



# Phaunos Timber Fund

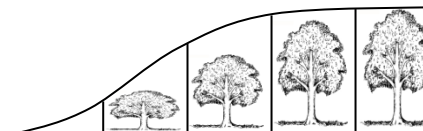
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2011 Interim Results

*31 August 2011*

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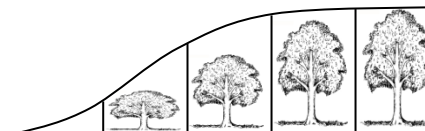
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- **Interim Highlights**
- **Overview of the Portfolio**
- **Important topics**
  - NAV analysis
  - Accruals of dividends and performance fees
  - Fund level expenses vs. operating company expenses
  - Accounting conventions and the effect on reported results
  - Share price vs. NAV
  - Share price discount
- **Summary**

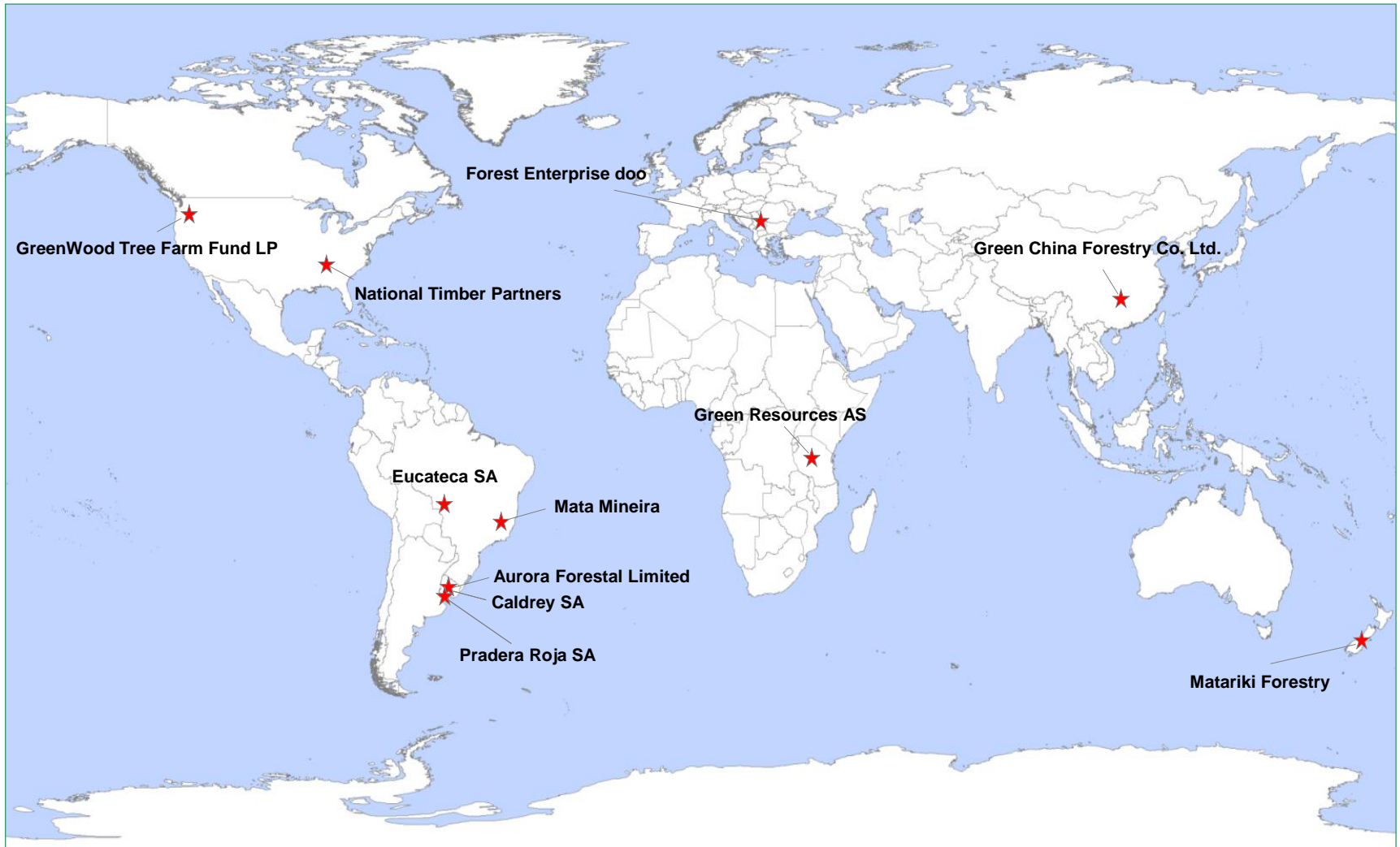
## Interim highlights



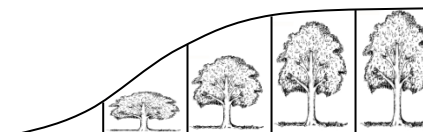
	30 June 2011 (unaudited)	31 Dec 2010 (audited)	30 June 2010 (unaudited)
<b>Net Asset Value</b>	US\$621.6 million	US\$594.9 million	US\$560.5 million
<b>Unadjusted NAV per Ordinary Share</b>	US\$1.16	US\$1.11	US\$1.04
<b>Profit/(Loss) for the period/year</b>	US\$27.7 million	US\$20.7 million	(US\$8.2 million)
<b>Earnings/(Loss) per Ordinary Share</b>	5.15 cents	3.98 cents	(1.64 cents)

- NAV increased by 4.48% to a total of US\$621.6 million or US\$1.16 per Ordinary Share since 31 December 2010
- The first dividend of US\$10.7 million was paid on 15 July 2011
- Operating expenses in line with management expectations
- Board of Directors continues to monitor actively the share price discount to NAV and review options for addressing the discrepancy
- Foreign exchange movement contributed US\$30.0 million to the Company's NAV at 30 June 2011

# Overview of the portfolio



# Overview of the portfolio



Company	Description	Geography	% of Ownership	% of NAV 30 June 2011 (unaudited)
1. Matariki Forestry Group	Mixed age pine plantations, six estates, currently with 183,000 hectares	New Zealand	Minority holding	28.02
2. Mata Mineira Investimentos Florestais Ltda	Mature and mixed age eucalyptus plantations in Minas Gerais, Brazil, currently with over 19,000 hectares	East Central Brazil	100.00	17.52
