

# IWC NEWS LETTER

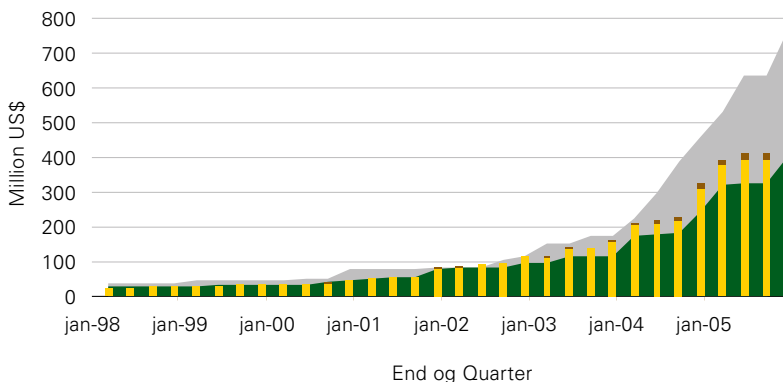
Issue no. 19. June 2006

## Status on IWC Investment Activities

IWC's assets under advice increased by 320 million USD through 2005. During the same period, IWC's external funds composite yielded a return of 13.4%.

Commitments from IWC's clients to forest investments continued to grow in 2005, ending just short of 780 million USD (+320 million since 2004). This clearly indicates a strong confidence in the forest investment market and a growing interest in IWC's related services, especially by institutional investors. Of the committed amount, 405 million USD were invested at year-end 2005.

*IWC's market progress since March 30, 1998*



- Cumulative Commitments
- Cumulative Investments
- Cumulative Distributions
- Quarter End NAV

As of year-end 2005, the total market value of forest investments held by IWC's clients was 493.1 million USD. Of this amount, 398.8 million USD (81%) came from external timber funds.

The performance table below shows that IWC's External Timber Fund Composite performed below the NCREIF Timberland Index in 2005. The composite returns are calculated as time-weighted returns in US dollars. Note that NCREIF is gross of fees, whereas the IWC composite is net of all fees and expenses. There are several explanations for the comparatively high 2005

*IWC External Timber Fund Composite, Dec 31, 2005 (Time Weighted Returns. Values in mill USD).*

Period	Returns External Fund Composite			
	NCREIF*	IWC	Share of total assets	IWC's total assets
2005	19.4 %	13.4 %	81 %	493.1
2004	11.2 %	14.4 %	66 %	308.0
2003	7.7 %	18.5 %	70 %	151.4
2002	1.9 %	9.5 %	65 %	109.9
2001	-5.2 %	4.6 %	58 %	79.3
2000	4.4 %	6.4 %	37 %	43.9
1999	13.1 %	12.7 %	19 %	31.9
1998	6.6 %	15.0 %	7 %	28.5
ITD**	6.8 %	12.1 %		

\*) National Council of Real Estate Investment Fiduciaries Timberland Index

\*\*\*) Inception to date: March 30, 1998

NCREIF return, such as large conservation easement sales, deals comprising a large portion of the index, change in underlying properties and others. It should be noted that where NCREIF only comprises US properties, the IWC composite covers properties in regions outside the US.

## IWC's services to investors in the external timber funds

- Ongoing due diligence of external fund managers
- Evaluation of fund managers' investment products
- Forest investment portfolio development according to tailor-made, client-specific strategy (e.g. identification of and commitment to attractive opportunities)
- Quarterly reporting on fund and portfolio level
- Controlling of cash flows, reporting and third-party property appraisals
- On-site inspections of underlying forest investments
- Premier hands-on market knowledge and analyses (e.g. IWC's regional asset allocation model)

>> Continues on last page

VISIT OUR NEW SITE: [www.iwc.dk](http://www.iwc.dk)

**IWC** The International Woodland Company  
Global Forest Investment Advisor Since 1991

## Summary of first quarter 2006 IWC e-mail news

### North and South America

US softwood lumber imports from overseas broke all records in 2005, as Europe overwhelmed the lackluster pace of other key suppliers worldwide. Imports from offshore reached 3.1 billion board feet last year, up 28 % compared to 2004. Exports from Canada to the US increased 3%. Shipments from the 10 largest European suppliers rose to 2.1 bbf, up 58 % compared to 2004. Imports from Germany surged 53 % to 977 million board feet, which makes Germany the largest offshore supplier to the US. Shipments from Sweden more than doubled last year, rising to 481 mmbf. The surge was largely attributed to a massive volume of windfall timber from storms that hit the region in January 2005. Chile took over as South America's largest supplier to the US, shipping 373 mmbf. Shipments from New Zealand declined 8 % to 180 mmbf.



