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TIDM PTF
Headline Interim Management Statement
Released 07:00 29-Oct-2012
Number 6934P07

RNS Number : 6934P
Phaunos Timber Fund Limited
29 October 2012

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Phaunos Timber Fund Limited - 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") and established to invest in timberland and timber-related assets on a global basis, today issues its Interim Management Statement for the period from 1 July 2012 to 29 October 2012 (the "Period").

Financial Position and Performance

The latest published unaudited net asset value ("NAV") per ordinary share ("Ordinary Share") of the Company at 30 June 2012 was US\$0.97, corresponding to a total NAV of US\$519.5 million. At 29 October 2012 the Company held approximately US\$16.0 million in cash including cash to fund working capital and for outstanding investment commitments.

Dividends

On 27 July 2012, the Company paid a final dividend of US\$0.025 gross per Ordinary Share in respect of the twelve months ended 31 December 2011. For full details, please refer to the dividend declaration announcement on the Company's website at the following link:

<http://www.phaunistimber.com/documents/Result%20of%20AGM%20-%202011%20Jun%202012.pdf>

Portfolio Update

Operations on the farms are going well, consistent with our expectations for the plantations. Naturally, notwithstanding the difficult economic conditions, the trees in our plantations continue to grow. With a significant proportion of the portfolio in immature plantations, the Company's volume of timber continues to increase. In the immediate term those investments currently felling timber are facing soft markets. However, Phaunos remains focused on realising the value in its portfolio, developing new markets for its timber, optimising cash flow, and reducing costs. In the long term the Board believes the portfolio, which has limited direct exposure to European economies, is well

positioned to benefit from economic recovery in its target markets, namely the US, China, Brazil and East Africa. The portfolio is fully invested.

Developments in the Company's portfolio during the Period included:

- Mata Mineira Investimentos Florestais Ltd ("Mata Mineira") successfully completed the Forest Stewardship Council's (FSC) certification audit and is in the process of finalising compliance with auditor recommendations.
- Green Resources AS ("Green Resources") successfully negotiated a loan facility with two development banks to fund on-going planting and industrial operations. The funding is a pivotal achievement for Green Resources and its management.
- Eucateca SA ("Eucateca") continues to demonstrate excellent growth across its plantations. Additionally, the 2012 dry season was shorter than expected, benefitting the growth profile and minimising fire risk. During the Period Eucateca purchased 212 hectares of native vegetation to fulfil its legal reserve set aside requirements of the operation of its Aruanda II plantation.
- Matariki Forestry Group's ("Matariki") exports continue to experience downward pressure, both from increased international competition and a strong New Zealand dollar. Carbon credit prices are at or near historic lows. As a result, the company is assessing its options to optimise its capital structure and make its operating footprint as efficient as possible.
- Aurora Forestal Limited ("Aurora") has experienced a slight improvement in timber sale revenues, but the increase has been offset by an increase in costs, particularly labour costs. The new cogeneration plant is performing well and prices for electricity produced by the plant and sold into the Uruguayan grid have increased.
- Pradera Roja SA ("Pradera Roja") completed the sale of the Cerro Chato plantation to a private investor in September. Cerro Chato was purchased by Pradera Roja in December 2009 for US\$1.3 million and was sold for US\$2.9 million. This sale, like the previous sale of the Don Chico plantation, is consistent with the Company's strategy to plant greenfields in eastern Uruguay for eventual sale.
- NTP Timber Plus+ Fund I LP ("NTP") continues its scheduled return of capital. During the Period, the Company received US\$1,226,861 of returned capital and US\$109,221 in interest.
- Greenwood Tree Farm Fund LP ("GTFF") saw the start of construction work on the new veneer plant to be installed by Columbia Forest Products alongside GTFF's mill in Boardman, Oregon. In addition, GTFF has begun to supply hybrid-poplars as a feed stock to ZeaChem Inc.'s pilot cellulosic biorefinery plant located next to GTFF's operations. If the operating results of the pilot plant are favourable, ZeaChem has plans to build a commercial scale biorefinery on adjacent property.

Global Timber Market Outlook

The demand for many wood products is typically correlated with overall economic growth, therefore the near-term outlook for global timber markets is somewhat uncertain pending economic developments in Europe, the US and China.

Europe's continuing economic issues and declining economic growth indicate lower demand for products made from wood. This in turn lowers demand for wood products such as furniture, flooring and cabinets made in China. Inside China, economic growth (and domestic demand for wood products) appears to have stabilised, and the IMF expects improvement during the second half of 2012 (Source: International Monetary Fund). US wood demand has improved as housing prices, sales and starts have picked up during 2012 (Source: US Department of Commerce and National Association of Realtors).

While in the near term markets are uncertain, timber has the ability to preserve value via

incremental growth during unfavourable economic cycles and deliver upside as markets recover. The Company's diversified portfolio is well positioned to benefit as growth returns to the global economy.

Foreign Exchange Movements

During the Period the US dollar weakened against most currencies, except the Brazilian real, resulting in an overall positive foreign exchange effect.

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. For a better understanding of the Company's decision not to hedge, please see the paper, "Foreign Currency Risk in a Globally Diversified Timber Portfolio" on the Company's website:

http://www.phaunistimber.com/documents/Timberland_Paper_No.2_Foreign_Currency_Risk_Nov_2011.pdf

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 and Investor Relations

On 29 August 2012 William Vanderfelt and Richard Hills were appointed as Directors of the Company. On 22 August 2012 Moortown Capital LLP and CES Investments Limited were appointed as Investor Relations consultants to the Company.

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 30 June 2012, the Company's unaudited NAV was US\$519.5 million (being US\$0.97 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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