3. Green Resources AS	Mixed age, mixed species plantations, currently with 21,300 productive hectares and rights to plant more than 200,000 hectares	East Africa	Minority holding	16.78
4. Eucateca SA	Greenfield teak and eucalyptus plantations in Mato Grosso, Brazil, currently with 17,150 hectares	West Central Brazil	100.00	10.90
5. GreenWood Tree Farm Fund LP	Three mixed age hybrid poplar tree farms with 35,000 acres integrated with a new sawmill	NW USA	Minority holding	6.00
6. Aurora Forestal Limited	Joint venture in a sawmill and mixed age pine plantations, currently with 19,500 hectares	Northern Uruguay	Minority holding	5.56
7. Pradera Roja SA	Greenfield plantation project for fast growing eucalyptus, currently with 12,000 hectares	Southern Uruguay	100.00	5.26
8. Green China Forestry Company Ltd	Mixed age pine and fir plantations, currently with 6,500 hectares	China	100.00	3.07
9. NTP Timber Plus+ Fund I, LP	"Higher-and-better-use" timberland conversion	SE USA	Minority holding	1.76
10. Forest Enterprises doo	Pellet fuel plant using waste wood	Serbia	100.00	1.29
11. Caldrey SA	Timber harvesting company	Southern Uruguay	100.00	0.42
12. Masarang Foundation <sup>[1]</sup>	Loan: commercial forestry project with social and environmental goals	Indonesia	100.00	-
13. Other <sup>[2]</sup>	Cash reserves held for committed projects and working capital	Europe	100.00	3.42
<b>Total Portfolio Value</b>				<b>100.00%</b>

<sup>[1]</sup> The Board has reviewed the loan to Masarang and concluded it prudent to keep the provision against the full value, given the uncertainty surrounding the ability of Masarang to repay.

<sup>[2]</sup> Includes cash reserves held at the Company level and by Romfor Timber and BaltFor Timber.

## NAV ANALYSIS

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## NAV analysis

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- NAV increased by US\$26.7 million from year end 2010.
- Accruals for the dividend and the potential performance fee were US\$10.7 and US\$8.2 million respectively.
- The NAV would have been US\$18.9 million higher or US\$640.5 absent the accruals.

