



Quarterly Update

Forest Investment Associates

THIRD QUARTER 2018

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Summary Update

Timber and Product Prices – Demand for pine sawtimber continues to be depressed in many Southeastern markets, however pulpwood prices have experienced a marked increase over the quarter. Pacific Northwest markets declined over the quarter due to uncertainty in the export markets. Northern hardwood markets are also being negatively impacted by export demand, however domestic consumption continues to grow. Panel and lumber prices softened, falling from near records highs seen earlier in the year.

Following a mediocre summer, August housing starts increased to a seasonally adjusted annual rate of 1.282 million units. The August 2018 rate was 9.2% above the revised July rate of 1.174 million units, and 9.4% above the August 2017 rate of 1.172 million units. The average interest rate for 30-year fixed rate mortgages increased from 4.55% in August to 4.63% in September.

Timberland Markets – CatchMark (CTT) was the most active player in the third quarter, announcing both the largest acquisition and disposition. CTT announced the purchase of approximately 18,000 acres in Oregon from Forest Investment Associates (FIA) for \$88.8 million. CTT also announced that it had reached an agreement to sell 56,000 acres in Texas and Louisiana to FIA for \$78.5 million. All of this comes on the heels of a CTT-led joint venture’s acquisition of 1.1 million acres in Texas for \$1.39 billion last quarter.

In other news, FIA sold approximately 16,000 acres in Pennsylvania to Conservation Forestry for \$46 million. There were also several smaller transactions this quarter, as deal flow continues to pick up entering the final quarter of 2018.

Timber Prices

Southeastern – Southern pulpwood prices rebounded over the third quarter, while pine sawtimber prices continue to disappoint. Forest2Market® reported a 5.6% decrease in Southern pine sawtimber prices over the third quarter of 2018; however, prices ended 2.8% above last year's level. Pulpwood prices experienced substantial increases, rising 24.9% and 7.5% for pine and hardwood, respectively. Hardwood sawtimber prices remained stable over the quarter, following four consecutive quarterly increases.

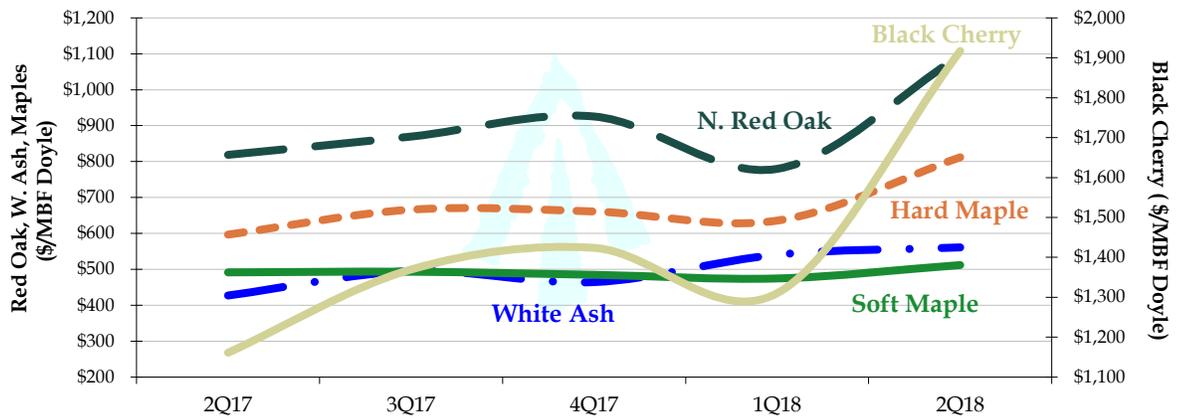


Source: Forest2Market®

Northern Hardwoods – Hardwood markets softened considerably in the third quarter mainly due to substantially lower lumber and log exports, particularly to China. And while domestic hardwood demand continues to grow, it cannot supplant the record volumes that were being exported to China over the last year. According to the Pennsylvania Woodlands Timber Market Report, black cherry prices rebounded 46.3% during the second quarter (the most recent publicly reported pricing), ending 65.1% above year-ago levels. Northern red oak prices improved 40.4% last quarter, concluding 33.7% above year-ago prices. Hard maple prices increased 27.7% over the quarter, ending up 36.1% year-over-year. Soft maple prices recovered first quarters loses, increasing 7.9%, ending the year 4.1% above last year's level.

