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THIS ANNOUNCEMENT IS NOT AN ANNOUNCEMENT OF A FIRM INTENTION TO MAKE AN OFFER UNDER RULE 2.7 OF THE CITY CODE ON TAKEOVERS AND MERGERS AND THERE CAN BE NO CERTAINTY THAT AN OFFER WILL BE MADE

FOR IMMEDIATE RELEASE

5 June 2018

**Possible all-cash offer
for
Phaunos Timber Fund Limited ("Phaunos" or the "Company")
by
Stafford Capital Partners Limited ("Stafford")**

Stafford, in its capacity as manager of Stafford International Timberland VIII Fund ("**SIT VIII**"), announces a possible all-cash offer of US\$0.49 per Phaunos Share to be made by SIT VIII (or by Stafford or an entity controlled by Stafford or funds managed by it) for the entire issued and to be issued share capital of Phaunos (the "**Possible Cash Offer**").

Summary of the Possible Cash Offer

The Possible Cash Offer represents:

- a premium of approximately 11 per cent. to the closing price of US\$0.44 per Phaunos Share on 4 June 2018, being the last business day prior to the date of this announcement; and
- a modest discount of approximately four per cent. to the net asset value per share of the Company of US\$0.51 per Phaunos Share as at 31 December 2017.

The Possible Cash Offer implies a total equity value for Phaunos of approximately US\$244.2 million (on a fully diluted basis).

In addition, the Possible Cash Offer, if implemented, would provide:

- Phaunos Shareholders with an opportunity to accelerate their exit from Phaunos and receive value for the entirety of their holding in cash within an expected timetable of 3 to 4 months as opposed to receiving a series of distributions which the Phaunos Board has indicated it expects to make in connection with the managed wind-down process over the 14 to 20 month period from the end of April 2018 with the potential for this period to be extended;
- the Phaunos Board with the option to dispose of Phaunos's entire portfolio of assets in a single corporate sale of the entire business without the need for a prolonged due diligence process (which would include the Aurora Forestal asset in Uruguay, the sale of which the Phaunos Board has announced will be delayed until further notice); and
- certainty to Phaunos Shareholders by removing the challenges associated with a relatively illiquid asset class and any unforeseeable issues that may arise in connection with the managed wind-down process.

Commenting on the Possible Cash Offer, Stephen Addicott, Partner at Stafford said:

"For nearly four years, Stafford worked diligently to improve the performance of Phaunos for the benefit of its shareholders. As the manager at the time of the Continuation Vote, we made clear our

view that Phaunos had a positive future. However, we accept the decision of Phaunos Shareholders to implement the managed wind-down process and therefore believe that the sale of Phaunos to Stafford is a logical and viable alternative to this process. We are firmly of the view that an offer to acquire the entirety of the Phaunos portfolio in a single transaction represents the most attractive opportunity for Phaunos Shareholders to realise their investment in a timely and efficient manner.

Throughout our tenure as investment manager of Phaunos, we sought to increase the transparency of the Company, including by engaging in detailed discussions with Phaunos Shareholders on each of the assets within the portfolio. We would welcome the opportunity to discuss with Phaunos Shareholders our Possible Cash Offer and we hope that the Phaunos Board will acknowledge the merits of the Possible Cash Offer and be willing to recommend that Phaunos Shareholders accept an offer by Stafford for Phaunos, should it be forthcoming."

Strategic Rationale

At Phaunos's 2017 AGM, the majority of votes submitted were against continuing the Company (the "**Continuation Vote**"). Phaunos Shareholders subsequently approved an orderly realisation of its assets, and Pöyry were appointed as sales agents on 28 November 2017 to manage this wind-down process (the "**Disposal Process**"). The Phaunos Board has indicated that the realisation of the Company's assets pursuant to the Disposal Process may take between 14 and 20 months from the end of April 2018, and has highlighted that this timeline is subject to material uncertainties, which may result in extensions of it. Indications of interest from prospective purchasers are expected to have been received by July 2018. The Phaunos Board has also stated that the preparation work for the disposal of the Company's interest in the Aurora Forestal asset has been impacted from a timing perspective and will not at the present time be subject to the issuance of an information memorandum to prospective purchasers. Stafford estimates that the time value of money for the receipt by Phaunos Shareholders of the proceeds from the Possible Cash Offer, if implemented, relative to the Disposal Process in accordance with the expected timetable could amount to US\$0.03 to US\$0.04 per Phaunos Share.

