

The IPD UK Annual Forestry Index is calculated from a sample of private sector coniferous plantations of predominantly Sitka spruce in mainland Britain and in 2015 returned **10.8%**.

IPD® UK ANNUAL FORESTRY INDEX

	TOTAL RETURN INDEX			ANNUALISED RATES %			
	Dec 2014 Dec 92 = 100	Dec 2015 Dec 92 = 100	1 yr	3 yrs	5 yrs	10 yrs	23 yrs
Total Return	653.8	724.5	10.8	14.7	19.0	18.4	9.0
Income Return	81.4	81.0	-0.5	-0.5	-0.6	-1.0	-0.9
Capital Growth	802.0	892.9	11.3	15.3	19.7	19.6	10.0
Timber Price Change*	123.6	111.8	-9.5	7.8	4.1	8.3	0.5
Timber Sales by Weight of Capital Value**	-	-	4.0	-	-	-	-

* Forestry commission timber price index

** Capital receipts from timber sales as percentage of previous end year capital value of the index

OTHER ASSETS (TOTAL RETURN)

	Dec 2014 Dec 92 = 100	Dec 2015 Dec 92 = 100	1 yr	3 yrs	5 yrs	10 yrs	23 yrs
Equities	478.3	468.0	-2.2	5.2	4.8	4.7	6.9
Gilts	470.6	475.2	1.0	2.3	5.4	5.6	7.0
Commercial Property	712.2	805.3	13.1	13.8	10.5	5.7	9.5

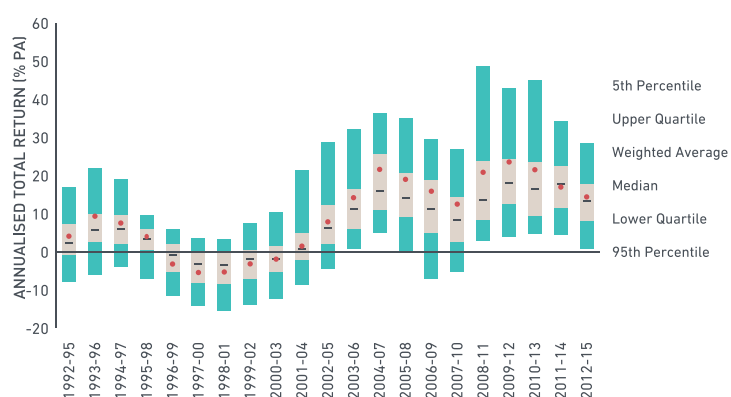
Data sources : MSCI, J.P. Morgan, IPD UK Annual Property Index

SPONSORS



SUMMARY OF FULL RESULTS

RANGE OF INDIVIDUAL FORESTS RETURNS



3 YEAR ROLLING ANNUALISED RETURNS

3 year (% pa)	Weighted average	Top 5%	Upper Quartile	Median	Lower Quartile	Bottom 5%
2005-08	19.3	35.2	20.9	14.5	9.3	0.0
2006-09	16.1	29.8	19.1	11.3	5.3	-7.0
2007-10	12.9	27.3	14.6	8.7	2.9	-4.8
2008-11	21.3	49.3	24.1	14.0	8.7	3.3
2009-12	24.0	43.3	24.6	18.4	13.0	4.2
2010-13	21.9	45.3	23.9	16.9	9.8	5.1
2011-14	17.4	34.6	22.9	18.1	12.0	4.9
2012-15	14.7	28.7	18.1	13.7	8.3	1.0

2015 PERFORMANCE SUMMARY

In 2015, the *IPD* UK Annual Forestry Index showed a total return of 10.8% for the year, a decrease from 18.6% seen in 2014. The three-year annualised total return of 14.7% is above the 9.0% annualised total return achieved over the past 23 years.

By its very nature forestry investment represents a long term capital play with no source of significant regular income unless holdings are leased for renewable energy production. However, part of the capital return is achieved by harvesting timber once trees reach maturity, meaning investors receive irregular but substantial sales receipts which compliment long term growth in the underlying value of land. In 2015 capital receipts from timber sales were equivalent to 4% of the total value of the index.

