nevertheless, forestry-focused carbon investments can still have a meaningful place in an investor’s portfolio. Before making that decision, however, investors should carefully weigh the pros and cons, which include the following considerations.

### **The Strengths of a Forest Carbon Strategy**

Forest carbon-based investments offer several advantages. First, producing carbon credits while managing a forest to also generate revenue from other sources can be compatible because some of these strategies also are categorized as *natural-capital solutions*. Recreational leases for hunting, fishing, birding, hiking, mountain biking and snowmobiling, as examples, are among the possibilities. Depending on the geophysical and physiographic characteristics of the land, still other options can include pine straw collection, remuneration for watershed protection, generation of wetlands mitigation credits, and providing right-of-way corridors for utilities and sites for renewable energy infrastructure. In addition, in many cases, some modest levels of commercial timber harvesting are even possible. While holding a forest under a carbon registry will put constraints on how much timber can be harvested, enough may be allowed to generate cash flow that is adequate for covering property taxes and annual forest management costs.

Another attribute associated with investing in forest assets that are being managed for carbon credit production is that they can be excellent diversifiers. Carbon markets likely offer a low correlation with other markets. Adding forest-based carbon investments to a timberland portfolio could lower its overall risk profile.

Finally, a third argument for investing in forest-based carbon assets is that they offer a compelling set of co-benefits that can burnish an organization’s ESG credentials. Forests managed for carbon storage also support and create real and tangible ecological values by promoting biodiversity and providing clean air and water. They also can support rural community development. These attributes can attract investors who seek to embrace high standards of ESG engagement within their investment programs, or that are pursuing mandates that have a primary focus on generating environmental and/or social impact. These co-benefits can make investing in forest assets that are being managed primarily for carbon uptake more attractive to corporate and philanthropic buyers. As a result, nature-based credits – a general category that includes forest-based carbon offsets – often command premium prices relative to credits produced from engineered strategies (technologies that focus on point-source or atmospheric carbon extraction, capture and storage).

### **The Weaknesses of a Forest Carbon Strategy**

There are, however, certain drawbacks to investing in forests that are being managed primarily for the production of carbon credits. Perhaps most prominent among these is the loss of option value. There is an opportunity cost associated with locking up a forest asset for carbon storage (typically for 40 years or more) because it limits commercial forest activity and prevents it from being converted to higher-valued land uses. Another drawback is that a natural climate solution strategy is an “all in” strategy. There are no mixing and



matching strategies where an investor can put one forest asset into carbon development and another nearby asset into commercial timber production. The climate market community frowns on this practice because it allows for leakage. Carbon leakage (also known as displacement) occurs when capturing carbon in one forest causes an increased level of harvesting in another forest (because mills will simply shift where they buy wood from one forest to the other). To prevent leakage, an investor must fully commit to a forest carbon strategy for an entire region or market, which, again, limits the option value of a timberland portfolio.

Another drawback to fully embracing a forest carbon strategy is that it can create planning challenges. As was explained earlier, the market for carbon credits is evolving rapidly in directions that are difficult to anticipate or predict. This uncertainty warrants the application of a higher risk premium for carbon-focused forestry investments. In contrast, demand and supply factors that drive markets for timber are generally well understood. In simple terms, it is easier to accurately forecast log prices than it is to forecast the behavior of the carbon market. As a result, investors can have greater confidence in how traditional timberland investments will perform than they can for how climate-solution forestry investments will perform.

## Recommendations for Timberland Investors

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The key takeaway from this paper is that forestry-based carbon investments offer certain benefits, but they also come with certain drawbacks and disadvantages. Many funds focused on this space seek targeted returns of 10% or more, but this performance profile also means significant risk exposure. When weighing a choice between investing in a carbon-centric forestry strategy and a traditional forestry strategy, we encourage investors to understand that timber markets are expected to see significant growth in the years ahead and that this could result in returns that are highly competitive with those projected from forest-based, carbon-focused investment opportunities.

To that end, investors also need to recognize that society's drive to address the challenge of climate change is increasingly manifesting itself in the form of growing demand for timber, which is a renewable resource. As a result, wood-based products are now being utilized in innovative ways. Some examples include (a) the use of paper packaging in place of plastic packaging; (b) the increased use of wood-based bioenergy fuels in place of fossil fuels for heating and power generation; (c) the production and use of sustainable aviation fuels (SAF) and other cellulosic (wood-based) transportation fuels; and (d) the increased use of forest products, like mass timber, in place of high-carbon output industrial construction materials, like concrete and steel.

