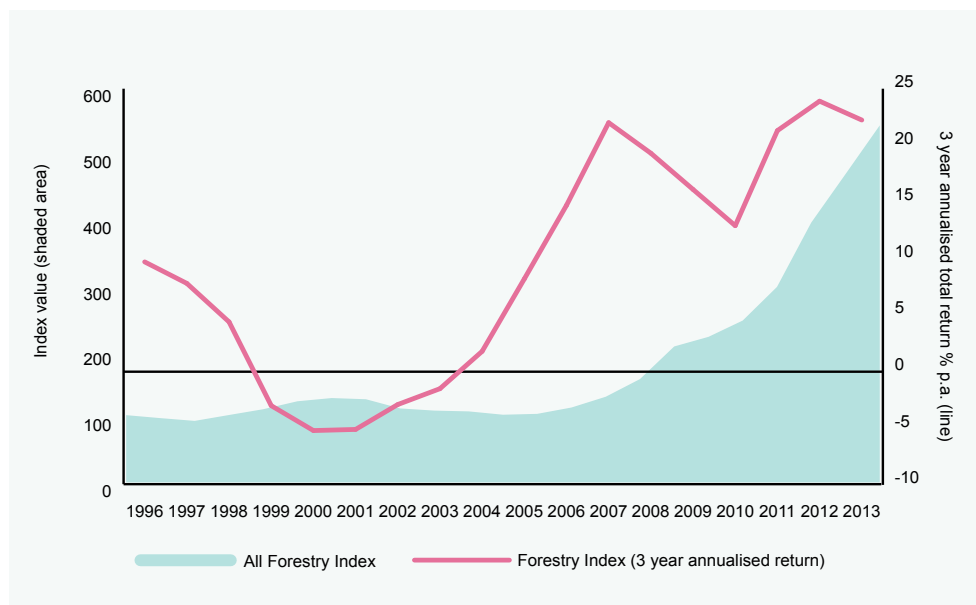


IPD UK Annual Forestry Index

Results for the year to 31st December 2013



An MSCI Brand



The IPD UK Annual Forestry Index is calculated from a sample of private sector coniferous plantations of predominantly Sitka spruce in mainland Britain and in 2013 returned **15.8%**

IPD UK Annual Forestry Index

| | Total return index Dec-2012 | Total return index Dec-2013 | 1yr | Annualised rates % | | | |
|--|--------------------------------|--------------------------------|------|--------------------|------|------|------|
| | Dec 1992 = 100 | Dec 1992 = 100 | | 3yr | 5yr | 10yr | 21yr |
| Total return | 479.6 | 555.5 | 15.8 | 22.2 | 19.7 | 17.9 | 8.5 |
| Income return | 82.3 | 81.7 | -0.8 | -0.7 | -0.9 | -1.2 | -1.0 |
| Capital growth | 581.9 | 679.1 | 16.7 | 23.1 | 20.7 | 19.4 | 9.6 |
| Timber price change* | 97.7 | 95.4 | -2.3 | 4.5 | 4.7 | 9.8 | -0.2 |
| Timber sales by weight of capital value** | - | - | 2.8 | - | - | - | - |

*Forestry commission timber price index to September 2013 ** Capital receipts from timber sales as a percentage of the mid-year capital value of the index

Other assets (total return)

| | 401.6 | 475.8 | 18.5 | 8.6 | 12.9 | 8.0 | 7.7 |
|---------------------|-------|-------|------|-----|------|-----|-----|
| Equities | 443.9 | 420.7 | -5.2 | 4.8 | 4.5 | 5.8 | 7.1 |
| Gilts | 546.1 | 604.7 | 10.7 | 7.3 | 8.0 | 6.3 | 8.9 |
| Commercial property | | | | | | | |

Data Sources: MSCI, JP Morgan, IPD UK Annual Property Index.