# Movement of NAV during the period

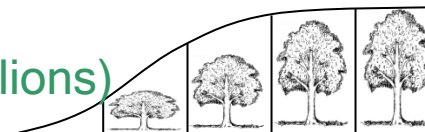


Company	NAV Ordinary Shares 31 Dec 2010 (audited) US\$'000	Acquisitions/ (Return of funds) US\$'000	Unrealised Gain/(Loss)				Foreign Exchange Translation Differences US\$'000	Realised Foreign Exchange US\$'000	Movement in retained earnings US\$'000	NAV Ordinary Shares 30 June 2011 (unaudited) US\$'000	% of NAV 30 June 2011 (unaudited)
			Valuation US\$'000	Land US\$'000	Biological Assets US\$'000	Foreign Exchange US\$'000					
Phaunos Timber Fund Limited	40,175	3,693	-	-	-	-	28	(10)	(23,121)	20,765	3.34
<b>Total Phaunos Timber Fund Ltd</b>	<b>40,175</b>									<b>20,765</b>	
Matariki Forestry Group	147,142	-	16,751	-	-	10,300	-	-	-	174,193	28.02
Green Resources AS	96,058	-	-	-	-	8,225	-	-	-	104,283	16.78
GreenWood Tree Farm Fund LP	35,843	818	608	-	-	-	-	-	-	37,269	6.00
Aurora Forestal Limited	33,830	-	717	-	-	-	-	-	-	34,547	5.56
NTP Timber Plus+ Fund I, LP	10,807	-	114	-	-	-	-	-	-	10,921	1.76
<b>Total Minority-owned investments</b>	<b>323,680</b>									<b>361,213</b>	
Masarang Foundation <sup>[1]</sup>	-	-	-	-	-	-	-	-	-	-	-
<b>Total Loans and Deposits</b>											
Mata Mineira Investimentos Florestais Ltda	96,435	1,200	-	(1,715)	7,435	-	6,248	-	(682)	108,921	17.52
Eucateca SA	65,526	-	-	-	(296)	-	4,093	-	(1,570)	67,753	10.90
Pradera Roja SA	31,050	850	-	(58)	1,078	-	-	12	(221)	32,711	5.26
Green China Forestry Company Ltd	19,929	-	-	-	(189)	-	(66)	89	(653)	19,110	3.07
Other operating subsidiaries <sup>[2]</sup>	18,128	(6,561)	-	-	-	-	1,225	(119)	(1,555)	11,118	1.79
<b>Total Operating Subsidiaries</b>	<b>231,068</b>									<b>239,613</b>	
<b>NAV of Ordinary Shares</b>	<b>594,923</b>	<b>-</b>	<b>18,190</b>	<b>(1,773)</b>	<b>8,028</b>	<b>18,525</b>	<b>11,528</b>	<b>(28)</b>	<b>(27,802)</b>	<b>621,591</b>	<b>100.00</b>
<b>Total Foreign Exchange Gains</b>								<b>30,025</b>			

