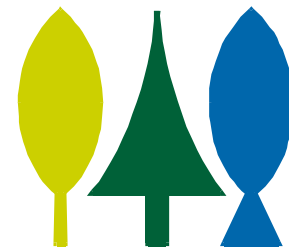


# GMO

Boston • London • San Francisco • Sydney

*Investor Perspectives: Criteria and Issues  
in Supporting Indigenous Forestry Projects*

*June 4, 2002 Vancouver B.C.*



**Renewable Resources LLC**

## Renewable Resources LLC

- Renewable Resources LLC, with offices in Boston and Auckland, NZ, is the forest investment arm of Grantham, Mayo, Van Otterloo & Co. LLC
- Our team of seasoned professionals is skilled in the evaluation, acquisition, and management of both natural forests and plantations. We have made forest investments in New England, the Pacific Northwest, the U. S. South, Australia, New Zealand, Chile, Uruguay and Brazil.
- Since joining GMO, we have created a broad and diverse portfolio of timber investments. We currently have 110 clients, 8 partners, and five Timber Funds. Current committed or invested assets exceed \$300 million.

# Grantham, Mayo, Van Otterloo & Co. LLC

## *Summary*

Independent firm founded in 1977

81 investment professionals in Boston, London, San Francisco and Sydney, over 225 employees worldwide

\$26 billion of assets under management

## *Representative Clients*

- **Universities:** Columbia, Duke, Harvard, Michigan, Princeton, Stanford, Swarthmore, University of Pennsylvania, University of Virginia, Yale
- **Corporate Pension Funds:** Bell Atlantic, Campbell Soup, Citgo, Corning, GTE, Kodak, 3M, Sprint
- **Foundations/Charitable Organizations:** Brookings, Chicago Symphony, Fresh Air Fund, Lincoln Center, Mellon, Metropolitan Museum of Art, World Wildlife Fund
- **Public Retirement Systems:** Milwaukee County, San Francisco City and County, State of Connecticut, Washington State Investment Board, Wisconsin State Investment Board
- **International Organizations:** World Bank

# What is a Timber Investment?

- In timberland investments, returns are generated either from tree farming or from managing natural forests.
- Tree farms are artificially established forests which are intensively managed for wood production. They are characterized as capital, management, and technology intensive, and are managed on an “even age” basis.
- Managed forests are natural forests that have been managed less intensively, or selectively, over a long period of time. They require “all age” management regimes, with flexible, stand specific prescriptions. Management costs per acre are minimal, natural regeneration is relied on (rather than replanting after clear cutting), and long-term in-growth is the major source of return.

