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IWC NEWS

TEAK Why IWC is investing in it and what we know about growing it

The IWC Capricorn Fund has, as part of a diversified portfolio in emerging markets, invested in teak plantations. It is likely that when the fund is fully committed, about 25% of the value of the fund will be in teak. Why IWC feels that teak is an important component in the fund is based on a combination of facts and assumptions that we have made about teak.

Facts:

- Natural teak forests are essentially gone or are unavailable for commercial use due to overharvesting and governmental regulations
- Teak is a well-recognized, unique wood resource with high demand for such uses as outdoor furniture, boat decking, flooring and veneer

Assumptions:

- There is a gap between demand and supply that will persist for many years, putting upward pressure on teak prices
- Well managed teak plantations will get premium prices for wood and/or increased market share
- By being involved with multiple teak projects in different regions, IWC can exploit synergies that will lead to better management and marketing as well as solid returns

susceptible to insects and diseases than species like mahogany. Good on-the-ground management can minimize the possibility of loss due to animal damage and fire.

Since most of the teak projects that IWC has investigated are “greenfield” plantations, i.e. planting trees on degraded agricultural or grazing land, the first wood products that would be harvested would be from the first thinnings five years or so after planting. There would be other thinnings and then a final harvest at 16 to 20 years (depending on if the plantation originated from micro-propagated stock or seeds).

Because of teak’s unique status in the marketplace, IWC anticipates a price premium for teak over most other plantation species. The market for the early thinnings is heavily weighted to Indian buyers. Therefore IWC is conducting a study of the market for teak in India. It is assumed that the best price for large diameter logs from the final harvests will be in northern Europe and the U.S., regions that are more sensitive to consumer awareness of FSC certified wood products.

The Prospects for Teak

Independent studies have estimated that, although there has been increased planting of teak in recent years, the volume of teak available for harvest in the next twenty years should remain below projected demand. Furthermore, IWC’s research has shown that much of the teak that has been planted has had very weak follow-up management leading to poor quality logs.

Finally, teak has been the subject of some controversy in the past because unscrupulous entrepreneurs have exaggerated growth rates and price appreciation for teak investments. There have also been many “retail” teak projects that

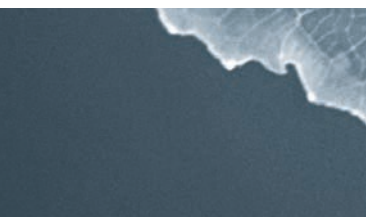


Teak Essentials

Teak is a broad-leaved tree that is native to Southeast Asia but has been successfully planted in many tropical regions in the world. It has specific biological demands for optimal growth related to soils, temperature, and especially rainfall – it requires a distinct dry season.

The most important management requirements for high quality wood are proper seed sources (or micropropagated clonal stock), good nursery management, plus well designed plans for planting, thinning and pruning. The biological risks associated with teak plantations are less than many other plantation species since they are less

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Timberland Investments in an Institutional Portfolio

Recent turmoil in financial markets has seen institutional investors' AUM decline putting their target allocations out of balance. While almost all asset classes have dropped significantly during the global financial crisis, timberland investments have, overall, been showing positive return figures. This article highlights the main conclusion from the newly released IWC publication, "Timberland Investments in an Institutional Portfolio," and gives IWC's view on the impact of the financial crisis on timberland investments in the future.

Timberland in an Institutional Portfolio

In 2008, the global equity markets dropped by approximately 40 percent and some equity markets were reduced by more than half. Timberland investments, on the other hand, have proven an efficient portfolio diversifier, yielding more than nine percent during the past year (source: NCREIF).

Timberland has since 1987 shown a stable performance with only one year of negative return and most years yielding a double digit return. The performance has been unique compared to other asset classes.

This leads to the conclusion that, not only does timberland have the highest return-to-risk reward of all asset classes analyzed, but it also has a relatively small span between the best and worst performing years. Therefore it is a less risky investment than equity.

Furthermore, as timberland investments have low or negative correlation with other asset classes, an institutional portfolio including timberland investments has been historically outperforming one without timberland. An efficient frontier analysis based on expected annualized returns for the coming 10-15 years, shows that, in the future, timberland also will benefit an institutional portfolio (sources: JP Morgan, IWC).