Though somewhat affected by lower Chinese export demand, mills in Wisconsin rely more on U.S. and Canadian demand which has been stable for both hardwood lumber and veneer logs. Recent cool weather signals the start to the fall/winter logging period and traditional inventory build. Demand is steady for hard maple, white ash, and yellow birch while basswood continues to be difficult to move. Pulpwood demand was also stable with mills trying to keep inventories at manageable levels going into the fall/winter logging period.

Northeastern Hardwood Timber Prices

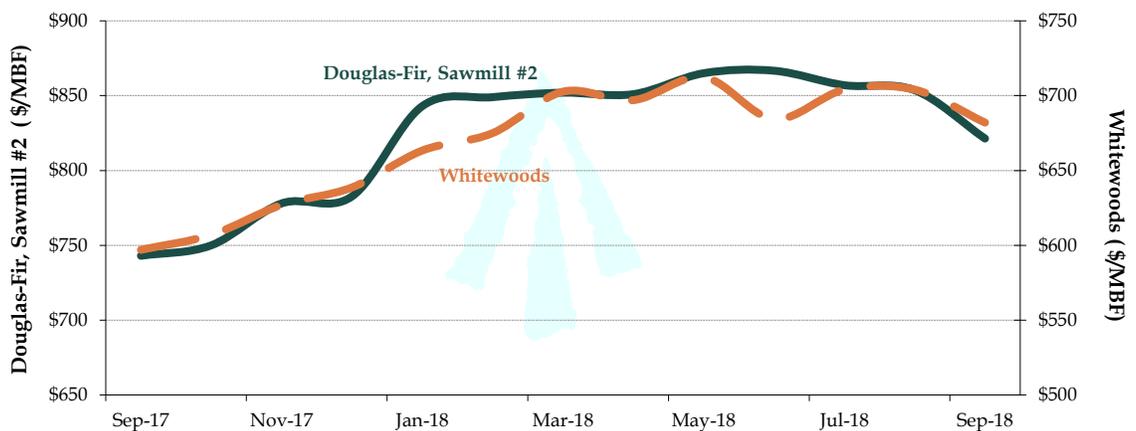


Source: Pennsylvania Woodlands Timber Market Report - Northwest Region

Pacific Northwest – Prices have fallen over the quarter due to Chinese export tariffs and rumors of not accepting bulk shipments of logs. Log Lines® reports that Pacific Northwest average delivered prices for Douglas-fir #2 logs decreased 5.2% over the third quarter, ending the quarter 10.5% above year-ago levels. Whitewoods (i.e., true firs and hemlock) average delivered log prices held flat, falling 0.3%, however prices ended the quarter 14.2% above year-ago levels.

Japanese demand for Douglas-fir remains strong, however Chinese demand has diminished for both Douglas-fir and whitewoods. Prices are expected to continue to slip until trade disputes are settled or supplies in China lessen. Domestic markets remain strong in most areas; however, inventories appear to be high which implies falling prices.

