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Gresham House

*Specialist asset management*

# FIM TIMBERLAND LP

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INTERIM REPORT  
FOR THE PERIOD ENDING  
31 JANUARY 2019



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# MANAGER'S INTERIM REPORT

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## 1. PERFORMANCE SUMMARY

### 1.1. Trading Performance

Gresham House Asset Management Ltd (the "Manager") has produced unaudited Management Accounts for the six months ended 31 January 2019. The Annual Report and audited Financial Statements for the year to 31 July 2019 will be provided to Limited Partners by the end of October 2019.

During the period the FIM Timberland LP (the "LP")'s trading activity has been in line with expectations.

Operating profit for the year from harvesting operations net of expenditure, including restocking and overheads, is forecast to be £0.6 million below budget, at £3.2 million.

After payment of the planned £2.4 million distribution in July, the forecast operating surplus is £0.8 million, £0.5 million of which is due to be utilised for capital expenditure in the LP's forests.

### 1.2. Expenditure

Forestry expenditure is forecast to be on budget at £1.7 million.

Forecast overheads (including portfolio administration and woodland insurance) are expected to be on budget at £0.8 million.

Capital expenditure, primarily on new roads within the LP's forests, is forecast to be £0.5 million (£0.2 million below budget).

### 1.3. Distributions

A distribution of £31.38 per Partnership Share, being 3% of the 31 July 2018 net asset value, is planned to be paid on all Partnership Shares in both July 2019 (the first annual payment to "C" Limited Partners) and July 2020. The total payment each year is due to be £2.4 million.

### 1.4. Partnership Shares in Issue

Share Class	Number of Shares
Founder Limited Partnership Shares	22,586
"B" Limited Partnership Shares	14,880
"C" Limited Partnership Shares	38,879
<b>Total</b>	<b>76,345</b>

### 1.5. Gearing

The LP currently has no gearing.

### 1.6. Net Asset Value (NAV)

The LP's NAV as at 31 July 2018 (the most recent independent valuation date) was £79.9 million, equating to £1,046 per Partnership Share.

Limited Partners have benefited from good performance. The increase in the LP's NAV to date has covered the costs of promoting the LP and acquiring forests. All Limited Partners have benefited from growth in value in addition, whilst Founder and "B" Limited Partners have also received distributions. The Manager expects that there will be another uplift in NAV when the portfolio is next revalued.



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# MANAGER'S INTERIM REPORT

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## 2. Resolutions and EGM

The Manager is calling an EGM of Limited Partners for 2 May 2019. A Notice of the Meeting has been issued, along with a Memorandum to Limited Partners dated 3 April 2019 and a Proxy Voting Form, for completion and return by Limited Partners.

The main objective of the EGM is to deliver benefits to Limited Partners, being:

- A revision to the Distribution Policy, to deliver a better balance between income and capital growth going forward and to provide annual increases to the distribution in excess of inflation; and
- Expansion of the LP, to allow Limited Partners to invest further funds, to attract new sources of capital, to expand the LP's forestry portfolio and to enhance liquidity.

The two Resolutions have been unanimously approved by the LP's Advisory Committee (consisting of four Limited Partners/their representatives).

Gresham House, as Manager and Operator of the LP, recommend that Limited Partners vote in favour of both Resolutions.

An independent valuation is due to be instructed as at 30 April 2019, with the new Partnership Shares being issued at an 11% premium to the NAV established at that date. This is to ensure that existing Limited Partners are not diluted.

If the Resolutions are approved by Limited Partners, the Manager intends to commence the fund raising in June, with a final closing date by 30 November 2019.



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# MANAGER'S INTERIM REPORT

## 3. PORTFOLIO DEVELOPMENT

### 3.1. Timber Harvesting

The Manager has achieved a blended timber price of on average 5.2% above budget during the period:

2018/19	Hectares	Tonnes	Blended £/Tonne	Total £m
Budget	323.4	133,000	45.86	6.1
Forecast	288.8	114,000	48.25	5.5

A smaller area than budgeted is due to be harvested during the year to 31 July 2019, as the forecast revenue from the reduced area should be sufficient to cover the LP's expenditure and distribution. Timber revenue for the year is therefore forecast to be £0.6 million below budget, but more of the LP's trees will be left standing and will continue to add volume and value, to the benefit of capital growth.

