
Timber – Smart investment in a century old, yet “new” resource

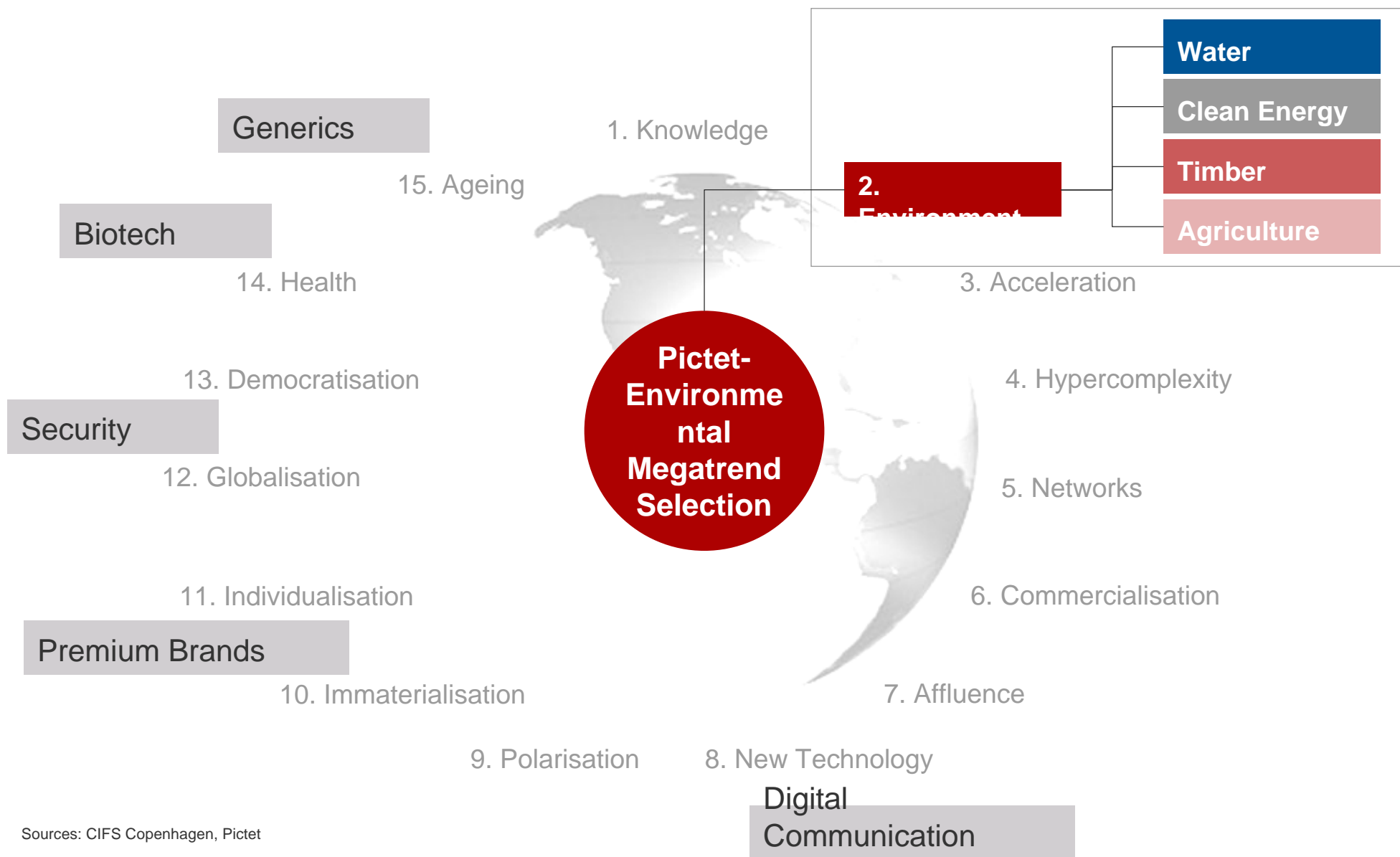
Guillaume Chagnard, CFA

Antalya

11th October 2011



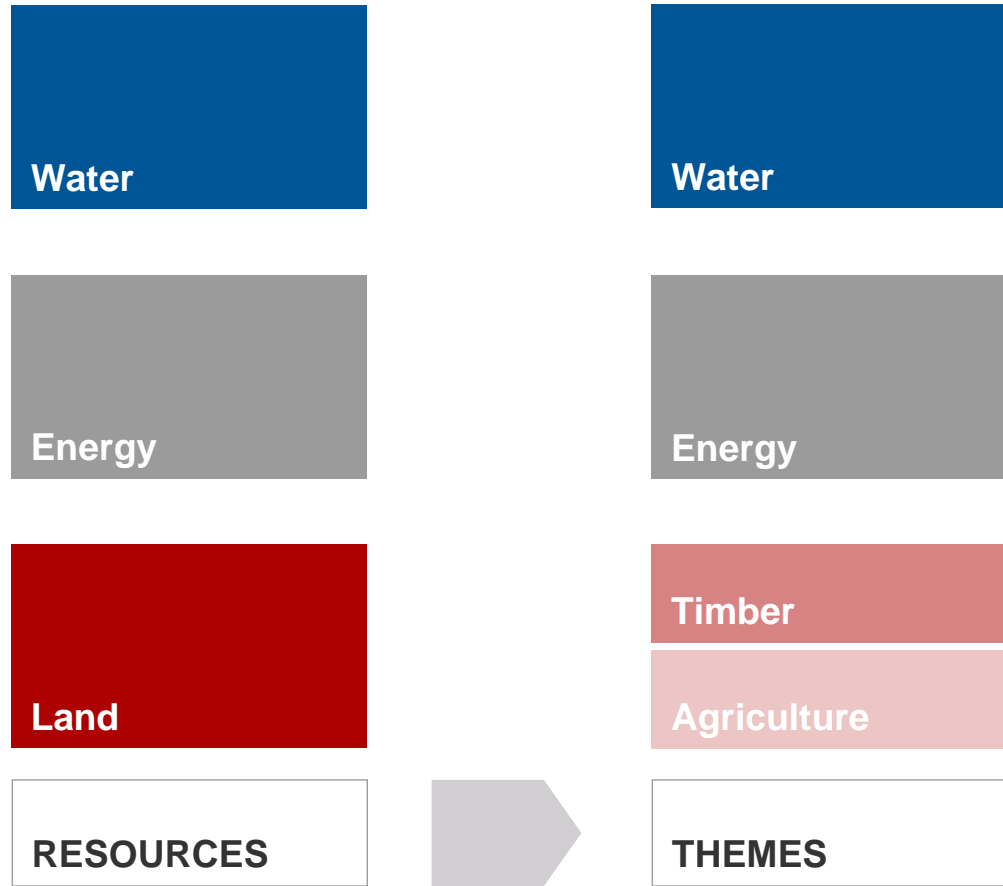
Environmental megatrends



Sources: CIFS Copenhagen, Pictet