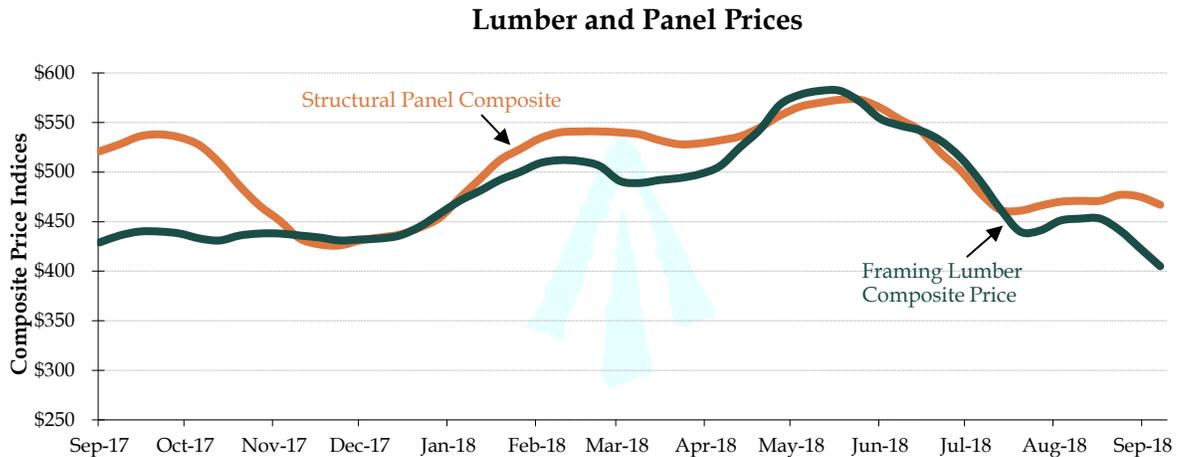
Pacific Northwest Log Prices



Source: Log Lines®

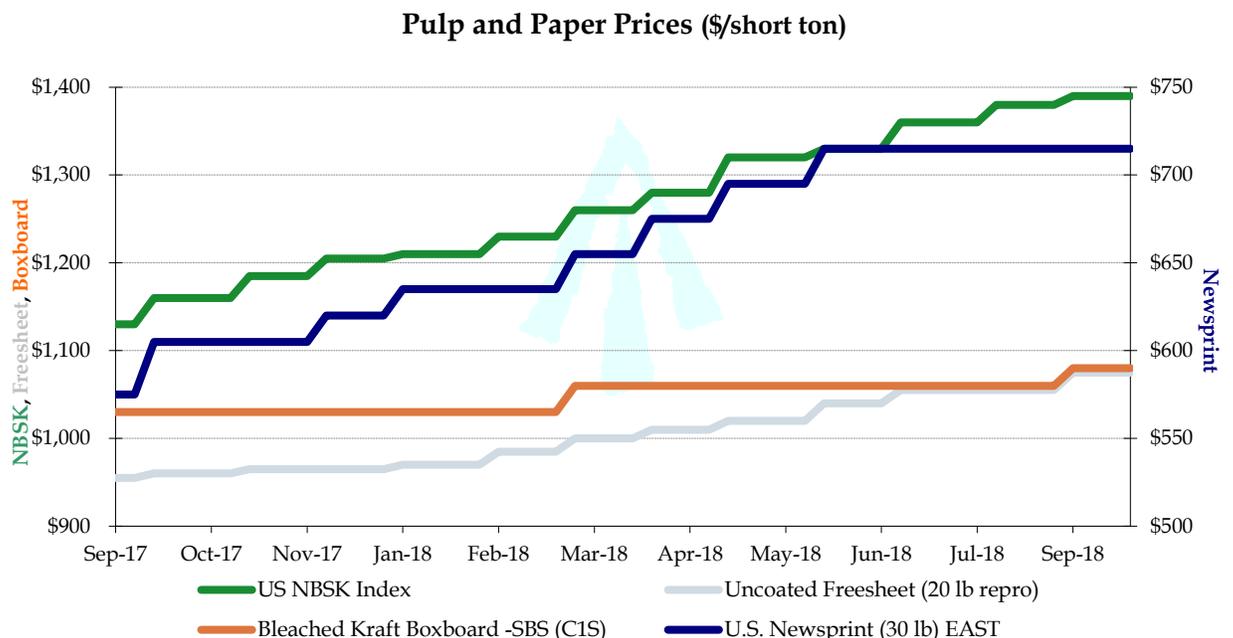
Product Prices

Lumber and Panels – Panel and lumber prices declined over the third quarter, correcting to levels last seen in 2017. The Random Lengths® Framing Lumber Composite Price retracted 26.0% over the quarter, falling 7.1% below last year’s level. The Structural Panel Composite Price decreased 15.6% over the quarter, ending 11.6% below year-ago levels.



Source: Random Lengths®

Pulp and Paper – Pulp and paper prices continue to improve and dig out of the lows experienced in 2016. The benchmark NBSK (northern bleached softwood kraft) pulp price index improved quarter over quarter, rising 4.5%, ending 23% above year-ago levels. U.S. Newsprint (30 lb.) prices held flat over the quarter, remaining 24.3% above last year’s level. Uncoated freesheet (20 lb.) increased 3.4% and boxboard prices increased 1.9% over the quarter.



Source: FOEX Indexes, Ltd., RISI Pulp & Paper Week

Timberland Markets

Transactions – In the South, CatchMark (CTT) announced that it reached an agreement to sell a 56,000-acre package in Texas and Louisiana to Forest Investment Associates (FIA) for a reported price of \$78.5 million. The Forestland Group (TFG) also completed the sale of 17,800 acres of its Anderson-Tully package in Mississippi to a conservation group for a reported \$35 million. In Georgia, Jamestown completed the purchase of 15,500 acres from Domain for approximately \$24 million.

