

Timberland Investment Group Market Report

4th Quarter 2016

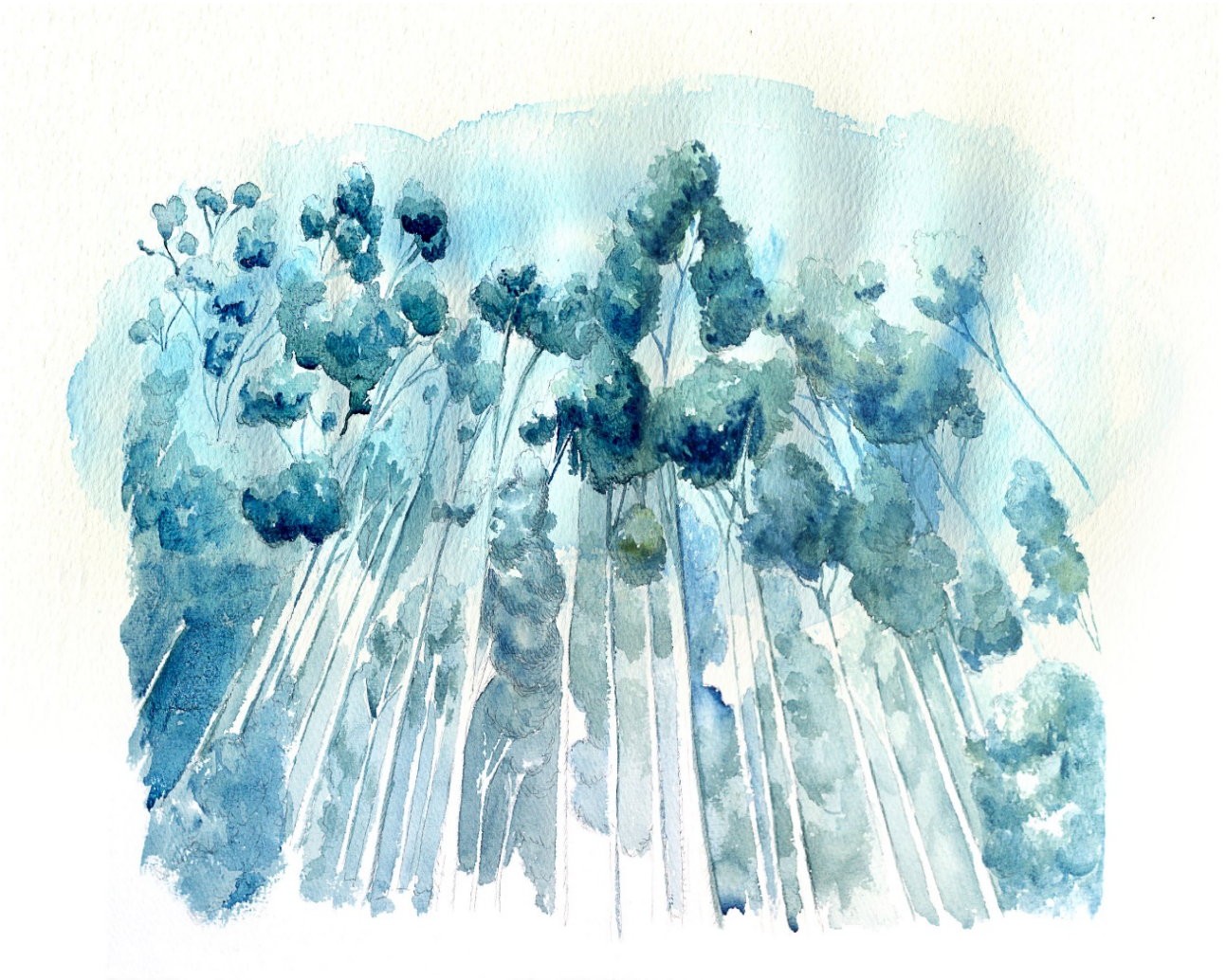
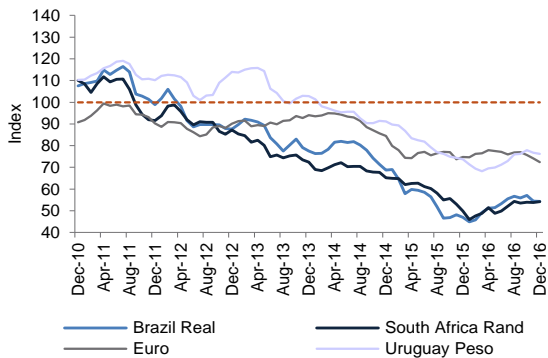


Table of Contents

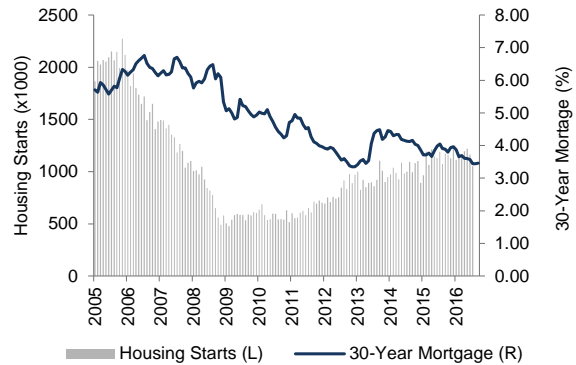
| | |
|---------------------------------|----|
| Timberland Investment Dashboard | 2 |
| Executive Summary | 3 |
| United States | 5 |
| Latin America | 11 |
| Europe | 16 |
| South Africa | 18 |
| Global Pulp and Paper Markets | 20 |
| Disclaimer | 22 |

Timberland Investment Dashboard

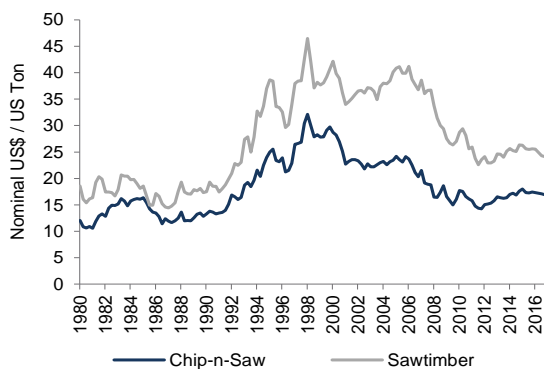
Indexed Exchange Rates of Selected Countries vs. the US Dollar (2009=100). Sources: Federal Reserve Bank; Bloomberg.



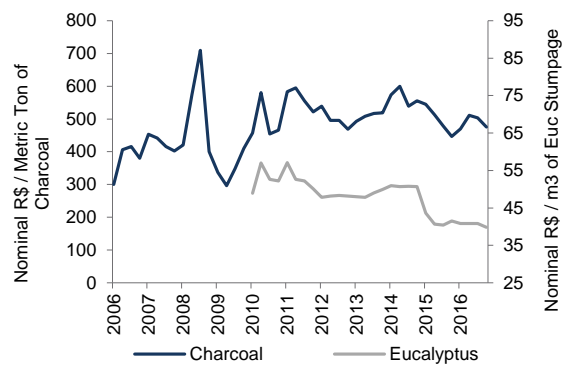
Annual US Housing Starts, Seasonally Adjusted Annual Rate, and 30-year Mortgage Rates. Sources: Federal Reserve Bank; US Dept. of Commerce Census Bureau.



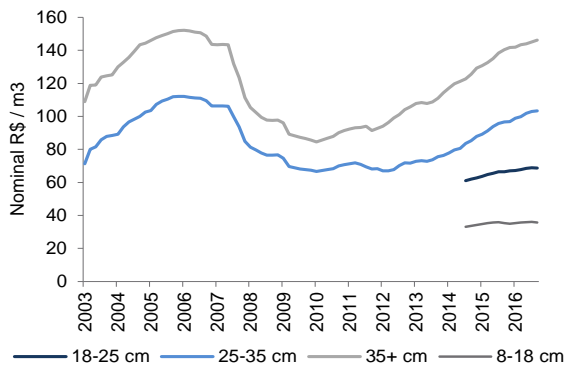
US Southwide Quarterly Pine Chip-n-Saw and Sawtimber Prices. Source: Timber Mart-South.