Three main environmental resources

Three resources – four themes



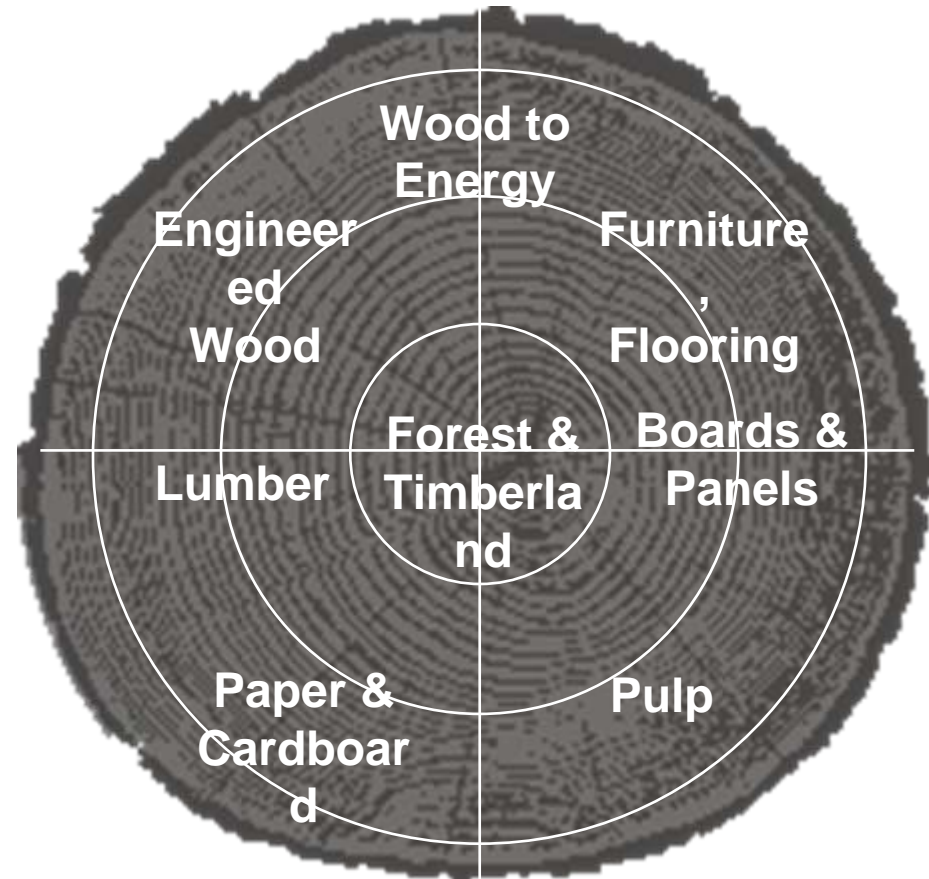
Timber investing

What we do:

Invest in the whole forest and timber value chain

Focus on companies owning forests and timberland

Invest in listed securities only



