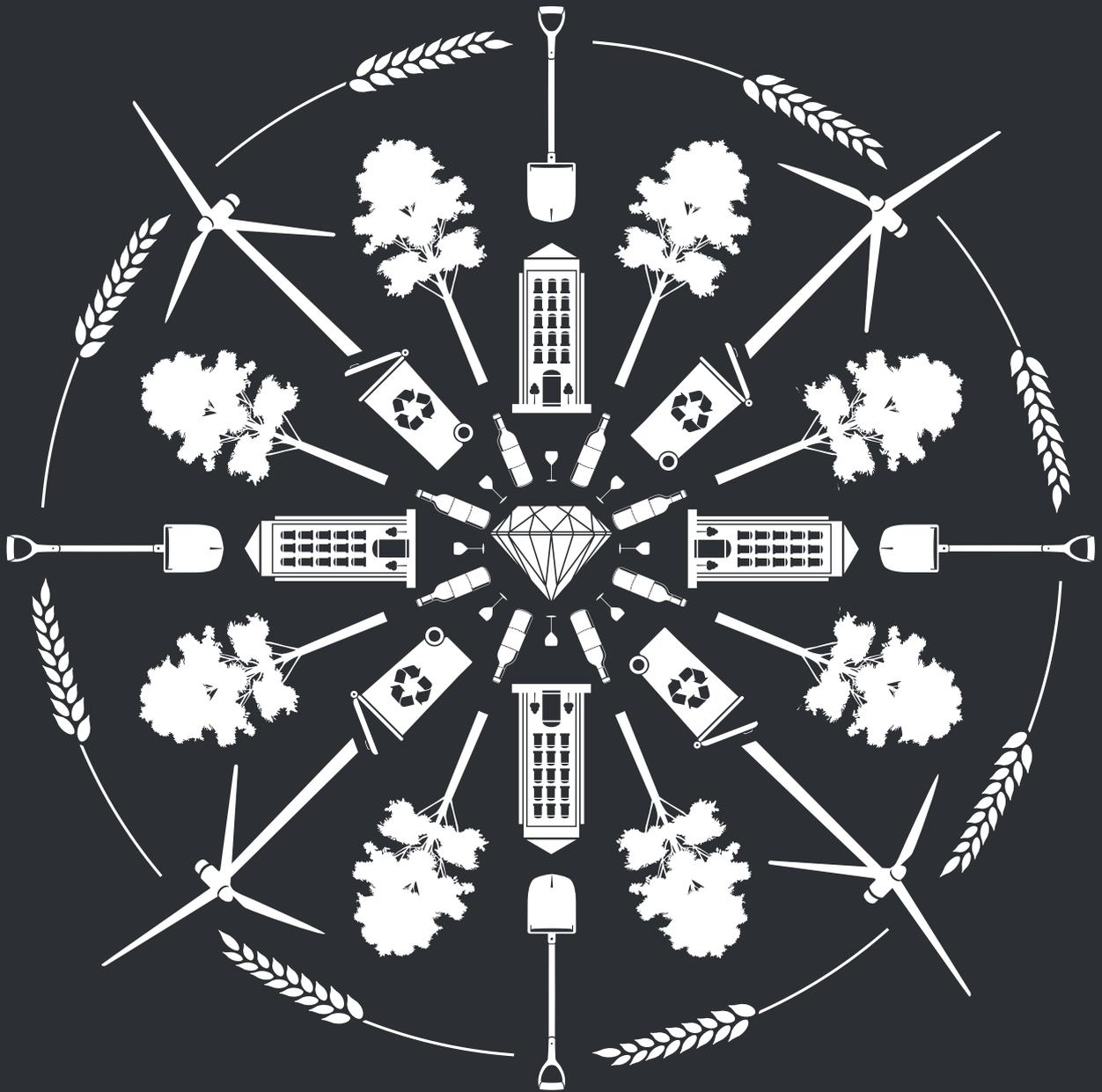


AiR



ALTERNATIVE INVESTMENT REPORT



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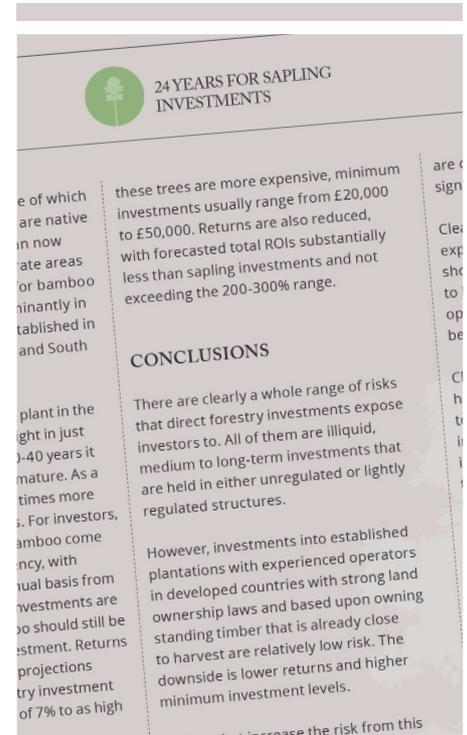
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Intelligent Partnership are committed to the very highest professional standards as embodied by the trade associations we are members of: the Enterprise Investment Scheme Association; the Association of International Property Professionals; the Association of Member-Directed Pension Schemes; the Chartered Insurance Institute (CII) and the Institute of Financial Planning (IFP).

The AiR series of reports has been accredited by both the CII and IFP for CPD purposes. Readers of these reports can claim CPD for each hour spent studying the material; to claim CPD and provide feedback please visit www.AiReport.co.uk.

MARKET RESEARCH

structure, but the underlying fundamentals for success become greater when the investment is based in a far off location. The research and due diligence process will be broadly similar for...

QUESTIONS

- How much land is under management?
- How much land is planted with/...
- Are the returns fixed or variable?
- What are the returns on offer?
- Is there a track record of returns/buy-backs/capital growth?
- How much land is owned?
- Is investment regulated?

This could be to take advantage of high timber prices or to release some money from the investment, or conversely the trees could be left in the ground until timber processing is more favourable. The investor should seek third party verification on projected tree growth rates and timber prices in the land audit.

LEGAL ADVICE

It is essential for all information to be verified by a third party, preferably a lawyer. They will undertake their own due diligence and look into the land title and ownership of the trees. The lawyer should also look into any ownership restrictions or foreign investment restrictions that could impact the investment.

It would also be advisable for the lawyer to review any agreements for the on-going management of the trees. This will help to define the role of the management company and any costs that they will pay on behalf of the investor, and also help the investor understand what rights they have should the management company not perform as expected.

should... laws for... is base... correct... reduce... in the... on wh... come... gains...
INSUR... Insu... phy... for... can... suc... and... cor... for... wo... pl... be... T... C... t...

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SURVEY ANALYSIS

Source: Intelligent Partnership

CHARGES

- Initial Investment: 29%
- Ongoing: 57%
- On Exit: 71%

A. Charges can often be unclear with alternative investments and can often be quite high. This is usually because the investment involves the purchase of a physical asset. 29% of investments have further charges due on top of the initial invested capital. 57% have ongoing costs such as forestry management and 71% take a charge at the end of the investment term. This charge is likely to be taken from harvest revenues and could cover the harvesting, processing and transport of timber.

RETURNS

Q. Are returns variable, fixed or guaranteed?

A. Every investment offers variable returns with predicted returns ranging from 6-15% per year. These returns are lower and perhaps less speculative than some of the returns seen on the investment register.

Q. When are the returns paid?

- Annually: 71%
- End of Investment Term: 29%

Source: Intelligent Partnership

DISTRIBUTION

Q. Target Market

- HNW and Ordinary: 43%
- Both: 43%

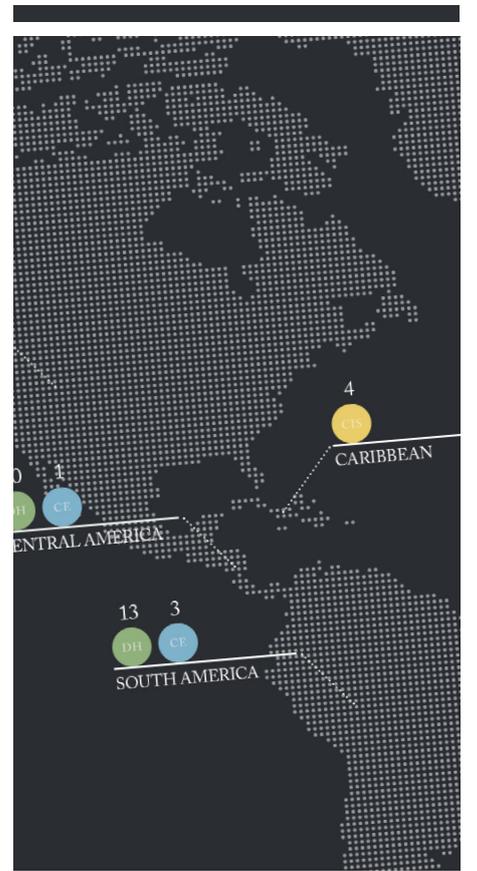
Source: Intelligent Partnership

A. Over half being sold or ordinary worth in HNW or of the size change past 12

Q. How invest

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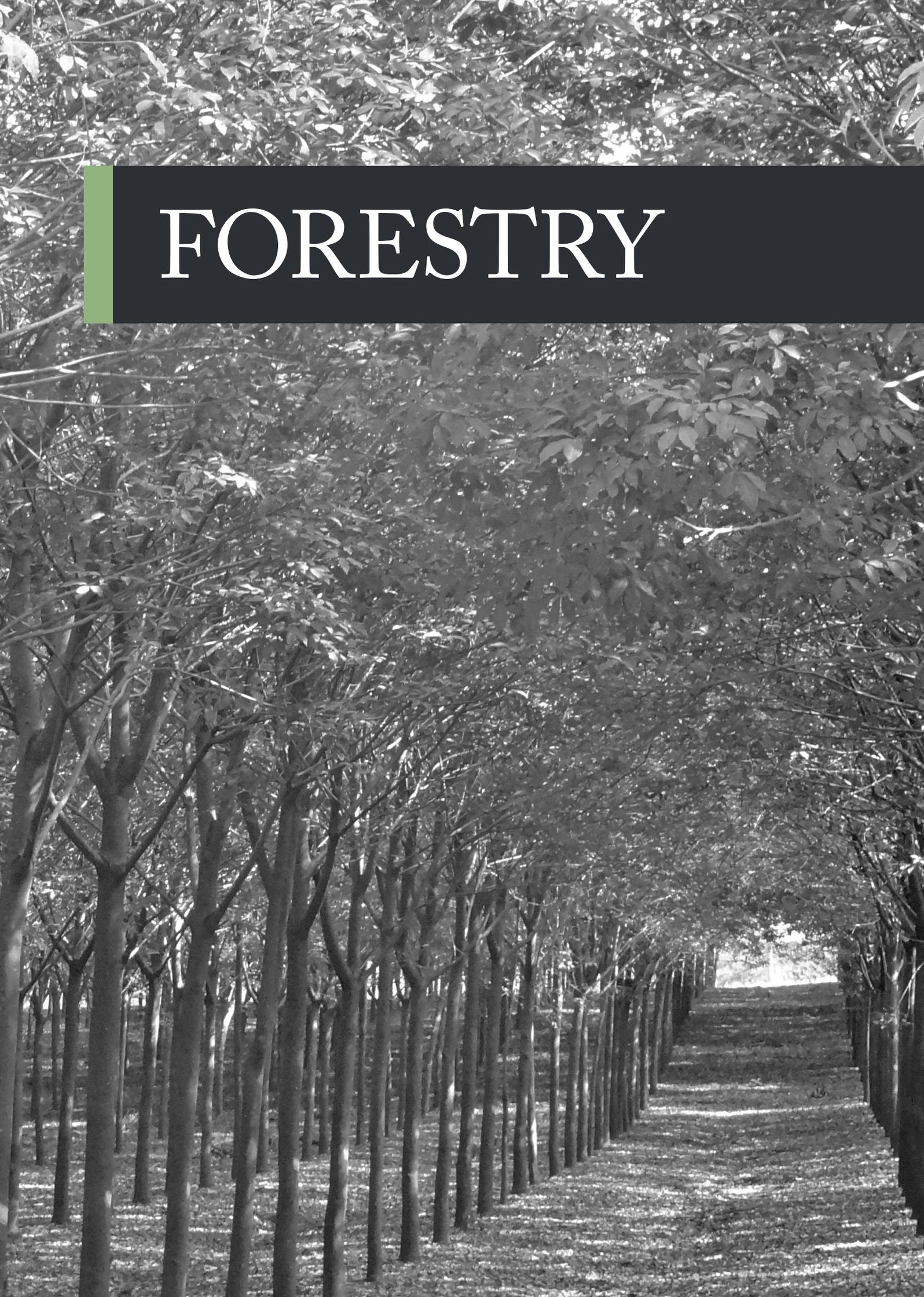
AMPS

eisa...
enterprise investment scheme association



INSTITUTE OF FINANCIAL PLANNING



A black and white photograph of a forest with rows of trees, overlaid with a black banner containing the word 'FORESTRY' in white serif font. The trees are arranged in neat, parallel rows that recede into the distance, creating a strong sense of perspective. The ground is covered with fallen leaves and dappled sunlight. The overall atmosphere is serene and orderly.

FORESTRY

INTRODUCTION

Forestry as an asset class has been favoured by the wealthy as a tangible store of wealth for centuries, but largely it has been out of reach for the vast majority of investors.

Since 2008 there has been a marked increase in opportunities for retail investors to gain exposure to forestry, 2009 alone saw 21 new product launches, and investment activity and regulatory scrutiny has increased as a result. The majority of investment products are genuine businesses looking for alternative sources of capital, but a small number are opportunistic, set up in locations where land is cheap, offering outlandish levels of return many years in the future, without any upper limit or timeframe for closing their fundraising.

SCOPE

This report aims to examine the global forestry sector in the context of the investment opportunities available to retail investors. While the aim is to refer to the mainstream investment opportunities, the focus is on the products where investors can get exposure to the sector through investing directly, via a corporate element or a collective investment scheme. These products are not well covered by the analyst community, yet they form the bulk of opportunities marketed to retail investors.

WHO SHOULD READ THIS REPORT?

The report is aimed at financial advisers, professional intermediaries, pension operators, investment providers, sophisticated investors and other market practitioners who have an interest in forestry.

The intention is to highlight recent developments and capture the current state of play. Giving the reader an appraisal of the drivers that are shaping the sector; the opportunities that are on offer; changes in regulation; pitfalls to avoid and how to sensibly evaluate and gain exposure to the sector.

The purpose of the report is to help readers make informed decisions about their or their clients exposure to the forestry sector.

THE INVESTMENT REGISTER

As with all of the reports in the AiR series, this report includes a comprehensive register comprising 83 investment products. This is the only known register where you can view and compare such a large cross-section of the forestry opportunities available to retail investors.

Detailed analysis of the products in the register has been conducted alongside a widespread survey of the forestry investment providers. Meaningful trends have been drawn from this research that will give the reader an understanding of how the forestry sector has developed, and an indication of as to what the future might hold.

INVESTMENT CASE

THE ROLE WITHIN A PORTFOLIO

Many wealthy families have traditionally held land and forestry. Forestry makes sense as a long-term investment. It's a tangible store of wealth, a commodity that is often in demand, an asset that you can quite literally leave to grow and it often attracts significant tax benefits. Within the last 10 years there have been a number of directly held investments and collective investment schemes launched in order to make this asset class more accessible to ordinary retail investors.

DIVERSIFICATION

Forestry can provide diversification from traditional financial products such as equities and bonds. The timber market is considered to be largely uncorrelated with traditional financial markets, although in times of austerity and recession there is still likely to be an impact on demand for physical resources such as timber.

INFLATION HEDGE

Physical assets are generally considered to be a hedge against inflation, with forestry being no different. Returns from forestry have historically been closely correlated to inflation. A study by Lutz in 2012 concluded that a geographically diversified forestry portfolio acts as an inflation hedge.

Forestry also adds a further benefit in that trees are constantly growing, increasing the quantity of timber available to be harvested and pushing up their value.

SECURITY

Holding physical assets is usually considered to be a secure investment, despite sometimes being illiquid and hard to value. Investing into freehold or leasehold land as part of a well-managed and established forestry plantation can sound quite secure. However some of the newer opportunities marketed to ordinary retail investors are located in increasingly exotic locations. Often where land is cheap and laws around land ownership are opaque or complex, this has led to a weakening of investor protections usually found when investing in forestry.

This is not to say that all of the investments in the sector are high risk. There are some well-managed and established collective investment schemes which offer investors access to established forestry assets in developed countries. This type of investment can provide long-term security and returns for an appropriate investor.

SPECULATION

A number of the opportunities available do appear speculative, based upon forecasts that timber prices will continue to increase over the next 10-20 years due to demand from emerging markets. The expectation is that the timber when sold will produce a very high return for investors. Some providers are predicting timber prices they expect to achieve in 20-25 years time, it is impossible to predict accurately what could happen over that sort of time frame. Investors should view high returns predicted over such a long period as highly speculative rather than definitive.

THE MACRO CASE

Supporting the investment case and claims made by the investment providers is the demand. Which is being led by global population growth and development in emerging economies in Asia (India, China, Malaysia) and South America (Argentina, Chile, Brazil). China consumes over 150 million and India over 64 million cubic meters of timber per year. A large amount of this timber has to be imported which has left a gap in the market for plantation companies to fill. There is also the predicted demand for wood-chips as a form of renewable fuel, with the UN Food and Agriculture Organisation (FAO) estimating that demand will increase by 60% by 2030.

Meeting this demand will be made even harder due to a number of constraints on supply. Governments and international Non-Governmental Organisations (NGOs) are trying to prevent illegal and unsustainable logging, which together account for as much as 70% of all timber sold. This makes a compelling investment case for investors.

ASIA + SOUTH AMERICA DRIVING DEMAND FOR TIMBER



70% OF SOLD TIMBER IS ILLEGAL OR FROM UNSUSTAINABLE LOGGING



10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

SECTOR UPDATE

BACKGROUND TO THE GLOBAL FORESTRY SECTOR

The global forestry industry is valued at US\$327b according to the latest FAO figures, an increase of 10% from 2000 and 334% from 1980.