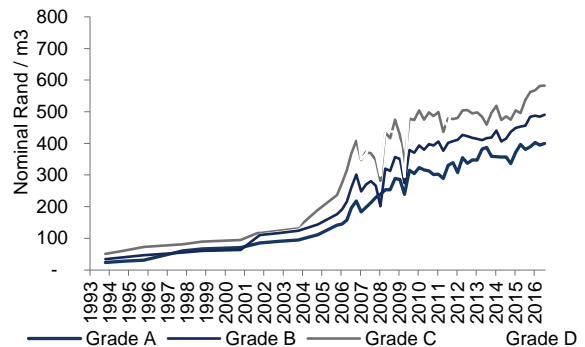
Quarterly Charcoal and Eucalyptus Stumpage Prices in Minas Gerais, Brazil. Sources: Associação Minera de Silvicultura, Silviconsult.



Pine Sawtimber Stumpage Prices in Paraná State, Brazil. Source: STCP. (STCP changed small log diameters so there is limited revised historical data)



South African Pine Sawlog Prices. Source: Crickmay and Associates.



Executive Summary

United States

- The unexpected election of President Donald Trump spurred optimism related to tax reform, regulatory reform, and infrastructure spending, resulting in a rally of US equity markets (S&P 500) of over 6% through mid-January and an increase of the benchmark 10-year US Treasury rising from 1.85% to 2.44%.
- The US economy expanded at an annual rate of 3.5% (real GDP) in Q3 reflecting an acceleration in personal consumption, exports, private inventory investment, nonresidential fixed investment, and federal government spending. Residential fixed investment and imports were drags on growth.
- Unemployment slightly increased to 4.7% in December versus 4.6% in November as labor force participation edged higher.
- Manufacturing, as measured by the ISM Index, increased to 54.7% in December versus 53.2% in November and 51.5% in September.
- The US housing market continues to strengthen moderately, although the recovery is following an uneven pace. November housing starts declined -18.7% over the prior month and -6.9% over November 2015; multifamily starts accounted for 24.0% of November starts versus a historic average of 22.9%.
- Southern pine sawtimber prices declined -0.7% for the quarter and -5.7% year-over-year. Chip-n-saw declined -1.0% sequentially in Q4 and -3.1% year-over-year.
- Southern mixed hardwood sawtimber prices declined -2.4% for the quarter, but increased 5.5% year-over-year.

Latin America

- In Q3, Brazil's real GDP declined -0.8% quarter-over-quarter and -2.9% year-over-year. Brazilian small softwood sawtimber prices experienced small nominal gains on a year-over-year basis, but were weaker quarter-over-quarter. The most significant gains continue to be in larger-diameter sawtimber grades.
- Brazilian charcoal prices declined -5.5% quarter-over-quarter, illustrating the continued difficulties in global steelmaking. The price of eucalyptus used in charcoal production declined in Q4 versus Q3.
- Despite ongoing political issues, the Brazilian government has been successful in implementing reforms including passing a 20-year public spending ceiling to control an increasing budget deficit. The government is expected to follow this in 2017 by reforming Brazil's pension system.
- Chile's economy grew at a similar pace in Q3 versus the previous quarter (1.6% real annualized vs. 1.6% in Q2).
- Argentina's slowdown worsened with real GDP at -3.8% annualized in Q3 versus -3.7% in Q2 and 0.6% growth in Q1 given continued weakness in personal consumption.
- Guatemala's real GDP grew at an annualized rate of 3.4% in Q2 (latest available), accelerating from Q1's 2.9% annualized rate.
- Uruguay's economy increased at an annualized rate of 2.0% real in Q3 versus annualized growth of 1.5% in Q2.

Europe

- In Q3, euro zone real GDP increased 0.3% quarter-over-quarter as compared to 0.3% quarter-over-quarter growth in Q2. Fixed investment and industrial production were weaker sequentially. Unemployment declined to 9.8% in October from 9.9% in September and 10.1% in June.
- Exports also remain soft. In October (latest month reported), exports declined -5.0% year-over-year while imports declined -3.0% year-over-year, resulting in a euro zone trade surplus of €20.1 billion, down -13.4% year-over-year.
- Estonia pine and hardwood sawlog prices improved sequentially and year-over-year. Pulpwood prices in Estonia were mixed.

South Africa

- South Africa real GDP grew a modest 0.2% quarter-over-quarter in Q3 versus growth of 3.5% quarter-over-quarter in Q2. Agriculture, forestry, and fishing, manufacturing, electricity, gas and water, and trade, catering and accommodation were weak while mining and quarrying were better.
- Political conditions continue to trouble South Africa. President Zuma is currently protesting the reopening of previous graft charges and contesting current graft charges regarding wealthy family friends.
- Overall, economic weakness and political instability have kept the South African rand at depressed levels versus the US dollar.
- Despite overall economic weakness, both large- and small-diameter sawtimber logs experienced nominal price increases in Q3 (latest data available).

Global Pulp & Paper Markets

- In Q4, bleached softwood kraft pulp (BSK) prices declined -0.3% versus the prior quarter and -1.2% year-over-year.
- During the quarter, pricing was supported by strong viscose pulp demand which encouraged production at swing wood pulp mills to target dissolving pulp instead of softwood (thereby causing softwood prices to decline less).
- That said, BSK pulp prices have the potential to further soften as over 1.0 million metric tonnes (MT) of new southern bleached softwood kraft (SBSK)/fluff capacity continues to ramp.
- Hardwood pulp prices continued to decline in Q4, with prices falling -2.4% versus the prior quarter and -18.3% year-over-year. European prices remain weak and continue to adjust to the levels China reached several months ago. Data continue to illustrate elevated global hardwood pulp inventories.
- Hardwood pulp demand seems to have improved the last several months driven by a delay in the start-up of APP's Oki mill and seasonal buying ahead of the upcoming Chinese New Year.
- In the US South, softwood pulpwood prices declined quarter-over-quarter and year-over-year in Q4. Hardwood pulpwood prices also declined in the quarter and year-over-year.
- Eucalyptus pulpwood prices in Brazil declined -1.4% for the three months ended October versus the three months ended August and -5.9% year-over-year. Eucalyptus prices in Uruguay increased 1.7% quarter-over-quarter in Q4, but declined -3.3% year-over-year.

United States

In Q3 (the latest GDP data available; 4Q2016 GDP expected to be released January 27) the US economy expanded at an annual rate of 3.5% (real GDP), the third estimate released by the Bureau of Economic Analysis. This was above the 1.4% real GDP gain from the prior period (Figure 1). The Q3 increase in real GDP reflected acceleration in personal consumption, exports, private inventory investment, nonresidential fixed investment, and federal government spending that were partly offset by negative contributions from residential fixed investment. Imports also increased, which subtracted from GDP. The unemployment rate slightly increased to 4.7% in December versus 4.6% in November while the change in total nonfarm payroll employment (seasonally adjusted) declined to 156,000 in December versus 204,000 in November. Meanwhile, the labor force participation rate edged higher to 62.7% in December from 62.6% in November and continues to trend along the lowest levels in almost four decades (Figure 2).

Manufacturing appears to have improved. The ISM Manufacturing Index, a bellwether of manufacturing activity, increased to 54.7% in December versus 53.2% in November and 51.5% in September (Figure 3). The ISM is a diffusion index with values over 50% indicating growth and values below 50% indicating contraction.

Figure 1. Annualized Quarterly US Real GDP Growth (%). Sources: US Dept. of Commerce, BEA.

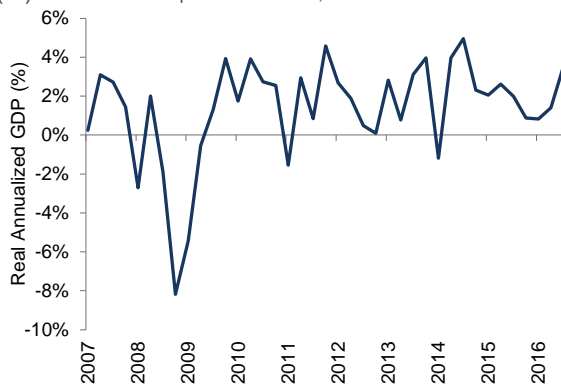


Figure 2. US Unemployment, and Labor Force Participation Rate. Sources: US Dept. of Labor, BLS.

