

IWC NEWS LETTER

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Timberland Investments in New Markets

In addition to traditional, institutional timberland investments in the United States, South America and Oceania, there is also significant potential in "new markets", defined as timberland investments located in new regions or based on niche products in traditional regions. While these new markets have a different risk profile, IWC is using its international expertise to develop investment opportunities suitable for institutional investors.

Over the past two decades, the world of institutional timberland investment has developed significantly. Initially, the main focus of investors seeking to access the asset class were forests in the United States, which became available at attractive prices as forest product companies abandoned the traditional integrated structure in favor of a more streamlined, manufacturing focus. In the mid 1990's the spotlight was increasingly turned on fast-growing pine and/or eucalyptus plantations in South America, Australia and New Zealand, while European countries like Ireland, France and the Baltic



states provided relatively small but lucrative investment opportunities. Today, the estimated value of institutional timberland investments worldwide is 20 - 25 billion USD, the vast majority of which is in the United States.

While traditional timberland investment markets continue to provide excellent investment opportunities, the potential global investable forest estate is estimated to be much larger. According to studies conducted by IWC, the value of the global investable forest estate could be greater than 500 billion USD, or 20 times what is invested today.

A portion of the estate is located in the traditional regions mentioned above, but a substantial share is in emerging markets where IWC sees increasing opportunity for investors to access promising forest investments. The prevailing trend toward a more globalized economy sets the stage for IWC to draw upon its extensive network and experience to guide investors to these opportunities.

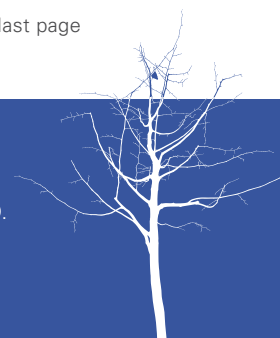
Globalization

More and more countries are opening their borders to international commerce resulting in cultural and language barriers being lowered by the common language of business. Modern technology has had an important role to play in the process as it has allowed for more efficient exchange of ideas and data independent of location.

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FACTS

June 2007: Market value of IWC's clients' timberland investments reaches 1 billion USD.
October 2007: Commitments to forest investments through IWC is over 1.5 billion USD.





Summary of latest IWC e-mail news

There were two major timberland sales in North America with a total of about 750,000 hectares changing hands. The effects of Russia's increased log export tariffs are starting to be seen in the domestic lumber production and log export volumes.

Timberland Transactions

Temple-Inland Inc. signed a definitive agreement to sell 627,000 hectares (1.55 million acres) of timberland to an investment unit of Campbell Group Inc. for USD 2.38 billion. The transaction with Campbell Group, expected to close in the fourth quarter, includes a 20-year fiber supply agreement for pulpwood and a 12-year fiber supply agreement for sawtimber, and fiber will be purchased at market prices. Campbell Group, a Portland, Oregon, timberland investment management company, agreed to continue Temple-Inland's conservation standards and focus on environmental stewardship.

Forestry investing startup Wells Timberland Real Estate Investment Trust jumped into the ranks of industry land owners with a USD 400 million purchase of MeadWestvaco holdings in the US South. The sale, Wells' first timberland acquisition ever, involves 92,270 hectares (228,000 acres) owned and 38,450 ha (95,000 acres) leased, all in Georgia and Alabama. Combined,

the sale averaged USD 3,060 per hectare (USD 1,238/acre). Wells was willing to satisfy MeadWestvaco's stringent long-term fiber supply agreements. Most of the MeadWestvaco land had also been stripped of highest-best-use properties and had conservation land already identified.

Europe

Russian lumber production is likely to increase by 8.7% in 2007 to 24.5m m³. Lumber exports are expected to increase 10% in 2007. Domestic consumption is currently increasing by 5.8% after six years of decline. Timber harvest levels have risen 20.6% from 2000 to 2006 but will likely see no increase in 2007. Meanwhile log exports are starting to fall due to the increase in export tariffs that went into effect on July 1, 2007. Log exports rose 59.7% from 2000 to 2006 but are expected to fall 11.9% next year.

North and South America

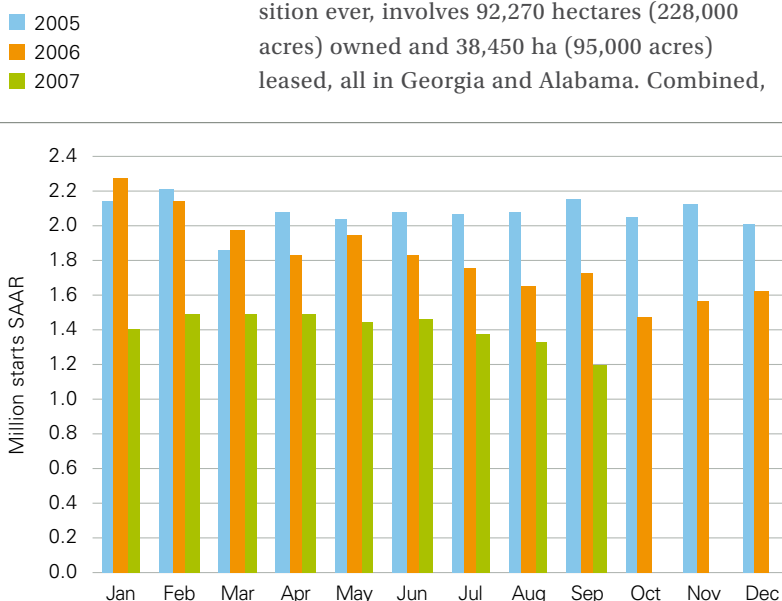
New construction fell to its lowest rate in the US in 14 years for September, showing the effects of a sharp drop in multifamily housing. Likewise, housing permits fell in September, also to a 14-year low. Total housing starts dropped 10.2% across the combined regions from August to September. Housing starts in September fell to a seasonally adjusted rate of 1.191 million. Starts were down 30.8% from year-ago levels of 1.721 million. See Figure 1 below.

