

Issue no. 28. July 2009

IWC NEWS

Status of IWC Activity

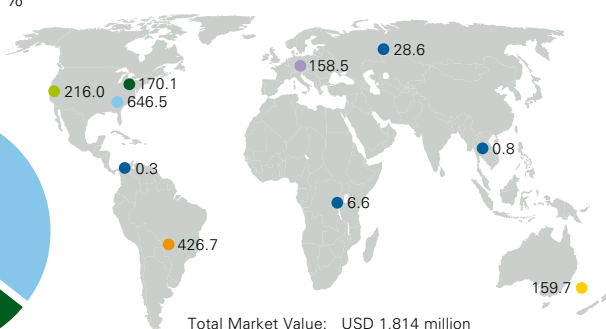
The value of assets plus uninvested binding commitments under IWC's advice and/or management totalled over 2.65 billion USD at the end of 2008. Despite capricious financial markets, IWC's external composite has yielded a time-weighted rate of return (TWR) of 1.8 % (in USD, before fees) in 2008. Since inception (March 1998), IWC's external composite yielded a return of 13.2 % per annum.

- US South 36 %
- US Northeast 9 %
- US PNW 12 %
- South America 24 %
- Oceania 9 %
- Europe 9 %
- New markets 2 %



Geographical allocation as of December 31, 2008

Figures on the map represent the latest market value in million USD



Overview of assets under advice or management

Commitments from IWC's clients to forest investments continued to grow in 2008, ending at over 2.4 billion USD, which is an increase of 640 million USD since 2007 year-end or +36 %. This development clearly confirms the desirability of forest investment by institutional investors and a strong recognition of IWC's services.

Of the committed amount, 1.6 billion USD were invested at the end of 2008, representing a market value of over 1.8 billion USD.

Investments' geographic allocation

As shown to the left, at the end of 2008, 56 % of the investments' market value was located in the USA, while 24 % was in South America, 9 % in Oceania, 9 % in Europe, and 2 % in new markets.

Performance

The table below shows IWC's external composite performance calculated as annualized time weighted rates of return in USD, before fees and expenses, as well as the year-end cumulative commitments to the external composite.

| | Yearly Time Weighted Returns (nominal, before fees, calculated in USD) ¹⁾ | | | | | | | | | | |
|----------------------------------|--|-------|-------|--------|--------|--------|--------|--------|--------|-------|--------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | ITD |
| External Composite ²⁾ | 12.7 % | 6.8 % | 5.3 % | 11.1 % | 18.8 % | 16.3 % | 12.2 % | 15.9 % | 15.4 % | 1.8 % | 13.2 % |

| | Cumulative Commitments in million USD ³⁾ | | | | | | | | | |
|----------------------------------|---|------|------|------|------|------|------|-------|-------|-------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| External Composite ²⁾ | 6 | 53 | 53 | 87 | 145 | 427 | 747 | 1,071 | 1,624 | 2,167 |

¹⁾ Returns are computed by chain-linking quarterly rates of return. Returns are before asset management fee and performance fee to external managers and IWC.

²⁾ All IWC clients' timberland investments managed by external timberland managers. Inception date of the composite is March 1998. At the end of 2008, the composite represented 89 % of IWC's assets under advice and/or management.

³⁾ IWC clients' year-end cumulative commitments to forest investments managed by external timberland managers.



Investing in Russia

Institutional investment in Russian forest operations is attractive because of NW Russian forest's proximity to European markets. Unlike most traditional timberland investments, however, the revenue is derived from lumber sales. Timber is a cost (stumpage fees). It is the perception of the demand for lumber from the mills, the processing facilities themselves, and the value of the access to the timber (harvest leases from the government) that will determine the value to a buyer at exit.

Russia has 82 billion m³ of timber resources. The annual harvest rate is about 185 million m³ or about 30 % of the annual allowable cut. With these vast forest resources and relative proximity to key markets for forest products in Europe and Asia, Russia has in recent years attracted the interest of foreign investors into the forest sector. So far, the majority of these investors have been from the wood processing industries. When you add the punitive export duty increases for raw logs, it is logical that the largest forest investments to date have been forest products companies from Finland and China, both highly dependent on raw material supplies from Russia.

However, as institutional forest investments continue to expand into emerging markets, Russia has become a relevant opportunity to explore.

The markets for wood products from Northwest Russia are primarily the domestic markets in the cities of European Russia plus those in the Central and Western European countries. There has been a strong demand for high quality value-added products like glulam door and window casements, edge-glued panels and planed specialty lumber (such as tongue and groove flooring). It is expected that when the market demand picks up, the Russian domestic demand for these products will be exceptionally strong and they will compete well in Europe.

For the institutional forest investor, it should be pointed out that due to the special characteris-

tics of the Russian forest sector; an investment in Russia is essentially different from traditional timberland investments. This is because it is, first and foremost, an investment in forest products processing, similar to a venture capital investment.

In other timberland investments, the timber is the primary source of revenue, timber growth is an important component of investment return, and land appreciation is a source of up-side potential at exit. In Russia, timber is a cost, i.e. an administratively-set stumpage fee is paid to harvest the trees to provide raw material for the mills. It is the mills that provide the revenue for the investment. It is also only through investment in the processing facilities that one can acquire attractive timber rights in Russia directly from the government. Thus it is the perception of the demand for lumber from the mills, the processing facilities themselves, and the value of the access to the timber that will determine the value to a buyer at exit.

