

## Regulatory Story

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**Phaunos Timber Fund Limited** - PTF Response to Stafford  
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21 August 2018

### **Phaunos Timber Fund Limited ("Phaunos" or the "Company")**

#### **Response to Stafford**

The Company notes the announcement made by Stafford Capital Partners Limited ("**Stafford**") on 16 August 2018 in response to the Company's publication on 14 August 2018 of its response (the "**Response Circular**") to the unsolicited cash offer made by Stafford to acquire the entire issued and to be issued share capital of the Company (the "**Offer**"). Unless otherwise stated, defined terms used but not defined in this announcement have the meanings set out in the Response Circular.

Nothing in the announcement made by Stafford on 16 August 2018, changes the Board's view that Stafford's Offer does not provide an attractive exit opportunity for Shareholders and that the Asset Realisation Process is the best strategy for maximising shareholder value over a reasonable timeframe.

#### **Accordingly the Board reiterates:**

- its Updated Asset Realisation Range of US\$0.54 - 0.60 per Share<sup>1</sup>, representing a 10% to 22% upside to Stafford's Offer;
- its confidence in the expectation that the sale of all the assets which are subject to a sale process under the Asset Realisation Process would complete within 6 to 9 months, which would cover the sale of assets comprising 92% of the Portfolio Value; and
- its recommendation that Shareholders should take no action in relation to Stafford's Offer and that you should not sign any document which Stafford or its advisers send to you.

Further, the Board considers that some of the statements made by Stafford in its announcement dated 16 August 2018 are misleading. The Board therefore seeks to clarify certain matters to Shareholders.

**1. Stafford is misleading Shareholders by comparing its Offer to the Updated Break-Up NAV<sup>2</sup>; the relevant comparable metric is the Updated Asset Realisation Range**

The Updated Break-Up NAV, as described under Appendix II of the Response Circular, is based on values derived from third party appraisers. Shareholders will appreciate that the realisation values of portfolio assets being sold in the Asset Realisation Process may vary from those values derived from third party appraisers.

Accordingly, the **Updated Asset Realisation Range of US\$0.54 - 0.60 per Share<sup>1</sup> is the relevant comparable metric** as it takes into account the values that are being offered for its assets by bidders that, in the view of the Board and its advisers, are well-capitalised and highly credible international investors in timber assets.

**By comparing its Offer to the Updated Break-Up NAV the Board believes that Stafford is being disingenuous. It is comparing its Offer to an accounting measure, when it should be comparing its Offer to the Updated Asset Realisation Range.**

In its response announcement, Stafford states: "*The Break-Up NAV of US\$0.51 per Phaunos Share does not take into account the time value of money, nor the fees and expenses of approximately £2,985,000 - £3,590,000 associated with advisory and legal costs in responding to Stafford's Offer.*"

Shareholders should note that **the Updated Asset Realisation Range takes into account an assessment by the Board of the estimated revenue and general operating costs of Phaunos as well as costs associated with the Asset Realisation Process (including the fees and expenses aforementioned by Stafford) through to the full liquidation of Phaunos** (as per the estimated timing described in the Response Circular). In particular, the Board has made an assessment of:

- Break-up costs such as selling costs, realisation taxes and provisions for litigation and liquidation costs included in the calculation of the Updated Break-Up NAV; and
- Matariki distributions, reduced by other costs including among others, ongoing management and operational costs, audit, directors' remuneration including directors' fees, additional consultancy fees and any other fees, costs or expenses payable to, or incurred by, the Phaunos Board (including the aforementioned fees and expenses associated with advisory and legal costs in responding to Stafford's Offer).

