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Gresham House

Specialist asset management

FIM FOREST FUND I LP

INTERIM REPORT FOR THE SIX
MONTHS TO 31 MAY 2019



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MANAGER'S INTERIM REPORT

1. PERFORMANCE SUMMARY

1.1. Trading Performance

Gresham House Asset Management Limited (GHAM) (the "Manager") has produced unaudited Management Accounts for the six months ended 31 May 2019. The Report and Financial Statements for the full year to 30 November 2019 will be issued to Limited Partners by February 2020.

During the period the LP has been actively managed in response to market conditions, to maximise total returns to Limited Partners. A temporary period of subdued UK timber prices during Q2 2019 has resulted in the Manager postponing some of the planned harvesting contracts that were surplus to the LP's requirements. Harvesting contracts agreed on favourable terms during Q1 2019 have already secured sufficient revenue for the LP for the remainder of the 12-month period ending 30 November 2019.

Total revenue for the year is forecast to be £8.5 million (budget: £11.2 million). Overall net income for the year is forecast to be £4.9 million (budget: £7.4 million).

Woodland expenditure for the year is forecast to be slightly below budget at £2.1 million (budget: £2.2 million).

As a result of the trading performance, the Manager expects to authorise a distribution to all Limited Partners in November 2019.

1.2. Investment Performance

In November 2018, a distribution of £56.87 per share was paid to all share classes excluding "B" Limited Partnership Shares.

All share classes are eligible for distributions from November 2019.

In November 2019 the planned distribution is forecast to be £3.4 million (November 2018: £2.3 million). The distribution will be based on £56.87 per share adjusted by the 12-month Consumer Price Index figure + 1%. Based on current inflation forecasts this is anticipated to be approximately £58.86 per share.

Demand for UK forest assets continues to be competitive, with investors prepared to take a long-term view of timber prices rather than react to short term fluctuations.

The Manager will undertake an Internal Valuation of the LP's forestry portfolio as at 30 November 2019 in accordance with RICS Global Valuation Standards. The Manager anticipates that this will result in an increase in the value of the forestry portfolio compared to 30 November 2018.

1.3. Shares in Issue

The total shares in issue are as follows:

Share Class	No of Shares
Founder Limited Partnership Shares	21,873
Initial Limited Partnership Shares	5,486
"A" Additional Limited Partnership Shares	12,988
"B" Limited Partnership Shares	16,915
Total	57,262

All share classes rank pari passu.

1.4. Gearing

As at 31 May 2019 the LP had debt of £11.9 million, (Nov 2018: £4.0m) representing a Loan to Value ("LTV") ratio of 9% of Net Asset Value ("NAV"). This has enabled the Manager to add strategic acquisitions to the portfolio during the period. The Manager has put in place a flexible facility with Barclays Bank Plc, providing additional headroom to make further advantageous acquisitions where appropriate.

Under the terms of the Limited Partnership Agreement gearing is limited to 20% of NAV.

MANAGER'S INTERIM REPORT

2. PORTFOLIO DEVELOPMENT

2.1. Timber Harvesting

Timber prices were strong at the start of the period, but reduced during Q2 2019 following a spike of low value timber imports from Europe impacting the price being paid for UK timber (see Section 3: Market Review and Outlook). The Manager has taken action to reduce the LP's harvesting programme while this temporary increase in supply is absorbed by UK timber processors. The Manager has significant flexibility to amend the harvesting programme as a result of the substantial surplus that was forecast to be generated.

16 of the 24 planned harvesting contracts for the period have already been placed on acceptable terms. One further contract is currently out to tender. The remaining seven contracts have been deferred to be sold during more advantageous market conditions. In the meantime these crops will continue to grow and add volume and value to the benefit of Limited Partners.

Timber revenue for the year to 30 November 2019 is forecast to be £8.4 million (budget: £10.8m). The forecast income assumes a continued rate of haulage from the contract sites during Q3 and Q4 based on agreed contract durations.

A summary of the total harvesting anticipated for the year to 30 November 2019 is as follows:

2018/2019	Hectares	Tonnes	£/Tonne	Total £m
Budget	486	201,650	£53.54	£10.8
Forecast	338	135,096	£58.97	£8.0
% of Budget	70%	67%	110%	74%

As a result of the revised strategy, the Manager is forecasting to generate 74% of the budgeted timber revenue from the sale of only 67% of the budgeted timber volume. This has been achieved by securing contracts on timber prices at 10% above budget, prior to the reduction in timber prices.

