



Timberland Investment Group Market Report

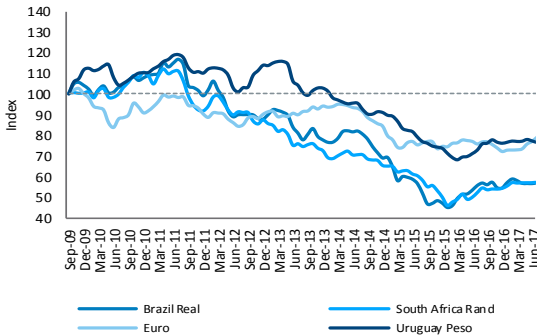
4th Quarter 2017

Table of Contents

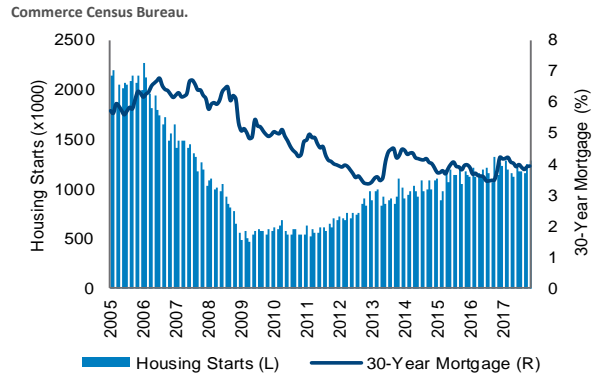
Timberland Investment Dashboard	3
Executive Summary	4
United States	7
Latin America	17
Europe	25
South Africa	27
New Zealand	29
Australia	31
Global Pulp and Paper Markets	33
Baltic Dry Index	35
Disclaimer	36

Timberland Investment Dashboard

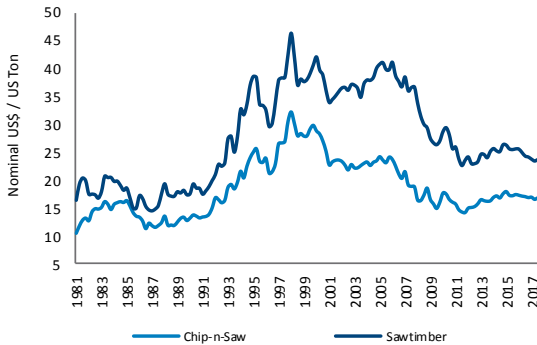
Indexed Exchange Rates of Selected Countries vs. the US Dollar (2009=100). Sources: Federal Reserve Bank; Bloomberg.



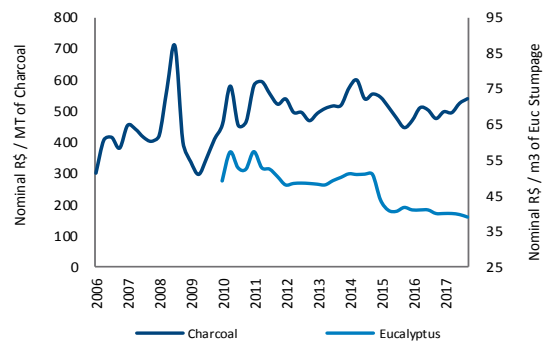
Annual US Housing Starts, Seasonally Adjusted Annual Rate, and 30-year Mortgage Rates. Sources: Federal Reserve Bank; US Dept. of Commerce Census Bureau.



US Southwide Quarterly Pine Chip-n-Saw and Sawtimber Prices. Source: TimberMart-South.

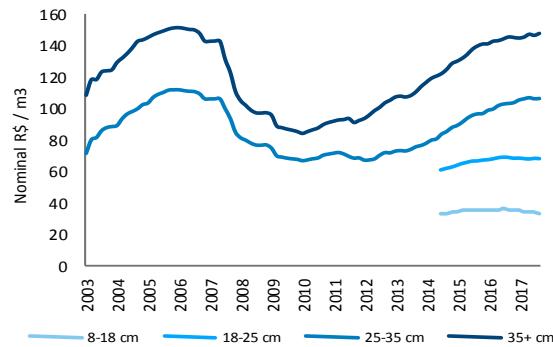


Quarterly Charcoal and Eucalyptus Stumpage Prices in Minas Gerais, Brazil. Sources: Associação Mineira de Silvicultura, Silviconsult.

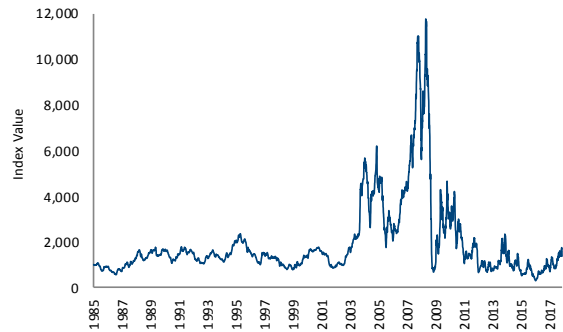


Pine Sawtimber Stumpage Prices in Paraná State, Brazil. Source:

STCP. (STCP changed small log diameters in Q416 so there is limited revised historical data)



Baltic Dry Index. Source: Bloomberg.



Executive Summary

United States

- The US economy expanded at an annual rate of 3.2% in Q3 (real GDP) reflecting growth in personal consumption, private inventory investment, nonresidential fixed investment, exports, federal government spending, and state and local government spending. Imports declined, which also assisted GDP. Residential fixed investment was a drag on growth.
- Unemployment remained flat at 4.1% in December versus November while labor force participation remained flat at 62.7%.
- The Institute for Supply Management (“ISM”) Purchasing Managers Index increased to 59.7% in December versus 58.2% in November.
- The US housing market continues to strengthen, although the recovery is following an uneven pace. November housing starts increased 3.3% over the prior month and 12.9% versus November 2016; multifamily starts accounted for 28.3% of November starts versus 29.7% in October, and a historic average of 23.1% since 1990.
- Southern pine sawtimber prices declined -0.3% for the quarter and -2.2% year-over-year.
- Chip-n-saw prices declined -1.5% sequentially in Q4 and -2.0% year-over-year.
- Southern mixed hardwood sawtimber prices increased 3.5% for the quarter, but were lower -3.8% year-over-year.
- In the US South, softwood pulpwood prices increased 3.3% quarter-over-quarter and 0.3% year-over-year while hardwood pulpwood prices increased 7.3% quarter-over-quarter, but declined -3.5% year-over-year.

Latin America

- In Q3, Brazil’s economy expanded for the third consecutive quarter with real GDP increasing slightly at 0.1% quarter-over-quarter versus an increase of 0.7% quarter-over-quarter in Q2.
- The Brazilian government is expected to continue to pursue pension reform after the Congressional summer recess, although there is the chance that significant reforms won’t occur until after Presidential elections later in 2018.
- Brazilian softwood sawtimber prices were mixed, depending on assortment, although larger-diameter sawtimber grades experienced year-over-year gains.
- Brazilian charcoal prices increased 2.8% quarter-over-quarter. However, the price of eucalyptus used in charcoal production declined -1.8% quarter-over-quarter.
- Eucalyptus pulpwood prices in Brazil increased 0.7% for the three months ended October, but declined -2.7% year-over-year.
- In Q3, Chile’s real GDP increased 2.2% year-over-year following 1.0% year-over-year growth in Q2.
- Argentina’s economy showed continued improvement with real GDP growth of 4.2% year-over-year in Q3 versus growth of 2.9% year-over-year in Q2.
- Guatemala’s real GDP increased 2.7% year-over-year in Q3 following 2.3% year-over-year growth in Q2.
- Uruguay’s real GDP increased at an annualized rate of 2.2% in Q3 versus 2.8% growth in Q2.
- Eucalyptus pulpwood prices in Uruguay were flat quarter-over-quarter in Q4, but increased 1.7% year-over-year.

Europe

- In Q3, euro zone real GDP increased 0.6% quarter-over-quarter versus 0.7% quarter-over-quarter growth in Q2.
- Gross fixed capital formation grew 1.1% quarter-over-quarter in Q3 versus an increase of 2.2% quarter-over-quarter in Q2 while industrial production increased 1.0% month-over-month in November after increasing 0.4% month-over-month in October.
- In November, exports increased 7.7% year-over-year while imports increased 7.3% year-over-year.
- In Estonia, pine sawlog prices increased 2.6% from three months earlier and 5.8% year-over-year, while birch sawlog prices increased 5.7% from three months earlier and 5.2% year-over-year.
- Estonian pulpwood prices also generally improved. Pine pulpwood prices declined -2.7% from three months earlier, but increased 11.7% year-over-year, while birch pulpwood prices increased 10.5% from three months earlier and 11.1% year-over-year.

South Africa

- In Q3, South Africa's economy grew with real GDP increasing 2.0% quarter-over-quarter following an increase of 2.8% quarter-over-quarter in Q2.
- In November, lumber prices declined -0.7% versus the prior three months, but increased 1.8% from November 2016.
- Softwood log prices were generally positive. In Q3: A grade logs increased 0.2% for the quarter and 4.0% year-over-year, B grade logs increased 15.4% for the quarter and 10.2% year-over-year, C grade logs rose 2.6% for the quarter and 6.7% year-over-year, and D grade logs slightly declined -0.3% for the quarter, but increased 2.0% year-over-year.

New Zealand

- In Q3, New Zealand's real GDP grew 0.6% quarter-over-quarter versus growth of 1.0% quarter-over-quarter in Q2. Construction and mining were better while utilities was weaker.
- New Zealand A-grade export log prices declined in September given greater log availability in China, New Zealand's largest export market. Domestic log prices were mixed given moderating demand due to elevated log prices and slower growth in the local housing market.

Australia

- In Q3, Australia's real GDP increased 0.6% quarter-over-quarter versus growth of 0.9% quarter-over-quarter in Q2. Manufacturing was better while agriculture, forestry & fishing was weaker.
- Australian softwood roundwood prices increased despite slower residential construction while prices of hardwood logs also increased. Both softwood and hardwood chips moved higher.

Global Pulp & Paper Markets

- In Q4, bleached hardwood kraft pulp (“BHK”) prices increased 7.8% versus the prior quarter and 43.7% year-over-year.
- Prices improved given unexpected mill downtime, which reduced pulp supply, and strong Chinese pulp demand.
- Bleached softwood kraft pulp (“BSK”) prices increased 6.6% versus the prior quarter and 17.8% year-over-year.
- During the quarter, softwood pulp pricing increased given improving Chinese demand and as softwood producers looked to maintain a positive price spread with hardwood pulp.