The decade to the end of 2015 has seen continuous stellar performance by UK forestry investment with annualised total returns of 14.7%, 19.0% and 18.4% over 3, 5 & 10 years respectively and no years of negative returns. This performance should be noted for its superiority over commercial property, residential property, equities and gilts in all cases over 3, 5 and 10 years.

The previous decade represented tougher times for UK forestry, having underperformed other UK property classes but nonetheless maintaining superiority over the core asset classes, equities and gilts with an annualised total return of 9% over the full 23 year timeframe.

5 YEAR ROLLING AND LONG TERM ANNUALISED RETURNS

5 year (% pa)	Weighted average	Top 5%	Upper Quartile	Median	Lower Quartile	Bottom 5%
2005-10	17.9	24.9	18.1	13.8	8.8	0.5
2006-11	20.3	37.8	21.2	14.1	9.2	1.4
2007-12	17.8	29.9	18.0	12.5	8.0	1.5
2008-13	19.5	31.9	21.0	14.9	10.7	4.0
2009-14	21.0	33.7	23.0	18.6	14.2	8.2
2010-15	19.0	32.6	21.6	17.2	11.9	4.3
Long term (%pa)						
1992-15	9.0	14.4	9.4	8.0	6.4	4.9

TAX STATUS

Tax is a very important consideration for investors in forestry, but the wide variation of tax status between investors makes it impossible to reflect these benefits in the results. The Index excludes these substantial fiscal advantages that are available to the investor.

Income from timber sales in the UK is free of Income and Corporation Tax and growing timber is exempt from Capital Gains Tax. After two years of ownership, commercial woodlands qualify for 100% Business Property Relief from Inheritance Tax.

THE INDEX

The *IPD* UK Annual Forestry Index is calculated from a sample of private sector coniferous plantations of predominantly Sitka spruce in mainland Britain. By the end of 2015 the 123 forests holdings in the index had a total capital value of £264.9m.

The Index is derived from a series of annual valuations and cash flows, but in order to reflect the long-term nature of forestry investment the series is presented on a three-year annualised basis. The year-on-year returns and Index values are shown on the back of this publication, but analysis is based principally on the annualised results. These demonstrate more clearly the long-term returns available to investors.

The series is based at 1992 after the expiry of tax relief on expenditure, which was withdrawn in March 1988 with a period of transitional relief until December 1992. The Index reflects movements in valuations driven by changes in the underlying long-term trend in UK timber markets and investor demand.

The *IPD* UK Annual Forestry Index confirms to the international standards of asset performance measurement. Annual returns are calculated on a time-weighted basis, by compounding the 12 individual monthly returns.

MARKET COMMENTARY (PROVIDED BY SPONSORS)

The prospect of BREXIT and the Chinese market contraction, combined to make 2015 a year of increasing uncertainty for investors. The sustained recovery of the UK economy in 2014 turned to volatility in markets and a rise in the value of GB Sterling against the Euro and Swedish Krona.

GB economic growth continues to be stimulated by continued house building and infrastructure investment, with subsequent increasing demand for wood products. The exchange value of Sterling is a driver of demand for UK-grown timber. The significant gap between Euro & Swedish Krona denominated import prices and home grown prices based in GB Pounds narrowed significantly and rendered Scandinavian exported sawn timber more competitive in 2015. Stronger Sterling meant that imports from mainland Europe rose at the expense of UK timber growers, whose timber sale returns in turn reduced, due to weakening saw-log prices. Subsequently the medium term run of forestry property price returns were impacted as investors and analysts made the adjustment.

For UK-based investors, the tax reliefs available for investment in commercial forests have been consistently maintained by successive governments. The Scottish Government has begun to use its powers over property transaction taxes, replacing Stamp Duty in 2015. In the future reform could impact sporting rates in affecting sporting estates more than pure commercial forestry 'investment grade' properties .

