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FIM SUSTAINABLE TIMBER & ENERGY LP

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 NOVEMBER 2019

CONTENTS

1. PERFORMANCE SUMMARY

The Manager has prepared unaudited Management Accounts for the six months ended 30 November 2019 for FIM Sustainable Timber & Energy LP (the LP).

1.1. Summary

Overall trading performance has been good for the six month period to 30 November 2019. The Manager secured harvesting contracts on advantageous terms early in the period which offset the lower distributions generated by the renewable energy assets during a period of lower power prices.

The Manager's strategy remains to generate an annual cash surplus sufficient to pay an annual distribution to all eligible Limited Partners. The annual cash surplus is generated from the LP's forestry operations, rental income and distributions from renewable energy investments.

The LP remains on target to pay a distribution in May 2020 of approximately £0.54 per Partnership Share to all share classes excluding "D" Additional Limited Partnership Shares. In accordance with the revised distribution policy, approved by Limited Partners on 24 May 2018, the planned distribution in May 2020 will be based on the previous distribution payment of £0.52 per Partnership Share, adjusted by the 12-month CPI + 1%.

1.2. Fund Raising and Allocation

The issue of "D" Additional Limited Partnership Shares was conducted from 26 September 2018 to 31 January 2019.

The issue raised £33.8 million (net of expenses of £0.7 million) for investment in the LP's business. The Manager issued 1,398,623 "D" Additional Limited Partnership Shares at £24.70 each. These shares rank pari passu with the other share classes, except that they do not qualify for a distribution until May 2021.

The funds raised from the issue have been deployed and allocated as follows:

Funds Deployed:	**£m**
Purchase of additional forests	10.7
Repayment of Loan Facility	11.2
Investment in GH Wind Energy 1 plc	6.1
Investment in FIM Solar Distribution LLP	4.2
	32.2
Funds Allocated:	
Purchase of additional forestry land	1.6
	1.6
Total Funds deployed and allocated	**33.8**

The LP is invested in a balanced portfolio with the following asset allocation:

- Forestry – 77.8%; and
- Renewables – 19.7%; of which onshore wind is 9.3% and solar is 10.4%.

The remaining 2.5% of net assets constitute working capital and funds reserved for the remaining forestry purchases.

1.3. Trading Performance

Turnover for the year to 31 May 2020 is forecast at £7.0 million, £0.6 million above the budget of £6.4 million. This is due to higher than expected timber volumes on three harvesting contracts in addition to unbudgeted timber compensation payments.

Revenue from forestry operations is forecast at £6.2 million (budget £5.6 million).

Distributions from renewables investments are forecast at £2.2 million (budget £2.4 million). The shortfall is due to a decline in power prices and output (see section 2.2).

Expenses are forecast to be £0.3 million over budget at £4.2 million (budget £3.9 million) primarily due to disallowed VAT charges incurred by the LP under partial exemption rules, as a result of rental income from wind farms being VAT exempt.

Cash flows from operating activities and investments, excluding financing costs, are expected to be £4.6 million (budget £4.9 million). The Manager is forecasting a surplus of £0.8 million, after the distribution of £3.9 million is paid, of which £0.5 million has been allocated to capital projects.

1.4. Carbon Offsetting

The total sequestration of carbon dioxide by the forestry portfolio is estimated to be approximately 185,000 tonnes for the year ending 31 May 2020. The total estimated carbon already stored in the LP's forestry portfolio to date is c.4,000,000 tonnes.

The renewable energy investments are forecast to produce 62,000 MWh during the year ending 31 May 2020; resulting in approximately 16,000 tonnes of carbon being offset through emissions prevention. The total carbon offset to date by the LP's wind farms and solar parks is estimated to be 80,000 tonnes.

Overall, the total carbon sequestered or offset per Partnership Share to date is estimated to be 486kg (0.486 tonnes) with an additional 23kg (0.023 tonnes) of carbon forecast to be sequestered or offset per Partnership Share during the year ending 31 May 2020.

2. TRADING UPDATE

2.1. Forestry Portfolio

Forestry Operations

Timber prices throughout the trading period weakened, however the Manager secured harvesting contracts early in the six-month period to 30 November 2019 at favourable prices. These were supplementary to several contracts which were carried forward from the previous year.