View from the Ground

- In the US, sawtimber prices in the US South were generally stagnant as timber dealers and mills refrained from purchasing wood given adequate inventories and dry weather. That said, pulpwood and sawtimber prices in Virginia were positive given increased construction activity and inventory replenishment.
- In the US Pacific Northwest, markets remained robust and prices continued to increase due to better end market demand, limited timber supply, export market growth, and less wood flow from Canada.
- In Brazil, timber demand has improved given better economic fundamentals. However, pulpwood remains oversupplied in certain states as harvests have increased on forests planted around the same time around ten years ago.

*GDP is reported in real terms while timber pricing is reported in nominal terms

**For every country mentioned in this report, real GDP reflect 3Q2017; 4Q2017 real GDP will be released between late January 2018 and mid-April 2018

United States

In Q3, US real GDP expanded at an annual rate of 3.2%. This was slightly above the 3.1% real GDP gain from the prior period (Figure 1). The Q3 increase in real GDP reflected growth in personal consumption, private inventory investment, nonresidential fixed investment, exports, federal government spending, and state and local government spending. These were partly offset by a negative contribution from residential fixed investment. Imports also declined, which increased GDP. The unemployment rate remained flat at 4.1% in December versus November while the change in total nonfarm payroll employment (seasonally adjusted) was 148,000 in December versus 252,000 in November. Meanwhile, the labor force participation rate remained flat at 62.7% in December versus November, continuing to trend along low levels (Figure 2).

Manufacturing improved in recent months. The ISM, a bellwether of manufacturing activity, increased to 59.7% in December from 58.2% in November and 58.7% in October (Figure 3).

Figure 1. Annualized Quarterly US Real GDP Growth (%).

Sources: US Dept. of Commerce, BEA.

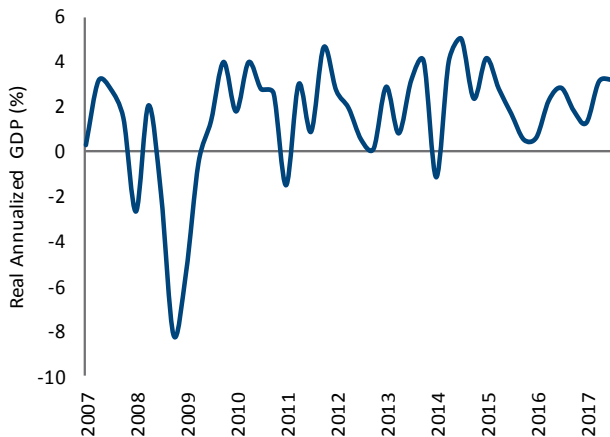


Figure 2. US Unemployment, and Labor Force Participation Rate.

Sources: Sources: US Dept. of Labor, BLS.

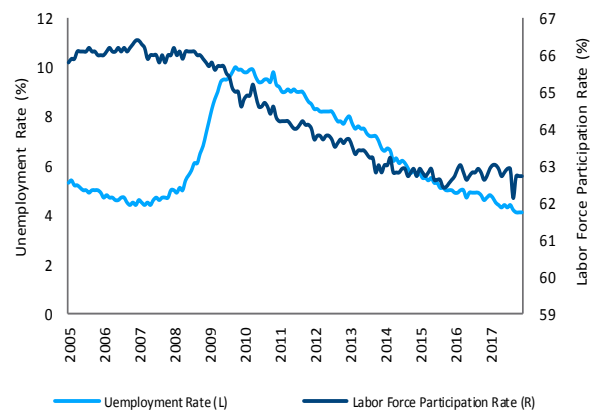
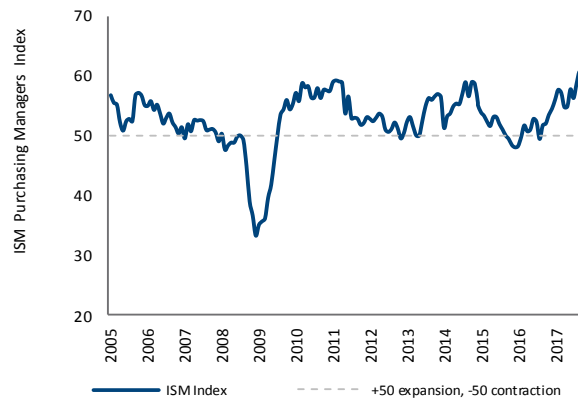


Figure 3. US ISM Purchasing Managers Index.

Source: Institute for Supply Management.



US housing

The US housing market continues to improve, although the recovery is following an uneven pace.

In November, housing starts were at a seasonally adjusted annual rate (“SAAR”) of 1.297 million units (Figure 4). This figure is up 3.3% versus October’s 1.256 million units (SAAR) and 12.9% versus November 2016’s 1.149 million starts (SAAR). The share of multifamily starts as a percentage of total starts declined to 28.3% versus 29.7% in October.

New single-family home sales increased 17.5% month-over-month in November (Figure 5). Sales increased 31.1% month-over-month in the West, 14.9% month-over-month in the South, 9.5% month-over-month in the Northeast, and 6.9% month-over-month in the Midwest.

Existing home sales increased 5.6% month-over-month in November (+3.8% year-over-year) to 5.81 million units (SAAR). Inventories of existing homes declined to 3.4 months in November versus 3.9 months in October, a very low level of inventory by historical standards.

Figure 4. Annual US Housing Starts, Seasonally Adjusted Annual Rate and 30-year Mortgage Rates. Sources: Federal Reserve Bank of St. Louis, US Dept. of Commerce Census Bureau.

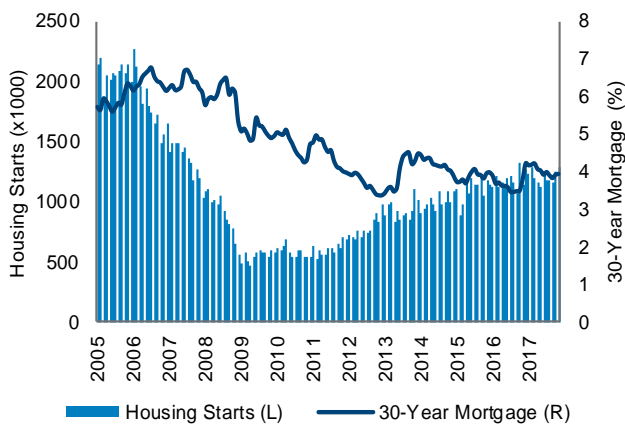
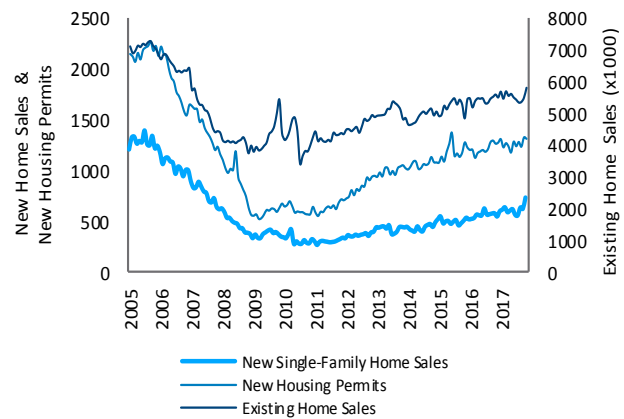


Figure 5. Monthly New Home Sales, New Building Permits, and Existing Home Sales, Seasonally Adjusted Annual Rates. Sources: US Dept. of Commerce Census Bureau, National Association of Realtors.



In November, building permits declined -1.0% month-over-month. This decline was driven by a -6.0% month-over-month decline in multi-family permits; single-family permits increased 1.8% month-over-month.

US forest products and timber markets

Average softwood lumber prices increased 4.3% quarter-over-quarter in Q4. This compares to a historical average sequential decline of -0.9% over the last decade (Figure 6). After a strong increase in pricing in Q3 due to wildfires in British Columbia’s Interior and US hurricanes, prices modestly softened throughout the quarter given steady lumber production and seasonally lower demand. Some distributors focused on reducing inventories, which further contributed to the price softness. Meanwhile, US lumber exports increased 10.6% year-over-year in Q3 (export data are released on a one-quarter lag).

During Q4, structural panel pricing increased 2.2% versus Q3. This compares to a historical average sequential decline of -2.8% over the last decade (Figure 6). Oriented Strand Board (“OSB”) prices significantly declined during the quarter as producers offered discounts to extend order files. In Q3, US OSB production increased 3.7% year-over-year, imports increased 13.6% year-over-year, and exports declined -25.5% year-over-year (OSB and plywood production, import and export data are released on a one-quarter lag). Meanwhile, average Q4 plywood prices were higher than Q3, but trended lower in October and November given slower sales and weak order files. However, prices moved higher in December due to better demand from inventory restocking and lower supply from mill maintenance downtime. In Q3, US plywood production increased 4.2% year-over-year, imports increased 20.4% year-over-year, and plywood exports increased 50.0% year-over-year.

Figure 6. US Framing Lumber Index and Panel Composite Index.

Source: Random Lengths.

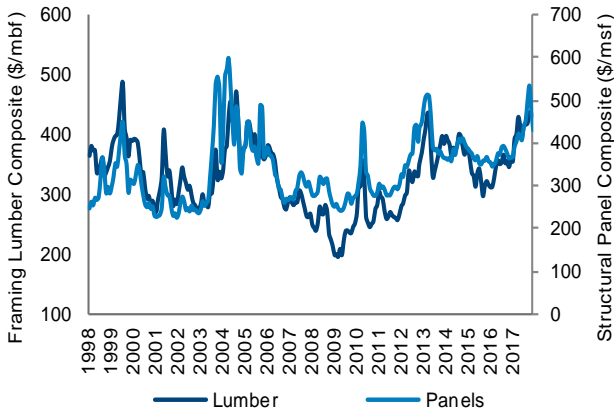
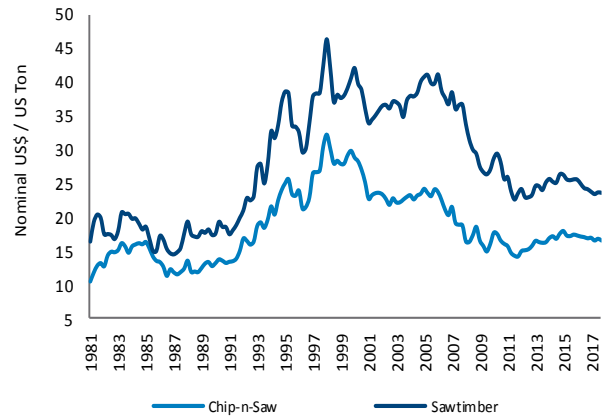


Figure 7. US Southwide Quarterly Pine Chip-n-Saw and Sawtimber Prices. Source: TimberMart-South.



