Hancock Timberland Investor



A Manulife Asset Management Company

First Quarter 2015

Changing Dynamics in Pacific Rim Softwood Sawlog Markets

Major changes in the currency exchange rates of key Pacific Rim log supply regions have impacted Pacific Rim softwood sawlog markets. Over the last year, the sharp devaluation in the currencies of Russia and the Ukraine has placed downward pressure on Pacific Rim sawlog export prices. These currency-induced changes to the cost structure of the Pacific Rim softwood sawlog market are already affecting the key suppliers and will be instrumental in defining market trends for the remainder of this decade.

From the beginning of last year through the first quarter of 2015, the U.S. dollar has made major gains against a broad range of currencies. Chart 1 reflects the general downward trend in currency values of the largest softwood log suppliers to the Pacific Rim in relation to the U.S. dollar. The U.S. dollar's current strength reflects the relatively better performance of the U.S. economy compared to Europe, Japan, and emerging economies, as well as expectations of higher U.S. interest rates on the horizon in 2015-2016.

During the same time fundamentals supporting the U.S. dollar improved, oil prices plunged. The drop in oil prices took a significant toll on the currencies of the world's petro economies, particularly Russia. Between the first quarter of 2014 through the first quarter of 2015, the Russian ruble lost 40% of its value, reeling from the combined effects of a sharp devaluation in its number one export commodity, crude oil, as well as from the negative impacts of the restricted foreign trade and financial sanctions imposed on Russia in response to Russia's annexation of the Crimea and its incursions in eastern Ukraine.

Russia is the dominant supplier of softwood sawlogs to China and the devaluation of the Russian ruble has boosted the competitive position of Russian sawlogs. New Zealand, the next largest supplier of softwood sawlogs to China, experienced a more moderate currency decline (12% against the U.S. dollar) compared to the ruble's devaluation. Ukraine, which has been a relatively minor supplier of softwood sawlogs to China, has seen its share of the China sawlog market grow rapidly, supported by the dramatic 56% drop in the Ukrainian hryvnia (UAH) since the first quarter 2014.

Chart 1: Exchange Rates for Key Suppliers of Softwood Sawlogs to China (Indexed January 2014= 1)

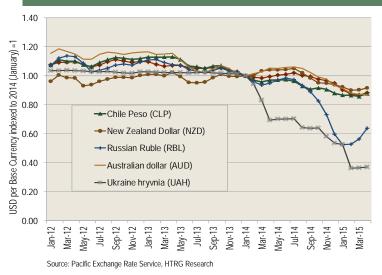
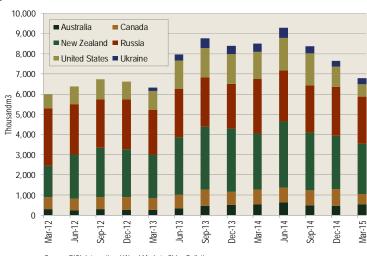


Chart 2: China Quarterly Softwood Log Imports by Major Supply Source



Source: RISI, International Wood Markets China Bulletin

(Continued on page 2)

China is the major destination for softwood sawlogs in the Pacific Rim, and in 2014 imported 35.7 million cubic meters of softwood sawlogs, representing 64% of total Pacific Rim imports (based on the four largest importers: China, Japan, Korea and India). For 2014 as a whole, China's softwood log imports increased 8.4% from the previous year, but imports peaked in the second quarter and have dropped in each of the following quarters. (*See Chart 2, page 1*) By the first quarter of 2015, Chinese softwood log imports had slipped 20% below the same period a year earlier.

Responding to weaker demand and currency pressures, the price of imported softwood sawlogs to China on a delivered basis has retreated. Between the end of the first quarter 2014 to the end of the first quarter of 2015, the U.S. dollar price of softwood sawlogs delivered in China declined for all the major suppliers. The price of U.S. Pacific Northwest logs delivered into China fell 21%; Russian log prices fell 17%; New Zealand radiata pine prices dropped 29%; and the price of logs from the Ukraine fell 26% (See Chart 3).

Chart 3: Softwood Log Prices Delivered at China Ports in U.S. Dollars



Viewed from the perspective of the individual supplying country, and expressed in local currency, the weakness in log prices in China presented a less uniformly negative picture (*See Chart 4*). Indexed to a starting value of 1.0 in the first quarter of 2014, the change in the price of softwood sawlogs delivered in China between March 2014 and March 2015 rose 39% for Russian larch in RBL and 69% for Ukrainian sawlogs in UAH. New Zealand radiata pine logs in NZD fell 19% over the same period.

