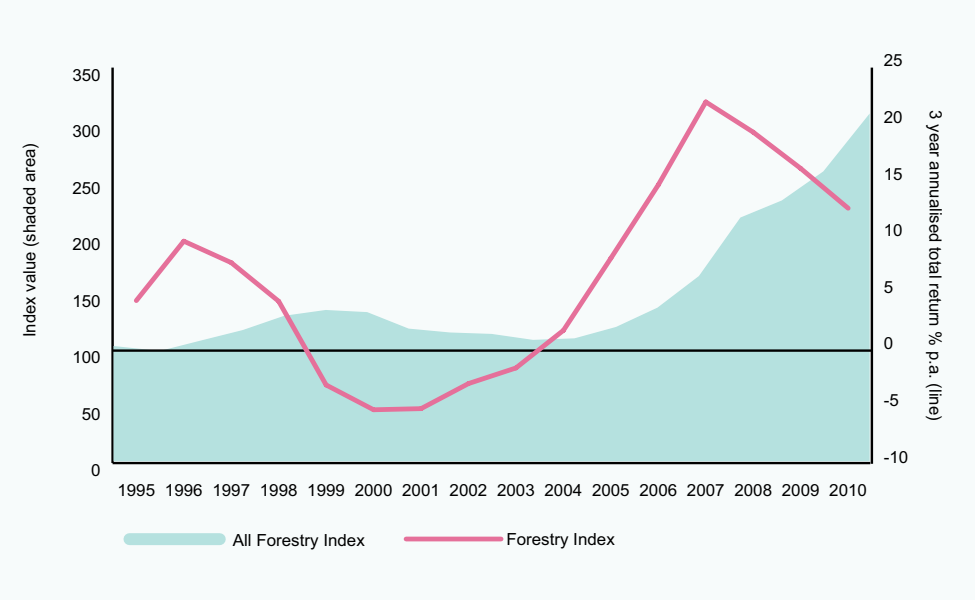
IPD UK Forestry Index

Results for the year to 31st December 2010



Annual

The IPD UK Forestry Index is calculated from a sample of private sector coniferous plantations of predominantly Sitka spruce in mainland Britain and in 2010 returned **20.0%**

IPD UK Forestry Index	Total return index Dec-2009 Dec 1980 = 100	Total return index Dec-2010 Dec 1980 = 100	Total return	Annualised total returns % 3 yrs	5 yrs	10yrs	18yrs
Forestry	251.4	301.6	20.0	12.6	17.7	10.4	6.3
Timber price change*	66.0	91.5	38.5	1.5	12.7	4.5	-0.5

*Forestry Commision Timber Price Index

Other assets (total return)							
Equities	358.9	411.0	14.5	1.4	5.1	3.7	8.2
Gilts	347.8	379.3	9.1	7.7	5.9	5.9	7.7
Commercial property	425.5	489.7	15.1	-2.5	1.1	6.8	9.2

Data Sources: FTSE All-Share Index, FTSE UK Gilts Index 5 - 15 yrs, IPD UK Annual Index, Forestry Commission Nominal Price Index of Coniferous Standing Sales (for Great Britain)

Sponsors

Bidwells, Border Consultants, ConFor, Forestry Investment Management, Forestry Commission, Fountains Forestry, Highfield Forestry, Scottish Woodlands, UPM Tilhill

Index Design

The sample was originally structured to reflect market capitalisation across the regions and an approximately even number of plantations by age band in each region. This pattern has been distorted over the years by the ageing of plantations. For the purpose of the age band analysis plantations are artificially sold and re-purchased when they change bands. Properties are included in the three year rolling returns according to their age in the end-year of the period. Felled plantations are replaced by the youngest age band whenever possible.