Despite being considered uncorrelated to traditional investments, production levels were slow to recover from the financial crisis, with year-on-year growth of 1-4% between 2010 and 2011.

In the last two years however, the global timber trade has increased by an estimated 25%. 2013 has been a record year in the value of the UK market for instance, with trade between October 2012 and September 2013 totalling £97.3m (8.5 times the value traded in 2000). Conservative forecasts by the FAO estimate that the global forestry sector will be worth US\$450b by 2020.

Global timber prices have risen significantly from post-recession lows in 2009, reaching an all-time high in Q2 2011. Since then the Softwood Fibre Price Index (SFPI) has fallen gradually and now sits 8.8% lower than the 2011 peak. Consumption in the developed world reduced substantially during the 2008 recession, but as the wider economy improves and activity within the construction sector increases, demand for timber in developed markets is forecast to recover strongly.

Continued population growth and urbanisation in the BRIC countries and other developing markets is set to increase timber prices to record highs. This upward pressure on prices driven by consumption will coincide with increasing constraints on supply (such as the strengthening of the global drive to eliminate illegal logging and increase sustainable timber sourcing).

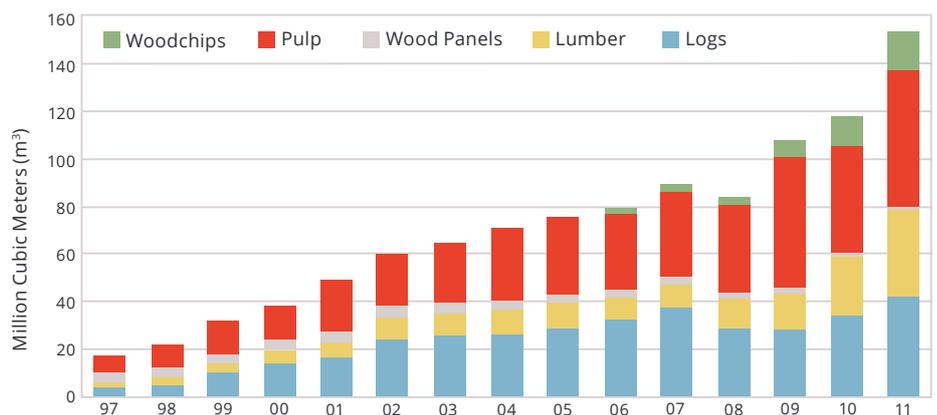
The Chinese government predicts their total demand for timber will reach 350m cubic metres (m³) by 2015, resulting in a supply shortage of 150m³ (42%).

Indian demand for timber has been predicted to grow from 58m³ in 2005 to 153m³ in 2020, whilst at the same time

GLOBAL WOOD FIBER PRICE INDEX (1998 - 2013)



CHINESE TIMBER DEMAND (1997 - 2011)



wood supply is projected to increase from 29m m³ in 2000 to only 60m m³. This will create a supply gap of 93m m³ (60% of total demand) by 2020.

Total log consumption in the US is projected to increase by about 22% from 555m m³ in 2002 to 677m m³ in 2030. Imports are projected to increase substantially to nearly 198m m³ (40%).

The European Union is expected to require 420m m³ of wood biomass per year for energy by 2020, a production deficit of 200-260m m³ (50%).

Over the last century the value of timberland as an investment has risen

faster, and with less volatility, than the broader equity and debt markets. Since 1987, the NCREIF Timberland Index has risen by an average of 14.9% pa, compared to about 11% for the S&P 500. Forestry has seen positive long-term correlation with inflation. It is also the only asset class in existence to have gone up in three out of the four major economic market collapses of the 20th century.

In 2008, the average total return on investment in forestry was 7%, down from the previous high of around 20% seen in 2006, but still outperforming both equities and commercial property which saw total returns of -29.9% and -22.1% pa respectively.

**FORESTRY
ANNUALISED
RETURNS:**



PAST
5 YEARS



PAST
10 YEARS



PAST
20 YEARS

UK FORESTRY

Performance in the UK forestry sector has been particularly strong with the Investment Property Databank (IPD) UK Forestry Index showing an annualised total return of 17.7% over the past five years and 16.3% over the past decade. The annualised return for the 20 years to December 2012 was 8.1%. Three-year annualised returns rose to 23.9% in 2012, outperforming bonds by 14%, equities by 6.7% and commercial property by 8.7%.

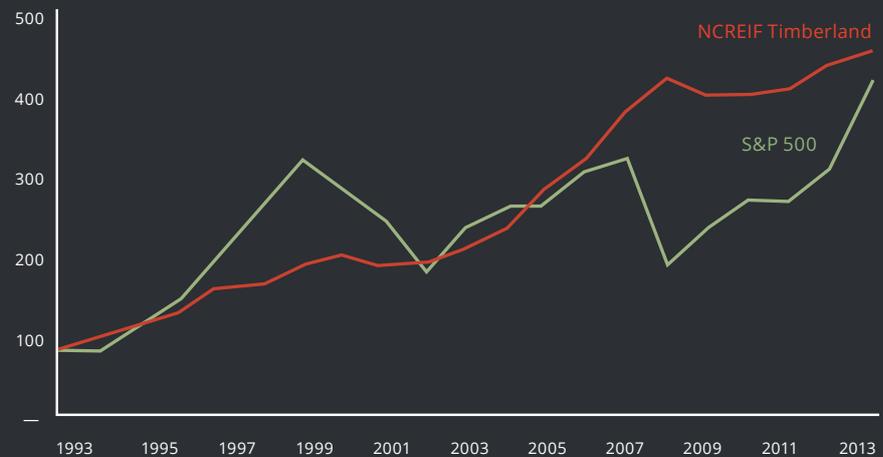
The IPD Forestry Index is calculated from a sample of private sector coniferous plantations of predominantly Sitka spruce in mainland Britain. By the end of 2012, the 148 forest holdings in the index had a total capital value of £220.7m.

In the 12 months to September 2013 the FIM Timber Index increased by 3.6%, driven by sawlog prices, which saw a 10.1% increase in the same period. The Index is now only 2.7% below the last peak in September 2011.

The FIM Timber Index uses statistics published by the Forestry Commission (FC). It comprises an equal weighting of the Coniferous Standing Sales Price Index (CSSPI), being the average price of standing conifer timber sales, and the Softwood Sawlog Price Index (SSPI), being the average price of all softwood sawlogs sold on the FC estate.

NCREIF TIMBERLAND INDEX VS. S&P 500

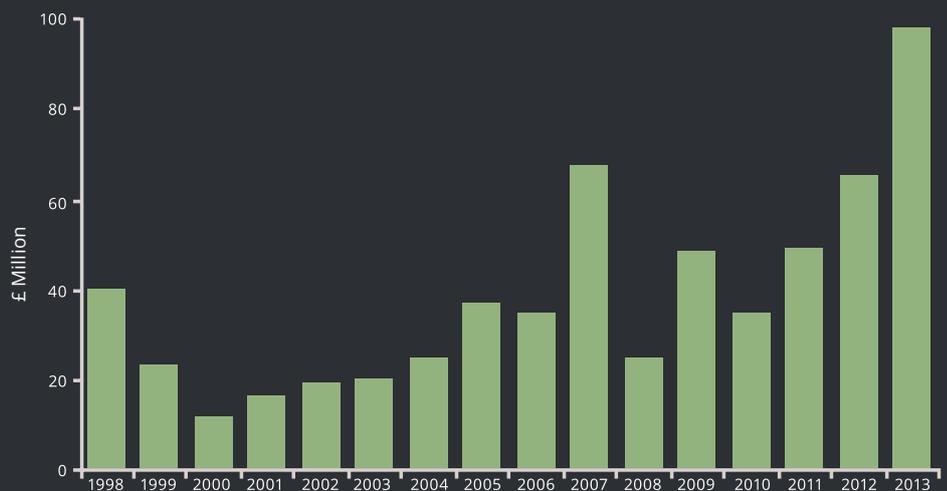
(1993 - 2013)



Source: NCREIF

UK COMMERCIAL FORESTRY TRANSACTIONS

(1998 - 2013)



Source: Savills

FIM TIMBER INDEX

(1985 - 2013)



Source: FIM Services Limited, Forestry Commission (FC), Office for National Statistics (ONS)

“Investment in forestry is dominated by institutional investors including private equity funds, real estate investment funds, pension funds and endowment funds.”

INVESTMENT ACTIVITY

Global institutional forestry investment is estimated to amount to approximately \$50b per year. The market remains heavily US-based due to the number of large, professionally managed private forests located there. But this is changing as managers' and investors' appetite for alternative asset classes grows and demand shifts toward Asia and the southern hemisphere.

Investment is predicted to increase from investors in Australasia, Asia and South America over the coming years as they look for long-term physical stores of wealth and diversification from mainstream asset classes.

BUYERS

Investment into forestry has shifted in recent years away from integrated timber processing companies (who own the land and trees, harvest, process and sell the timber) and is now dominated by institutional investors including private equity funds, real estate investment funds, pension funds and endowment funds. In 2012, the endowment fund of Harvard University invested \$500m in forestry and carbon credits in New Zealand. Other large scale US investors include the Yale University Endowment Fund and the Massachusetts Pension Reserves Investment Management Board. US Real Estate Investment Trusts (REITs) have made a number of large investments in 2013 with the most publicised deal amounting to \$2.6billion, funded by newly raised equity and debt.

European pension funds also increased their exposure to the sector in 2013, with many planning to double their allocation to the sector in the next few years as a means of long-term capital protection. Investors include the Danish National Pension Scheme, European Investment Bank, Ilmarinen Mutual Pension Insurance Company and Dutch APB Pension Fund.

Forestry typically requires a ten to twenty year investment horizon and is considered a good match for the long-term nature of pension liabilities and endowment requirements.

According to DANA (2011), the number of timberland owners/investors/managers participating in the institutional arena has grown to over 1,000. According to the FAO, by 2009, 8% of institutional investors held timberland assets within their portfolios, up from only 2% in 2003.

SELLERS

The main sellers in the sector have been major timber producers and land management companies who have looked to create liquidity and offload forestry assets to institutional investors and REITs. Although the sector is dominated by large-scale investments, the number of opportunities available in the sector suggests that retail investors have been increasingly active as both buyers and sellers.

NORTH AMERICA

North America continues to dominate global timber investment, demonstrated by high-profile transactions which have taken place this year among US real estate funds and investment trusts.

Canadian forestry witnessed a resurgence during 2013, after being badly affected by the US property market slump and the global recession. The turnaround has been led by increased interest from Asia. In particular, exports to China from British Columbia increased by 71% in 2013 (compared to 2012). Increased investor interest in Canadian forestry is predicted over the next few years.

SOUTH AMERICA

South America has been attracting increased foreign investment and now offers a growing number of opportunities to retail customers for investment into forestry. This is due to the combination of rapid economic growth, financial resilience and changes in government legislation in many countries across the region.

The Brazilian forestry market has witnessed increased activity due to newly formed plantation managers reaping the benefits of legislation originally intended to protect native forests, leading to a number of opportunities to invest in sustainably managed plantations.

Two high-profile transactions in late 2012 involved the selling of Brazilian forestry assets amounting to nearly \$160million. Another large transaction in Q3 2013 was the sale of a 31,000 acre Tierra Verde property in Northern Uruguay by a US forestry fund.

EMEA

The UK forestry market was extremely active in 2013 with the highest level of activity since 2009, and 50% more forestry property traded than in 2012. Economic improvements during the year were strongly supported by forestry investment funds and High Net Worth Individuals (HNWI) bidding for good quality forests, driving the average value per hectare to record levels.

Russia, which has traditionally been the source of timber for China, saw investment into its forestry industry shrink by 17.4% during the first quarter of 2013. This was largely due to a 25% log export tax brought in by the government, intended to protect the domestic industry. Efforts have been made to create a favourable investment climate, most notably in a joint project by The European Bank for Reconstruction and Development (EBRD) and the FAO. This appears to have had a positive impact, with the sale of a 42% stake in a Russian forestry holding company to a joint Russian-Chinese private equity fund.

CONCLUSIONS

It is clear that the drop in demand for timber as a result of the financial crisis had an impact on investment into this sector. With the economic recovery starting to gather momentum in more developed countries, and continues growth from developing Asian and South American economies, investors are now returning to forestry in large numbers in order to take advantage of the long-term growth available in the sector and the security of owning a physical asset. This investment is currently being led by private equity, real estate and pension funds with investment flowing into North and South American and a number of European countries.

There is no reason why retail investors should not be able to access the same benefits and opportunities as large scale institutional investors.

“Illegal logging is the harvesting, transporting, processing, buying or selling of timber in violation of national laws.”

ILLEGAL LOGGING

The FAO believe that around 30% of global timber demand is currently met by illegal logging (the World Wildlife Fund (WWF) believe this figure is closer to 40%) with a further 40% met from unsustainable sources. Deforestation accounts for almost 40% of global timber markets, with an estimated 2.2 million hectares of tropical rainforests lost in Southeast Asia per year. The Asia-Pacific region has the highest annual deforestation rate in the world at 1.2%, higher than Latin America (0.8%) and Africa (0.7%).

Illegal logging is the harvesting, transporting, processing, buying or selling of timber in violation of national laws. This definition also applies to harvesting wood from protected areas, exporting threatened plant/tree species, and falsifying official documents. This can also include breaking license agreements, tax evasion, corrupting government officials and interfering with access and rights to forest areas.

Illegal logging exists because of increasing demand for timber, paper and packaging products. It can also happen when forests are cleared for cattle ranches or plantations such as oil palm.

FACTS FROM THE WWF

- ▲ An estimated €10–15 billion is lost through illegal logging globally each year
- ▲ The European Union causes almost €3 billion of this loss due to its trade with countries in the Amazon Basin, the Baltic States, the Congo Basin, east Africa, Indonesia and Russia
- ▲ 40-61% of timber production in Indonesia is believed to stem from illegal logging
- ▲ 25% of Russia's timber exports originate from illegal logging
- ▲ 70% of harvested timber in Gabon is considered illegal

WHY DOES IT CONTINUE?

- 1 High demand for timber products from these locations:



- 2 Weak law enforcement



- 3 Poorly implemented trade rules



ASSOCIATIONS AND RESOURCES

- ▲ Confor (Confederation of Forest Industries)
www.confor.org.uk
- ▲ Forest Stewardship Council (FSC)
www.fsc-uk.org
- ▲ Investment Property Databank
www.ipd.com
- ▲ NCREIF: US Forest Investment Returns
www.ncreif.org
- ▲ Programme for the Endorsement of Forest Certification (PEFC)
www.pefc.co.uk
- ▲ Sustainable Forestry Initiative (SFI)
www.sfiprogram.org
- ▲ The Forestry Commission
www.forestry.gov.uk
- ▲ United Kingdom Woodland Assurance Standard (UKWAS)
www.ukwas.org.uk
- ▲ Commonwealth Forestry Association (CFA)
www.cfa-international.org
- ▲ American Forests
www.americanforests.org
- ▲ Food and Agriculture Organization of the United Nations (FAO)
www.fao.org
- ▲ FIM Timber Index
www.fimltd.co.uk
- ▲ IPD UK Annual Forestry Index
www.ipd.com

INVESTING IN FORESTRY

INVESTMENT OBJECTIVES

Ordinary retail investors who want daily liquidity, affordable entry levels, low transaction costs, the assurances that come with investing in a well regulated environment and the protections afforded by the FSCS should stick to mainstream investments. A number of large, well-diversified funds will have an allocation to forestry as part of their holdings. Forestry has also traditionally been favoured by pension funds and hedge funds as an investment. But few of these options give retail investors direct exposure to the sector.

Investors can gain exposure to the global forestry sector through exchange traded funds (ETFs) which follow a global timber index. The main two timber indexes are the Beacon Global Timber Index and the S&P Global Timber & Forestry Index. Both indexes measure the performance of companies engaged in the ownership, management, or upstream supply chain of forests and timberland. This can include owning or managing forests and harvesting trees for timber and other wood-based products. The main issue with these indexes is that they only track the very largest companies and are spread across a wide range of forestry related practices. The two largest ETFs are the Guggenheim Timber ETF and the iShares S&P Global Timber & Forestry Index Fund.

However, as these ETFs are invested in the listed equity of companies within the forestry industry, they still have a high degree of correlation to the stock market, which reduces the diversification benefits of investing in forestry.

Investors who want direct exposure to the sector are usually looking for higher returns and greater diversification. This will mean investing outside of the public markets, either in an unregulated fund structure or a direct purchase of land or trees.

Direct investments usually come with larger up-front financial commitments, higher transaction costs, lower liquidity and lower levels of regulatory scrutiny. These risks can be mitigated by researching the right opportunities, or added to

TIMBER ETFs

(2014)

Symbol	ETF Name	Index	1 Year Return	Launch Date
CUT	Guggenheim Timber ETF	Beacon Global Timber Index	+23.34%	11/09/2007
WOOD	iShares S&P Global Timber & Forestry Index Fund	S&P Global Timber & Forestry Index	+12.73%	24/06/2008

Source: Morningstar

by investing into speculative forestry investments in unproven locations. That isn't to say that all forestry investments are bad, but investors must undertake a large amount of research to identify an investment that suits their appetite for risk and capacity for loss.

RETAIL INVESTMENT OPPORTUNITIES

Forestry investment opportunities generally consist of the direct purchase of trees or land on managed plantations. The tree types available fall into the three main categories of hardwood (Teak, Paulownia, Robinia, Eucalyptus & Melina), softwood (Spruce & Acacia) and grass (Bamboo). Ownership structures range from leasehold or freehold title to a piece of land where trees are grown or, in most cases, full title and harvest rights to a set number of trees. The planting, growth and harvesting of the trees is carried out by a forestry management company which is often appointed by the product provider.

LOCATIONS

Investments (plantations) are primarily located in developing countries, with a handful of investment opportunities available in Europe and Australia. The higher risks associated with investing in these countries is compensated for by the potential for very high returns. Investments are spread across countries in Africa, Central and South America, Central and South-East Asia, Australasia and Europe.