During the past years, institutional investors have been allocating increased amounts to timberland. Yet the total allocation to timberland is still less than 1% of the total investable universe.

Financial crises effect on timberland investments

The effects of the crisis on timberland investments can be viewed from both a supply and a demand point with regard to investors' ability to hold and enter the asset class.

Fig. 1

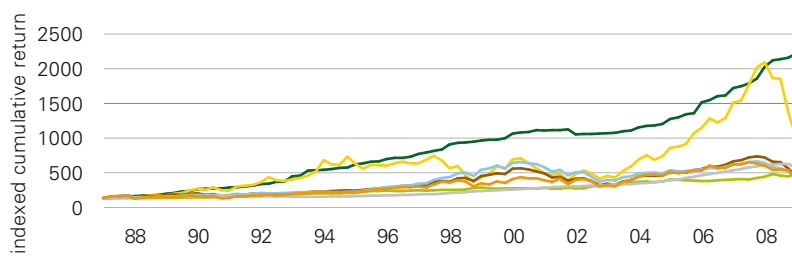


Fig. 2 – Annualized compounded return

	NCREIF Timber	Global Stocks	Emerging Markets Stocks	Large Cap American Stocks	Global Bonds	Real Estate	US CPI
1 year	9,5%	-40,3%	-53,2%	-38,5%	10,4%	-6,5%	2,3%
10 years	8,9%	-0,2%	9,3%	-3,0%	6,0%	10,5%	2,2%
20 years	13,8%	5,4%	10,1%	6,1%	7,5%	7,9%	2,8%

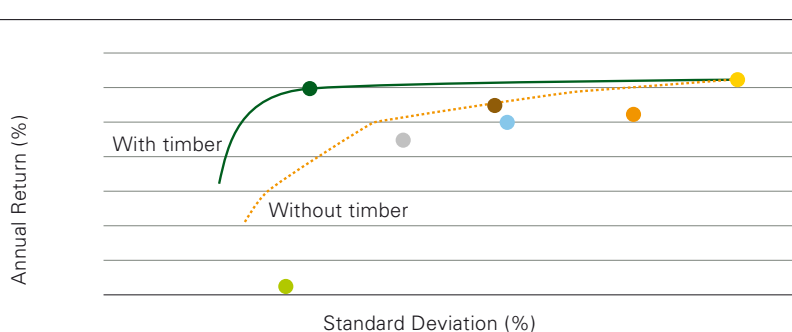
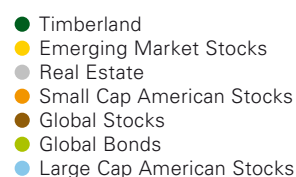


Fig. 3

Efficient frontier including and excluding timberland investments



Many of the investors currently investing in timberland have exceeded their strategic allocation to timberland due to an overall decrease in AUM, making further capital available to this asset class constrained. This leads to the conclusion that demand for timberland investments will therefore most likely decrease in the short run.

Owners of timberland are most often long term investors. This allows them to hold the asset class through short term crises such as the current one.

Timberland investments typically generate a positive income stream; although income returns during some periods can be marginally reduced due to weak product pricing, i.e. when housing starts are down, depressing construction timber prices. Also, timberland investments have a harvest/no harvest option, i.e. harvests can be reduced in poor markets thereby allowing inventory to grow and accumulate value on the stump. Most timberland investments carry little or no leverage. Thus they are not impacted by increasing costs of debt and the need to allocate more income generation to this portion of the business.

Valuation effects

With both supply and demand for timberland investments decreasing, valuations should be stable in the short run. However, with less capital flowing into the asset class, there will be less competition for timberland properties, opening up the opportunity for better acquisition prices. In turn, this will impact valuations through either decreased prices of comparable sales or increased discount rates in the income capitalization approach valuation. Recently, timberland offerings have been withdrawn from the market place, as the sellers have not been impressed with the bids. This spread between bid and ask prices indicates a price discovery that might not yet have fully adjusted in the market place.

