

Status on IWC investment activities

The value of assets under IWC's advice and/or management increased by 257 million USD during 2006, totalling more than 1 billion USD. During the same period, IWC's external funds composite yielded a return of 13.0% net of all fees in USD and an inception to date IRR of 14.6%.

Overview of asset under advice or management

Commitments through IWC to forest investments continued to grow in 2006, ending at over 1 billion USD (1.036 billion USD), which is an increase of 256.8 million USD since 2005 year-end. This development clearly indicates a confidence in the forest investment market and a growing interest in IWC's services. See figure 1 below.

Of the committed amount, 624.5 million USD were invested at the end of 2006, representing a market value of over 790 million USD. As of December 31, 2006, 41 million USD has been distributed to investors (6.6% of capital invested).

Geographic allocation of investments

During 2006, additional investments and changes in investments' values resulted in a total market value increase of 297.1 million USD. At the end of 2006, the three main investment regions in terms of market value were South America (29%), US Northeast (21%), and US South (20%). The regional distribution of the market value of IWC's assets under management as of year-end 2006 is shown in figure 2 below.

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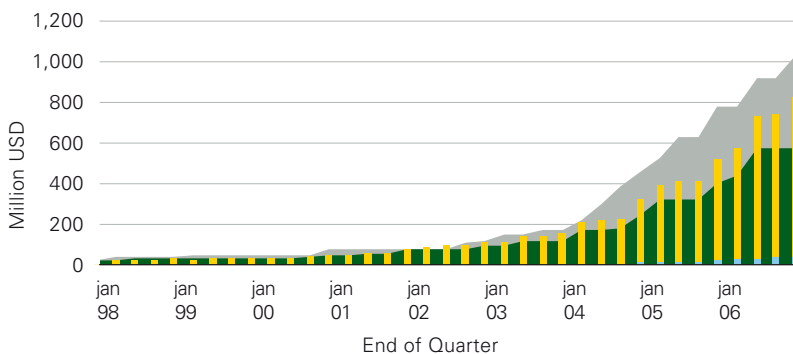


Figure 1
Quarterly development in commitments, investments, distributions, and market values until December 31, 2006

- Cumulative Commitments
- Cumulative Investments
- Cumulative Distributions
- Quarter End Net Asset Value

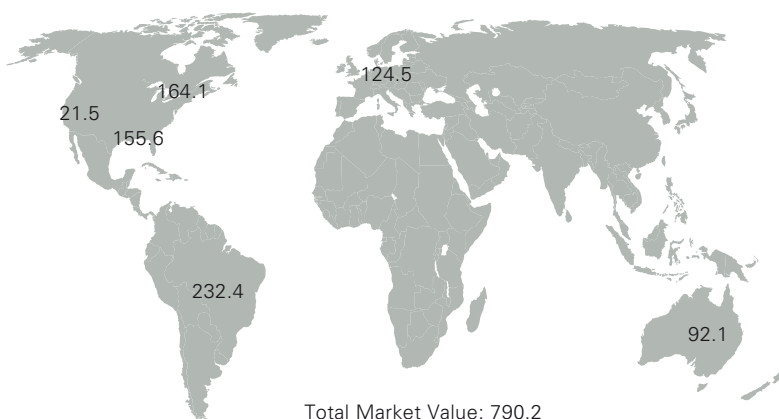


Figure 2
Geographic allocation as of December 31, 2006
Figures on the map represent the latest market value in million USD

- US South 20 %
- US Pacific Northwest 3 %
- US Northeast 21 %
- South America 29 %
- Oceania 12 %
- Europe 15 %





Summary of latest IWC e-mail news

Approximately nine million hectares of British Columbia pine forest has now been affected by beetle attacks. Europe has experienced a raw material shortage in the wood sector, resulting in upward price pressure. A global shortage of raw material could arise as higher taxes are being applied to unprocessed wood from Russia and as Canada will see substantial harvest decreases following the current harvest of beetle damaged timber.