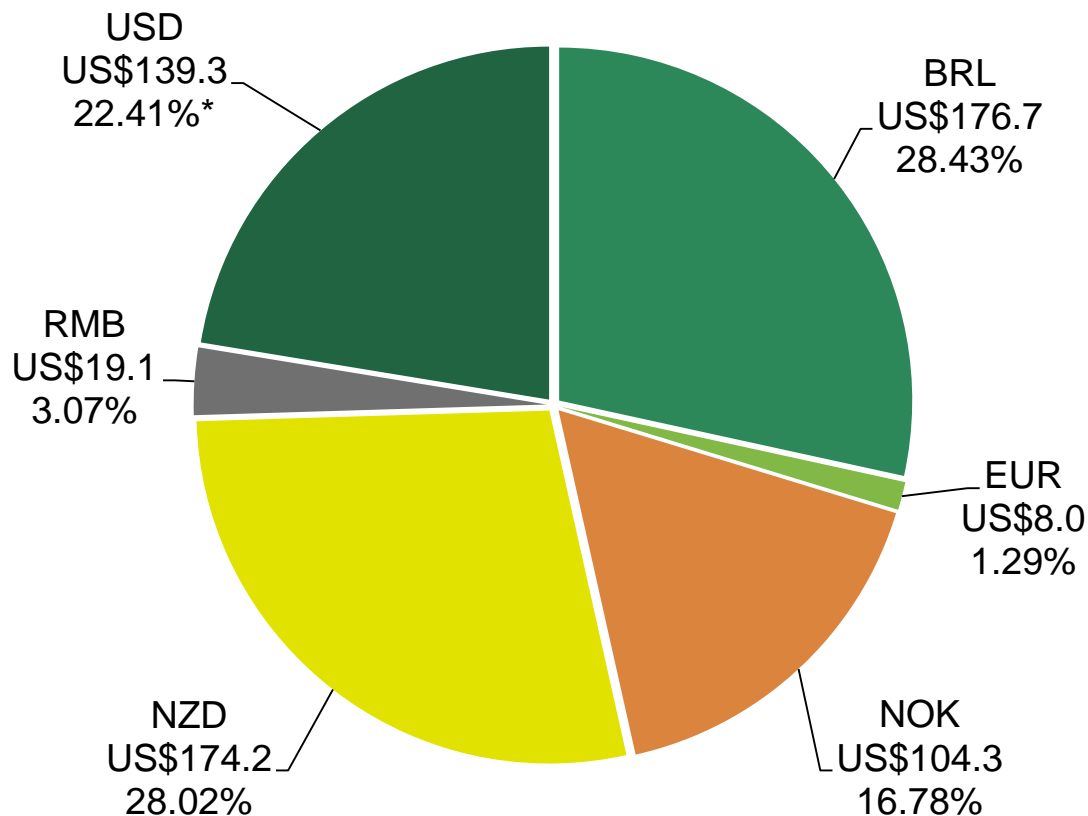
<sup>[1]</sup> The Board has reviewed the loan to Masarang Foundation ("Masarang") and concluded it prudent to keep the provision against the full value, given the uncertainty surrounding the ability of Masarang to repay. As a result, the investment in Masarang is valued at nil at 30 June 2011 and has been since 31 December 2009. The loan is not yet due and is therefore not yet in default.

<sup>[2]</sup> Includes the financial results for Caldrey SA, Forest Enterprises doo, SC Romfor Timber SRL ("Romfor") and BaltFor Timber OU ("BaltFor") for the period. The majority of Romfor's capital was returned to Phaunos during the period as it is intended to liquidate the subsidiary by 31 December 2011. The liquidation and return of capital for BaltFor will complete in Q3 2011.

## Diversification of 30 June 2011 NAV by currency (in US\$ millions)



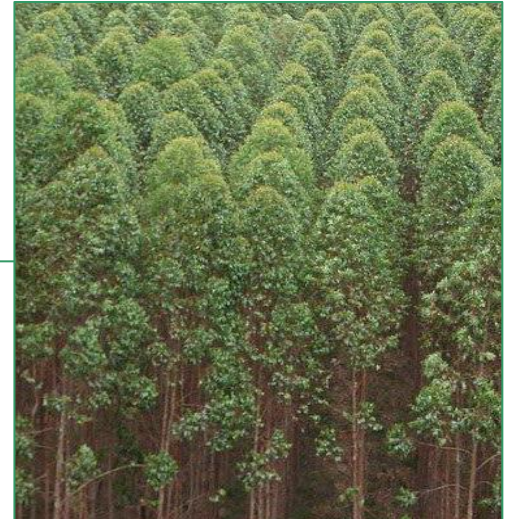
The following chart illustrates the diversification of the total NAV at 30 June 2011 US\$621.6 million, based on the local currency Phaunos' investments are denominated.



\* Because the Uruguayan peso is pegged to USD, Uruguayan assets are included with USD.

## ACCRUALS OF DIVIDENDS AND PERFORMANCE FEES

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## Dividend

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- The Board of Phaunos is pleased to report that on 15 July 2011, the Company paid its first dividend of US\$0.02 gross per Ordinary Share in respect of the twelve months ended 31 December 2010.
- This dividend payment was pursuant to the resolution approved by the shareholders at the annual general meeting of the Company on 9 June 2011.
- Given the dividend was declared prior to 30 June 2011, the Company has accrued dividends of US\$10.7 million at that date.

