

Pictet - Timber - I USD

Risk and reward profile

Don't take unnecessary risks.
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 Information Document.



Market review

Equities ended the month sharply lower for a second time in a row after Russia's invasion of Ukraine triggered severe Western sanctions. Emerging European stocks were hit the hardest with a loss of over 6%, while European equity markets also suffered a decline of over 5% in local currency terms. Energy and material stocks ended the month higher by >2% after oil prices had jumped 11%. Defensive sectors, such as healthcare, staples and utilities, were flat. U.S. housing remained strong despite the recent rate hikes, with the NAHB sentiment index coming in at 82, housing starts at 1,638k units and forward looking permits at a very strong 1,899k. On the back of solid demand from housing and continued logistic challenges, lumber was up another 6%, or \$76 per mbf, while OSB ticked up even 28%, or ca. \$270 per msqf. Pulp prices in China were up +5.3% for softwood and +8.3% for hardwood pulp. Pulp prices in Europe stayed at record levels among continued strong demand, and several producers announced further price increases for February and March. Kraftliner in Europe ticked up 0.6% to €893/t while testliner increased stayed at €700/t, and U.S. kraftliner ended the month unchanged at \$875/ton. Boxboard prices in the U.S. increased between 2.3% and 3.6%, depending on grade, while printing paper was up >10% for coated woodfree and even 17% for newsprint.

Performance analysis

In February, the strategy strongly outperformed the broad market. The segments that contributed positively were Wood products, which made the largest contribution, followed by Timberland and Paper while Containerboard, Industrials and Homebuilders contributed negatively. Among the largest contributors to performance were North American Wood product companies were West Fraser, Louisiana Pacific, Builders First source, UFP Insutries, and Interfor on the back of stronger end product pricing than what was previously anticipated. US-based Timberland companies, such as Rayonier and Potlatchdeltic, also contributed positively on signals of an improving market for their products. Benefitting from the current strong supply-demand situation, Paper companies, such as US-based Sylvamo and South African Sappi, contributed nicely to performance. Companies detracting from performance over the month were Containerboard names, such as European Mondi, DS Smith and US-based International Paper, amid concerns about their exposure to Russia, either directly through participations or through raw material cost inflation. European Industrial companies such as Andritz, Duerr, and Valmet also detracted from performance as did European Stora Enso and SCA despite these companies' limited exposure to the crisis and significant forest ownership.

Portfolio activity - overweightings & underweightings

Over the month, we increased our exposure to US-based Timberland companies, such as Potlatchdeltic and Rayonier, on the back of a stronger-than-anticipated lumber market but also signs of log price increases in the U.S. South. An improving pulp market led us to increase our exposure to pulp-related companies such as Japanese Oji Holdings, Finniah UPM-Kymmene and Suzano from Brasil. We started to build positions in US-based Paper distributor Veritiv and Brazilian Wood products and pulp-related company Dexco on attractive relative valuation. Positive pricing signals and attractive relative valuations also made us increase our exposure to Containerboard companies such as US-based Packaging Corp, Chinese Nine Dragons and European SmurfitKappa. To finance these moves, we took some profits in US-based Homebuilders Pultegroup, DR Horton, Lennar, Toll and Tri Pointe Homes on the back of less attractive relative valuations, given concerns around housing affordability in view of soaring rates. A large North American acquisition coupled with execution risk made us exit the Swedish Packaging producer BillerudKorsnas. We also exited US-based Industrial company Kadant on the back of high relative valuation levels.

Market outlook

Timberland valuations, as implied by equity prices, continue to trade at substantial discounts of 0%-35% to comparable assets on the private equity market. We believe the positive momentum in the US housing market is set to continue given the pent-up demand and favourable demographics, particularly at the entry level and in the more lumber-intensive single family homes. During the Covid-19 lockdown, housing data deteriorated rapidly, but housing demand was only postponed rather than destroyed, and it has recently rebounded to and above its long-term average again. Lumber supply from Canada has started to fall for biological reasons while sawmill capacity in the US South is only gradually being ramped up, putting upward pressure on lumber pricing in the medium term. The strong growth in E-commerce and the 'war on plastics' is set to continue to drive increasing demand for containerboard and other paper-based packaging while hygiene and pulp provide defensive growth and exposure to increasing standards of living in emerging economies. The main short- to mid-term drivers of the portfolio remain very strong, with stocks continuing to deliver long-term earnings growth while trading at 30%-45% lower valuation multiples than the broad global market.

Portfolio strategy

Sustainably managed forests and forest products can mitigate climate change and make a positive contribution to a host of other environmental issues (plastic pollution, replace fossil energy & materials, exhaustible minerals, biodiversity loss). We believe forests and the companies active along the forest value chain will become ever more valuable as these environmental benefits will increasingly be monetized. In order to capture this upside, we identify attractive stocks worldwide that are active along the entire timber value chain. We like the biological growth and real assets characteristic of timberlands, an asset that grows in value over time, regardless of economic conditions. Our investment process has a built-in preference for companies that own forestlands themselves or otherwise have a privileged, strategic access to this unique and renewable fibre source, especially in countries where land is scarce and thus offers the prospect of additional capital appreciation over the years.

General information

Legal form	Sub-fund of a SICAV
Regulatory status	UCITS
Domicile	Luxembourg
Inception date	29.09.2008
Launch date	29.09.2008
Share class currency	USD
Compartment currency	USD
ISIN	LU0340557262
Reference index	MSCI AC World (USD)
Min. investment horizon (year(s))	5

Fees

Ongoing charges (OCR)	1.12%
Performance fee (excluded from OCR)	-
Management fee (included in OCR)	0.80%
Max. conversion fee	2.00%
Max. subscription fee	5.00%
Max. redemption fee	1.00%

Management team

Christoph Butz
Mikael Jafs

Source: Pictet Asset Management

Further information can be found in the prospectus.

Pictet Asset Management

For further information,
please visit our website
assetmanagement.pictet

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