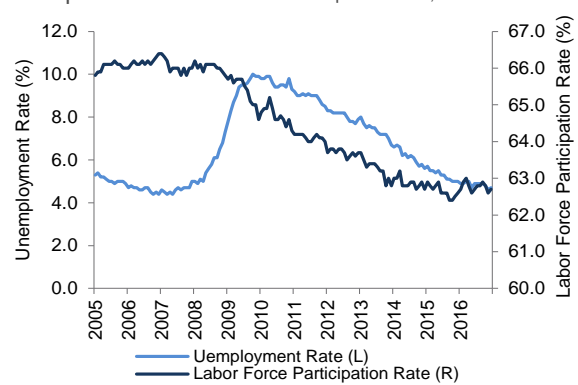
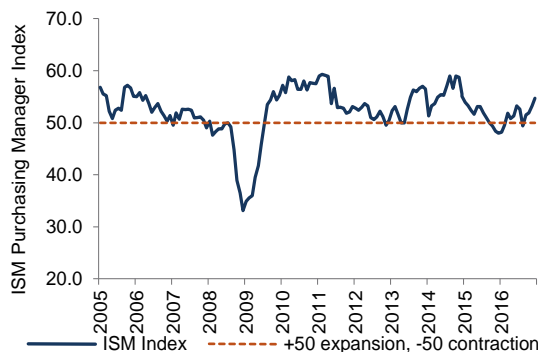


Figure 3. US ISM Purchasing Manufacturing Index.

Source: Institute of Supply Management.



US housing

The US housing market continues to grow, although the recovery is following an uneven pace.

In November, housing starts totaled 1.090 million units. This figure is down -18.7% versus October's 1.340 million housing starts and -6.9% versus November 2015's 1.171 million starts (Figure 4). The share of multifamily starts as a percentage of total starts declined to 24.0% versus 35.6% in October and is more in-line with the average of 22.9% since 1990.

New home sales have increased 12.8% year-to-date. The largest increase has been in the Northeast (+34.0%) with gains also in the Midwest (+17.2%), South (+11.6%), and West (+9.4%). Inventories of new homes slightly increased to 5.1 months of supply in November from 5.0 months of supply in September.

With respect to current housing stock, existing home sales have increased 4.2% year-to-date. In November, existing home sales increased 0.7% year-over-year (15.4% month-over-month). Inventories of existing homes declined to 4.0 months in November from 4.4 months in September.

Figure 4. Annual US Housing Starts, Seasonally Adjusted Annual Rate and 30-year Mortgage Rates.

Sources: Federal Reserve Bank of St. Louis, US Dept. of Commerce Census Bureau.

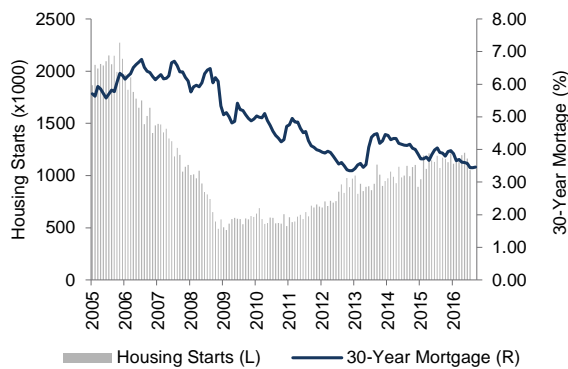
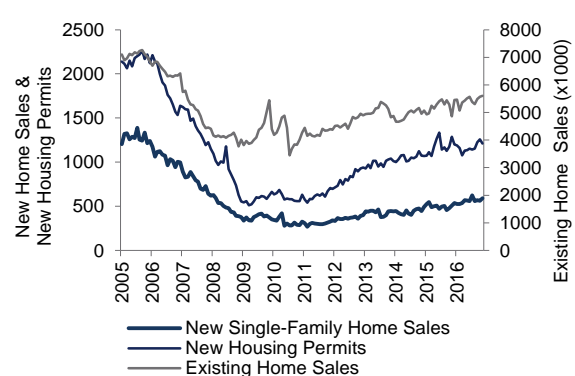


Figure 5. Monthly New Home Sales, New Building Permits, and Existing Home Sales, Seasonally Adjusted Annual Rates.

Sources: US Dept. of Commerce Census Bureau, National Association of Realtors.



Year-to-date, building permits, which are indicative of future housing activity, have declined -0.8%. This has been driven more by multi-family permits, which have declined -11.9% year-to-date, versus single-family permits which have increased 7.0% year-to-date.

US forest products and timber markets

Softwood lumber prices declined -0.9% quarter-over-quarter in Q4. This compares to a historical average sequential decline of -1.5% over the last decade. Prices softened mid-quarter given slower sales and weak order files, but then increased toward the end of the quarter to wind up essentially flat versus where the quarter began.

During Q4, structural panel pricing declined -5.2% versus Q3 driven by weaker plywood pricing. This compares to a historical average sequential decline of -3.0% over the last decade (Figure 6). Similar to lumber, Oriented Strand Board (OSB) prices softened mid-quarter from slower sales as dealers and distributors reduced inventories ahead of winter and given increased price discounting. In Q3, US OSB production increased 3.4% year-over-year (production, import and export data are released on a one-quarter lag) while imports increased 9.7% year-over-year, which likely also contributed to softening prices. Meantime, plywood prices generally softened throughout the quarter as producers increased discounts to move product and given increased imports from South America. Although plywood production declined -0.8% year-over-year, imports spiked 60.6% year-over-year in Q3 negatively impacting prices. US OSB exports increased 30.8% year-over-year while US plywood exports increased 22.7% year-over-year in Q3.

Figure 6. US Framing Lumber Index and Panel Composite Index. Source: Random Lengths.

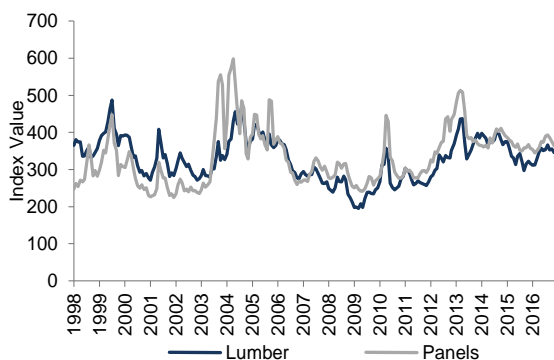
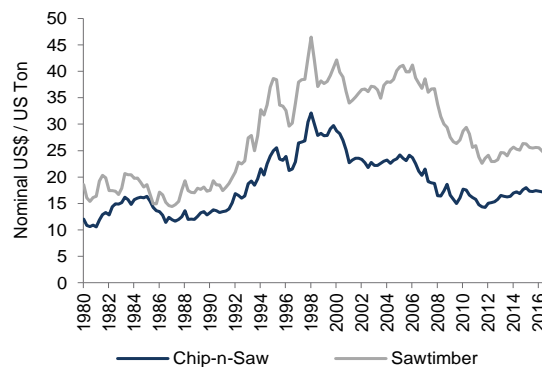


Figure 7. US Southwide Quarterly Pine Chip-n-Saw and Sawtimber Prices. Source: Timber Mart-South.



Q3 US log exports increased 21.7% year-over-year driven by a significant improvement in China (+62.2% year-over-year) while US lumber exports increased 5.1% year-over-year.

Southwide, pine sawtimber prices declined -0.7% in Q4 and -5.7% year-over-year according to Timber Mart-South. Chip-n-saw performed similarly, declining -1.0% sequentially in Q4 and -3.1% year-over-year. Significantly drier weather conditions during Q4 were again responsible for increasing timber availability and depressing prices.

Southern hardwood sawtimber prices were mixed during Q4. Region-wide, mixed hardwood prices declined -2.4% for the quarter, but increased 5.5% year-over-year. Oak sawtimber prices increased 0.1% quarter-over-quarter and 3.6% year-over-year (Figure 8).

During Q4, there were a number of announcements pointing to future US mill investment. In Alabama, the governor announced that Two Rivers Lumber Co. plans to invest US\$ 65 million to build a state-of-the-art sawmill in Demopolis with annual capacity of 200 million board feet (mmbf). Construction is slated to begin in January 2017 with mill production expected to begin in September 2017. Canadian sawmiller Conifex noted that it intends to modernize and restart its idled El Dorado, Arkansas sawmill by September 2017. The company cited that the mill is located in a premier timber-growing region with plentiful log supplies in proximity to its mill. The company intends to build out the sawmill in two phases.