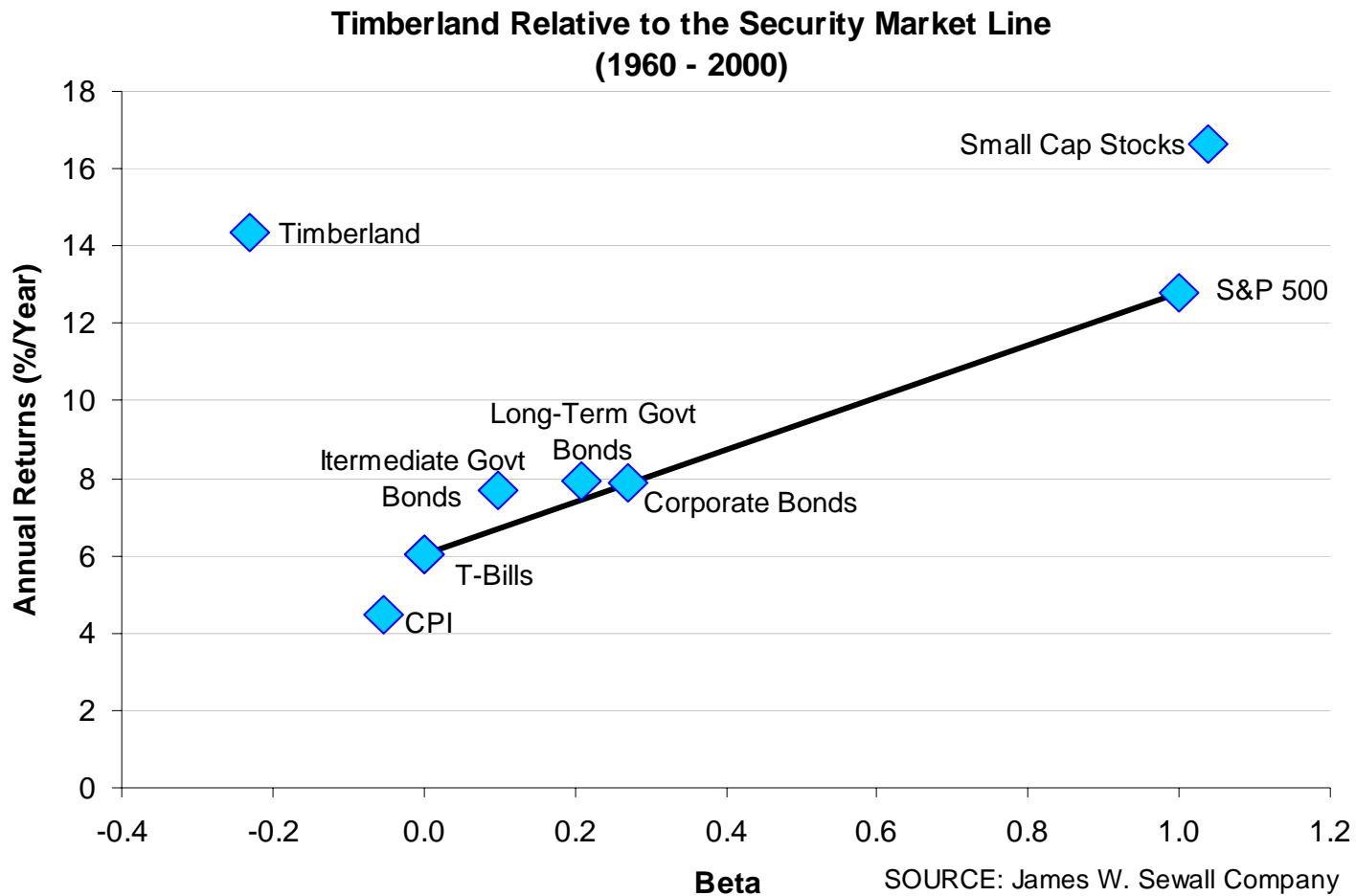
Returns from both types of forests come from:

- Value of the standing trees (stumpage)
- Biological growth (increase in volume)
- In-growth (trees' growth into higher-valued product classes)
- Increases in product prices
- Land value increases (including potential conversion to highest and best use)
- Other income sources (leases, carbon credits)