Overall, the harvesting contracts are forecast to produce 111,000 tonnes of timber during the financial year, against a budget of 104,000 tonnes.

A summary of the total harvesting anticipated for the year to 31 May 2020 is as follows:

2019-20	Hectares	Tonnes	£/Tonne	Total (£m)
Budget	292	104,136	46.68	5.2
Forecast	287	111,076	48.49	5.5

Timber compensation of £0.3 million for development of a wind farm at Kirtleton South will not be received in this financial year. However, timber compensation totalling £0.5 million is forecast to be received from Scottish Power Energy Networks (SPEN) for the installation of an underground cable for Tralorg Wind Farm through Clanmore and Barbae forests.

As a result of the increased timber volume and additional timber compensation, revenue from forestry operations for the year is forecast at £6.2 million (£0.6 million above budget).

Rental Income

The LP benefits from five wind farm leases.

Two operational wind farms on Craignane and Penmanshiel are budgeted to produce a combined annual rental income for the LP of £0.4 million.

Sneddons Law, part of which is being built on the LP's forest at Cowans Law, continues to experience delays in construction due to a 'Stop Notice' issued by the Local Authority. Base rent of £0.1 million per annum continues to be paid.

Solway Bank Wind Farm, part of which is planned to be constructed on the LP's forest, Kirtleton South, has been delayed due to the turbine supplier (Senvion) entering into administration. An alternative supplier, Vestas, has been appointed with construction due to commence during Summer 2020. Total rental income of £0.1 million is budgeted for the year and is expected to be received prior to the year end.

Argyll and Bute Council voted unanimously to raise no objection to the Tangy IV Extension application in June 2019. Subsequently, the Energy Consents Unit granted consent in December 2019 for the project to be built. The LP is now awaiting the decision of SSE on whether to proceed with the project. Should the scheme be progressed, it is expected that two 4.2MW turbines will be built on land belonging to the LP.

Forestry Portfolio

The LP benefits from a large scale, well diversified portfolio of highly productive commercial forests which total 16,585 hectares across 66 properties.

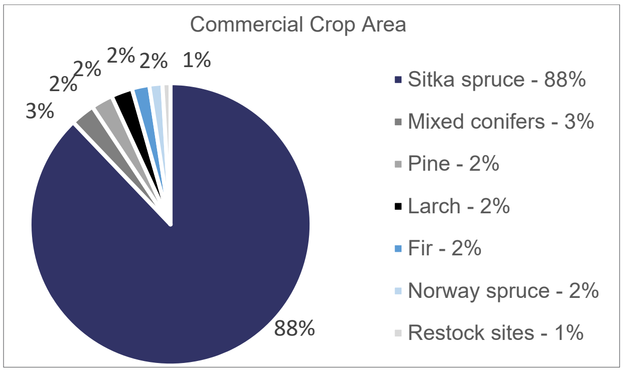
Since the year end, three forests have been added (418 hectares) at a total cost of £4.3 million. They mainly comprise Sitka spruce on good quality sites and are well placed to meet the objectives of tax-free revenue from harvesting and long term capital growth.

A summary of the properties added to the portfolio during the period is as follows:

Location	Weighted Average Age	Hectares
Machynlleth, Mid Wales	32	144
Huntly, East Scotland	18	189
Tarbert, West Scotland	28	85
Total Area		**418**

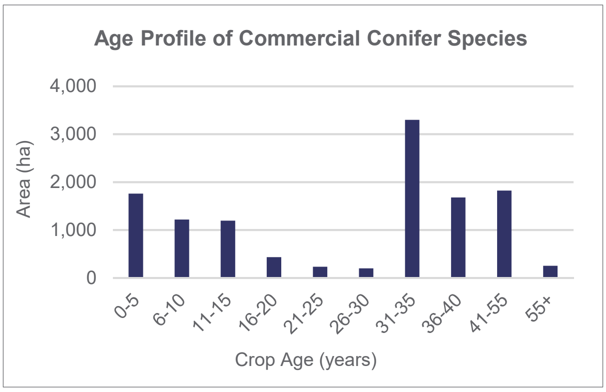
The forest portfolio now consists of 12,201 hectares of commercial conifer species, of which 7,100 hectares are over 30 years of age (2018: 6,214 hectares), and some 1,990 hectares over 40 years (2018: 1,722 hectares).