Upon completion of Phase 1, production capacity will be around 180mmbf and in Phase 2, production capacity will increase to 240mmbf. The mill is presently permitted to produce 300mmbf. Moreover, Huber Engineered Woods plans to reopen its idled OSB mill in Spring City, TN in 2018. The mill was idled in 2011 and has the ability to produce around 350 million square feet (mmsf) of OSB. During the quarter, Weyerhaeuser announced that it completed the sale of its Cellulose Fibers mill to International Paper for US\$ 2.2 billion in cash while Sun Paper is proceeding with its new pulp mill in Arkansas, which now appears to be targeting production of dissolving pulp and not fluff pulp as originally planned. Verso announced that it plans to temporarily idle 200k tons of annual coated paper production capacity at its Androscoggin mill in Maine beginning in Q117.

Figure 8. US Southwide Quarterly Mixed Hardwood and Mixed Oak Sawtimber Prices. Source: Timber Mart-South.

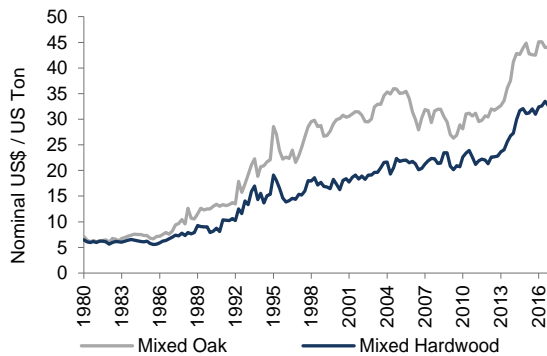
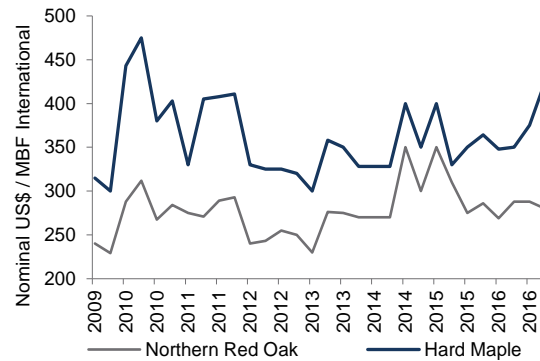


Figure 9. Quarterly Northern Red Oak and Hard Maple Sawtimber Prices in New York. Source: Forest2Market.



In other timber markets, prices were mixed during the quarter. In New York's Adirondack region, northern red oak declined -2.8% quarter-over-quarter and -2.1% year-over-year (Figure 9). Hard maple increased 13.3% in Q4 and 16.8% year-over-year. In Ohio, red oak declined -12.8% compared to Q3 and was down -10.7% year-over-year. Hard maple was flat during the quarter, but declined -2.8% year-over-year. White oak declined -22.7% sequentially and -36.9% year-over-year.

In Wisconsin, northern red oak declined -0.7% quarter-over-quarter in Q4 (Figure 11) and -7.4% year-over-year. Hard maple declined -1.3% for the quarter, but increased 3.5% year-over-year. Yellow birch sawtimber increased 3.2% in Q4 and 19.5% year-over-year.

In Oregon, softwood sawlog prices increased. The price of Douglas-fir #2 increased 3.2% sequentially and 5.7% year-over-year (Figure 12). As of November 2016 (latest data available), Douglas-fir remains -12.9% below its 2014 peak. The price of Whitewood #2 logs increased 12.6% for the quarter and 6.3% year-over-year. As of November 2016, Whitewoods are still down -17.6% from their peak. In September 2016 (the latest available data), total softwood log exports to China increased 146.7% year-over-year to 105.87mmbf from 42.92mmbf in September 2015, while softwood log exports to Japan increased 21.9% year-over-year to 43.97mmbf from 36.06mmbf in September 2015.

Figure 10. Ohio Northern Red Oak, Hard Maple, and White Oak Sawtimber Prices in Ohio. Source: Forest2Market.

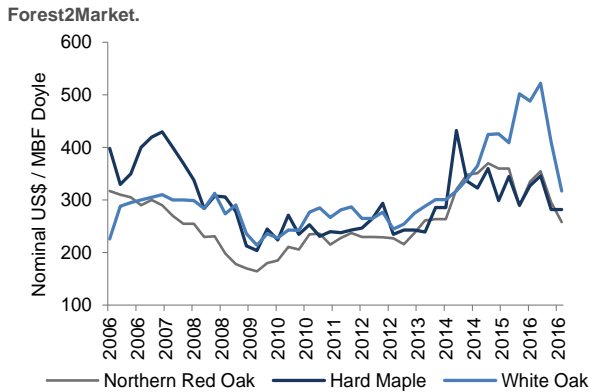


Figure 11. Northern Red Oak, Hard Maple, and Yellow Birch Sawtimber Prices in Wisconsin. Source: Steigerwaldt and Burns.

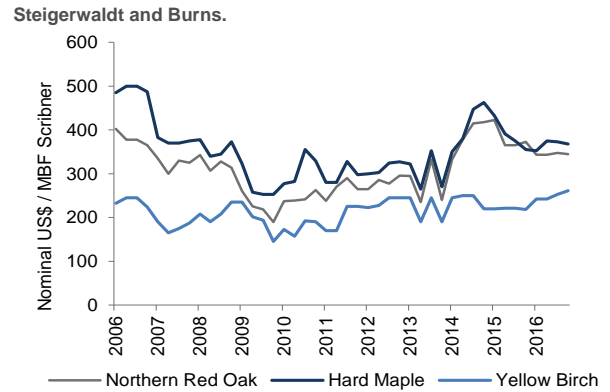
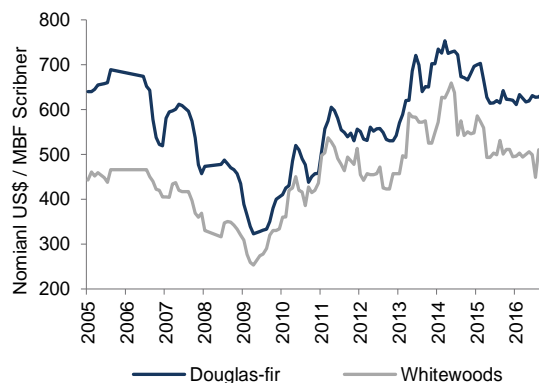


Figure 12. Monthly Columbia River #2 Douglas-fir and Mixed Whitewood Log Prices. Source: Log Lines.



TIG's regional asset managers regularly report on local situations that impact wood pricing in their operating areas. In South Carolina, North Carolina and Florida, mills and dealers have well-stocked inventories, which contributed to price softness. Moreover, prices in south Georgia and north Florida were negatively impacted by excess timber supply as timber owners were forced to cut southern pine beetle infected wood. In east Texas, Arkansas, central and southern Alabama, and the western Panhandle, pricing was negatively impacted by elevated inventories and dry weather which allowed for increased harvesting. In Virginia, Tennessee, Kentucky, New York, Ohio, and Wisconsin, conditions are similar with mills appearing to have relatively full wood yards. In Wisconsin, Tennessee, and Kentucky, hardwood prices also moved lower. Separately, timber prices in western Tennessee and central Wisconsin continue to be under pressure from mill closures / restructured fiber supply agreements at Verso's Wickliffe, Kentucky and Wisconsin Rapids, Wisconsin mills, respectively.

US Softwood Lumber Coalition

Separately, the US Lumber Coalition announced that it filed a petition with the US Department of Commerce (US DOC) and the US International Trade Commission (US ITC) to investigate the subsidization and dumping of Canadian lumber in the US market and to launch litigation against the Canadian federal and provincial governments and Canadian forest companies exporting softwood



lumber to the US. Under the antidumping (ADD) and countervailing duty (CVD) statutes, the US DOC and the US ITC will have up to 14 months to determine whether trade laws have been violated, US producers have been harmed, and if duties should be levied.

Latin America

Brazilian economy

Brazil's economy continues to be in a recession, with real GDP down -0.8% quarter-over-quarter in Q3 (-2.9% year-over-year) due to weakness in industry (all industries contracted on a quarter-over-quarter basis except mining), investments, and private consumption (given still deteriorating labor and credit markets). On an annualized basis, the economy has contracted for ten consecutive quarters (though the rate of decline has been improving over the last four quarters). BTG Pactual's Brazilian Economics team currently expects 2016 real GDP of -3.4% year-over-year as the economy continues to undergo adjustments arising from the current recession.