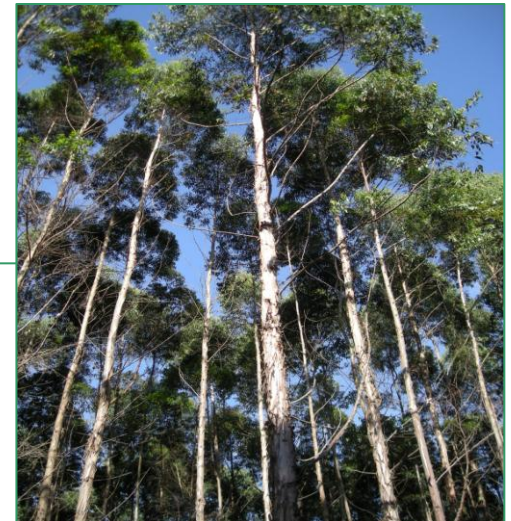
## Performance fees



- The Company has accrued at 30 June 2011 its first potential performance fee of US\$8.2 million or US\$0.0152 per Ordinary as the unaudited NAV per Ordinary Share at that date, adjusted for the items noted in Footnote 16 of the Interim Report, exceeded the hurdle rate of US\$1.08.
- The adjusted NAV per Ordinary Share for the purpose of calculating the performance fee accrual at 30 June 2011 was US\$1.1619.
- A performance fee will only become due and payable as at 31 December 2011 and only if the audited NAV per Ordinary Share (adjusted as described in Footnote 16) as at 31 December 2011 exceeds US\$1.08.
- Discussions have begun between the Board and the Investment Manager to explore whether a different fee basis would align better the interests of all stakeholders.

## FUND LEVEL EXPENSES VS. OPERATING COMPANY EXPENSES

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## Operating expenses



	<b>30 June 2011</b> <b>Unaudited</b> <b>US\$'000</b>	<b>30 June 2010</b> <b>Unaudited</b> <b>US\$'000</b>
<b>Holding Company Expenses</b>		
Performance fees (a)	8,189	-
Investment Manager's fees	4,759	3,932
Foreign exchange loss	28	9,134
Other operating expenses	1,023	1,190
	<u>13,999</u>	<u>14,256</u>
<b>Operating Subsidiary Expenses</b>		
Setting up expenses	-	375
Direct operating costs	3,860	855
Other operating expenses	5,446	2,984
	<u>9,306</u>	<u>4,214</u>
	<u>23,305</u>	<u>18,470</u>

a) Performance fees for the period are accrued not paid (refer to performance fee section on page 13).

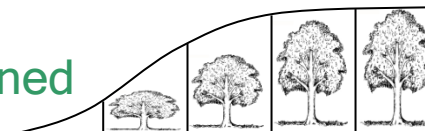
Consistent with IFRS, operating expenses associated with wholly-owned subsidiaries are included above, along with expenses associated with holding Company activities. Holding Company expenses, including the accrual for a potential performance fee, total US\$14.0 million, or 2.25% of assets under management. Without the performance fee accrual, expenses at the holding company level would have been US\$5.8 million, or less than 1% of AUM.

## ACCOUNTING CONVENTIONS AND THE AFFECT ON REPORTED RESULTS

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# IFRS Accounting Treatment: Financial Assets vs Wholly Owned