This commercial crop area comprises 88% Sitka spruce, the UK's most productive conifer species. The balance consists of secondary commercial conifers and harvested areas to be restocked.



This mature crop provides the LP with significant flexibility to generate revenue from timber harvesting as required, with felled areas being replanted with stock from genetically improved sources.

The weighted average age of the commercial crop remains at 26 years, distributed as follows:



2.2. Renewable Energy Investments

The distributions due to the LP from renewable energy investments are forecast at £2.2 million (Budget: £2.4 million), derived from the following:

	Budget (£m)	Forecast (£m)
GH Wind Energy 1 plc	1.2	1.0
FIM Wind Energy LP	0.1	0.1
FIM Solar Distribution LLP	1.1	1.1
TOTAL	**2.4**	**2.2**

A summary of the output to date for financial year 2019-20 is shown below:

2019-20 Output* (MWh)			
	Budget	Actual	Variance %
Wind farms	96,214	81,254	(15.5)
Solar parks	19,186	19,253	0.3
Total	**115,400**	**100,507**	**(12.9)**

*Total output of renewable energy assets

As at 30 November 2019, the carrying value of investments in renewable energy generating assets totalled £41.3 million (May 2019: £38.4 million) representing 19.7% of the LP's net assets (May 2019: 18.6%).

The re-organisation of FIM Windfarms 2 LP to a Public Limited Company (GH Wind Energy 1 plc) completed on 26 June 2019 with the LP's equity and loans converting to shares. Subsequently, the LP participated in the "A" Partnership Share fund raise, increasing investments in renewable energy generating assets by £2.9 million.

The capital raised by GH Wind Energy 1 plc was sufficient to purchase 66% of a new wind asset, Wathegar 2. Income generated from this wind farm will form part of the distributions to be received by the LP during the financial year 2020-21.

Wind Farms

Production figures are an aggregate of the latest half year output readings from four wind farms in which the LP holds interests: Mynydd Portref, Wathegar, Torrance and Harburnhead.

Wind speeds have been below average across the UK for the six month period to 30 November 2019 which has impacted output. In addition, wholesale "spot" prices have been lower than budgeted. The Manager is actively monitoring asset availability at the solar parks and wind farms in order to maximise revenues.

The LP has benefitted from a life extension application for Wathegar 2 being granted by the Highland Council Local Authority, increasing the asset's life from 25 to 40 years, adding significant value to this site.

Solar Parks

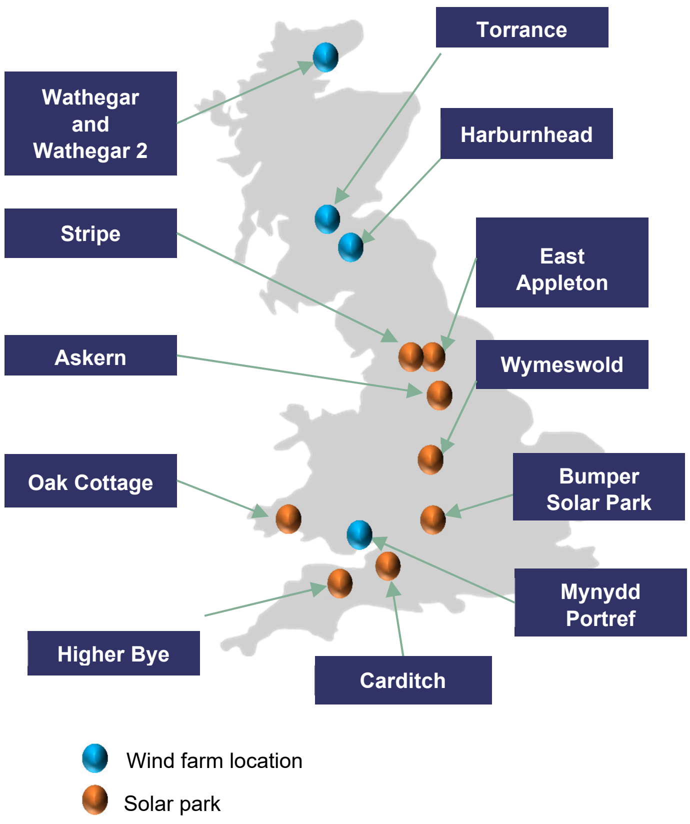
Production figures are an aggregate of the last six months power generation from seven solar parks in which the LP holds interests: Oak Cottage, Higher Bye, Askern, Stripe, East Appleton, Wymeswold and Carditch.