MSCI's *IPD* UK Annual Forestry Index return over 23 years to December 2015 remained at 9.0%. By comparison, the long-term 35-year return shown in the *IPD* UK Annual Rural Property Index, fell to 8.6% by December 2015. Forestry is a long-term investment and has shown low correlation with equity performance. Growth of the renewable energy market has increased demand for woody biomass for heat and power generation. This demand is now well established within the UK wood supply chain. This has been exemplified by the March 2015 opening of RWE's CHP Plant at Glenrothes, the largest in the UK, coupled with a c£110m investment by Norbord in Inverness in composite board production. Both raise demand for small round wood in the future.

Land-based assets provide an alternative home for cash deposits, as interest rates remain low, and for investors in general, seeking less volatile markets. The *IPD* UK Rural Property index achieved a total return of 5.5% in 2015. The value of land underlying forests continues to rise in real terms and is increasingly important as a determinant of overall returns. Forestry investments, underpinned by biological growth, are also considered to be a hedge against inflation. Timber prices achieved by private sector growers are reported by the Forestry Index sponsors to have fallen by 10 to 15 percent during 2015 (Industry Sources) . Saw log prices have been most sensitive to exchange rate falls. Falling Sterling in early 2016 promises some recovery of both timber prices and forestry property returns.

The Forestry Commission '50 Year forecast of softwood availability'**, from UK forests, in both the public and private sector was published in 2014. It has highlighted the potential for long term decline in supply, beyond a peak of softwood timber production around 2030.

UK forestry investors increasingly recognise the opportunities and risks posed by restricted medium term supply, whilst the industry continues to press for increased governmental support for creation of new commercial forests. The focus of the latest Scottish Forestry Grant Scheme has seen a further shift to forest creation, from support for restructuring and replanting of existing forests. Regulatory controls and competing land use combine to frustrate private sector efforts to plant significant areas of new forests in the uplands, although the new grants may provide some incentive.

Recent expressions of support from Scottish Government have been welcomed by the UK forestry industry. BREXIT continues to overshadow the forest industry's and investors' strategic concerns. Confor have recently published a discussion paper on the EU referendum in/out impact on UK Forestry**.

By 2012, the UK timber industry's market share of total UK sawn softwood consumption had risen to c41% but fell to 38% in 2014 as housing and construction demand increased raising import levels. This still leaves significant scope for UK growers and saw-millers to capture more of the market in future.

The demand for forestry assets and the prices achieved are largely a function of forest quality and location. The total forest property traded in the UK on the market in 2015 was estimated by Sponsors to be approximately £150 million a rise of 90% (from £85m in 2014). With quality finding a ready market, properties with poor access and more mixed crops have been less liquid, with some re-pricing occurring after prolonged marketing.

Looking forward, the forestry industry continues to face the challenge of mitigating the more adverse long term risks from climate change and global trade, whilst creating the stable investment environment that will promote new planting of commercial forests. Attention remains focussed particularly on Scotland, where the balance of long term supply and demand for home grown wood will need to be addressed by government and industry.

Investors have identified the opportunity presented by increasing demand for land and timber. For the sector as a whole to maintain confidence it will be required to maintain and increase long term inward investment, by creating an environment that promotes the efficient expansion of new commercial forests.

** [Confederation of Forest Industries \(Confor\) – The Referendum. Seeing the wood through the trees.](#)

NOTES TO EDITORS

The *IPD* UK Forestry Index performance trends over the past 20 years could be described as follows:

Between the late 1990s and mid 2000s, forestry property values fell in response to timber price falls and strengthening of sterling against the US dollar and Swedish kroner. UK-grown timber products experienced high levels of competition from unsustainable levels of timber imports from the Baltic States. Timber prices fell by over 70% from 2004, forestry returns recovered. Inward capital investment in timber processing and infrastructure impacted on efficiencies; Sterling weakened; timber prices increased; whilst global demand from the Far East impacted commodity supplies, generally.

