

We have been presented with an opportunity to participate with the Molpus Woodlands Group in a purchase of 91,000 acres of timberland in Texas, Arkansas and Louisiana. The total purchase price is \$175 mil. Molpus will place \$130-140 mil of the assets in their Sustainable Woodlands Fund II. The fund, which is slated to close later this year, is targeted to be \$300 mil in size. Molpus seeks to achieve greater diversification for their investors and therefore is looking to place the balance of these assets purchased in a separate account for another investor. The seller, Anthony Timberlands has been active in the timber business for seven generations and was, at one point, one of the largest timber owners in the US. After their last management transition in 2004, the company became acquisitive to insure an adequate wood supply for their growing mill system. The mill system specialized in value added products for residential housing markets such as glue trimmed arches and beams. With the downturn in the housing market, their mills slipped into a loss position. This, combined with the debt burden taken on to do the acquisitions, prompted Anthony to put both the timberland and mill system up for sale in 2008. They struck a deal but late in the year the deal fell through. As Anthony attempted to pursue another transaction it was evident that the mill system carried a negative value in any deal they might do and so Anthony decided to keep the mills rather than sell the mills into such a depressed environment. Proceeds from the sale of the timberland will insure that the mills will survive the current downturn.

Why Timber?

During 2002-2008 there was a significant transfer of timberland ownership from corporate and private ownership into institutional hands. Escalating prices as the transfer progressed reflected strong demand for 'real asset' investments by institutions. Timberland values held firmly and actually rose 9% in 2008 despite weakened lumber markets and broader capital market distress. Timber consumption is estimated to have declined 40% since 2005 due to the downturn in residential housing and lumber prices are off 56% from their high. Supporters say timberland owners were 'looking through' the current period of weakness but it is also likely that this was because, unlike many other parts of our capital markets, timber owners typically do not employ leverage and so the financial crisis simply had less impact here. Additionally, the market was supported by the discipline of timber owners across the industry who curtailed harvesting trees from their lands rather than sell into a market where end demand was weak. Supply of byproducts including pulp and woodchips for the paper industry has declined with these lower harvest levels resulting in relatively stable prices for these products. This approach to dealing with the downcycle of harvesting just enough to cover expenses and meet current demand works well for timberland owners because the trees actually become more valuable as they continue to grow. Defensiveness through the financial crisis is typical of past performance by timber as can be seen in the attached chart. Timber, in the past 45 years, has only had 3 down years and has performed well in equity bear markets.

The substantial flow of institutional funds into timberland drove cap rates for acquisitions from 6.25% to 4-4.25% in the 24 month period through mid 2008. It is common knowledge that some of the very buyers who drove cap rates lower are now liquidity constrained. Some experts project a decline in timberland prices of 3-5% this

year but Molpus, currently in the midst of doing a 6/30/09 appraisal for the Harvard separate account they manage, says they are not seeing evidence supporting any real decline. Molpus believes the support level is in the 5-5.5% area currently. Even very recently, buying activity on the part of some of the larger TIMOs (Timber Investment Management Organizations) has supported cap rates below the 5% rate. The few distressed sellers recently have been owners tied to manufacturing facilities that are hurting or those with too much leverage (of which Anthony Industry would be one). I find it logical to expect that an interruption in the flow of funds into the asset class will drive cap rates back to a more attractive range. Whereas I concluded six months ago no interest in timber was warranted, the combination of sparse liquidity and some distressed sellers should now create attractive entry points for opportunistic buyers.

Timber is attractive for several reasons. Historical returns are attractive at 13%/yr in the 40 years up to 2001 and 15% in 2002-2008. Continuous growth of the stock of trees (6-10%/year) lends itself to positive absolute returns. Typically 60% of returns will come from biological growth, 33% from product price increases and the balance from the sale of lands for higher and better use(HBU). Timber harvested usually generates annual cash flow in a 2-4% range depending on the unique characteristics of the stock of trees on the property. Several new opportunities with potential to enhance future returns have emerged which include use of wood pellets and cellulosic ethanol for biomass as a renewable energy source, and potential carbon sequestration and credits as US industry goes green. Substantial mineral rights have been discovered under many Southern plantations and some woodlands have been deployed into wind farms after the trees are cut. The industry's long term supply/demand outlook is positive . Cutting on public forestland has been curtailed for many years for environmental reasons. There is a pine beetle infestation in British Columbia which is estimated to result in the loss of as much of 10% of the wood supply in North America over the next six to eight years. From a global perspective, growth in China which is the largest importer of logs in the world continues to support demand and an export tax on logs in Russia encouraging internal consumption for manufacturing of wood products there will tighten supply. Timber historically has been a good inflation hedge and has low correlation with other asset classes (see attached exhibit). Importantly, the asset class has attractive tax characteristics for individual investors due to depletion credits and the fact that most timber distributions represent long term capital gains.