The solar parks achieved budgeted output for the six months to 30 November 2019. This is due to a good summer in 2019, resulting in expected levels of irradiation.

In addition, the Manager took the decision to fix power prices at favourable rates (over £54 per MWh) on five of the seven sites for the higher yielding summer months to give certainty of distributions. This was significantly higher than would have been achieved by remaining on wholesale "spot" prices.

FIM Solar Distribution LLP is currently constructing a new solar park using capital subscribed under the "D" share issue. Income generated from Bumpers Farm, the new solar park, will form part of the distributions to be received by the LP during the financial year 2020-21.

Renewable Portfolio Distribution



3. Market Review

3.1. Gresham House (GH) UK Timber Index to September 2019

Nominal timber prices over the 10 years to 30 September 2019, as measured by the GH UK Timber Price Index, increased at an annualised rate of 11.3%, significantly exceeding UK inflation (CPI), which averaged 2.1% per annum over the same period.

Although prices fell over the six months to September 2019, they have now stabilised at a level which maintains an upward trend when considering the last three years. In real terms, prices remain close to that of the last peak in 1995-96. This indicates that there remains significant potential for real increases in timber prices over the coming years, driven by rising demand set against a constrained supply.

During the last 12 years the only significant decline in the GH UK Timber Index was in 2008-09. This was caused by a swift and substantial fall in demand in the construction sector as a result of the 2008 financial crisis.

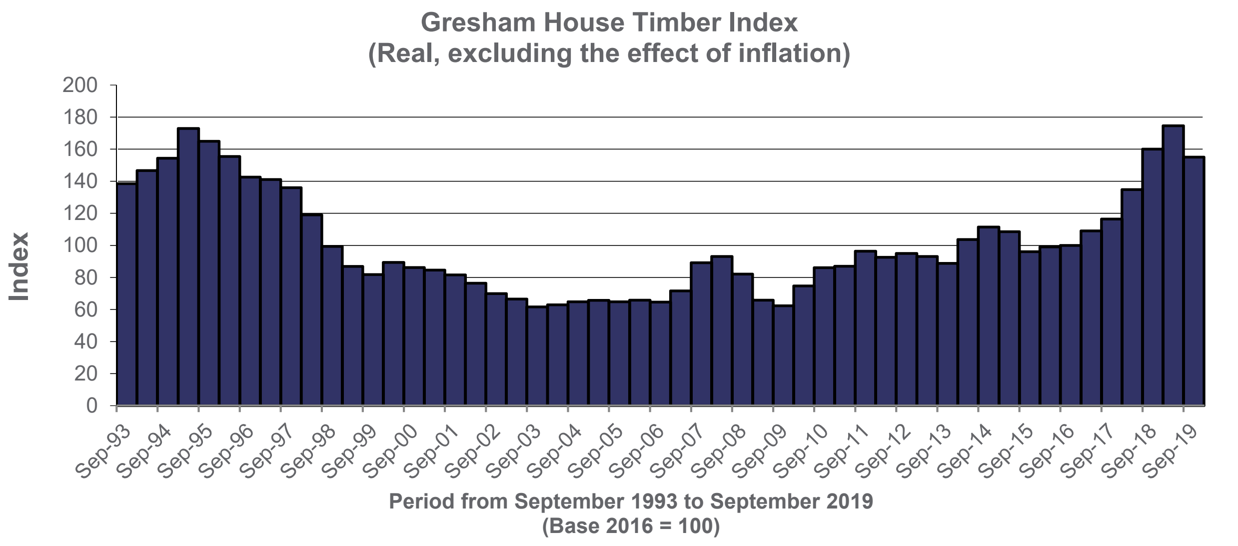
GH considers that the fundamentals of demand and supply are such that prices will increase in real terms over the coming years. Higher timber prices feed through to both higher revenues and forest capital values.