From the late 2000s the incentives to use wood as an energy source have helped move timber prices to new levels. At the same time, land-based assets have provided an alternative home for cash-deposits in times of low interest rates and for investors in general, seeking less volatile markets. Global market volatility and Eurozone weakness forced GB Sterling upwards in 2015. Uncertainty created a weakening of sentiment and forestry property price rise rate fell, but remained competitive with equity growth.

PERFORMANCE BY AGE AND REGION OF PLANTATION

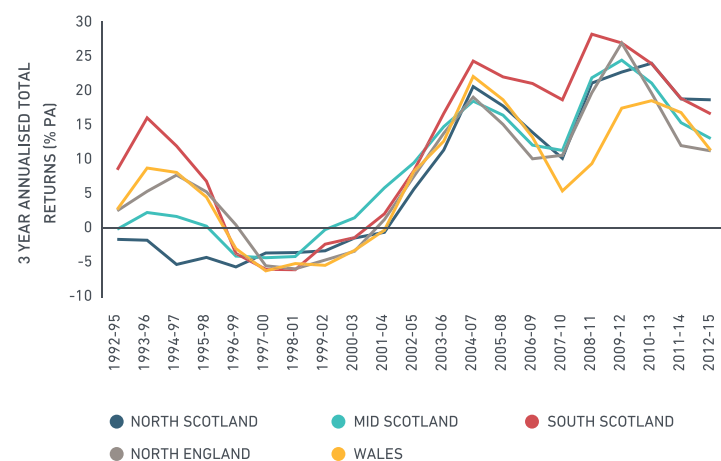
The North of Scotland is the best performing region of the sample over three years and five years with an annualised total return of 18.6% and 21.4% respectively, year on year to the end of 2015. This is closely followed by South Scotland with a five year annualised total return of 20.9% year on year to the end of 2015. The South of Scotland is also the largest region, this area contains 54 forests and represents over 50% of the total value.

All other regions posted very strong annualised total returns in the three years to 2015, ranging from 11.3% in North England to 16.6% in South Scotland. The South of Scotland has been the strongest performing region over the 23 year history of the index with an annualised total return of 11.2%, several percentage points in excess of all the other regions. Notably timber sales by weight of value were markedly above average in North England in 2015 at 9.2%, suggesting high levels of harvesting helped drive performance in this region.

VALUATION BY REGION (£ PER HECTARE)

Percentile	North Scotland	Mid Scotland	South Scotland	North England	Wales
5th percentile	8,326	13,039	11,665	13,475	11,391
Upper quartile	7,425	8,082	8,974	9,998	10,056
Median	6,095	6,117	7,472	9,282	8,605
Lower quartile	5,483	5,199	6,186	8,748	6,194
95th percentile	3,584	4,069	4,326	7,436	5,106
Average	6,616	7,747	9,428	10,210	7,291

3 YEAR ANNUALISED TOTAL RETURNS BY REGION



INDEX SERIES

Year end 31st December	No. of Forests	Capital Value (£ millions)	Total Return (% pa)	Total Return Index	Income Return (% pa)	Income Return Index	Capital Growth (% pa)	Capital Growth Index	Timber Sales by weight of Capital Value	Timber Price Change (% pa)	*Timber price index
1999	157	78.3	-11.1	115.1	-0.5	96.2	-10.6	119.6	-	-2.0	61.3
2000	157	71.6	-2.9	111.7	-1.5	94.8	-1.5	117.8	-	-4.1	58.7
2001	175	79.0	-1.1	110.5	-0.9	94.0	-0.2	117.5	-	-9.7	53.1
2002	170	74.6	-4.7	105.3	-0.7	93.3	-4.0	112.8	-	-22.3	41.3
2003	165	71.4	1.3	106.7	-1.2	92.2	2.5	115.6	-	-2.8	40.1
2004	161	74.4	9.2	116.5	-1.5	90.9	10.9	128.2	3.2	9.3	43.8
2005	158	83.1	14.4	133.3	-1.8	89.3	16.4	149.2	4.0	15.2	50.4
2006	151	95.4	20.7	160.8	-1.4	88.0	22.3	182.5	2.7	10.9	55.9
2007	145	112.9	31.6	211.5	-1.2	87.0	33.1	242.9	5.1	56.6	87.6
2008	148	124.2	7.1	226.5	-1.8	85.4	9.0	264.8	5.2	-28.6	62.6
2009	139	126.7	11.2	251.9	-1.3	84.3	12.6	298.3	3.0	5.5	66.0
2010	143	149.2	20.8	304.2	-1.1	83.5	22.1	364.1	3.5	38.5	91.4
2011	139	184.2	32.9	404.3	-0.5	83.1	33.5	486.1	4.0	4.3	95.3
2012	155	227.6	18.6	479.7	-0.9	82.3	19.7	581.9	3.5	-6.4	89.2
2013	145	237.7	14.9	551.3	-0.8	81.7	15.8	674.0	2.8	15.6	103.1
2014	134	252.8	18.6	653.8	-0.3	81.4	19.0	802.0	2.6	19.8	123.6
2015	123	264.9	10.8	724.5	-0.5	81.0	11.3	892.9	4.0	-9.5	111.8