Why Molpus?

Molpus Woodlands Group is a firm that has been on the right side on their market in terms of transactions. For perspective, Molpus has been a net seller of timberland in the U.S. South for the past 18 months as cap rates declined. Molpus began raising money for their Fund II in May 2008 but given low cap rates in the market and much competition for properties, they only made the first call for capital several months ago which they did in anticipation of distressed sale opportunities. Molpus Group was founded in 1905 and is managed by a third generation family member. With \$1bil AUM, while it is not one of the largest TIMOs, the group has an excellent performance record which outpaces some of the larger TIMOs like Hancock. There are approximately 20 TIMOs of which 10 report their results publicly. Molpus' return of 13% per annum outpaces the NACREIF industry index return of 9% in the most recent 10 year period.

The Group's Fund I generated a 12.5% return. The firm manages a commingled fund for 230 investors and separate accounts for five institutional clients which include Harvard Management, Kentucky Teachers, and the Citigroup retirement plan. A good timber management company will add value through astute purchases of properties, harvestation of timber for sale, skillful forest management, active management of property to realize HBU sales and the various ECO opportunities mentioned above. At its size, Molpus has been able to be nimble and has been ahead of the curve in realizing value through active management of their portfolio. The firm is vertically integrated with all core business and forestry functions handled or supervised by internal experts. Every Molpus employee has 35-70% of his comp tied to how actual properties perform.

Why the Anthony Timberlands transaction?

The appeal of the property includes the following:

- 94% of the stock on the land is pine plantation
- 75% of the stock is mature timber
- harvest of mature timber will provide attractive cash flow estimated at 4% over the next 10 years which will be taxed at LT cap gains rate
- a long term supply contract with the seller in which current spot rates have been locked in for two years for 70% of the sawtimber they will sell in order to protect from further downside in timber prices. After that, prices will reset and be based on the industry index. The balance of the wood they sell will be tied to the spot market.

The Molpus Woodlands reps have said this property has greater optionality than any property they have looked at in the past ten years stemming from little aggressiveness on the part of the Anthony family in actually managing the stock on the land. Anthony's management spent much more effort on buying and selling properties for the portfolio. Molpus will apply more sophisticated forestry management techniques. Thinning of the existing stocks offers short term cash flow. Long term, reseeded and replanting will insure the asset is renewed and enhanced in value. Little has been built into the model for sale of land for higher and better uses (HBU) due to the current RE environment but Molpus created significant value in this way for their investors in the past. Also, typically HBU sales are to contiguous landowners. Most times a purchase of 91,000 acres would consist of large, concentrated tracts of forest. Because the Anthony team had acquired the property through piecemeal purchases over 50 years, this timberland portfolio is very fragmented and conducive to HBU sales when the environment improves. In addition there is an interstate in Louisiana being built between Little Rock and Shreveport which runs through the Anthony Timberlands and ultimately could yield huge opportunity for sales to commercial real estate developers.

The Anthony Timberlands opportunity has been positioned as having a 8.6-12% return with extremely conservative assumptions. The 'probable' model (see pg 3 of the attached) only assumes a return to trend line timber prices in year 6 and no value from RE sales or other ancillary opportunities at all. The 'possible' model projecting a 12% return is more likely the probable. Talking through the opportunity with Molpus management, I estimate upside to a 20% level if timber price inflation accelerates and property values recover in the 10 year timeframe of this investment. While I have not bought timber before, my years following the paper and forest products industry have

served me well in working on this project. It has been an interesting process because while Molpus is trying to sell us their services to manage a separate account, they are not trying to sell us this property. We would be buying along side of them. They are very excited about this opportunity which they secured by way of their long, deep industry relationships.