Stafford acted as the Investment Manager for Phaunos from July 2014 until February 2018, when its contract terminated following Stafford's decision to resign in July 2017 as a result of the outcome of the Continuation Vote. During its tenure as Investment Manager, Stafford was widely recognised for leading a positive turnaround of the Company. This included reducing the percentage of higher risk assets within the portfolio from 36 per cent. to 13 per cent. of the net asset value between June 2014 and December 2016, reducing portfolio debt from approximately 20 per cent. to around one per cent. of the net asset value in 2016, reducing expenses from US\$21.9 million to US\$7.3 million between 31 December 2013 and 31 December 2016, and increasing the cash and cash equivalents from US\$4.9 million at 30 June 2014 to US\$45.6 million at 31 December 2016. In addition, at the time of the Continuation Vote, Stafford was supportive of a five-year continuation of Phaunos which, in Stafford's opinion, would have afforded the opportunity to build on the positive turnaround that had been achieved and potentially to grow the Company further for the benefit of Phaunos Shareholders.

On 11 May 2018, Stafford announced the final close of SIT VIII of US\$612.5 million of which Stafford has already invested US\$128 million (representing approximately 21 per cent. of the funds raised by SIT VIII). Accordingly, Stafford is currently well positioned to implement the Possible Cash Offer. Stafford has had two meetings with the Chairman of Phaunos to discuss the possibility of Stafford acquiring all the assets of Phaunos on an expedited basis. Regrettably, the discussions with Phaunos did not progress.

With the SIT VIII transaction pipeline totalling more than US\$1.1 billion, Stafford is not prepared to set aside the required capital for a prolonged and potentially piecemeal sale process. Consequently, Stafford will not be participating in the Disposal Process.

Stafford notes that the reported net asset value of Phaunos for the year ended 31 December 2017 is US\$0.51 per Phaunos Share (the "**2017 NAV Per Share**"), down from US\$0.55 per share as at 31 December 2016. The expected realisation range stated by the Phaunos Board in the 2017 Annual

Report is US\$0.45 – US\$0.57 per share. Stafford also notes the 19 per cent. increase in the net realisable value of the Company's interest in the Matariki estate (the "**Matariki Interest**") between 31 December 2016 and 31 December 2017 respectively (as stated in the applicable Annual Report), and believes that corresponding downward adjustments will likely have been made to the net asset value of certain South American assets owned by Phaunos in order to produce the 2017 NAV Per Share figure. Stafford also believes that, in order to realise shareholder returns at a level which would be equivalent to the sale of the Company at a price of US\$0.57 per Phaunos Share, Phaunos would need to dispose of the Matariki Interest at a premium of 20 per cent. to the revised independent valuation of its net asset value whilst achieving an aggregate amount of not less than the net asset value of the remaining assets (including the Aurora Forestal asset) in the Phaunos portfolio.

Based on its extensive industry knowledge and experience, and its view that the 2017 NAV Per Share figure already captures the recent increase in New Zealand timberland values, Stafford does not believe that such a high premium will be achieved for the Matariki Interest or that all of the remaining assets will be sold at their respective net asset values within the 14 to 20 months from the end of April 2018 as stated in the 2017 Annual Report.

Stafford also notes the currency fluctuations that have occurred since the Company's last published net asset value on 31 December 2017 of US\$280.3 million (the "**2017 NAV**"), notably in the New Zealand Dollar and the Brazilian Real in relation to which Phaunos has stated it has a significant exposure. Based on the conversion rates against the United States dollar utilised for these currencies in the 2017 Annual Report and their prevailing exchange rates as at 31 May 2018, the New Zealand Dollar and the Brazilian Real have depreciated by approximately 1.4 per cent. and 13.7 per cent. respectively, against the United States dollar in this intervening period. Stafford estimates that the impact of these currency depreciations could have resulted in a decrease in the 2017 NAV of US\$7.3 million and the 2017 NAV Per Share of US\$0.0147 per Phaunos Share for this period. Were this to have occurred, the Possible Cash Offer would represent a very modest discount relative to Stafford's estimate of the prevailing net asset value per Phaunos Share as at 31 May 2018 of approximately 1.5 per cent.

Accordingly, Stafford believes that the Possible Cash Offer, if implemented, would represent an excellent opportunity for Phaunos Shareholders to realise in cash their full investment in the Company at a premium to the prevailing share price of Phaunos Shares. It is also Stafford's view that the prospects of achieving, over time, higher net proceeds than those implied by the Possible Cash Offer are outweighed by the potential downside for Phaunos Shareholders in light of the execution and market risks inherent in the Disposal Process.

Implementation of the Possible Cash Offer

Were Stafford to announce a firm offer to acquire the entire issued and to be issued share capital of Phaunos, it would intend to implement the offer by way of a takeover offer under the Companies Law and in accordance with the Code. Stafford reserves the right to elect, with the consent of the Panel, to implement the offer by way of a court-sanctioned scheme of arrangement in accordance with the Companies Law.