Sustainable forestry measures introduced in March by Brazil's President will open 13 million hectares of the Amazon to timber companies that comply with strict logging controls aimed at preserving the world's largest rain forests. Under the law, only Brazilian companies will be allowed to obtain 40-year contracts that will dictate harvest on the scale of five or six trees in an area the size of a football field over ten years.

### Europe

A UNECE study forecasts growing difference between softwood lumber production and demand in Europe. Markets in Europe will not be able to absorb increased supply of lumber from

15 new sawmills in Germany that are projected to be completed in 2006. The trend is expected to increase the pressure on producers to expand into new off-shore markets. European producers will likely maintain a strong presence in US markets, but a projected softened demand in the US will ease shipments from Europe. European producers will instead focus on Japan, where they gained significant market share in 2005 on the expense of Canadian producers.

### Pacific Rim

China became the world's largest exporter of furniture in 2005, ending the long-term domination by Italy. China's share of world furniture exports increased from a mere 3 % in 1995 to 14 % in 2004 and continued to grow rapidly in 2005. The New Zealand forestry sector has been hampered by the high New Zealand dollar, poor prices and high freight rates for bulk carriers that transport logs in the past few years. This has steered sawmill closures and changing hands of forestland. As a result New Zealand's plantation forests are shrinking, according to provisional statistics released by the Ministry of Agriculture and Forestry. In some cases previous forestland was converted to pasture for the dairy industry, which has enjoyed record commodity prices recently.

### Africa

In Africa, Danish Dalhoff Larsen & Horneman, the world's largest trading company of tropical hardwood, got directly involved with sustainable forest management through the acquisition of the Swiss based Timber Group (TG). The aim is to become the global leader of certified tropical hardwood. TG manages forest concessions in Africa totaling some 1.4 million hectares. TG's concessions are expected to be fully FSC certified during 2006. Obtaining this certification will create the largest contiguous FSC certified natural tropical forest in the world.

### Timberland trades and trends

During the first quarter of 2006 International Paper (IP) sold approximately 5.4 million acres (2.186 million ha) of forestlands for around USD

>> Continues on last page

## Bamboo plantations in China – Asia’s new wood?

Mikkel Nielsen conducted a one week study of bamboo plantations and its production potential in Jiangxi province southwest of Shanghai. Bamboo outperforms trees in growth and durability, and the shoots are edible. Can you think of a better way to diversify your forest portfolio?

A giant bamboo or Moso bamboo, the fastest growing land plant in the world, reaches its mature height of 15 to 30 meters within 60 days. The diameter at breast height ranges between 9 and 20 cm or on the best sites up to 30 cm. The bamboo grows in the spring when water and light is plentiful. After the completion of height and diameter growth, the height, thickness and volume of bamboo stems do not change significantly. At this point, the tissues of young bamboo culms (stems) are tender, with high moisture content. Over the next four to five years the bamboo cell-wall thickens and basic density increases. The bamboo gets a wood-like cell structure as the moisture content decreases and physical and mechanical properties increase.

Bamboo is used for flooring, veneer (0.4 mm), pulp, panels, doors, decoration, handicrafts, scaffolds, carrying devices and food (bamboo shoots). Products are exported to Western Europe, North America, Japan, S. Korea, Kazakhstan, Romania, but domestic markets are also significant.

China has the largest bamboo resource base in the world. Significant volumes are found in 17 provinces, with 10 provinces having over 100,000 ha each and four of these having more than half a million ha. The bamboo resource base has increased steadily over the past two decades, both in surface area (32%) and in density of stands (41%). The combined expansion of plantations and increased density of stands has resulted in an exponential increase in output of bamboo culms and shoots (590% and 1050% respectively). This has occurred in concert with



the recently decreasing output of timber from Chinese wood plantations.

Bamboo is grown under continuous crown cover and is harvested selectively every year. Establishment and replanting costs hence, are none existent. In mature and stable forests it is ideal if the volume of harvested timber is similar to that of new culms expected the next spring. Stands

*In China, bamboo plantations are more popular among rural people than Chinese fir plantations. Bamboo provides food for living, lumber for buildings and firewood.*

### The properties of bamboo is largely comparable to those of wood

- 27 % harder than oak
- 50 % less shrinkage or expansion than oak
- Machined to high tolerances to insure perfect fitting
- No resins or tannic acids
- Resistance against mould and insects

with mid-level management intensity produce between 3.5 and 7 tons/ha/yr (140-280 culms/ha/yr) depending on site and fertilizing intensity. In some of the best areas with intensively managed bamboo, production has been up to 1400 culms/ha/year.

