

Regulatory Story

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Interim Management Statement

Phaunos Timber Fund Limited ("Phaunos" or the "Company") the Authorised Closed-ended Investment Scheme managed by FourWinds Capital Management (the "Investment Manager") 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 2012 to 11 May 2012 (the "Period").

Financial Position and Performance

The Company manages a global timberland portfolio. The latest published audited net asset value ("NAV") per ordinary share of the Company ("Ordinary Share") at 31 December 2011 was US\$1.04, corresponding to a NAV of US\$558.8 million at the Company level. At 11 May 2012 the Company held approximately US\$22.4 million in cash including cash to fund working capital and for outstanding investment commitments.

Dividends

The Company announced on 19 April 2012 that it is proposing to declare a final dividend in respect of the year ended 31 December 2011 of US\$0.025 gross per Ordinary Share, with an ex-dividend date of 27 June 2012, a record date of 29 June 2012 and a payment date of 27 July 2012. Shareholders' approval of the dividend is being sought at the Annual General Meeting of the Company to be held on 21 June 2012.

Portfolio Update

Phaunos continues to focus on realizing the value in its portfolio, emphasizing cash flow generation and controlling costs. The Company's mature plantations continue to provide replicable cash flows, and the portfolio is well positioned to benefit from economic expansion in its target markets. The portfolio is fully invested and operations on the farms are going well and are consistent with our expectations for the plantations.

At 11 May 2012, recent developments in the Company's portfolio included:

- Matariki Forestry Group ("Matariki"), which consists of 189,000 hectares on both islands in New Zealand, continues to experience weakened pricing in the Chinese market and depressed carbon credit pricing, paired with a strong New Zealand Dollar which inhibits exports. Matariki continues to focus on generating cash flow and controlling costs.
- Mata Mineira Investimentos Florestais Ltd ("Mata Mineira") expects to complete the Forest Stewardship Council's (FSC) certification which includes a full-scale FSC audit in the second half of this year. Mata Mineira, in Minas Gerais, currently expects to sell 100% of its annual allowable harvest volume in 2012.
- Green Resources AS ("Green Resources"), our East African investment headquartered in Norway, successfully raised US\$17 million of new equity from existing shareholders through an oversubscribed rights offering in the first quarter of 2012. The balance sheet of Green Resources was further strengthened by the conversion of shareholder loans to equity. Norfund (Norwegian Investment Fund for Developing Countries) disbursed the final tranche of its loan to Green Resources, of US\$3.5 million, which was used to complete an investment in the Sao Hill industrial operations in Tanzania. Further, a grant from the European Union provided EUR 2.4 million for a farm forest and charcoal project in Mozambique and Tanzania. The Bukaleba plantation in Uganda received Verified Carbon Standard (VCS) validation as a carbon project, which is a demanding standard of environmental stewardship. New planting at Green Resources totalled 2,100 hectares in the first quarter of 2012.
- Eucateca SA ("Eucateca"), in Mato Grosso, Brazil, is expecting additional customers for its eucalyptus harvest scheduled to begin in 2015. Three buyers have expressed interest in purchasing the eucalyptus for pulp and/or fuelwood for drying agricultural crops. Favourable transportation logistics are expected because of the newly completed railroad and terminal situated immediately adjacent to one of its properties.
- The Greenwood Tree Farm Fund ("GreenWood"), situated in the Pacific Northwest United States, is concentrating on expanding its customer base and maximizing operating efficiencies. Greenwood has entered into two sales agreements selling separately the land and water rights associated with 3,340 acres of plantation, while retaining the right to harvest the timber on the land. The final impact of the transaction will be determined upon completion.

In addition, GreenWood is eligible to receive financial incentives estimated to total US\$17 million from the US Department of Agriculture in order to establish approximately 778 acres per year of hybrid poplar plantations as a feed stock for cellulosic ethanol and bio-based chemical production. Receipt of these financial incentives is anticipated to begin this year.