The strong absolute return and inflation protection characteristics of timber, double digit returns which include a 4% annual cash yield over the life of the investment (lower in early years) uncorrelated to other asset classes, gives this opportunity appeal to me as an anchor type investment in your portfolio. Should we decide to do a separate account we would need to set up a special purpose LLC. Molpus will use a third party to divide the property proportionately. Fees include a management fee of 1.0% and a 15% incentive fee over a 7% return. Ongoing annual expenses related to replanting, property taxes, and general forestry practices run an additional 1.5%. While a separate account should allow for negotiation on the management fee, my contacts have indicated that this would be limited at the level of investment we'd be making for this purchase and would really only apply with a commitment to make additional investments over time. A typical minimum separate account size is \$100 mil. A separate account would afford the potential to enhance returns through the use of leverage of up to one third of the purchase price. Cost of fixed rate leverage looks to be in the 6-6 ½% range but will require some recourse since early year cash flow may not be sufficient to cover debt service. We also have the option of investing in the commingled SWF II which in many ways is more efficient and will allow greater diversification. The risks involved in investing in timber include natural hazards of fire, wind, insects, and environmental regulation. For these reasons, geographic, species, and property diversification within a timber portfolio is important. While the Anthony Timberlands properties offer diversification across three states they are almost entirely pine in species.

Eileen Alexanderson
6/1/09

Update- Investment with Molpus Woodlands Group

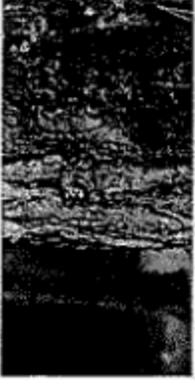
In a final round of due diligence, I visited Molpus at their Jackson, Mississippi headquarters last week. I come back with positive feedback and confirmation of my recommendation to invest with them. Previous to my visit, I had extensive conference calls with management and meetings with representatives of Molpus Woodlands Advisors. During my visit, I met with all key members of the management team (the agenda from my visit is attached). The management group is smart, focused, hard working, motivated, and creative. It was evident to me that a key driver of superior returns compared to other TIMOs is the inhouse vertical integration of their structure which allows value to be added at each step of the management process.

As I originally outlined, the Anthony Timberlands transaction is a large investment relative to the size of the commingled fund SWF II. Management sought a separate account investor for part of the purchase. We chose not to do a separate account. I have confirmed the other interested party was Harvard but they were not able to liquefy funds needed to do a deal. Since then, Molpus was approached by two public traded REITs who are interested in doing asset swaps. The Anthony property has a large amount of mature timber. This is attractive to these REITs that need mature timber to cut to support their dividends. The most likely case now is that some sort of swap will be done coincident with the purchase closing whereby Anthony or SWF II will swap mature timber for younger tracts that will provide the desired geographic and species diversification for the fund.

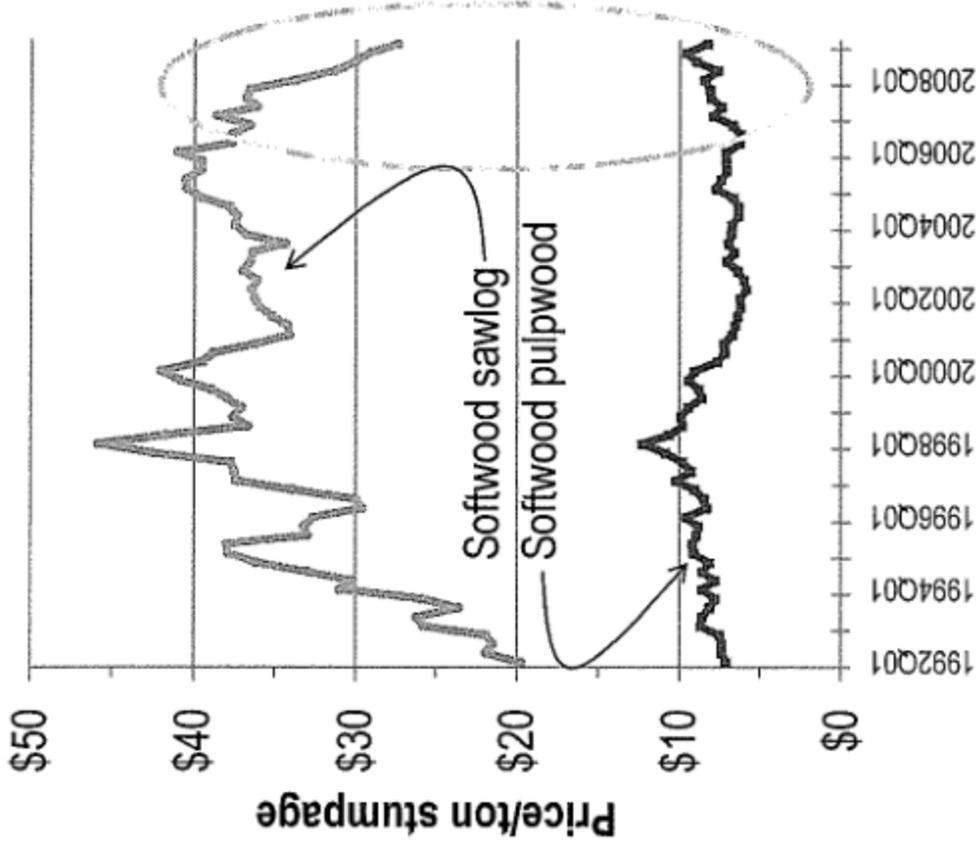
As we submit our subscription, we will need to transfer 15% of our commitment (this is the level called to date from early investors in the fund) plus a catchup interest charge. Much of the balance of our \$20 mil commitment will likely be called sometime this Fall. The amount will be a function of timing of the Anthony purchase and the ultimate size of SWF II at the final close on October 1st.