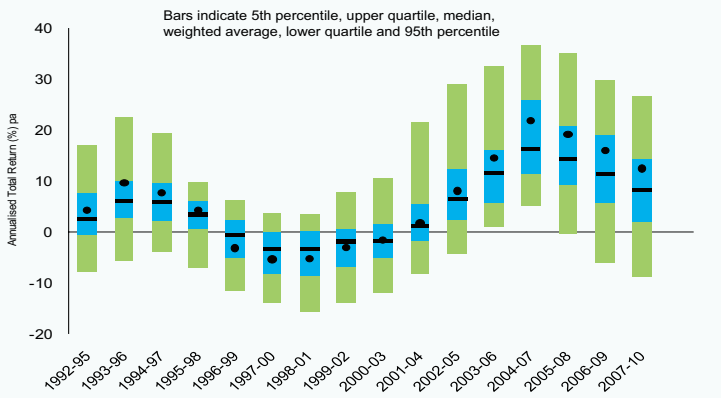
Acknowledgements

IPD would like to thank all those forest owners, land agents and forest managers who have provided information for this analysis and the Forestry Commission who contributed to the cost of data collection and analysis. Forestry consultancy has been provided by the sponsors, who are responsible for the Market Commentary section of the text.

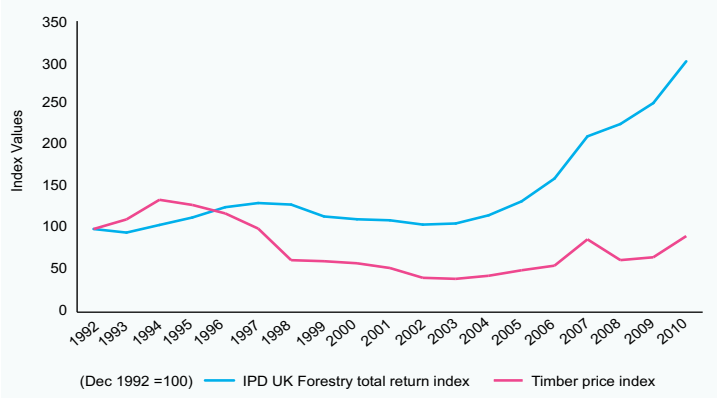
Disclaimer

Summary of Full Results

Range of Individual Forests Returns



IPD Forestry Total Return Index vs Timber Price Index



3 year rolling annualised returns

(%pa) 3 year	Weighted average	Top 5%	Upper quartile	Median	Lower quartile	Bottom 5%
2000-03	-1.5	10.7	1.7	-1.7	-5.0	-11.8
2001-04	1.8	21.6	5.4	1.2	-1.7	-8.3
2002-05	8.2	29.2	12.5	6.6	2.5	-4.1
2003-06	14.6	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	19.3	11.4	5.9	-6.1
2007-10	12.6	26.8	14.2	8.3	2.1	-8.7

5 year rolling and long term annualised returns

(%pa) 3 year	Weighted average	Top 5%	Upper quartile	Median	Lower quartile	Bottom 5%
2000-05	3.6	12.7	5.5	2.2	0.1	-5.3
2001-06	7.8	22.4	10.3	6.1	3.5	-2.0
2002-07	15.0	26.0	16.7	12.8	7.6	-0.3
2003-08	16.2	28.5	17.9	11.7	7.7	0.3
2004-09	16.6	26.3	18.9	13.0	8.5	-0.1
2005-10	17.7	24.7	17.0	12.4	5.8	-5.4
Long term (%pa)						
1992-10	6.3	8.6	5.3	2.0	0.1	-0.4

SUMMARY

In 2010, the average total return on forestry investments was 20.0% pa. This is 8.9 percentage points higher than the 11.1% pa total return seen in 2009. The 2010 total return is third highest since 1992, highlighting strong performance of forestry investment.

The three-year annualised total return is 12.6% pa, which benefited significantly from the 2010 annual return. It is double the 6.3% pa long-term average return, calculated over the last 18 years. That qualifies forestry as a good investment over the long term.

Looking at the distribution of the three-year annualised returns, the top 5% of forests returned 26.8% pa, which contrasts to the to the bottom 5% which returned -8.7% pa. The three-year top quartile forests returned 14.2% pa, which is approximately half that achieved by the top 5% of forests. The bottom quartile returned a mediocre 2.1%, confirming that investment returns were skewed towards good performance.

The 18-year history has shown a similar pattern. The top 5% of investments delivered 8.6% pa, while the bottom 5% recorded -0.4% pa. The top quartile returned 5.3% pa with the bottom quartile at 0.1% pa. The median was just 2.0% pa, which was considerably below the 6.3% long-term average. That further demonstrates that forestry returns were heavily weighted towards the top performers.