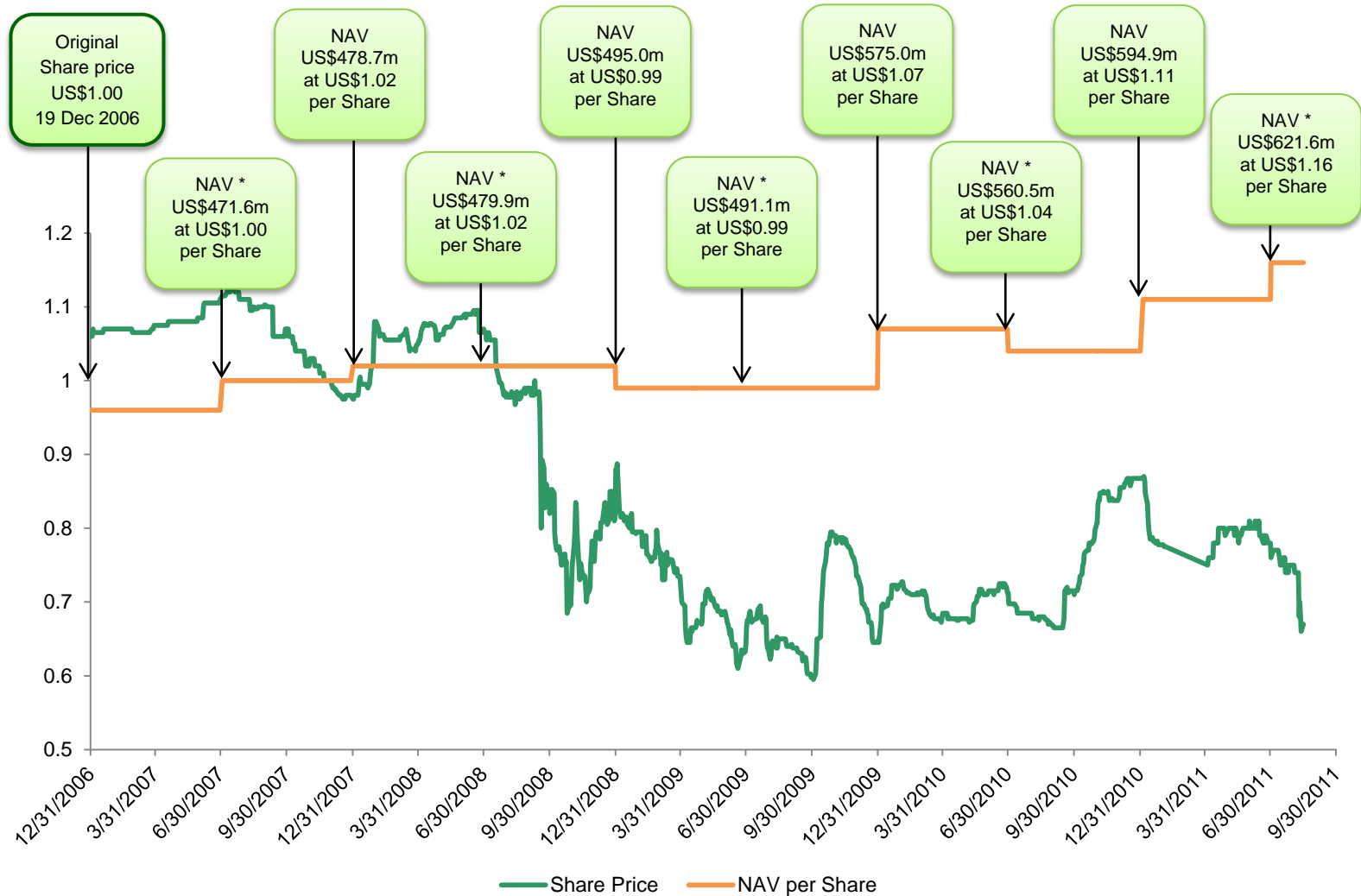
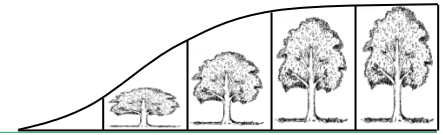
	Financial Assets	Operating Subsidiaries
<b>Consolidated Statement of Comprehensive Income</b>		
<b>Effect of revaluations of 'growing timber'</b>	Included in 'operating profit/(loss) before taxation' as 'net gain/(loss) on financial assets designated at fair value through profit or loss'. Included in 'earnings per share'.	Included in 'operating profit/(loss) before taxation' as 'revaluation of biological assets'. Included in 'earnings per share'.
<b>Effect of revaluations of land</b>	Included in 'operating profit/(loss) before taxation' as 'net gain/(loss) on financial assets designated at fair value through profit or loss'. Included in 'earnings per share'.	Included in 'other comprehensive income' as 'revaluation of land'. Not included in 'earnings per share'.
<b>Foreign exchange differences arising from the translation of net assets</b>	Included in 'operating profit/(loss) before taxation' as part of 'operating income'. Included in 'earnings per share'.	Included in 'other comprehensive income' as 'exchange differences on translation of operating subsidiaries'. Not included in 'earnings per share'.
<b>Consolidated Statement of Financial Position</b>		
<b>Classification</b>	Investment shown as 'financial assets designated at fair value through profit or loss'.	Assets at fair value and liabilities consolidated on a line by line basis.
<b>Schedule of Investments</b>		
<b>Classification</b>	Included at fair value.	Operating subsidiary value not reported separately.