In the Pacific Northwest, FIA completed the sale of 18,000 acres in Oregon to CTT for a reported \$88.8 million. Weyerhaeuser also purchased 2,300 acres in Oregon from BTG Pactual for a reported sum of \$18.6 million. If the reported price is accurate, the \$8,000+/acre price would set a new high-water mark in the region.

In the Northeast, Conservation Forestry closed on its purchase of 16,000 acres in Pennsylvania from FIA for \$46 million.

Transactions in Progress – The largest active offering in the market is a 181,000-acre package in Louisiana and Texas from Hancock (HTRG). Investment bank Perella Weinberg reportedly took final bids in the third quarter, but news of a buyer is scarce. Other offerings that should close in the fourth quarter include a package in Oregon and Texas from HTRG that is rumored to be under contract. Investors continue to wait for news on large offerings in the South from Molpus Woodlands Group in Alabama and Arkansas, as well as a 50,000-acre subset of TFG's hardwood property in Mississippi formerly owned by Anderson-Tully.

Despite limited deal flow in the first half of 2018, the pace picked up in the third quarter with multiple closings and a handful more expected by year-end. Total transaction value for the year should surpass 2017 numbers, due in large part to a few large transactions.

International Update

Across the global forest products industry, currency and trade continue to dominate the headlines. During the third quarter, the U.S. dollar continued its significant strengthening across most emerging market currencies; the Chinese yuan, Brazilian real and the Chilean Peso were no exception. The Australian and New Zealand dollars were relatively flat for the quarter; however, softwood export log pricing out of Australia and New Zealand softened slightly due to the weaker Chinese yuan. The yuan's weakness appears to stem from the U.S. tariffs on several Chinese exports reducing demand for its products. A new round of tariffs on Chinese goods was announced late quarter and included several wood-related products. The 10% tariffs recently took effect and are scheduled to increase to 25% starting in 2019.

Chile – Positive economic momentum continued in Chile during the third quarter. The Central Bank maintained their forecasted 2018 GDP growth estimate of 4% which would be Chile's largest expansion since 2013. In the forest industry, exports through August recorded \$4.5

billion USD year to date; a 23.7% increase versus the same period from a year ago. These robust exports are mainly underpinned by strong pulp and plywood exports. Exports of eucalyptus wood chips for pulp production (mainly to Japan and China) as well as lumber also grew.

Driven by the healthy business environment, Arauco (the country's largest forest products company which is controlled by Empresas Copec S.A.) officially announced its intention to move forward with the highly anticipated MAPA Project (Modernizacion Ampliacion Planta Arauco). The company will invest \$2.35 billion dollars to replace their old and antiquated line one with a brand-new pulp line which will have a capacity of 1.56 million tons per year of bleached eucalyptus kraft (BEK). The project also contemplates upgrades to their existing line two. Once the new line and upgrades are completed in 2021, total mill capacity will be 2.1 million tons of BEK per year. In addition to the MAPA project, Arauco is also moving forward with two other major investments: their new \$200 million USD textile cellulose plant in Valdivia which will begin operations in 2019 and a new \$300 million USD, 240-megawatt wind park.

Brazil – The macro-environment during the third quarter was heavily impacted by the volatility of the general election scheduled for October 7th. Across Brazil, polling results indicated dissatisfaction with the broad and deep corruption scandals from the previous administration and dominant political parties. This discontent gave rise to an unusual level of unpredictability during the campaign. This uncertainty sparked a significant weakening of the Brazilian Real during the quarter and a broad-based pullback in equity markets.

Despite the complex backdrop, the Brazilian forest sector continued to post strong results during 2018. Forest product exports from January to August registered 29.2% year-over-year growth, reaching \$5.6 billion. Increased exports were led by pulp with (37.8%), wood panels (7.3%) and paper (4.3%). Domestically, the Brazilian wood panel market enjoyed a 4.8% consumption gain January to August while paper use was up 1.4%. In late September, a dispute resolution process was evoked between Paper Excellence (PE) and Brazil's J&F as it relates to PE's acquisition of the Eldorado mill in Mato Grosso do Sul. The matter is in arbitration which further delays the timing and certainty of closing. The Suzano and Fibria merger received approval from Chinese and U.S. antitrust regulators and await approval from Brazilian antitrust authority (CADE).

