



A Manulife Investment Management Company

Natural Resource Flash Report

Timberland-Farmland: Resilience under Uncertainty

As COVID-19 spreads beyond the borders of China and surges in documented cases of infection were reported in Iran, Korea, Japan, Italy, the U.S. and numerous other countries, financial markets reacted dramatically. In the last week of February 2020, the U.S. stock markets suffered the largest weekly losses since the Global Financial Crisis in 2008, with the S&P 500 falling nearly 12%¹. Shortly after, in the first week of March, yields on 10-Year U.S. Treasuries set historical lows². With high levels of uncertainty continuing to surround the trajectory of the COVID-19 outbreak and its possible economic implications, the appeal of safe-harbor assets is enhanced. Unpredictable shocks to the system like the current COVID-19 outbreak highlight the benefits of real assets such as timberland and farmland in an investor's portfolio to help provide resilience and lower return variance.

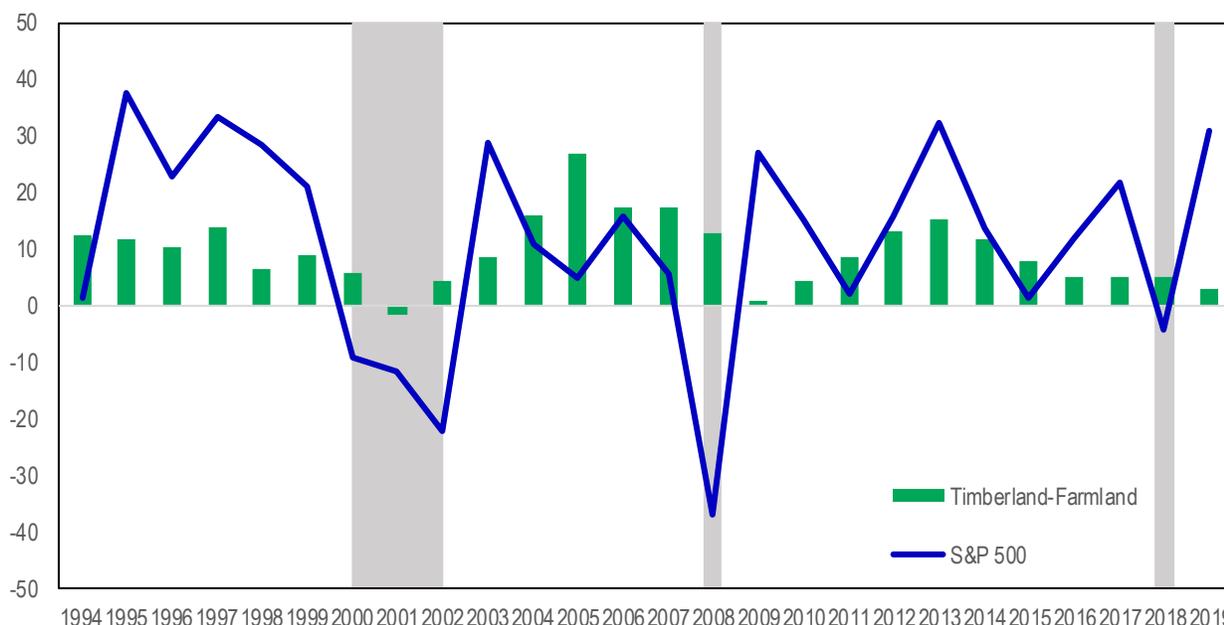
Timberland and farmland are long-term assets with strong historical performance records and low-to-moderate variance in returns, providing institutional investors with favorable diversification benefits. This analysis provides a comparison of the returns on a combined timberland-farmland investment compared to public equities and long-term government bonds, focused on periods that experienced exogenous shocks that resulted in significant financial volatility.

1. The Wall Street Journal, Feb 28, 2020. https://www.wsj.com/articles/more-markets-head-toward-correction-territory-as-coronavirus-spoons-investors-11582864550?mod=article_inline&mod=article_inline

2. CNBC, March 6, 2020. <https://www.cnbc.com/2020/03/06/10-year-treasury-yield-falls-below-0point83percent-as-coronavirus-rocks-markets.html>

Timberland and Farmland Delivered Consistent Positive Annual Returns Historically while Stock Markets Experienced Pronounced Swings

Chart 1. Annual percentage returns for the S&P 500 and a 50/50 combined timberland and farmland investment (1994-2019)



Source: Macrobond, February 2020, NCREIF January 2020, HNRG Research February 2020 Note: Timberland-Farmland is represented by a constructed index of 50% NCREIF Timberland Property total annual returns and 50% NCREIF Farmland Property total annual returns

Chart 1 provides an overview of historical returns for timberland and farmland investments compared to equities during the period 1994-2019. When mixed together in equal proportions, the 50/50 combination of timberland and farmland investments (green bars) showed positive total return performance³ in 25 out of the past 26 years, while U.S. stocks (represented by S&P 500⁴) displayed more pronounced volatility, with more instances of negative performance. In comparison to public equities, timberland and farmland investments demonstrated consistent and resilient performance.