- Economic & demographic growth
 - More and richer people will consume more and more wood products

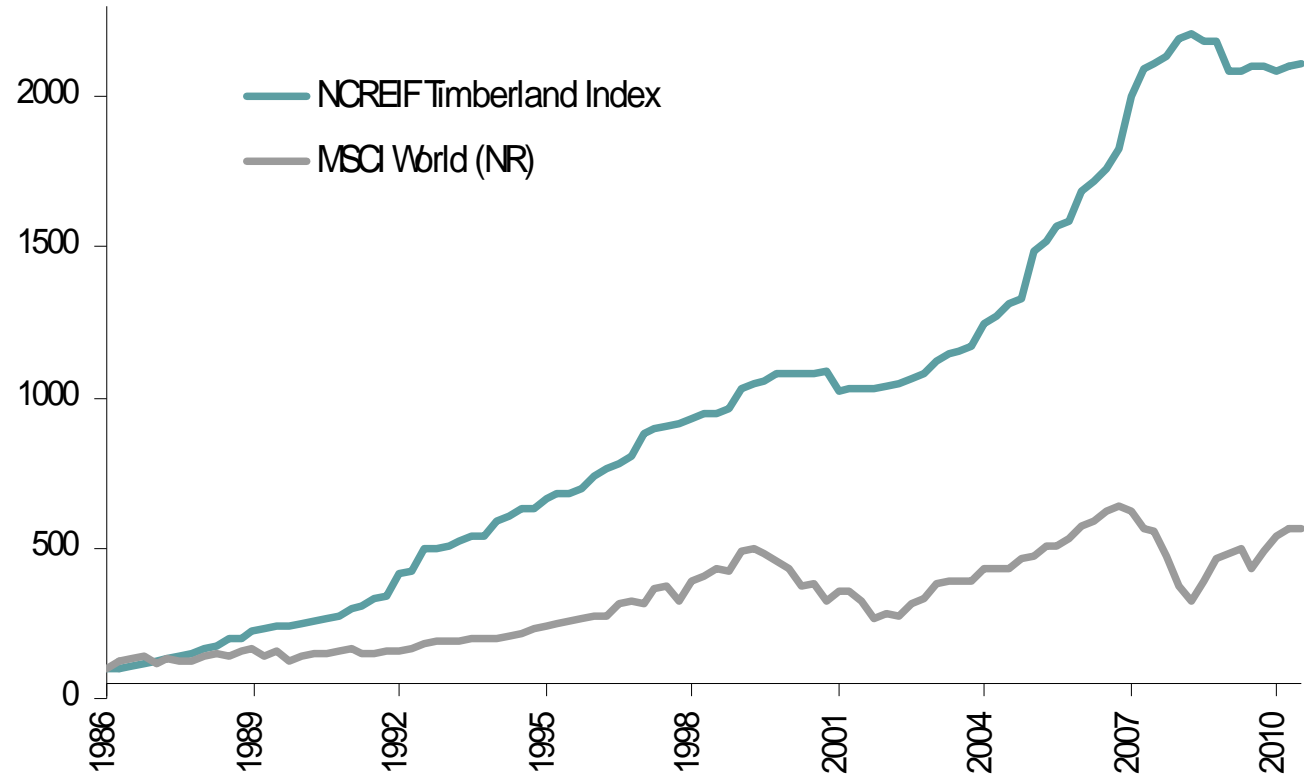
- Supply squeeze
 - Biological limits of production; net loss of forest surface and increasingly difficult access