Throughout the US South, pine sawtimber prices declined -0.3% in Q4 and -2.2% year-over-year according to TimberMart-South (Figure 7). Chip-n-saw prices declined -1.5% sequentially in Q4 and -2.0% year-over-year. These price declines are primarily due to weaker prices in Texas and Louisiana following earlier price increases in the aftermath of Hurricane Harvey. Pine sawtimber prices would have increased \$0.50/ton on average if Texas and Louisiana were excluded.

Southern hardwood sawtimber prices were mixed during Q4. Region-wide, mixed hardwood sawtimber prices increased 3.5% for the quarter, but were lower -3.8% year-over-year. Oak sawtimber prices increased 1.8% quarter-over-quarter and 1.1% year-over-year (Figure 8).

In New York's Adirondack region, northern red oak increased 3.3% quarter-over-quarter and 10.7% year-over-year. Hard maple increased 3.3% quarter-over-quarter in Q4, but declined -12.5% year-over-year (Figure 9).

Figure 8. US Southwide Quarterly Mixed Hardwood and Mixed Oak Sawtimber Prices. Source: TimberMart-South.

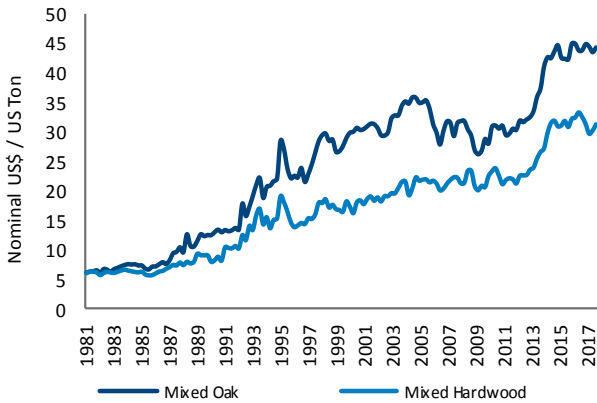
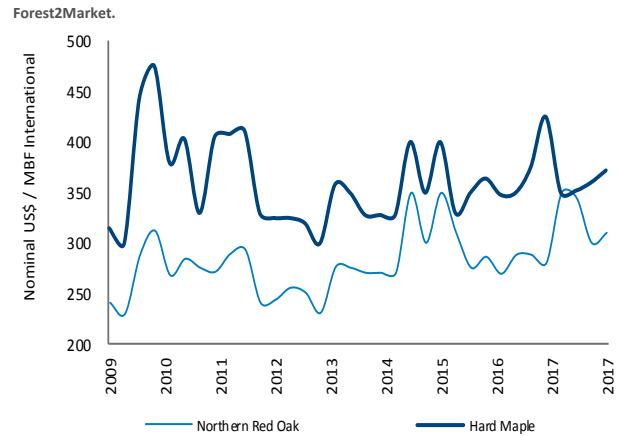


Figure 9. Quarterly Northern Red Oak and Hard Maple Sawtimber Prices in New York. Source: Forest2Market.



During Q4, Conifex completed construction of its sawmill, two continuous dry kilns, and planer mill in El Dorado, Arkansas. The company began the mill’s “ramp-up” period in November and had its first lumber sales in December. Meanwhile, Interfor announced that it is proceeding with projects at two of its sawmills in the US South that involve spending around US\$ 65 million to increase production by approximately 150mmbf per year, lower cash conversion costs, improve lumber recovery, and enhance grade outturns and product mix. These projects are expected to be completed in Q418 and Q119, respectively. Interfor is also considering a 200mmbf greenfield mill in the Central Region of the US South, which it expects will cost around US\$ 115 million. Similarly, Canfor announced that it intends to expand its Southern sawmill capacity at three or four mills, increasing its total capacity by 350mmbf per year. In addition, the company is evaluating a greenfield lumber mill (total cost estimated at around US\$ 100 million) in the US South with capacity of 250mmbf per year (study to be completed by the end of January and final decision to be made by end of Q118). In packaging, WestRock announced a US\$ 410 million investment at its Florence, South Carolina kraft linerboard mill capable of producing 710,000 tons of kraft linerboard. The company also plans to retire three older machines removing linerboard capacity of around 683,000 tons. Pratt Industries plans to build a greenfield 396,000 tons lightweight recycled containerboard mill near Wapakoneta, Ohio, for startup beginning Q419 (Table 1).

Separately, a number of paper companies announced machine closures including: 1) West Linn Paper ceased production at its West Linn, Oregon coated free sheet paper mill (270,000 tons); 2) Appvion closed its coated paper mill in Combined Locks, Wisconsin (295,000 tons); 3) UPM announced the closure of coated magazine paper machine 5 at its Blandin, Minnesota mill (128,000 tons) to occur no later than the end of Q118; and 4) Georgia-Pacific announced that it will permanently shut down the communication paper machine (237,000 tons), fine paper converting assets, pulping operations and related equipment at its Camas, Washington mill by Q218 (Table 2).

Table 1: North American paper/pulp/board/forest products mill additions

Year	Company	Location	Grade	Capacity	Units	Notes
2015	Pratt Industries	Valparaiso, IN	Containerboard	360,000	tons	Greenfield
2015	International Paper	Valliant, OK	Containerboard	360,000	tons	Restart
2015	Greif	Riverville, VA	Containerboard	55,000	tons	Expansion
2015	Klausner Lumber One	Live Oak, FL	Lumber	350	mmbf	Greenfield
2016	Domtar	Ashdown, AR	Fluff	516,000	MT	Conversion
2016	Rayonier	Jesup, GA	Fluff Pulp and Dissolving Pulp	245,000	MT	Conversion
2016	International Paper	Riegelwood, NC	Fluff Pulp and Softwood Pulp	450,000	MT	Conversion
2016	First Quality Tissue	Anderson, SC	Tissue	70,000	tons	Greenfield
2016	St. Croix Tissue	Baileyville, ME	Tissue	126,000	tons	Expansion
2016	Corrugated Supplies	Alsip, IL	Containerboard	165,000	tons	Acquired from Future
2016	Winston Plywood & Veneer	Louisville, MS	Plywood	440	mmsf	Greenfield
2016	Swanson Group	Springfield, OR	Plywood	120	mmsf	Rebuild
2016	Boise Cascade	Florien, LA	Plywood	TBD	mmsf	Expansion
2016	Idapine Mills	Meridian, ID	Lumber	80	mmbf	Expansion
2017	Resolute	Calhoun, TN	Tissue	66,000	tons	Greenfield
2017	First Quality Tissue	Anderson, SC	Tissue	70,000	tons	Greenfield
2017	First Quality Tissue	Lock Haven, PA	Tissue	70,000	tons	Expansion
2017	Orchids Paper	Barnwell, SC	Tissue	35,000	tons	Greenfield
2017	Little Rapids	Shawano, WI	Tissue	N/A	tons	Expansion
2017	International Paper	Prattville, AL	Containerboard	70,000	tons	Expansion
2017	International Paper	Springfield, OR	Containerboard	45,000	tons	Expansion
2017	International Paper	Vicksburg, MS	Containerboard	55,000	tons	Expansion
2017	International Paper	Maysville, KY	Containerboard	85,000	tons	Expansion
2017	Corrugated Supplies	Milwaukee, WI	Containerboard	350,000	tons	Greenfield
2017	Roy O. Martin	Corrigan, TX	OSB	750	mmsf	Greenfield
2017	Forex	Amos, Quebec	OSB	365	mmsf	Greenfield
2017	Conifex	El Dorado, AR	Lumber	300	mmbf	Restart
2017	Klausner Lumber Two (1)	Enfield, NC	Lumber	350	mmbf	Greenfield
2017	Caddo River Forest Products	Glenwood, AR	Lumber	100	mmbf	Expansion
2017	Two Rivers Lumber	Demopolis, AL	Lumber	200	mmbf	Greenfield
2017	Biewer Lumber	Newton, MS	Lumber	250	mmbf	Greenfield
2017	Packaging Corp	DeRidder, LA	Containerboard	50	tons	Expansion
2018	Tolko Industries	High Prairie, Alberta	OSB	415	mmsf	Restart
2018	Georgia-Pacific	Talladega, AL	Lumber	300	mmbf	Greenfield
2018	Jordan Lumber	Mt. Gilead, NC	Lumber	300	mmbf	Expansion
2018	Egger Group	Lexington, NC	Particleboard	N/A	mmsf	Greenfield
2018	Sun Paper	Arkadelphia, AR	Fluff pulp and/or dissolving pulp	TBD	MT	Greenfield
2018	Huber	Spring City, TN	OSB	350	mmsf	Restart
2018	Arauco	Grayling, MI	Particleboard	424	mmsf	Greenfield
2018	Packaging Corp	Wallula, WA	Containerboard	400,000	tons	Conversion
2018/2019	Bio-Pappel	Port Angeles, WA	Containerboard	220,000	tons	Conversion
2019	International Paper	Selma, AL	Containerboard	450,000	tons	Conversion
2019	Pratt Industries	Wapakoneta, OH	Containerboard	396,000	tons	Greenfield
2020	WestRock	Florence, SC	Containerboard	710,000	tons	Expansion
2020	Tranlin	Chesterfield, VA	Tissue	TBD	tons	Greenfield
TBD	Norbord	Huguley, AL	OSB	500	mmsf	Restart
TBD	Rex Lumber	US Southeast	Lumber	240	mmbf	Greenfield
TBD	Interfor	Central Region of the US South	Lumber	200	mmbf	Greenfield
TBD	Canfor	US South (close to port)	Lumber	250	mmbf	Greenfield

Sources: RISI; Company Reports; TIG Analysis; (1) Klausner Lumber Two Mill was expected to start production in 2017, although has been delayed. There is market scuttlebutt that production should begin in April 2018.