# What is a Timber Investment Management Organization?

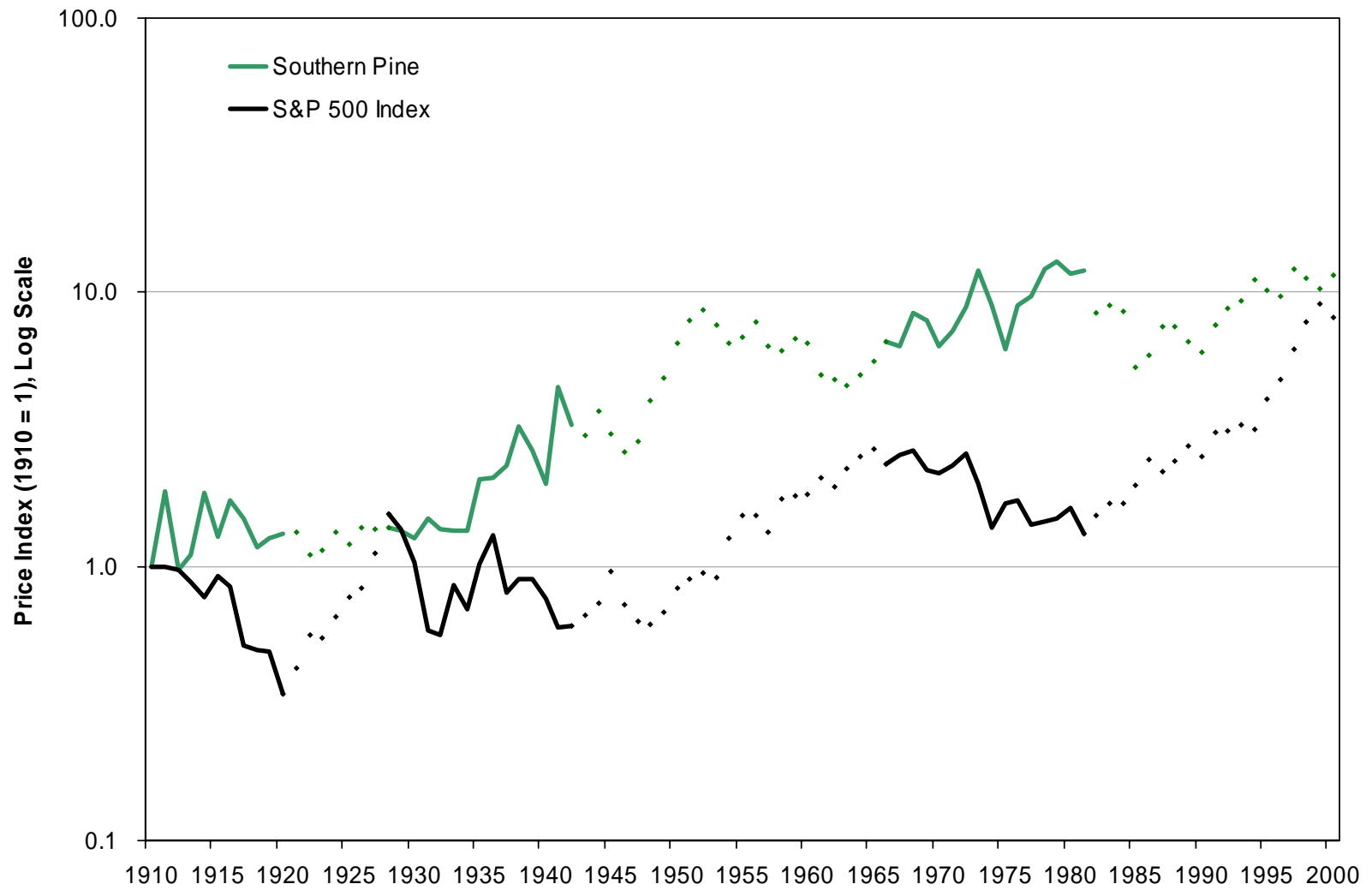
- A Timber Investment Management Organization functions as the intermediary between investors and their timberland investments.
- A TIMO's primary responsibilities include finding, analyzing, and acquiring investment-grade properties, and then, translating the investor's objectives into forest management activities that will optimize those objectives.
- The TIMO oversees the foresters who sell the investor's timber and work in the investor's forest. It is the TIMO's responsibility to insure that capable, trustworthy foresters manage the land and that all expenses are scrutinized.
- A TIMO must keep their investors informed about market trends, valuations, and developments within the industry.

# Low Correlation With Equity Markets



This chart shows timberland's performance relative to other asset classes market beta. The asset class plots well above the mean regression line, which means timberland's return profile exceeds all of the other financial assets classes depicted above. In, short, when the market is down timberland tends to be up, which causes it to function as an effective, counter-cyclical hedge.