Timber prices surged by 38.4% to the year ending March 2011. This year's timber price recovery outstripped 2009's 6.6% pa. The three-year price change of timber ventured into positive territory at 1.5% pa, an indication that increase in timber prices in 2010 significantly altered the commodity's price trend.

Compared to other assets, forestry was the best performer in 2010. Commercial property was a runner up with 15.1%, equities with 14.5% and bottom was gilts with 9.1%.

Over the last three years, forestry investments maintained their superiority to gilts at 7.7% pa, replacing equities in the runner-up spot. Commercial property delivered -2.5% pa, which was the only asset class to venture into negative territory in that period.

Tax Status

Tax is a very important consideration for investors in forestry. The wide variation of investors' tax status 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. In addition to this, commercial woodlands qualify for 100% Business Property Relief from Inheritance Tax after two years of ownership.

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 2010 the 144 forests in the index had a total capital value of £148.1m.

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 calculation of Forestry returns was modified for the 2005 Index, to move in line with IPD's standard method of calculating investment performance and to conform to international standards of asset performance measurement. Annual returns are now calculated on a time-weighted basis, by compounding the 12 individual monthly returns. As a result of this change, the Index history was restated.

Summary of Full Results

At the start of 2010, uncertainty over the result of the impending May general election and the emerging scale of the fiscal deficit dominated the news headlines. Sterling remained comparatively weak against the Euro and Dollar. Underlying market sentiment, that demand for UK-grown wood and wood products would outstrip supply, remained strong.

The IPD Forestry Index reports the investment returns from commercial upland forests, in the UK. The asset class return characteristics are generally considered to have a low correlation with equity returns and to be less volatile than bonds. The investment is considered low-risk, as returns are underpinned by biological growth. Over 18 years forestry returns have averaged 6.3% and the three year mean return increased to 12%.
The total openly traded area for forestry property fell slightly in the year to September 2010 to between £30 and £40m in value, with a fall of 20% in numbers of properties traded*.

The Forestry Commission in both England and Scotland entered 2010 as the significant market sellers with their disposals programme representing 40% of forest value traded. Whilst the government review of the future of FC England ended ignominiously for politicians in early 2011, the success of the FC Scotland disposals programme produced offer levels so far above expectations that the programme for 2011 has been largely delivered, resulting in a postponing of the marketing of some woods expected for spring 2011.

The real lack of available supply of wood for energy is leading to an increasing recognition by all users of the need and demand for secure wood supplies. Wood processors and consumers are entering the market for forest freehold and wood off-take. These sector players include small round wood users, notably the energy and heat generators, but also the wood panel and sawn timber producers.

The FC's coniferous standing timber sale price index increased by 34% over the twelve-month period ending March 2011. UK softwood imports fell and housing starts were sustained at the low level achieved in 2009, into early 2010. By mid-2010, mills were reaching capacity. From the end of 2010, into 2011, underlying demand may be more fragile, with spending cuts, inflationary economic pressures building and rises in energy costs.

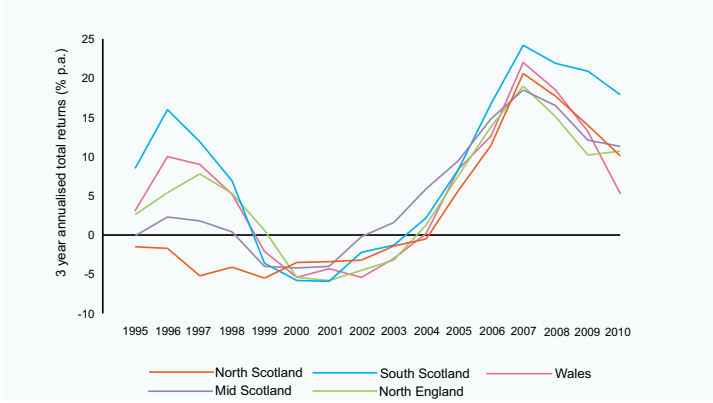
Notable in 2010, was the outbreak in south-west England, of the fungal pathogen Phytophthora ramorum and its fatal impact on the host species larch, a generally minor component of upland commercial forests in the UK. This disease has since spread to other parts of England, Wales, the west coast of Scotland and to Ireland. Compulsory felling could increase wood supply locally and act as a buffer to further timber price increases in the medium-term.

