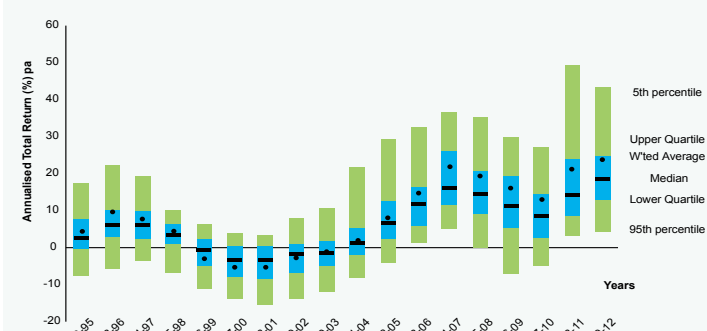


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Range of individual forests returns



3 year rolling annualised returns

3 year (%pa)	Weighted average	Top 5%	Upper quartile	Median	Lower quartile	Bottom 5%
2002-05	8.2	29.2	12.5	6.6	2.5	-4.1
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	23.9	43.3	24.6	18.4	13.0	4.2

2012 performance summary

In 2012, the IPD Forestry Index showed a total return of 18.3% for the year, an expected step down from the 32.9% seen in 2011 continuing the trend for very strong performance by forestry investment in the UK. The three year annualised total return of 23.9% is nearly triple the 8.1% annualised total return achieved over the past 20 years.

The distribution of three year annualised total return shows that the median at just 18.4% falls well below the weighted average of 23.9%, indicating that larger lot sizes have generally outperformed smaller ones. Over the 20 year history, higher value lots have tended to outperform with the annualised weighted average total return 1.5% 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 sale receipts which complement long-term growth in the underlying value of land. In 2012, capital receipts from timber sales were equivalent to 3.3% of the total value of the index.

Timber prices fell by -1.9% in 2012. This still leaves the three year average price rise at 20.2% which can be credited as a contributory factor to the strong performance of forestry investment during this period, with the impact likely to be greater the closer a forest is to maturity.

The decade to the end of 2012 has seen continuous stellar performance by UK forestry investment with annualised total returns of 23.9%, 17.7% and 16.3% 3, 5 & 10 years respectively and no years of negative returns. This performance should be noted for its superiority over commercial property, residential property, rural 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 8.1% over the full 20 year time frame.

5 year rolling and long term annualised returns

5 year (%pa)	Weighted average	Top 5%	Upper quartile	Median	Lower quartile	Bottom 5%
2002-07	15.0	26.0	16.7	12.8	7.6	-0.3
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	20.3	37.8	21.2	14.1	9.2	1.4
2007-12	17.7	29.9	18.0	12.5	8.0	1.5
Long term (%pa)						
1992-12	8.1	13.1	9.6	6.6	5.4	2.5

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 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.

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 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 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. For the first time in 2012 the index includes the capital and income element of the return, along with the weight of capital receipts from timber sales relative to the value of the index.

The IPD Forestry Index marked its 20th year in 2012, with demand for commercial UK forests continuing to outstrip supply.

The drivers of forestry returns, such as future wood supply dynamics, timber price, energy price, together with the unique green credentials of wood products, have combined to strengthen demand for forest assets.

For UK-based investors, the significant tax advantages of investment in forests and rural-based assets have been consistently maintained by successive governments. Timber revenues free of Income Tax and 100% Business Relief are particularly attractive to investors. Returns are underpinned by biological growth, over a long investment cycle.

The IPD Forestry Index return annualised over 20 years to December 2012 rose to 8.1%. By comparison, the long-term 30 year return shown in the IPD Rural Property Index, rose to 8.5% by December 2011. 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.

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

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. Rural property delivered a total return of 15.9% in 2011. Benchmarking forestry returns with rural property will be increasingly important from now on, both are dominated by capital growth rather than cash yield returns.

Bio security threats posed by the global trade in plant products and materials mean tree disease risk has risen. The forestry industry has a natural propensity to think long-term and so address the challenge of long-term mitigation of the more adverse impacts of climate change, whilst looking to maximise the opportunities. Lowland forests in England are the focus of this debate.

Timber prices achieved by private sector growers are reported by the Forestry Index sponsors to have been buoyant and resilient in 2012. Public sector standing timber prices reported by the Forestry Commission rose by 94% over the five years to September 2011, but slowed significantly in the last 12 months.

Sterling weakened in the second half of 2012 against the euro and dollar, after a stronger first half. The exchange value of sterling is a driver of demand for UK-grown timber.

The recently announced 'Grown in Britain' campaign seeks 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. During 2012, the UK timber industries' market share of UK sawn softwood consumption had risen to over 40%, 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 open market in 2012 was estimated by sponsors to be approximately £65 million, rising significantly year on year. Sales of state-owned forests have continued in Scotland, but not elsewhere. Supply of new forestry property to the market remains limited for the foreseeable future, whilst planting of significant areas of new commercial forests remains just government ambition.

In summary, the medium and long-term demands on wood supply from both traditional and emerging wood markets remains a great opportunity for investors in UK forests. Rural property and land, including UK forest and woodlands, is considered by many investors to be a safe haven for long-term investment allocation, aimed at capital growth and preservation.

The IPD Forestry Index performance trends over the past 20 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. Rural property values increased by nearly 16% in 2011.

