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

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Antalya
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Environmental megatrends

1. Knowledge
2. Environment
3. Acceleration
4. Hypercomplexity
5. Networks
6. Commercialisation
7. Affluence
8. New Technology
9. Polarisation
10. Immaterialisation
11. Individualisation
12. Globalisation
13. Democratisation
14. Health
15. Ageing

Generics
Biotech
Security
Premium Brands

Water
Clean Energy
Timber
Agriculture

Sources: CIFS Copenhagen, Pictet
Three main environmental resources

Three resources – four themes

Water

Energy

Land

RESOURCES

Water

Energy

Timber

Agriculture

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
Timber drivers

• 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

- Listed Timber investments
- Private Equity Timberland
- Equity funds or indices with focus on Materials, Forest & Paper Sectors

Timberland Exposure vs. Liquidity
Geographic and market cap breakdown

Geographic breakdown

- Cash: 3%
- Developed Asia/Pacific: 5%
- Europe: 18%
- Emerging Markets: 23%
- North America: 51%

Segment breakdown / timberland exposure

- Cash: 3%
- Low Timber Value: 16%
- Medium Timber Value: 34%
- High Timber Value: 15%
- Pure Timberland: 32%

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
## Top 10 Holdings

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

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

<table>
<thead>
<tr>
<th>Discount of listed forest holdings versus private equity market</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stand alone value of Timberlands</strong></td>
</tr>
<tr>
<td>--------------------------------------</td>
</tr>
<tr>
<td>WEYERHAEUSER</td>
</tr>
<tr>
<td>PLUMCREEK</td>
</tr>
<tr>
<td>POTLATCH</td>
</tr>
<tr>
<td>DELTIC</td>
</tr>
</tbody>
</table>

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

Three levels of sustainability

EXCLUSION → INCLUSION → ACTIVE OWNERSHIP (engagement)
Conclusions

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

Gabriel Micheli
Investment Manager

Christoph Butz
Sustainability Expert

Scoring input
- Timber

Daily meetings and exchange of ideas via internal chat system

ADVISORY BOARD

INVESTMENT MANAGERS

PAM EQUITY RESEARCH
EMERGING MARKETS
DEVELOPED MARKETS
SMALL CAP TEAM
Species and end market breakdown

Species breakdown

- Eucalyptus: 16%
- Other conifers (Spruce, Fir): 13%
- Hemlock: 7%
- Douglas fir: 13%
- Other hardwood: 5%
- Cash: 2%
- Pine species: 44%

End market breakdown

- Timber: 23%
- Construction: 16%
- Real estate: 4%
- Paper: 12%
- Pulp: 17%
- Hygiene: 6%
- Packaging: 19%
- Electricity: 1%
- Cash: 2%
- Pine products (construction, paper): 23%

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

- **Avoid** investments in companies that constitute an 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)**.
Inclusion

• 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
Active ownership

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

ESG MONITORING → BEST PRACTICE AND IMPROVEMENT REQUIREMENT → DIRECT CONTACTS WITH COMPANY → ETHOS RECOMMENDATIONS → ENGAGEMENT EVALUATION
Ethos fund engagement overview

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
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