As part of this economic weakness, industrial production declined -7.3% year-over-year in October following a -4.7% year-over-year decline in September. Household consumption also continues to remain challenged falling -3.4% year-over-year in Q3 after declining -4.8% year-over-year in Q2. This weakness is partially driven by rising unemployment which increased to 11.8% in September from 11.3% in June.

That said, inflation (Índice de Preços ao Consumidor Amplo - IPCA), which had served as a headwind to household consumption, has started to improve declining to 6.29% in December, the lowest reading since 2014, from 8.48% in September (Figure 13). Real rates have also started moving lower as evidenced by declining Treasury inflation protected bond yields (Figure 15). Meantime, in January, Brazil's central bank again cut the Selic rate, this time by 75bps to 13% following two 25bps cuts in November and October as inflation has slowed and the government looks to spur economic growth.

Separately, the Brazilian real appreciated in 2016, negatively impacting exports. In Q3, the real appreciated around 7.2% sequentially and was up nearly 18% for the entire year. This comes after two years of currency weakness which benefited Brazilian economic growth by making exports more attractive. As a result, exports declined -2.8% sequentially in Q3 following a -1.8% quarter-over-quarter decline in Q2. Imports declined -3.1% sequentially in Q3 after increasing for the first time in a year in Q2.

Ongoing scandals continue to consume Brazilian domestic politics. In October, police detained Eduardo Cunha, the former speaker of Brazil's lower house of Congress who led the drive to impeach former President Dilma Rousseff, as part of a massive corruption probe including money laundering, corruption and tax evasion. In November, both Marcelo Calero, minister of culture, and Geddel Vieira Lima, minister in charge of relations with Congress, resigned following accusations that Geddel and President Michel Temer had pressured Marcelo to approve a real estate project. Meantime, several executives at the conglomerate Odebrecht entered into plea bargains with the government in late December and there is the potential for those depositions to be released by the Supreme Court, which could implicate additional politicians in Operation Car Wash (Lava Jato).

That said, the government is progressing with economic reforms. In December, Brazilian senators passed a 20-year public spending ceiling proposed by President Michel Temer to control an increasing budget deficit. Previously, the Lower House had voted in favor of the spending cap. President Temer intends to follow this by reforming Brazil's pension system primarily (which has no mandatory retirement

age and different rules for public sector and private sector workers) by homogenizing rules and requiring Brazilians to work more years before becoming eligible for full retirement benefits.

Figure 13. Brazilian SELIC Rate and Annualized IPCA Index. Source: Banco Central do Brasil, Brazilian Institute of Geography and Economics.

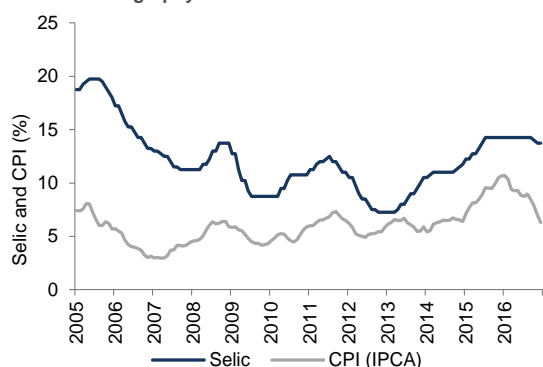


Figure 14. US Dollar: Brazilian Real Daily Exchange Rates. Source: Board of Governors of the US Federal Reserve System.



Figure 15. Brazilian Treasury Inflation Protected Bond Yield.

Source: Brazil National Treasury.



Brazilian forest products and timber markets

The price of pine timber in Brazil was mixed depending on assortment. Through the end of October, pulpwood (8-18 cm) in Parana State declined -0.8% quarter-over-quarter, but increased 1.2% year-over-year in local currency terms. Small sawtimber (18-25 cm) slightly declined -0.2% quarter-over-quarter, but increased 3.3% year-over-year and large-diameter sawtimber (25-35 cm) gained 0.4% quarter-over-quarter and 6.9% year-over-year. Veneer logs (+35 cm), used primarily for export-oriented softwood plywood, increased by 0.9% quarter-over-quarter and 4.1% year-over-year (Figure 16). Nevertheless, these price increases have not kept up with inflation of 6.29%.

The price of larger diameter sawtimber continues to be driven by exports. In particular, a high proportion of large-diameter plywood and lumber is exported. In Q3 (latest available data), Brazilian plywood exports to the US increased 124.9% year-over-year while Brazilian lumber exports to the US increased

52.2% year-over-year. Interestingly, log prices still managed to increase in Q3 despite a 7.2% appreciation in the real as the increase in US wood products demand more than offset the currency appreciation.

The global steel sector remains weak due to excess steel capacity and slower Chinese demand. This continues to negatively impact industrial wood charcoal (Figure 17, left axis), which is used to produce pig iron which in turn is used to make steel. Although charcoal prices have recovered from their recent lows, they remain challenged. In Q4, charcoal prices in Minas Gerais declined -5.5% quarter-over-quarter, but were up 6.6% year-over-year. Charcoal pricing is normally reflected in the price of eucalyptus stumpage (Figure 17, right axis). In Q4, Minas Gerais eucalyptus prices declined -2.5% quarter-over-quarter and -4.1% year-over-year.

Moreover, the price of pine resin, a secondary product that can be collected from pine plantations between harvests, and which is used in the production of synthetic rubber, glues, adhesives, printer inks, etc., increased during Q4. Mixed tropical pine resin increased 2.1% quarter-over-quarter while slash pine resin increased 2.0% quarter-over-quarter.

Figure 16. Pine Sawtimber Stumpage Prices in Paraná State, Brazil. Source: STCP. (STCP changed log diameters to 8-18 cm from 8-15 cm and 18-25 cm from 15-25 cm so revised historical data only extend back to 2014)

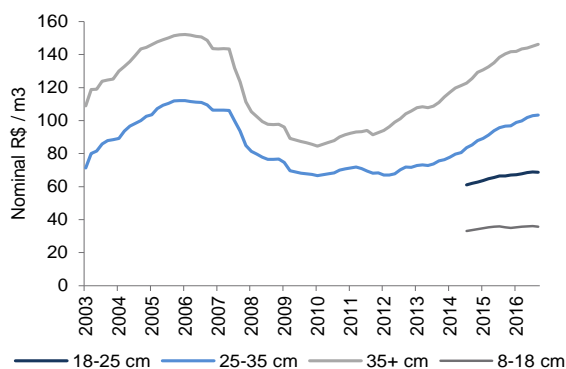
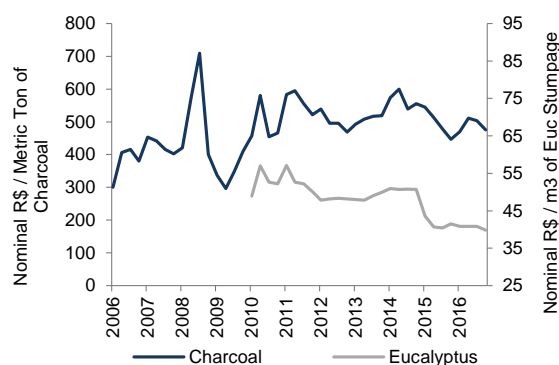


Figure 17. Charcoal and Eucalyptus Stumpage Prices in Minas Gerais, Brazil. Sources: Associação Mineira de Sivicultura; Poyry Silviconsult.



Uruguay

Uruguayan real GDP increased 2.0% year-over-year in Q3 versus 1.5% year-over-year in Q2. The agriculture, cattle raising, hunting & silviculture sectors increased 2.9% year-over-year while the transportation, storage & communications sectors increased 8.6% year-over-year. Construction was the weakest sector declining -3.9% year-over-year. Gross fixed capital formation increased 5.2% year-over-year in Q3 versus 23.5% year-over-year in Q2 while household spending increased 0.7% year-over-year versus 0.6% year-over-year in Q2. Exports increased 1.2% year-over-year versus a decline of -7.4% year-over-year in Q2 while imports slightly declined -0.2% year-over-year versus growth of 2.2% year-over-year in Q2. During Q3, the Uruguayan peso depreciated around -3.3% year-over-year, but appreciated 6.4% quarter-over-quarter.

During Q4, Weyerhaeuser announced that it is exploring strategic alternatives for its timberlands and manufacturing operations in Uruguay. The operations include over 300,000 acres (120,000 hectares) of timberlands in northeastern and north central Uruguay, as well as a plywood and veneer manufacturing facility, a cogeneration facility, and a seedling nursery.