### 3.2. Acquisitions and Disposals

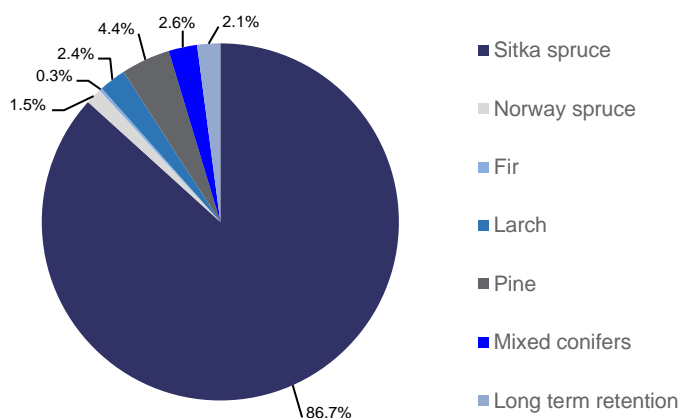
The LP is fully invested in a portfolio of large scale, high yield class forest properties.

At 31 January 2019 the forest portfolio totalled 7,554 hectares, comprising 20 properties.

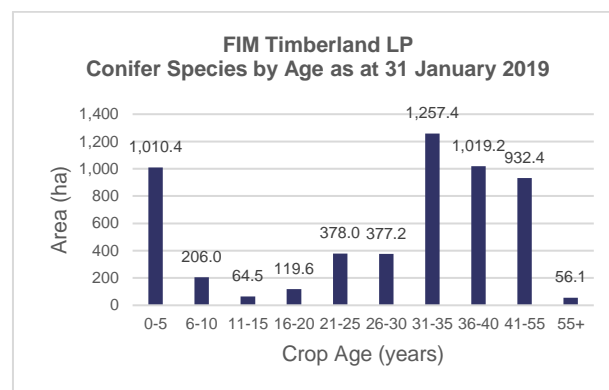
There were no property disposals during the period.

### 3.3. Portfolio Analysis

Commercial Crop Area



The weighted average age of the commercial crop within the portfolio is 28 years, distributed as follows:



The LP continues to hold significant reserves of mature timber, with some 3,265 hectares of commercial crop over 30 years of age.

The locations of the LP's forests are shown on the map below:



# MANAGER’S INTERIM REPORT

## 4. MARKET REVIEW AND TIMBER OUTLOOK

### Summary

- UK timber prices remain strong
- Plantation values continue to rise

### Market Drivers

The fundamental drivers of homegrown timber prices remain positive:

- Continued investment in the timber processing sector results in increasing demand for raw material. Norbord’s investment of over £100 million at its Orientated Strand Board line near Inverness, which opened in 2018, has seen its annual requirement for timber increase by over 50% from 520,000 cubic metres to 800,000. Norbord has recently announced an additional investment of £35 million in the plant, to further increase capacity.
- Housing starts in the UK, although creeping higher, remain well below the government’s target and forecasters’ estimates of the 300,000 new homes required each year to satisfy demand. Housing starts in 2017 were only 197,750.
- In addition to demand for wood for construction, there is continued strength in demand for other end uses, such as biomass, chipboard, pulp and paper. Demand from multiple markets helps to sustain timber prices.

The emphasis on decarbonising the economy continues to gather momentum. Zero carbon housing encourages the use of sustainable, renewable wood in replacing high energy intensive traditional materials, such as cement and steel. Cement produces 6% of the world’s carbon emissions, and steel accounts for another 8%, half of which goes into buildings.

More wood is being used per housing unit as timber frame construction continues to increase its market share, rising to 28.1% of the new build market in 2016, from 22.8% in 2011. The Structural Timber Association estimates that the market share will have increased to 33.9% by the end of 2020.

The Government has made it clear that it sees offsite modular construction as a possible solution to the shortage of new housing and a potential beneficiary of new government funding. The UK timber frame sector accounts for circa 90% of all offsite modular construction.