Economic News

Housing – Housing starts were at a seasonally adjusted annual rate of 1.282 million units in August, with much of the gain from the prior month due to multi-family starts. Building permits fell from the month prior to a rate of 1.229 million units.

Mortgage Rates – 30-year fixed mortgage rates have climbed steadily over the quarter, reaching an average of close to 4.8%.

Jobs – The U.S. private sector added 230,000 jobs in September, 28% above consensus . economist expectations of 179,000.

Consumer Confidence – Consumer confidence rose in September, notching its highest level in about 18 years. The Conference Board's index rose to 138.4 in September from 134.7 in August. This compares to an all-time high of 144.7 reached in 2000.

Inflation – Core inflation (which strips out volatile energy and food prices and is closely followed by the Fed), rose 2.2% in August from a year prior, compared with expectations among analysts it would hold steady at the 2.4% pace of July, which was the fastest rate since September 2008.

Trade Deficit – The U.S. trade deficit increased to a five-month high in July as exports of soybeans and civilian aircraft declined and imports hit a record high, suggesting that trade could be a drag on economic growth in the third quarter. The increase was the biggest monthly widening since 2015.

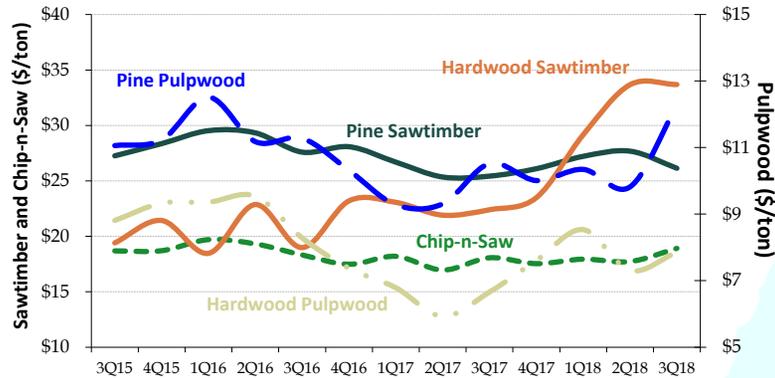
Interest Rates – Treasury yields as of the beginning of Q4 reached multiyear highs with the 10-year yield above 3.15%.

Oil Prices – Oil (Brent crude) hit a four-year high at the beginning of the quarter of just short of \$87, fueled by concerns about a shortfall in global supply as U.S. sanctions whittle away at Iranian crude exports. The market is just one month away from the Nov. 4 deadline that President Donald Trump set for oil buyers to stop purchasing Iran's crude.

U.S. Dollar – The U.S. dollar, as measured by the U.S. dollar index, traded in a range between 94 and 97 throughout the third quarter.

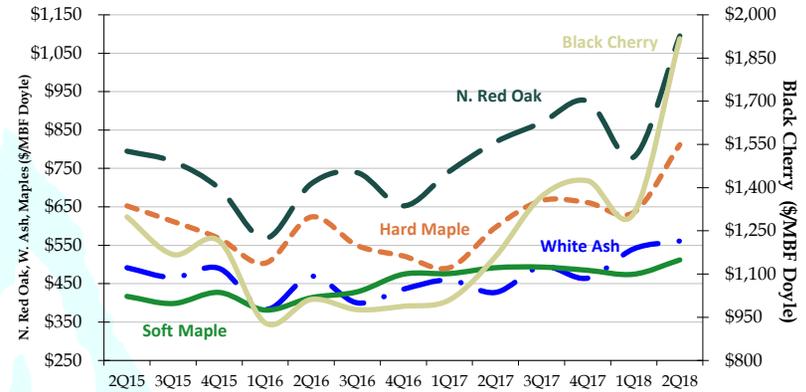
The FIA Timber Economics “Quarterly Dashboard”