- Environmental options value
 - Carbon storage capacity of forests can play key role in climate change; wood as CO₂-neutral energy substitute

Timberland: historical performance of private equity investments



NCREIF Timberland index vs MSCI World, 1987-2011(Q2)

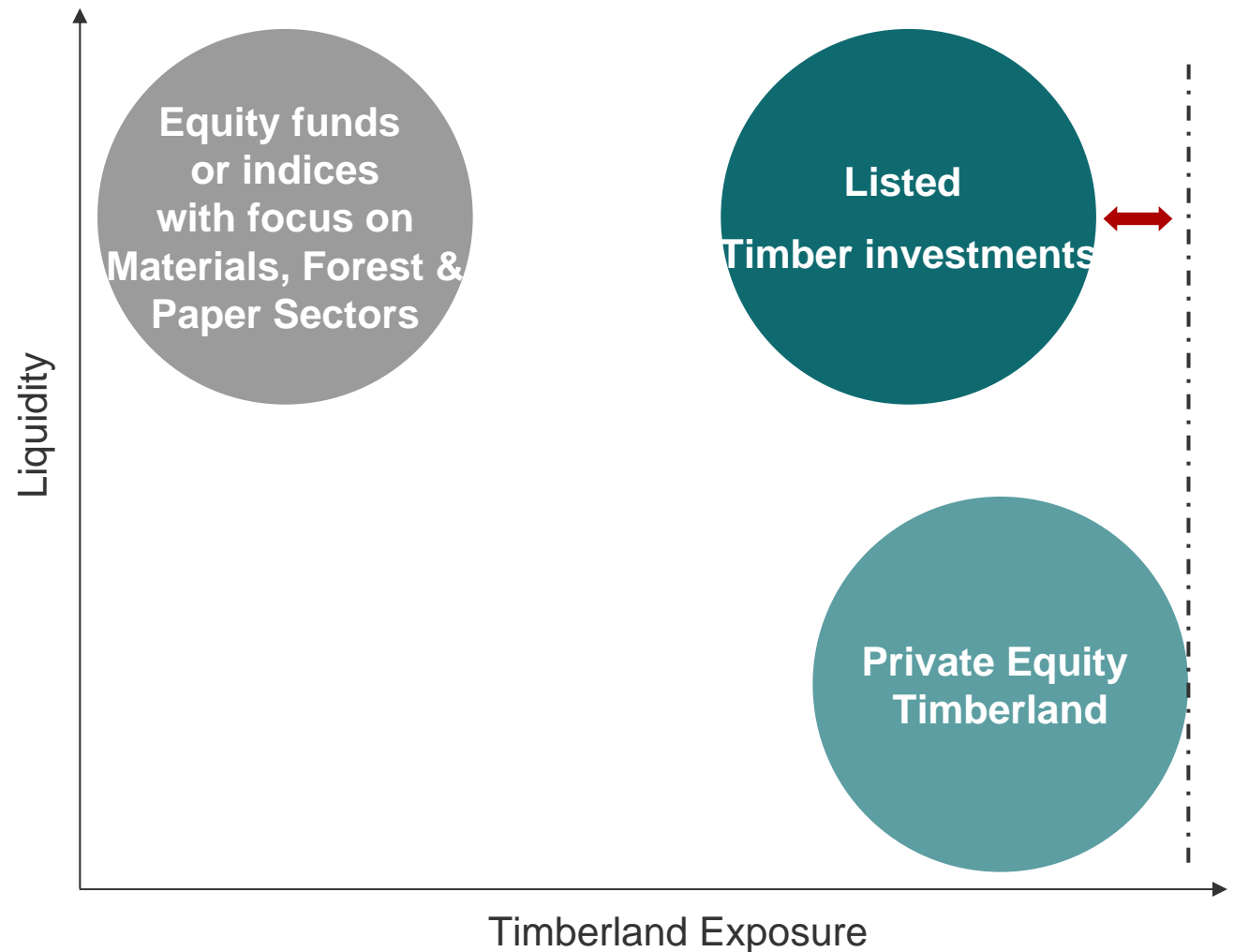


Please note this data refers to private equity timberland investments

Source: NCREIF Timberland Index, Bloomberg

Unique positioning of listed Timber investments

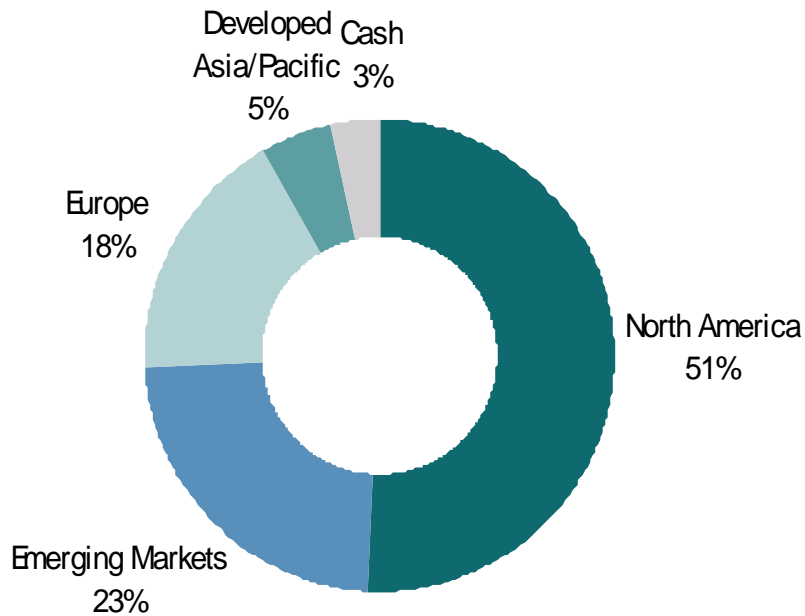
Trade-off between timberland exposure and liquidity