Table 2: North American paper/pulp/board/forest products mill closures

Year	Company	Location	Grade	Capacity	Units	Notes
2015	WestRock	Coshocton, OH	Containerboard	310,000	tons	Permanently closed
2015	WestRock	Newburg, OR	Containerboard	200,000	tons	Indefinitely idled
2015	Catalyst Paper	Rumford, ME	Printing & Writing	105,000	tons	Indefinitely idled
2015	Fusion Paperboard	Sprague, CT	Paperboard	146,000	tons	Permanently closed
2015	Expera	Old Town, ME	Hardwood Pulp	180,000	MT	Bought by MFGR LLC in 2016 after 2015 closure
2015	Graphic Packaging	Jonquiere, Quebec	Paperboard	75,000	tons	Permanently closed
2016	WestRock	Uncasville, CT	Containerboard	165,000	tons	Permanently closed
2016	Domtar	Ashdown, AR	Printing & Writing	364,000	tons	Converted to fluff puff production (516k MT/yr)
2016	Verso	Wyckliffe, KY	Printing & Writing	180,000	tons	Permanently closed
2016	UPM	Madison, ME	Printing & Writing	195,000	tons	Converted to bakery
2016	International Paper	Riegelwood, NC	Printing & Writing	350,000	tons	Converted to fluff pulp (400k MT/yr)
2016	WestRock	Newburg, OR	Newsprint	235,000	tons	Indefinitely idled
2016	Resolute	Augusta, GA	Newsprint	190,000	tons	Permanently closed
2016	Lincoln Paper & Tissue	Lincoln, ME	Tissue	200,000	tons	Permanently closed
2017	Resolute	Catawba, SC	Printing & Writing	190,000	tons	Planned closure
2017	Paperworks	Philadelphia, PA	Paperboard	131,000	tons	Permanently closed
2017	Verso	Jay, ME	Printing & Writing	200,000	tons	Planned closure (3Q17)
2017	Appvion	Combined Locks, WI	Printing & Writing	295,000	tons	Closed, but in court now awaiting decision on sale
2017	White Birch	Bear Island, VA	Newsprint	240,000	tons	Indefinitely idled
2017	Resolute	Calhoun, TN	Newsprint	90,000-100,000	tons	Converted to tissue
2017	Norpac	Longview, WA	Newsprint	246,000	tons	Idling three machines
2017	Glatfelter	Chillicothe, OH	Specialty Paper	80,000	tons	Closing paper machines
2017	West Linn	West Linn, OR	Printing & Writing	260,000	tons	Permanently closed
2017	Graphic Packaging	Santa Clara, CA	Paperboard	137,800	tons	Permanently closed
2017	Georgia-Pacific	Crossett, AR	Plywood	N/A	mmsf	Being sold to chemical manufacturer, Ingevity
2018	Flambeau River Papers	Park Falls, WI	Printing & Writing	N/A	tons	Permanently closed one of three machines
2018	UPM	Blandin, MN	Printing & Writing	128,000	tons	Planned closure
2018	Packaging Corp.	Wallula, WA	Printing & Writing	200,000	tons	Converting to containerboard (400k tons/yr)
2018	Georgia-Pacific	Camas, WA	Printing & Writing	237,000	tons	Planned closure
2019	International Paper	Selma, AL	Printing & Writing	235,000	tons	Converting to containerboard (450k tons/yr)
2020	WestRock	Florence, SC	Containerboard	683,000	tons	Planned closure of three older machines

Sources: RISI; Company Reports; TIG Analysis

In Ohio, red oak increased 14.3% versus Q3 and 56.0% year-over-year. Hard maple increased 20.0% during the quarter and 48.0% year-over-year. White oak increased 0.4% quarter-over-quarter and 54.6% year-over-year (Figure 10).

In Wisconsin, northern red oak was flat quarter-over-quarter in Q4, but increased 15.9% year-over-year (Figure 11). Hard maple was flat quarter-over-quarter, but declined -3.4% year-over-year. Yellow birch sawtimber was flat quarter-over-quarter in Q4, but declined -4.2% year-over-year.

Figure 10. Northern Red Oak, Hard Maple, and White Oak Sawtimber Prices in Ohio. Source: Forest2Market.

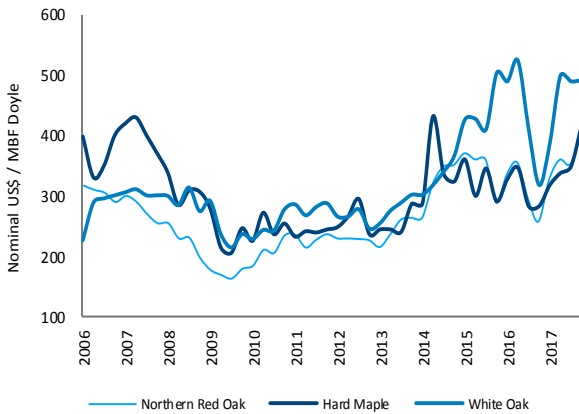
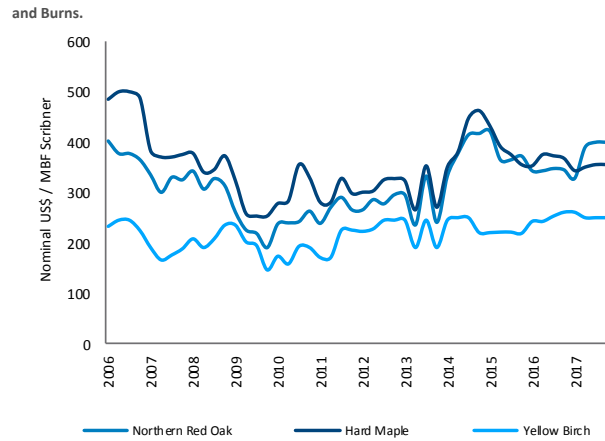


Figure 11. Northern Red Oak, Hard Maple, and Yellow Birch Sawtimber Prices in Wisconsin. Source: Steigerwaldt and Burns.



In Oregon, softwood sawlog prices increased across all grades. The price of Douglas-fir #2 increased 5.7% sequentially and 21.6% year-over-year (Figure 12). As of November 2017 (latest data available), Douglas-fir is now 5.3% higher than its prior 2014 peak. The price of Whitewood #2 logs increased 6.9% for the quarter and 18.9% year-over-year. As of November 2017, Whitewoods are still down -2.3% from their 2014 peak. In September 2017 (the latest available data), total softwood log exports to China declined -8.0% year-over-year to 100.21mmbf from 108.95mmbf in September 2016, softwood log exports to Japan declined -21.7% year-over-year to 34.19mmbf from 43.64mmbf in September 2016, and softwood log exports to South Korea declined -30.7% year-over-year to 6.09mmbf from 8.79mmbf in September 2016.

In the US South, hardwood pulpwood prices increased 7.3% in Q4, but declined -3.5% year-over-year while pine pulpwood prices increased 3.3% quarter-over-quarter and 0.3% year-over-year (Figure 13).

Figure 12. Monthly Columbia River #2 Douglas-fir and Mixed Whitewood Log Prices. Source: Log Lines.

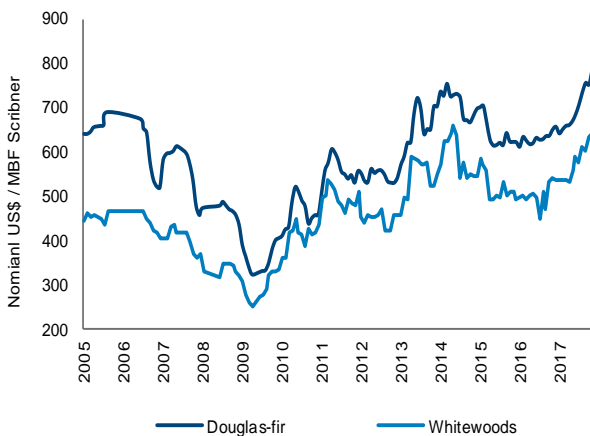
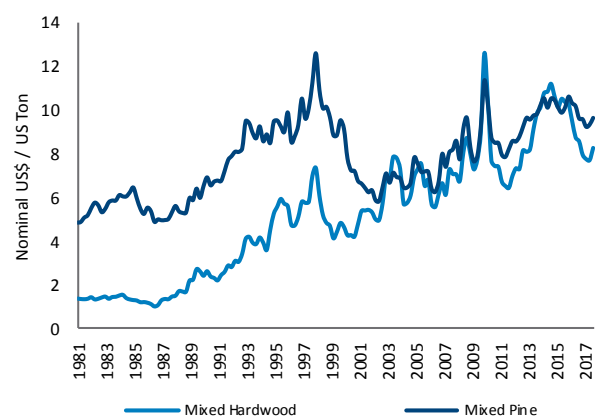


Figure 13. US Southwide Quarterly Mixed Hardwood and Mixed Pine Pulpwood Prices. Source: TimberMart-South.



View from the Ground

BTG Pactual Timberland Investment Group (“TIG”) regional asset managers regularly report on conditions that impact wood pricing in their operating areas. In South Carolina, North Carolina, Georgia, and Northeast Florida, Q4 was largely uneventful. Similar to Q4 last year, timber dealers and mills reduced purchases due to adequate wood inventories and dry weather. While prices largely held flat during Q4, there is some concern they could decline in the spring as more timber becomes available.

In East Texas, production at Roy O. Martin’s new OSB mill in Corrigan, Texas was delayed. Originally intended to begin production in late December / early January, the mill is now expected to start production in February and reach full capacity during the summer. Pulpwood prices have the potential to increase as the mill ramps production.

In Southwest Arkansas, pulpwood prices began to soften late in the quarter as Domtar’s Ashdown mill began to execute its strategy to phase out direct timber purchases and work with wood dealers. As a result of the transition, the Ashdown mill has minimized its purchases of wood, which has caused pulpwood prices to decline. To offset this, some contractors have been selling pulpwood to International Paper’s mill in Valliant, Oklahoma. Moreover, there is market scuttlebutt that Highland Pellets could be looking to build a greenfield pellet mill in Stephens, Arkansas, which would help support local pulpwood prices.

In Virginia, timber demand improved due to increased construction activity and inventory replenishment. On average, both pulpwood and sawtimber prices increased 5% during the quarter. Momentum accelerated throughout the quarter and has continued thus far into Q1. That said, persistently dry weather could discourage buyers from procuring wood.

In Ohio, Q4 market conditions were generally similar to the prior few quarters. Specifically, demand for hardwood sawtimber continues to be strong given growing end markets including whiskey barrels, railroad ties, flooring, and furniture.

In Appalachia, demand for quality hardwood sawtimber continues to be strong given growing end markets including railroad ties. Export demand has also remained strong.

In Central Alabama, improving markets and winter weather discouraged mills from putting contractors on quota. As a result, there has been some slight price increases. Separately, the new Two Rivers lumber mill in Demopolis continues to ramp up production and is now actively buying market wood (the mill had previously been utilizing its own timber). Louisiana-Pacific's OSB mill in Thomasville has also increased production.

In Wisconsin, demand across most species generally remains steady while prices are generally flat.

In the Pacific Northwest, markets remain robust and prices continue to increase. This strength is due to better end market demand (lumber, plywood), limited timber supply (the US government does not sell wood from its timberland), export market growth, and less wood flow from Canada.

US Softwood Lumber Duties

In November, the US Department of Commerce levied final countervailing ("CVD") and antidumping duties ("AD") of 20.83% on imports of Canadian softwood lumber, down from the preliminary combined rate of 26.75%. The US International Trade Commission affirmed the lumber duties against Canada on December 7 and published its final ruling in the Federal Register on December 28 (the duties' effective date). In response, Canada has launched a challenge under the North American Free Trade Agreement requesting the establishment of a binational panel to review final determination on countervailing duties. Canada also requested consultations with the US under the World Trade Organization.