Chart 4: Softwood Log Prices Delivered at China Ports Expressed in Log Suppliers Local Currency (Indexed January 2014= 1)

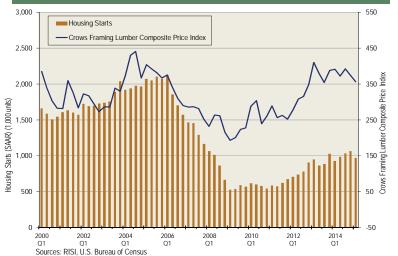


The cost advantage conferred to Russia and Ukraine by the weaker ruble and hryvnia is helping them expand their market share in China's sawlog market. In the first quarter of 2015, Russia's share of total Chinese softwood sawlog imports increased to 33% from 30% in the first quarter of 2014. Ukraine's share of Chinese softwood sawlog imports, barely negligible two years ago, was 4.3% in the first quarter of 2015. While Russia and Ukraine have increased their presence in China's sawlog markets, the U.S. has lost substantial ground, its share dropping to 9% from 15% a year earlier. Producers of softwood sawlogs in the U.S. Pacific Northwest responded to the declining China export price by refocusing attention on the expanding U.S. demand at domestic lumber and plywood mills.

Unlike their counterparts in the U.S. Pacific Northwest, New Zealand timber producers have remained fully engaged in the China market despite weaker NZD prices. In the first quarter of 2015, New Zealand's share of Chinese softwood sawlog imports reached 35%, up from 31% a year earlier. New Zealand's acceptance of a substantially lower price (in NZD) to increase market share suggests New Zealand timber producers have at this time, limited alternative markets to compensate for shrinking Chinese demand. Despite gains in New Zealand's market share, the volume shipped from New Zealand to China in the first quarter of 2015 was still down 11% from the same period a year earlier.

(Continued on page 6)

Quarterly U.S. Housing Starts (1,000 units) and U.S. Softwood Lumber Composite Price Index (USD per MBF)



Housing starts in the first three months of 2015 averaged 0.97 million units (SAAR), down 9% from the previous quarter, but still registering a 5% gain over the first quarter of 2014. Responding to the sluggish pace of residential construction activity, softwood lumber prices trended

off 9% year over year.

Housing Starts

Quarterly Australian Dwelling Unit Approvals (1,000 units) Australian Softwood Lumber Composite Price Index and Softwood Stumpage Price Index

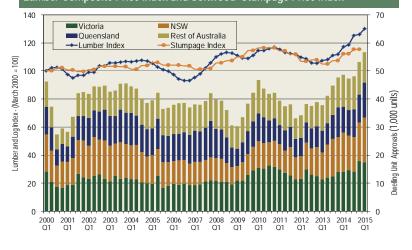


Figure 2. Australian Softwood Lumber Prices, Timber Prices, and Dwelling Unit Approvals

Figure 1. North American Softwood Lumber Prices and U.S.

U.S. residential construction activity lost momentum

during the first quarter due to severe winter weather

conditions, particularly in the Mid-West and Northeast.

lower, with the first quarter Crow's Framing Lumber Composite Index down 5% from the previous quarter and

Dwelling approvals (a key indicator of residential construction activity) in Australia rose to a new peak in the first quarter of 2015, reaching 56,625 units, a 16% increase over the first quarter of 2014. The strong housing markets have supported increases in Australian structural lumber prices, which in the first quarter, were 11% above the level of a year earlier. Sawlog prices are also benefiting from improved domestic lumber markets and the development of export log markets in China.

Quarterly New Zealand Softwood Log Export Volume to China (million m3) and New Zealand Radiata Pine Log Import Price (USD/m3 cif China)



Figure 3. New Zealand Log Exports

In the first quarter of 2015, New Zealand sawlog exports to China continued to lose ground. At 2.5 million cubic meters, New Zealand softwood sawlog exports to China were 24% below the all-time peak reached in the second quarter of last year. The sharp drop in New Zealand log shipments reflects a slowdown in China's construction activity. The price of New Zealand sawlogs in China denominated in U.S. dollars moved lower in the first quarter of 2015, dropping to \$123 per cubic meter, down 24% from the high-point of \$161 per cubic meter set in the first quarter of last year.

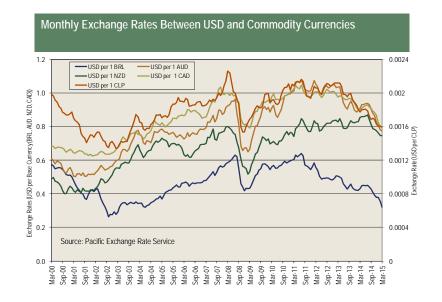


Figure 4. Exchange Rates

up 3% year-over-year.

After making significant gains in 2014 against the currencies of Australia, Canada, Chile and New Zealand, the U.S. dollar continued to gain ground in the first quarter of 2015, but at a bit more moderate pace. The currencies of New Zealand and Chile both lost 4% from the previous quarter, while the Canadian and Australian dollars, impacted by weak oil and gas prices, both slipped 8%. The Brazilian real suffered the most pronounced correction against the U.S. dollar in the first quarter, dropping 11% from the previous quarter, reflecting the deteriorating economic and political situation in the country.