Despite the vast forest resource, access to cutting-lease rights in high quality forests in Russia is a scarce commodity. Requests for forest leases from new investors promising saw mills, panel mills, and paper mills will be judged by state governments on the basis of performance, financial strength and the degree of value adding and job creation within the region. The process of granting timber leases is still in flux. It is a safe projection that within the next 10-15 years, timber rights associated with the mill ownership should be in even greater demand than they are today. This is because most, if not all, of the available timberland will be tied to production facilities.

Apart from direct negotiation with the authorities, forest leases can also be achieved by purchasing already existing companies which hold active forest leases. Today many owners of timber leases in the region do not have wood processing facilities, are not cutting their annual allotment, and are in jeopardy of losing their leases. Even though it is relatively simple to purchase companies like this, it is still diffi-





An example of saw line automation from a Swedish saw mill.

cult to base an investment entirely on log sales, because export duties on unprocessed wood force the investor to base income entirely on the Russian domestic market. The current tariff on unprocessed log exports is 25 % of the value, with the minimum tax of 15 Euros per cubic meter. The next stage in this process is a jump in the export tariff to 80 % of value, or a minimum of 50 Euros per cubic meter, scheduled for implementation later in 2009. It is questionable if the final duty hike will be implemented in its entirety.

The combination of forests being obtained via lease contracts and the involvement of a processing facility (usually a saw mill) has significant operational and financial impacts that are different than the traditional timberland investment. Harvest flexibility is reduced due to the forest lease structure where lease payments are due regardless of actual cut, and because the lease also contains an obligation to cut the available volume in the forest regardless of market conditions. Failure to make payments and not meet harvest criteria are both lease breaches that could lead to the cancellation of the lease contract. Furthermore, the ownership of a processing facility makes the investment management much more complicated. There is also a higher associated risk than in a pure-play traditional timber investment.

What still makes Russian forest products investment attractive is the access to the low-cost, high-quality timber resource and to the low-cost skilled labour force. The region also

has fuel and electricity rates lower than those of its European neighbours. Russia's proximity to Western European markets and its lower cost structure make an investment here appealing. In addition, the current financial crises has led to a high number of quality forest assets becoming financially distressed, and therefore available at attractive prices. It must be kept in mind that because the returns are based on lumber and board demand and price, the expected revenue will likely not be highly correlated to other timberland investments.

Russian Forestry Facts:

- Russia has 22 % of the world's forest cover, an area larger than the continental USA.
 - Russian boreal forests (known in Russia as the taiga) is larger than the Amazon.
 - Most of these forests are conifers (larch, spruce and pine), with birch as the major hardwood species.
 - Russian forests contain more than 50% of the world's resources of valuable coniferous wood.
 - The annual net growth of the Russian forests is estimated to be about 1 billion m³.
 - The annual allowable cut is estimated to be over 500 million m³ of commercial wood annually.
 - Priority in timber leases is given to enterprises which invest in domestic processing facilities.
 - Timber leases are available for periods up to 49 years.
- (Data from IIASA)



Traditional Russian saw mills have opportunities for upgrading to Western European standards that would greatly increase efficiency.

IWC Welcomes Carolina Biagio

Carolina Biagio joined IWC as a Financial Analyst with IWC's Investment Development and Analysis team in May 2009. In this role, Carolina's responsibilities include both analysis of potential investments and controlling of existing ones with a focus on investments in Latin America and Africa.

Before joining IWC, Carolina spent four years with Infor Global Solutions where she led the billing team and handled revenue recognition in EMEA. Carolina has a M.Sc. in Applied Economics and Finance from Copenhagen Business School, Denmark, and a B.Sc. in business administration from the Federal University of Rio Grande do Sul, Brazil.



Information Report and New Business: IWC's Fund-of-Funds

In May 2009, IWC's 2008 Information Report was released. The report presents highlights regarding IWC's business and financials for the year.

As described in the report, IWC has, with over 10 years experience in advising institutional investors on timberland investments, decided to set up collective investment vehicles to invest in timberland funds (i.e. fund-of-funds structures).

Two different fund-of-funds with different geographical focuses and different risk/return characteristics will be offered to selected institutional investors. In each entity, a diversified portfolio of timberland investments will be built over a few years within their respective geographical focus.

READ MORE

IWC's 2008 Information Report is available at www.iwc.dk. You can also contact IWC's Managing Director Otto Reventlow (or@iwc.dk).



World Forest Products and Timberland News

EU import statistics show dramatic fall in tropical hardwoods during 2008

In 2008, the volume of EU-25 imports of hardwood logs, sawn, veneer, and plywood from countries in the tropical forest zone was down 27 %, 23 %, 11% and 14 %, respectively. The volume of hardwood imports from tropical countries into France, Italy, Spain, and Portugal fell particularly steeply during the year. (Source: ITTO).

2009 Slow year for North American timberland sales?

Since peaking in 2006, when North American timberland transactions hit 3.4 million hectares (and USD8.7 billion), activity fell by half last year and is on an even slower pace this year, with only 0.9 million hectares identified for sale through April. For the entire period from 1995-2008, 454 major transactions closed for a total of 22.2 million hectares and USD 52.1 billion. (Source: Timberland Market Report)



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