Other Duties

In November, the US Department of Commerce affirmed that exporters from China sold hardwood plywood products in the United States at a margin of 183.36% and that China is providing unfair subsidies to its producers of hardwood plywood products at rates ranging from 22.98% to 194.90%. As a result, the US Department of Commerce instructed Customs and Border Protection to collect cash deposits from importers of hardwood plywood products from China.

In December, the World Trade Organization upheld the imposition by the US of AD and CVD on coated paper imports from Indonesia of 17.93% and 20.13%, respectively. The duties were first imposed in November 2010, but the US Department of Commerce and US International Trade Commission determined in 2016 that the market situation warranted the continuation of the duties for an additional five-year period.

Latin America

Brazilian economy

In Q3, Brazil's economy expanded for the third consecutive quarter with real GDP increasing a slight 0.1% quarter-over-quarter following a 0.7% quarter-over-quarter increase in Q2. Industrial activity increased 0.8% quarter-over-quarter while service activity increased 0.6% quarter-over-quarter. That said, agriculture declined -3.0% quarter-over-quarter following a -2.3% quarter-over-quarter decline in Q2. Investment increased 1.6% quarter-over-quarter following a flat quarter in Q2. BTG Pactual's Brazilian Economics team currently expects 2017 real GDP of 1.0% and 2018 real GDP of 2.7% spurred by easier monetary conditions and slowly improving consumption and investments.

As part of this modest improvement, household spending increased 1.2% quarter-over-quarter in Q3 versus 1.2% quarter-over-quarter growth in Q2. Unemployment also declined to 12.0% in November from 13.0% in June, though it still remains elevated. Moreover, industrial production increased 4.7% year-over-year in November after increasing 5.5% year-over-year in October.

In November, inflation (Índice de Preços ao Consumidor Amplo or "IPCA") slightly increased to 2.8% annualized from 2.7% annualized in October, although it remains well below the 11-13% inflation earlier in 2017 (Figure 14). Real rates have also trended lower (despite upward moves in November and December 2017) as evidenced by declining Treasury inflation-protected bond yields (Figure 15). In December, Brazil's central bank cut the Selic rate by another 50bps to 7.0%, bringing the total 2017 rate decline to 675 basis points, as inflation continues to slow and the government looks to spur economic growth.

Meanwhile, exports increased 4.1% sequentially in Q3 following a 1.2% quarter-over-quarter increase in Q2. Imports increased 6.6% sequentially after declining -3.4% in Q2. Separately, in Q4, the real depreciated around -2.8% sequentially (Figure 16).

Figure 14. Brazilian SELIC Rate and Annualized IPCA Index.

Source: Banco Central do Brasil, Brazilian Institute of Geography and Economics.

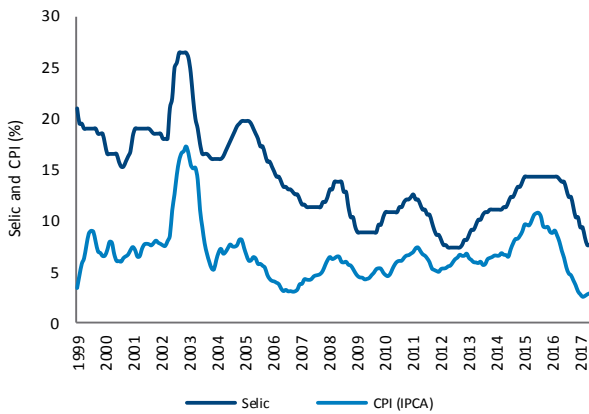


Figure 15. Brazilian Treasury Inflation Protected Bond Yield. Source: Brazil National Treasury.



Figure 16. US Dollar: Brazilian Real Daily Exchange Rates.

Source: Board of Governors of the US Federal Reserve System.



On the political front, on January 24, the appeals court in Porto Alegre upheld former president Lula da Silva’s conviction of graft and money laundering as part of Lava Jato (“Car Wash”) and increased his prison sentence to 12 years from a prior 9.5 years. Brazilian law states that anyone who has a criminal conviction that has been upheld in an appellate court is unable to run for elected office. That said, there remains the potential for Lula to run for the presidency as he appeals this decision, which he did following the court decision.

Meanwhile Brazilian lawmakers again voted against putting President Michel Temer on trial for obstruction of justice and criminal conspiracy. Following this, President Temer decided to reshuffle his cabinet to make headway on pension reform and given that the PSDB (Brazil Social Democracy Party) had decided to leave the government coalition.

Separately, the government continues to make progress on pension reform (e.g., minimum age requirements, changing rules for rural pensioners, etc.) and plans to hold a vote in February after the end of the Congressional summer recess. However, there is the chance that any significant changes won't occur until after Brazil general elections later in 2018. In early January, S&P cut Brazil's debt rating to BB- citing delays in passing austerity measures (e.g., pension) to trim Brazil's debt levels.

In early December, Masisa completed the sale of its Brazilian industrial assets to Arauco. These assets included two industrial complexes in Parana and Rio Grande do Sul with a capacity to produce of 300,000 m³ of MDF panels per year, 650,000 m³ of MDP panels per year and 660,000 m³ of melamine coated wood panels per year. Meanwhile, Eldorado announced Aguinaldo Gomes Ramos as the new CEO beginning December 1. Eldorado expects its sale to Netherlands-based Paper Excellence, which produces 2.3 million MT of pulp a year and has five plants in Canada and two in France, to close in early 2018.

Brazilian forest products and timber markets

The price of pine timber in Brazil was mixed during the quarter. Through the end of October, pulpwood (8-18 cm) in Parana State declined -1.3% quarter-over-quarter and -7.3% year-over-year in local currency terms. Small sawtimber (18-25 cm) declined -0.2% quarter-over-quarter and -1.1% year-over-year while large-diameter sawtimber (25-35 cm) increased 0.2% quarter-over-quarter and 3.1% year-over-year. Veneer logs (+35 cm), used primarily for export-oriented softwood plywood, increased 0.8% quarter-over-quarter and 1.6% year-over-year (Figure 17).

The price of larger diameter sawtimber continues to be driven by exports, particularly plywood and lumber. In Q3 (latest available data), Brazilian plywood exports to the US increased 6.9% year-over-year while Brazilian lumber exports to the US increased 43.8% year-over-year.

The global steel sector remains somewhat challenged due to excess steel capacity and slower Chinese demand. This continues to negatively impact industrial wood charcoal (Figure 18, left axis), which is used to produce pig iron which in turn is used to make steel. That said, charcoal prices in Minas Gerais increased 2.8% quarter-over-quarter in Q4 (13.4% year-over-year) alongside continued strong pulp production and an improvement in automobile production. Charcoal pricing is normally reflected in the price of eucalyptus stumpage (Figure 18, right axis). However, in Q4, Minas Gerais eucalyptus prices declined -1.8% quarter-over-quarter and -2.5% year-over-year, likely a reflection of continued accumulated timber supply in the region.

Figure 17. Pine Sawtimber Stumpage Prices in Paraná State, Brazil. Source: STCP. (STCP changed log diameters to 8-18 cm from 8-15 cm and 18-25 cm

from 15-25 cm in Q416 so revised historical data only extend back to 2014).

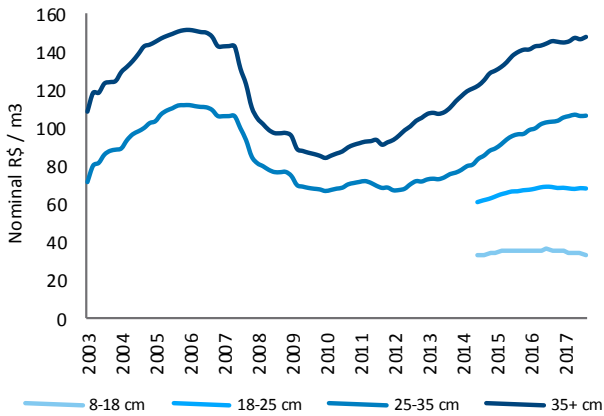
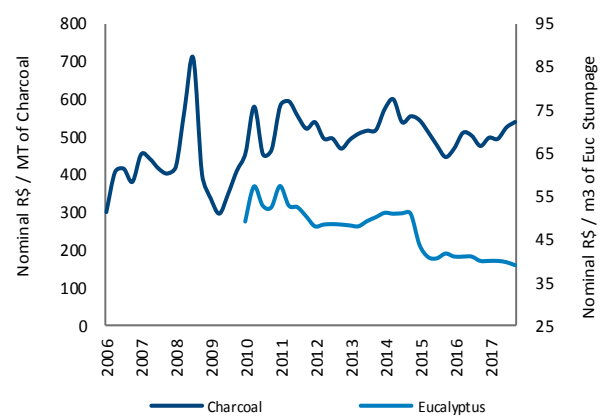


Figure 18. Charcoal and Eucalyptus Stumpage Prices in Minas Gerais, Brazil.

Sources: Associação Mineira de Sicultura; Poyry Silviconsult.



Meantime, eucalyptus pulpwood prices increased 0.7% quarter-over-quarter (ended October), but declined -2.7% year-over-year on a countrywide basis (Figure 19).

The price of pine resin, a secondary product that can be collected from pine plantations between harvests and is used in the production of synthetic rubber, glues, adhesives, printer inks, and other products, was positive during Q4. Mixed tropical pine resin increased 7.1% quarter-over-quarter while slash pine resin increased 8.0% quarter-over-quarter (Figure 20).

Figure 19. Brazil Eucalyptus Pulpwood (8-18 cm) Stumpage

Prices. Source: STCP (STCP changed log diameters to 8-18 cm from 8-15 cm during Q416 so revised historical data only extend back to 2014).

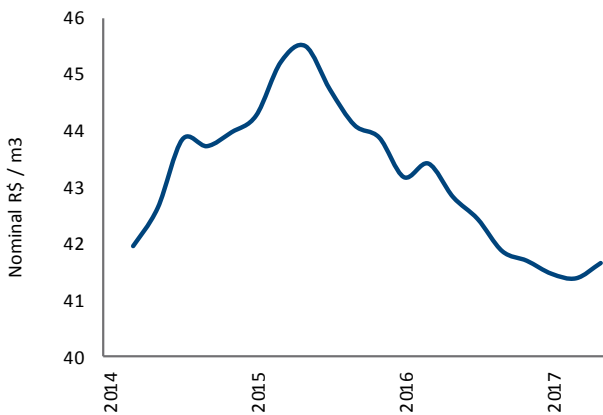
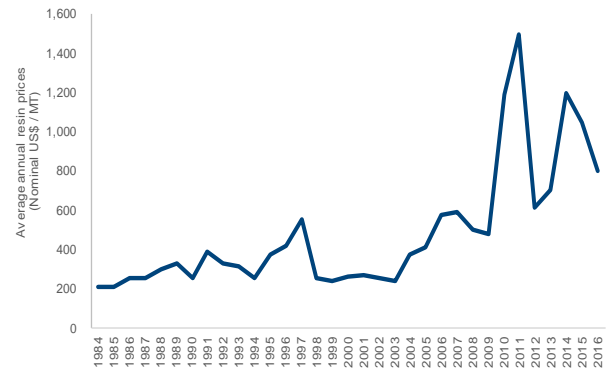


Figure 20. Average Annual Resin Prices in Brazil.