The Botnia pulp plant in Uruguay is set for a start up in November, following the presidential elections in Argentina. The Finnish company plant at Fray Bentos, adjacent to the Rio Uruguay, a border river between Uruguay and Argentina, is reportedly ready for a full start up after initial commissioning work has been undertaken. A commission will carry out monitoring of the environmental impact of the plant.

Oceania

The New Zealand Government recently announced a decision to devolve credits and liabilities for post-1989 forests back to forest owners. The government's new emissions trading scheme includes a change in a previous stance that post-1990 carbon credits should be retained by the government.

Figure 1
U.S. Housing Starts
Monthly U.S. Housing starts (millions)
2005-2007, seasonally adjusted annual rate



Climate Change and Forest Investments Symposium

A symposium of regional experts was hosted by IWC on the potential effects of climate change on timberland investments. The group offered not only some interesting scenarios but also management implications for timberland owners.

Climate change is increasingly becoming part of the political agenda of governments and NGOs as well as strategic considerations by corporations and investors. Agriculture is already preparing for climate change in relation to crop selection and management regimes. Similar preparations are relevant for forestry, especially in view of the longer time perspective of rotation and crop change in forestry. Thus, climate change could be a substantial risk or a possible up-side for forest investors depending on the actions taken.

On 21-22 August, 2007 IWC organised a private symposium with local experts to obtain a better understanding of the perspectives for forest investments in the light of climate change. The symposium was held on the isolated Danish island of Romsø.

Likely effects of expected climate change

For the next 15 years, the natural variation in weather will have a larger effect than the systematic forced climate change even though temperature- and precipitation-related extremes will most likely become stronger.

In the longer time perspective (50-100 years) the climate models provide a likely scenario where conditions for growing trees in most of the current main timber producing regions of the world will improve. This is due to higher mean temperature, more precipitation and less frequent storms – even though the storms will become stronger. Growth conditions for forest in the tropical areas are also most likely going to benefit from climate change whereas areas where water availability is currently a constraint will suffer even more. Apart from the strict impact on tree growth it is important to keep in mind the possible effects that climate change could have on the general living conditions of people

Management regimes should be adjusted to possible climate change through a number of actions:

- Due to the general uncertainty regarding climate change there is a need to develop management regimes that increase the robustness and adaptability of forests.
- In management systems where the genetic variation is low (top-tuned, highly productive single species regimes) the rotation age should, all other things being equal, be as low as possible to allow for early harvest and more frequent adjustments in crop selection.
- Pioneer species (pine, acacia, willow, poplar, teak, etc.) can be grown in highly productive plantations as long as they reach harvest before significant disturbances occur.
- Correspondingly, climax species should be grown in more complex systems in relation to their specific ecological requirements and role in the natural succession.

and the capacity of different governments to deal with these changes without causing civil unrest or political change that might effect general investment conditions.

IWC will continue to work on incorporating the findings of the symposium in the development and management of our clients' international forest investment portfolios.

Symposium participants leaving Romsø (Bo Larsen and Otto Reventlow not in photo)



Participants on the symposium:

- J. Bo Larsen, in Silviculture professor, Copenhagen University
- Claus Felby, professor in Wood and Biomass Technology, Copenhagen University
- Erik Dahl Kjær, Professor in genetic resources of woody species, Copenhagen University
- Eigil Kaas, Professor in Meteorology, Copenhagen University
- Henrik Saxe, Dr. Agro, IE-Consult
- Otto Reventlow, IWC
- Peter Vind Larsen, IWC



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One product of globalization is the recognition that many less developed parts of the world offer interesting opportunities for foreign direct investment (FDI). As a result, private equity is replacing foreign aid as a key source funding economic growth in some countries in the developing world. The same attributes that make FDI in emerging markets interesting to traditional equity investors also make them interesting from a forest investment perspective. IWC seeks to expose its clients to the benefits of being an early-mover in these markets.

IWC's network


Since IWC's inception in 1991, the firm has understood the benefits of thinking and acting globally. Over time, this evolved into the core of IWC's forest investment philosophy, which focuses on the construction of truly internationally-diversified timberland portfolios from which IWC has gained significant knowledge and experience in both traditional and new markets.

Studies on the global markets for wood products, supply and demand, analysis of past trends affecting the industry, as well as first hand experience during study tours in regions of interest have given IWC valuable knowledge and exper-

tise in international timberland investment. This coupled with an extensive network of professionals and a growing multinational staff (IWC now employs professionals from six different countries) has allowed IWC to remain ahead of the curve when it comes to forest investments in new markets.

Risk

Normally, the risk associated with investing in new markets is greater than that associated with investing in traditional markets. However, through country and project level risk analyses IWC has found that many risks in new market forest investments may be mitigated, controlled or insured against. Further, the perceived risk associated with forest investment in these markets is often much greater than the actual risk.

As a consequence of the changing investment landscape, IWC has cultivated a significantly increasing number of interesting timberland investment opportunities in new markets. IWC's major challenges in respect to these investments is to understand and minimize the various risks and to make the projects structurally suitable for institutional investors. 



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