INVESTMENT TERMS

Investors can invest into saplings or standing wood. Sapling investments can run for up to 24 years and will often span the entire growth cycle of the trees. Standing wood investments will often

have much shorter terms than this, with some providers offering investments of 3-6 years. Forestry is generally considered a long-term investment, as trees grow relatively slowly and returns only come once trees reach a sufficient size.

MINIMUM INVESTMENT REQUIRED

Sapling investments tend to require a low minimum investment of between £5,000 and £15,000. The investor is paying for the planting of the trees and the freehold or leasehold of the land, which in many of these countries is quite cheap. Standing wood investments will usually have higher minimum investments which can range from £20,000-£50,000. The investor is also paying for the freehold or leasehold land, but will pay a premium price for having more established trees. The price is likely to vary depending on the age of trees, how many trees are purchased and how long the investment is predicted to run for. Product providers differ on the number of trees planted per hectare. Some product providers will replace trees free of charge that perish in the first three years of the investment.

RETURNS

Returns are paid once the trees can begin to be harvested and the timber sold on behalf of the investor. This usually occurs 4-6 years into the investment, and then at 1-3 year intervals. This is referred to as thinning, whereby a small number of young trees are cut down (harvested) and sold in order to create room for the remaining trees to continue growing. The main harvest will be at the end of the investment term, where the remaining trees are cut down and sold.

This final harvest is where the bulk of the investment returns come from, and means investors have to wait a long time in order to recoup their initial investment. Returns

“Forestry can often have an ethical dimension, with product providers emphasising their commitment to sustainable reforestation, biodiversity and supporting local communities.”

are variable and depend on the price of timber at the time of harvest and the size and quality of the trees. Estimated returns range from a modest 7% to as high as 40% per year.

Many projects only pay returns at the end of the investment term, with forecasted total returns between 150%-600%. It is extremely hard to accurately predict what timber prices may be in 20 years' time and therefore investors should not rely on these predicted returns for any type of wealth planning. However, the investor is able to delay tree harvesting until favourable price conditions occur, which could give them some flexibility when it comes to exiting the investment.

EXIT

Forestry investments are generally structured with the exit at the end of the lease term. At this point all of the remaining trees are harvested and the timber sold. As forestry investments are designed to perform over a specific period, and returns from the final harvest are the most lucrative, most customers are expected to hold onto their investment for the full term.

Early exit is possible through selling forestry holdings as an appreciating asset and transferring ownership of the agreement to a new customer. Some product providers have a marketing service to assist in finding a customer on the secondary market, but in most cases it is the responsibility of the investor to find a secondary buyer. In reality there is not an established secondary market for these investments and they should be considered long-term and illiquid.

ETHICAL INVESTMENTS

Forestry investments also have an ethical dimension, with product providers emphasising their commitment to sustainable reforestation, biodiversity and supporting local communities.

Many projects will also claim that they contribute to the improvement of the socio-economic conditions in the local communities where they operate. This includes creating employment opportunities, building houses for

workers and their families and prioritising local businesses as suppliers. Some product providers also set up charitable organisations to support local schools and community programmes. It is unclear though whether these initiatives are always fully supported.

Verifying the truth of these claims and the extent of the projects commitment to the environment or local communities is difficult. One way that forestry plantations try to demonstrate their commitment to sustainable reforestation is through gaining certification by the Forest Stewardship Council (FSC). The FSC is an international, not-for-profit organisation which promotes responsible stewardship of the world's forests. FSC accredited forest owners are held to international standards of environmentally appropriate, socially beneficial and economically viable forestry management.

Some projects also claim to benefit from carbon credits through the Voluntary Carbon Standard (VCS), which establishes criteria for validating, measuring and monitoring carbon offset projects. The market for carbon credits is largely undeveloped and relatively high risk and many projects may claim to qualify for VCS before they have been through the rather rigorous verification process.

TYPES OF FORESTRY

Based upon research into the direct and non-regulated forestry investment sector this has identified three main categories of forestry investment. The sector is split down by wood type with hardwood, softwood and grass offering investors a choice of forestry investments with different risks and returns. Investors can also choose from standing wood or sapling investments.

HARDWOOD

Hardwood trees generally have a high density but are not always a hard material, for example balsa wood is one of the lightest, least dense woods there is and is considered a hardwood. Hardwood timber is used in a large range of applications including construction, furniture, flooring and utensils.

Trees supplying hardwood are naturally found throughout the world from the Boreal and Taiga forests of the North to the tropics in the South. Plantations for investment into hardwood have also been established in a variety of locations, most commonly South America but also Asia, Africa and Europe. There are many types of hardwood tree including Ash, Beech, Birch, Oak, Balsa, Hackberry, Teak and Mahogany, but the tree types available for investment are Teak, Paulownia, Robinia, Eucalyptus and Melina. Teak is the most commonly offered hardwood timber investment in the market today, with products available from a number of providers.

Hardwood trees are generally slow growing, but their timber is also typically more expensive. This translates into higher minimum investments and longer investment terms of 20-24 years. Investors also have to wait a long time before they receive their first returns, as first harvests usually occur 10 years or later into the investment. Due to their higher market prices however, projected returns of hardwood investments are very high with providers forecasting total returns of around 150% to as much as 2,000+% in some cases.

SOFTWOOD

Softwood trees are generally less dense than hardwood. Softwood timbers are used for many of the same applications as hardwood, including construction and furniture, but being less expensive to produce they are generally used at the cheaper end of the market.

Softwood trees are the source of around 80% of the world's timber production, with traditional centres of production being the Baltic region, North America and China. Plantations for investment into softwood trees have been established in South America, Asia and Fiji. Species of softwood trees include Acacia, Balsa, Cedar, Pine and Spruce but investment opportunities only exist for Acacia and Sitka Spruce.

There are fewer softwood opportunities in the market than hardwood, but faster growth rates offer investors shorter terms



of 8-10 years and first harvests from as early as year 3. Minimum investments can also be substantially less than those required for hardwood. Despite cheaper market prices, providers still quote high return figures similar to those of hardwood. However, as is the case across the forestry investment market, projected yields are based on future prices which are very difficult to accurately predict.

GRASS

Bamboo is classed as a species of grass rather than wood. Often hailed as the 'Timber of the 21st Century', demand and interest around bamboo has markedly increased due to its durability and versatility as a raw material. New technologies have allowed bamboo to compete effectively with other wood products, with an expanding list of applications including construction, furniture, flooring and textiles.

Large temperate bamboos, some of which can grow to over 30m in height, are native to Asia and Central China but can now be found in many warm temperate areas around the world. Plantations for bamboo investment are located predominantly in Thailand but have also been established in Sri Lanka, Australia, Nicaragua and South Africa.

Bamboo can reach its full height in just one year, as opposed to the 20-40 years it can take some hardwoods to mature. As a result, bamboo can create 20 times more timber per hectare than trees. For investors, this means that returns on Bamboo come earlier and with more frequency, with returns being paid on an annual basis from the second year. Minimum investments are also much lower, but bamboo should still be considered a long-term investment. Returns are variable and providers' projections reflect the rest of the forestry investment market, predicting returns of 7% to as high as 55% per annum.

SAPLING VS. STANDING WOOD

Forestry investment products fall into the two categories of sapling or standing wood, each with differing terms and forecasted returns.

Sapling investments span the entire growth-cycle of the trees and can run for up to 24 years. In addition, returns are paid once trees are large enough to be thinned, which is not usually until 8-10 years after the trees are planted. These investments tend to require a low minimum investment of between £5,000 and £15,000. Sapling investments offer higher potential returns than standing wood, but are generally over a much longer time frame. Higher returns are achieved as the investor will often purchase a larger number of trees which will grow and increase in value over a number of years.

Standing wood investments, by contrast, offer the opportunity to purchase trees which are already established. This means that investment terms can be much shorter, from 3-10 years, and with returns achieved from as early as year 3. But as these trees are more expensive, minimum investments usually range from £20,000 to £50,000. Returns are also reduced, with forecasted returns of up to 300%.

MARKETING & DISTRIBUTION

The investments available in this sector are generally marketed through unregulated sales networks. A few asset management and investment companies also distribute forestry investment products to retail investors. However, most forestry opportunities are marketed online directly by the product provider.

Investments are advertised in glossy brochures which can be heavy on visual imagery of the plantations, but provide varying levels of detail on the project specifics. Most lead with impressive return figures and extensive discussions of the macro case for forestry investments, along with the uses and demand for the particular type of trees being grown. Some marketing goes into greater detail on how projected returns are calculated, referring to estimations of important variables including wood volume per tree, species historical growth rates and transportation costs, however, it still remains very difficult to accurately assess the potential risks and returns from the marketing literature alone.

It can be difficult to identify all of the counterparties involved in a project. Not all providers state the management company explicitly in their brochures or provide a profile of their expertise and track record.

There is also a lack of information on risk factors. Forestry projects are exposed to a number of risks including fire, flooding, disease, illegal logging and theft, but not many brochures go into sufficient detail about what plans are in place to manage these risks and whether trees are insured against them.

DRIVERS BEHIND RETURNS

Investment returns are almost exclusively derived from the price achieved from harvesting and selling the trees or timber, some include the capital appreciation of the land where the trees are grown and others include incremental and diversified revenue streams.

TREE GROWTH

Mature forests will appreciate in value over time as larger trees can be processed into higher value timber products to be used in construction.

TIMBER PRICES

The actual yield at the time of harvest will depend on the market price for timber which, in turn, is affected by demand. Careful timing of harvesting can allow patient investors to boost overall returns by taking advantage of rising timber prices.

LAND VALUES

Forestry is an asset-backed investment and changes in land values can impact overall returns. There has been strong growth in land prices in recent years with investors willing to pay a premium for well-located plantations.

ADDITIONAL INCOME STREAMS

Beyond returns from timber growth and underlying land prices, the land itself provides opportunities for owners to develop additional income streams. For example, it may be possible to host leisure or sporting activities on the land, or gain permission for residential development. In other cases there may be the opportunity



for environmental projects such as wind farms, hydropower, biomass production or the sale of carbon credits.

TAX STATUS

Tax can be an important consideration for forestry investors. UK commercial forestry is subject to favourable tax treatment. There is no income tax on harvested timber and no capital gains tax (CGT) on the growth in the value of the tree.

Commercial forests and woodland qualify for Business Property Relief (BPR) which provides 100% relief against inheritance tax (IHT) after two years of ownership.

These tax advantages can make UK commercial forestry investments very appealing to retail investors. Tax shouldn't be the reason alone to invest, but it can enhance the returns of an already well structured and managed investment product. HNW or ordinary retail investors could consider forestry as part of their inheritance tax planning to help preserve their wealth for future generations.

CONCLUSIONS

There are clearly a whole range of risks that direct forestry investments expose investors to. They are illiquid, medium to long-term investments that are held in either unregulated or lightly regulated structures.

However, investments into established plantations with experienced operators in developed countries with strong land ownership laws and based upon owning standing timber that is already close to harvest can be much lower risk. The downside is lower returns and higher minimum investment levels.

Factors that increase the risk from this starting point include:

- 1** Purchasing saplings – they have longer to grow, so any forecasts on the final value they will achieve are more speculative, they are exposed to risks such as flood and fire for a longer period of time and they are much less robust than standing timber and more susceptible to disease or damage, and therefore require much more careful management. However, the levels of return will be much higher for investing in saplings.
- 2** Plantations based in developing countries can mean that investors are dealing with legal systems and structures that they don't fully understand. Ownership laws can be weaker than in the UK and other developed countries. There can be higher risk of changes to governments or legislation that will impact the returns, or problems with infrastructure or natural disasters. Dealing with these issues overseas is of course more problematic. And as with any overseas investment, currency risk has to be considered. However, land, labour and other costs are cheaper and potential returns can be significantly higher.
- 3** Clearly, newer plantations with less experienced management teams and shorter track records should be considered to be more risky than better established operations and investors should expect to be rewarded accordingly.
- 4** Choosing between investing in either hardwood or softwood really comes down to two factors – the length of time the investors want to commit to (hardwood investments will have a longer term) and the minimum investment level (hardwood will typically have a higher

minimum investment). Bamboo is a special case as it is exceptionally quick growing but has some of the properties of hardwood – investors have to take a view on whether bamboo can capture some of the market share traditionally held by hardwoods.

- 5** Overall, the majority of investors should be looking at lower risk investments into mature plantations as a sensible way of diversifying an established portfolio. The speculative investments are really only suitable for investors with a high risk appetite as there are so many variables to consider over such long timeframes.



INVESTMENT STRUCTURES AND REGULATION

Ordinary retail investors can access the forestry sector through a number of different structures. The most common option is the direct purchase of leasehold land, harvesting rights or direct tree ownership. More esoteric structures include corporate structures including special purpose vehicles that securitise underlying assets or instruments of indebtedness. Investors can also look to collective investment schemes to provide diversification across a number of underlying forestry assets.

DIRECTLY HELD

Directly held forestry investments often consist of the leasehold or freehold title to an area of woodland. The investment opportunities available to the vast majority of retail investors offer a small area of woodland, often sold on a per hectare basis or a set number of trees. The land may already contain mature trees or may be recently planted with saplings. The trees will be managed on behalf of the investor by a forestry management company.

Freehold or leasehold land is likely to be the most secure form of ownership. Due to the location of a number of investments, the land title may be held by an independent trustee, or the investor may gain beneficial ownership to the land title. This can be a secure form of ownership but relies on the trustworthiness of the counterparty. In many cases the trustee will be a regulated company or independent law firm.

Directly held investments can be quite complex. The freehold title to the land may be owned by the investment provider or a local company. This land may be sub-let to the investor, with the lease including beneficial ownership of the trees within the plot. The investor then can sub-let the plot to a harvest manager. Investments may be structured in this way to avoid being classed as collective investment schemes.

Other forms of ownership can include harvesting rights and tree ownership rights. Ultimately the investor is gaining

exposure to the price of the timber on the land, be it through owning the trees themselves or owning the land they grow on. The investment is often priced according to the value of the timber, not the land. If the timber fails, the land could be pretty much worthless.

CORPORATE ELEMENT

Investors can gain access to the forestry sector through investments that include a corporate element such as bonds, loan notes and special purpose vehicles. The investor does not own the underlying physical asset. Bonds and loan notes are a form of debt, whilst investors can also purchase unquoted shares in the company as an equity investment. Bonds and loan notes typically pay fixed returns, whereas shareholders will receive a dividend based on the performance of the company.

The most common use for a special purpose vehicle is to hold physical assets and then issue units (shares or limited partnership interest) to investors. Investors hold an interest in the performance and returns from the underlying assets, but do not own the underlying asset themselves. This structure is often used in order to own land or trees in foreign countries where individual ownership may not be possible. This can also make administering the investment much easier, as the land can be held centrally with units then issued to a number of investors. The underlying land will then be managed collectively by a forestry management company. The investment can benefit from economies of scale from being managed as one large plantation, with all costs and revenues being paid through the company. Investors will then receive their returns from any profits, either through a dividend or capital gains.

There is a grey area surrounding the operation, promotion and sale of these investments as to whether they come under the FCA's definition of non-mainstream pooled investments (NMPI). There are investments available that are being openly marketed through unregulated channels

direct to ordinary retail investors. In March the FCA won a court case against Capital Alternatives whereby the court ruled that they were operating a collective investment scheme without authorisation. It is unclear what impact this, alongside the implementation of PS13/03 in January, will have on the promotion and sale of investments such as these.

COLLECTIVE INVESTMENT SCHEME (CIS)

Collective Investment Schemes pool investors' funds to purchase underlying assets. Through pooling money in this way, the fund can purchase large areas of land which can be managed collectively by a forestry management company.

Investors will share in any profits as and when trees are harvested and sold. Returns are only paid once all costs, such as harvesting fees and management charges, have been paid. This will have an impact on returns.

CIS include unit trusts, limited partnerships, investment trusts and open-ended investment companies (OEICs). They can be regulated and unregulated (UCIS) and are operated on both fixed and open-ended terms. In the USA, vehicles such as Real Estate Investment Trusts (REIT) or Timber Investment Management organisations (TIMOs) help institutional investors to acquire and manage forestry investments.

Open-ended funds can have unlimited share capital with shares listed on a recognised stock exchange such as the London or Channel Islands Stock Exchange. This provides liquidity for investors and these types of funds are generally considered appropriate for ordinary retail investors.

Collective Investment Schemes give a large amount of control to the operator and forestry management company for decisions such as when to harvest trees, plant more trees or buy more land. This can be an advantage for the investor, as they benefit from experienced management and investment risk is spread



across a number of underlying assets. Funds can also be much quicker, easier and cheaper to invest in than buying land or forestry plantations directly. However, closed-ended funds are illiquid and often unregulated. Risks include a higher concentration of assets, complex terms and conditions, lack of regulatory scrutiny and transparency and higher leverage.

ENTERPRISE INVESTMENT SCHEME (EIS)

The EIS is a Government backed initiative to promote investment into small start-up companies, with investors receiving tax reliefs for taking on the extra risk associated with these companies. In order for investors to receive these reliefs, companies have to meet certain criteria set by HM Revenue & Customs (HMRC).

VENTURE CAPITAL TRUST (VCT)

Venture Capital Trusts (VCTs) are listed companies that are run by a fund manager and which, in turn, invest mainly in smaller companies that are not quoted on stock exchanges. Investors into VCTs receive generous tax reliefs in return for the added risk of investing into small, higher risk start-up companies.

There are very strict rules on how VCTs can invest pooled money in order to qualify for Government tax reliefs. In order to receive tax reliefs and be classed as an eligible company, the company must undertake a "qualifying trade". Forestry is one of a number of trades that is excluded from receiving investment from VCTs, and therefore there are no opportunities available in this sector.

REGULATION

The Financial Services Authority (FSA), now the Financial Conduct Authority (FCA) and the Serious Fraud Office (SFO) have previously raised concerns about unregulated investments into forestry. These investments are often based overseas.

The FCA does not regulate the sale of land, timber or forestry but they do regulate Collective Investment Schemes (CIS) and restrict financial promotions, a firm must be authorised by the FCA to operate or promote a CIS from the UK.