### Timber Prices

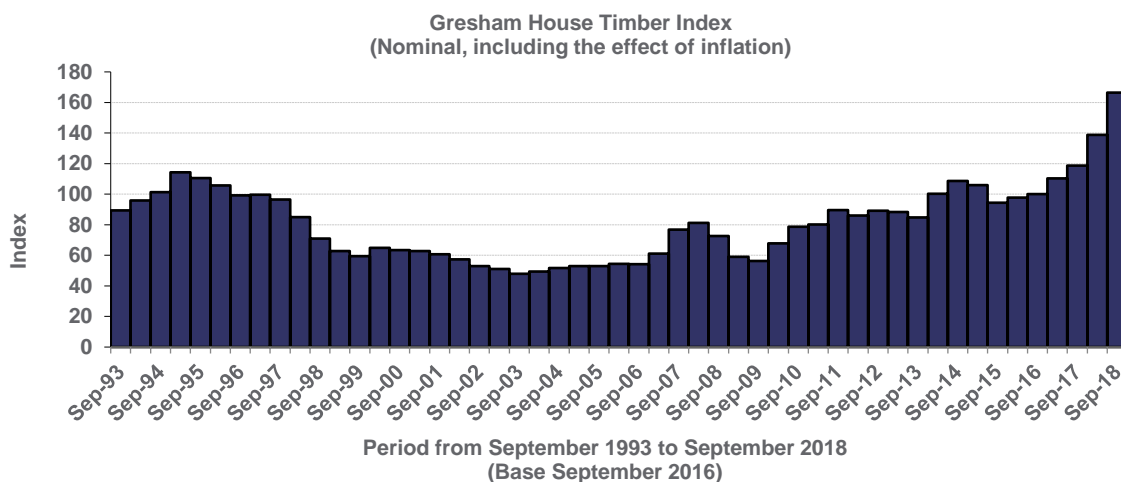
The Gresham House Timber Index has shown strong growth, increasing 40.3% over the twelve month period and 20.0% over the six month period to September 2018 (the latest period for which data is available).

The Gresham House 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), being the average price of all softwood sawlogs sold on the FC estate.

The Manager considers that timber prices appear to have stabilised at current levels, whilst the market catches breath after a rapid rise. Further advances will depend upon global economic growth and in the near term, on the outcome of Brexit.

### Plantation Values

Demand for forests of all ages remains strong, which, combined with current timber prices, is expected to result in an uplift in asset values across the LP’s forest portfolio as at 31 July 2019 (the next year end).



Sources: Forestry Commission, National Audit Office

# MANAGER'S INTERIM REPORT

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## 5. ADMINISTRATION

### 5.1. Manager's Strategy

The Manager's strategy is to generate sufficient revenue from timber harvesting to cover the LP's operating costs and the planned distributions to Limited Partners, whilst maintaining an appropriate balance between income distribution and capital growth.

### 5.2. Additions to Limited Partners' Holdings in the LP

Limited Partners have the opportunity to increase their holding in the LP by acquiring secondary Partnership Shares, which are occasionally offered for sale. As existing Limited Partners, the Manager is advised that any additional purchase should immediately qualify for 100% inheritance tax relief (without a new two-year qualifying period), providing that a Limited Partner's overall percentage ownership in the LP does not significantly increase. Existing Limited Partners may bid for any number of Partnership Shares to add to their holding; there is no minimum.

Existing Limited Partners do not incur any fees when acquiring secondary Partnership Shares.

Details of current and future sales are available on the website at the below link:

<https://www.fimltd.co.uk/forestry/fimfundscurrent-shares-for-sale>

### 5.3. Liquidity

The Manager arranged the sale of 245 secondary Partnership Shares during the period at a weighted average price of £1,258 per Partnership Share (a premium of 20.2% to NAV as at 31 July 2018).

### 5.4. LP Termination Dates

The LP has an Initial Termination Date of 31 July 2032 and a Final Termination Date of 31 July 2040.

### 5.5. Taxation

The Manager expects to issue Taxable Income Statements for the Tax Year 2018/19 to Limited Partners in May 2019.

### 5.6. 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>

### 5.7. Client Satisfaction

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

### 5.8. The LP's Management Team

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**Anthony Crosbie Dawson**, Fund Manager  
Gresham House Asset Management Limited  
As Manager of FIM Timberland LP

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FIM Services Limited as part of the Gresham House group is certified to the ISO 9001 standard

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