# Timber: A Good Hedge in Bear Markets





## Toropapa Joint Venture

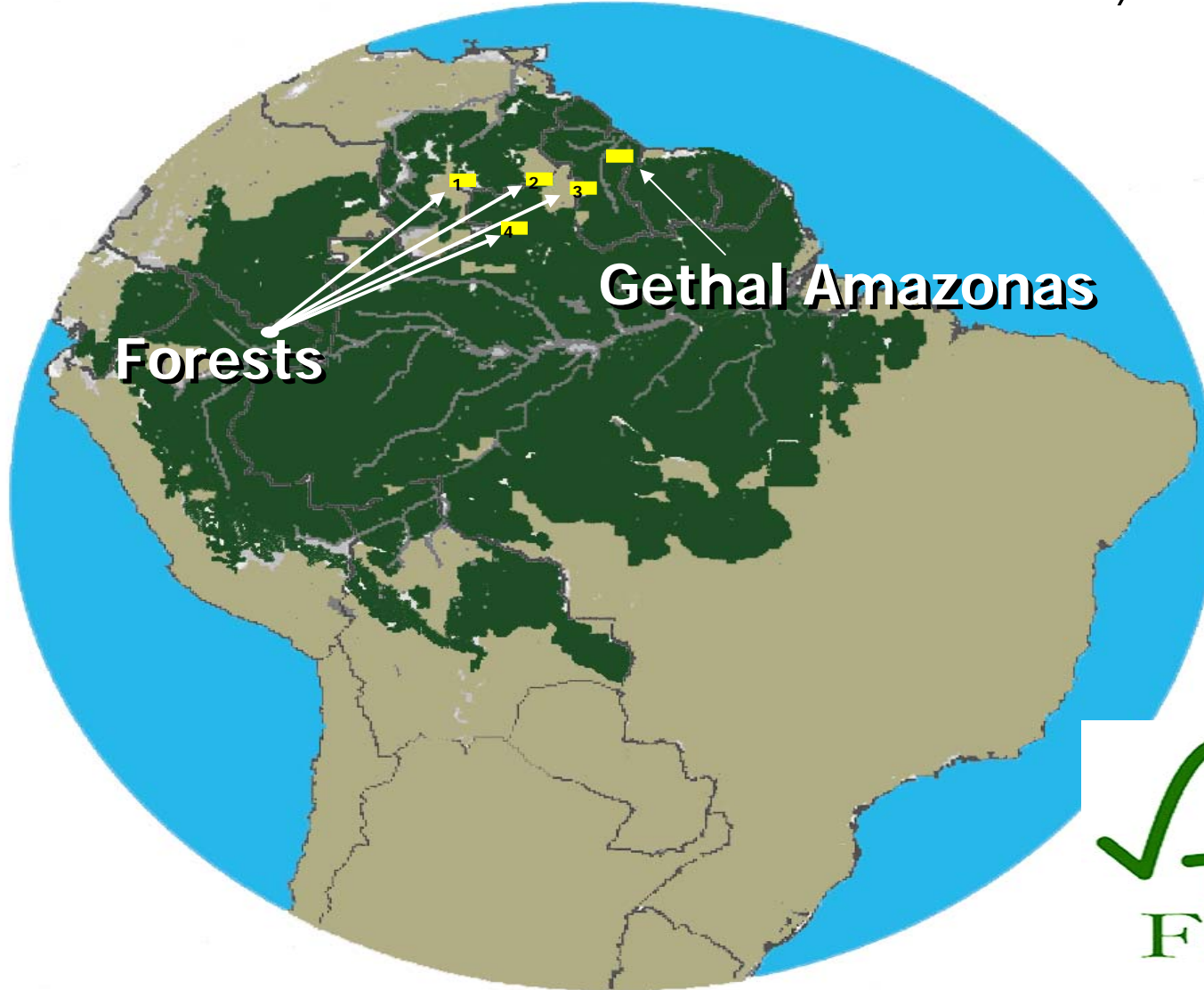


*Management Plan: This joint venture is with a local Maori Trust. The plan includes full liquidation of the existing timber over a 14 year period. The Maori Trust retains its interest in the underlying land, and replants.*



# GMO Brazil Sustainable Forest Fund

*Forest & Mill Locations — State of Amazonas, Brazil*



Forest Investment  
Management organization

capital  
security  
knowledge

Community organization

ownership/control  
security  
knowledge

Joint Venture Forest Asset Management company

- Define priorities/establish management plan
- oversee budget/divide returns

## Defining the Forest Asset



-Mapping

-Timber inventories and allowable cut

-Rapid environmental assessment

-NTFP, Carbon baseline/inventory

-Agrosystem Rapid Participatory Diagnostic (DRPA) and a Stakeholder Appraisal

# Brazil Fund Community Development Activities Schedule

## Year 1

Community and Forest Assessment: assets, conditions, and needs

Form alliances with local NGOs, government, social institutions, and communities

## Year 2

Develop rural cooperatives around farinha and castanha production and marketing

Develop tree and other crop nurseries at strategic locations

Seed improvement project

Open computer literacy school (democracy training incognito)