Source: Associação dos Resinadores do Brasil



View from the Ground

Similar to US asset managers, TIG’s Brazilian regional asset managers regularly report on conditions that impact wood pricing in their operating areas. In aggregate, improving Brazilian economic conditions have resulted in better timber conditions in most Brazilian states.

In Minas Gerais, demand for timber has increased, with a notable acceleration occurring in the last six months of 2017. This increase has been driven by continued strong pulp demand and an increase in automobile production (up nearly 28% year-over-year). As a result, stumpage prices have begun to increase.

In Sao Paulo (Itapeva region), demand for pulpwood has increased, partially due to an improving packaging market. According to the ABPO (Brazilian Corrugated Board Association), shipments of corrugated board, which are used to package a variety of goods, increased close to 5% year-over-year in 2017 following a decline of -2.5% year-over-year in 2016 and -2.3% year-over-year in 2015. With respect to sawnwood, demand has also improved. Through November, demand for wood panels has increased 4.6% year-over-year according to Ibá (Brazilian Tree Industry). That said, pulpwood supply has increased as the large area of new plantations established in 2007-2009 have started to reach harvestable age.

Similar to the other regions, Parana is benefiting from improved economic fundamentals. That said, the area is faced with a surplus of standing pulpwood similar to the situation in Sao Paulo. Moreover, Arauco owns a number of wood panels facilities and large plantations in the region and tends to be very competitive on pricing with respect to larger diameter logs (e.g., given that Arauco’s panels plants consume smaller diameter logs, the company sells larger diameter logs in the market).

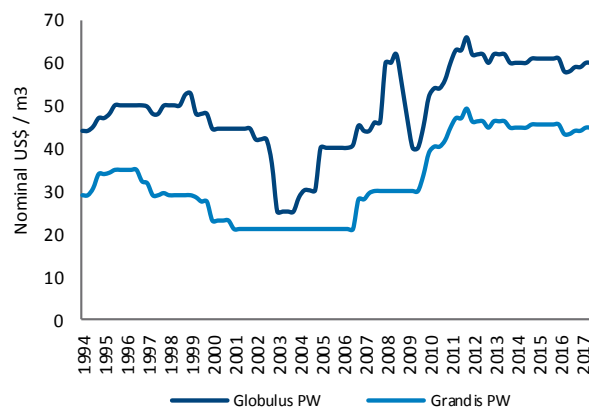
In Santa Catarina, timber demand is improving, but timber supply has increased as tree plantations established around the same time are starting to be harvested.

Uruguay

In Q3, Uruguay's real GDP increased 2.2% year-over-year versus 2.8% year-over-year growth in Q2. Transportation increased 8.9% year-over-year while commercial activities increased 8.8% year-over-year. Manufacturing was the weakest sector declining -7.7% year-over-year. Gross fixed capital formation declined -10.2% year-over-year in Q3 versus a decline of -20.3% year-over-year in Q2 while household spending increased 3.8% year-over-year versus an increase of 4.2% year-over-year in Q2. Exports increased 9.3% year-over-year versus an increase of 7.7% year-over-year in Q2 while imports increased 6.8% year-over-year versus a decline of -0.4% year-over-year in Q2. During Q3, the Uruguayan peso appreciated around 1.8% year-over-year.

In Uruguay, both *E. globulus* and *E. grandis* prices were flat quarter-over-quarter in Q4, but increased 1.7% year-over-year (Figure 21). Meantime, in Q3 (latest available data), Uruguayan plywood exports to the US increased 5.7% year-over-year while Uruguayan lumber exports to the US increased 37.0% year-over-year.

Figure 21. Uruguay *E. globulus* and *E. grandis* Pulpwood Prices (Nominal US\$ / m³). Source: Litenco.



In early November, UPM and the Government of Uruguay signed an investment agreement detailing the requirements for a potential second pulp mill investment by UPM. The site of the mill would be close to the city of Paso de los Toros, in the department of Durazno in central Uruguay. As part of the agreement, the Government of Uruguay agreed to invest around US\$ 1 billion to develop the region's rail and road network. The Government of Uruguay will also help encourage investment for a terminal specializing in pulp in the Montevideo port with rail access in order to secure a reliable and competitive outlet to export markets. Now that it has completed phase one of its negotiations with the Government of Uruguay, UPM will enter phase two, which involves an engineering study and permitting process for a pulp mill with an annual capacity of about two million MT of eucalyptus market pulp.

Chile

In Q3, Chile's real GDP increased 2.2% year-over-year following 1.0% year-over-year growth in Q2. Mining increased 7.5% year-over-year with copper increasing 8.2% year-over-year while fishing increased 14.0% year-over-year. That said, construction declined -6.0% year-over-year while business services declined -1.7% year-over-year.

Meanwhile, gross fixed capital formation declined -2.3% year-over-year, government spending increased 2.2% year-over-year, and consumer spending increased 2.8% year-over-year. Exports increased 3.0% year-over-year while imports increased 4.4% year-over-year. Exports increased despite a 3.3% sequential appreciation in the Chilean peso versus the US dollar in Q3.

On the political front, in December, center-right candidate Sebastian Pinera, former president of Chile, regained the presidency and will assume the office in March.

In mid-November, Arauco announced that it intends to begin dissolving pulp production at its Valdivia mill in the third quarter of 2019. This follows Arauco's announcement in September that the mill will add dissolving pulp production. Currently, Valdivia has capacity to produce 550,000 MT of bleached hardwood and softwood kraft pulp. The conversion will allow the mill to flex between the three grades of pulp depending on market demand. Moreover, in December, Arauco announced the purchase of Masisa's Mexican businesses (three wood panel industrial facilities in Chihuahua, Durango and Zitacuaro) for US\$ 245 million.

Argentina

In Q3, Argentina's economy slightly improved with real GDP increasing 0.9% quarter-over-quarter versus 0.8% growth quarter-over-quarter in Q2. On a year-over-year basis, real GDP increased 4.2% versus 2.9% growth year-over-year in Q2. Argentina's year-over-year improvement is the result of a 0.5% year-over-year increase in public consumption and 2.5% year-over-year increase in investments, largely driven by notably stronger machinery and equipment (19.9% year-over-year) and construction (14.7% year-over-year). During Q3, exports increased 2.4% year-over-year, partially as the Argentinian peso depreciated -15.6% year-over-year (-9.8% sequentially) against the US dollar.

On the political front, in early December, an Argentine judge issued an arrest warrant for former President Cristina Fernandez de Kirchner and asked Congress to remove her immunity as a senator so she can be arrested on charges of treason, aggravated concealment, and obstruction. The judge asserted that Fernandez and members of her government concealed the role of Iranians in a 1994 bomb attack on the AMIA Jewish community center in Buenos Aires in order to receive favorable trade deals from Iran. The judge also ordered the arrest of Carlos Zanni, her former aide, and Luis D'Elia, a high-profile Kirchner activist, on the same charges while former foreign minister Hector Timerman was ordered to be held under house arrest, due to health issues. A two-thirds vote of the Senate would be required to remove Fernandez's immunity from prosecution.

Separately, both S&P Global Ratings and Moody's Investors Service raised Argentina's credit rating by one notch to B+ and B2, respectively, following plans by President Mauricio Macri to move ahead with tax and pension reform. In December, Argentina's lower house approved a bill that modifies how pensions are calculated (changing the methodology to one built around changes in inflation as opposed to private sector wage growth or social security contributions). Further, as part of this reform, President Macri is considering a new tax for local investors of 15% on

profits from sovereign and corporate bonds denominated in dollars and 5% for profits on peso-denominated central bank notes, bonds, and CDs.

Guatemala

In Q3, Guatemala's real GDP increased 2.7% year-over-year versus 2.3% year-over-year growth in Q2. All industries generally improved versus the prior year except mining & quarrying which declined -42.9% year-over-year. Exports increased 1.4% year-over-year in Q3 versus an increase of 0.6% year-over-year in Q2 while imports declined -1.1% year-over-year in Q3 versus an increase of 3.8% year-over-year in Q2. During Q3, the Guatemalan quetzal appreciated around 3.5% year-over-year and 0.6% quarter-over-quarter.

Europe

In the euro zone, Q3 real GDP increased 0.6% quarter-over-quarter as compared to 0.7% quarter-over-quarter growth in Q2. Year-over-year, real GDP increased 2.6%. On an individual country basis, growth increased in Germany and Italy, but slightly declined in Spain and France.

Gross fixed capital formation grew 1.1% quarter-over-quarter in Q3 versus an increase of 2.2% quarter-over-quarter in Q2. Personal consumption increased 0.3% quarter-over-quarter, below last quarter, while government spending grew 0.2% quarter-over-quarter, slightly below the prior quarter. Unemployment declined to 8.7% in November from 8.8% in October and 9.8% in November 2016.

Industrial production increased 1.0% in November after increasing 0.4% month-over-month in October. This increase is due to production of capital goods rising by 3.0%, durable consumer goods by 1.6%, intermediate goods by 1.1%, non-durable consumer goods by 0.1%, while production of energy remained stable.

December's Composite Purchasing Manager's Index increased to 58.1 from 57.5 in November. Manufacturing new orders rose at the fastest level since April 2000 while service providers experienced the fastest increase in new orders in over a decade. As a result, backlogs accumulated, which motivated companies to increase employment.

Meantime, European net exports (exports less imports) increased year-over-year. In November (latest month reported), exports increased 7.7% year-over-year while imports increased 7.3% year-over-year, resulting in a euro zone trade surplus of €26.3 billion versus a surplus of €23.8 billion in November 2016.

Estonian forest products and timber markets

During the last few months, sawlog prices in Estonia have improved. Pine sawlog prices (latest data available November 2017) increased 2.6% from three months earlier and 5.8% year-over-year. Birch sawlog prices increased 5.7% from three months earlier and 5.2% year-over-year (Figure 22).

Estonian pulpwood prices also generally increased. Pine pulpwood prices (latest data available November 2017) declined -2.7% from three months earlier, but increased 11.7% year-over-year while birch pulpwood prices increased 10.5% from three months earlier and 11.1% year-over-year (Figure 23).

Figure 22. Estonia Sawlog Prices (Nominal € / m3).

Source: RMK (Estonia State Forest Agency).