North and South America

Aerial surveys show that about 9.2 million hectares of B.C. forests were under “red-attack” from pine beetles in 2006. Red attack refers to forest that has been infested for between two and three years. This is up from 8.7 million hectares in 2005. Following several years of steep increases, it appears that the red-attack numbers may be levelling off. The volume of trees infested by the mountain pine beetle has increased substantially, affecting 582 million m³ of timber, up from 411 million m³ last year. This volume estimate includes all forests infected by pine beetle, as well as timber that has already been harvested.

Europe

The mass migration of Baltic workers to Western European countries has left sawmills and timber producers in the three Baltic countries starved for labor. Production volumes were down during first quarter. Estimates say the cost of labor went up by around 30% last year and is expected to do the same in 2007. As a result, the Latvian sawmills are bringing in workers from Moldova to work in their mills. In terms of value however, The Baltic states are still leading in exports to for e.g. the UK.



A raw material shortage could be threatening both the Swedish and the Finnish sawmilling industry. Financial analysts of the Copenhagen based Danske Bank A/S predicts that sawmills in southern Sweden will face a serious shortage of timber in the next few years. Forest owners can expect record prices for timber that remains after the storms in 2005 and 2006 that has not been damaged by bark beetles. Recent and planned investments in sawmills will result in a timber shortage of 4 million m³ per year. Consolidation of the sawmill industry seems inevitable.

Timberland trades and trends

GreenWood Tree Farm Fund (GTFF) completed the acquisition from Potlatch Co. of a 17,000 acre (7,000 ha) hybrid poplar tree farm near Boardman, OR for USD 65 million. GTFF is managed by GreenWood Resources an International Forestry Investment Advisor. The Collins Companies of Portland OR will construct and manage on behalf of GTFF a USD 35 million lumber mill in the Boardman area, and will market a line of fast-growing tree farm products under the trademark “Pacific Albus”.

Menasha Forest Products Corporation (MFPC) entered into a merger agreement with an affiliate of investment funds managed by The Campbell Group (TCG). Through this transaction, TCG will acquire approximately 135,500 acres (55,000 ha) of timberlands in Oregon and Washington together with MFPC’s related businesses. The transaction closed in first half of 2007.

Temple-Inland (TI) announced that it will unlock shareholder value through the sale of its strategic timberland. TI’s timber holdings consist of approximately 1.8 million acres (730,000 ha) of timberland located in Texas, Louisiana, Alabama and Georgia.



Timber trade and illegal logging

In recent years, the global picture of trade in wood products has changed substantially with the emergence of China, Russia, and Eastern Europe as major traders. In particular, wood from the Russian Far East and natural tropical forests in Asia and Africa has been entering China in increasing volumes, making the country the world's largest importer of raw logs. Chinese manufacturers process the wood into furniture, flooring, boards and other value-added wood products and re-export it to Europe and North America.

China's emergence as a major supplier of finished wood products to international markets has complicated efforts to control illegal logging in certain regions. Many countries in Africa and Asia, for example, lack resources to implement governmental control and enforcement of forest ownership and management regulations. This has attracted some Chinese companies, which, with short term profit in mind, support the over-harvest and depletion of tropical forest resources.

Some governments of EU countries and recently the US have enacted a zero tolerance policy towards illegally harvested logs through public procurement policies that require all wood used in the public sector shall be with a documented legal origin. However, cases show that Chinese secondary products produced with illegal timber from Russia, Africa and other Asian countries have slipped through the cracks, resulting in no real decrease in the consumption of illegal wood products by these EU-countries.

Illegal logging

The US based Forest Trends shows that between 20 and 70 % of Russian Far East log exports are suspicious (potentially illegal) depending on which area you analyze. In total, perhaps 50 % of China's hardwood log imports from Russia and West Africa are considered to be of suspicious or illegal origin. The American Forest and Paper Association (AF&PA) reported in 2004 that illegal forest activity represents between 5 % and 10 % of global industrial roundwood production – approximately 4 % for softwood, but 15 % for hardwood.

