

Timber renaissance: Purging fossil products with trees

Technology is turning timber into a dynamic, rapidly growing industry

Every year, Britons use five million tonnes of plastic – milk bottles, yogurt pots, disposable nappies or even clothes. Less than half is recycled, and the rest end up in landfill or waste incinerators. Plastic, made of fossil-based materials, takes centuries to decompose, polluting soil and water. If incinerated, it adds to emissions of planet-warming greenhouse gases.

In the race against time to reach net zero by 2050, the UK and other economies are eager to shift from a 'take-make-dispose' consumption approach towards a more circular and regenerative model. Purging plastic and other fossil-based materials from our lives is key.

One of the most promising replacements is a tree. Wood is cost-effective and environmentally-friendly. By growing more of it, we can also trap carbon, restore biodiversity and improve soil quality. Already versatile, timber is becoming even stronger, more durable and as fire-resistant as steel, thanks to new and innovative technologies.

This has important implications for investors. Technology is turning timber into a dynamic, rapidly-growing industry that encompasses not only containerboard, paper, and pulp but also clothing, packaging, personal hygiene and real estate.

This, in turn, gives an attractive backdrop for investors to invest in sustainable forestry, or timberland.

What is more, in periods of high inflation, companies in this asset class have historically been able to raise prices

faster than their costs. With Britain's inflation rate running at a 40-year high above 10 per cent, investors in timber can benefit from some protection against rising prices.

Wooden skyscrapers and eyeliners

Timber's sustainable credentials are particularly valuable in buildings. In the building and construction sector that accounts for around 40 per cent of global carbon emissions, timber gives an attractive way to reduce the environmental footprint.

Among the pioneering engineered wood products is cross-laminated timber (CLT) – a building panel made of sawn, glued and layered wood which allows architects to build wooden skyscrapers.

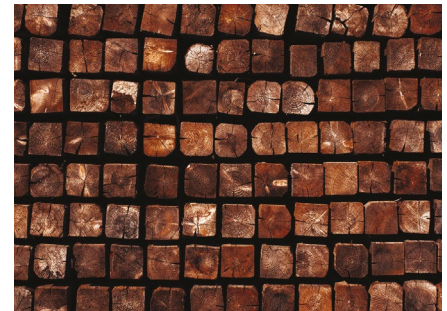
The market for CLT is expected to grow to a \$2.5 billion globally by 2027 from \$1.1 billion in 2021, an annual increase of some 15 per cent¹.

But that is not all.

Companies are developing technologies to turn wood into new bio-based materials and chemicals, such as bio-monoethylene glycol (BioMEG), lignin-based renewable functional fillers as well as industrial sugars. In the near future, textiles, PET bottles, packaging, de-icing fluids, composites, pharma products, cosmetics, detergents and functional fillers will be manufactured using wood as the main feedstock.

Better management, better capture

Trees are a valuable ally and asset for humans fighting climate change. This makes it even more important to



properly manage forestland. Indeed, a managed forest captures and traps more CO2 emissions from the air than an unmanaged counterpart, whose carbon storage capacity reaches a plateau.

Sustainable forestry manages and uses forest lands that maintains its biodiversity, productivity and regenerative capacity in a way that does not damage other ecosystems.

What is more, investors may increasingly capitalise on non-timber related forest revenue streams – such as ecosystem services of biodiversity protection or soil and water protection. This promises to elevate timberland's value in the coming years.

Taking all of this into account, timber – across all of the forest value chain – offers a compelling and diverse set of investment opportunities. It may only be a matter of time before timber becomes ubiquitous: it will be present in your clothes, the ingredients in your mid-afternoon snack, the packaging of your milk, or the buildings you live and work in.



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¹ Expert Interviews, Secondary Sources, and MarketsandMarkets Analysis, 2022