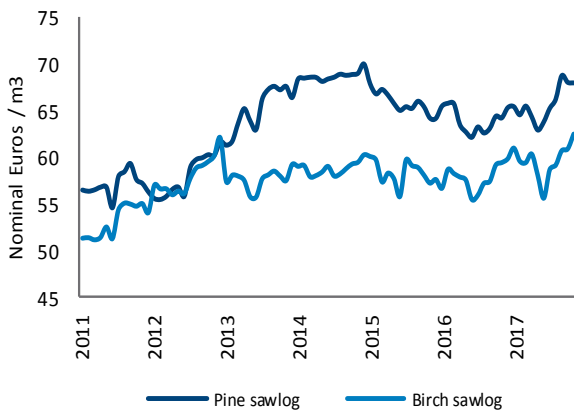
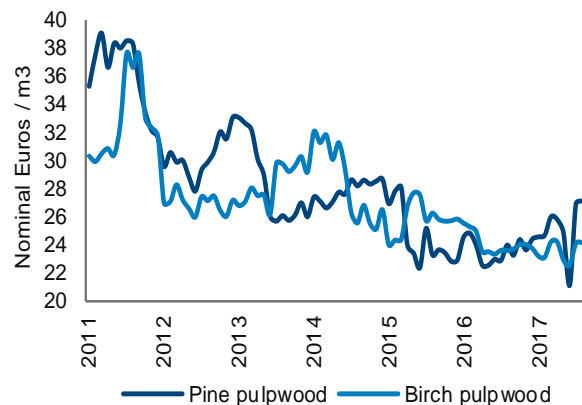


Figure 23. Estonia Pulpwood Prices (Nominal € / m3). Source: RMK (Estonia State Forest Agency).



European forest products capacity changes

During Q4, the Heinzl Group concluded a US\$ 23 million revamp at its Zellstoff Pöls mill in Austria including installing a new wash press in the fiber line, replacing an old pulp washing stage, adding a new concentration stage in the evaporation plant, and upgrading a pressure diffuser after the digester. As a result, the mill's softwood pulp capacity increased by 30,000 MT to 455,000 MT per year. Further, UPM obtained a building permit to increase the kilning capacity at its Alholma sawmill in Pietarsaari in Finland. This will result in a 10-15% increase to the sawmill's annual consumption of 270,000 m³ of sawn timber. The expansion is expected to be completed late summer 2018.

Meanwhile, Baltania O, a fully-owned subsidiary of Dutch private equity investment firm Momentum Capital, announced that it has made a conditional investment decision to commission an industrial-scale torrefaction bio-coal plant in Vgari, Estonia. The goal is to produce around 160,000 MT of torrefied bio-coal pellets per year. The process used to create torrefied bio-coal pellets is similar to charcoal production except that it takes place at a lower temperature and uses less expensive materials. Moreover, the pellets have greater energy density than white wood pellets or wood chips. The Estonian project is estimated to cost US\$ 53 million with the European Union providing a grant of around US\$ 30 million.

Further, Metsä Wood, the wood products subsidiary of Metsä Group, and the town of Savonlinna have signed a letter of intent for Metsä's construction of a new 65,000 m³ Kerto® LVL line to the Punkaharju mill. The mill is anticipated to increase log demand by 160,000 m³ annually. As part of the agreement, Savonlinna needs to invest in public real estate and infrastructure to assist with the mill's competitiveness. If the investment comes to fruition, the anticipated start-up is targeted to be in the first half of 2019.

In early January 2018, The Navigator Company, a Portugal-based producer of pulp and paper, agreed to sell its Greenwood, South Carolina wood pellet plant (500,000 tons) to a joint venture consisting of Enviva Holdings and John Hancock. The sale is expected to close in the first half of 2018.

South Africa

In Q3, South Africa's real GDP increased 2.0% quarter-over-quarter following an increase of 2.8% quarter-over-quarter in Q2. The agriculture, forestry, and fishing industry continued on a strong trajectory growing 44.2% quarter-over-quarter while mining increased 6.6% quarter-over-quarter. Other contributors to the GDP improvement included manufacturing (+4.3% quarter-over-quarter) and finance, real estate, and business services (+1.2% quarter-over-quarter).

In mid-December, Cyril Ramaphosa, a business leader who worked with Nelson Mandela on negotiating the end of apartheid, was elected leader of the ruling African National Congress ("ANC"). This election was seen as a referendum on President Jacob Zuma who has faced numerous scandals and survived a number of no-confidence votes. In November, S&P Global Ratings cut South Africa's rand denominated debt to BB+, its highest speculative grade rating, and placed it on a stable outlook citing deterioration of South Africa's economic outlook and public finances. While Moody's Investors Service retained its investment-grade rating on the nation's local-currency debt, it placed them on review for possible downgrade within 90 days. To avoid further credit downgrades, South Africa is seeking to trim spending by an additional 25 billion rand (\$1.8 billion) over the next three years. This follows the 26 billion rand of cuts announced in the February budget for 2017 and 2018.

South African forest products and timber markets

In November, lumber prices declined -0.7% versus the prior three months, but increased 1.8% from November 2016, as measured by the South African Lumber Index, a composite price series (Figure 24).

Softwood log prices were also generally positive (Figure 25). Sawlogs in South Africa are categorized into A, B, C or D grades, with A grade logs being the smallest and D grade logs being the largest. In nominal terms in Q3 (latest data available): A grade logs increased 0.2% for the quarter and 4.0% year-over-year, B grade logs increased 15.4% for the quarter and 10.2% year-over-year, C grade logs rose 2.6% for the quarter and 6.7% year-over-year, and D grade logs slightly declined -0.3% for the quarter, but increased 2.0% year-over-year.

While some of the aforementioned price gains seem steep, it is worth noting that annual inflation in South Africa is 4.6%, so in real terms most of the gains are less notable and in some cases even negative (i.e., A grade logs: -0.6% real year-over-year, B grade logs: 5.4% real year-over-year; C grade logs: 2.0% real year-over-year, and D grade logs: -2.5% real year-over-year). Meanwhile, in Q3, the rand appreciated around 6.3% year-over-year against the US dollar (Figure 26) and around 1.5% year-over-year against the Euro (Figure 27).

Figure 24. South Africa Lumber Index.

Source: Crickmay and Associates.

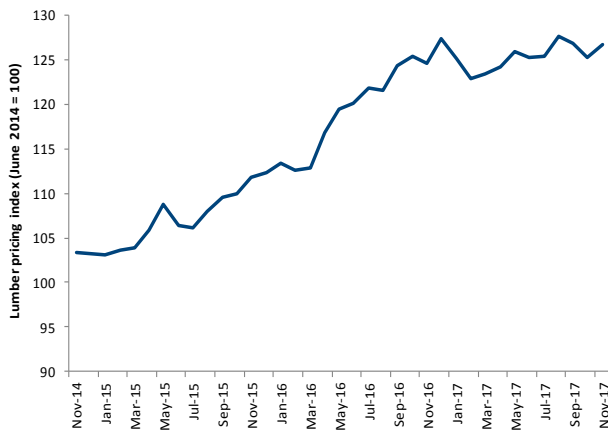


Figure 25. South Africa Pine Sawlog Prices.

Source: Crickmay and Associates.

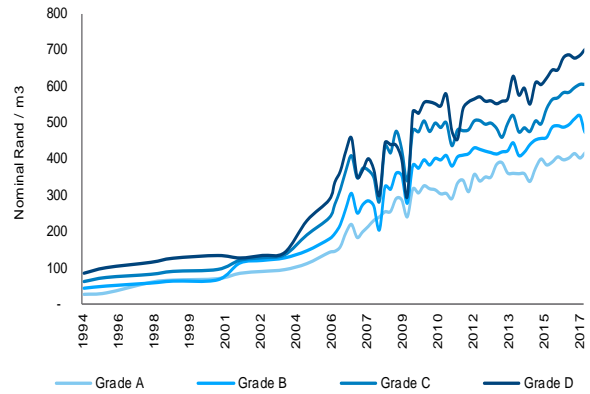


Figure 26. South Africa Rand to US\$ Exchange Rate.

Source: Federal Reserve Bank of St. Louis.



Figure 27. South Africa Rand to Euro Exchange Rate.

Source: Bloomberg.



New Zealand

In Q3, New Zealand’s real GDP increased 0.6% quarter-over-quarter versus growth of 1.0% quarter-over-quarter in Q2. Construction increased 3.6% quarter-over-quarter while mining increased 3.2% quarter-over-quarter. Utilities declined -1.6% quarter-over-quarter. Meantime, export growth of 0.8% quarter-over-quarter was more modest than the prior quarter due to a -5.2% decline in the export of dairy products. Imports increased 2.1% quarter-over-quarter largely driven by imports of intermediate goods and consumption goods. In Q3, the New Zealand dollar appreciated 3.6% quarter-over-quarter against the US dollar (Figure 28).

New Zealand timber markets

New Zealand A-grade export logs declined -2.4% quarter-over-quarter in September to NZ\$ 165/m³ from NZ\$ 169/m³ (Figure 29) given greater log availability in China, New Zealand’s largest export market. Meantime, domestic structural logs used for construction (S1 and S3) were mixed (prices for S1 were flat while S3 prices were softer) given moderating demand due to elevated log prices (Figure 30). A slowdown in the local housing market, particularly medium- and high-rise apartments, also contributed to softening domestic demand for logs.

Figure 28. New Zealand Dollar to US\$ Exchange Rate. Source: Federal Reserve Bank of St. Louis.

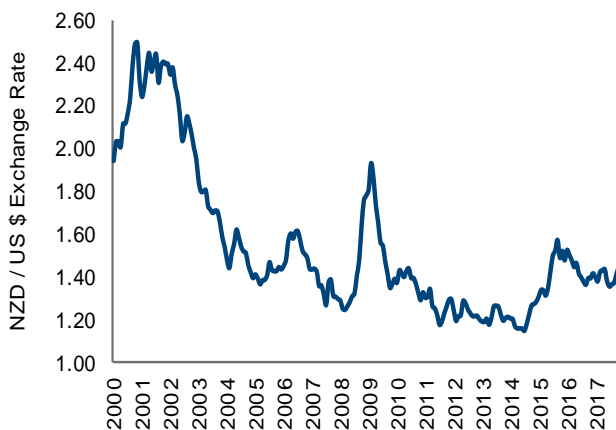


Figure 29. New Zealand Export Log Prices. Source: New Zealand Ministry for Primary Industries.