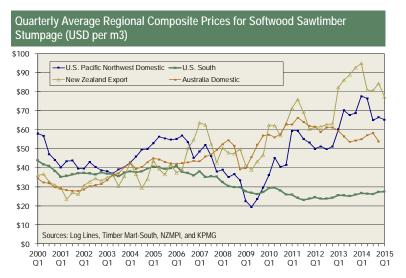


Figure 5. Regional Softwood Sawtimber Stumpage Prices Weaker demand in the Chinese market and the further devaluation of the currencies of key suppliers to the China sawlog market (Russia, Ukraine, New Zealand and Australia) have added to the downward pressure on saw timber prices expressed in U.S. dollars. New Zealand export sawlog stumpage prices were down 8% in the first quarter, while stumpage prices in the U.S. Pacific Northwest slipped a more modest 2%. Data for the first quarter of 2015 is not yet available for Australian timber prices, but due to currency declines alone, Australian softwood sawlog stumpage prices slipped 7% in the final quarter of 2014 from the previous quarter. Timber prices in the U.S. South continued to make incremental progress, with first quarter southern pine sawtimber stumpage prices

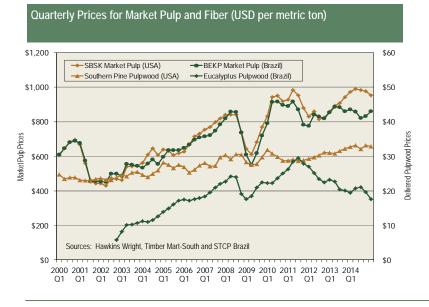


Figure 6. Pulp and Pulpwood Prices, U.S. South and Brazil Bleached Eucalyptus Kraft Pulp (BEKP) prices continued on an upward trend in the first quarter of 2015, gaining 3% over the previous quarter to US\$ 832. BEKP prices have made modest progress in recent quarters, supported by strong export demand based on Brazil's low-cost position. Brazilian eucalyptus pulpwood prices slipped 10% in US\$ compared to the previous quarter, but in local currency terms, prices were nearly flat. Southern Bleached Softwood Kraft (SBSK) prices dropped 2% in the first quarter, marking the third consecutive quarterly reduction in price since the cyclical peak of \$990 reached in the second quarter of last year. First quarter pine pulpwood delivered prices in the U.S. South held close to the \$30 per tonne level that has characterized the past year, reflecting generally balanced market conditions.

U.S. Timberland Annualized Operating Cash Yields (percent per year)

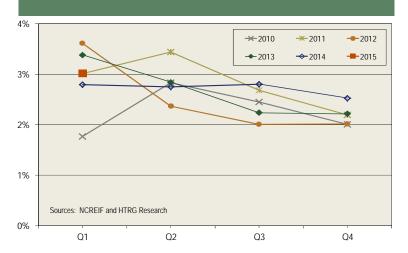


Figure 7. U.S. Timberland Operating Cash Yields

Annualized cash yields from U.S. timberland properties as reported by NCREIF were 3.0% in the first quarter. Since 2008, first quarter cash yields have averaged 2.6%, making 2015's first quarter cash yield above average. Slightly higher timber prices in the South combined with harvest demand in the Pacific Northwest driven by the regions lumber and plywood mills, drove regional first quarter cash yields.



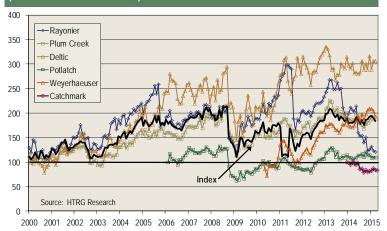


Figure 8. Hancock Securitized Timberland Index

The Hancock Securitized Timberland Index, a market-capitalized weighted public timberland performance Index dropped 5.0 % in the 1st quarter as revenues from timber sales were generally less than the previous quarter. Only Plum Creek and Catchmark share prices increased. Plum Creek's market value edged up 1.5% from the previous quarter. Catchmark share prices increased by 3.5%. Potlatch share price lost 4 percent; Rayonier and Deltic down 3 percent; and Weyerhaeuser, the largest contributor to the Index, lost 7.8 percent of share value first quarter. Catchmark Timber Trust was included in the HSTI for the first time this quarter, after its successful REIT conversion in December 2013. Catchmark contributes 1% to the total weight of the Index. The HSTI has been retrospectively recalibrated from late 2013.