The bamboo has very long and rigid fibers and can be compared to some of the hardest tropical hardwoods. Maso bamboo is more stable and elastic than beech and oak. In addition the density of the cell structure surpasses wood in terms of hardness, and durability. Bamboo flooring is applied in high tolerance locations such as airports, gyms, warehouses and supermarkets. ♡

### LEARN MORE ...

You can get more information about bamboo production in China and possibilities for investments by contacting Mikkel B. Nielsen at [mbn@iwc.dk](mailto:mbn@iwc.dk)



*The bamboo culms are harvested selectively every year. Harvesting is done manually with an axe or a saw. Bamboo culms are traded in open markets, being one of the first forest products in China to be exempted from state marketing board control.*

## New employee at IWC

Nils H. von Schmidt joined IWC in June 2006, and became the Portfolio Management team's fourth member. Nils assists with the forestry related part of the controlling of IWC's clients' forest investments. Based on IWC's general knowledge and experience, studies and analyses, Nils evaluates the forestry related aspects of the investments by evaluating fund specific information, making inspections, and having ongoing dialogue with investment managers. He also

participates in IWC's evaluation of potential investment opportunities. Nils holds an MSc in Forest Science (Diplom-Forstwirt) from the Albert-Ludwigs-University in Freiburg, Germany, from 2003 and earned the degree of forest assessor (Assessor des Forstdienstes) from the National Forest Service of Lower-Saxony in 2005. Prior to joining IWC, Nils worked as a forest consultant for private forest owners and as a researcher at the Institute of Forest Economics of the Georg-August-University in Goettingen.



Nils H. von Schmidt

## IWC renews its image and strengthens its services

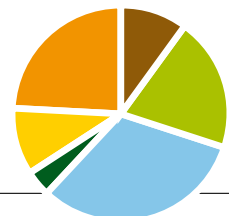
As you may have noticed, IWC recently launched a new logo, a new layout for the newsletter as well as for IWC's studies and various reports, and a new website. Do not forget to have a look at [www.iwc.dk](http://www.iwc.dk)!

IWC is also in the process of developing a new database, IRIS, which stands for Investment Return Intelligence System. The database allows IWC to report and balance the portfolio of our customers in a fast, flexible and more efficient way.

>> continued from front page

During the year, further investments and changes in market values resulted in a total market value increase of 185 million USD in forest investments by IWC's clients. Half of this increase has occurred in US South, while the rest is split equally among South America and the two remaining US regions (Pacific Northwest and Northeast). The regional distribution of the market value of IWC's assets under advice or management as of year-end 2005 is shown below.

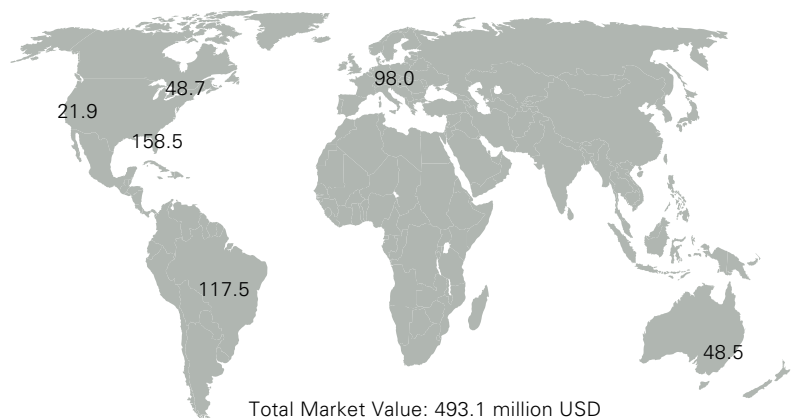
- South America 24 %
- Oceania 10 %
- Europe 20 %
- US South 32 %
- US PNW 4 %
- US Northeast 10 %



Geographic allocation of IWC's clients' investments

>> continued from page 2

6.2 billion to three different investor groups. One led by Resource Management Service, one led by TimberStar, and the last one by Lyme Timber Company. Additionally, IP, The Nature Conservancy and The Conservation Fund reached agreements to transfer 218,000 acres (88,200 ha) of forestlands across 10 states in the single largest private land conservation sale in the history for 300 million USD. These combined transactions represent a value of approximately 6.5 million USD and is the largest private forestland sale in the US.



*This newsletter may be copied or forwarded only with reference to IWC. The news is for information purposes only and is not intended to be considered as counselling. IWC is not responsible for any action based on the information in the newsletter. Editor of IWC Newsletter is Mikkel Brings Nielsen: [mbn@iwc.dk](mailto:mbn@iwc.dk)*