Sponsors



Supported by

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Range of individual forests returns



3 year rolling annualised returns

| 3 year (%pa) | Weighted average | Top 5% | Upper quartile | Median | Lower quartile | Bottom 5% |
|--------------|------------------|--------|----------------|--------|----------------|-----------|
| 2003-06 | 14.7 | 32.4 | 16.3 | 11.7 | 6.0 | 1.1 |
| 2004-07 | 22.0 | 36.7 | 26.0 | 16.2 | 11.5 | 5.2 |
| 2005-08 | 19.3 | 35.2 | 20.9 | 14.5 | 9.3 | 0.0 |
| 2006-09 | 16.1 | 29.8 | 19.1 | 11.3 | 5.3 | -7.0 |
| 2007-10 | 12.9 | 27.3 | 14.6 | 8.7 | 2.9 | -4.8 |
| 2008-11 | 21.3 | 49.3 | 24.1 | 14.0 | 8.7 | 3.3 |
| 2009-12 | 24.0 | 43.3 | 24.6 | 18.4 | 13.0 | 4.2 |
| 2010-13 | 22.2 | 45.3 | 23.9 | 16.9 | 9.8 | 5.1 |

2013 performance summary

In 2013, the IPD UK Annual Forestry Index showed a total return of 15.8% for the year, a step down from the 18.6% seen in 2012 but continuing the trend for very strong performance by forestry investment in the UK. The three-year annualised total return of 22.2% is nearly triple the 8.5% annualised total return achieved over the past 21 years.

The distribution of three-year annualised total return shows that the median, at just 16.9% falls well below the weighted average, of 22.2%, indicating that larger lot sizes have generally outperformed smaller ones. Over the 21 year history higher value lots have tended to outperform with the annualised weighted average total return 1.4% higher than the median.

By its very nature forestry investment represents a long-term capital play with no source of significant regular income unless holdings are leased for renewable energy production. However, part of the capital return is achieved by harvesting timber once trees reach maturity, meaning investors receive irregular but substantial sales receipts which compliment long-term growth in the underlying value of land. In 2013 capital receipts from timber sales were equivalent to 2.8% of the total value of the index.

The decade to the end of 2013 has seen continuous stellar performance by UK forestry investment with annualised total returns of 22.2%, 19.7% and 17.9% over 3, 5 & 10 years respectively and no years of negative returns. This performance should be noted for its superiority over commercial property, residential property, equities and gilts in all cases over 3, 5 and 10 years.

The previous decade represented tougher times for UK forestry, having underperformed other UK property classes but nonetheless maintaining superiority over the core asset classes, equities and gilts with an annualised total return of 8.5% over the full 21 year timeframe.

5 year rolling and long term annualised returns

| 5 year (%pa) | Weighted average | Top 5% | Upper quartile | Median | Lower quartile | Bottom 5% |
|--------------|------------------|--------|----------------|--------|----------------|-----------|
| 2003-08 | 16.3 | 28.5 | 17.9 | 11.7 | 7.7 | 0.3 |
| 2004-09 | 16.7 | 26.3 | 18.8 | 12.9 | 8.3 | -1.3 |
| 2005-10 | 17.9 | 24.9 | 18.1 | 13.8 | 8.8 | 0.5 |
| 2006-11 | 20.2 | 37.8 | 21.2 | 14.1 | 9.2 | 1.4 |
| 2007-12 | 17.8 | 29.9 | 18.0 | 12.5 | 8.0 | 1.5 |
| 2008-13 | 19.7 | 31.9 | 21.0 | 14.9 | 10.7 | 4.0 |

| Long term (%pa) | Weighted average | Top 5% | Upper quartile | Median | Lower quartile | Bottom 5% |
|-----------------|------------------|--------|----------------|--------|----------------|-----------|
| 1992-13 | 8.5 | 14.4 | 9.2 | 7.1 | 5.7 | 3.4 |

Tax status

Tax is an important consideration for investors in forestry, but the wide variation of tax status between investors makes it impossible to reflect these benefits in the results. The Index excludes these substantial fiscal advantages that are available to the investor.

Income from timber sales in the UK is free of Income and Corporation Tax and growing timber is exempt from Capital Gains Tax. After two years of ownership, commercial woodlands qualify for 100% Business Property Relief from Inheritance Tax.

The Index

The IPD UK Annual Forestry Index is calculated from a sample of private sector coniferous plantations of predominantly sitka spruce in mainland Britain. By the end of 2013 the 143 forest holdings in the index had a total capital value of £237.2m.

The Index is derived from a series of annual valuations and cash flows, but in order to reflect the long-term nature of forestry investment the series is also presented on a three-year annualised basis. The year-on-year returns and Index values are shown on the back of this publication, but analysis is based principally on the annualised results. These demonstrate more clearly the long-term returns available to investors.

