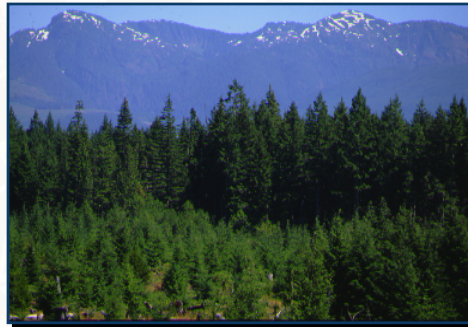


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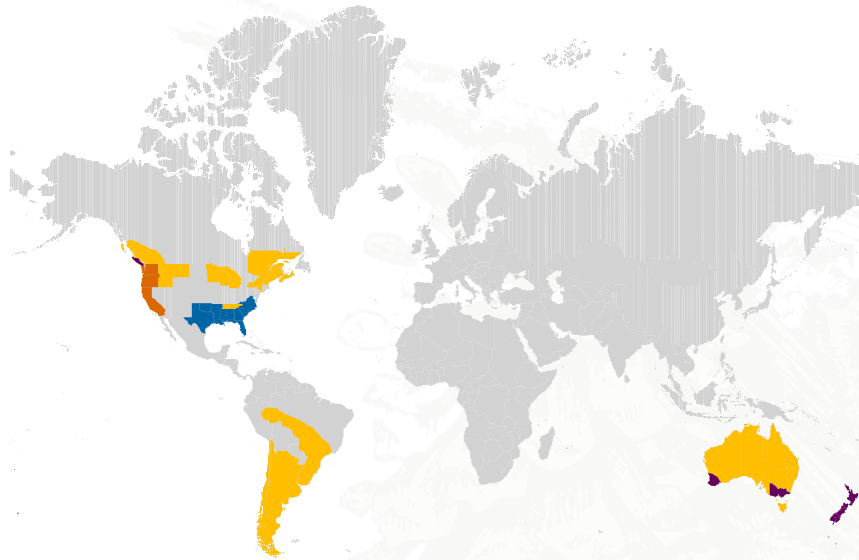
Views on Plantations



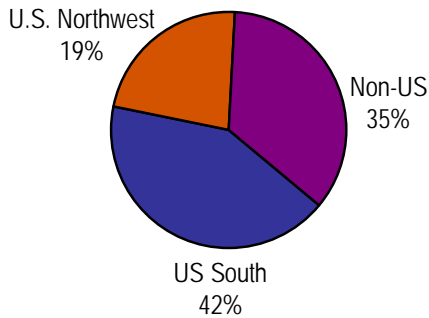
**Canadian Forest Service
Plantation Investment Forum
22 March 2005**

Clark S. Binkley, Ph.D.
Managing Director
Hancock Timber Resource Group

The Hancock Timber Resource Group



Current Investment Regions

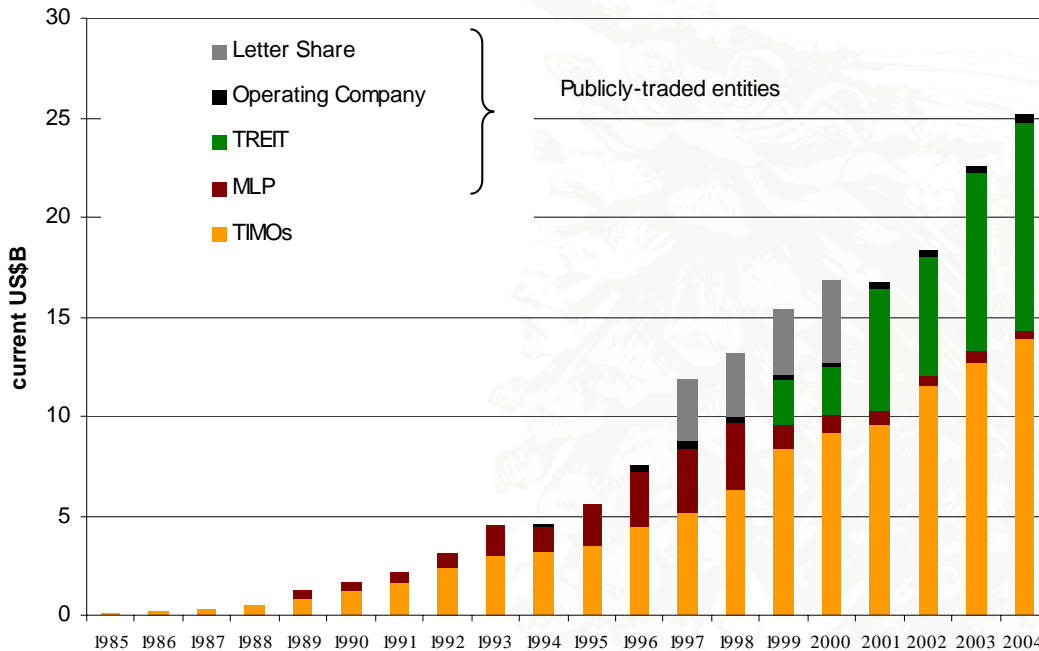


Targeted investment regions

- Founded in 1985; now a subsidiary of Manulife Financial Corporation
- About \$2.6 billion of timberland assets as of 12/31/04, “globally” diversified
- Strong focus on forest stewardship—certification; sensitive lands program
- All current investments are plantations—softwood and hardwood
- Industry-leading returns



Institutional Investment in Timberland



Source: HTRG Research. Do not copy without permission.

Notes: MLP = master limited partnership; TRET = timber real estate investment trust; Operating Company = "C" corporation.

- High risk-adjusted returns—15.3% since 1987 with 6.0% cash yield (NCREIF)
- Measured volatility less than that for large-cap equities—Sharpe ratio = 0.5
- Non-positive correlations with financial assets, real estate and other alternatives
- Positive correlation with inflation, especially unexpected inflation
- Low beta (<1/3); high alpha (> 800 bps)
- Investment opportunities associated with forest industry restructuring



Why Plantations?



- Acquire existing plantations to provide a modest level on ongoing cashflow
- Re-focus management to maximize long-term returns
 - Match trees with anticipated processing technology
 - Invest in genetics research
 - Spend money on silviculture (e.g. stand establishment, thinning, fertilization)
 - Capture the value of the embedded real option
- Returns driven by biological growth, not speculation on timber and timberland prices
- Technological progress = 3%/year?

Considerations and Issues

- Lots of institutional capital is available to invest in timberland (at least at the moment!)
- Investments must have a modest level of cashflow
 - Mix of mature and immature timber plus new-land planting
 - Early/forward sale of carbon sequestration credits
 - Public purchase of environmental services (water flows, transpiration, biodiversity credits)
 - Extend property rights to environmental services
- Some governmental actions are harmful
 - Planting subsidies are capitalized into land values: Increases risk and hurts forward-looking returns
 - Tax breaks shift the focus to high-bracket individuals and away from the large pools of relatively stable institutional capital
 - Tax breaks may create an aura of poor investment outlook
 - Governmental subsidies keep prices lower than they would otherwise be, discouraging private investment
- What about R&D?