Purchasers of commercial forests will still continue to consider the fundamentals and discount risks, but the start of 2011 saw no let-up to the increase in timber prices and sales value achieved for quality property. UK commercial forest values in real terms still lag behind those experienced in the 1990s. It is also increasingly difficult to draw quick distinctions between the value of young and old plantations as forests are felled and replanted and underlying land values increase.

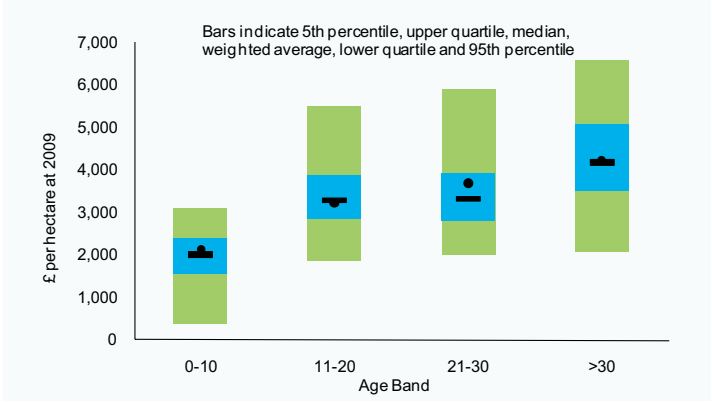
Demand for forests, as a strategic limited resource, from all sectors, including timber-users, energy-generators and those who recognise the continuing unique tax benefits of ownership of UK forests, should maintain through 2011.

*UPM Tilhill Forest market Report 2010

3 year annualised returns by region



Range of Valuations (£ per hectare) by Age Band



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

Geographic segmentation reveals that South Scotland forests three-year annualised returns averaged 17.9% pa, which outperformed the market's 12.6% pa for the same period. It was also appreciably higher than Wales' 5.3% pa. All other regions underperformed the market but were within 250 basis points. Over the long term (18 years), South Scotland posted 8.5% pa, which was 220 basis points higher than the market's average return. All other regions underperformed the market, with North Scotland posting the lowest return of 3.2% pa.

South Scotland had 60 forests at 2010-end and dominated the market by contributing 49.3% of the capital value. That explains why this region's market outperformance buoyed forestry returns over the medium term and long term.

The other four major regions averaged 21 forests with North England and North Scotland each contributing 7.8% to the total capital value. Wales and Mid Scotland contributed 21.2% and 14%, respectively.

Performance by age (see tables overleaf for figures)

Forestry investments are segmented into four age bands; 0 – 10, 11 – 20, 21 – 30 and >30 years. The younger forests (0 - 10 years) tend to be valued at a lower rate per hectare, with 2010's median valuation at £2,014 per hectare. As age increases, the median per hectare valuation increases with the older forests' (>30 years) median value at £4,179 per hectare. For the annualised three years leading to 2010, older forests (>30 years) were the best performers with total return of 13.5% pa. The other age bands were just above 12% pa which closely tracked the 12.6% pa for all investments in that period. The older forestry investment performance reflected the change in timber prices in 2010.

Annualised over the last five years, older forests again performed better than the rest. They delivered 20.9% pa whilst the young forests rewarded investors with 14.9% pa. The 11 – 20 years group had the lowest performance at 13.4% pa. When tracking performance through the age bands it becomes clear that prior to 2007, young forests tended to deliver higher returns than the other age bands. It is only of late that the older forests deliver higher returns compared to the other age bands.