EDA 7/13/09

Adjusting Near-term Harvests to Protect Timber Value



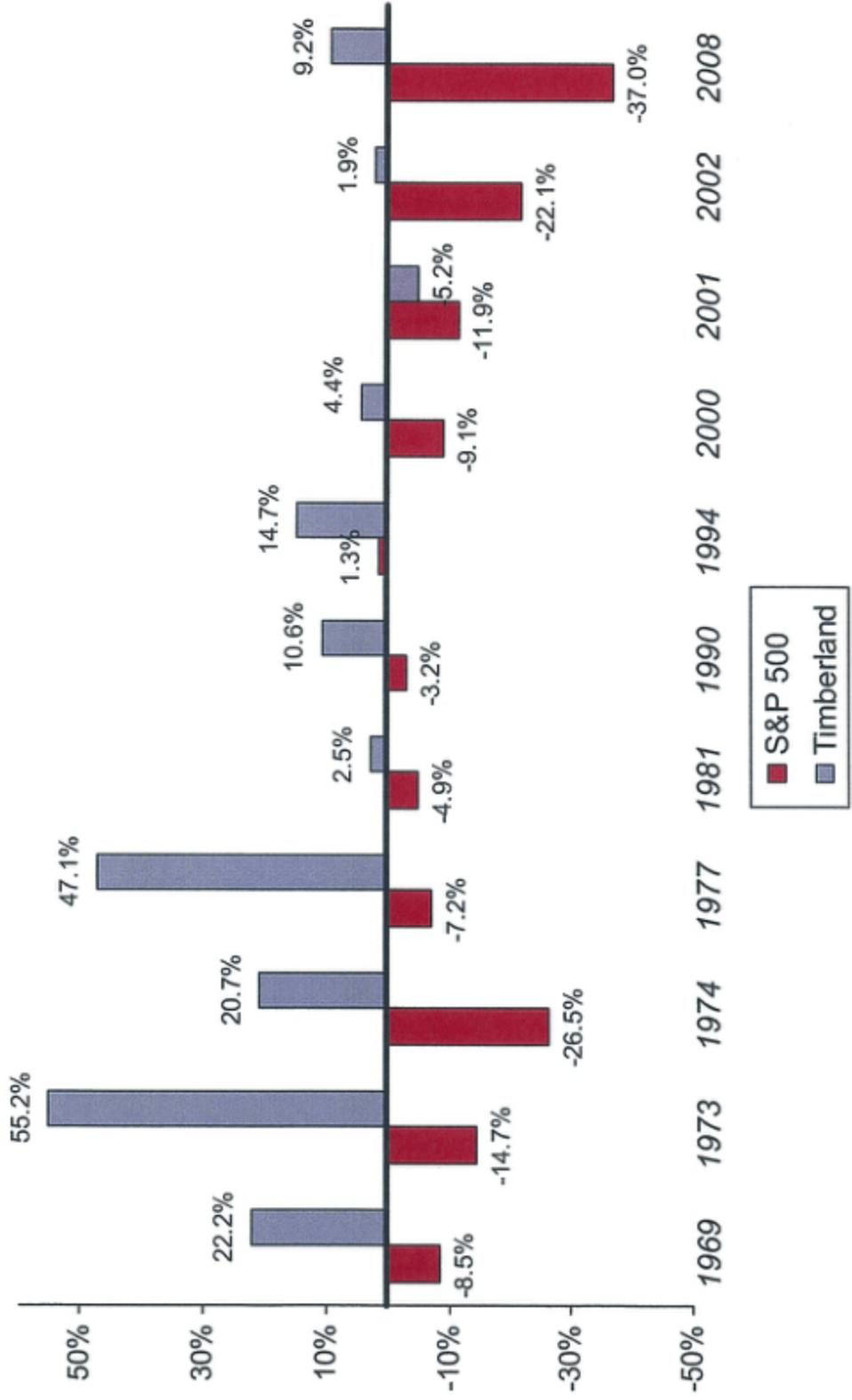
- ◆ Reducing sawlog harvests in response to low prices
- ◆ Increased pulpwood harvests to capture attractive prices
- ◆ Lower near-term cash flow but superior NPV decision



