

# Regulatory Story

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**Company** [Phaunos Timber Fund Limited](#)  
**TIDM** PTF  
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Phaunos Timber Fund Limited  
19 May 2014

## **Phaunos Timber Fund Limited**

### **Interim Management Statement**

**19 May 2014**

Phaunos Timber Fund Limited ("Phaunos" or the "Company"), the self-managed Authorised Closed-ended Investment Scheme established to invest in timberland and timber-related assets on a global basis, today issues its Interim Management Statement for the period from 1 January 2014 to 19 May 2014 (the "Period").

#### **Financial Position and Performance**

The latest published audited net asset value ("NAV") per ordinary share ("Ordinary Share") of the Company at 31 December 2013 was US\$0.78, corresponding to a total NAV of US\$419.0 million. At 19 May 2014 the Company held approximately US\$4.6 million in cash (US\$8.5 million at 31 December 2013) including cash to fund working capital and outstanding investment commitments.

#### **Portfolio Update**

Significant developments in the Company's portfolio during the Period included:

- Matariki Forestry Group ("Matariki"): Log markets for China A-grade were at all-time highs during Q1 2014, reaching approximately NZ\$160 per cubic meter. Some typical seasonal softening of prices was seen later in the quarter due to relatively high levels of log inventory at Chinese ports following the Chinese New Year. Domestic log prices were also strong as local markets compete for logs with the export market. Salvage operations continue on the 1,500 hectares of blown down timber resulting from the windstorm that occurred on 10 September 2013. This area represents about 1% of the total plantation area. Salvage operations are expected to conclude in Q4 2014 with substantially all of the timber being recovered.
- Green Resources AS ("Green Resources"): On 2 May 2014, Green Resources, in which the Company holds a minority stake, announced it signed a Share Purchase Agreement through which Green Resources will acquire the Global Solidarity Forest Fund ("GSFF"). GSFF is the leading forestry company in Mozambique, with assets adjacent to Green Resources'

operations. Upon completion of the all-share transaction, Green Resources will issue 17.8 million new shares at US\$5.90 (NOK 35) per share. The new shares represent 28.8% of the post-transaction shares in issue. As a result, Phaunos' holding in Green Resources will be 18.9%. The newly combined company will have 40,000 hectares of standing forest and significant industrial operations in Mozambique, Tanzania, and Uganda. Green Resources held an Extraordinary General Meeting of its shareholders on 13 May 2014 and voted to approve the transaction. Closing of the transaction is anticipated in early June 2014.

- Mata Mineira Investimentos Florestais Ltd ("Mata Mineira"): Harvest operations on Mata Mineira continue, but soft demand for eucalyptus is slowing the pace of sales. The end markets for our eucalyptus are primarily charcoal (for the production of pig iron), and also for pulp.
- Eucateca SA ("Eucateca"): The harvest plan for Eucateca's eucalyptus is to spread its available harvest volumes over several years due to market and operational constraints. While harvesting did commence in December 2013 on the first sale of maturing eucalyptus timber, the Q1 2014 harvest operations are behind budget due to weak timber demand. Our manager is working to expand Eucateca's timber markets. The marketing of our teak plantations (both land and timber) remains on-going. These teak plantations account for approximately 22% of Eucateca's total planted area.
- GreenWood Tree Farm Fund ("GTFF"): Lumber markets for GTFF's hybrid-poplar have remained strong, with both sales volume and prices near all-time highs. However, pulp chip markets are weak due to an oversupply of residual chips coming from sawmills as those mills increase production. The salvage of blown down timber resulting from the windstorm that occurred in mid-September was mostly completed by February 2014. Extremely cold early winter weather slowed the operations at the adjacent veneer mill into which GTFF is supplying logs, but veneer operations have since returned to normal.
- Aurora Forestal Limited ("Aurora"): Demand for softwood lumber at Aurora continues to benefit from the improvement in US housing starts. While cold winter weather in the US caused some early Q1 2014 demand softening, over-all the lumber markets for Aurora continue to hold at higher levels, with Aurora having a strong order file. Aurora is presently working to expand its other markets, especially in the Pacific Rim. In addition, Aurora is reducing production constraints in order to increase its lumber production capacity. This includes the purchase of additional logging equipment, lumber drying kilns, and a lumber stacker.
- Pradera Roja SA ("Pradera"): We continue to strategically target investors for the possible disposition of Pradera. Manufacturing continues to improve in Uruguay, with Stora Enso reporting in April 2014 that construction has been completed at the Montes del Plata pulp mill (a new mill located in south-western Uruguay that is jointly owned by Stora Enso and Arauco). Stora reported that Montes del Plata is ready for start-up awaiting operational permits which should be complete in the next few weeks.
- Green China Forestry Company ("GCFC"): The closing on the sale of US\$1.5 million of the southern Jiangxi assets has been delayed, as the transaction has not yet received the necessary approval from governmental authorities. Cash repatriation of US\$1.5 million from China to Hong Kong was transacted in April 2014. The company is currently undertaking a strategic review of cost structures to be implemented by the second half of 2014.