Summary of Full Results

Index series

Year end 31st Dec	Total return (%pa)	No. of forests	Total return index	Timber price change (%pa)	*Timber price index
1999	-11.1	157	115.1	-2.0	61.3
2000	-2.9	155	111.7	-4.0	58.8
2001	-1.1	163	110.5	-9.7	53.1
2002	-4.7	169	105.3	-22.2	41.3
2003	1.3	165	106.7	-3.0	40.1
2004	9.2	161	116.5	9.3	43.8
2005	14.4	158	133.3	15.1	50.4
2006	20.6	159	160.7	11.0	55.9
2007	31.6	145	211.4	56.6	87.6
2008	7.0	144	226.2	-28.5	62.6
2009	11.1	140	251.4	5.5	66.0
2010	20.0	144	301.6	38.5	91.5

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 March basis (2008 = March 2009). 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 that is updated every 5 years (5-yearly chain linking) and the series has been re-based to 1992.

Tax position as at December 2010

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 age

Age	0-10	11-20	21-30	>30	Total
No. of forests	8	24	68	44	144
% Capital Value	1.0	9.6	55.5	34.0	100.0

Sample composition by region

Region	North Scotland	Mid Scotland	South Scotland	North England	Wales	Total
No. of forests	21	21	60	15	27	144
% Capital Value	7.8	14.0	49.3	7.8	21.2	100.0

Valuation range (£ per hectare) by age at 2010

Percentile	0-10	11-20	21-30	>30
5th percentile	3,085	5,500	5,890	6,602
Upper quartile	2,392	3,884	3,955	5,097
Median	2,014	3,299	3,333	4,179
Lower quartile	1,544	2,856	2,828	3,502
95th percentile	350	1,886	2,001	2,099
Weighted average	2,139	3,211	3,688	4,224

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Long term total return by age (%pa)

Year end 31st Dec Annualised	0-10	11-20	21-30	>30
2001-04	14.9	2.4	0.7	1.2
2002-05	27.0	7.2	7.1	7.6
2003-06	30.0	12.2	12.1	16.0
2004-07	27.0	13.2	19.8	26.3
2005-08	15.3	12.7	19.1	21.4
2006-09	11.0	9.3	16.3	18.2
2007-10	12.4	12.6	12.0	13.5
2001-06	21.1	6.5	6.0	8.3
2002-07	23.7	10.1	13.3	17.1
2003-08	23.2	11.8	15.5	17.2
2004-09	18.6	10.8	15.6	18.9
2005-10	14.9	13.4	16.3	20.9
1992-10	11.3	5.3	6.2	6.2

Range of return by age 2007-2010 (%pa)

Percentile	0-10	11-20	21-30	>30
5th percentile	29.0	24.6	24.8	29.1
Upper quartile	22.6	15.9	14.3	13.4
Median	17.9	12.8	8.2	8.4
Lower quartile	5.3	7.2	2.9	1.9
95th percentile	4.9	-0.5	-5.1	-4.2
Weighted average	12.4	12.6	12.0	13.5

Long term total return by region (%pa)

Year end 31st Dec Annualised	North Scotland	Mid Scotland	South Scotland	North England	Wales
2001-04	-0.5	5.9	2.2	1.3	0.2
2002-05	5.7	9.5	8.4	7.6	8.4
2003-06	11.4	14.8	16.7	13.8	12.6
2004-07	20.6	18.5	24.2	19.0	22.0
2005-08	17.7	16.5	21.9	15.1	18.5
2006-09	14.0	12.1	20.9	10.2	13.2
2007-10	10.1	11.3	17.9	10.7	5.3
2001-06	5.9	9.7	9.0	6.9	5.8
2002-07	13.1	14.7	16.0	13.0	14.9
2003-08	13.3	14.4	18.3	13.8	15.8
2004-09	14.9	13.5	20.6	12.4	13.9
2005-10	15.9	15.8	22.0	15.0	12.9
1992-10	3.2	5.0	8.5	5.3	4.9

Range of return by region 2007-2010 (%pa)

Percentile	North Scotland	Mid Scotland	South Scotland	North England	Wales
5th percentile	19.6	19.9	30.5	37.1	13.5
Upper quartile	13.4	15.5	17.7	20.7	9.7
Median	8.3	12.6	9.0	12.6	7.1
Lower quartile	3.2	2.7	3.6	6.4	2.5
95th percentile	-1.4	-2.9	-5.0	-3.8	-0.2
Weighted average	10.1	11.3	17.9	10.7	5.3