Quarterly U.S. South Timberland Values (\$ per acre)



Figure 9. Timberland Enterprise Value

In the first quarter, estimates of southern U.S. timberland values for publically traded REITs continued to converge with the values of privately held institutional timberland holdings. The value spread between public and private timberland narrowed to \$98 per acre. The Timberland Enterprise Value per Southern Equivalent Acre (TEV/SEA) - a measure of southern timberland values for public timber REITs – fell \$175 per acre first quarter. In contrast, southern timberland held by private institutional investors – measured by the NCREIF Timberland Property Index in the U.S. South – rose \$25 per acre, the sixth consecutive quarterly increase in private southern timberland values.

Changing Dynamics in Pacific Rim Softwood Sawlog Markets (Continued from page 2)

Log exporters in the U.S. and New Zealand will continue to face challenging market conditions over the next few years in the China sawlog market. The currencies of both Russia and the Ukraine are unlikely to stage a strong, sustained rebound in the near-term, given low expectations for both of their economies and still simmering political tensions between the two countries. Currently the World Bank is projecting the economies of both Russia and the Ukraine to be in recession this year with their GDPs contracting by 3.8% and 7.5% respectively. Although Russian and Ukrainian softwood sawlog producers have a strong financial incentive to expand sawlog shipments to China, constraints on each's timber supply, harvest and delivery capacity, and transportation logistics will probably restrain a major ramp-up in exports to China by either supplier.

In addition to the continuing competition from log suppliers in Russia and the Ukraine, growth in Chinese demand for imported softwood sawlogs will be moderate at best. The overall Chinese economy has shifted to a slower rate of growth, and the residential construction sector is saddled with excess inventories, high levels of debt, and falling home prices. Yet, while China works through these problems in the construction sector, the demand for sawlog imports will receive support from tighter restrictions being placed on domestic timber production in China. China plans to completely stop commercial harvesting in all domestic natural forests by 2020.

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NOTES:

Figure 1. The source for the U.S. Housing Starts is U.S. Bureau of Census. The Housing Starts data includes Single-family and Multi-family starts. Crows Framing Lumber Composite Index data is RISI.

Figure 2. Quarterly Australian Dwelling Unit Approvals is published by the Australian Bureau of Statistics. The Lumber Index is published by URS Timber Market Survey using Softwood Structural lumber prices (Blended Price - 60 percent MGP 10 90x35x4800). Log Price Index is calculated using the (APLPI) Radiata Pine Domestic Stumpage prices. The log price is an average of Intermediate and Medium sawlon prices.

Figure 3. Quarterly New Zealand softwood log export volume to China and China Import prices are published by the RISI International Timber Service.

Figure 4. Monthly average Exchange Rates are published by the Pacific Exchange Rate Service.

Figure 5. Ouarterly Softwood Sawtimber Stumpage Prices for the U.S. Pacific Northwest is reported in Loglines published by RISI. The weighted index is made up of 50 percent Domestic Douglas-fir (47 percent #2 and 53 percent #3 Sawmill sorts) and 50 percent Whitewoods (47 percent #2 and 53 percent #3 Sawmill sorts). U.S. South prices are published by Timber Mart-South (60 percent Southern Pine Sawtimber and 40 percent Chip-n-Saw). Australian domestic prices are calculated using the KPMG Australian Pine Log Price Index (APLPI) Radiata Pine Domestic Stumpage prices. The log price is an average of Intermediate and Medium sawlog prices converted to USD/m3. New Zealand radiata pine export log prices are a blend of A,K and J sort logs published by New Zealand Ministry of Primary Industries converted to USD.

Figure 6. Quarterly Market Pulp prices are published by Hawkins Wright. U.S. Southern Pine Pulpwood prices are published by Timber Mart-South. Brazil Eucalyptus Pulpwood prices are published by STCP Engenharia de Proletos Ltda.

Figure 7. Annualized Operating Cash Yields are published by National Council of Real Estate Investment Fiduciaries (NCREIF). Yields are calculated using 60 percent U.S. South and 40 percent U.S. West.

Figure 8. The Hancock Securitized Timberland Index (HSTI) uses a base-weighted aggregate methodology (similar to that used to construct the S&P 500) to calculate a market capitalization-weighted value for six publicly traded timber-intensive forest products companies. Base weights were adjusted for the emergence of new companies or at the beginning of each year. Dividends are not reinvested. The companies included in the HSTI have no investment relationship with Hancock Timber Resource Group.

Figure 9. Public equity values are derived from our Timberland Enterprise Value per Southern Equivalent Acre (TEV/SEA) calculation for five limber-intensive publicly traded companies as compared to southern timberland values per acre calculated from the NCREIF database. TEV is a quarterly estimate based on total enterprise value (total market equity + book value debt) less estimated value of processing facilities, other non-timber assets and non-enterprise working capital. SEA uses regional NCREIF \$/acre values to translate a company's timberland holdings in various regions to the area of southern timberland that would have an equivalent market value.

References to expected investment performance in this newsletter are based on historical information and are based on managements projections. Potential for profit as well as for loss exists.