## SHARE PRICE VS. NAV

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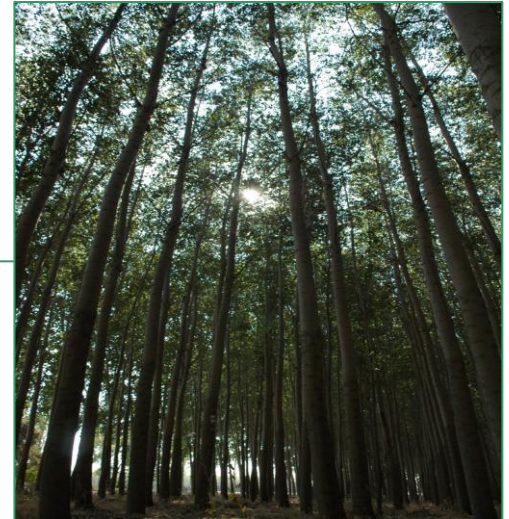
# Market share price vs NAV per ordinary share



Share price data is through 15 August 2011  
 \* Unaudited NAV's

## SHARE PRICE DISCOUNT

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# Share price discount



- The Company is invested in productive, tangible forest assets; it has no borrowings at the holding Company level and its forests are long term investments.
- The Investment Manager believes the Company's portfolio will continue to benefit from its broad diversification with exposure to faster growing economies.
- The US housing market remains depressed, though some wood prices are rising. The value of holding assets across broadly diverse markets should sustain the portfolio's cash flow and NAV over time and despite turbulent markets.
- The Company's shares continue to trade at a discount to the net asset value per Ordinary Share. The Board of Directors has been engaged for some time in exploring how the discount might be reduced and has discussed possible actions with the Company's brokers and shareholders.
- A majority of shareholders has indicated they would prefer the Company to remain listed. Share buybacks have been tried and had no impact. Now that the Company is fully invested, there is no spare cash to fund buybacks and borrowing for this purpose is not economically viable. Daily dealings in the Company's shares remain low.
- When the current economic situation stabilises, the Directors believe that the Company's continuing good performance with NAV growth, together with cash inflow from harvesting, will support the payment of sustainable dividends. This, combined with a continued investor relations programme to emphasise the value in the Company's assets should logically attract new investors and lead to a reduction in the discount over time.

# Portfolio Summary



- Portfolio fully invested, now in operating mode
- The Company paid its first dividend for the twelve months ended 31 December 2010 of US\$0.02 gross per ordinary share of the Company on 15 July 2011
- Phaunos owns 100% of almost 55,000 hectares and owns partial interest in over half a million additional hectares via its minority holdings
- Two portfolio properties are now fully Forest Stewardship Council (“FSC”) certified with a third expected by year end
- Company implementing a Forestry Information Management System (“FIMS”) across the portfolio in order to standardise reporting and better manage the portfolio

## Contact information



### BOSTON

FWCM (US)  
60 State Street, 37th Floor  
Boston, MA 02019  
United States

Tel: +(1 617) 399 0070

### LONDON

FWCM (UK)  
105 Wigmore Street  
London W1U 1QY  
United Kingdom

Tel: +(44 20) 7518 7970

### DUBAI

FWCM (MEA)  
38th Floor/D-3801B  
Business Central Towers,  
Dubai Media City  
Dubai, UAE

Tel: +(971) 4 425 1800

### HONG KONG

FWCM (HK)  
Floor 8  
Two Exchange Square  
8 Connaught, Central  
Hong Kong

Tel: +(852) 2297 2475

Client Services: [info@fourwindscm.com](mailto:info@fourwindscm.com)

Kimberly Tara  
Chief Executive Officer  
[ktara@fourwindscm.com](mailto:ktara@fourwindscm.com)

Liane Luke  
Head of Timber Group and  
Timber Investments  
[lluke@fourwindscm.com](mailto:lluke@fourwindscm.com)