

American Timberlands Company, LLC

Manager of American Timberlands Fund III, L.P.

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Investing Wisely and Staying Wealthy

Where can I invest conservatively with the possibility of additional returns?

The U.S. stock market is near all-time highs, real government bond rates are essentially zero, the U.S. Fed is out of bullets and desperate to tighten, politics are preventing any fiscal stimulus, and China's growth is slowing. Wise investors are seeking strategies which have downside protection, provide modest uncorrelated returns through cycles, and include opportunities to generate additional returns. Focusing on the macro-economic trends, identifying the best strategies within those trends, and utilizing experienced managers to take advantage of them should preserve and grow wealth.

With sunshine and rainfall, the trees always grow and wealth is preserved.

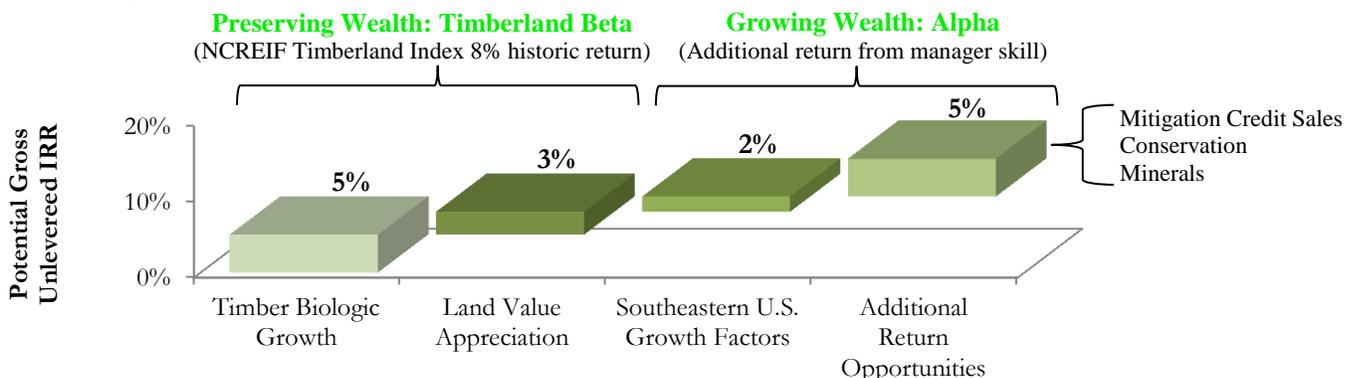
Through long-term cycles, the NCREIF Timberland Index has generated an 8% return (5% timber biologic growth plus 3% land value appreciation). Timberland is unique among agricultural investment strategies because timber is non-perishable and thus can be harvested in favorable markets and allowed to grow in unfavorable markets. For unlevered investors, this optionality preserves and grows wealth through the cycles.

With wealth preserved, the wise investor looks for opportunities to enhance returns.

The U.S. population is living longer, moving to the US Southeast, and enhancing returns to timberland investors. A 45 year old American is expected to live a full eight years longer today than when they were born. Americans, many of them retirees, empowered by flexibility and connectivity provided by the internet, are also moving to the coast (most notably the Southeast) seeking warmer coastal climates. The U.S. Southeast is projected to be the fastest growing region in the nation in the next 25 years with its population increasing by 33%.ⁱ A heat map of U.S. population migration data from United Van Lines (which has tracked U.S. migration patterns since 1977) clearly predicts continued growth in the U.S. Southeast.ⁱⁱ

For timberland investors, these trends provide exceptional opportunities from:

- Many retired or retiring land owners (an estimated 66% of all Southeastern U.S. land owners) **selling land for retirement income and/or estate planning**;
- The expected **16% increase in the prices of forest products** resulting from increased demand in the regionⁱⁱⁱ;
- Expected **increasing land values** from greater demand for land for development, infrastructure, roads, recreation, and other uses;
- **High demand for aggregates** for road beds, site preparation, concrete sand, etc.; and
- **High demand for land conservation** to offset population growth's impacts to the environment (i.e. wetland mitigation, watershed protection, carbon sequestration, etc.)