This announcement does not amount to a firm intention to make an offer under Rule 2.7 of the Code and accordingly there can be no certainty that any transaction will occur. Any transaction would be subject to conditions that are customary for a transaction of this nature, including Phaunos Shareholders' acceptance or approval and the receipt, on satisfactory terms, of any requisite regulatory approval.

Regulatory Approvals

Clearance will be required from the Overseas Investment Office in New Zealand (the "**OIO**"). The OIO has stated that it gives priority in exceptional circumstances, for example to accommodate other statutory timeframes, and Stafford has been advised that this clearance should be obtained in a timely manner. No other material regulatory issues are currently anticipated.

Financing

The cash consideration payable in connection with an offer would be financed by a draw down from funds managed on a discretionary basis by Stafford.

Reservations

In addition, Stafford reserves the right to:

- (a) introduce other forms of consideration and/or vary the form or mix of consideration of any offer;
- (b) announce an offer at any time on less favourable terms:
 - (i) with the agreement or recommendation of the Phaunos Board;
 - (ii) if a third party announces a firm intention to make an offer for Phaunos pursuant to Rule 2.7 of the Code on less favourable terms;
 - (iii) following the announcement by Phaunos of a "whitewash" transaction pursuant to the Code; or
 - (iv) if the actual fully diluted share capital of Phaunos is greater than the assumed number of 498,360,117; and
- (c) reduce the amount of its offer by the gross amount any of any dividend or other distribution that is announced, declared, made or paid by Phaunos after the date of this announcement.

Stafford will make a further announcement in due course.

In accordance with Rule 2.6(a) of the Code, Stafford is required, by not later than 5.00 p.m. on 3 July 2018, either to announce a firm intention to make an offer for Phaunos in accordance with Rule 2.7 of the Code or to announce that it does not intend to make an offer, in which case the announcement will be treated as a statement to which Rule 2.8 of the Code applies. This deadline can be extended with the consent of the Panel in accordance with Rule 2.6(c) of the Code.

Enquiries:

Stafford

+44 (0) 20 7535 4915

Stephen Addicott

Lancea LLP (Financial Adviser to Stafford)

+44 (0) 20 3301 8000

Peter Thickett

Stafford has retained Ashurst LLP as legal advisers in connection with the matters described in this announcement.

Important notice

Lancea LLP, which is authorised and regulated by the Financial Conduct Authority in the United Kingdom, is acting exclusively for Stafford and for no one else in connection with the subject matter of this announcement and will not be responsible to anyone other than Stafford for providing the protections afforded to its clients or for providing advice in connection with the subject matter of this announcement.

This announcement is not intended to and does not constitute an offer to buy or the solicitation of an offer to subscribe for or sell or an invitation to purchase or subscribe for any securities or the solicitation of any vote in any jurisdiction. The release, publication or distribution of this announcement in whole or in part, directly or indirectly, in, into or from certain jurisdictions may be restricted by law and therefore persons in such jurisdictions should inform themselves about and observe such restrictions. Any failure to comply with such restrictions may constitute a violation of the securities law of any such jurisdiction.

The information in this announcement concerning Phaunos has been obtained from publicly available information. Stafford has not had the cooperation of Phaunos's management or been granted due diligence access in connection with the Possible Cash Offer. Stafford also confirms that it is not participating in the Disposal Process. Although Stafford has no knowledge that would indicate that the information relating to Phaunos is inaccurate or incomplete, Stafford cannot verify it.

Cautionary notes regarding forward-looking statements

This announcement, oral statements made regarding the Possible Cash Offer, and other information published by Stafford contain statements which are, or may be deemed to be, "forward-looking statements". Forward-looking statements are prospective in nature and are not based on historical facts, but rather on current expectations and projections of the management of Stafford about future events, and are therefore subject to risks and uncertainties which could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements.

The forward-looking statements contained in this announcement include, among others, statements relating to the potential exposure of Phaunos to market risks and statements expressing management's expectations, beliefs, estimates, forecasts, projections and assumptions.

Although Stafford believes that the expectations reflected in such forward-looking statements are reasonable, Stafford can give no assurance that such expectations will prove to be correct. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements should therefore be construed in the light of such factors. All forward-looking statements contained in this announcement are expressly qualified in their entirety by the cautionary notes contained or referred to in this section, and you are cautioned not to place undue reliance on these forward-looking statements..

Neither Stafford nor any of its associates or directors, officers or advisers, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this announcement will actually occur.