Assist woodworking school development

Maternal health project

## Year 3

Farmer education program

Product improvement of farinha and castanha (quality, sanitation, packaging, marketing, etc)

Agricultural diversification and crop improvement

Rural drug program

Sanitation program

GA builds local sawmill for rough cutting

Micro-loan program

Develop local wood products industry plan

Develop community forest management plan

## Year 4

Homebuilding program

Ecology training program

## Year 4 (continued)

Local forest management

Develop direct markets for castanha

Develop woodworking businesses

Children's health program

## Year 5

Expand micro-loan program to intermediate loans

Build regional markets for agro-forestry products

Men's health program

Elementary education program (teacher training, materials, attendance, etc.)

Build locally owned sawmill

Develop new agro-forestry products (fruit juices, premium coffee, etc.)

Build centralized processing for agro-forestry products

## Year 6

Build direct markets for agro-forestry products

Build markets for locally made wood products

Develop rural transportation system

## Year 7

Develop rural high school program

Develop university access program

Develop communal ownership program for significant assets

## Year 8

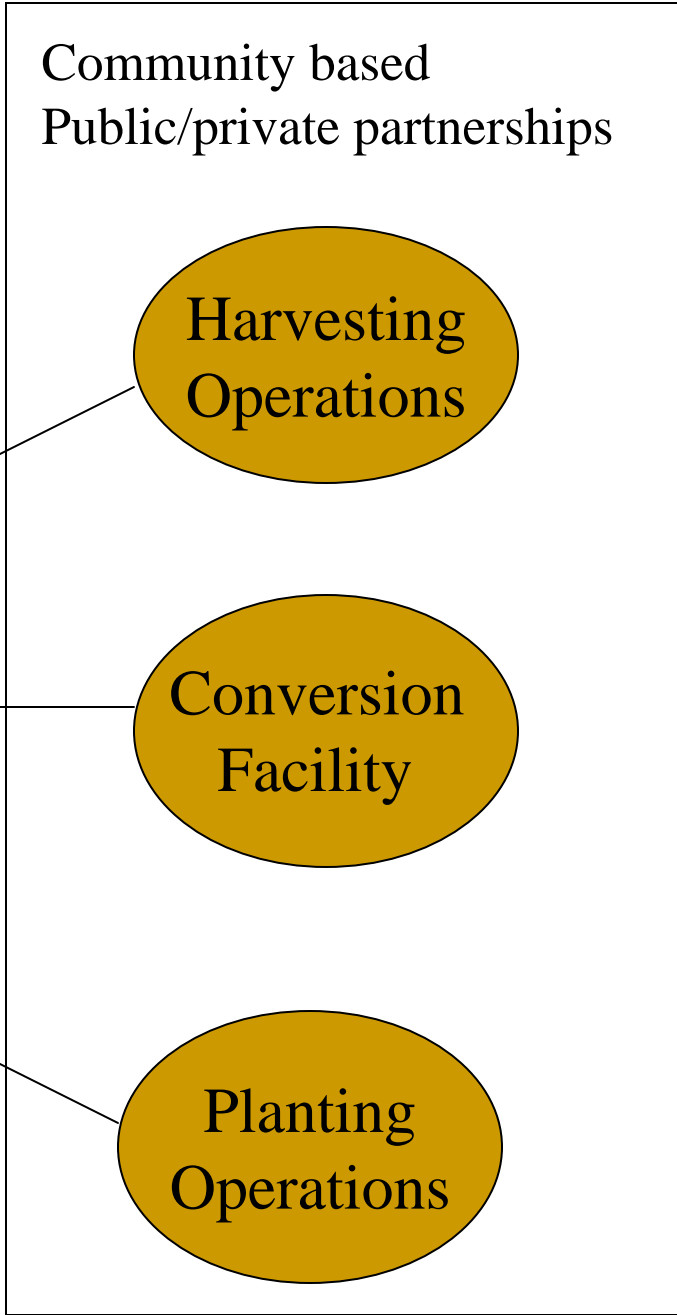
Transfer part ownership of Gethal facilities to local owners (long-term loans)