The FCA works by some broad characteristics to determine whether a scheme is a CIS, but it is often a complex, legal matter open to interpretation:

- ▲ Investors do not have day-to-day control over managing their plot;
- ▲ The scheme involves pooling investor funds;
- ▲ The operator is responsible for managing the scheme as a whole.

The promotion and sale of Unregulated Collective Investment Schemes (UCIS) and Close Substitutes was restricted from 1st January 2014 as a result of the FCA policy paper PS13/3. The FCA now categorises any investment that is not a direct purchase of an asset, but instead has a structure around it that modifies the investors' exposure to the asset with an element of pooling of income, profits or contributions as a Non-Mainstream Pooled Investment (NMPI).

These investments are considered to be only suitable for high net worth individuals (those with over £250,000 in investable assets or an annual income in excess of £100,000) and sophisticated investors due to their high risk, illiquid nature.

PS13/3 has dramatically narrowed the audience UCIS can be promoted to. However, some forestry investments will still claim that they are not collectives as they are direct purchases of land or forestry, and therefore will argue that they escape the new restrictions.

Advisers and intermediaries must be certain that the investment is not an NMPI if they are promoting it to ordinary retail investors. The FCA recently won a court case against Capital Alternatives (along with several other firms including African Land Limited and Reforestation Projects Limited) in which the FCA believed they

had been running collective investment schemes without authorisation. The defendants argued that they were not collective investments as they were direct asset purchases.

Registered subscribers can read an in-depth summary of the outcome of this case via Intelligent Partnership's research hub: intelligent-partnership.com/research-hub

This is one of the first cases in which the English court has considered the meaning of various elements of the definition of a CIS under section 235 of the Financial Services and Markets Act 2000.

The investment structure and operating model of these products is similar to a number of other forestry investments that are still being promoted to retail investors; meaning we are likely to see more product intervention from the FCA in 2014.

FORESTRY IN PENSIONS

Desk research indicates and the survey results confirm that a majority of providers market their products as being acceptable in member-directed pension schemes.

While personal pension arrangements differ slightly from country to country, most have similar rules as to what investments are allowable. These include SIPPs (Self Invested Personal Pensions), SSAS (Small Self-Administered Scheme), Irish Self-Managed Pensions, QROPS (Qualifying Recognised Overseas Pension Schemes) and QNUPS (Qualifying Non-UK Pension Schemes). QROPS and QNUPS can invest in a much wider range of assets than most UK personal pension schemes.

The advantages to a UK investor of holding their forestry investment within a SIPP include that returns are exempt from income tax and capital gains tax. The investor can also claim tax relief on any money invested in their SIPP, so for a higher rate tax payer a £20,000 investment effectively costs only £12,000.

SIPPs also allow the use of borrowing in order to increase the amount available to invest. Investors can use leverage worth up to 50% of the value of their SIPP. That being said there are no forestry products where lending is being offered.

WHAT CAN BE HELD WITHIN A SIPP?

There are strict rules on what investments can be held within a SIPP. Forestry investments have undergone a large amount of scrutiny as it is not always clear whether they should be allowable within a SIPP. Generally speaking, forestry and land is allowable within a SIPP, as long as it is run commercially, there is no tangible moveable property (TMP) and the investor gains no personal use or enjoyment from owning the land or trees within their pension.

As long as the timber remains in the ground there shouldn't be a problem, but the issue comes when the trees are harvested. Harvested timber is viewed by

HMRC as TMP. TMP includes pretty much anything you can touch, move or gain personal use from, such as art, fine wine or timber in the case of forestry.

A number of investments aim to sell the trees when they are still in the ground, or returns are paid through a sale and leaseback arrangement with the management company.

Money Management have recently released a special report looking at SIPPs (October 2013) and what is and is not allowed by certain operators. Some of the key findings from this research include that 62% of SIPP providers allow Agricultural Land to be held within their SIPP (although it's unclear how many allow Forestry assets).

TAX CHARGES

Where taxable property is held in a SIPP (or SSAS) the tax charges can be high:

- ▲ 40% unauthorised payment charge on the value of the taxable property levied against the member
- ▲ Surcharge of 15% if the unauthorised payment exceeds 25% of the pension fund's assets
- ▲ 15% scheme sanction charge levied against the scheme administrator
- ▲ 40% levied against the scheme administrator on any income
- ▲ 40% of any capital gain on disposal of the taxable property

*Full details are set out in Schedule 29A to the Finance Act 2004

"Generally speaking, forestry and land is allowable within a SIPP, as long as it is run commercially, there is no tangible moveable property and the investor gains no personal use or enjoyment from owning the land or trees within their pension."

ESTABLISHING INVESTMENT CRITERIA

When considering forestry, common sense investment criteria can be used to screen for suitable investments. Each criterion needs to be fully explored and where possible supporting evidence gathered - preferably independent, objective evidence, rather than the investment provider or management company's opinion.

Each investment opportunity can be scored against the investment criteria (from 0-10) and then the final scores can be used to compare a number of potential investments.

To do this, investors need to take a view on each criterion, and then need to decide how confident they are in that view. For

example, an investor may be purchasing freehold land in an undeveloped country, but trees may have been planted 10 years ago and the management company has a strong track record in the sector. Therefore they can give a lower score.

On the other hand, they may be buying leasehold land which is going to be planted with saplings. The land is located in a developed country, but the management company is relatively new and does not have a track record of achieving returns. This would be given a higher score.

Using investment criteria in this manner facilitates the screening and selection of

products in a dispassionate way, which helps to avoid being influenced by glossy brochures and marketing promises.

However, using a screening system like this is not flawless. Although it attempts to be more objective, it is still more art than science. There are many judgment calls involved in ascribing scores to each criterion and differences of opinion can of course occur.

The other consideration is the risk/return ratio. Just because something is higher risk does not make it a poor investment, as long as investors are being sufficiently rewarded for taking on that risk and it is compatible with their own appetite for risk.

EXAMPLE CRITERIA MATRIX

Criteria	Low Risk (0-3)	Medium Risk (4-6)	High Risk (7-10)
Ownership/Structure	Regulated Fund	Leasehold/Freehold Land, UCIS or NMPI	Tree Ownership or Timber Purchase Agreement
Tree Species	N/A	Grass - fast growing	Hard or softwood - slow growing
Tree Growth Stage	Established standing wood, suitable for harvesting	Established standing wood, not yet suitable for harvesting	Sapling investment, number of years until harvest
Country	Developed market	Emerging market	Frontier market
Location	Established forestry location, solid land ownership laws	Established forestry location, undeveloped land ownership laws	Unestablished forestry location, poor land ownership laws
Forestry Management Company	Established company, strong agreements and track record	Relevant forestry experience, short-term track record	New company, no solid experience or track record
Certification	Trees certified by the FSC	Trees certified by other applicable forestry council	No certification
Exit	Defined exit with timber purchase agreements in place	Management company's experience of selling timber on secondary market	Relies upon predicted exit many years in the future
Yield	Tree growth and predicted yields verified by independent third party forestry professional	Sensible yields based upon justified predictions and market activity	Highly speculative yields based upon predicted timber prices many years in the future
Purchase Price	Purchase price below market value	Purchase price at market value or at a premium	Hard to establish fair value
Ongoing Costs	Low and well-established ongoing costs	High or unpredictable ongoing costs	Hard to assess level of ongoing costs
Currency Risk	Local currency	Major currency (\$, €, ¥...)	Emerging currency (Brazil, Thailand, Cambodia)

Source: Intelligent Partnership

EXAMPLE CRITERIA MATRIX

Based on the example criteria matrix, an investment that posed absolutely no risk would have a total overall weighting of 0, with an extremely high risk investment weighted 120. Of course having a score of 0 is very unlikely, as all investments are likely to contain a degree of risk for the investor. For an investment to be classed as "Low Risk", it will have a total overall weighting of 0-36, "Medium Risk" from 37-72 and "High Risk" from 73-120.

WEIGHTING

Different criteria can be given more or less weight in the assessment process as appropriate. Things that cannot be reversed or mitigated should be given a proportionally higher weight: country, location, season, purchase price. Whatever else happens, these things will not change, so buyers need to be confident about them.

WORKED EXAMPLE

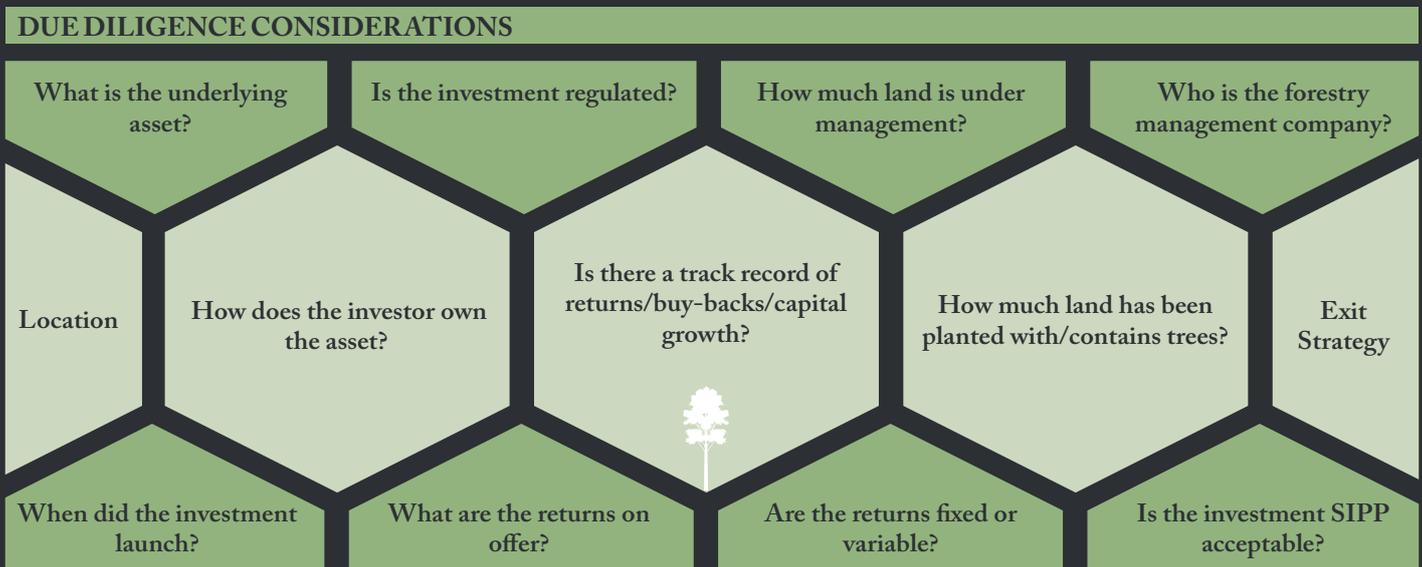
Criteria	Investment A	Score	Risk	Comments
Ownership/Structure	UCIS	5	M	FCA authorised operator
Tree Species	Ash	7	H	Native slow growing hardwood
Tree Growth stage	20 year old standing wood	5	M	Well established plantation which could be harvested soon
Country	UK	1	L	Developed land ownership laws and investor protections
Location	Hampshire	2	L	Established forestry location
Forestry Management Company	Established, long track record	3	L	Well established company with a large amount of land under management
Certification	FSC Certified Forestry	2	L	Certified plantation
Exit	At discretion of management company	5	M	Investors have no control over exit
Yield	10% average predicted return per year	5	M	Sensible yield based upon justified tree growth
Purchase Price	At present market value	5	M	Verified by independent third party
Ongoing Costs	High but clearly stated	4	M	Costs associated with management and land ownership
Currency Risk	Sterling	0	L	No currency risk to UK based sterling investors
Total		44/120	M	Well managed fund but liquidity and slow tree growth increases risk

Criteria	Investment B	Score	Risk	Comments
Ownership/Structure	Tree Ownership Agreement	8	H	Ownership is unclear
Tree Species	Acacia	8	H	Slow growing hardwood, not native to Brazil
Tree Growth stage	Sapling	10	H	First returns not due for at least 10 years
Country	Brazil	5	M	Developed land ownership and open to foreign investment
Location	Amazonas	5	M	Established forestry location
Forestry Management Company	Established, long track record	3	L	Well established company with a large amount of land under management
Certification	Adheres to the Brazil Forest Code	5	M	General forestry code for Brazil
Exit	Predicted exit many years in future	9	H	Exit is unclear and predicted to be after 25 years
Yield	Predicted 50% average return per year	10	H	Returns are speculative and not supported by evidence
Purchase Price	Hard to value	9	H	No comparisons or verification of land price
Ongoing Costs	Unknown	9	H	Costs are not stated in product literature
Currency Risk	Brazilian Real	7	H	Land valued and returns paid in local currency
Total		87/120	H	High risk with speculative returns and unclear ownership

Criteria	Investment C	Score	Risk	Comments
Ownership/Structure	Freehold Title	5	M	Directly held physical ownership
Tree Species	Bamboo	5	M	Fast growing tree species
Tree Growth stage	Sapling	7	H	First yields predicted after 2 years
Country	Sri Lanka	7	H	Weak foreign land ownership laws
Location	Hamilawa	6	M	Established and native forestry area
Forestry Management Company	New company, no solid experience or track record	8	H	Lack necessary skills and experience
Certification	No certification	8	H	Forestry plantation not certified
Yield	10% average predicted return per year	5	M	Investors have no control over exit
Exit	Defined exit	2	L	Timber purchase agreements in place and verified
Purchase Price	Hard to value	9	H	Land values unclear and not verified
Ongoing Costs	No costs to the investor	0	L	Investor is not liable for any costs
Currency Risk	USD	5	M	Investment and returns all in USD
Total		66/120	M	Lack of management experience and location increase risk to the investor

RESEARCH AND DUE DILIGENCE

There are a wide range of risks associated with forestry. Risk may vary between direct investments, collective investment schemes or investments with a corporate structure, but the underlying fundamentals for success will stay relatively similar. As with any type of alternative investment, the risks become greater when the investment is based in a far-off location, offering speculative returns and little protection to the investor. The research and due diligence process will be broadly similar for most unregulated forestry investments.



WHAT DOES THE INVESTOR OWN?

The investor must know exactly what they are purchasing and how they will own the investment. Are they buying leasehold or freehold land? Or ownership rights of the trees planted on the land? Are they investing through a fund or corporate vehicle? The land may be located in a country with complicated ownership and foreign investment laws, and therefore the investor needs to verify that they are allowed to own the land, and exactly how they own the land. Investors should have this checked by an independent lawyer.

LAND AUDIT

Seek independent verification from a third party agricultural auditing company, such as SGS. They will be able to assess the land on behalf of the investor to verify that the land is being sold at a fair value and that trees are planted and in good health. They may also be able to provide growth forecasts for the trees and provide a guide as to what the future sale price of the timber may be.

RETURNS

Forestry is an illiquid investment and investors need to ensure that the returns on offer are high enough to reward the risks being undertaken. One advantage of forestry is that once trees reach a certain

age they can be harvested at any point.

This could be to take advantage of high timber prices or to release some money from the investment, or conversely the trees could be left in the ground until timber processing is more favourable. The investor should seek third party verification on projected tree growth rates and timber prices in the land audit.

LEGAL ADVICE

It is essential for all information to be verified by a third party, preferably a lawyer. They will undertake their own due diligence and look into the land title and ownership of the trees. The lawyer should also look into any ownership restrictions or foreign investment restrictions that could impact the investment.

It would also be advisable for the lawyer to review any agreements for the ongoing management of the trees. This will help to define the role of the management company and any costs that they will pay on behalf of the investor, and also help the investor understand what rights they have should the management company not perform as expected.

TAX ADVICE

Tax advice is essential to understand the tax implications of the purchase. The tax advisor should have knowledge of the relevant tax laws for the country where the investment is based in order to ensure that all taxes are correctly paid and settled when due. This reduces the likelihood of a very large tax bill in the future. They will also be able to advise on what taxes may be due when the investor comes to exit the investment, such as capital gains tax.

INSURANCE

Insurance is essential when owning any physical asset and particularly important for forestry. Tree growth and quality can be affected by a number of factors such as disease, floods, drought, fire and hurricanes. It is important to have comprehensive insurance in place to cover any of these eventualities. It's also worth enquiring what measures are in place to mitigate these risks, such as fire-breaks or flood defences.

The insurance cover required may vary depending on how mature the trees are i.e. sapling investments or well established standing wood. There have been instances whereby plantations have been decimated without appropriate insurance being in place.

“Costs can be high and wide ranging – ongoing costs could amount to 2–3% of the capital value per year and would include insurance and general tree maintenance.”

COSTS

There could be further costs associated with the investment above the initial purchase price. These should be explicitly stated by the investment provider, but there may be hidden costs which are not clear at the outset. Initial costs could include legal and tax advisory fees, land registry fees, administration fees and bank charges.

Ongoing costs could amount to 2-3% of the capital value per year and include insurance and general tree maintenance. Harvesting fees could be as high as 30% of the timber value and have a large impact on returns. Investors should check what ongoing management charges they are liable for and whether they have to pay these even in the years that no trees are harvested.

Note that investments that seemingly have no additional costs may have bundled them into the purchase price, or they may have wrapped all the costs into one single management charge. A breakdown of costs can help investors assess if they are overpaying in certain areas.

CURRENCY RISK

Currency risk will affect all investments that are made in a foreign currency. Some investments are sold in pounds sterling, but the asset will be valued in the local currency. It is priced in this way to make it easier for the investor to understand and compare to local prices – but investors should not let that disguise the additional element of risk. Costs, returns and the value of the timber will all fluctuate with the exchange rate.

INVESTMENT PROVIDER

The investor should speak to all counterparties involved with the investment, as this is the only way they can be sure of exactly who is responsible for what.

The track record of the investment provider is extremely important. Have they had previous investments that have run into trouble? What is their experience of forestry? The investor should also be completely clear on how the product provider stands to benefit from the investment. Are they selling the land and then have no further involvement? Do they receive a percentage of future timber sales? Or are they also the management company?

It is important to identify exactly how the investment provider is incentivised to ensure that the investment is a success (over the long-term).