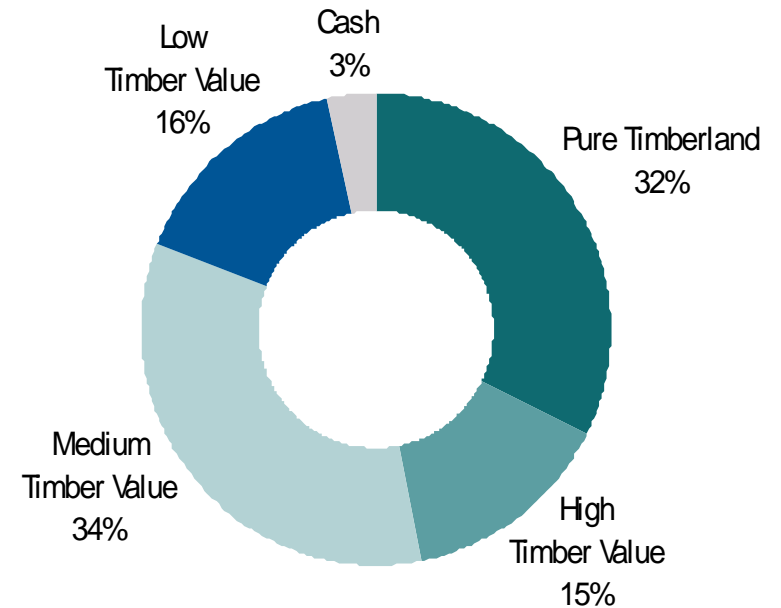
Geographic and market cap breakdown



Geographic breakdown



Segment breakdown / timberland exposure



Pure Timberland: Company focused on timberland, 100% Timber Value

High Timber Value: Integrated company, 60-100% Timber Value

Medium Timber Value: Integrated company, 20-60% Timber Value

Low Timber Value: Companies with < 20% Timber Value

Source: Pictet Asset Management/PAMFolio, Bloomberg, as of 31/08/11

Source: Pictet Asset Management/PAMFolio, Bloomberg, as of 31/08/11

Top 10 Holdings



Company	Domicile	Market cap (\$bn)	% in fund	Timberland exposure	% Timber value	Products and services
 Rayonier	US	5.1	6.7	Pure	100	Owns and manages timberland and real estate
 Plum Creek	US	6.2	6.7	Pure	100	Grows, harvests and markets timber and logs
 Weyerhaeuser	US	9.7	5.6	High	100	Grows and harvests timber, manufactures forest products
 Potlatch	US	1.3	5.2	Pure	100	Grows and harvests timber, manufactures wood products
 SCA	Sweden	9.5	5.0	Medium	50	Timberlands, paper & packaging, hygiene products
 EMPRESAS cmpc	Chile	9.5	4.7	High	80	Owns forest plantations, manufactures wood products
 UPM	Finland	6.9	3.7	Medium	32	Manufactures forest products, papers and sawn products
 mondi	South Africa	4.3	3.7	Medium	51	Manufactures packaging and paper. Owns forest in South Africa
 DELTA	US	0.7	3.6	Pure	100	Grows and harvests timber, manufactures and markets lumber
 MWV	US	5.2	3.1	Medium	30	Leading company in consumer packaging, specialty chemicals and land/real estate