## **Operational and Strategic Review**

The operational and strategic review of the Company's timber assets by Stafford Timberland ("Stafford") is nearing completion alongside the internal review, supported by Maxxim Consultants, of management arrangements. The Company will, as promised, revert to shareholders by the end of June with the results of those reviews and a clear course of action.

## **Global Timber Market Outlook**

Inventories of logs at ports in China were at high levels during the first quarter due to the combination of large volumes arriving at ports and a slow recovery in sawn wood production (from the Chinese New Year holidays) at sawmills.<sup>(1)</sup> This has temporarily put some downward pressure on prices for logs being shipped to China. Chinese GDP growth slowed to 7.5 percent in the first quarter of 2014 and *growth* in Chinese imports is expected to slow<sup>(2)</sup>, but total imports for the year are still expected to exceed 2013 volumes. China's central government plans to re-locate 250 million people from rural areas to cities by 2025, which will underpin ongoing strength in the construction sector.<sup>(3)</sup>

Somewhat offsetting the slight decline in export log prices, domestic demand in both New Zealand<sup>(4)</sup> and the US<sup>(5)</sup> is improving as sawmills in both countries produce more sawn wood for domestic markets.

US housing starts were impacted by an unusually cold and snowy winter in the eastern half of the country, but a quick recovery is expected as the weather improves. Despite the slow start for the year, the National Association of Home Builders' May 2014 forecast still estimates nearly 1.1 million starts in 2014 and more than 1.5 million starts in 2015.<sup>(6)</sup>

(1) Data from NZ Agrifax, as reported in *Friday Offcuts*, 2 May 2014

(2) *Hardwood Review Weekly, Export Outlook: 2014 Shaping Up to Be Another Record Year*, 25 April 2014

(3) *Hardwood Review Weekly, Export Outlook: 2014 Shaping Up to Be Another Record Year*, 25 April 2014

(4) Data from NZ Agrifax, as reported in *Friday Offcuts*, 2 May 2014

(5) RIS's *LogLines* data

(6) National Association of Home Builders *Housing and Interest Rate Forecasts*, May 2, 2014

## **NAV and Foreign Exchange Movements**

The Phaunos portfolio is not hedged, therefore foreign exchange movements are incorporated directly into the Company's NAV, which can have a significant impact. On this basis, an estimate of the Company's NAV can be calculated by adjusting the audited annual results for the year ended 31 December 2013 for movements in foreign exchange rates only. During the Period the US dollar weakened against the Brazilian Real, New Zealand Dollar and the Norwegian Krone. As a result the NAV of the Company increased by US\$15.8 million from the final audited NAV of US\$419.0 million at 31 December 2013 to an estimated unaudited NAV of US\$434.8 million at 13 May 2014.

## **Resignation of Director and Appointment of Senior Independent Director**

Richard Hills has resigned as Senior Independent Director. He stood down from the Board with immediate effect on 15 May 2014. William Vanderfelt, Non-Executive Director since 2012 and recently appointed Chairman of the Remuneration Committee, will become Senior Independent Director.

## **New website for Phaunos Timber**

On 1 May, 2014, a fresh new website for the Phaunos Timber Fund was launched at [www.phaunostimber.com](http://www.phaunostimber.com), incorporating the Company's new corporate logo and branding. The new website aims to highlight our global investment portfolio and provide easy access to all

investors on the latest corporate documents and forestry information. Phaunos' website will continue to evolve in line with Company-specific and market developments.

END OF ANNOUNCEMENT

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**Notes to Editors**

Phaunos is a Guernsey-domiciled closed-ended investment company authorised by the GFSC. Its ordinary shares are listed on the Main Market of the London Stock Exchange. The Company is self-managed. Its investment objective is to provide shareholders with attractive long term total returns, expected to be in the form of capital appreciation but with some income, through a diversified portfolio of timberland and timber-related investments.

The Company's portfolio consists of timberland and timber-related investments across 5 continents. As at 31 December 2013, the Company's unaudited NAV was US\$419.0 million (being US\$0.78 per ordinary share).

The Company intends to seek investments that meet or exceed the guidelines set out in the Sustainable Forestry Initiative and, wherever possible and practicable, to certify the lands under the Forest Stewardship Council guidelines.

The Company's ticker is PTF.

This information is provided by RNS  
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