One way to look at the required return is to include premiums for risk and illiquidity. The illiquidity premium present in illiquid assets has been decreasing through time as timberland investments are more often traded and more readily marked-to-market. But in a financial crisis where buyers are hard to come by, the illi-



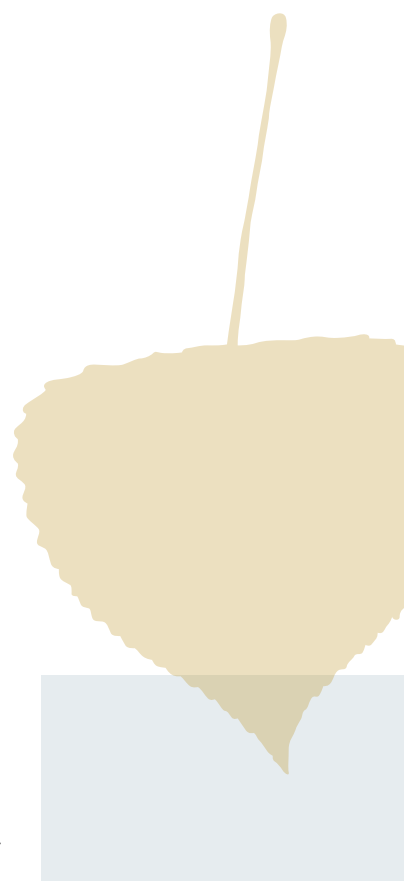
quidity premium is increasing. Industry participants expect an increase in discount rates used and thus a valuation decrease in the short run.

The short term effect of the financial crisis on timberland performance will therefore probably be negative, as suggested by expected discount rate increases and delayed harvest resulting in lower income flows.

Looking beyond the current crisis and the predicted market recovery for timberland products within two to four years, timberland investments should come back to return levels seen in recent years. The largest market for wood products is the United States and American demographics are highly correlated with product demand. So when the current downturn is reversed there should be significant pent-up demand for new housing as well as repair and remodel investments.

Allocating capital to timberland investments IWC utilizes long term return expectations for timberland investment portfolios, and has seen no reason to adjust expectations based on recent events. While there might be better opportunities in the short run, a portfolio should preferably consider diversification on factors among others geography, managers, products, and time. Developing a portfolio based on a well-defined strategy over a number of years and the subsequent exit and entry of investments in the portfolio ensures that entry prices and cyclical product prices are less of a concern in the long run.

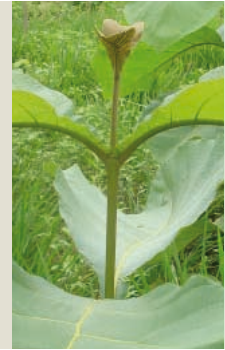
Overall, based on the characteristics of timberland investments, an inclusion of timberland investments in an institutional portfolio is in the long term expected to be beneficial for the investors, even though short term fluctuations may distort the relative attractiveness of timberland investments.



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have made questionable claims to unsophisticated investors. IWC has the advantage of an experienced in-house due diligence team plus a network of outside teak specialists to draw on in our project evaluation process assuring invest-

ments based on realistic assumptions. IWC feels that properly designed teak projects can be a valuable component of a diversified emerging market timber portfolio.



IWC internal news

Martin Munkesø joined IWC's portfolio management team in October 2007. He started as Portfolio Manager but as of November 2008 his responsibilities have changed, and his business title at IWC is now Due Diligence Manager. Martin's main responsibility is to screen potential fund investment opportunities and coordinate the due diligence of those selected making

sure the investments fit our clients' timberland investment strategies. As a result, Martin works closely with investors, fund managers, legal and tax advisors.

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In November 2008, IWC welcomed **John Bergen** as a Business Controller. In this capacity, John is responsible for the company's economic and accounting department.

various Danish companies, of which the last 17 years were with the Danish Forest Association.

John Bergen
Business Controller
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IWC receives Health Certification

IWC was given health certification in November 2008 and is the smallest company yet to be issued certification in Denmark.

After years of preparations to qualify, we have incorporated several health promotions and preventive measures throughout the company for the benefit of our employees. IWC is now up for the title of 2008's "Healthiest Workplace in Denmark".

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Certification on
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