



March 31, 2020

Dear Timberland Investor:

It goes without saying that we hope you are safe and healthy during these exceptional circumstances.

While we normally publish our quarterly timberland market research ~30 days after quarter-end, and our clients receive detailed performance reports an additional 15 days later, we thought it would be helpful to share some thoughts as we come to the close of Q1, 2020, and this crisis continues to evolve. Our perspective is through the lens of managing our ~2.6 million acres of commercial timberland, primarily in the U.S. and Latam:

Macro

- We note that most of our conversations with clients and colleagues start with asking how everyone is doing, how they're being affected by the crisis and comparing our respective views of the world
- Logistics within the timberland sector remain key, with assets focused on exports (especially to Asia) being more challenged versus those with more localized demand
- We are hopeful that geographies with milder weather (often where timber is grown) could be less susceptible to the spread of this virus, in part, due to less population density
- We see interest rates staying low for the foreseeable future, which should support the case for owning alternative investments, especially income-producing real assets
- We are interested to see how the tension between commerce and public health policy evolves and how this could affect discount rates and risk
- Although in the short term the environment is benefiting from less emissions, lower economic activity is not a sustainable climate change mitigant, and we also see a risk that sustained lower fossil fuel prices could hamper incentives to further develop renewable energy technologies
- We're curious of what types of business model innovations might be borne out of this crisis, and how we can participate

Timberland Markets

- Many forest products professionals tend to be more deliberate and conservative, and in this regard, we find that many of our colleagues and counterparties are more willing to 'shelter in place' or be isolated out of concern for exposure
- We are in an 'essential industry', at least in the U.S. and Latam, and find that most market participants are trying to be as productive as possible during this challenging time
- The pulp and paper segment, in particular, is an essential industry, providing not only employment, but also a source of key products (i.e. pulp going into tissue products, masks; dissolving pulp being a key element of medical pills; packaging and boxes delivering various products throughout the supply chain)
- On the other hand, despite reports of increased economic activity in China, pulp inventories at ports are trending back towards the elevated levels seen in early 2019



- We are seeing administrative challenges at a local level with respect to courthouses, law firms and title companies not operating at full capacity, and consequently making it more difficult to close small land sales, execute financings, etc
- From an industrial perspective, we are starting to see reports of increased absenteeism and concerns for human health issues in the context of operating large industrial facilities:
 - We are seeing some differentiation in impacts based on end product type (i.e. more labor intensive lumber mills, versus more technologically-advanced pulp facilities with fewer, more dispersed employees)
 - In Latam specifically, activities that require transportation of large groups of people (i.e. for planting) are starting to be curtailed
- On the other hand, harvest and haul activities have largely not been affected to date, as they occur outdoors and with limited human interaction

Our Current Focus

- Our industry takes pride in focusing on worker safety, and this continues to be a top priority for our own employees and contractors alike
- Our 100+ member team is spread across 16 offices, near timberland assets, and in this regard, we feel fortunate to likely have less potential for human exposure to COVID-19
- Substantially all of our team is working from home, using Microsoft Teams, and we are also using a rotational schedule for staff members to go into the office to collect mail, etc
- On the operational side, we are re-assessing our 2020 budgets and stress-testing our assumptions, recognizing that we may need to re-evaluate them again later in the year
- We have very little debt (<10%) throughout our entire portfolio so most of our focus has been on operational, not financial, contingency planning
- On the acquisitions front, though we are very long-term oriented and in some cases plan to hold assets into perpetuity, we are re-evaluating key assumptions for transactions in our pipeline
- Reliable and accurate information is a key part of our business both for current assets and transactions in our pipeline – we're spending a lot of time on the phone sharing and receiving information with both internal and external parties

We hope you're safe and healthy. Please feel free to reach out if you'd like to talk or compare notes.

Sincerely,

BTG Pactual Timberland Investment Group