The series is based at 1992 after the expiry of tax relief on expenditure, which was withdrawn in March 1988 with a period of transitional relief until December 1992. The Index reflects movements in valuations driven by changes in the underlying long-term trend in UK timber markets and investor demand.

The IPD UK Annual Forestry Index conforms to the international standards of asset performance measurement. Annual returns are calculated on a time-weighted basis, by compounding the 12 individual monthly returns.

As the UK economy shows early signs of recovery, stimulated by growth in the housing market, demand for wood products, from new housing starts, has brought upward pressure to bear on wood prices. Demand for commercial forest property continues to exceed supply. For UK-based investors, the tax reliefs available for investment in commercial forests have been consistently maintained by successive governments. Timber revenues free of Income Tax and 100% business relief from Inheritance Tax, are particularly attractive to investors. Returns are underpinned by biological growth, over a long investment cycle and wood is both a renewable resource and carbon sink.

The IPD UK Annual Forestry Index return over 21 years to December 2013 rose to 8.5%. Forestry is a long-term investment and has shown low correlation with equity performance, but does show performance trends in response to the fundamental return drivers (See notes below). Land-based assets are providing an alternative home for cash deposits in times of low interest rates and for investors in general, seeking less volatile markets. The value of land underlying forests continues to rise in real terms and is increasingly important as a determinant of returns.

Growth of the renewable energy market has increased demand for woody biomass for heat and power generation and this demand is now established within the UK wood supply chain. Renewable Heat Incentive payments underpin the investment case for conversion from fossil-fuel-based power and heat generation to use of biomass.

Timber prices achieved by private sector growers are reported by the Forestry Index sponsors to have been both buoyant and resilient in 2013. Prices moved upward in the first quarter of 2014 as the focus of harvesting resource on diseased larch crops has left spruce in shorter supply than 12 months ago. The exchange value of sterling is a driver of demand for UK-grown timber. There remains a significant gap between Euro, US Dollar & Swedish Krona denominated import prices and home grown prices based in GB Pounds. By 2013, the UK timber industries' market share of total UK wood products consumption had risen to 46%, leaving significant scope for UK growers and saw-millers to capture more of the market in future.

The demand for forestry assets and the prices achieved are a function of forest quality and location. The IPD Index continues to reflect the impact of these factors on returns, whilst forests of predominantly spruce, those included in the Index, sell at a premium to other species in the uplands. The total forest property traded in the UK on the market in 2013 was estimated by sponsors to be approximately £100 million. The supply of forest properties to the market remains limited, whilst planting of significant areas of new commercial forests remains a government ambition.

Looking forward, the forestry industry faces the challenge of long-term mitigation of the more adverse impacts of climate change and global trade, whilst creating the stable investment environment that will promote new planting of commercial forests. Lowland forests, in England, have been the focus of this debate, but attention is now moving north to Scotland where the balance of long term supply and demand for home grown wood will need to be addressed by government and industry.

The 'Grown in Britain' campaign continues to seek to exploit the green credentials of UK timber, in promoting its use in new-build housing and building products, in an increasingly environmentally sensitive and regulated consumer market. A recent article in Popular Science magazine highlights the growing appreciation of wood as a building material.

The creation of new long term supplies of timber through planting of new commercial forests is emerging as the principle challenge of the UK Forestry Industry and Government. Investors have identified the opportunity increasing demand for land and timber presents. For the sector as a whole to maintain confidence, it will be required to maintain and increase long term inward investment by creating an environment that promotes the efficient expansion of new commercial forests.

Notes

The IPD UK Annual Forestry Index performance trends over the past 21 years could be described as follows:

Between the late 1990s and mid 2000s, forestry property values fell in response to timber price falls and strengthening of sterling against the US dollar and Swedish kroner. UK-grown timber products experienced high levels of competition from unsustainable levels of timber imports from the Baltic States. Timber prices fell by over 70%.

From 2004, forestry returns recovered. Inward capital investment in timber processing and infrastructure impacted on efficiencies; sterling weakened; timber prices increased; whilst global demand from the Far East impacted commodity supplies, generally.

From the late 2000s the incentives to use wood as an energy source have helped move timber prices to new levels. At the same time, land-based assets have provided an alternative home for cash-deposits in times of low interest rates and for investors in general, seeking less volatile markets.