For reference, the **Matariki distributions for the year ended 31 December 2017 represented US\$0.03 per Share**. In light of Matariki's current trading, cash generation and dividend policy, the Board expects Matariki to remain a strong contributor to Phaunos's revenue whilst Matariki remains in the asset portfolio. **The Board expects Phaunos's 2018 revenue contribution from Matariki to remain broadly in line with that of 2017.**

Further, in its response announcement, Stafford states: "*The asset realisation values presented by the Phaunos Board in the Defence Document are based on non-binding indicative bids for part of the portfolio. They are subject to due diligence, foreign exchange movements, confirmation of financing and regulatory approval.*"

Although non-binding and subject to the conditions set out in the Response Circular (as Shareholders would expect at this stage of the process), it is important to note that the Indicative Bids have been informed by a review of preliminary information including information memoranda, appraisal reports and other relevant forestry and financial information. The Board also confirms it has received several bids for the entire portfolio of assets in South America (excluding Aurora Forestal).

The Board of Phaunos also notes that the Updated Asset Realisation Range of US\$0.54 - 0.60 per Share:

- is based on **Indicative Bids that were received and will be paid for in US dollars**; and
- **represents a 10% to 22% upside to Stafford's Offer.**

## **2. Stafford's response announcement does not change the Board's assessment of the Asset Realisation Process timing**

The Board has worked hard to minimise the disruption caused by Stafford's Offer, and is greatly encouraged by the pricing and executability of the Indicative Bids received to date.

With respect to 92% of the Portfolio Value, the Board confirms the following:

- **Completion for the sale of Matariki** (74% of the Portfolio Value), assuming binding offers are received in Q4 2018 and a further 3-6 months to complete the OIO process, expected **between Q1 and Q2 2019**; and
- **Completion for the sale of the Latam Assets** (18% of the Portfolio Value), assuming a process of 60-120 days, expected **between Q4 2018 and Q1 2019**.

The Board's expectation regarding timing is based on a review of the Indicative Bids, the timelines provided by bidders as part of the process and active discussions with the Company's asset sales adviser, Pöyry.

All bidders for Matariki have indicated to the Board that they are expecting the OIO process to take between 3 and 6 months. They are experienced in dealing with the OIO and have a detailed understanding of what is required to effectively navigate the consent process.

The Board also notes the new overseas investment rules applying to forestry transactions were passed by the New Zealand parliament last week and will come into effect by around mid to late October 2018. The Board has been advised by its New Zealand legal counsel that the new rules should result in an easier and quicker OIO consent pathway for prospective bidders who meet the new criteria.

Accordingly, the Board remains confident that the 6 to 9 months period set out in the Response Circular, is an accurate estimate of the time to complete the sale of all the assets which are subject to a sale process under the Asset Realisation Process.

With respect to the other 8% of the Portfolio Value, the Board reiterates that:

- it is pursuing its discussions with Aurora Forestal's majority shareholder to negotiate a possible disposal of its equity interest in Aurora Forestal (5% of the Portfolio Value) and has exercised its rights to initiate a voluntary exit pursuant to the Aurora Forestal shareholder agreement;
- on 27 July 2018, the Company's interest in NTP was realised at marginally above its reported NAV as at 31 December 2017; and

- the disposal of the Company's interest in GTFF (4% of the Portfolio Value) is subject to a separate liquidation procedure.

The Board of Phaunos is committed to returning all sales proceeds from the Asset Realisation Process as they are received, after allowing for cash reserves to wind down the Company.

**Stafford's announcement on 16 August 2018 does not change this assessment.**

*Notes:*

1. See Appendix I of the Response Circular for further details on how the Updated Asset Realisation Range has been computed as well as the level of conditionality associated with the Indicative Bids
2. See Appendix II of the Response Circular for a pro forma statement of net assets of Phaunos and Matariki Forestry Group including further details on the Updated Going Concern NAV and Updated Break-Up NAV

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In accordance with Rule 26.1 of the UK Takeover Code, a copy of this announcement will, subject to certain restrictions relating to persons resident in restricted jurisdictions, be available on Phaunos's website at <http://www.phaunostimber.com/offer-from-stafford/> by no later than 12 noon (London time) on the business day following the release of this announcement. The content of the website referred to in this announcement is not incorporated into and does not form part of this announcement. The person responsible for arranging for the release of this announcement on behalf of Phaunos is JTC Fund Solutions (Guernsey) (acting as Company Secretary).

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