- Aurora Forestal Limited ("Aurora") in Northern Uruguay, has completed the construction of its co-generation plant, fuelled by waste wood generated from Aurora's sawmill. In the first quarter of 2012, Aurora began selling electricity into the grid. Additionally, Aurora is installing a sawdust dryer, both as a safety feature and as an enhancement to production. The installation of the dryer is expected to double capacity of the co-generation plant. Aurora is watching closely the tentative recovery in the US housing market which, previous to the downturn in 2008, had absorbed most of Aurora's Lumber production.
- Pruning operations have commenced on Pradera Roja S.A., our eucalyptus plantations in southern Uruguay, and abundant rainfall has supported robust growth on the farms.
- The Company is continuing discussions with potential purchasers of Forest Enterprises doo, its pellet mill in Serbia. Operations at the mill are going very well, approaching production at capacity and the plant is able to sell all inventories it can produce.
- In the announcement of the Company's 2011 Annual Financial Results in April 2012, the Company reported the closure of Caldrey S.A., its harvesting company in Uruguay.

- NTP Timber Plus+ Fund I LP made an initial return of capital on the Company's investment in May 2012 of approximately US\$681,000. During the Period, it has distributed to Phaunos approximately US\$941,000, which includes interest and uninvested capital fees.

Global Timber Market Outlook

Timber market growth is beginning to shift from China to the Western Hemisphere as China's economic growth rate is slowing from over 10% per year to a little over 7% per year. Timber consumption in China will remain high, but it is not anticipated to increase as fast as it did over the last decade. This is offset to some extent by increasing demand in the US and Brazil. New housing construction, especially of multi-family/apartment units, in the US is increasing (albeit at only half the long-term average rate) and Brazil is experiencing the beginning of a construction boom as it is preparing to host the World Cup (2014) and the Summer Olympic Games (2016). The Company, by virtue of its broad geographic diversification, is well-positioned to benefit from these strengthening markets.

Foreign Exchange Movements

During the Period, the US dollar has weakened against the New Zealand dollar and the Norwegian krone, and strengthened against the Brazilian real.

Phaunos is unhedged, so foreign exchange movements are incorporated directly into the Company's net asset value. The Company believes that over time a well-diversified basket of currencies is self-hedging and the cost of a hedging strategy cannot be justified over the medium or long term.

Cash Flow Management

The Investment Manager continues to explore ways to smooth the cash flows, including:

- Modest amounts of debt, repayable from scheduled future sales of timber;
- Sale of non-strategic or geographically remote assets; and
- Sale of younger assets, some of which were originally planted with the intention of selling to other timber investment managers or industrial buyers.

Board Changes

On 12 April 2012 Mr Keith Oates retired as Chairman of the Board and as a Director. He was succeeded as Chairman by Sir Henry Studholme, existing non-executive Director of Phaunos and former Chairman of the Audit Committee. On 19 April 2012 Sir Henry Studholme was replaced as Chairman of the Audit Committee by Ian Burns.

END OF ANNOUNCEMENT

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Important Information

This Interim Management Statement has been produced solely to provide additional information to shareholders as a body in order to meet the relevant requirements of the U.K. Listing Authority's Disclosure and Transparency Rules. It should not be relied upon by any other party for any other purpose. The information in this statement has not been audited.

The information related to the Company included in this statement is provided for information purposes only and does not constitute an invitation or offer to subscribe for or purchase shares in the Company. This material is not intended to provide a sufficient basis on which to make an investment decision. All investments are subject to risk. An investment in the Company should be regarded as long term in nature and is suitable only for sophisticated investors, investment professionals, high net worth body corporates, unincorporated associations and partnerships and trustees of high value trusts, in each case, who can bear the economic risk of a substantial or entire loss of their investment. Prospective investors are advised to seek expert legal, financial, tax and other professional advice before making any investment decisions.

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 and on the Channel Islands Stock Exchange. The Company's 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 investments are managed by FourWinds Capital Management.

The Company's portfolio consists of timberland and timber-related investments across 6 continents. As at 31 December 2011, the Company's audited NAV was US\$558.8 million (being US\$1.04 per Ordinary Share).

The Company has sought 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.

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