Outlook for Timber Prices – Medium Term

There has been an oversupply of timber over the last 6-12 months in Central Europe due to wind blow and beetle damage afflicting drought stressed trees following a number of exceptionally hot and dry summers. The abundance of timber products has resulted in the UK processing sector losing market share to cheap Central European imports which has seen UK sawmills reducing their production. This has had a negative impact on UK standing timber prices.

However, looking forward the European share of softwood log imports to China has increased from just 3% in the third quarter 2018 to 20% in the third quarter 2019. European exports of lumber to the USA have increased 75% during the first eight months of 2019 versus the same period in 2018, whilst production in British Columbia (Canada), a traditional large supplier of timber to the USA, has reduced 19.8% during the same period. This long-term reduction in production from British Columbia is also a result of beetle and fire damage driven by climate change and could be an indicator for what is to come in the more arid and continental areas of Europe. In contrast, due to the wet maritime climate in the UK and Ireland, climate models actually show improving conditions for growing Sitka spruce and healthy crops are much less susceptible to pest damage.

With increasing exports out of Europe and the levels of spruce felling normalising in Sweden (a major source of UK sawn timber imports) it is likely that there will be less pressure on the UK sawn markets as we continue into 2020. UK timber prices have stabilised at 10%-15% lower than peak prices achieved in early 2019, and GH are already seeing improving demand for standing timber and prices recovering in the first quarter of 2020.



Source: Forestry Commission, National Audit Office

The GH UK 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.

Global Supply and Demand

Long term, commercial forestry remains an excellent diversifying investment with a strong outlook for increasing timber prices and consequently forest values.

Global demand is expected to continue to rise due to a growing global urban population, rising GDP per capita and decarbonising economies using more wood in buildings. At the same time timber supply will be constrained; afforestation rates have been low, there has been a general reduction in illegal logging in natural forests, consumers are demanding that timber is sourced sustainably, and there is increasing pressure for agricultural and natural land uses. Furthermore, the long term growth rates of commercial timber means that any increase in supply will take many decades to grow through to commercial production.

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

UK Timber Demand

Current housing starts in the UK (the main driver of UK timber demand) were at 201,990 in 2018, well below the current UK annual target of 300,000. This target is underpinned by housing un-affordability being at record levels in England and Wales following five years of increasing house prices set against static incomes. All political parties are seeking to increase housebuilding to rebalance this un-affordability gap.

In addition, wood is increasingly being used in UK housing as the proportion of timber frame construction continues to increase, driven in part by modular housing. The UK Government has made it clear it sees offsite modular construction as a key route to increasing building capacity and at the same time helping to decarbonise the building sector, and it is a potential beneficiary of new government funding. An average three bedroom house takes about 40 weeks to build and costs c.£120,000; this timeframe is reduced to 10 days and the cost is also reduced dramatically if the house is built in sections in a factory and then assembled onsite. The UK timber frame sector accounts for up to 90% of all offsite modular construction. 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 the preferred choice for architects, designers and engineers. Rising numbers of housing starts, together with methods of construction favouring wood use, will drive demand for timber higher.

UK Timber Processing

Continued investment in UK mills and processing facilities is increasing the timber production capacity and unlocking value added end products. James Jones & Sons Limited have recently completed a £17.5 million investment into their new Hangingshaws facility near their Lockerbie sawmill. The site has value adding secondary processing, treatment and kilning facilities as well as significant roundwood and undercover sawn timber storage. Glennon Brothers' £14 million investment into a state of the art combined heat and power biomass facility at their sawmill in Troon is also a good example of how existing sites are continuing to invest to utilise their sawmill co-products, which in turn is generating additional demand for virgin fiber from the forest.