Source: Pictet Asset Management, Bloomberg, as of 31/08/11

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Why invest in listed timber equities?



Timberlands of forest-rich listed companies are clearly undervalued

Each listed company is already a well diversified timberland portfolio

Discount of listed forest holdings versus private equity market

	Stand alone value of Timberlands	Public market value	Current discount
WEYERHAEUSER	USD 14'614 bn	USD 8'595 bn	-41%
PLUMCREEK	USD 11'327 bn	USD 7'560 bn	-33%
POTLATCH	USD 2'419 bn	USD 1'651 bn	-32%
DELTIC	USD 808 mio	USD 648 mio	-28%

Source: FactSet, Bloomberg, Pictet Asset Management estimates, as of 31/08/11

Three levels of sustainability



Why Timber?

- Rising demand due to ongoing economic & demographic growth
- Decreasing availability of timber leading to a supply squeeze
- Environmental constraints & option values (Climate Change, energy substitution)
- Timber will be one of the strategic key resources of the future

Why now?

- Underlying timberlands are largely immune to economic cycles and act as good inflation hedge
- Forest assets of integrated companies are valued below their standalone value

Appendices

Investment team



Periodic board to review industry developments

ADVISORY BOARD

Gabriel Micheli
Investment Manager

Christoph Butz
Sustainability Expert

INVESTMENT MANAGERS

Scoring input
- Timber

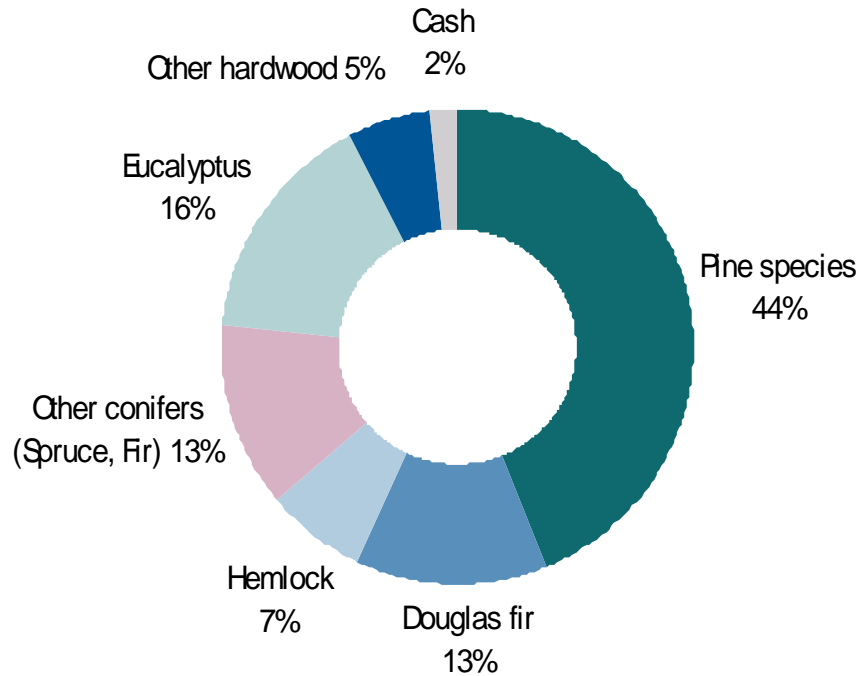
Daily meetings and exchange of ideas via internal chat system