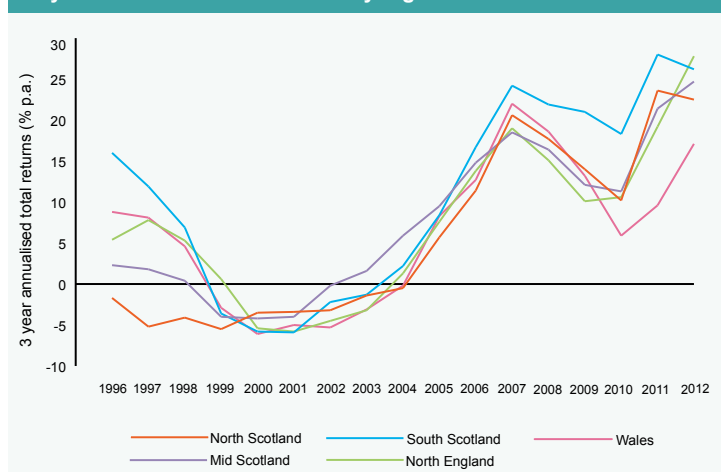
Valuation region (£ per hectare)

Percentile	North Scotland	Mid Scotland	South Scotland	North England	Wales
5th percentile	6,367	10,000	8,745	9,482	9,116
Upper quartile	4,468	6,080	6,373	7,941	7,364
Median	3,600	4,614	5,323	7,321	6,320
Lower quartile	2,650	4,173	3,964	5,729	4,360
95th percentile	1,435	2,548	2,842	4,710	3,596
Weighted average	3,011	4,148	4,947	5,188	4,984

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 21.8% year on year to the end of 2012. Also the largest region, this area contains 66 forests and now represents over 50% of the total value. However, the North of England performed strongly in 2012 and delivered the highest annualised total return of 27.8% over three years.

3 year annualised total returns by region



All other regions posted very strong annualised total returns in the three years to 2012, ranging from 17.1% in Wales to 24.7% in Mid Scotland. The South of Scotland has been the strongest performing region over the 20 year history of the index with an annualised total return of 10.3%, several percentage points in excess of all the other regions.

Notably timber sales by weight of value were markedly above average in the North of England in 2012 at 9.4%, suggesting high levels of harvesting helped drive performance in this region.

Summary of full results										
Index series										
Year end 31st Dec	No. of forests	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)	*Timber price index
2000	155	-2.9	111.7	-1.5	94.8	-1.5	117.8	-	6.8	61.1
2001	163	-1.1	110.5	-0.9	94.0	-0.2	117.5	-	1.1	61.8
2002	169	-4.7	105.3	-0.7	93.3	-4.0	112.8	-	-24.0	47.0
2003	165	1.3	106.7	-1.2	92.2	2.5	115.6	-	-20.0	37.6
2004	161	9.2	116.5	-1.5	90.9	10.9	128.2	3.2	19.8	45.0
2005	169	14.4	133.3	-1.8	89.3	16.4	149.2	4.0	4.2	46.9
2006	151	20.7	160.8	-1.4	88.1	22.3	182.5	2.7	9.4	51.3
2007	145	31.6	211.5	-1.2	87.0	33.1	242.9	5.1	50.3	77.2
2008	148	7.1	226.5	-1.8	85.4	9.0	264.8	5.2	-1.5	76.0
2009	139	11.2	251.9	-1.3	84.4	12.6	298.3	3.0	-25.9	56.3
2010	143	20.8	304.2	-1.1	83.5	22.1	364.1	3.5	48.6	83.7
2011	139	32.9	404.3	-0.5	83.1	33.5	486.1	4.0	19.1	99.6
2012	148	18.3	478.5	-0.9	82.3	19.4	580.5	3.3	-1.9	97.8

Total return and timber price indices based at 1992=100

* Forestry Commission Nominal Price Index of Coniferous Standing Sales (for Great Britain) on a year to September basis (2012 = September). It reflects the price in other years of the size and mix of timber sold in the base year. This is based on a size and mix of timber in 1996 and the series has been re-based to 1992.

Tax position as at December 2012	
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 wood-lands qualify for 100% Business Property Relief.

Sample composition by region						
Region	North Scotland	Mid Scotland	South Scotland	North England	Wales	Total
No. of forests	21	22	66	12	27	148
% Capital value	6.8	13.9	51.2	7.4	20.7	100.0

Long term total return by region (%pa)					
Year end 31st Dec Annualised	North Scotland	Mid Scotland	South Scotland	North England	Wales
2003-06	11.4	14.8	16.7	13.8	12.7
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
5 Year rolling					
2003-08	13.3	14.4	18.3	13.8	15.9
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
Longest period					
1992-12	5.2	7.0	10.3	7.3	6.1

Range of return by region 2009-2012 (%pa)					
Percentile	North Scotland	Mid Scotland	South Scotland	North England	Wales
5th percentile	26.0	43.5	47.7	36.5	38.0
Upper quartile	20.7	21.9	27.1	31.7	23.3
Median	15.2	17.3	18.4	20.6	19.1
Lower quartile	12.4	13.3	14.3	17.6	9.9
95th percentile	9.4	5.8	7.5	13.2	-1.0
Weighted average	22.5	24.7	26.2	27.8	17.1

Timber sales by weight of value by region (%pa)					
Year end 31st Dec Annualised	North Scotland	Mid Scotland	South Scotland	North England	Wales
2006-2008	4.6	5.8	4.6	4.5	2.7
2007-2009	3.5	5.0	5.3	5.3	2.6
2008-2010	1.8	3.8	5.1	3.9	2.4
2009-2011	0.5	2.9	5.0	3.0	2.1
2010-2012	1.3	3.8	4.3	5.2	2.2
5 Year annual average					
2006-2010	3.1	4.6	4.8	3.5	2.2
2007-2011	2.3	4.3	5.2	4.4	2.6
2008-2012	1.7	3.9	4.6	5.2	2.5

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