Source: Timber Mart-South

Timber consistently outperformed the S&P in Bear Market conditions

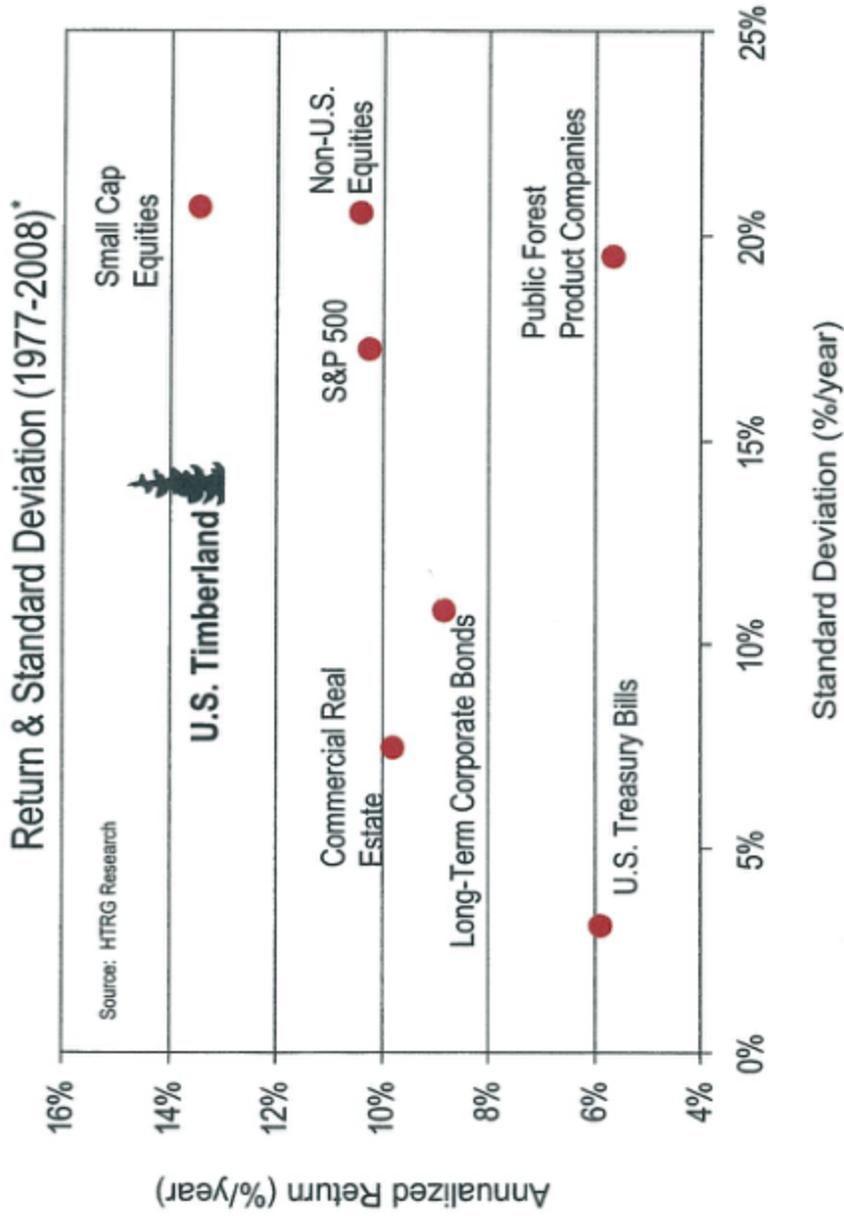
Bearish investors may benefit from an allocation to timberland



Source: 1969-1987: HTRG Research Notes 2003, 1987-2008: NCREIF annual return data & S&P 500 annual returns.