“Doing well while doing good” by being a good steward of your wealth and the environment...

Population and economic growth have dramatically increased demands for clean water, clean air, etc. **Without functioning ecosystems and the many services they provide, economic prosperity (let alone growth) is impossible. Natural systems have delivered essential services for free for eons as the world's largest “public utility.”** Unfortunately, population and economic growth are straining the environment's ability to continue to provide sufficient services. Forest destruction alone contributes as much to greenhouse gas pollution as all the cars and planes in the world – a full 15%.^{iv}

For investors, timberland investments, which also have environmental significance, in rapidly growing regions provide opportunities for enhanced returns. Wetland and stream mitigation banking, threatened species mitigation banking, sustainable forestry and farming, carbon sequestration, and watershed conservation are just a few emerging strategies which can be pursued simultaneously and in addition to timber growth.



Background

- Section 404 of the Clean Water Act requires no net loss of wetlands as a result of development, road construction, infrastructure construction, etc. The US Army Corps of Engineers is the chief regulator and enforcer of the Act responsible for reviewing and permitting wetland impacts and offsets.
- Consumers of raw land (e.g., developers, water/sewer authorities, departments of transportation, utilities) responding to growth and needing to destroy or impair wetlands, are required to offset and/or re-create the resources they are destroying.
- The mitigated lands must be as close as possible to the lands destroyed in type and geography.

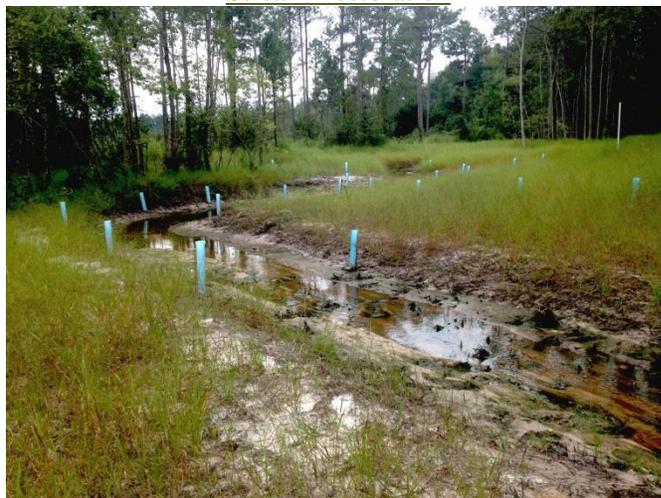
How it works

Since consumers of raw land generally do not have expertise in the restoration or preservation of wetlands, specialist investors with the appropriate skills have created a new market to sell wetland mitigation credits, often quite profitably. In essence, wetlands are restored or enhanced in advance under the authority of the US Army Corps of Engineers and other regulatory agencies which establish performance standards, management and monitoring requirements, and the terms of bank credit approval. The result is a mitigation bank and a “mitigation banking instrument” with restoration credits or preservation credits for wetlands and/or streams. Each type of credit has its own market and a related market price, and is sold to developers and government agencies to offset their impacts to wetlands in relatively close proximity to a respective mitigation bank.

Wetland Restoration



Stream Restoration



Financial returns

Demand and therefore price for wetland mitigation credits is driven by the amount and type of development within the relevant geography. Supply is driven by the availability of skilled and experienced investors and tracts of land where wetlands and streams can be restored efficiently and cheaply. Well executed mitigation banks generate 15% - 20% IRR's over an 8 year investment life.

ⁱ Woods & Poole Economics. 2015.

ⁱⁱ United Van Lines Shipment Migration Study 2014 & 2015.

ⁱⁱⁱ Forisk Consulting, LLC. *Forisk Research Quarterly 2016 First Quarter*.

^{iv} The Nature Conservancy. January 2016. Online.