PLANTATION MANAGEMENT COMPANY

The management company is in charge of looking after the trees and the general day-to-day maintenance of the land. They may also be in charge of planting saplings and closely monitoring their growth to ensure that the plantation establishes itself during the early years of planting.

Is the investor presented with the option of more than one management company when they invest? Can they appoint a new management company should the existing one not perform? What link does the management company have to the investment provider or land owner? Are they incentivised to ensure the investment is a success? Research the track record and reputation of the management company. They should ideally be local to the plantation and have a number of years managing forestry on a commercial scale experience.

ROLE OF AGENT

Distribution of the vast majority of forestry investments is unregulated and relatively unrestricted (of course forestry funds and UCIS can only be distributed through regulated channels to the correct category of retail investor).

Unregulated sales agents work on behalf of the investment provider and are usually paid a commission based on the amount invested. The investor must be sure that it is in their best interest to invest and if they are unsure they should seek independent advice. Agents are NOT advisers, only an authorised IFA can give you genuinely independent financial advice.

CERTIFICATION

Certification by the FSC or the Rainforest Alliance can provide a benchmark for quality. To be certified the plantation will need to meet certain criteria such as: compliance with local laws, secure tenure, community relations and workers' rights, environmental impact, management and maintenance of surrounding areas.

EXIT STRATEGY

The exit strategy is generally reliant on the sale of timber many years in the future. There are a whole host of factors which could affect the exit and result in varying returns for the investor. Investors should consider the effect on returns if they had to exit early. For sapling investments this is particularly important, as the underlying land may hold little value.

Timber is a global market and it is very likely that a buyer will be found, although the price achieved for the sale of the timber may vary considerably from the investment providers initial predictions. Costs will include transport and harvesting which could dramatically lower the eventual return.

OTHER FACTORS

Is the success of the investment relying upon improvements to local infrastructure, roads being built, new timber processing facilities or other things that are out of the hands of the investment provider or management company.

CONCLUSION

This may sound like a lot of effort, and it is. But investing in forestry is no different to investing in any other alternative investment and in fact has some additional risks as an unregulated and illiquid investment. Investors will be committing significant amounts of long-term capital, so it is essential to leave no stone unturned when investigating an opportunity.

However, good product providers should be able to supply all of this material – including the independent audits of the land, independent valuation of the trees and independent verification of the forecast growth rates. If product providers are not prepared (or unwilling) to supply these documents than this is a warning sign that the whole project is somewhat speculative – especially for the newer projects.

LESSONS FROM FAILED INVESTMENTS

A number of timber funds and plantation schemes have caused controversy over the last 25 years. Several funds based in Costa Rica, India and the Netherlands went bankrupt or were marred by scandals and fraud. In the Netherlands alone at least seven funds went bankrupt with the loss of more than 100 million Euros.

A number of these products were launched back in the early 1990's, advertising very optimistic returns and putting a large amount of money into marketing and promotion. Investors took advantage of what were seen as sound investments. However, the actual performance of these investments was very poor (Canby and Raditz, 2005).

There have been more recent examples of poor investments and outright fraud in the forestry sector. The FCA have issued alerts advising investors to be very wary of overseas schemes offering investment opportunities in trees and other ethical investments. A previous alert from the FSA on their website stated that they "have heard reports of promoters using aggressive, high-pressure sales tactics, and often claiming we (the FSA) do not need to authorise the schemes, as they are not collective investment schemes (CIS)" (2011).

A prime example is Forestry for Life which opened in 2009 with offices in the UK, Dubai and Hong Kong. The company aimed to raise US\$1b by the end of 2011 and US\$5b by the end of 2013. The investment promised to pay fixed returns of 12% for the first three years, from the sale of carbon credits. The company brochure boasted this would be a "low risk ethical investment opportunity".

Forestry for Life and a second company, the Investor Club, claimed to invest money in teak tree plantations that generated carbon credits, which would then be traded for profit. It is claimed that no land was ever purchased and not a single tree was ever planted.

According to the Crown Prosecution Service, Forestry for Life and the Investor Club were found to be "large-scale Ponzi schemes" which defrauded investors out of more than £1.35m over a three-year period. It is believed only £250,000 was ever returned to investors.

Bankrupt Funds/Investments	Invested Money (million Euro)
Sintrex/CO2 Invest	Unknown
Global Green	10.8
Eco Brazil	38
Eco-Sure	Unknown
Green Capital	22
United Green	7
Robinia Gold	15
Total	92.8

Fraudulent Funds/Investments	Invested Money (million Euro)
Ecobel	5.5
Euro Greenmix BV	3
Green Fund Nederland BV	Unknown
Total	8.5

Source: Scholtens & Spierdijk 2008

KEY REASONS FOR FAILURE

- ▲ **Limited flexibility in the business model** - reliance on somewhat unproven secondary markets
- ▲ **Long investment terms** - returns are weighted towards the back end of the investment or at maturity, making the investment extremely illiquid
- ▲ **Information on costs is very unclear** - land/forestry management, insurance/security, harvesting and sale of trees
- ▲ **Little risk diversification built into the business model** - only one type of wood, relying on one revenue stream from the plantation - this relies on the demand from a single market
- ▲ **Quality** - the sale price of timber can vary depending on its quality. Soil fertility, pests, diseases and climatic conditions can all dramatically affect returns
- ▲ **Yields** - yields directly affect investors' returns. Research by CATIE (Centro Agronomico Tropical de Investigacion y Ensenanza)(1995) on teak plantations in Costa Rica found that teak growth in perfect growing conditions would be 12 to 18 cubic meters p/ha per year. Many projects have far higher projections than this
- ▲ **Use of funds** - What does the investor actually own and what are their investment funds used for? Are there a number of people to be paid out of these funds (Commissions, Marketing)
- ▲ **Finally fraud** - in some cases, no underlying land was purchased, no accounts were kept for the companies involved and investors were misled as to what they were investing in

SWOT ANALYSIS

STRENGTHS

- ▲ Forestry is an established sector for alternative investors
- ▲ Global timber trade is very well established
- ▲ Standing wood has many advantages over growth from saplings
- ▲ Strong global demand for hardwood
- ▲ Provides carbon capture and reforestation (ethical investment)
- ▲ Diversification across a number of countries
- ▲ Potentially very high returns (but extremely wide ranging)
- ▲ UK forestry has achieved an annualised total return of 17.7% over the past five years (IPD UK Forestry Index)

WEAKNESSES

- ▲ No other sources of revenue – totally dependent on timber market
- ▲ Land is susceptible to being over-priced in exotic locations
- ▲ Little value in the land if the project is not a success
- ▲ Long investment time-frame - illiquid
- ▲ No annual payments - high percentage of returns come at the end of the investment term
- ▲ Costs and taxes reduce the return to investors
- ▲ Information on insurance is vague
- ▲ Information on ownership (trees or underlying land) can be confusing i.e. leasehold land, logging rights to trees, ownership certificates
- ▲ Information on costs can be unclear - annual management, insurance/security, harvest fees
- ▲ Information/detail on predicted returns is not readily available – lack of evidence
- ▲ ‘Too good to be true’ returns in certain cases



OPPORTUNITIES

- ▲ Diversification from mainstream assets
- ▲ Long-term growth
- ▲ Hedge against higher inflation
- ▲ UK commercial forestry can be used as part of an Inheritance Tax plan
- ▲ No income tax on harvested timber from UK commercial forestry
- ▲ No capital gains tax (CGT) on the growth in the value of the trees from UK commercial forestry

THREATS

- ▲ Poor management or fraud
- ▲ What if global demand for timber falls?
- ▲ Investor has currency exposure as a large number of investments are made in Sterling (trees are generally valued in USD)
- ▲ Disease, fire, flood or other disaster
- ▲ There is potential for political instability in a number of plantation locations
- ▲ Changes to regulations for overseas ownership/ investment in plantation locations

PRODUCT PROVIDER SURVEY ANALYSIS

Taking the research and analysis a step further, 60 forestry investment providers were identified and surveyed, including all of those that have a product included within the investment register.

Due to the diverse nature of the forestry sector, only a 17% response rate to the survey was achieved. Which, although disappointing, it has allowed for proprietary analysis of the providers and highlights some very interesting trends in the sector.

The survey was dynamic and included up to 90 questions depending on which route the respondent took. Some questions were mandatory but others were not answered by all respondents. The most relevant and insightful questions have been included in this analysis.

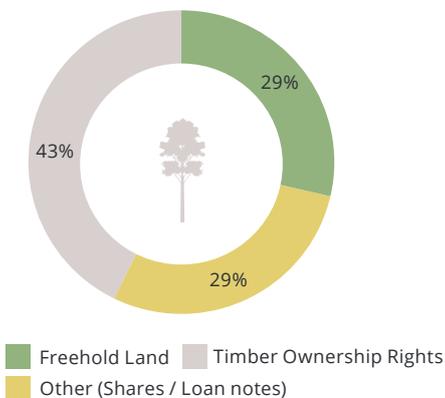
STRUCTURE

Q. Investment Structure



A. Investments are predominantly structured as direct asset purchases but there are also UCIS investments available.

Q. Underlying Asset



A. For direct asset purchases the investor will directly own freehold land, timber ownership rights or loan notes. For UCIS, the investor owns shares in the investment company.

Q. Can the investment be held within a Personal Pension (SIPP)?



A. 57% of investments were able to be held within a SIPP. From these, on average they are currently being accepted by 2 SIPP providers. 14% of respondents said that the number of SIPP providers accepting their investments had increased during the last 12 months, the other respondents did not comment on this.

Q. In which country is the land located?

A. Investments are located in Thailand, Sri Lanka, Brazil, Malaysia and the UK. This correlates to the investment register which shows a number of investments based in tropical locations with fast growing native tree species.

Q. What tree species is planted on the land?

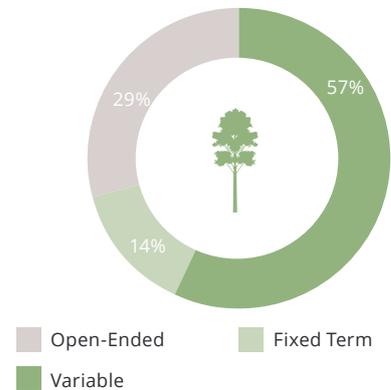
A. Teak is the most popular tree species, accounting for almost half of investments. Other tree species include agarwood, eucalyptus and sitka spruce. Again this correlates closely to the investment register.

CHARACTERISTICS

Q. What is the minimum investment? (£)

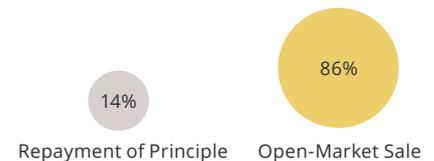
A. Minimum investments range from £5,000 to £40,000. There is one investment that is focused purely at institutional investors which starts at £5m. Out of the investments targeted at retail investors the average minimum investment is £16,500. There is no cap on the maximum that can be invested on any investment.

Q. What is the term of the investment?



A. Investment terms are generally open-ended or variable depending on when the investor chooses to harvest their trees and sell the timber. Only a small number (14%) of investments have a fixed term, meaning that the timber will be sold after a defined period of time.

Q. What is the planned exit?



A. The planned exit correlates closely to the investment term, with those investments that offer a fixed investment term also offering to pay the principal back to investors as part of the exit. The vast majority (86%) of investments rely on the open-market sale of timber. This supports the investment register.

Q. What currency is the investment in?

A. Almost half the investments are sold in sterling. Other currencies include US dollars, Sri Lankan Rupees, Thai Baht and Brazilian Real. Underlying assets are predominantly valued in US dollars and sterling. All returns are paid in the same currency as the initial investment way made in. For 50% of investments the underlying asset is valued in a different currency than the investment was made in, meaning that there is added currency risk to the investment.

"This analysis is based on a survey of over 60 forestry investment providers who have products listed on the alternative investment register."

INVESTOR PROTECTIONS

Q. What measures are in place to protect the investor?



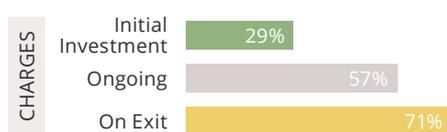
A. There are varying measures in place to protect investors. None of the investments included in the survey offer guaranteed returns, presumably due to the speculative nature of forestry. Only 14% of investments give a first charge over the underlying asset or have an independent trustee in place to safeguard the clients' investment. 43% of investments keep client funds in a secure escrow account or ring-fenced until they are drawn down for investment. This provides some security when the investment is initially made but this does not help to secure the investment in the future once money has been drawn down and invested. Protections on offer can only somewhat mitigate the risks to the investor.

Q. What measures are in place to mitigate risks to the plantation such as fire, flood, vandalism, theft and disease?

A. Measures put in place to mitigate the risks to the investment include active forestry management; insurance; security and regular patrols; disease management and full irrigation. These measures can vary greatly by product, with the most common measure to reduce risk being active forestry management – therefore verifying the experience, reputation and reliability of the forestry manager should be central to any due diligence procedure.

CHARGES

Q. What charges are due on the investment?



A. Charges can often be unclear with alternative investments and can often be quite high. This is usually because the investment involves the purchase of a physical asset. 29% of investments have further charges due on top of the initial invested capital. 57% have ongoing costs such as forestry management and 71% take a charge at the end of the investment term. This charge is likely to be taken from harvest revenues and could cover the harvesting, processing and transport of timber.

RETURNS

Q. Are returns variable, fixed or guaranteed?

A. Every investment offers variable returns with predicted returns ranging from 6-15% per year. These returns are lower and perhaps less speculative than some of the returns seen on the investment register.

Q. When are the returns paid?



A. As seen with the majority of directly held forestry investments, returns will generally come at the end of the investment term when trees are harvested and timber sold. Some returns may come earlier than this during thinning years. The 29% of investments structured as UCIS or with a corporate element offer returns on an annual basis.

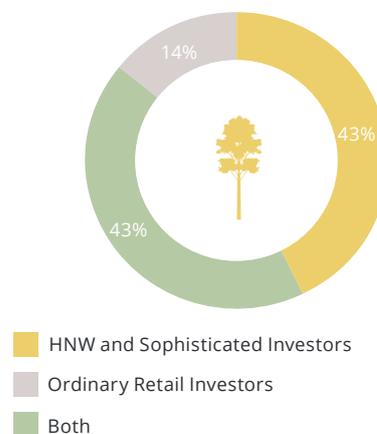
Q. Have any returns been paid to date?



A. Encouragingly 43% of investments have already paid some sort of return to investors. Returns paid range from 3-15% per year and match the predicted returns originally advertised by the investment providers.

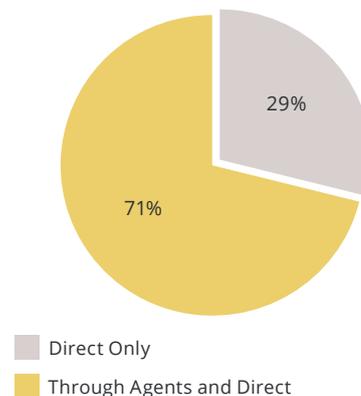
DISTRIBUTION

Q. Target Market



A. Over half (57%) of investments are being sold to ordinary retail investors or ordinary retail investors and high net worth individuals. 43% are being sold to HNW or sophisticated investors only. None of the survey participants have made any changes to their target market during the past 12 months.

Q. How is the investment distributed to investors?



PRODUCT PROVIDER SURVEY ANALYSIS

A. 71% of investments are distributed through a network of agents (regulated and unregulated) as well as directly to investors. On average those that distribute through agents use two distribution companies. Nearly 30% of providers have increased the amount of direct marketing over the last year in order to increase sales. Another 30% have increased the number of distributors over the past 12 months through increased marketing, whilst 14% have decreased their marketing over the past 12 months due to regulatory changes and restrictions.

Q. Do you pay commission to agents/ advisers?

A. Every investment provider that distributes their investment through agents or intermediaries pays commission, although no respondents stated the level of commission paid.

Q. Any planned changes to distribution over the next 12 months?

A. Looking forward over the next 12 months, 43% of respondents plan to increase their distribution through regulated agents whilst a further 14% plan to increase distribution through non-regulated agents.

SALES

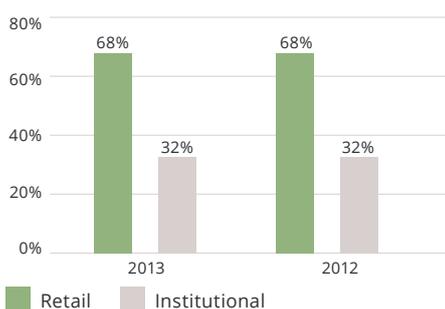
Q. What is your target raise? (£)

A. Providers are looking to raise between £10m and £200m into their forestry investments, with an average across the sector of £82m.

Q. How much have you raised to date? (£)

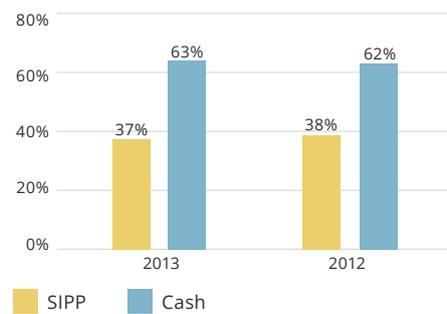
A. Every respondent has raised money into their investment. This ranges from only £200k to nearly £200m, with £44k raised on average across the sector.

Q. Retail vs. Institutional Investment



A. Over 70% of respondents have received investment from both retail and institutional investors over the last couple of years. On average, 68% of investment has come from retail investors with relatively little change over the last 2 years.

Q. SIPP vs. Cash Investment



A. There was a decrease in SIPP investment from 2012 to 2013, although based on these figures the reduction was not as severe as expected after interventions from the regulator in 2013. The proportion of investment via cash increased from 62% in 2012 to 63% in 2013.

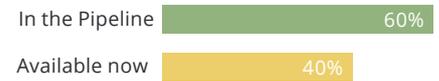
Q. UK vs. Overseas Investment



A. There was also a significant decrease in investment from UK based investors from 2012 to 2013 which could have been impacted by the increased focus on alternative investments from the FCA. This is also likely to have been impacted by the increased popularity of alternative investments from emerging economies in South America and South-East Asia.