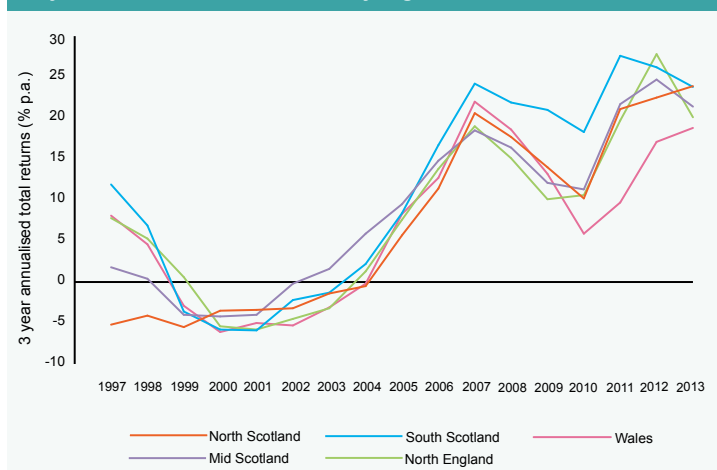
Valuation by region (£ per hectare)

| Percentile | North Scotland | Mid Scotland | South Scotland | North England | Wales |
|-----------------|----------------|--------------|----------------|---------------|--------|
| 5th percentile | 6,569 | 9,055 | 9,919 | 16,580 | 10,507 |
| Upper quartile | 4,959 | 6,579 | 7,327 | 7,936 | 8,827 |
| Median | 3,689 | 5,025 | 5,851 | 6,607 | 6,963 |
| Lower quartile | 3,042 | 4,285 | 4,272 | 5,655 | 5,053 |
| 95th percentile | 1,634 | 2,928 | 3,612 | 3,352 | 3,256 |
| Average | 3,867 | 5,658 | 7,060 | 9,115 | 6,382 |

Performance by region of plantation (see tables overleaf for figures)

The South of Scotland remained the best performing region of the sample over five years with an annualised total return of 23.3% year on year to the end of 2013. Also the largest region, this area contains 62 forests and represents over 50% of the total value.

3 year annualised total returns by region



All other regions posted very strong annualised total returns in the three years to 2013, ranging from 18.8% in Wales to 23.9% in North Scotland. The South of Scotland has been the strongest performing region over the 21 year history of the index with an annualised total return of 10.6%, several percentage points in excess of all the other regions. Notably timber sales by weight of value were once again markedly above average in the North of England in 2013 at 7.7%, suggesting high levels of harvesting helped drive performance in this region.

Summary of full results

Index series

| Year end 31st Dec | No. of forests | Capital Value (£ millions) | Total return (%pa) | Total return index | Income return (%pa) | Income return index | Capital growth (%pa) | Capital growth index | Timber sales by weight of capital value | Timber price change (%pa) |
|-------------------|----------------|----------------------------|--------------------|--------------------|---------------------|---------------------|----------------------|----------------------|---|---------------------------|
| 2001 | 175 | 79.0 | -1.1 | 110.5 | -0.9 | 94.0 | -0.2 | 117.5 | - | 1.0 |
| 2002 | 170 | 74.6 | -4.7 | 105.3 | -0.7 | 93.3 | -4.0 | 112.8 | - | -24.0 |
| 2003 | 165 | 71.4 | 1.3 | 106.7 | -1.2 | 92.2 | 2.5 | 115.6 | - | -20.0 |
| 2004 | 161 | 74.4 | 9.2 | 116.5 | -1.5 | 90.9 | 10.9 | 128.2 | 3.2 | 19.9 |
| 2005 | 158 | 83.1 | 14.4 | 133.3 | -1.8 | 89.3 | 16.4 | 149.2 | 4.0 | 4.2 |
| 2006 | 151 | 95.4 | 20.7 | 160.8 | -1.4 | 88.0 | 22.3 | 182.5 | 2.7 | 9.6 |
| 2007 | 145 | 112.9 | 31.6 | 211.5 | -1.2 | 87.0 | 33.1 | 242.9 | 5.1 | 50.2 |
| 2008 | 148 | 124.2 | 7.1 | 226.5 | -1.8 | 85.4 | 9.0 | 264.8 | 5.2 | -1.5 |
| 2009 | 139 | 126.7 | 11.2 | 251.9 | -1.3 | 84.3 | 12.6 | 298.3 | 3.0 | -26.0 |
| 2010 | 143 | 149.2 | 20.8 | 304.2 | -1.1 | 83.5 | 22.1 | 364.1 | 3.5 | 48.7 |
| 2011 | 139 | 184.2 | 32.9 | 404.3 | -0.5 | 83.1 | 33.5 | 486.0 | 4.0 | 19.0 |
| 2012 | 155 | 227.6 | 18.6 | 479.6 | -0.9 | 82.3 | 19.7 | 581.9 | 3.5 | -1.9 |
| 2013 | 143 | 237.2 | 15.8 | 555.5 | -0.8 | 81.7 | 16.7 | 679.1 | 2.8 | -2.3 |