Transfer other assets to community (long-term loans)

## Year 10

Follow-up studies and plan development for problem areas

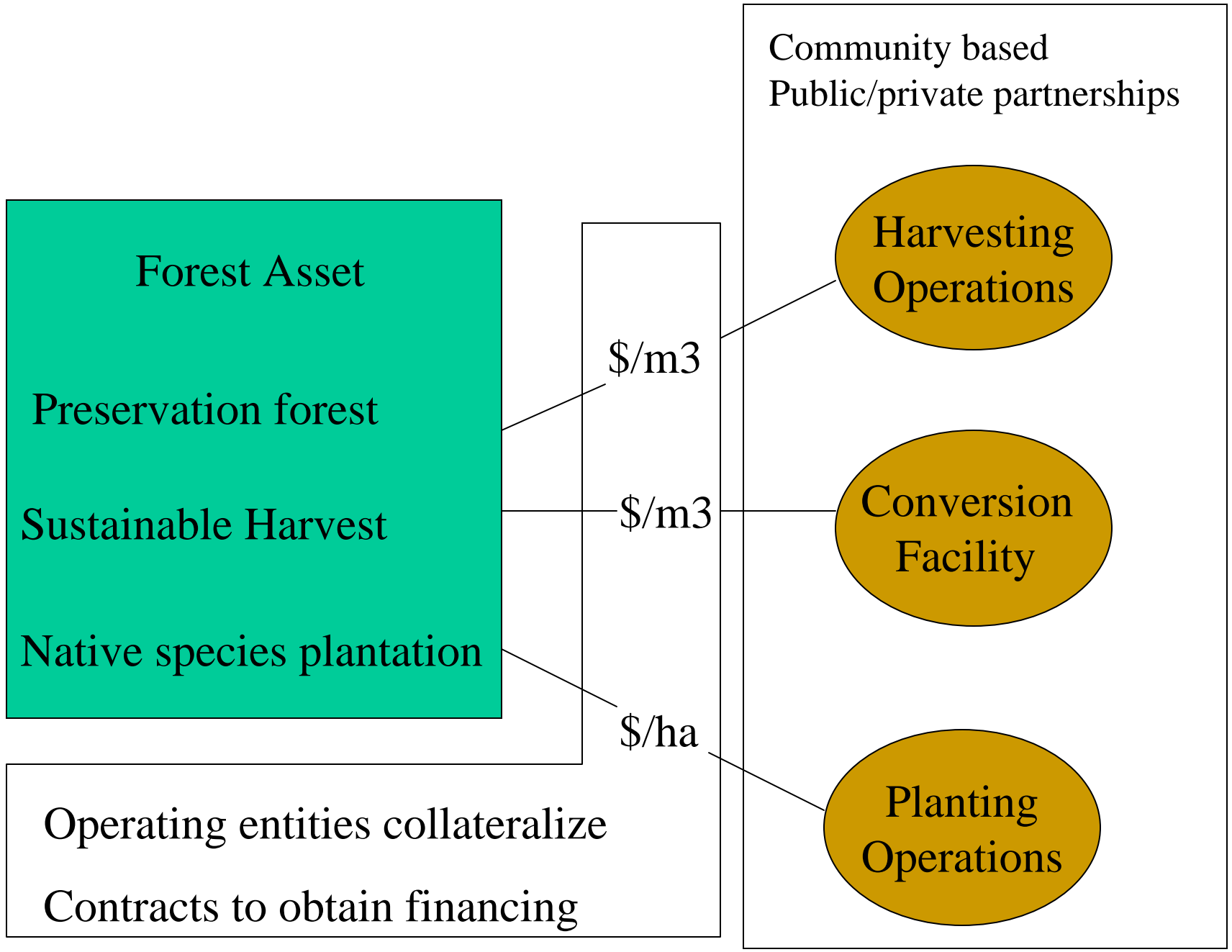




\$/m<sup>3</sup>

\$/m<sup>3</sup>

\$/ha



“It seems that when the government wants to it can assert that the forests of the province do, indeed, belong to the people”

Ben Parfitt, North of Caution