OTHER PRODUCTS

Q. Do you have any other investment products in the pipeline?



A. When asked about other investment products, 40% of respondents currently have another investment open and 60% have a further investment in the pipeline. Product providers may be looking to take advantage of increased demand for forestry investments from emerging economies and expand their offerings in the future.

CONCLUSIONS

Some of the key conclusions drawn from this analysis include:

- ▲ Over 85% of forestry investments are structured as direct asset purchases
- ▲ Nearly 60% of investments claim to be allowed within a personal pension
- ▲ Minimum investments start from as low as £5,000
- ▲ Measures to protect investors are relatively weak
- ▲ 29% of investments charge an initial fee (on top of the initial investment)
- ▲ 57% have charges on an ongoing basis and 71% charge fees on exit
- ▲ Every investment offers variable returns which are predicted to range from 6-15% per year
- ▲ 57% of investments are sold to ordinary retail investors
- ▲ The vast majority (71%) of investment providers pay commission to agents and intermediaries in return for distribution



FORESTRY



ALTERNATIVE INVESTMENT REGISTER

The alternative investment register includes 83 forestry investments available to retail investors, including 58 directly held investments, 4 investments with a corporate element and 21 collective investment schemes. This includes products that are open to investment as well as those that have recently closed. The aim of this register is to aid financial advisers, intermediaries and professional investors with their whole of market understanding and awareness of the forestry sector.

This investment register is limited to investments that were visible online, those that are only marketed through closed channels have therefore not been included. This register provides a snapshot of the industry at a point in time (February 2014).

The register is based on information included in the product marketing literature and questions posed to product providers. This included mystery shopping of product providers and distributors, but it should be noted that the reliability of the responses and accuracy of the literature received was not verified and the register is based only on the information provided.

DIRECTLY HELD

Directly held forestry investments include the purchase of an area of land containing either mature trees or recently planted saplings. There are many forms of ownership, including leasehold or freehold title, tree ownership titles, cropping rights and timber ownership contracts. The land is usually managed on behalf of the investor by a commercial forestry management company.

Returns are paid from the harvesting of trees after a number of years. Recently planted saplings will take a number of years to grow and mature before they can be harvested. Investment terms can range from as little as 2 years for mature trees to 24 years for sapling investments.

Any investment that includes the direct purchase of land should be considered highly illiquid and potentially high risk. This is particularly true with forestry investments with many located in exotic locations which may have inadequate land

ownership laws and investor protections. Direct purchases of land are not regulated investments and are sold through unregulated channels.

CORPORATE ELEMENT

Investments with a corporate element include shares in special purpose vehicles (SPVs), investing in debt through the issue of bonds and timber batch purchase agreements. Some of these structures can be very complicated and should be considered particularly esoteric.

Bonds often pay a fixed annual return, although in some cases the return may vary depending upon harvest yields and timber prices.

As there is a corporate element to these investments, they are not direct asset purchases and therefore promotion may be limited to only high net worth, sophisticated or institutional investors.

COLLECTIVE INVESTMENT SCHEME

Collective investment schemes pool investors' funds in order to purchase underlying assets or invest in underlying companies. Forestry funds often invest into a wide range of assets in order to diversify risk and returns. They may hold large areas of forest for long-term returns, and invest into forestry related companies such as saw mills or logistics for short-term dividends. This allows the fund to be more liquid but still benefit from tree growth and timber prices.

Investing in this way allows investors to diversify risk and can often mean gaining access to the sector with a lower initial capital outlay. This may also allow investors to benefit from greater liquidity and therefore more flexibility should they want to sell their investment. Forestry funds should still be considered long-term investments with the majority of returns coming from the sale of timber and or land after a number of years.

Collective investment schemes include regulated and unregulated structures such as unit trusts, limited partnerships, investment trusts, open-

ended investment companies (OEICs) and unregulated collective investment schemes (UCIS). They can be operated on a fixed or open-ended term.

Collective investment schemes must be run by a authorised provider and can only be promoted through regulated channels. As of January this year, the FCA have restricted the promotion and sale of UCIS to only high net worth, sophisticated or institutional investors.

FINDINGS AND ANALYSIS

DIRECTLY HELD

There are 58 directly held forestry investments included on the investment register from 24 separate providers. All of these investments class themselves as unregulated and are being openly marketed to retail investors.

This sector has experienced periods of rapid growth with a number of new investment launches, most notably 2007 when the sector grew by 83%, 2009 by 75% and 2011 by 81%.

#1 LAUNCH YEARS

The first forestry investment included on the register launched in 1996 and this has since sold out, it is not known whether this investment was successful or has paid any investor returns. 2007 saw the first peak in investment launches with 5 new products coming to the market. The number of retail investment opportunities available in the forestry sector has increased substantially since the 2008 financial crisis with 46 investment launches over the last 5 years. 2009 and 2011 experienced the highest number of new investments being launched to the retail market with 9 and 21 respectively.

#2 TREE SPECIES

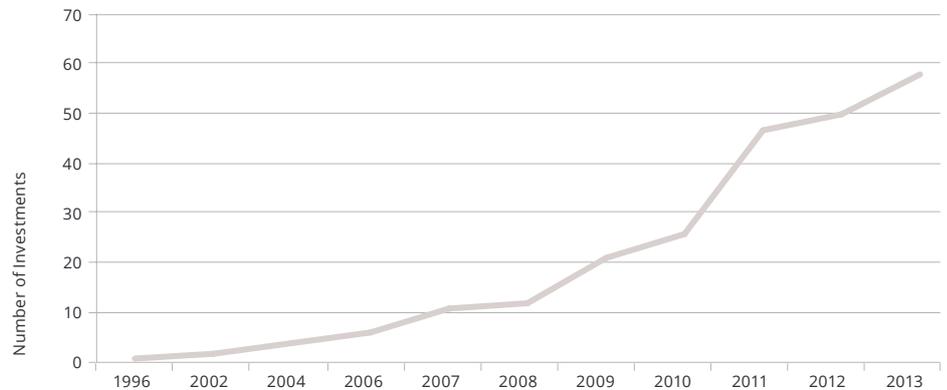
When considering a directly held forestry investment investors can choose from 9 different species of tree. This covers hardwood, softwood and grass which each have different advantages and disadvantages as discussed earlier in the report. Teak accounts for just over 30% of the products available, followed by Agarwood with 14% and Paulownia with 12%.

Investors can also choose less well-known tree species such as Neem and Melina which only have a very small number of investments in the market. These tree species could present the potential for higher returns, but are likely to be even more niche and therefore potentially even higher risk investments.

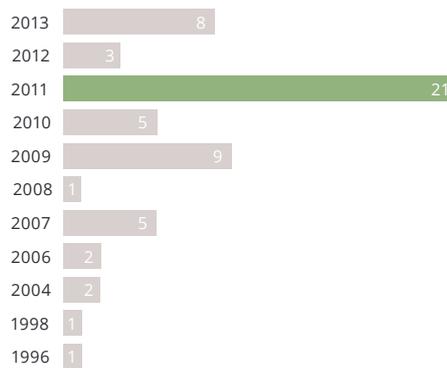
#3 LOCATION

Location is an important consideration for investors. The vast majority of forestry investments are located in exotic locations with cheap land and native fast growing trees. But this isn't always the case, with

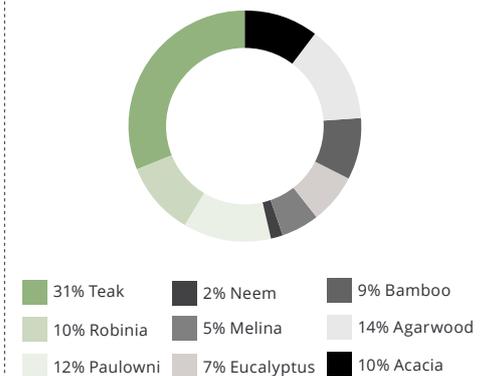
SECTOR GROWTH (1996 - 2013)



LAUNCH YEARS (1996 - 2013)



TREE SPECIES (2014)



INVESTMENT LOCATIONS (2014)



SECTOR GROWTH:



2011



2012



2013

21% of directly held investments on the register being located in Germany (it should be noted here that these are all from the same provider, but are different versions of a similar investment product). Exotic locations such as Brazil (17%), Costa Rica (12%), Sri Lanka (10%) and Thailand (19%) make up the majority of the sector.

#4 RETURNS

Returns from forestry vary widely and can often be extremely hard to accurately predict. They depend on a number of factors, such as tree growth, land values, timber prices and quality of the harvested timber. Harvesting costs and transport can also have a large impact.

Every investment offers a variable or predicted return, which vary from as low as 5.3% to as high as 180% per year. 5.3% sounds realistic and achievable, whereas 180% could be seen as extremely speculative. Overall, the median return on offer was 17.76% and the mean return was 28% per year.

RETURNS (2014)



It is not just potential returns that vary widely. Due to the different tree species, investment terms and choice between established trees or saplings, the frequency of when returns can be expected also varies. One investment offers returns annually from year one, with a number offering returns after 2 years. In most cases investors would have to wait until year 12 for the first substantial return from the investment.

#5 MINIMUM INVESTMENT

The minimum investment is important as it shows how accessible forestry is for investors. This is particularly true for the retail market, where investors may only want to allocate a very small part of their portfolio to alternative investments.

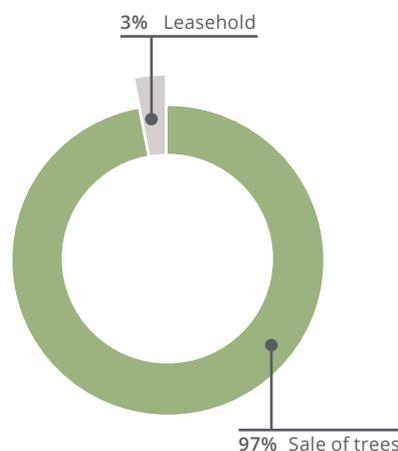
The lowest entry level is £2,000 and the highest as much as £40,000. Sapling investments tend to start lower, as the investor is taking on more risk and is likely to be invested for a longer term. The average (mean) investment required across the sector is just over £12,000, which means forestry is more accessible than other esoteric investment sectors such as property which tends to have a much higher minimum investment requirement.

MINIMUM INVESTMENT (2014)



#6 EXIT

EXIT (2014)



Directly held forestry investments do not offer a defined exit strategy. For 97% of investments the exit relies purely on the sale of trees planted on the plot. Investors are technically free to sell the trees as and when they see fit, but can leave this in the hands of the management company. The longer the trees are left to grow and mature, in theory, the higher the returns should be. 3% of investments contain a fixed term leasehold, creating a long-stop date for the investment.

The shortest advertised investment term is 2 years for mature trees. The longest is 49 years for a sapling investment, with the average term across the directly held sector (sapling and standing timber) of 15 years.

Anyone considering investment into a directly held forestry product should be made well aware of the speculative nature of the exit and the different factors that can have a large impact on returns.



FINDINGS AND ANALYSIS

CORPORATE ELEMENT

There are only 4 investments with a corporate element structure available in the forestry sector, with 3 currently open to investment. These investments come from 4 separate providers and are currently being marketed directly to retail investors through a number of channels including direct distribution and IFAs.

Investment structures include bonds, timber batch purchase agreements and the purchase of ordinary shares in special purpose vehicles.

#1 LAUNCH YEARS

This is a relatively new form of forestry investment with the first investment product being launched to retail investors in 2009, this product is still open for investment. This type of structure has increased in popularity since the 2008 financial crisis.

2013 saw 2 new product launches, doubling the number of corporate element investments in the sector. This sector remains small due to the long-term nature of forestry investment and the speculation surrounding potential returns, often making it hard to fit into a structured product.

LAUNCH YEARS (2009 - 2013)



#2 TREE SPECIES

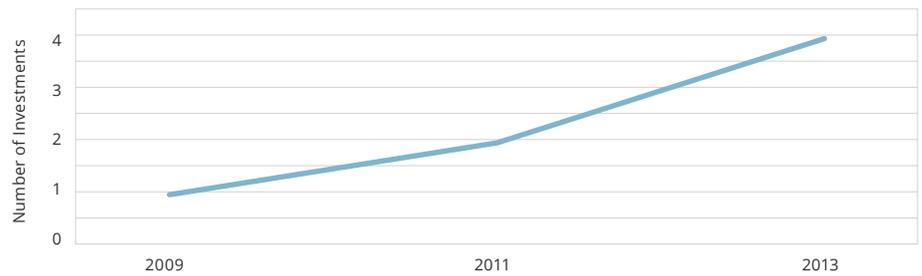
As with directly held investments, teak based products dominate the sector. This is followed by bamboo and general forestry.

TREE SPECIES (2014)



SECTOR GROWTH

(2009 - 2013)



#3 LOCATION

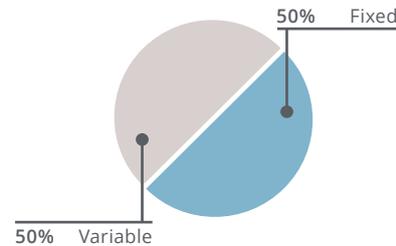
All of the investments in the corporate element sector are based in Central or South America.

LOCATIONS (2014)



#4 RETURNS

RETURNS (2014)



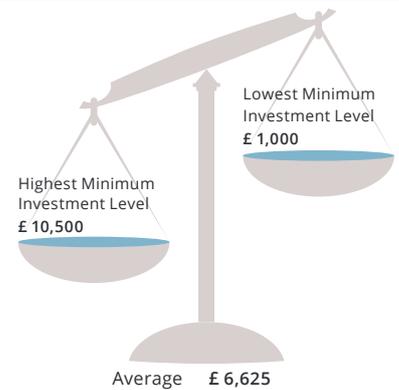
Returns again vary widely with half of investments offering fixed returns and the other half offering variable returns. Returns are generally paid annually in arrears and can start as soon as one year after first investing. The lowest return predicted per year is 7.5%, rising to as high as 33%.

#5 MINIMUM INVESTMENT

Investments start from as low as £1,000. The low minimum investment is achieved due to the investment structures available, with the investor loaning money or purchasing equity, rather than directly owning a specific asset. With an average of £6,625 this form of forestry investment may appeal to a wider range of investors

than directly held investments, who want to allocate a small portion of their investment portfolio to forestry.

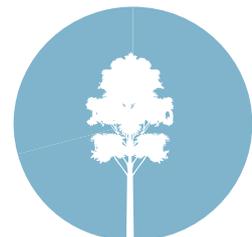
MINIMUM INVESTMENT (2014)



#6 EXIT

Every investment offers a defined exit strategy. This includes redemption of the bond after a fixed period of time or contractually agreed sale of timber. Although these exits are contractually agreed, they are by no means guaranteed. The exit will rely on the investment provider having the funds to repay the investor at that point in time.

EXIT (2014)



"The number of collective investment schemes available has increased by 75% over the last 5 years."

COLLECTIVE INVESTMENT SCHEME

There are 21 collective investment schemes included on the register, from 17 different investment providers with 16 different forestry management companies. Investment structures are dominated by limited companies (67%) and limited partnerships (24%).

#1 LAUNCH YEARS

New products have been launched consistently over the last 9 years, particularly since the financial crisis. The highest number of new product launches was actually in 2007, before the financial crisis, which doesn't seem to have had a major impact on the sector. There has obviously been demand in the market for collective investment schemes over the last few years.

#2 TREE SPECIES

Collective investment schemes will usually hold a wide range of underlying assets and therefore are likely to invest in more than one species of tree. This can provide diversification as well as the opportunity for returns to be realised at different intervals. General forestry accounts for almost 60% of underlying assets, followed by teak (19%) and agarwood (14%).

#3 LOCATION

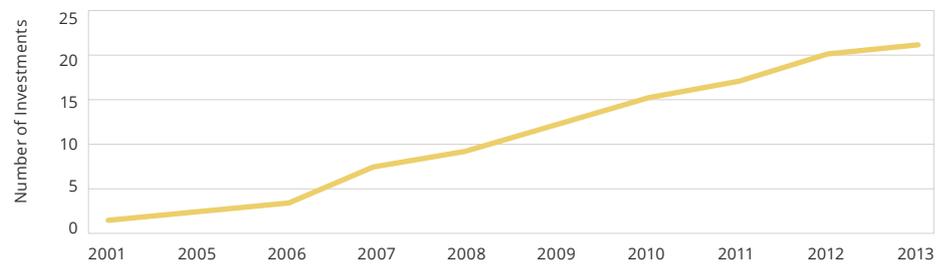
Investment locations can be hard to identify as underlying assets may be located in a wide range of different countries. Funds are regularly structured and domiciled in offshore finance centres such as Bermuda, Guernsey, Luxembourg and the Isle of Man. Underlying forestry plantations are spread around the world and include North America, South America, Europe and Asia.

#4 RETURNS

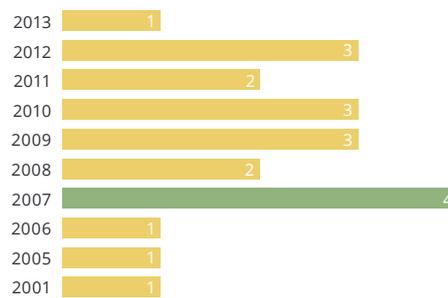
Returns can vary widely and be hard to accurately predict. Forestry funds have the advantage of diversifying underlying assets across a number of different forestry related sectors, in order to spread risk and increase the potential for long-term returns.