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 €250 million of investment over the last three to four years, with a further €250 million announced at the start of 2019. Irish mills continue to buy timber from the west coast of Scotland.

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

UK Supply

The UK still imports c.81% of its wood and wood products. Whilst there is an abundance of roundwood on the European markets this is not impacting the UK roundwood market as high transport costs and plant health restrictions make alternative markets such as China more attractive for export. Silvicultural limitations on harvesting volume set against a weaker currency all point towards a robust UK timber market for the foreseeable future. In the event of GBP strengthening this will coincide with an increase in housebuilding and this additional demand for timber will neutralise the negative impact of reducing relative imported timber prices.

3.2. Renewable Energy Generating Assets

Electricity Prices

C.50% of a subsidised renewable energy asset's gross income arises from the sale of electricity via the grid.

Power prices continue to remain volatile and can fluctuate significantly day by day. Significant market forces which impacted UK wholesale power prices in the period include:

- volatile carbon prices caused by an oversupply of carbon permits has put downward pressure on prices;
- a milder than anticipated winter combined with an oversupply of natural gas in the UK, leading to no real supply constraint, has put downward pressure on prices;
- uncertainty around the Brexit negotiations and fluctuating foreign exchange rates have raised raw material prices for delivery into the UK as oil, gas and coal are purchased in dollars and euros;
- geopolitical tensions including ongoing trade wars, drone strikes in Saudi Arabia and international sanctions in the Middle East have all impacted global oil prices.

At the time of writing, forward power prices for the balance of Winter 2019 (to March 2020) remain extremely low (<£33 per MWh), compared to day ahead prices of over £65 per MWh for this time last year. Unless the forward prices improve considerably, it makes sense to remain on spot prices and potentially benefit from prices rising back to seasonal norms.

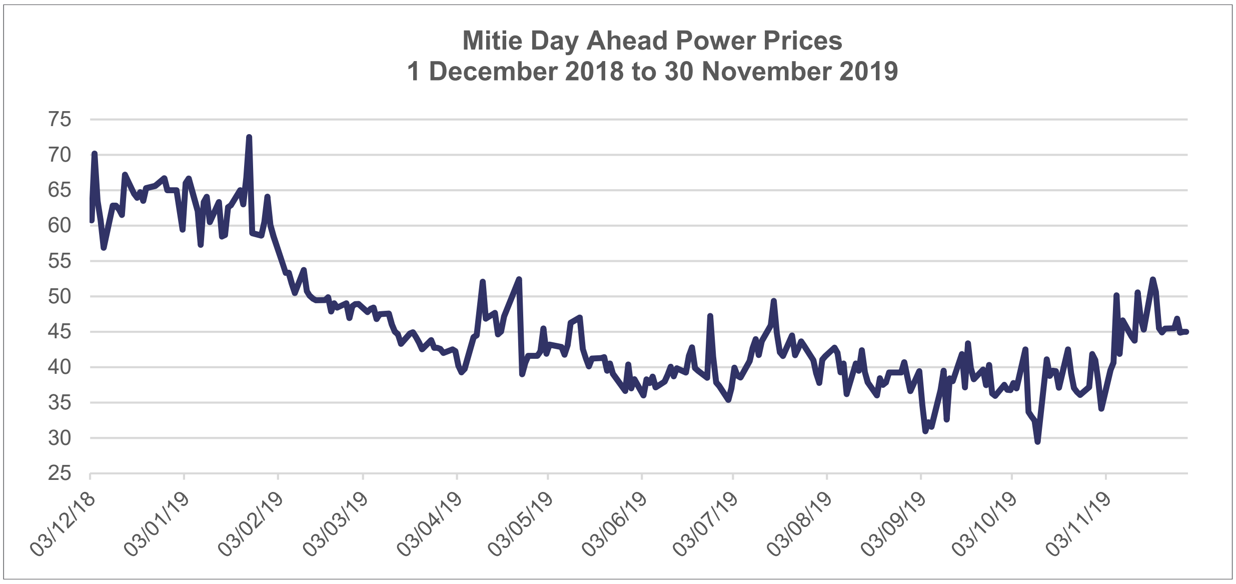
The graph below shows the spot power price over the twelve months to 30 November 2019.