2.2. Acquisitions and Disposals

During the six-month period ended 31 May 2019, three forests and an area of land suitable for afforestation were added to the portfolio, amounting to 1,037 hectares. All four acquisitions are located in South Scotland and adjoin or are in close proximity to existing holdings, in line with the Managers strategy of increasing the scale of portfolio assets where possible. These acquisitions offer an appropriate balance of income and capital growth to meet the LP's long-term investment objectives.

In total £8.5 million (inclusive of purchase costs) has been deployed into new acquisitions during the period, of which £7.9 million has been financed by increasing the debt facility.

A summary of the assets added to the portfolio is below:

Location	Size (hectares)
Glespin, South Scotland	53.3
Glespin, South Scotland	131.7
Cumnock, South Scotland	210.8
Newcastleton, South Scotland	641.4
Total:	1,037.2

No forest disposals were made during the period or are currently planned.

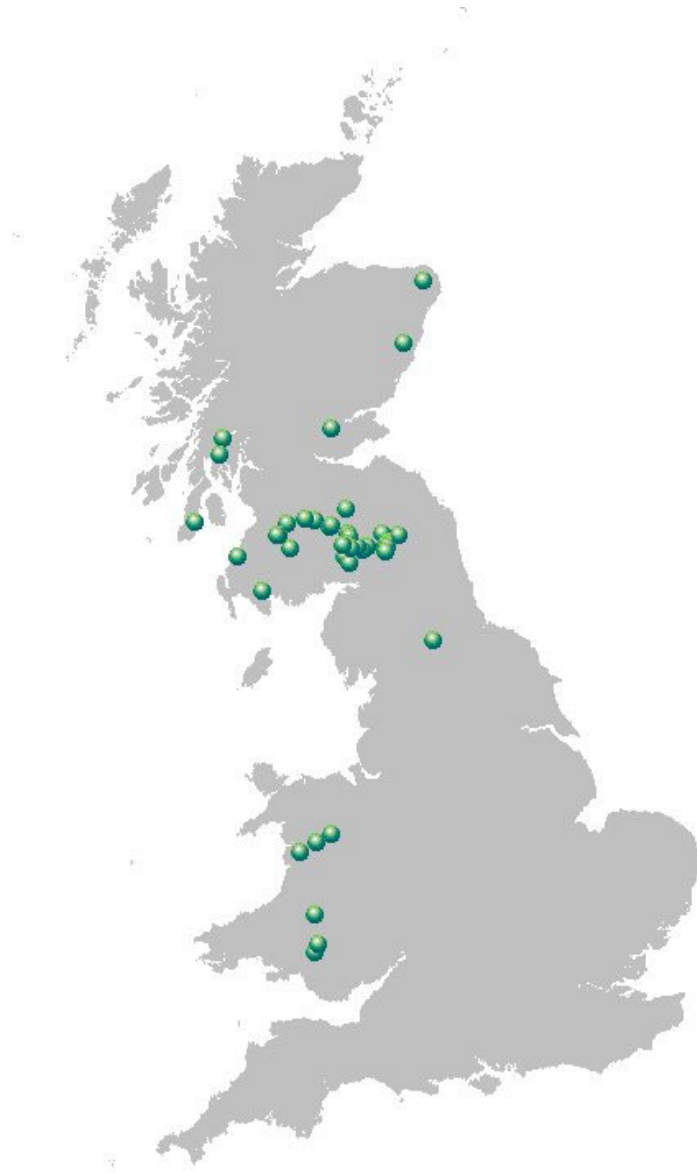
The Manager is appraising further strategic acquisitions to add to the LP's portfolio.

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2.3. Portfolio Analysis

The LP's landholding has increased in area by 8% since November 2018, enhancing the LP's asset base and providing additional diversification.

