

# IWC NEWS

## IWC Timberland Fund of Funds:

**A path to efficiently gain access to timberland investments and build a diversified portfolio.**

The International Woodland Company (IWC) is progressing with the launch of IWC Timberland Partners, an international timberland fund of funds ('the Fund'). This article outlines the rationale behind the initiative and the likely benefits of the Fund to investors with an interest in the timberland asset class.

### Proven asset class

Timberland investments have been distinguished by resilient and stable long term returns, exhibiting low fluctuations in value and enhancing portfolio diversification. As the asset class has demonstrated attractive investment characteristics, interest among institutions has increased.

Current clients have expressed a strong interest in expanding allocations to timberland. In addition, new investors have approached IWC

with an interest in efficiently establishing and managing an allocation to the asset class.

### Experienced investment advisor

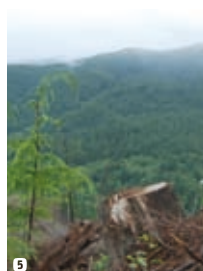
As a global timberland investment advisor since 1991, IWC has almost two decades of experience in advising institutional investors. IWC has closed transactions exceeding USD 1.6 billion on behalf of its clients spanning a broad range of external managers, regions and strategies. Investments under advice have generated a return of 13.2% since inception. In addition to manager selection, clients benefit from access to IWC's integrated timberland investment management platform including global timberland research, portfolio management, socially responsible investing (SRI) services and reporting.

### Indirect investments and direct benefits

Timberland's compelling characteristics and the increased institutional appetite for timberland investments have encouraged IWC to provide investors with expanded access to the asset class. After careful consideration, an

### Example of a diversified portfolio

- 1 Pine plantation in US South
- 2 Eucalyptus plantation in Brazil
- 3 Hardwood forest in US Northeast
- 4 Pine plantation in New Zealand
- 5 Semi-natural forest in US Pacific Northwest
- 6 Teak plantation in Brazil
- 7 Semi-natural forest in Eastern Europe



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international timberland fund of funds is being introduced to be built upon IWC's strong foundation of timberland investment experience.

The Fund will follow IWC's strategy of investing through existing Timberland Investment Management Organizations (TIMOs). IWC's proprietary database contains multi-year data and research on the expanding TIMO universe. The increasing number of TIMOs provides opportunities to leverage our network when sourcing, screening and selecting investment opportunities.

IWC's experience in negotiating investment terms and conditions, our timberland portfolio management process and professional reporting are clear benefits to the Fund. IWC's seasoned portfolio management team includes portfolio managers, a due diligence manager, three experienced foresters and experts in law and economics.

#### **Portfolio characterised by diversification and quality**

The goal of the IWC Timberland Partners fund is to achieve superior long term risk adjusted returns from investing in the international timberland market. The objective is to achieve diversification across managers, geography, forest types, silvicultural regimes and forest products markets. A record of long standing research coverage of timberland markets and managers

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coupled with an active dialogue with TIMOs will benefit the Fund in shaping and executing the investment strategy.

When fully invested, the Fund should provide access to a diversified portfolio of investments in TIMOs. Underlying strategies should provide access to experienced managers with proven track records, strong alignment of interests and the ability to add value at the asset level. These 'core' investments are likely to focus on more mature timberland investment regions, such as Latin America and Oceania. In addition, the Fund will also have an opportunistic allocation providing the flexibility to consider TIMOs targeting emerging regions and niche strategies

#### **The next step**


In light of IWC's long standing experience of advising investors and closing timberland investments, the Fund should provide a competitive timberland investment solution. The increasing availability of diverse investments provides the Fund with an opportunity to build up a stable diversified portfolio. A first closing is targeted during the first half of 2010. 

## **Cross-cultural training within IWC**

Timberland investment is diversifying into countries with very different cultures, languages and norms. Success is often dependent upon the ability to interpret differing business styles. IWC has conducted investments in fifteen countries across four continents and is well placed to source and manage suitable projects internationally. IWC's employees provide a strong foundation for intercultural understanding with nine nationalities represented on the team. Many have overseas work experience across Europe, North America, Africa, Asia, Oceania and South America. In 2008, IWC opened its first overseas Representative Office in Singapore to be close to the developing timberland market in Asia.

IWC recognises that cross-cultural awareness is critical to its future success and emphasizes training in these issues. During 2009, employees have participated in workshops on Intercultural Communication and Conflict Management across cultural and national boundaries.

The first workshop presented a theoretical model for intercultural communication based on cultural presuppositions, cultural self-perception and common experiences that shape how we interact and communicate. Then, more concrete skills were developed through role playing exercises. The second workshop created an understanding of the nature of conflicts across cultural boundaries, how they escalate and importantly how to find ways of reversing a deteriorating situation.

Also, language training is encouraged with employees currently engaged in Portuguese classes and English courses are being offered for those wishing to improve their written and verbal communication skills. 



## Growing Markets for Growing Biofuels

Wood has been used as a fuel ever since early man discovered fire, but today's uses are far more advanced and have opened new opportunities for timberland investors.