The Manager will continue to monitor power prices on a daily basis and fix if favourable prices become available. If prices do not improve, there is a risk to the level of the next dividend from the renewable energy assets, payable in July 2020, as output is also below budget. However, the Manager does not anticipate this to impact the overall planned distribution to Limited Partners in May 2020.

The Manager cannot control output but does make sure plant availability is high in order to maximise energy production.

ROCs

The other c.50% of a subsidised renewable energy asset's gross income arises from the sale of Renewable Obligation Certificates (ROCs). This provides a legislated revenue stream which is index linked annually to RPI for 20 years from the date of accreditation. ROCs thus provide renewable generators with a high degree of protection from inflation. The ROC price is fixed, so revenue from this source is only subject to output.



Source: Mitie

4. ADMINISTRATION

4.1. Manager's Strategy

The business strategy remains to service as much as possible of the planned annual distribution from income generated by the renewable energy assets and renewable rental income. This will leave the timber resources to add volume and value for as long as practicable, thereby allowing the LP to benefit from the long term expected rises in timber prices, and consequent forest values.

The Manager also considers that renewable energy assets continue to add flexibility and diversification to the LP's income streams. As a result, the Manager has increased the LP's asset allocation of renewable energy investments to 19.7%, within the maximum of 20% allowed under the LP's Investment Objectives.

The Manager continues to believe that a larger fund increases liquidity for investors, provides economies of scale and provides a more diversified investment portfolio, thus minimising investment risk.

4.2. Additions to Limited Partners' Holdings

Limited Partners have the opportunity to increase their holding in the LP by acquiring secondary shares which are offered for sale. As existing Limited Partners, the Manager is advised that any additional share purchases in the LP immediately qualify 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.

The Manager markets shares being sold by existing Limited Partners for a period of two weeks. These can be accessed using this link https://greshamhouse.com/current-shares-for-sale/ssstseslsp-ss/. Bids can be received by post or by email to admin@greshamhouse.com and should detail the number of shares the bid is for and the price per share offered. The Manager presents 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 the Manager 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 Gresham House at admin@greshamhouse.com or 01451 844655.

4.3. Liquidity

During the six-month period to 30 November 2019, 28,644 FIM Sustainable Timber & Energy LP Limited Partnership Shares were sold (0.3% of shares in issue) with the Manager arranging deals between vendors and purchasers. The weighted average share price paid during the period was £26.18 (6.4% premium to the NAV of £24.51 as at 31 May 2019).

4.4. Taxation

The Manager expects to issue Taxable Income Statements for the Tax Year 2019-20 to Limited Partners in June 2020.

4.5. Inheritance Tax Relief

The Manager understands that a minimum of 80% of the value of a holding in the LP will qualify for 100% relief from Inheritance Tax as business property.

As previously reported to Limited Partners in the Memorandum dated 11 July 2014, the LP's tax adviser considers it possible that the renewable energy asset holdings should qualify for IHT relief, and as such the Manager considers it reasonable to stipulate that 100% of the value of a holding in the LP should currently qualify for IHT relief, once it has been held for two years.

4.6. LP Termination Dates

The LP has a First Termination Date of 31 May 2028. There is a right for Limited Partners to vote to extend the life of the LP by a five year period, subject to 75% by value of those voting being in favour of continuing. The Final Termination Date is 31 May 2033.

4.7. 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

4.8. Client Satisfaction

Please do not hesitate to contact a member of the Gresham House team if you wish to discuss your investment or provide any feedback on this report. Gresham House 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.

4.9. Management Team

Edward Daniels, the LP's former fund manager, has left Gresham House and Edward Latter has been appointed as fund manager of the LP. Edward Latter has extensive knowledge of the LP's portfolio having worked alongside Edward Daniels for nearly eight years.

Should you have any queries or questions not covered in this report please do not hesitate to contact a member of the team.

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Signed by Edward Latter
14 February 2020

On behalf of Gresham House Asset Management Limited as Manager of FIM Sustainable Timber & Energy LP

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