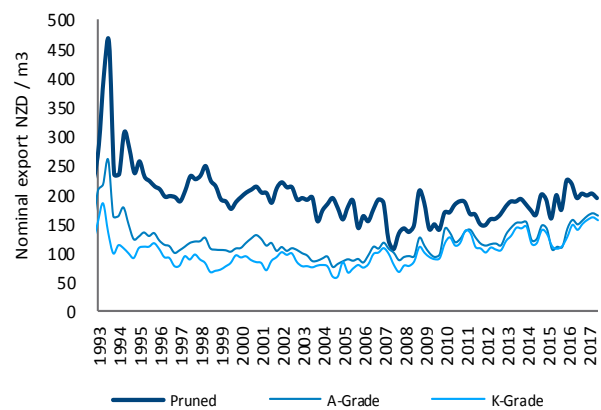
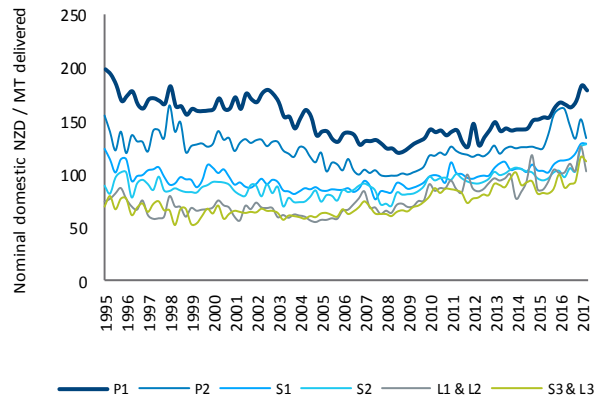


Figure 30. New Zealand Domestic Log Prices.

Source New Zealand Ministry for Primary Industries.



Australia

In Q3, Australia’s real GDP increased 0.6% quarter-over-quarter versus growth of 0.9% quarter-over-quarter in Q2. Manufacturing increased 1.5% quarter-over-quarter due to strength in food, beverage and tobacco products (6.7%) while agriculture, forestry and fishing declined -4.1% quarter-over-quarter due to declines in grains and other crops. Meantime, exports increased 1.9% quarter-over-quarter while imports increased 1.9% quarter-over-quarter. In Q3, the Australian dollar appreciated around 4.9% quarter-over-quarter (Figure 31).

Australian timber markets

Softwood roundwood prices increased 5.1% quarter-over-quarter to US\$ 82/odmt (“oven dry metric ton”) from US\$ 78/odmt in Q2 (Figure 32) despite slowing residential construction. Hardwood roundwood prices increased 6.3% quarter-over-quarter to US\$ 102/odmt from US\$ 96/odmt in Q2 (Figure 33). Both softwood and hardwood chips moved higher in Q3, increasing 6.4% and 4.9%, respectively.

Figure 31. Australia Dollar to US\$ Exchange Rate.

Source: Federal Reserve Bank of St. Louis.



Figure 32. Australian Softwood Pulpwood Prices.

Source: Wood Resource Quarterly.

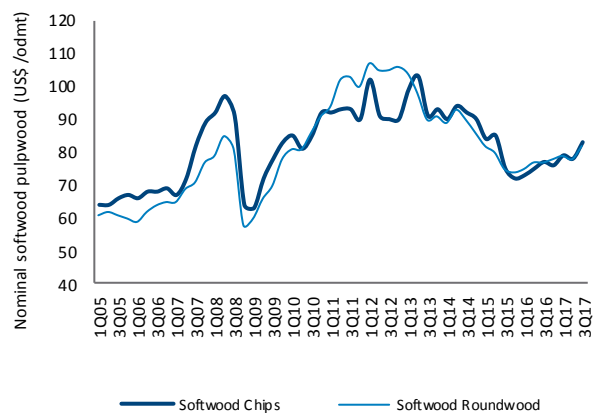
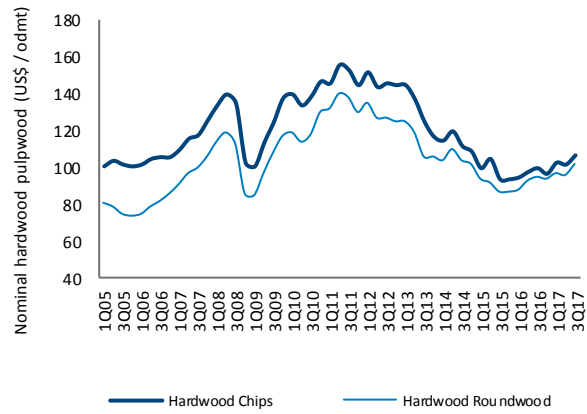


Figure 33. Australian Hardwood Pulpwood Prices.

Source: Wood Resource Quarterly.



Global Pulp and Paper Markets

During Q4, Bleached Hardwood Kraft Pulp (“BHK”) prices in Europe, a key benchmark, increased 7.8% quarter-over-quarter and 43.7% year-over-year, averaging around US\$ 941/MT (Figures 34 & 35). Prices improved given unexpected mill downtime and strong Chinese demand.

Specifically, CMPC took unplanned downtime at its Guaiba mill in southern Brazil, resulting in a loss of around 500,000 MT of hardwood pulp, tightening the hardwood pulp market. APP also temporarily suspended production at its 2.8 million MT OKI mill in Sumatra, Indonesia due to two turbine breakdowns, likely to result in the curtailment of 90,000-100,000 MT of hardwood pulp (the mill began downtime on December 8 and restarted production on December 28). Other notable outages that occurred during the quarter include: 1) APRIL Group’s outage (loss of 35,000 MT) in Indonesia due to a dispute with the government with respect to its forestry concession on peatland; 2) the turbine overhaul at the PT Tel mill in Indonesia, (loss of 70,000 MT); 3) recovery boiler issues at the Daishowa-Marubeni mill in Peace River, Alberta (loss of 75,000 MT); and 4) proactive downtime by Fibria at its Aracruz mill in Brazil (loss of 85,000 MT) to partially offset new capacity from Tres Lagoas II. Meanwhile, despite a soft November (shipments to China declined -7.7% year-over-year), Chinese demand for pulp remains strong as closures of small paper mills (which tend to use non-wood fiber) has shifted demand to larger mills using market pulp as their fiber. Year-to-date, pulp shipments to China have increased 5.3% per the Pulp & Paper Products Council (“PPPC”). In November, Chinese hardwood pulp imports as reported by China Customs increased 32.3% year-over-year and are up 27.2% year-to-date.

The price of Bleached Softwood Kraft Pulp (“BSK”) in Europe, a bellwether of the pulp and paper sector, averaged around US\$ 953/MT, up 6.6% versus the prior quarter and 17.8% year-over-year (Figures 34 & 35). BSK includes both Northern and Southern Bleached Kraft grades (“NBSK” and “SBSK”, respectively).

During the quarter, softwood pulp pricing increased given improving Chinese demand and as softwood producers looked to maintain a positive price spread with hardwood pulp. Further, a lack of import licenses for recovered paper and an outright ban on imports of unsorted mixed paper have motivated Chinese mills to consume increasing amounts of domestic recovered paper and virgin fiber, especially from virgin cartonboard mills.

Figure 34. Global BSK and BHK Pulp Prices over Time.

Source: FOEX.

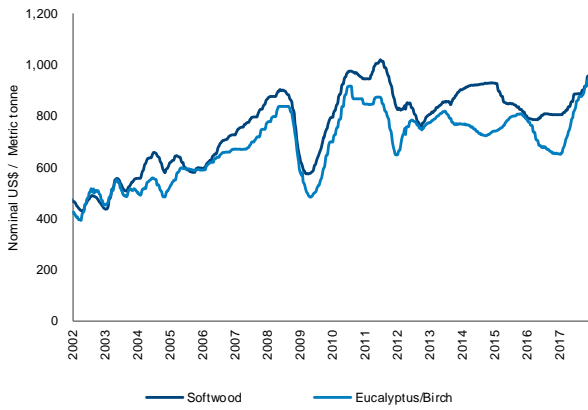
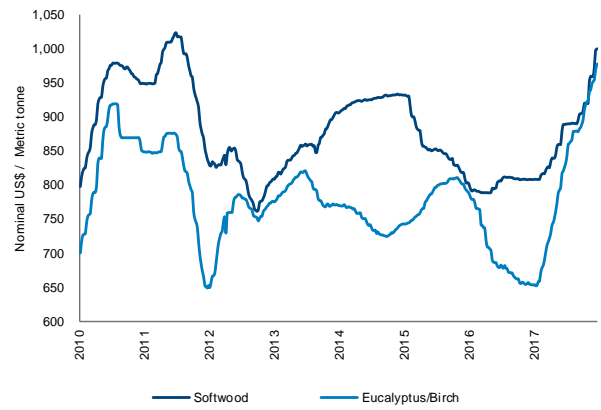


Figure 35. Global BSK and BHK Pulp Prices Recent Performance. Source: FOEX.



Baltic Dry Index

In 2017, the Baltic Dry Index, which provides a benchmark for the price of transporting major raw materials including grains, coal, and iron ore by sea, increased by around 43.1% (Figures 36 & 37). The index increased through most of Q4 corresponding with an improvement in commodity prices (e.g., iron ore prices (62% iron) increased around 12.0% in Q4), but then softened later in the quarter. At a value of 1366 on December 31, 2017, the index remains well below its peak of 11,793 reached in May 2008.

Figure 36. Baltic Dry Index Performance over Time.

Source: Bloomberg.

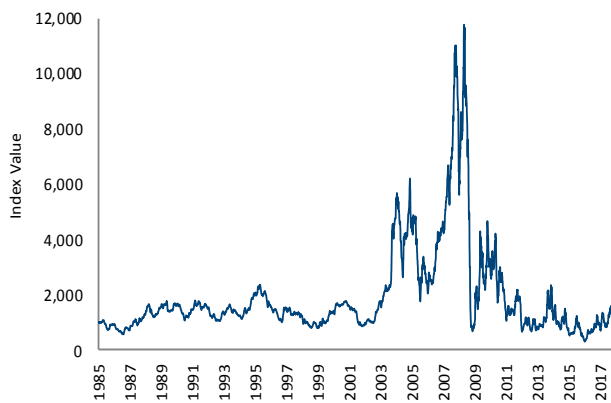
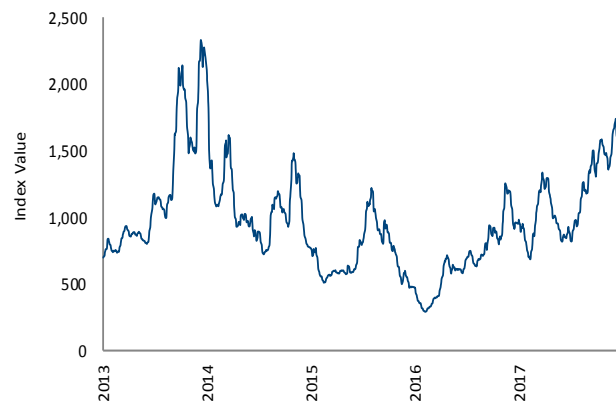


Figure 37. Baltic Dry Index Recent Performance.

Source: Bloomberg.



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