Chile

Chile's economy continued to grow. In Q3, Chilean real GDP increased 1.6% on an annual basis versus growth of 1.6% on an annual basis in Q2. Fishing grew 5.2% year-over-year while transportation grew 5.0% year-over-year. Even the mining sector showed some improvement with a decline of -0.8% year-over-year versus -5.4% year-over-year in Q2 and -2.0% year-over-year in Q1. That said, utilities were particularly weak declining -3.7% year-over-year after strong growth the last several quarters. Gross fixed capital formation declined -1.2% year-over-year, government spending increased 6.9% year-over-year, and consumer spending increased 2.0% year-over-year. Exports increased around 0.5% year-over-year following growth of 0.9% year-over-year in Q2 while imports declined -1.4% year-over-year after increasing 0.2% year-over-year in Q2. The increase in exports occurred despite a 2.2% year-over-year appreciation in the Chilean peso versus the US dollar in Q3.

Argentina

Argentina's real GDP worsened in Q3 with GDP declining -3.8% on an annual basis versus -3.7% year-over-year in Q2 and growth of 0.6% year-over-year in Q1. This is the result of a reduction of -3.1% year-over-year in private consumption, a decrease of -2.5% year-over-year in exports and a collapse of -8.3% year-over-year in investments, mainly reflecting the free fall of construction activity, which plummeted -12.9% year-over-year in Q3 after falling -15.4% year-over-year in the previous quarter and -5.8% year-over-year in Q1. During Q3, the Argentinian peso depreciated -61.7% year-over-year (but appreciated 5.1% sequentially) against the US dollar.

On the political front, in late December, former President Cristina Fernández de Kirchner was charged with corruption related to favoring certain construction companies in the concession of contracts for public projects. Separately, current Argentine President Mauricio Macri asked Finance Minister Alfonso Prat-Gay to step down given slow economic growth and excessively high inflation. The ministry now has a treasury division, led by economist Nicolas Dujovne, and a finance division, led by current finance secretary Luis Caputo, who had reported to Prat-Gay. Moreover, Argentina's Senate and lower house both approved an income tax reform bill which raises the thresholds at which people pay higher income tax.

In the meantime, Argentina met its US\$ 20 billion tax amnesty target in November, four months earlier than planned. Argentines declaring funds can choose to either pay a 15% fine (as of January), or buy into government bonds and closed-end mutual funds to finance investment in the local economy. Ultimately Argentina is looking to capture revenue from an estimated US\$ 400 billion in offshore assets held by Argentinians. In January, President Macri reached an agreement with state oil company YPF SA, Total SA, Pan American Energy, Chevron Corp, Royal Dutch Shell Plc and Dow Chemical Co to invest US\$ 5 billion in the Vaca Muerta deposit (second biggest shale oil and gas deposit in the world) after the Neuquen province said it won't raise taxes and workers conceded benefits that will bring down labor costs.

Guatemala

Guatemalan real GDP improved in Q2 (latest available data) rising 3.4% year-over-year versus 2.9% year-over-year growth in Q1. Manufacturing industries, mining & quarrying, agriculture, silviculture, fishing & cattle raising, electricity supply & water collection, and public administration & defense all improved versus the prior quarter. Exports declined -1.9% year-over-year in Q2 versus -2.1% year-over-year in Q1 while imports increased 0.5% year-over-year in Q2 versus 5.0% year-over-year in Q1. During Q2, the Guatemalan quetzal appreciated around 0.1% year-over-year and was flat quarter-over-quarter.

On the political front, Gudy Rivera, former leader of Congress, was convicted of trying to bribe a judge to issue a ruling favoring Roxana Baldetti, former vice president, who is also accused of corruption.

Europe

In the euro zone, Q3 real GDP increased 0.3% quarter-over-quarter as compared to 0.3% quarter-over-quarter growth in Q2. Year-over-year, real GDP increased 1.7%. On an individual country basis, growth slowed in Germany (the largest regional economy) and Spain (the fourth largest economy), but increased in France (the second largest economy) and Italy (the third largest economy).

Gross fixed capital formation was a headwind in Q3 with growth of 0.2% quarter-over-quarter versus growth of 1.2% quarter-over-quarter in Q2. Personal consumption and government spending, which grew 0.3% quarter-over-quarter and 0.5% quarter-over-quarter, respectively, were better than the prior quarter. Unemployment declined to 9.8% in October from 9.9% in September and 10.1% in June.

Industrial production declined -0.1% month-over-month in October after declining -0.9% month-over-month in September and growing 0.8% month-over-month in June. This slight decline is due to the production of non-durable consumer goods declining -1.5% month-over-month and intermediate goods declining -0.5% month-over-month, partially offset by energy increasing 0.8% month-over-month, capital goods increasing 1.0% month-over-month, and durable consumer goods increasing 1.5% month-over-month.

December's Composite Purchasing Manager's Index increased to 54.4, better than November's 53.9 reading and September's 52.6 reading and indicative of a more robust pace of expansion. Manufacturing led the growth improvement with production increasing at the quickest pace since April 2014. Service sector activity also rose strongly with the rate of increase staying close to November's 11-month high. Price pressures continued to accelerate as evidenced by both finished product prices and rising input costs.

European export markets remain soft. In October (latest month reported), exports declined -5.0% year-over-year while imports declined -3.0% year-over-year, resulting in a euro zone trade surplus of €20.1 billion, down -13.4% year-over-year.

On the political front in Hungary and the Baltics, where TIG manages timberland, Hungarian citizens voted in early October to reject a European Union referendum mandating migrant resettlement. That said, lawmakers in Hungary rejected a proposed national ban on refugees relocated from the rest of the European Union, essentially disallowing the October referendum. Separately, in November, the Hungarian government decided to lower the corporate tax rate in 2017 to one bracket of 9% versus the prior structure of two brackets of 10% and 19% in order to improve growth. This is now the lowest corporate tax rate in the European Union.

Meanwhile, in November, Estonia's government collapsed after Prime Minister Taavi Rõivas lost a confidence vote in parliament based on divergent views over taxes and the state of the economy. Juri Ratas from the Center Party was chosen to lead a new coalition. In Lithuania, a small centrist agrarian party, Peasant and Green Union, won control of parliament in October and were sworn into power in December.

Estonian forest products and timber markets

Despite slower European economic growth, sawlog prices nevertheless improved during the last few months. In Estonia, pine sawlog prices (latest data available November 2016) increased 2.6% from three months earlier and were flat year-over-year. Birch sawlog prices increased 3.9% from three months earlier and year-over-year (Figure 18).

Estonian pulpwood prices were mixed with divergence based upon species group. Pine pulpwood prices (latest data available November 2016) increased 1.9% from three months earlier, but declined -6.6% year-over-year. Birch pulpwood prices declined -1.5% from three months earlier, but increased 3.5% year-over-year (Figure 19). Since Estonia has no pulp mills that consume virgin fiber, the country's pulpwood output is either shipped to producers elsewhere in northern Europe (mostly Scandinavia), consumed domestically as fuelwood, or in the past several years increasingly converted to wood pellets for domestic markets or export. That said, there are initial discussions around building a new pulp mill that would produce cellulose, hemicellulose and lignin which would then be converted into various end products. These plans call for the mill to have capacity of 700,000 MT per year and consume around 3 million cubic meters (m³) of timber / year.

Figure 18. Estonia Sawlog Prices (Nominal €/ m³).

Source: RMK (Estonia State Forest Agency).

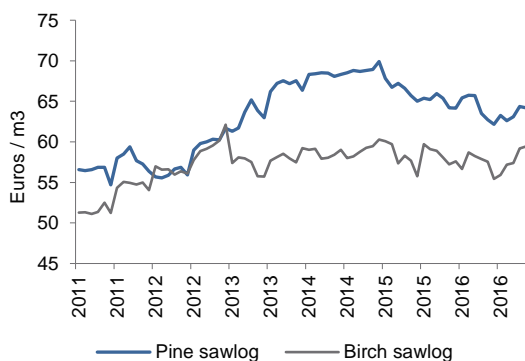
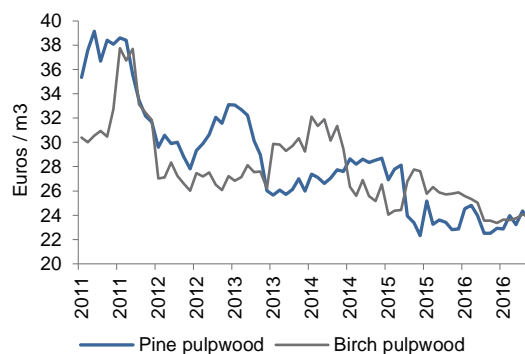


Figure 19. Estonia Pulpwood Prices (Nominal €/ m³). Source: RMK (Estonia State Forest Agency).