Illegal logging is primarily a symptom of unclear and/or poorly enforced forest tenure, weak political institutions, corruption, insufficient natural resources planning and monitoring, and soft enforcement of laws and regulations. According to Forest Trends, the problem appears to be most serious in countries without private forest ownership or clearly controlled tenure. However, some poor countries have the legitimate forest laws in place, but do not have the resources to go out and enforce those laws on the ground.

The major trade with illegally harvested timber has a severe impact on the pricing of legally harvested timber globally. Analyses from AF&PA (2004) suggest that illegally harvested wood depresses world prices by 7 % - 16 % on average. In certain markets, illegal material significantly affects the ability of other producers to compete. This is due to the fact that companies dealing in illegal wood are paying a lower price for logs that have not required the same investment as legal logs – tax avoidance, ignoring forest management standards and labor laws reduces costs. However, the costs avoided by the companies are passed on to communities and governments in the form of lost revenue from taxes and fees, loss of income for workers, and loss of investments due to avoidance by legitimate companies.

IWC actions

It is essential to IWC that none of IWC's investments are in any ways associated with illegal logging. To ensure this, IWC has a set of guidelines that deals with illegal logging, corruption, illegal labor and socially responsible investments. IWC applies these through continuous inspections of investment sites and overview. Two sets of guidelines (see blue box below) are being followed based on the philosophy of reducing long term risk and maximizing rewards by applying sustainable principles to IWC's businesses. 🌱

- IWC Code of Conduct:
Deals with issues around corruption, facilitation payments and other forms of economical crime. Read more on our website www.iwc.dk.
- Social Responsible Investing:
Deals with social and environmental issues including: labor and working conditions, pollution prevention, community health and safety and others. Read more on our website www.iwc.dk.

IWC welcomes Karsten R. Petersen

Karsten Rømer Petersen joined IWC's Portfolio Management team in April 2007. As Legal Counsel, Karsten provides legal advice to IWC and coordinates with IWC's external counsels. Karsten will also be contributing to various economic/financial analyses. Prior to joining IWC, Karsten worked as legal counsel for Danske Markets Legal of Danske Bank A/S, focusing on capital

markets law. Before this, Karsten worked as legal counsel for the Legal Department of Nordea Bank Danmark A/S, focusing on banking and finance law. Karsten holds a Danish Master of Laws from the University of Copenhagen and a Graduate Diploma in Business Administration (part 1) from Copenhagen Business School.



Karsten R. Petersen

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Performance

IWC's Timber Fund Composite has in 2006 performed satisfactorily with a nominal annualized Internal Rate of Return of 13.0 % (in USD, net of all fees and expenses).

Since inception, IWC's composite yielded an annualized Internal Rate of Return of 14.6 %.

With regards to the company itself, IWC posted in 2006 its best result ever with a net profit for the year of 3.799 million DKK (509,546 EUR or 671,067 USD), an increase in excess of 28 % compared to the 2005 result.

IWC External Timber Fund Composite, December 31, 2006
(IRR, in USD, net of all fees and expenses).

Period	IWC External Timber Fund Composite ¹⁾	Share of total assets	IWC's total assets ²⁾
2006	13.0 %	84.3 %	790.2
2005	15.6 %	79.5 %	493.1
2004	18.0 %	63.7 %	308.0
2003	20.1 %	66.4 %	151.4
2002	10.5 %	61.4 %	109.9
2001	7.4 %	58.3 %	79.3
2000	11.5 %	36.8 %	43.9
1999	19.9 %	18.5 %	31.9
ITD ³⁾	14.6 %		

¹⁾ All timber fund investments made by IWC clients and managed by external Timberland Investment Management Organizations (TIMOs).

²⁾ Year-end market value of forest investments made by IWC investors in million USD.

³⁾ Inception to date: March 30, 1998.



FACTS

Total strategic allocation to forest investments by IWC's clients is over 2 billion USD.

As of December 31, 2006, IWC's investors own over 300,000 hectares worldwide valued at 790.2 million USD.

IWC has been advising investors on timberland investments through global forest funds since 1998, but the company's experience with timberland investments dates back to 1991.

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