Southeastern Timber Prices



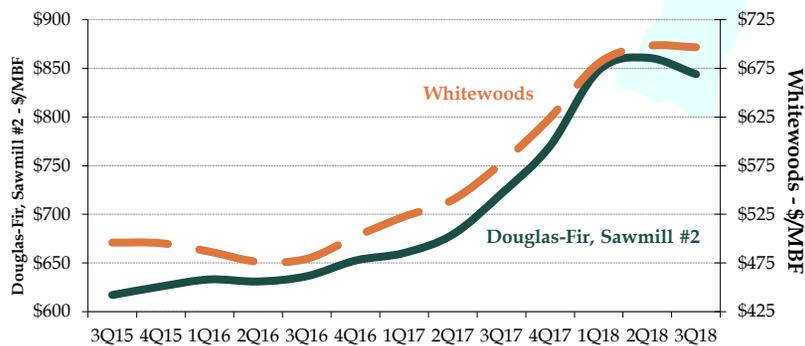
Source: Forest2Market®

Northeastern Hardwood Timber Prices



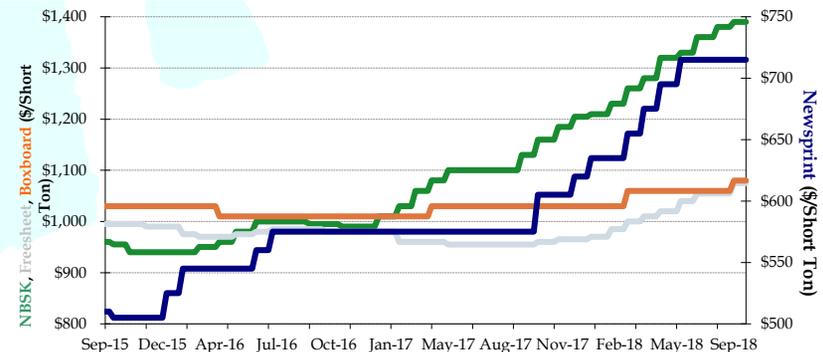
Source: Pennsylvania Woodlands Timber Market Report - Northwest Region

Pacific Northwest Timber Prices



Source: Log Lines®

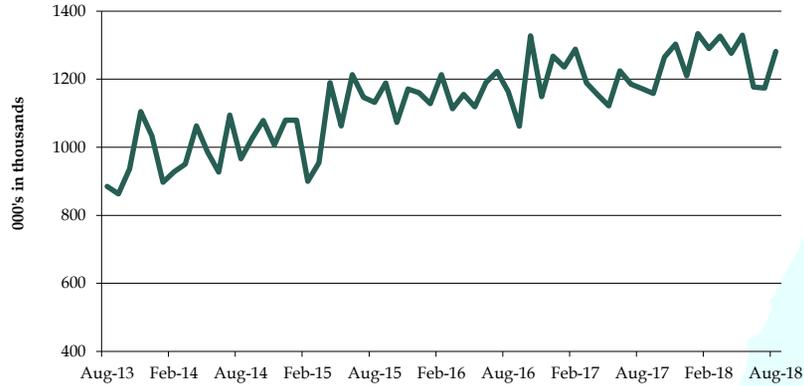
Pulp and Paper



Source: FOEX Indexes, Ltd., RISI Pulp & Paper Week

The FIA Timber Economics “Quarterly Dashboard”

Housing Starts



Source: NAHB.org - <http://www.nahb.org/>

30 yr. Mortgage



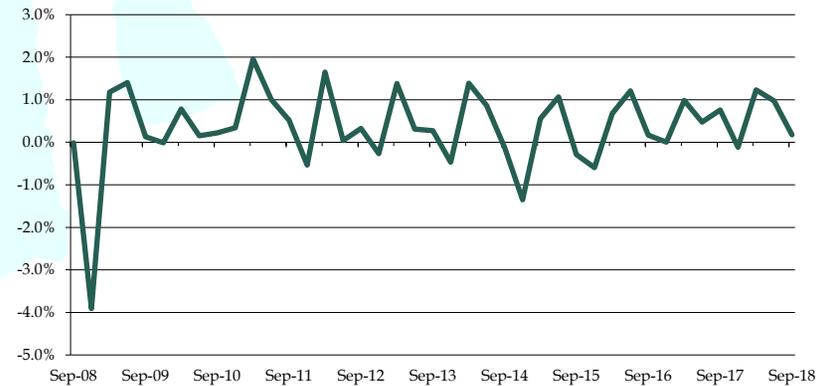
Source: The Federal Reserve

Lumber



Source: U.S. Department of Labor, Bureau of Labor Statistics

Inflation (CPI)



Source: <http://www.bls.gov/cpi/home.htm>