Every investment offers a variable or predicted return which is dependent on the performance of underlying assets. Returns

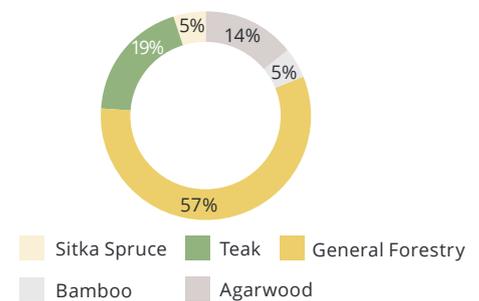
SECTOR GROWTH (2001 - 2013)



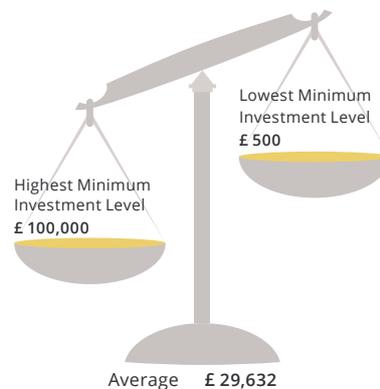
LAUNCH YEARS (2009 - 2013)



TREE SPECIES (2014)



MINIMUM INVESTMENT (2014)

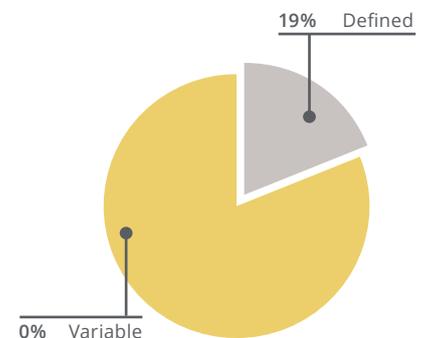


are paid annually in arrears and can vary from 3% to as high as 18% per year. The average predicted returns across the sector are approximately 10% per year.

#5 MINIMUM INVESTMENT

Investors can gain access to forestry ETF's from less than £100, but this won't give pure exposure to timber growth. Collective investments start from £500 but can vary greatly with the average investment at nearly £30,000. This is due to a number of schemes only being considered suitable for high net worth or sophisticated investors.

EXIT (2014)



#6 EXIT

The majority (81%) of investment have no clear exit strategy and will rely on a secondary market sale. The exit can be unclear and it could be hard to sell the investment at short notice without incurring a significant loss, particularly if the fund is trading below its net asset value.

The 19% of investments that have a defined lifespan are closed-ended, non-listed funds with terms ranging from 8 years to 12 years. Investors may not be able to exit these investments earlier should they wish, as these products may not have the same levels of liquidity and flexibility as listed forestry funds.

REGIONAL SPREAD: GLOBAL

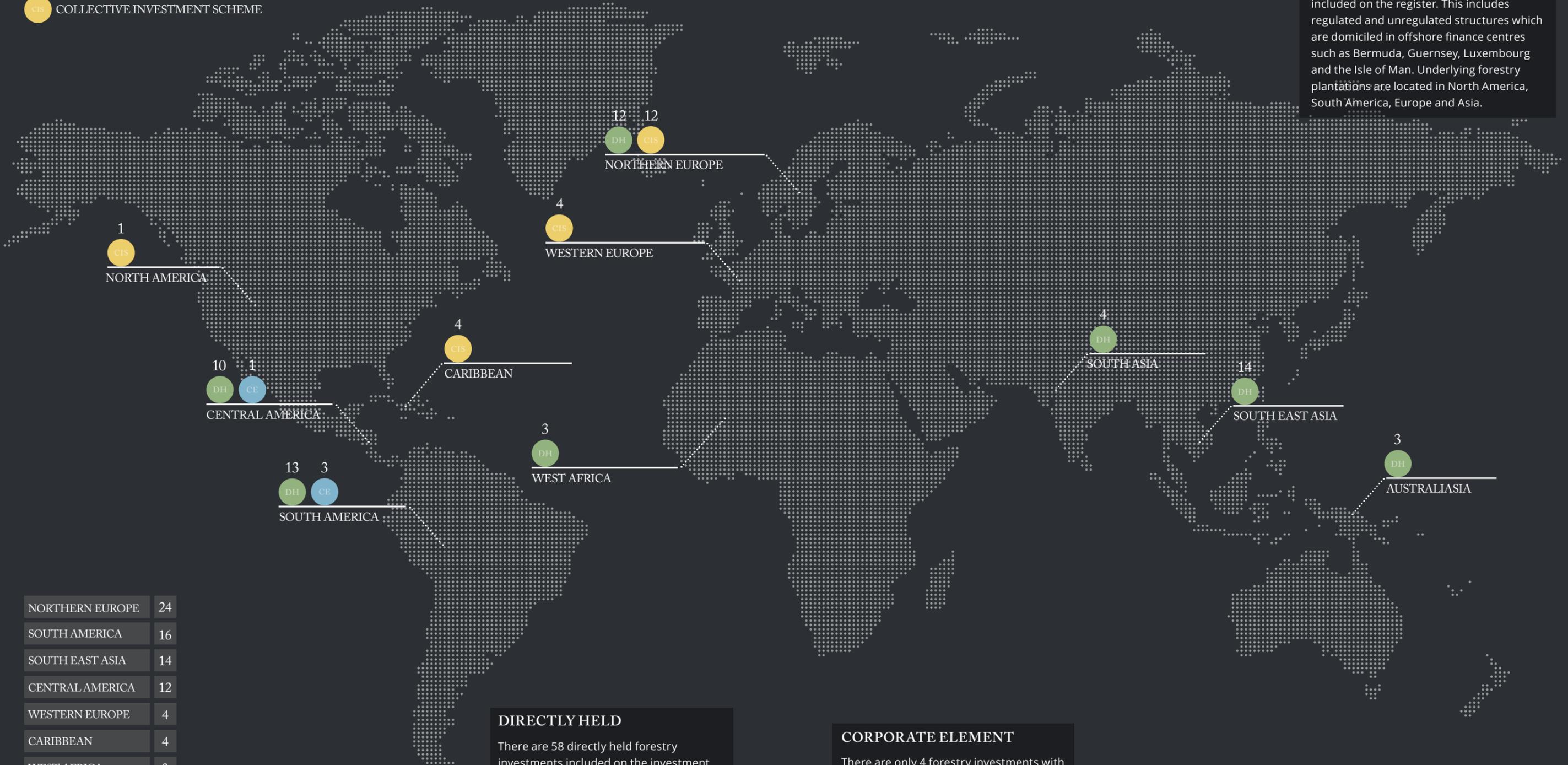
INVESTMENTS
BY STRUCTURE :

DH 58

CE 4

CIS 21

- DIRECTLY HELD
- CORPORATE ELEMENT
- COLLECTIVE INVESTMENT SCHEME



COLLECTIVE INVESTMENT SCHEME
There are 21 collective investment schemes included on the register. This includes regulated and unregulated structures which are domiciled in offshore finance centres such as Bermuda, Guernsey, Luxembourg and the Isle of Man. Underlying forestry plantations are located in North America, South America, Europe and Asia.

NORTHERN EUROPE	24
SOUTH AMERICA	16
SOUTH EAST ASIA	14
CENTRAL AMERICA	12
WESTERN EUROPE	4
CARIBBEAN	4
WEST AFRICA	3
SOUTH ASIA	3
AUSTRALASIA	3
NORTH AMERICA	1

DIRECTLY HELD
There are 58 directly held forestry investments included on the investment register. The vast majority of investments are located in exotic locations with cheap land and a number of native species of fast growing trees. Locations include Germany, Thailand, Brazil, Costa Rica and Sri Lanka.

CORPORATE ELEMENT
There are only 4 forestry investments with a corporate element structure included on the investment register. They are all based Central and South American countries including Brazil, Bolivia, Nicaragua and Guyana.

INVESTMENT REGISTER

DIRECTLY HELD :

21 LAUNCHED IN 2011

3 LAUNCHED IN 2012

8 LAUNCHED IN 2013

DIRECTLY HELD

TREE SPECIES	PRODUCT NAME	LOCATION	PROVIDER	MINIMUM INVESTMENT	RETURN FREQUENCY	RETURNS	TENURE	STAGE	EXIT	LAUNCH YEAR	STATUS
Acacia	Pachamama - 10 Year	Colombia	Pachamama Forest Ltd	£ 5,500.00	Regular thinning harvests from year 3	15.2% Average Predicted Return per year	Leasehold title	1 Year Old Trees	Sale of Trees after 10 years	2013	Open
Acacia	Pachamama - 20 Year	Colombia	Pachamama Forest Ltd	£ 5,500.00	Regular thinning harvests from year 3	15.2% Average Predicted Return per year	Leasehold title	1 Year Old Trees	Sale of Trees after 20 years	2013	Open
Acacia	Celadon Luna Plantations	Costa Rica	Celadon Capital Inc. S.A.	£ 7,500.00	Regular thinning harvests years 3, 5, 7 & 10	22% Average Predicted Return per year	Leasehold Title	3-9 Year Old Trees	Sale of Trees after 10 years	2012	Closed for New Investment
Acacia	Ethical Forestry - 10 Year	Costa Rica	Ethical Forestry Ltd	£ 18,000.00	Regular thinning harvests years 4, 5, 6, 7, 8, 9 & 10	42% Average Predicted Return per year	Tree Ownership Title	Sapling Investment	Sale of Trees after 10 years	2007	Closed for New Investment
Acacia	Ethical Forestry - 22 Year	Costa Rica	Ethical Forestry Ltd	£ 18,000.00	Regular thinning harvests years 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21 & 22	180% Average Predicted Return per year	Tree Ownership Title	Sapling Investment	Sale of Trees after 22 years	2007	Closed for New Investment
Acacia	The Acacia Mangium Project	Brazil	Greenwood Management ApS	£ 7,000.00	Regular thinning harvests years 3, 6, & 9	14.54-16.73% Average Predicted Return per year	Tree Ownership Title	Sapling Investment	Sale of Trees after 9 years	2008	Open
Agarwood	Touchwood - 2 Year	Thailand & Sri Lanka	Touchwood Asia Co. Ltd	£ 20,000.00	Harvest after 2 years	15% Average Predicted Return per year	Tree Ownership Title	6 Year Old Trees	Sale of Trees after 2 years	2006	Closed for New Investment
Agarwood	Touchwood - 3 Year	Thailand & Sri Lanka	Touchwood Asia Co. Ltd	£ 20,000.00	Harvest after 3 years	22% Average Predicted Return per year	Tree Ownership Title	6 Year Old Trees	Sale of Trees after 2 years	2006	Closed for New Investment
Agarwood	The Treedom Group	Thailand	Treedom Investments Ltd	£ 3,500.00	Harvest after 6 years	12.5-16.5% Average Predicted Return per year	Tree Ownership Title	Sapling Investment	Sale of Trees after 6 years	2010	Open
Agarwood	The Green Investment Company - 3 Year	Thailand & Sri Lanka	The Green Investment Company	£ 18,000.00	Harvest after 3 years	31% IRR Predicted	Leasehold Title & Timber Ownership Contract	3 Year Old Trees	Sale of Trees after 3 years	2011	Open
Agarwood	The Green Investment Company - 5 Year	Thailand & Sri Lanka	The Green Investment Company	£ 25,000.00	Harvest after 5 years	28.61% IRR Predicted	Leasehold Title & Timber Ownership Contract	1 Year Old Trees	Sale of Trees after 5 years	2011	Open
Agarwood	World Forestry Fiji - 6 Year	Fiji	World Forestry Monaco (UK) Ltd	£ 11,950.00	Harvest after 6 years	17% Average Predicted Return per year	Sub-Lease Title	Sapling Investment	Sale of Trees after 6 years	2011	Open
Agarwood	World Forestry Fiji - 2 Year	Fiji	World Forestry Monaco (UK) Ltd	£ 27,500.00	Harvest after 2 years	18% Average Predicted Return per year	Sub-Lease Title	6 Year Old Trees	Sale of Trees after 6 years	2011	Open
Agarwood	Aequus Agarwood	Thailand	Aequus (Thailand) Limited	£ 12,500.00	Harvest after 2 years	15% Average Predicted Return per year	Tree Ownership Title	8 Year Old Trees	Sales of Trees after 2 years	2013	Open
Bamboo	Touchwood	Thailand & Sri Lanka	Touchwood PLC	£ 8,500.00	Annual harvests from year 4	15% IRR Predicted	Tree Ownership Title	Sapling Investment	Sale of Plot after 15 years	2002	Closed for New Investment
Bamboo	Asia Bamboo Agroforestry	Thailand	Global Green Investments Ltd	£ 3,995.00	Annual harvests from year 2	31% Average Predicted Return per year	Beneficial Ownership of Leasehold Title	Sapling Investment	Sale of Plot after 15 years	2010	Open
Bamboo	Plantation Capital - Bamboo	Thailand	Plantation Capital Ltd	£ 3,995.00	Annual harvests from year 2	31% Average Predicted Return per year	Bamboo Ownership Certificate	Sapling Investment	Sale of Plot after 15 years	2011	Closed for New Investment
Bamboo	Plantation Capital - Bamboo Biomass	Congo	Plantation Capital Ltd	£ 7,500.00	Annual harvests from year 3	33.5% Average Predicted Return per year	Bamboo Ownership Certificate	Sapling Investment	Sale of Plot after 25 years	2011	Closed for New Investment
Bamboo	Bambology	Nicaragua	Bamboo Holding S.A.	£ 9,000.00	Annual harvests from year 2	58% Average Predicted Return per year	Leasehold Title	Sapling Investment	Sale of Plot after 25 years	2011	Closed for New Investment

INVESTMENT REGISTER

DIRECTLY HELD :

39 OPEN FOR INVESTMENT

19 SOLD OUT

DIRECTLY HELD												
TREE SPECIES	PRODUCT NAME	LOCATION	PROVIDER	MINIMUM INVESTMENT	RETURN FREQUENCY		RETURNS	TENURE	STAGE	EXIT	LAUNCH YEAR	STATUS
Eucalyptus	Reforestation Group	Brazil	The Reforestation Group	£ 10,000.00	Regular thinning harvests years 7, 14 & 21		After each harvest - first in year 6 otherwise unspecified	Land Rights Agreement & Title to Trees	Sapling Investment	Sale of Trees after 21 years	1996	Closed for New Investment
Eucalyptus	Ecoforests	Costa Rica & Argentina	Corporación Ecológica y Bosques Tropicales S.A.	£ 2,000.00	Harvest after 8 years		Unknown	Tree Ownership Title	Sapling Investment	Sale of Trees after 8 years	2004	Open
Eucalyptus	Greenwood Management - 13 Year	Brazil	Greenwood Management ApS	£ 6,500.00	Regular thinning harvests years 8 & 13		14.99% IRR Predicted	Full Title to Trees	Sapling Investment	Sale of Trees after 13 years	2009	Closed for New Investment
Eucalyptus	Greenwood Management - 8 Year	Brazil	Greenwood Management ApS	£ 6,500.00	Regular thinning harvests years 5 & 8		11% IRR Predicted	Full Title to Trees	Sapling Investment	Sale of Trees after 8 years	2009	Open
Melina	Ethical Forestry - 12 Year	Costa Rica	Ethical Forestry Ltd	£ 7,000.00	Regular thinning harvests years 4, 8, 10 and 12		256% Total Predicted Return Over 12 years	Full Tree Title & Cropping Rights	Sapling Investment	Sale of Trees after 12 years	2007	Open
Melina	Ethical Forestry - 24 Year	Costa Rica	Ethical Forestry Ltd	£ 21,000.00	Regular thinning harvests years 16, 18, 20, 22, 24		3,896% Total Predicted Return Over 24 years	Full Tree Title & Cropping Rights	Sapling Investment	Sale of Trees after 24 years	2007	Closed
Melina	Ethical Forestry - 24 Year	Costa Rica	Ethical Forestry Ltd	£ 42,000.00	Regular thinning harvests years 4, 8, 10, 12, 16, 18, 20, 22, 24		2,135% Total Predicted Return Over 24 years	Full Tree Title & Cropping Rights	Sapling Investment	Sale of Trees after 24 years	2007	Closed
Neem	Brazil Neem Investment	Brazil	Liquid Investments	£ 40,000.00	Annual harvests from year 3		20-22% IRR Predicted	Full Title to Trees	Sapling Investment	Sale of Trees	2013	Open
Paulownia	Silva Tree - The Princess Project	Panama	Silva Tree UK Ltd	£ 5,000.00	Regular thinning harvests years 5, 10, 15 & 20		17.13-18.71% Average Predicted Return per year	Leasehold Title held by UK Trustees	Sapling Investment	Sales of Trees after 21 years	2010	Closed for New Investment
Paulownia	European Forestry (Freehold) - 12 Year	Germany	Robinia Invest GmbH	£ 12,500.00	Harvest after 12 years		9-13% Average Predicted Return per year	Freehold Title	1 Year Old Trees	Sale of Trees after 12 years	2011	Open
Paulownia	European Forestry (Leasehold) - 12 Year	Germany	Robinia Invest GmbH	£ 4,500.00	Harvest after 12 years		8% Average Predicted Return per year	Leasehold Title held by UK Trustees	1 Year Old Trees	Sale of Trees after 12 years	2011	Open
Paulownia	European Forestry (Freehold) - 20 Year	Germany	Robinia Invest GmbH	£ 13,000.00	Regular thinning harvests years 12, 15 & 20		26-31% Average Predicted Return per year	Freehold Title	1 Year Old Trees	Sale of Trees after 20 years	2011	Open
Paulownia	European Forestry (Leasehold) - 20 Year	Germany	Robinia Invest GmbH	£ 5,000.00	Regular thinning harvests years 12, 15 & 20		25% Average Predicted Return per year	Leasehold Title held by UK Trustees	1 Year Old Trees	Sale of Trees after 20 years	2011	Open
Paulownia	European Forestry (Freehold) - 15 Year	Germany	Robinia Invest GmbH	£ 12,500.00	Regular thinning harvests years 12 & 15		12.5-15.7% Average Predicted Return per year	Freehold Title	1 Year Old Trees	Sale of Trees after 15 years	2013	Open
Paulownia	European Forestry (Leasehold) - 15 Year	Germany	Robinia Invest GmbH	£ 4,750.00	Regular thinning harvests years 12 & 15		11% Average Predicted Return per year	Leasehold Title held by UK Trustees	1 Year Old Trees	Sale of Trees after 15 years	2013	Open
Robinia	European Forestry (Freehold) - 10 Year	Germany	Robinia Invest GmbH	£ 11,000.00	Harvest after 10 years		7.3-9.5% Average Predicted Return per year	Freehold Title	1 Year Old Trees	Sales of Trees after 10 years	2011	Open
Robinia	European Forestry (Leasehold) - 10 Year	Germany	Robinia Invest GmbH	£ 4,000.00	Harvest after 10 years		5.3% Average Predicted Return per year	Leasehold Title held by UK Trustees	1 Year Old Trees	Sales of Trees after 10 years	2011	Open
Robinia	European Forestry (Freehold) - 20 Year	Germany	Robinia Invest GmbH	£ 12,000.00	Regular thinning harvests years 10, 15 & 20		18-20.8% Average Predicted Return per year	Freehold Title	1 Year Old Trees	Sale of Trees after 20 years	2011	Open
Robinia	European Forestry (Leasehold) - 20 Year	Germany	Robinia Invest GmbH	£ 4,400.00	Regular thinning harvests years 10, 15 & 20		17.6% Average Predicted Return per year	Leasehold Title held by UK Trustees	1 Year Old Trees	Sale of Trees after 20 years	2011	Open