Other than in accordance with their legal or regulatory obligations, Stafford is under no obligation, and Stafford expressly disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

No statement in this announcement is intended as a profit forecast or profit estimate.

Disclosure requirements of the Code

Under Rule 8.3(a) of the Code, any person who is interested in 1% or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the announcement in which any securities exchange offeror is first identified. An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm (London time) on the 10th business day following

the commencement of the offer period and, if appropriate, by no later than 3.30 pm (London time) on the 10th business day following the announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.

Under Rule 8.3(b) of the Code, any person who is, or becomes, interested in 1% or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s), save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm (London time) on the business day following the date of the relevant dealing.

If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3.

Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).

Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Panel's website at www.thetakeoverpanel.org.uk, including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.

Rule 26.1 disclosure

In accordance with Rule 26.1 of the Code, a copy of this announcement will be available at www.staffordcp.com by no later than 12 noon (London time) on 6 June 2018.

The content of the website referred to in this announcement is not incorporated into and does not form part of this announcement.

About Stafford Capital Partners Limited

Stafford has US\$5.4 billion under management and advice from over 75 institutional investors across Europe, the United States and Australia, providing investment management and advisory services in alternative assets. Founded in 2000, Stafford has specialist investment teams in agriculture, credit, infrastructure, private equity, sustainable capital, timber and venture capital. The team consists of 45 professionals investing from its principal offices in London, Sydney, Zurich and Austin, Texas and has a significant global presence. Stafford is a member of the Principles for Responsible Investment.

Definitions, Sources of Information and Bases of Calculation

- (a) **"2016 Annual Report"** means the Annual Report & Consolidated Financial Statements of Phaunos for the year ended 31 December 2016.
- (b) **"2017 AGM"** means the annual general meeting of the Company held on 19 June 2017.
- (c) **"2017 Annual Report"** means the Annual Report & Consolidated Financial Statements of Phaunos for the year ended 31 December 2017.

- (d) **"Annual Report"** means the 2016 Annual Report or the 2017 Annual Report, as applicable.
- (e) **"Code"** means the City Code on Takeovers and Mergers.
- (f) **"Companies Law"** means the Companies (Guernsey) Law 2008.
- (g) **"Panel"** means the Panel on Takeovers and Mergers.
- (h) **"Phaunos Board"** means the board of directors of Phaunos.
- (i) **"Phaunos Shareholders"** means holders of Phaunos Shares.
- (j) **"Phaunos Shares"** means the ordinary shares of no par value in the capital of the Company.
- (k) **"Pöyry"** means Pöyry Capital Limited.
- (l) **"US\$"** means United States dollars.
- (m) The reference to the "time value of money" amounting to US\$0.03 to US\$0.04 per Phaunos Share in the section entitled "Strategic Rationale" has been calculated on the basis of the following assumptions:
 - (i) a discount rate of seven per cent.; and
 - (ii) completion of the Disposal Process occurring 13 months after Phaunos Shareholders could otherwise have expected to receive the consideration under any takeover offer by Stafford for Phaunos pursuant to the Code.
- (n) The financial information relating to Phaunos has been extracted or derived from the 2017 Annual Report, the 2016 Annual Report, the Annual Report & Consolidated Financial Statements of Phaunos for the year ended 31 December 2013 and the Condensed Interim Financial Report of Phaunos for the six months ended 30 June 2014 (Unaudited).
- (o) The closing price for Phaunos Shares is the closing middle market quotation derived from the London Stock Exchange Daily Official List.
- (p) The total equity value of approximately US\$244.2 million (on a fully diluted basis) is obtained by multiplying the proposed US\$0.49 per Phaunos Share by Phaunos's fully diluted share capital as referred to in (q) below.
- (q) The fully diluted share capital of Phaunos is calculated on the basis of 498,360,117 Phaunos Shares in issue, as announced by the Company on 10 January 2018.
- (r) The premium and discount calculations to the price per Phaunos Share have been calculated by reference to:
 - (i) a price of US\$0.44 per Phaunos Share, being the closing price on 4 June 2018 (the last business day prior to the announcement of the possible all-cash offer); and
 - (ii) a net asset value of US\$0.51 per Phaunos Share published by the Company in the 2017 Annual Report.
- (s) Prevailing exchange rates as at 31 May 2018 are based on a US\$:NZD exchange rate of 1:1.4253 (Bloomberg) and a US\$:BRL exchange rate of 1:3.72239 (Bloomberg).

- (t) The estimates of the impact of currency fluctuations on the Company's net asset value noted in the section entitled "Strategic Rationale" are based on figures contained in the 2017 Annual Report and Stafford's independent assessment of the impact of these currency fluctuations on the underlying assets contained in the Phaunos portfolio.