The increased demand for wood that these and other trends are generating across the globe has led the United Nations' Food and Agriculture Organization (FAO) to project wood products consumption to reach 3.1 billion cubic meters by 2050 – a significant increase over the 2.2 billion cubic meters of consumption observed in 2020.<sup>17</sup> To meet this demand, the FAO believe 33 million additional hectares (or 81 million acres) of “highly productive plantation forests” will need to be added to the world's timber resource base by 2050. To put this growth into context, the industrial timberland owned by corporations and investors in the United States today amounts to less than 50 million hectares (120 million acres).

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<sup>17</sup> UN Food and Agriculture Organization. *The Global Forest Sector Outlook 2050: Assessing Future Demand and Sources of Timber for a Sustainable Economy*. (April 10, 2022)



Even if the FAO projection is only partly accurate, there will be significant global competition for the limited forestland that is available to produce wood-based products, like lumber, panels and other building materials, as well as forest-based carbon credits. Fortunately, this dynamic will create options for timberland investors. Whether demand originates from the carbon market or the market for wood-based products, this competition could drive appreciation of timberland values, which will be beneficial for those that own high-quality forest assets. What matters most is understanding the answer to “What an investor hopes to achieve with its capital?” One’s response to this question should determine the shape and thrust of one’s timberland investment strategy. What follows are recommendations based on the types of goals investors traditionally establish for their timberland portfolios.

### **When an investor wishes to mitigate its own carbon footprint**

An investor may have a dual-purpose strategy. It may wish to capitalize on the many financial benefits associated with owning timberland assets – such as diversification, predictable cash yields, capital preservation and inflation hedging. On the other hand, the goal also may be to offset an organization’s carbon footprint. A good option for pursuing such a dual strategy is creating a separate account with a timberland manager that includes the development of *carbon insets* as part of the investment mandate. Carbon insets, like carbon offsets, are third-party verified carbon credits. The difference is that the carbon stored in the forest investment accrues directly to the owner of the forest asset rather than being sold on the open market to one or more third parties.

### **When an investor wishes to have climate impact**

If an investor wishes to employ its capital to help address the threat of global climate change, there are several types of forest-based carbon investment products that can help achieve this goal. These include: (1) investing in a forest-based carbon credit development fund; (2) investing in a timberland fund that has an explicit ESG or impact mandate – one that includes the production of carbon credits; or (3) investing in a traditional timberland fund that opportunistically designs and executes carbon projects. Of the three, the forest-carbon fund generates the most climate benefits (in terms of carbon sequestered) for the capital deployed, but investors in such strategies should be prepared to accept lower expected returns or higher risks as compared to the other two options.

Regardless of the choice, we recommend investors carefully and thoroughly perform extensive and comprehensive due diligence on the managers and investment vehicles being considered. This should include asking about the assumptions, including those relating to carbon prices, that underlie the investment managers’ underwriting; examining the pro-forma financial models that are used to establish the basis for the investment thesis; and stress-testing the assumptions and methodologies that anchor the acquisition strategy. We believe it is particularly important to employ caution if the investment manager makes aggressive assumptions about carbon prices or timberland values to justify its return targets.

“Employ caution if the investment manager makes aggressive assumptions about carbon prices or timberland values to justify its return targets.”

**When investors are seeking competitive, risk-adjusted financial returns.** For investors that hope to earn the best possible risk-adjusted returns from their timberland investments, the leading investment option



is likely a traditional timberland strategy where the bulk of the projected income is expected to be derived from the growth and harvesting of timber. However, other sources of income may be drawn upon opportunistically and these may or may not include the monetization of forest carbon values. When executed by an experienced and capable investment manager, a traditional timberland strategy can result in a forest portfolio's full inventory of resource values being captured.

It is important to note that a traditional timberland portfolio can be augmented with a smaller, secondary investment in a forestry-based carbon fund, which can provide additional asset class diversification. The low correlation between the performance of carbon markets and timber markets can create synergistic effects that can serve to lower the overall risk profile of a portfolio.



A knuckleboom loader stacks logs on a truck for shipment to a nearby mill. Timber harvesting helps support rural jobs and communities.

Finally, it also is valuable for investors to remember that traditional timberland investments still carry strong ESG features. While they may not always provide carbon credits, they do provide many positive natural climate benefits, not the least of which is the production of wood – a renewable resource – as a substitute for fossil fuels, plastics, and carbon-polluting building products, such as concrete and steel. Such investments also provide jobs and rural economic development opportunities as well as enhanced environmental benefits, including biodiversity, recreation, and clean air and water. From this perspective, timberland investors can seek competitive returns while doing good for society and the climate. All in all, this can make investment in sustainably managed timberland assets a win-win proposition.



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