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International Timberland Investments: Linking the Mean-Variance Approach to Country Assessments

William J. Turner. 2001

Executive Summary

Given the entrance of institutional investors such as pension funds, onto the timberland ownership scene, timberland as an asset is viewed differently now than it was in the past. Traditional asset management practices based on the portfolio selection framework are chiefly responsible for demonstrating the diversification benefits of U.S. timberland investments. This research evaluates international timberland investments by utilizing traditional asset allocation practices and individual country assessments.

Asset performance descriptive statistics are documented for the sample (1981-1998) and an analysis of correlation between international timberland investments and assets of portfolios of U.S. pension funds (e.g. stocks, bonds, treasury bills) is conducted in order to gauge basic asset return relationships.

The correlation analysis is followed by a portfolio selection process and then the study addresses characteristics specific to international investments, such as foreign currency exchange issues and qualitatively assessing countries risk characteristics as they specifically relate to international timberland investments.

When analyzing international timberland investments, a distinction is be made regarding the treatment of currency exchange. Two, separate international timberland asset classes are considered. One includes returns influenced by changing exchange rates and is based on a return in U.S. Dollars. The other international timberland asset class only considers the returns in the foreign currency and attempts to eliminate exchange rate effects through hedging.

The underlying research objective is to demonstrate the effects of investors adding international timberland investments to an investment portfolio by including an examination of currency exchange effects and an assessment of country-specific risk characteristics.

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