During 1994-2019, public equities experienced three periods of negative annual returns (shaded areas in Chart 1), i.e. 2000-2002, 2008 and 2018. In the first period, 2000–2002, the S&P 500 declined -38%, (cumulatively, over a three-year period), responding to the collapse of the “dot-com” bubble in 2000 and the 9/11 terrorist attacks in the U.S. the following year. In 2008, the Global Financial Crisis triggered a 37% drop in the S&P 500. Lastly, in 2018, the U.S. stock markets experienced a modest downturn reacting to tightening monetary policy, following the Federal Reserve implementing a series of interest rate hikes, and the uncertainty related to escalated trade disputes with China and other major trading partners.

Chart 2 compares the annual returns for public equities (represented by the S&P 500), the combined timberland and farmland investments and long-term U.S. government bonds⁵ during these three periods of financial and economic dislocation. In all three periods, a 50/50 mix of timberland and farmland delivered positive returns.

During the 2000-2002 recession, a 50-50 combined timberland-farmland investment generated average annual returns of 2.2%, supported by appreciating farmland values, which compared favorably with annual returns of -14.5% on the S&P 500. In this period of financial and political upheaval returns on bonds were also favorable, averaging 13.3%, attracting capital seeking safe-haven, low-risk assets in a time of heightened uncertainty.

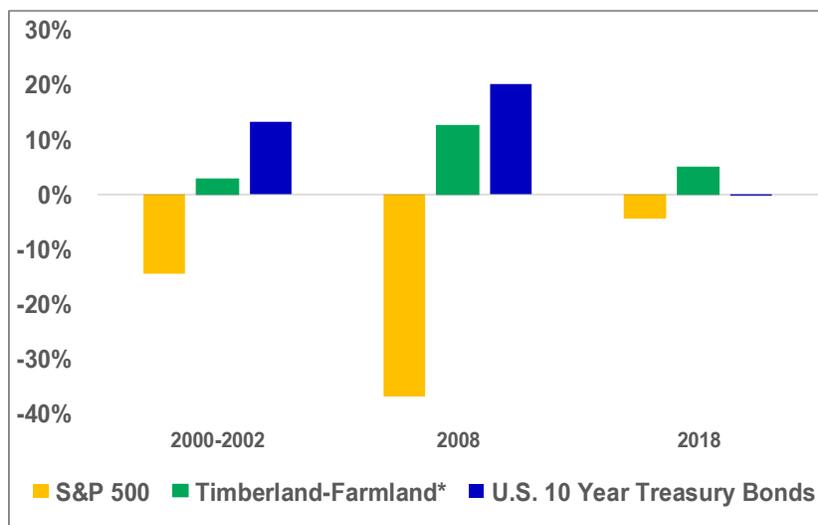
3.NCREIF Timberland and Farmland Indices, as of Q4 2019

4.S&P 500, Macrobond as of Feb 28th 2020

5.IA SBBI US LT Govt TR USD, Macrobond as of Feb 28th 2020

Timberland and Farmland Remained Resilient when Stock Markets Tumbled

Chart 2. Annual returns for S&P 500, combined timberland-farmland and long-term U.S. government bonds in 2000-2002, 2008 and 2018.



Source: Macrobond February 2020, NCREIF January 2020, HNRG Research February 2020. * Note: Timberland-Farmland is represented by a constructed index of 50% NCREIF Timberland Property total annual returns and 50% NCREIF Farmland Property total annual returns.

During 2008, the S&P 500 lost 37.0%, as capital fled public equities while bonds rallied, gaining 22.2%. Although not matching the returns on bonds, combined timberland-farmland investments generated healthy positive returns (12.7%) in a year of economic crisis. Key contributors to the strong performance of timberland-farmland in 2008 were surging agricultural commodity prices driven by increasing international trade of farm products.

In 2018, the slow-down in the U.S. and global economies, led to a 4.4% drop in the S&P 500, while increasing interest rates and a flattened yield curve, pushed the annual return on long-term government bonds into negative territory (-0.1%). Despite the economic and policy headwinds, timberland-farmland continued to generate positive returns (5.0%) for investors in 2018. Although markets for certain forest products and agricultural commodities were negatively impacted by the trade disputes between the U.S. and China, a broader diverse mix of timber and farm products provided investors with diversified portfolios of timberland and farmland properties to weather a year of financial turbulence.

Unfortunate global events, such as the global outbreak of the COVID-19, inject unanticipated volatility to the investment landscape. We believe timberland and farmland investments can help to insulate a diversified portfolio from exogenous shocks to the economy and the financial environment, bringing greater consistency and resilience to a portfolio's return profile.

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About Hancock Natural Resource Group

Hancock Natural Resource Group, Inc. is a registered investment adviser and part of Manulife Investment Management's Private Markets platform. We specialize in global farmland and timberland portfolio development and management on behalf of our investors worldwide. Our timber division manages approximately 6 million acres of timberland across the United States and in Canada, New Zealand, Australia, and Chile. Our agricultural investment group oversees approximately 300,000 acres of prime farmland in major agricultural regions of the United States and in Canada and Australia.

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Manulife Investment Management is the global wealth and asset management segment of Manulife Financial Corporation. We draw on more than 150 years of financial stewardship to partner with clients across our institutional, retail, and retirement businesses globally. Our specialist approach to money management includes the highly differentiated strategies of our fixed-income, specialized equity, multi-asset solutions, and private markets teams.

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