Why Invest in Timberland?

Strong risk/return features



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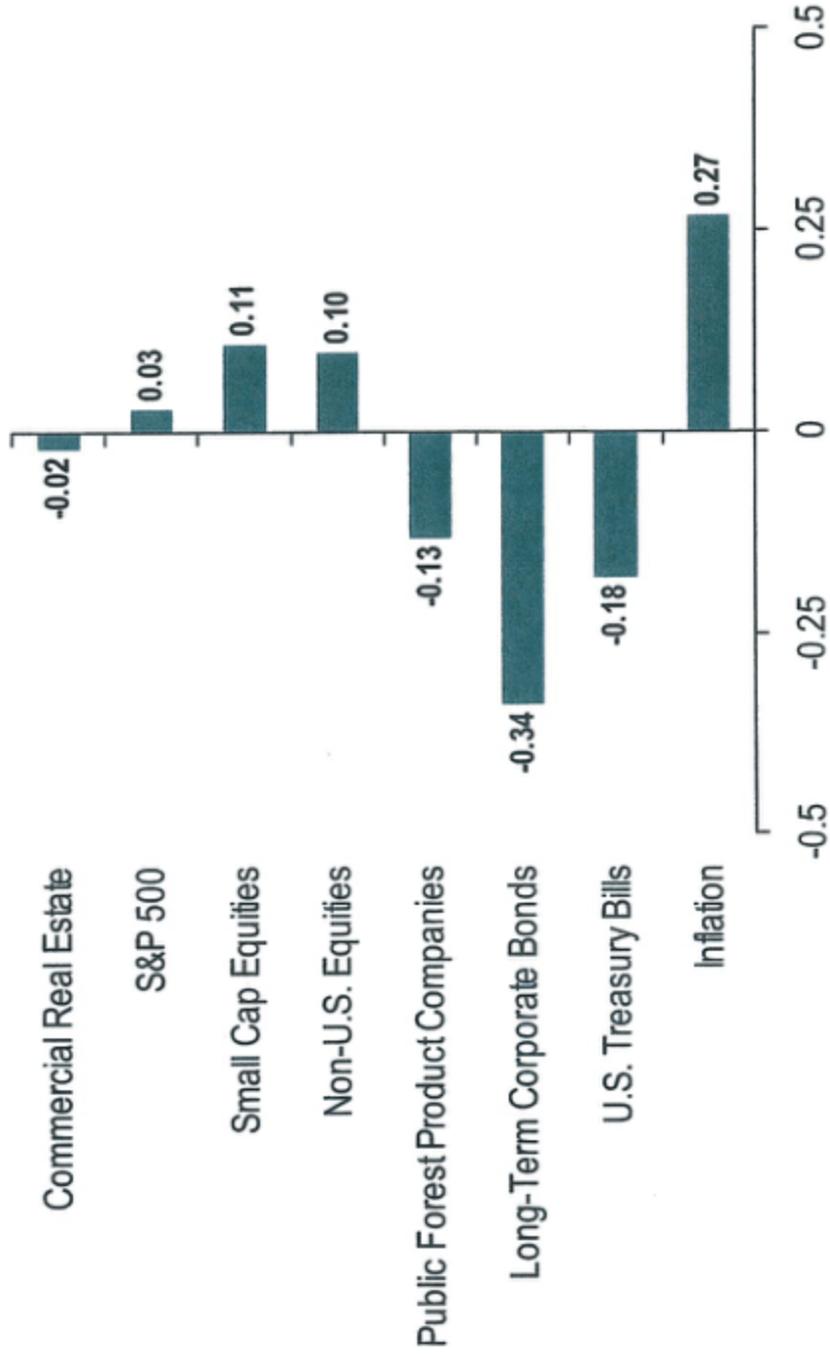
*Data for timberland returns refer to John Hancock Timberland Index for 1977-1986, NCREIF Timberland Index for 1987-2008. Past returns are not a guarantee of future results; potential for profit as well as for loss exists.



Why Invest in Timberland?