Return indexes based at 1992=100

* Timber sales by weight of capital value shows timber sales receipts as a percentage of previous year end investment value

** Forestry Commission Nominal Price Index of Coniferous Standing Sales (for Great Britain) on a year to March basis (2014 = March 2015). It reflects the price in other years of the size and mix of timber sold in the base year. This is based on a size and mix of timber in 1996 and the series has been re-based to 1992.

TAX POSITION AS OF DECEMBER 2015

Income Tax	All income from UK timber sales is free of Income & Corporation Tax
Capital Gains Tax	Growing timber is exempt from Capital Gains Tax
Inheritance Tax	After two years of ownership, commercial woodlands qualify for 100% Business Property Relief.

SAMPLE COMPOSITION BY REGION

Region	North Scotland	Mid Scotland	South Scotland	North England	Wales	Total
No. of forests	17	17	54	10	25	123
% Capital Value	7.0	10.6	50.7	10.0	21.7	100.0

LONG TERM TOTAL RETURN BY REGION (% PA)

Year end 31st December Annualised	North Scotland	Mid Scotland	South Scotland	North England	Wales
2006-09	17.7	16.4	21.9	15.1	18.6
2007-10	14.0	12.1	21.0	10.1	13.2
2008-11	10.2	11.3	18.7	10.6	5.5
2009-12	21.1	21.8	28.1	19.7	9.4
2010-13	22.6	24.3	26.8	26.8	17.4
2011-14	23.9	21.0	23.8	19.6	18.5
2012-15	18.7	15.3	18.8	12.0	16.8

5 Year Rolling

2004-09	13.3	14.4	18.3	13.8	15.9
2005-10	14.9	13.5	20.6	12.3	13.9
2006-11	15.9	15.8	22.5	14.9	13.0
2007-12	19.1	18.6	25.2	17.3	13.8
2008-13	16.1	16.9	22.2	16.7	11.3
2009-14	19.6	18.6	23.6	17.6	12.9
2010-15	22.0	20.6	23.8	18.5	16.0

Longest Period

1992-15	7.6	8.7	11.7	8.3	7.3
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RANGE OF RETURN BY REGION 2012-2015 (%PA)

Percentile	North Scotland	Mid Scotland	South Scotland	North England	Wales
5th percentile	29.4	23.1	28.5	38.7	26.7
Upper quartile	21.7	14.8	18.5	14.4	17.2
Median	15.3	8.3	14.7	9.2	12.7
Lower quartile	9.3	4.0	11.2	6.3	8.4
95th percentile	-0.1	0.2	6.6	2.8	3.1
Weighted average	18.6	13.0	16.6	11.3	11.3

TIMBER SALES BY WEIGHT OF VALUE BY REGION (%PA)

Year end 31st Dec Annualised	North Scotland	Mid Scotland	South Scotland	North England	Wales
2014	0.2	1.6	3.3	3.0	4.9
2015	0.9	3.0	4.0	9.2	3.0

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