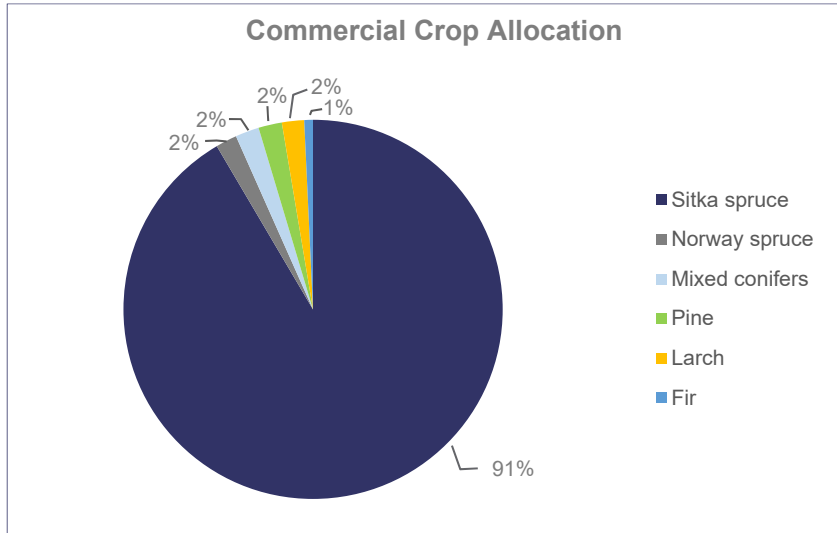
At 31 May 2019 the forest portfolio totalled 14,693 hectares (36,308 acres) over 43 properties across Scotland, Wales and England.



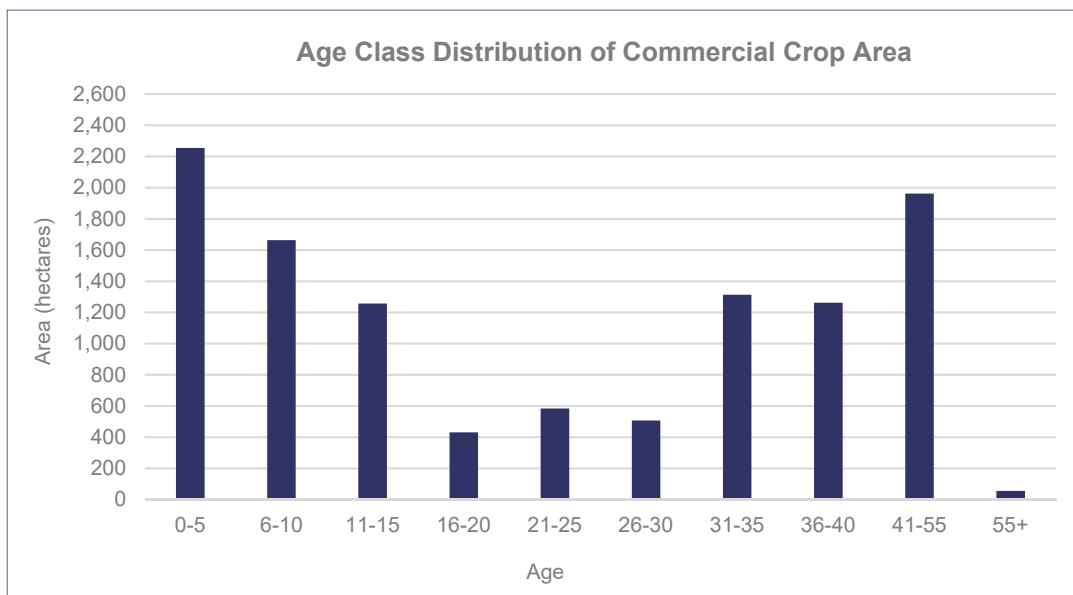
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The LP continues to hold significant reserves of mature timber, with some 4,592 hectares of commercial crops over 30 years of age. This reserve is capable of generating an operating surplus over and above that required to meet the planned distribution profile, allowing the Manager to release timber at the most favourable times.

The portfolio comprises 91% Sitka spruce, the UK's fastest growing conifer species.



The weighted average age of the commercial crop within the portfolio is 23 years, which is distributed as follows:



3. MARKET REVIEW AND OUTLOOK

Market Drivers

Gresham House (GH) Timber Index increases in the six months to March 2019

Nominal timber prices over the 10 years to 31 March 2019, as measured by the GH Timber Index, increased at an annualised rate of 12.0%, significantly exceeding UK inflation, which averaged 2.1% per annum over the same period.

Following this upward trajectory, prices in real terms are now equal to those in 1995/96. There is potential for a significant real increase in global timber prices, driven by rising demand.

During the last 12 years the only significant decline in the GH Timber Index was in 2008 - 2009, due to the swift and substantial fall in output in the construction sector as a result of the 2008 financial crisis.