INVESTMENT REGISTER

TREE SPECIES:

12% PAULOWNIA

14% AGARWOOD

31% TEAK

DIRECTLY HELD

TREE SPECIES	PRODUCT NAME	LOCATION	PROVIDER	MINIMUM INVESTMENT	RETURN FREQUENCY	RETURNS	TENURE	STAGE	EXIT	LAUNCH YEAR	STATUS
Robinia	European Forestry (Freehold) - 15 Year	Germany	Robinia Invest GmbH	£ 11,500.00	Regular thinning harvests years 10 & 15	11.7-14% Average Predicted Return per year	Freehold Title	1 Year Old Trees	Sale of Trees after 15 years	2013	Open
Robinia	European Forestry (Leasehold) - 15 Year	Germany	Robinia Invest GmbH	£ 4,200.00	Regular thinning harvests years 10 & 15	10.6% Average Predicted Return per year	Leasehold Title held by UK Trustees	1 Year Old Trees	Sale of Trees after 15 years	2013	Open
Teak	Ecoforests	Costa Rica & Argentina	Corporación Ecológica y Bosques Tropicales S.A.	£ 2,000.00	Harvest after 16 years	Unknown	Tree Ownership Title	Sapling Investment	Sale of Trees after 16 years	2004	Open
Teak	Asia Teak Forestry - 16 Year	Sri Lanka	Anglo Asia Forestry Company Ltd	£ 5,000.00	Regular thinning harvests years 10 & 16	19.7-21.5% IRR Predicted	Advanced Purchase Order	Sapling Investment	Sale of Trees after 16 years	2009	Open
Teak	Asia Teak Forestry - 11 Year	Thailand	Anglo Asia Forestry Company Ltd	£ 20,000.00	Regular thinning harvests years 5 & 11	8-14% IRR Predicted	Advanced Purchase Order	13 Year Old Trees	Sale of Trees after 11 years	2009	Open
Teak	Belem Sky Teak Tree Plantation	Brazil	Global Forestry Investments Limited	£ 5,000.00	Regular thinning harvests years 9/10, 15, 20 & 24/25	12% Average Predicted Return per year	Beneficial Ownership of Sub-lease held by UK Trustees	8 Year Old Trees	49 Year Leasehold	2009	Open
Teak	Mere Teak	Ghana	GDCV Investments Limited	£ 8,000.00	Regular thinning harvests years 4, 8 & 12	11.5-12% Average Predicted Return per year	Full Title to Trees	Sapling Investment	Sale of Trees after 12 years	2009	Closed for New Investment
Teak	Plantation Capital - 7 Year	Thailand	Asia Plantation Capital (Pte) Ltd	£ 22,000.00	Harvest after 3 years	22% IRR Predicted	Leasehold Title & Timber Ownership Contract	7 Year Old Trees	Sale of Trees after 7 years	2009	Closed for New Investment
Teak	Plantation Capital - 12 Year	Thailand & Sri Lanka	Asia Plantation Capital (Pte) Ltd	£ 19,500.00	Regular thinning harvests years 7 & 12	19.1% IRR Predicted	Leasehold Title & Timber Ownership Contract	7 Year Old Trees	Sale of Trees after 12 years	2009	Closed for New Investment
Teak	Plantation Capital - 20 Year	Sri Lanka	Asia Plantation Capital (Pte) Ltd	£ 15,000.00	Regular thinning harvests years 10, 15 & 20	27% IRR Predicted	Leasehold Title & Timber Ownership Contract	Sapling Investment	Sale of Trees after 20 years	2009	Closed for New Investment
Teak	Puttalam Teak Tree Plantation	Sri Lanka	Global Plantations Ltd	£ 11,000.00	Regular thinning harvests from years 10 to 25	9-17% IRR Predicted	Leasehold Title	Sapling Investment	Sale of Trees after 25 years	2010	Open
Teak	Living Investments	Costa Rica	Living Investments UK Ltd.	£ 18,290.00	Regular thinning harvests years 8, 12 & 15	9.5% Average Predicted Return per year	Beneficial Ownership of Leasehold Title	4 Year Old Trees	Sale of Trees after 15 years	2010	Open
Teak	Asia Teak Forestry - 9 Year	Thailand	Anglo Asia Forestry Company Ltd	£ 30,000.00	Regular thinning harvests from years 5 to 9	8-12% IRR Predicted	Advanced Purchase Order	9 Year Old Trees	Sale of Trees after 9 years	2011	Open
Teak	Boonrich Teak Tree Plantation	Malaysia	Global Plantations Ltd	£ 8,000.00	Harvest after 10 years	16-18% IRR Predicted	Leasehold Title	17 Year Old Trees	10 Year Leasehold	2011	Open
Teak	ITAS Forestry - Sapling Teak	Brazil	I.T.A.S. Limited	£ 12,000.00	Regular thinning harvests years 10, 15 & 20	69% Average Predicted Return per year	Leasehold Title & Forestry Title Deed	Sapling Investment	Sale of Trees after 18 years	2011	Open
Teak	ITAS Forestry - 10 Year	Brazil	I.T.A.S. Limited	£ 15,000.00	Harvest after 10 years	41% Average Predicted Return per year	Leasehold Title & Forestry Title Deed	8 Year Old Trees	Sale of Trees after 10 years	2011	Open
Teak	ITAS Forestry - 5 Year	Brazil	I.T.A.S. Limited	£ 25,000.00	Harvest after 5 years	26% Average Predicted Return per year	Leasehold Title & Forestry Title Deed	13 Year Old Trees	Sale of Trees after 5 years	2011	Open
Teak	ITAS Forestry - 3 Year	Brazil	I.T.A.S. Limited	£ 25,000.00	Harvest after 3 years	35% Average Predicted Return per year	Leasehold Title & Forestry Title Deed	15 Year Old Trees	Sale of Trees after 3 years	2011	Open
Teak	Asia Teak Forestry - 9 Year	Thailand	Anglo Asia Forestry Company Ltd	£ 30,000.00	Regular thinning harvests from years 5 to 9	8-12% IRR Predicted	Advanced Purchase Order	8 Year Old Trees	Sale of Trees after 9 years	2012	Open
Teak	Tropical Timber Income Fund	Ghana	GDCV Investments Limited	£ 8,000.00	Annually in Arrears	10% Average Predicted Return per year	Full Title to Trees	1 Year Old Trees	Sale of Trees after 5 years	2012	Closed for New Investment

INVESTMENT REGISTER

CORPORATE
ELEMENT:

2 LAUNCHED
IN 2011

1 LAUNCHED
IN 2012

1 LAUNCHED
IN 2013

CORPORATE ELEMENT

TREE SPECIES	PRODUCT NAME	LOCATION	PROVIDER	MINIMUM INVESTMENT	RETURN FREQUENCY	RETURNS	TENURE	STAGE	EXIT	LAUNCH YEAR	STATUS
Bamboo	EcoPlanet Bamboo	Nicaragua	EcoPlanet Bamboo group LLC	£ 10,500.00	Annual harvests from year 2	25-33% Average Predicted Return per year	Bond Certificate held by Trustee	Sapling Investment	Redemption of Bond after 15 Years	2011	Closed for New Investment
General Forestry	Ecopush	Guyana	Linden Agriculture & Forest Producers Association	£ 10,000.00	Sale of Timber after 30 months	20% Fixed Return	Timber Batch Purchase Agreement	Unknown	Sale of Timber after 30 months	2013	Open
Teak	The Cochabamba Project Ltd	Bolivia	The Cochabamba Project Ltd	£ 1,000.00	Annually in Arrears	7.5% Average Predicted Return per year	Ordinary Shares	1,600 Hectares of Commercial Plantation	Sale of Shares after 2022	2009	Open
Teak	ITAS Forestry Bond	Brazil	I.T.A.S. Limited	£ 5,000.00	Annually in Arrears	12% Fixed Return per year	Bond Certificate held by Trustee	15 Year Old Trees	Redemption of Bond after 3 Years	2013	Open

COLLECTIVE INVESTMENT SCHEME

TREE SPECIES	PRODUCT NAME	LOCATION	PROVIDER	MINIMUM INVESTMENT	RETURN FREQUENCY	RETURNS	TENURE	STAGE	EXIT	LAUNCH YEAR	STATUS
Agarwood	Aequus Agarwood Sub-Fund	Bermuda	Aequus Asset Management	£ 15,000.00	Annually in Arrears	15% Targeted Return per year	Ordinary Shareholder	Unknown	Monthly Share Dealing	2009	Open
Agarwood	The Forestry Extracts Fund Ltd	Guernsey	Aequus Asset Management	£ 10,000.00	Annual in Arrears from year 3	15-18% Targeted Return per year	Ordinary Shareholder	Various Underlying Holdings	CISE Listed - Monthly Share Dealing	2010	Closed for New Investment
Agarwood	Asia Renewable Resources Fund	Luxembourg	Treedom Investments Ltd	£ 7,500.00	Annually in Arrears	Unknown	Ordinary Shareholder	Unknown	Monthly Share Dealing	2012	Unknown
Bamboo	Eco Resources Fund PCC plc	Isle of Man	The Premier Group (Isle of Man) Limited	£ 5,000.00	Annually in Arrears	12-15% Targeted Return per year	Redeemable Preference Shareholder	1,900 Hectares of Commercial Plantation	CISE Listed - Monthly Share Dealing	2012	Open
General Forestry	J&O Global Forestry Investment Fund	Bermuda	J&O Asset Management Ltd	£ 45,000.00	Annually in Arrears	10-12% Targeted Return per year	Ordinary Shareholder	Various Underlying Holdings	Quarterly Share Dealing	2005	Open
General Forestry	Phaunos Timber Fund	Guernsey	Four Winds Capital Management	£ 10,000.00	Annually in Arrears	Variable	Ordinary Shareholder	Various Underlying Holdings	LSE and CISE Listed	2006	Open
General Forestry	Cambium Global Timberland Limited	Jersey	CP Cogent Asset Management	£ 10,000.00	Annually in Arrears	4.9% Targeted Return per year	Ordinary Shareholder	Mature and Sapling Trees	AIM and CISE Listed	2007	Open
General Forestry	The Forest Company Limited	Guernsey	The Forestry Company Ltd	£ 5,000.00	Annually in Arrears	3% Targeted Return per year	Ordinary Shareholder	Various Underlying Holdings	CISE Listed - Monthly Share Dealing	2007	Open
General Forestry	iShares Global Timber & Forestry UCITS ETF	Ireland	iShares II plc	No Minimum	Bi-Annually in Arrears	S&P Global Timber & Forestry Index	Ordinary Shareholder	Various Underlying Holdings	LSE Listed - Daily Share Dealing	2007	Open
General Forestry	Guggenheim Timber ETF	USA	Guggenheim Funds Distributors Inc.	No Minimum	Annually in Arrears	Beacon Global Timber Index	Ordinary Shareholder	Various Underlying Holdings	NYSE Listed - Daily Share Dealing	2007	Open
General Forestry	Pictet Timber Fund	Luxembourg	Pictet Asset Management	£ 500.00	Annually in Arrears	9% Average Return per year since inception	Ordinary Shareholder	Various Underlying Holdings	Daily Share Dealing	2008	Open
General Forestry	The First Stellar Forestry Fund LP	United Kingdom	Stellar Asset Management Limited	£ 15,000.00	At End of Investment Term	Outperform IPD UK Forestry Index	Limited Partnership Interest	Semi-Mature UK Forestry	Wind up of Fund in 2018	2009	Closed for New Investment
General Forestry	The International Forestry Fund	British Virgin Islands	Helvetia Wealth A.G. and IFS Asset Managers Limited	£ 100,000.00	Annually in Arrears	7-9% Targeted Return per year	Ordinary Shareholder	Various Underlying Holdings	Sale of Shares after minimum 5 years	2009	Open

INVESTMENT REGISTER

COLLECTIVE
INVESTMENT
SCHEME:

1 LAUNCHED
IN 2011

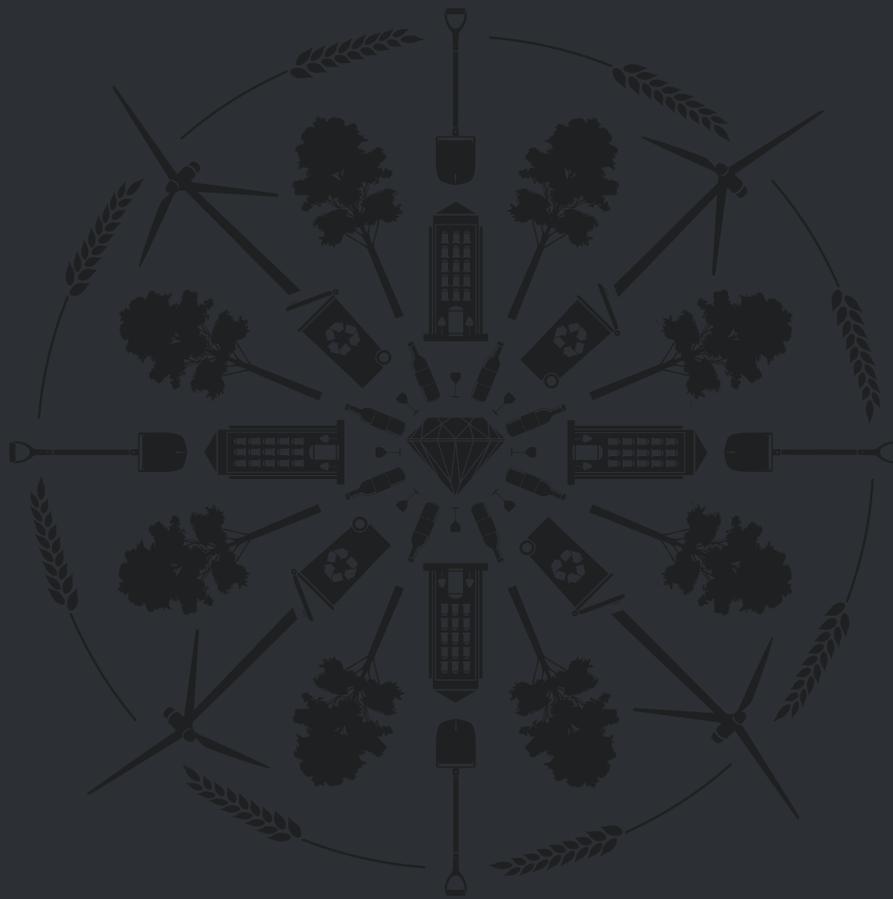
3 LAUNCHED
IN 2012

2 LAUNCHED
IN 2013

COLLECTIVE INVESTMENT SCHEME

TREE SPECIES	PRODUCT NAME	LOCATION	PROVIDER	MINIMUM INVESTMENT	RETURN FREQUENCY	RETURNS	TENURE	STAGE	EXIT	LAUNCH YEAR	STATUS
General Forestry	FIM Sustainable Timber & Energy LP	United Kingdom	FIM Services Ltd	£ 40,000.00	Annually in Arrears	3% Targeted Return per year	Limited Partnership Interest	9,786 Hectares of Commercial Plantation	Sale of LP Interest at any time	2010	Closed for New Investment
General Forestry	The Second Stellar Forestry Fund LP	United Kingdom	Stellar Asset Management Limited	£ 15,000.00	At End of Investment Term	Outperform IPD UK Forestry Index	Limited Partnership Interest	Semi-Mature UK Forestry	Wind up of Fund in 2019	2010	Closed for New Investment
General Forestry	The Third Stellar Forestry Fund LP	United Kingdom	Stellar Asset Management Limited	£ 15,000.00	At End of Investment Term	Outperform IPD UK Forestry Index	Limited Partnership Interest	Semi-Mature UK Forestry	Wind up of Fund in 2020	2012	Closed for New Investment
Teak	Quadris Environmental Forestry Fund PCC plc	Isle of Man	Blue Sea International Limited	£ 30,000.00	Annually in Arrears	9% Average Return per year since inception	Ordinary Shareholder	33,000 Hectares of Commercial Plantation	Currently Closed to Redemptions	2001	Closed for New Investment
Teak	Central American Timber Fund	Luxembourg	BAUM Management	£ 100,000.00	Annually in Arrears	7% Targeted Return per year	Ordinary Unit Holder	402,447 Hectares of Commercial Plantation	Monthly Share Dealing	2011	Open
Teak	Global Forestry Growth Fund	Luxembourg	Global Forestry Capital S.a.r.l.	£ 100,000.00	Annually in Arrears	7.75% Average Return per year since inception	Ordinary Shareholder	Various Underlying Holdings	Quarterly Share Dealing	2011	Open
Teak	Afram Teak Fund 2013	Bermuda	Curzon Capital Limited	£ 10,000.00	At End of Investment Term	Variable	Ordinary Shareholder	Sapling Investment	Wind up of Fund after 12 years	2013	Open
Sitka Spruce	FIM Forest Fund 1 LP	United Kingdom	FIM Services Ltd	£ 30,000.00	Annually in Arrears	3% Targeted Return per year	Limited Partnership Interest	9,851 Hectares of Commercial Plantation	Sale of LP Interest at any time	2008	Closed for New Investment

“Forestry can provide a long-term store of wealth, is widely in demand, is a growing asset and can often attract significant tax benefits. Over the last 10 years there have been a number of investments launched to retail investors, often promising speculative returns many years in the future.”



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PUBLICATION

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