PAM EQUITY RESEARCH
EMERGING MARKETS
DEVELOPED MARKETS
SMALL CAP TEAM

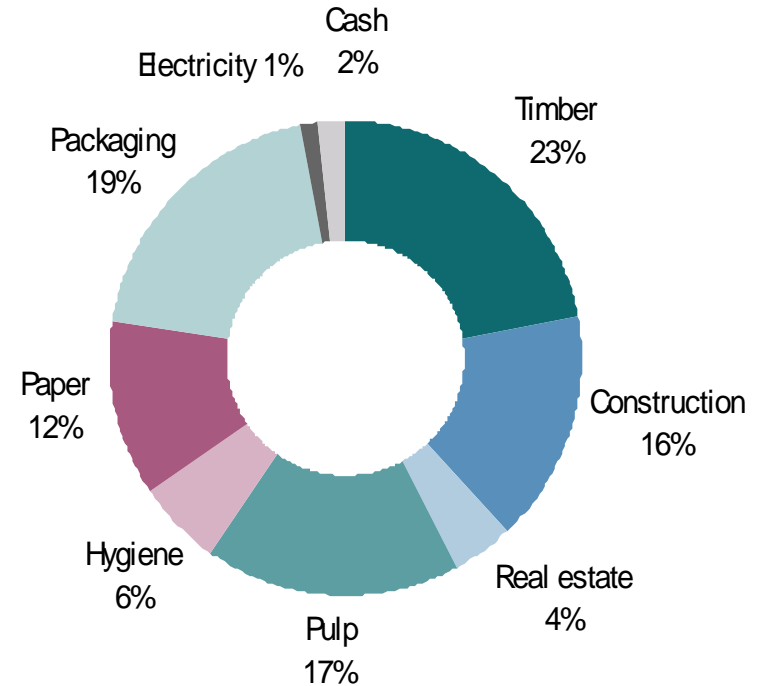
Species and end market breakdown



Species breakdown



End market breakdown



Source: Pictet Asset Management/PAMFolio, Bloomberg, as of 30/04/11

Sustainability policy

- **Avoid** investments in companies that constitute **unacceptable risk** of contributing to **violations of fundamental humanitarian principles**, serious violations of human rights, gross corruption or severe environmental damage
- Maintenance of **Blacklist** with controversial companies, based on the most authoritative sources in the field, such as the Council on Ethics for the Government Pension Fund of Norway
- Regular review and update of Blacklist by **Pictet Sustainable Investment Board (SIB)**

- Invest only in companies with **clear and strategic exposure** to one of Pictet's **themes** derived from the environmental megatrend - Water, Clean Energy, Timber, Agriculture
- **Minimum exposure of 20 to 50%** to particular theme required to be eligible for inclusion in underlying theme; average theme exposure on underlying theme level goes up to 80%
- Pictet's investment management teams incorporate environmental, social and/or corporate governance issues and controversies, which may negatively impact a companies' **business franchise** (long term ability to generate cash flow) as part of investment process

Voting rights and engagement

- Two instruments
 - Voting rights will be exercised selectively by Pictet, based on best corporate governance and sustainability practices
 - Engage companies in a dialogue with aim to improve business standards and best practice in particular industry
- In the field of sustainability, Pictet cooperates with Geneva-based **Ethos Foundation**, a pioneer in Corporate Governance with a long-standing track record in this area. Ethos has been mandated to **engage selected companies** on behalf of Pictet

Ethos engagement process



Examples of monitoring of ESG issues

- Child labor and health issues
- Pollution and waste management
- Controversial dam projects
- Anti-competitive practices
- Labor rights

Engagement objectives

- Focus on most exposed companies to ESG controversies
- Engagement planned on at least a two years horizon per company
- Stand-alone or collaborative initiatives (letters, visits, resolutions)
- Voting rights used accordingly to engagement objectives

Ethos engagement recommendations

- Proposition of strategies to improve management of controversial issues
- If no reaction, disinvesting could be a way to protect value and reputation of the fund according to its objectives

For more information, please contact

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