GHAM considers that the fundamentals of demand and supply are such that prices will increase in real terms over the coming years. Higher timber prices feed through to both higher revenues and capital values.

Outlook for Timber Prices

While there have been some decreases in timber price from the peak in late 2018, these are deemed temporary as supply and demand balance out.

Short term oversupply effects included high volume harvesting in Europe due to storm and beetle damage in 2018; overbuying and over importing by UK buyers which was triggered by an anticipated Brexit in March and a relatively mild winter which has meant sawmills have had continuous supply over the winter.

This oversupply has led to falls of between 10% and 15% during Q2, but oversupply is now working its way through the system and with a reduced quantity of UK standing timber being offered to the market over the remainder of 2019, we expect prices to recover by Q4.

Global Supply and Demand

Long term, commercial forestry remains an excellent diversifying investment with a strong outlook for increase in timber price and consequently forest value.

As global demand rises due to a growing global population, an increased GDP per capita and an increasing array of uses for timber, supply is becoming more constrained.

Supply is being constrained through a general reduction in illegal logging, consumers demanding that timber is sourced sustainably and increasing pressure for naturalization of land and agricultural uses.

This is further encouraged by the rapid need for greater carbon capture and the increasing need for more sustainable raw material in construction, energy production and plastic replacement.

The longer term growth cycle of timber means that the supply demand imbalance is set to continue for some time.

UK Timber Demand

More specifically in the UK - wood is increasingly being used in housing construction as timber frame construction continues to increase its market share. Timber frame construction has increased to 28.1% of the new build market in 2016 from 22.8% in 2011. The Structural Timber Association estimates the market share to increase to 33.9% by the end of 2020.

The UK Government has also made it clear that it sees offsite modular construction as a key route to increasing building capacity and a potential beneficiary of new government funding. The UK timber frame sector accounts for up to 90% of all offsite modular construction. An average three bedroom house takes about 40 weeks to build and costs circa £120,000; this timeframe is reduced to 10 days and the cost also reduced dramatically if the house is built in sections in a factory and then assembled onsite.

With the need to provide more housing in the UK, the prospects for the use of softwood timber are improving as combinations of solid wood and engineered wood products become preferred choices for architects, designers and engineers. Rising numbers of housing starts, together with methods of construction favouring wood use, will drive demand for timber higher.

An additional key driver behind the increase in use of construction timber is the rapid decarbonisation of the economy. Steel production accounts for about 3% of the world's greenhouse gas emissions and concrete about 5%. According to the recent report from the Intergovernmental Panel on Climate Change drastic emissions cuts are required to keep global warming below 1.5°C. This will require building construction to be carbon neutral as soon as 2020, which means using less concrete and steel and more timber.

UK Timber Processing

Norbord's investment of over £100 million in an Oriented Strand Board (OSB) mill line at its plant near Inverness, increased its timber requirement from 520,000 cubic meters to 800,000 cubic meters per annum. Since going live last year, this has already had an impact in west and central Scotland, with more competition for limited stock pushing prices up in previously marginal areas.

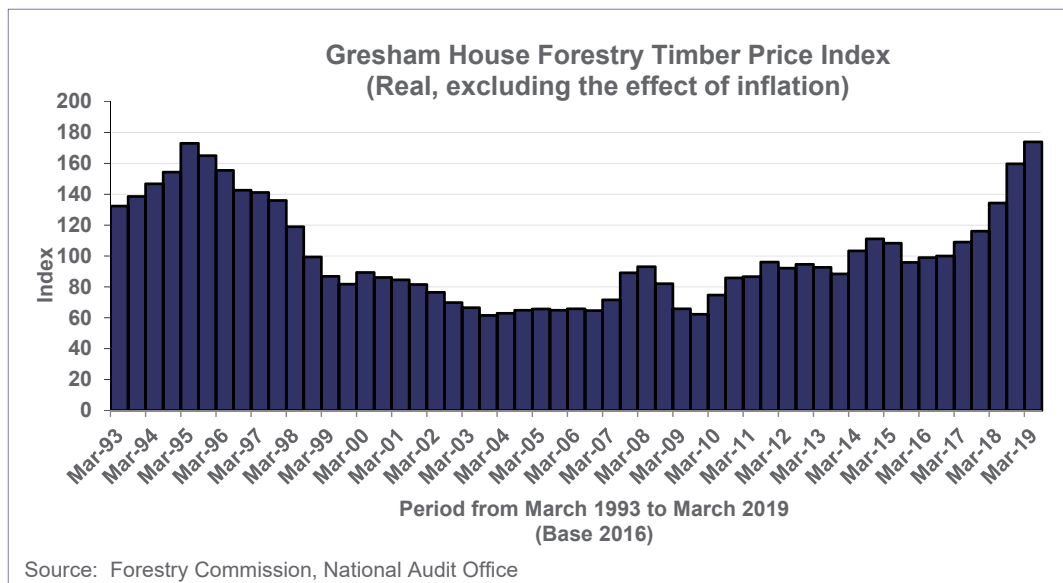
Close to £1.25 billion has been invested in the UK timber processing industry since 2007. Furthermore, the Irish processing industry has benefitted from around €250m of investment over the last three to four years, with a further €250m announced at the start of 2019. Timber from West Scotland is exported to Ireland, although exports are currently reduced due to a sawmill fire in Ireland; this is set to return to production by Spring 2020.