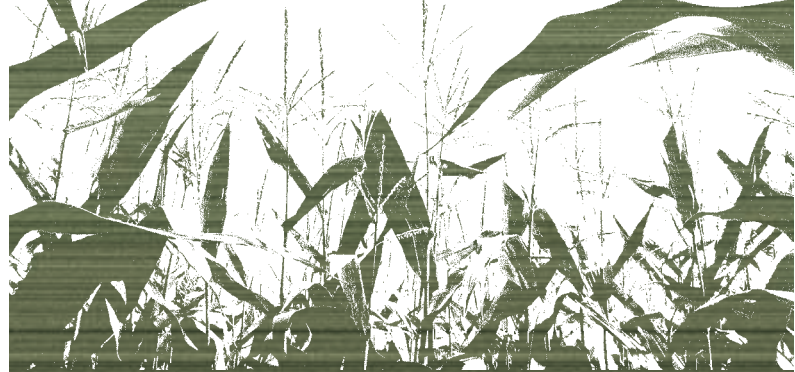
For timberland investors, beyond the traditional wood products of logs, lumber, plywood, and such, solid biofuels like wood chips<sup>1</sup> are currently the most relevant potential product from their investments. But the landscape is quickly changing and several alternative options exist.

Forest owners can benefit from supply-demand imbalances of industrial roundwood due to competition among panel, pulp and bioenergy producers all utilizing the same kind of raw material. The utilization of forest residues offers additional income streams, although it requires a higher degree of management to ensure sustainability.

Chips can also be produced from designated biomass plantations, so called short rotation coppices (SRC). While biofuels from forests are often by-products, they are the pure focus of SRCs. These plantations also use fast growing tree species, but on rotations much shorter than in traditional forestry, offering interesting cash-flows for greenfield projects. Regions with high potential for a variety of bioenergy investments include: Eastern Europe, US Northeast, South America and sub-Saharan Africa.

The emergence of bioenergy is largely politically driven due to growing concern about energy security and climate change as well as the need for innovative industrial development to ensure global competitiveness. In 2007, the European Union set the ambitious target of achieving 20% renewable energy in its primary energy production by 2020. Renewable energy comprises solar, wind and hydro power as well as bioenergy. To put it simply, most of Europe is not able to generate power from wind or sun in sufficient

<sup>1</sup> Wood chips can be produced from roundwood as well as forest residues (tree tops, branches, stumps).



### Biofuels Terminology

Biomass, biofuels and bioenergy are related terms that are widely used, but seldom clearly defined. Biomass refers to the source of energy (energy crops, by-products and waste), while biofuels is a generic name for the commodity, and bioenergy describes the energy end product (heat and power). Bioenergy is energy contained in biomass, which can be derived from solid, liquid or gaseous biofuels and has the advantage of being a truly renewable source of energy. One distinguishes between first and second generation biofuels, with the difference being technological. As second generation biofuel technologies become more advanced, cost effective, and able to manufacture biofuels from inedible biomass (such as wood chips into cellulosic ethanol), they could displace the conversion of food into fuel (for example, corn into ethanol).

magnitude to reach that goal. Furthermore most hydro power-suited rivers are already being utilized allowing only minor advances. The major share of the EU's progress then must necessarily be derived from bioenergy, likely more than doubling the demand for woody biomass as an energy source in Europe.

The sector is very active and is beginning to develop competitive cost structures. Technological advances together with economies of scale already allow for lower costs of production. Furthermore, European energy suppliers are directly affected by the EU targets and are globally seeking to secure biofuels as feedstock for their power plants. Although many producers are still dependent on government support, subsidies and R&D, the risk that the EU's current legal and financial mandate will suddenly change is limited given the EU's commitment to alternative energy.

*SRC willow plantation.*



## IWC internal news

### IWC welcomes Magnus Weikert

Magnus joined IWC in July 2009 as Business Development Manager and member of the Portfolio Management team. In this capacity, Magnus' responsibilities include business development activities. Prior to joining IWC, Magnus worked at Aberdeen Property Investors as Head of Fund Raising on behalf of its Eastern European private real estate platform, BPT Asset Management as

a Fund Associate and at Institutional Shareholder Services in London as an Analyst. Magnus holds a MSc in Business and Economics from the School of Economics and Management at Lund University, Sweden, and a MA in Corporate Strategy and Governance from the University of Nottingham Business School in the UK.



### IWC congratulates Johnny Vibe

In October 2009, Johnny Vibe, Senior Portfolio Manager at IWC, was awarded the Chartered Financial Analyst (CFA®) Charter.

The CFA® designation is a qualification for finance and investment professionals, particularly in the fields of investment management and financial analysis. In addition to the tools acquired through the CFA curriculum, CFA Charterholders must commit to the CFA Institute Code of Ethics in which integrity is a natural cornerstone.

In order to become a CFA Charterholder, candidates must pass a series of three six-hour exams, hold a bachelor's degree (or equivalent) and have 48 months of work experience in an investment decision-making position. Johnny, of course has higher credentials than the minimum. He holds a MSc in Economics and Finance and an MBA concentrating in Finance and has nearly 5 years of relevant work experience.



IWC is delighted to see the fruits of Johnny's commitment to further improve his skill set, which underscores his ambition to provide the best possible service to our clients.

Mikkel Brings Nielsen, head of IWC's regional office in Singapore, is shown here attending the National Tree Planting day in Cambodia. This day is of great importance to the country to encourage a large participation in the management and planting of trees. The King of Cambodia participated in this special event and is shown here greeting Mikkel in the traditional Khmer way. The IWC Capricorn Fund is developing a teak plantation in Cambodia.



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