South Africa

In Q3, South Africa's economy slowed versus the prior quarter with real GDP growing a modest 0.2% quarter-over-quarter versus growth of 3.5% quarter-over-quarter in Q2. The main contributors to the GDP growth rate were agriculture, forestry and fishing (-0.3% quarter-over-quarter); manufacturing (-3.2% quarter-over-quarter); electricity, gas and water (-2.9% quarter-over-quarter); and trade, catering and accommodation (-2.1% quarter-over-quarter). The agriculture, forestry and fishing industry has now been in decline for seven consecutive quarters. This was partially offset by mining and quarrying which increased by 5.1% quarter-over-quarter.

On the political front, in early November, South Africa's parliament defeated an opposition motion of no confidence by the Democratic Alliance to remove President Jacob Zuma because of a series of scandals, including possible government corruption linked to the president and his associates. President Zuma is also contesting a directive from the country's former graft ombudsman that the chief justice appoint a judicial commission to investigate whether he allowed members of the Gupta family, who are his friends and in business with his son, to influence cabinet appointments and the awarding of state contracts.

South African forest products and timber markets

In November, lumber prices gained 2.5% versus the prior three months and were up 11.1% from November 2015, as measured by the South African Lumber Index, a composite price series (Figure 21).

Softwood log prices were also positive (Figure 22). Sawlogs in South Africa are categorized into four diameter classes including A, B, C or D grades, with A grade logs being the smallest and D grade logs being the largest. In nominal terms in Q3 (latest data available): A grade logs increased 1.3% for the quarter and 5.0% year-over-year, B grade logs increased 1.4% for the quarter and 7.7% year-over-year, C grade logs rose 0.2% for the quarter and 8.4% year-over-year, and D grade logs gained 1.2% for the quarter and 10.3% year-over-year.

While some of the aforementioned price gains seem steep, it is worth noting that annual inflation in South Africa is around 6.6%, so in real terms most of the gains are less notable. Further, the rand depreciated around -8.2% year-over-year against the US dollar in Q3, meaning that the aforementioned year-over-year real price changes are negative in dollar terms.

Figure 20. Nominal South Africa Rand to US\$ Exchange Rate. Source: Federal Reserve Bank of St. Louis.



Figure 21. South Africa Lumber Index. Source: Crickmay and Associates.

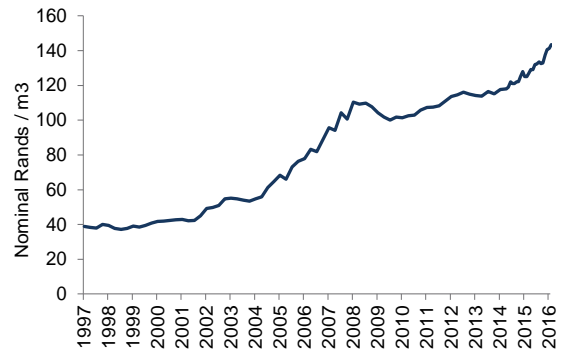
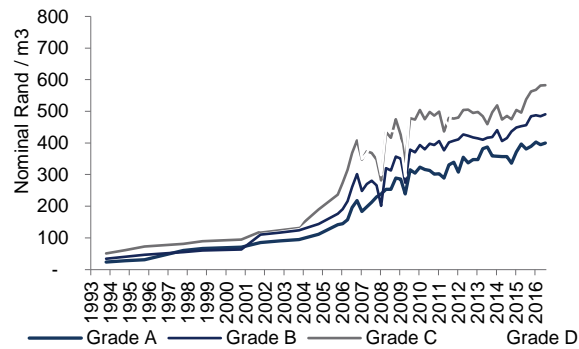


Figure 22. South Africa Pine Sawlog Prices.

Source: Crickmay and Associates.



Global Pulp and Paper Markets

The pulp and paper sectors are a major component of the global forest economy. In countries such as Brazil, Chile, Uruguay and South Africa they constitute the largest segment of the domestic forest sector. The same is true in Asian economies like China and Indonesia. Even in mature regions like North America and Europe, pulp and paper represent the largest single component of the forestry sector.

During Q4, the price of Bleached Softwood Kraft Pulp (BSK) to Europe, a bellwether of the pulp and paper sector, averaged around US\$ 809/MT, slightly down -0.3% versus the prior quarter and down -1.2% year-over-year (Figure 23). BSK includes both Northern and Southern Bleached Kraft grades (NBSK and SBSK, respectively).

During the quarter, pricing was supported by strong viscose pulp demand which encouraged production at swing wood pulp mills to target viscose pulp rather than papergrade pulp (BSK). That said, the softwood market remains excess capacitated as over 1.0 million MT of new SBSK/fluff capacity continues to ramp up at three new or repurposed pulp lines. Barring any mill closures from International Paper following its recent acquisition of Weyerhaeuser's fluff pulp business, there is the risk that softwood pulp prices could more meaningfully decline in 2017.

Bleached Hardwood Kraft (BHK) prices to Europe, a benchmark, fell -2.4% quarter-over-quarter and -18.3% year-over-year in Q4, averaging around US\$ 655/MT as prices continue to adjust to the levels China reached several months ago (European hardwood prices tend to follow Chinese prices). Overall, European prices remain challenged given elevated global inventories at 47 days of supply, eight days above the 10-yr average of 39 days.

That said, demand conditions in China appear to have improved over the last several months. This likely has been driven by a delay in the start-up of APP's Oki mill (2.8 million MT) which has caused consumers to scramble for hardwood pulp and seasonal buying ahead of the upcoming Chinese New Year. In November, pulp shipments to China increased 14.8% year-over-year (8.4% month-over-month) as reported by the Pulp and Paper Products Council (PPPC) while bleached hardwood kraft pulp imports increased 24.0% year-over-year (29.8% month-over-month) as reported by China Customs. Nevertheless, there is concern that Chinese hardwood pulp prices could rollover once the APP mill begins commercial production of hardwood pulp in early/mid-2017 and given the start-up of Fibria's Tres Lagoas II mill late next year.

Figure 23. Global BSK and BHK Pulp. Source: FOEX.

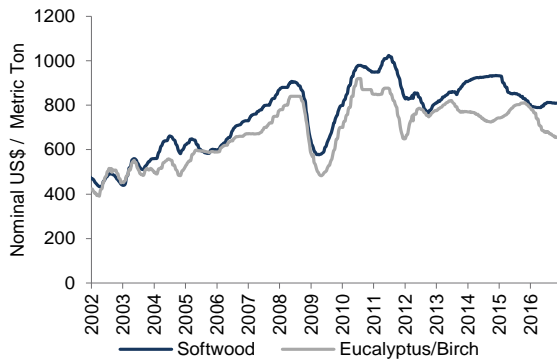


Figure 24. US Southwide Quarterly Mixed Hardwood and Mixed Pine Pulpwood Prices.

Source: Timber Mart-South.