The UK has a vibrant and modern timber processing sector, creating strong and diverse demand for homegrown timber.

UK Supply

While UK demand continues to increase, the country is still importing circa 80% of its timber requirements. Limitations on harvesting volume set against a weaker currency all point towards a robust UK timber market for the foreseeable future.

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The GH Timber Index uses statistics published by the Forestry Commission (FC). It comprises an equal weighting of the Coniferous Standing Sales Price Index (CSSPI), being the average price of standing conifer timber sales, and the Softwood Sawlog Price Index (SSPI), which represents the average price of all softwood sawlogs sold on the FC estate.

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4. ADMINISTRATION

4.1. Manager's Strategy and Treasury Management

The Manager's strategy is to ensure that the LP is fully invested as the outlook for the LP's business remains positive.

The Manager intends to take advantage of market conditions by harvesting the LP's timber at advantageous prices, and reducing harvesting during periods of lower demand. Additionally the Manager intends to expand the asset base of the portfolio through advantageous acquisitions.

The Manager regularly monitors the LP's cash position and its future cash requirements.

4.2. Additions to Limited Partners Holdings in the LP

Limited Partners have the opportunity to increase their holding in the LP by acquiring secondary shares which are occasionally offered for sale. As existing Limited Partners, the Manager is advised that any additional share purchase in the LP immediately qualifies for 100% inheritance tax relief without a two year qualifying period, providing their percentage ownership in the LP does not significantly increase. Existing Limited Partners may bid for any number of shares to add to their holding, there is no minimum.

GHAM market shares being sold by existing Limited Partners for a period of two weeks. Under the terms of the Limited Partnership Agreement, existing Limited Partners do not incur any acquisition fees when acquiring secondary market shares.

Bids can be received by email to (admin@greshamhouse.com) or by post and should detail the number of shares the bid is for and the price per share offered. GHAM present all valid bids to the vendor following the closing date, and will inform bidders on whether their offer is successful or not once the vendor has informed GHAM of their decision. Successful bidders will be sent completion documents and a payment request, with payment due within two weeks of the closing date.

Further details of current and future sales are available by contacting GHAM at admin@greshamhouse.com or 01451 844655.

4.3. Liquidity

During the six months to 31 May 2019, 45 Limited Partnership Shares were sold (0.08% of shares in issue) with the Manager arranging deals between vendors and purchasers. The weighted average share price paid during the period was £2,880.00 (18.7% premium to the NAV of £2,426.83 at 30 November 2018).

4.4. LP Termination Dates

The LP has an Initial Termination Date of 30 November 2029, Second Termination Date of 30 November 2033 and Final Termination Date of 30 November 2037.

4.5. Taxation

The Manager issued Taxable Income Statements for the Tax Year 2018/19 to Limited Partners on 21 June 2019.

4.6. Website Administration

Limited Partners and their IFAs are able to obtain the latest annual valuation via the website. If you have not already obtained a password please follow this link to complete the registration process:

<https://www.fimltd.co.uk/client/register>

4.7. Client Satisfaction

Please do not hesitate to contact a member of the GHAM team if you wish to discuss your investment or provide any feedback on this Report. GHAM are committed to ensuring the needs and expectations of their clients are met at all times and would therefore welcome any suggestions to improve our service delivery.

4.8. The LP's Management Team

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29 July 2019

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Gresham House Asset Management Limited is authorised and regulated by the Financial Conduct Authority
Gresham House Asset Management Limited is certified to the ISO 9001 standard

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