Return indexes based at 1992=100

Tax position as at December 2013

| | |
|-------------------|---|
| Income Tax | All income from UK timber sales is free of Income & Corporation Tax |
| Capital Gains Tax | Growing timber is exempt from Capital Gains Tax |
| Inheritance Tax | After two years of ownership, commercial woodlands qualify for 100% Business Property Relief. |

Sample composition by region

| Region | North Scotland | Mid Scotland | South Scotland | North England | Wales | Total |
|-----------------|----------------|--------------|----------------|---------------|-------|-------|
| No. of forests | 20 | 22 | 62 | 11 | 28 | 143 |
| % Capital value | 5.6 | 11.7 | 52.0 | 8.8 | 22.0 | 100.0 |

Long term total return by region (%pa)

| Year end 31st Dec Annualised | North Scotland | Mid Scotland | South Scotland | North England | Wales |
|------------------------------|----------------|--------------|----------------|---------------|-------|
| 2004-07 | 20.6 | 18.5 | 24.2 | 19.0 | 22.0 |
| 2005-08 | 17.7 | 16.4 | 21.9 | 15.1 | 18.6 |
| 2006-09 | 14.0 | 12.1 | 21.0 | 10.1 | 13.2 |
| 2007-10 | 10.2 | 11.3 | 18.3 | 10.6 | 5.9 |
| 2008-11 | 21.1 | 21.7 | 27.6 | 19.7 | 9.7 |
| 2009-12 | 22.5 | 24.7 | 26.2 | 27.8 | 17.1 |
| 2010-13 | 23.9 | 21.4 | 23.8 | 20.1 | 18.8 |
| 5 Year rolling | | | | | |
| 2004-09 | 14.9 | 13.5 | 20.6 | 12.3 | 13.9 |
| 2005-10 | 15.9 | 15.8 | 22.2 | 14.9 | 13.3 |
| 2006-11 | 19.1 | 18.5 | 24.8 | 17.3 | 14.0 |
| 2007-12 | 16.0 | 17.1 | 21.8 | 17.2 | 11.2 |
| 2008-13 | 19.6 | 18.8 | 23.3 | 17.9 | 13.4 |
| Longest period | | | | | |
| 1992-13 | 5.9 | 7.2 | 10.6 | 7.2 | 6.6 |

Range of return by region 2010-2013 (%pa)

| Percentile | North Scotland | Mid Scotland | South Scotland | North England | Wales |
|------------------|----------------|--------------|----------------|---------------|-------|
| 5th percentile | 35.2 | 33.9 | 51.6 | 28.2 | 45.1 |
| Upper quartile | 18.0 | 21.4 | 25.7 | 22.7 | 27.6 |
| Median | 13.6 | 14.3 | 17.0 | 20.2 | 17.5 |
| Lower quartile | 8.1 | 8.0 | 9.7 | 18.7 | 12.8 |
| 95th percentile | 0.7 | 5.4 | 6.0 | 7.2 | 8.7 |
| Weighted average | 23.9 | 21.4 | 23.8 | 20.1 | 18.8 |

Timber sales by weight of value by region (%pa)

| Year end 31st Dec Annualised | North Scotland | Mid Scotland | South Scotland | North England | Wales |
|------------------------------|----------------|--------------|----------------|---------------|-------|
| 2012 | 2.7 | 5.3 | 3.0 | 9.8 | 1.7 |
| 2013 | 0.6 | 3.4 | 1.7 | 7.7 | 3.8 |

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Contact

Forestry market: mark.weedon@ipd.com +44.20.7336.9286
General enquiries: enquiries@ipd.com +44.20.7336.4783

IPD Head Office
 Ten Bishops Square
 London E1 6EG, UK
 T: +44.20.7336.9200
 F: +44.20.7336.9399
 www.ipd.com
 @IPDnews