Negative correlation with traditional assets

Historical \$US Correlations with Timberland (1977-2008)*

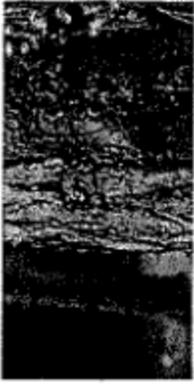


Source: HTRG Research

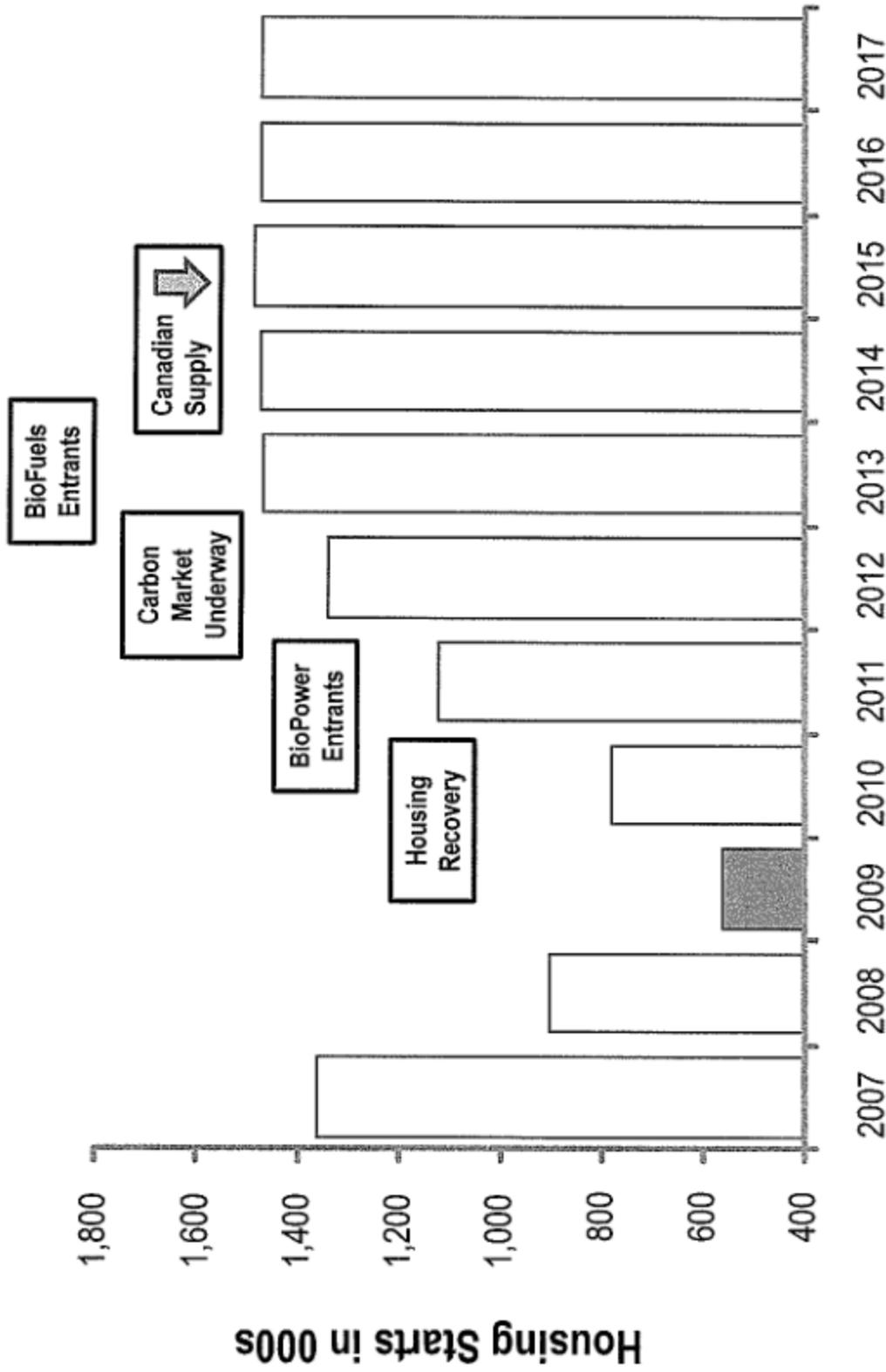


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Catalysts on the Horizon



Source: Blue Chip Economic Consensus