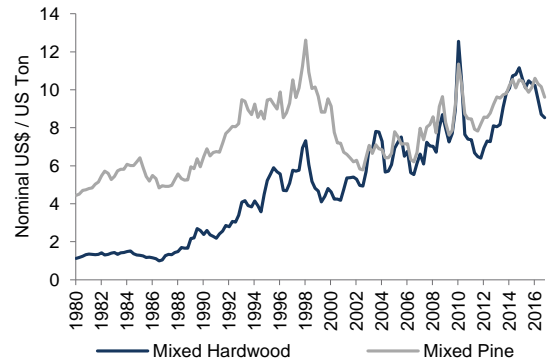


Figure 25. Brazil Eucalyptus Pulpwood (8-18 cm) Stumpage Prices. Source: STCP (STCP changed log diameters to 8-18 cm from 8-15 cm so revised historical data only extend back to 2014)

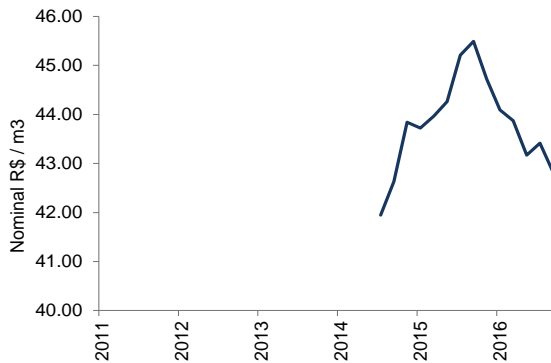
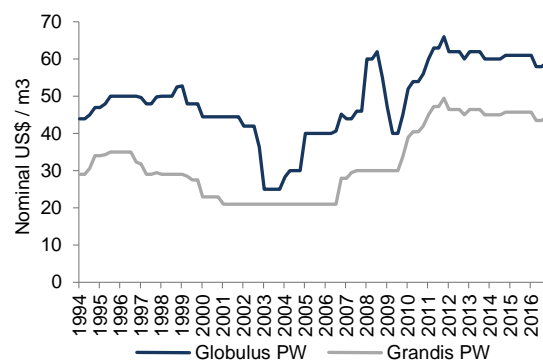


Figure 26. Uruguay E. globulus and E. grandis Pulpwood Prices (Nominal US\$ / m³). Source: Litenco.



In Brazil, eucalyptus pulpwood prices declined -1.4% quarter-over-quarter (ended October) and -5.9% year-over-year on a countrywide basis (Figure 25). In Uruguay, both *E. globulus* and *E. grandis* pulpwood prices increased 1.7% quarter-over-quarter, but declined -3.3% year-over-year in Q4 (Figure 26). In the US South, hardwood pulpwood prices declined -2.1% in Q4 and -17.3% year-over-year while pine pulpwood prices declined -5.6% quarter-over-quarter and -5.0% year-over-year (Figure 24).



Disclaimer

Important Information

This document is being furnished by BTG Pactual Asset Management US, LLC and BTG Pactual Timberland Investment Group, LLC (collectively hereto "BTG Pactual" or the "Manager", as applicable) and the information contained herein does not constitute an offer to sell or the solicitation of an offer to purchase any security or investment product. Any such offer or solicitation may only be made by means of delivery of an approved confidential offering memorandum and only in those jurisdictions where permitted by law. Prospective investors should inform themselves and take appropriate advice as to any applicable legal requirements and any applicable taxation and exchange control regulations in the countries of their citizenship, residence or domicile which might be relevant to the subscription, purchase, holding, exchange, redemption or disposal of any investments. The information contained herein does not take into account the particular investment objectives or financial circumstances of any specific person who may receive it. Before making an investment, prospective investors are advised to thoroughly and carefully review the offering memorandum with their financial, legal and tax advisers to determine whether an investment such as this is suitable for them.

There is no guarantee that the investment objectives of the any Manager Funds of separate accounts (collectively, "Manager Funds") will be achieved. No statement herein supersedes any statement to the contrary in the Manager Funds' confidential offering documents. All information contained herein is confidential. This document may not be reproduced or copied without the prior written consent of the Manager. This document is subject to revision at any time and the Manager is not obligated to inform you of any changes made.

There is no secondary market for interests and none is expected to develop. You should not make an investment unless you have a long term holding objective and are prepared to lose all or a substantial portion of your investment. An investment in the Manager Funds is speculative and involves a high degree of risk.

Opportunities for withdrawal and transferability of interests are restricted. As a result, investors may not have access to capital except according to the terms of withdrawal specified within the confidential offering memorandum and other related documents. The fees and expenses that will be charged by the Funds and/or its Manager may be higher than the fees and expenses of other investment alternatives and may offset profits.

With respect to the present document and/or its attachments, the Manager makes no warranty or representation, whether express or implied, and assumes no legal liability for the accuracy, completeness or usefulness of any information disclosed. Certain information is based on data provided by third-party sources and, although believed to be reliable, it has not been independently verified and its accuracy or completeness cannot be guaranteed and should not be relied upon as such. Performance information and/or results, unless otherwise indicated, are un-audited and their appearance in this document reflects the estimated returns net of all expenses, including the management and performance fees similar to those of the Fund. Investment return and the principal value of an investment will fluctuate and may be quite volatile. In addition to exposure to adverse market conditions,



investments may also be exposed to changes in regulations, change in providers of capital and other service providers.

The Manager does not accept any responsibility or liability whatsoever caused by any action taken in reliance upon this document and/or its attachments. Any Manager Funds described herein have not been registered under the Investment Company Act of 1940, as amended, and the interests therein have not been registered under the Securities Act of 1933, as amended (the "1933 Act"), or in any state or foreign securities laws. These interests will be offered and sold only to "Accredited Investors" and "Qualified Clients" as such terms are defined under federal securities laws. By accepting this document and/or attachments, you agree that you or the entity that you represent meet all investor qualifications in the jurisdiction(s) where you are subject to the statutory regulations related to the investment in the type of fund described in this document. The Manager assumes that by acceptance of this document and/or attachments that the recipient understands the risks involved – including the loss of some or all of any investment that the recipient or the entity that he/she represents. An investment in the Manager Funds is not suitable for all investors.

Investment Performance

The performance representations contained herein are not representations that such performance will continue in the future or that any investment scenario or performance will even be similar to such or description. Any investment described herein is an example only and is not a representation that the same or even similar investment scenarios will arise in the future or that investments made will be profitable. No representation is being made that any investment will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between prior performance results and actual Manager Funds results achieved by a particular trading program.

This material is for informational purposes only. Any opinions expressed herein represent current opinions only and while the information contained herein is from sources believed reliable there is no representation that it is accurate or complete and it should not be relied upon as such. The Manager accepts no liability for loss arising from the use of this material. Federal and state securities laws, however, impose liabilities under certain circumstances on persons who act in good faith and nothing herein shall in any way constitute a waiver or limitation of any rights that a client may have under federal or state securities laws.

Certain information contained in this material constitutes forward-looking statements, which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "target," "project," "estimate," "intend," "continue," or "believe," or the negatives thereof or other variations thereon or comparable terminology. Such statements are not guarantees of future performance or activities. Due to various risks and uncertainties, actual events or results or the actual performance of the Manager Funds described herein may differ materially from those reflected or contemplated in such forward-looking statements.

The Manager Funds' proposed investment program involves substantial risk, including the loss of principal, and no assurance can be given that the Funds' investment objectives will be achieved. Among other things, the practices of short selling, private placement investing and other investment techniques as described herein can, in certain circumstances, maximize the adverse impact to which the Funds'



investment portfolio may be subject. All investments involve risk including the loss of principal. Trading guidelines and objectives may vary depending on market conditions. The Funds may also use varying degrees of leverage and the use of leverage can lead to large losses as well as large gains.

Restriction on Distribution

The distribution of this Presentation and the offering of Shares may be restricted in certain jurisdictions. The above information is for general guidance only, and it is the responsibility of any person or persons in possession of this Presentation and wishing to make application for Shares to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for Shares should inform themselves as to legal requirements also applying and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

This Presentation does not constitute an offer or solicitation to any person in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it would be unlawful to make such offer or solicitation. This Presentation has been prepared solely for the information of the person to whom it has been delivered by or on behalf of the Fund, and should not be reproduced or used for any other purpose.

This document is provided for information purposes only, is confidential and is intended solely for the use of the individual or entity to whom it is addressed. It is not intended as an offer or solicitation for the purchase or sale of any security or as an official confirmation of any transaction and may not be relied upon in connection with the purchase or sale of any security. The information in this document is the property of BTG Pactual. Any opinions expressed herein represent current opinions only and while the information contained herein is from sources believed reliable there is no representation that it is accurate or complete and it should not be relied upon as such. Federal and state securities laws, however, impose liabilities under certain circumstances on persons who act in good faith and nothing herein shall in any way constitute a waiver or limitation of any rights that a client may have under federal or state securities laws. Reproduction or transcription of this document by any means, in whole or in part, without the prior written consent of BTG Pactual is prohibited. If you are not the intended recipient of this document, you are notified that disclosing, copying, distributing or taking any action in reliance on the contents of this document is strictly prohibited.

Contact

BTG Pactual Timberland Investment Group, LLC

1180 Peachtree Road NE

Suite 1810

Atlanta, GA 30309

Phone: +1 (404) 551-4023

BTGPactual.TimberlandResearchDistrib@btgpactual.com

