

GMO

North America | Europe | Australasia

ASrIA

July, 2004

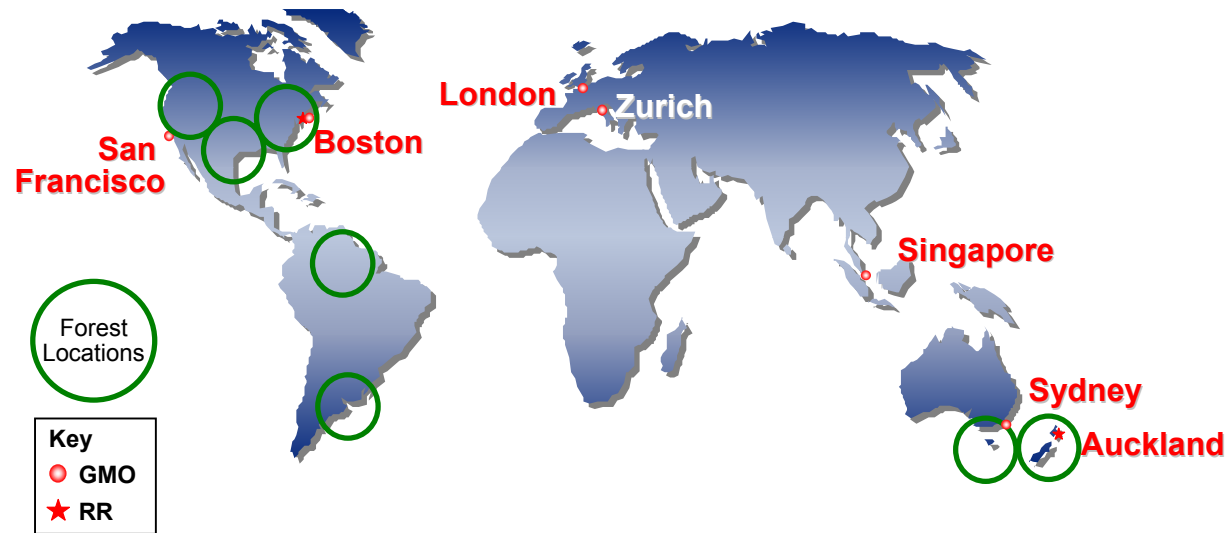


GMO Renewable
Resources LLC

Agenda

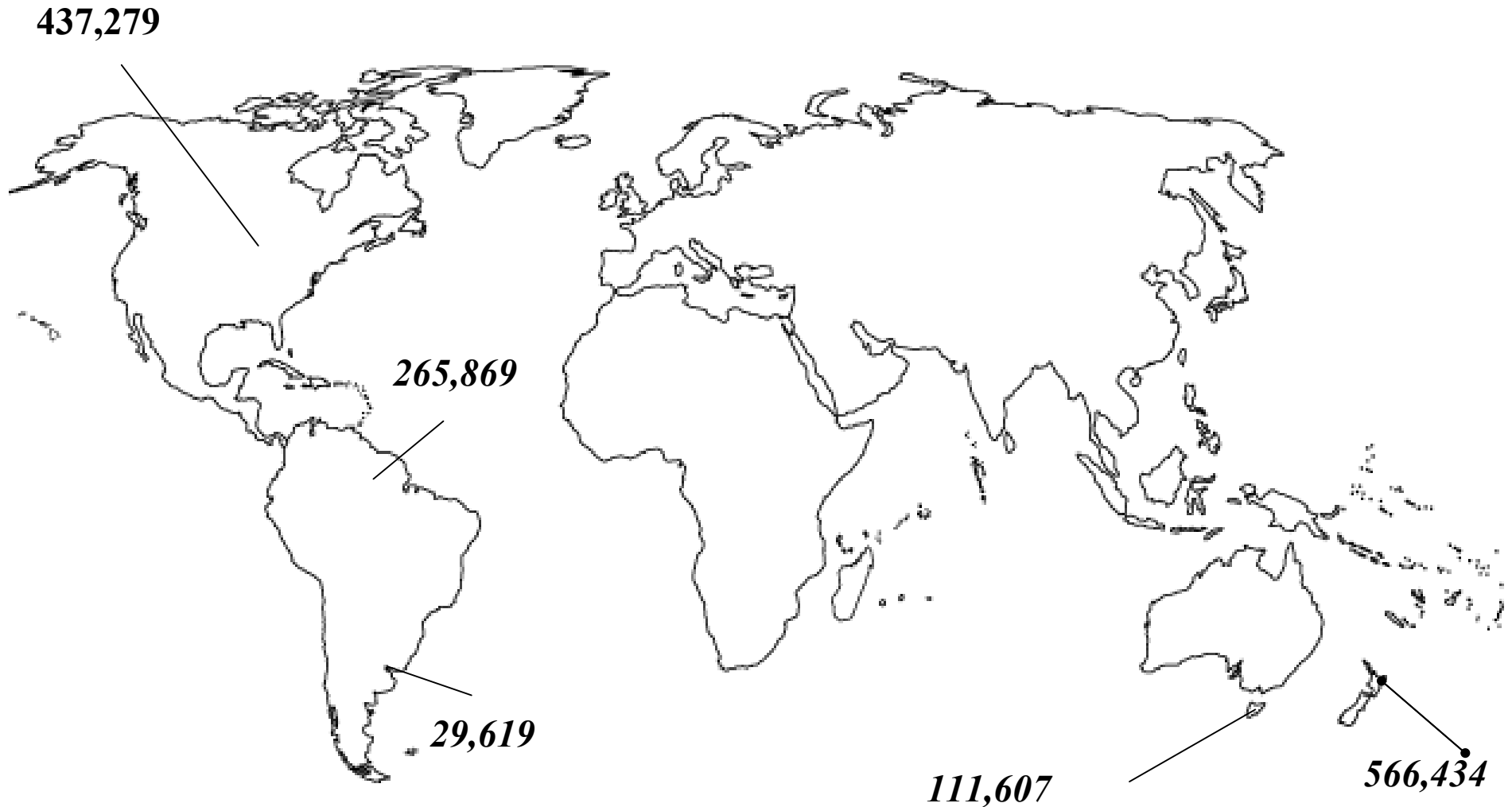
- GMO Renewable Resources: A Brief Introduction
- Timberland as an Asset Class
- Investment Approach
- Ian Jolly
 - Forester (20 years)
 - Plantations (NZ, Australia, South America, Pacific Islands, Laos, Indonesia)
 - Consultancy 15 years (including parts of Asia)
 - Forest Investment (GMO RR for 4 years)

GMO Renewable Resources



- GMO RR - offices in Boston and Rotorua, NZ. Forest investment arm of GMO LLC (USD65 billion)
- Skills - Evaluation, Acquisition and Management of both natural forests and plantations in the USA, Australia, New Zealand, and Uruguay
- Diverse portfolio of investments in seven Timber Funds. \$1.156 billion on behalf of 250 clients. GMO RR also invests 1% in each fund directly

GMO RR Properties as at March 31, 2004



Total Acres
1,410,808

GMO RR - Diversified Forestry Fund Performance

	1 year	3 years	5 years
Composite RR Diversified Timber Funds	15.39%	10.92%	9.65%
NCREIF Timber Index	7.67%	1.30%	4.18%
S&P 500	28.36%	-4.16%	-0.54%

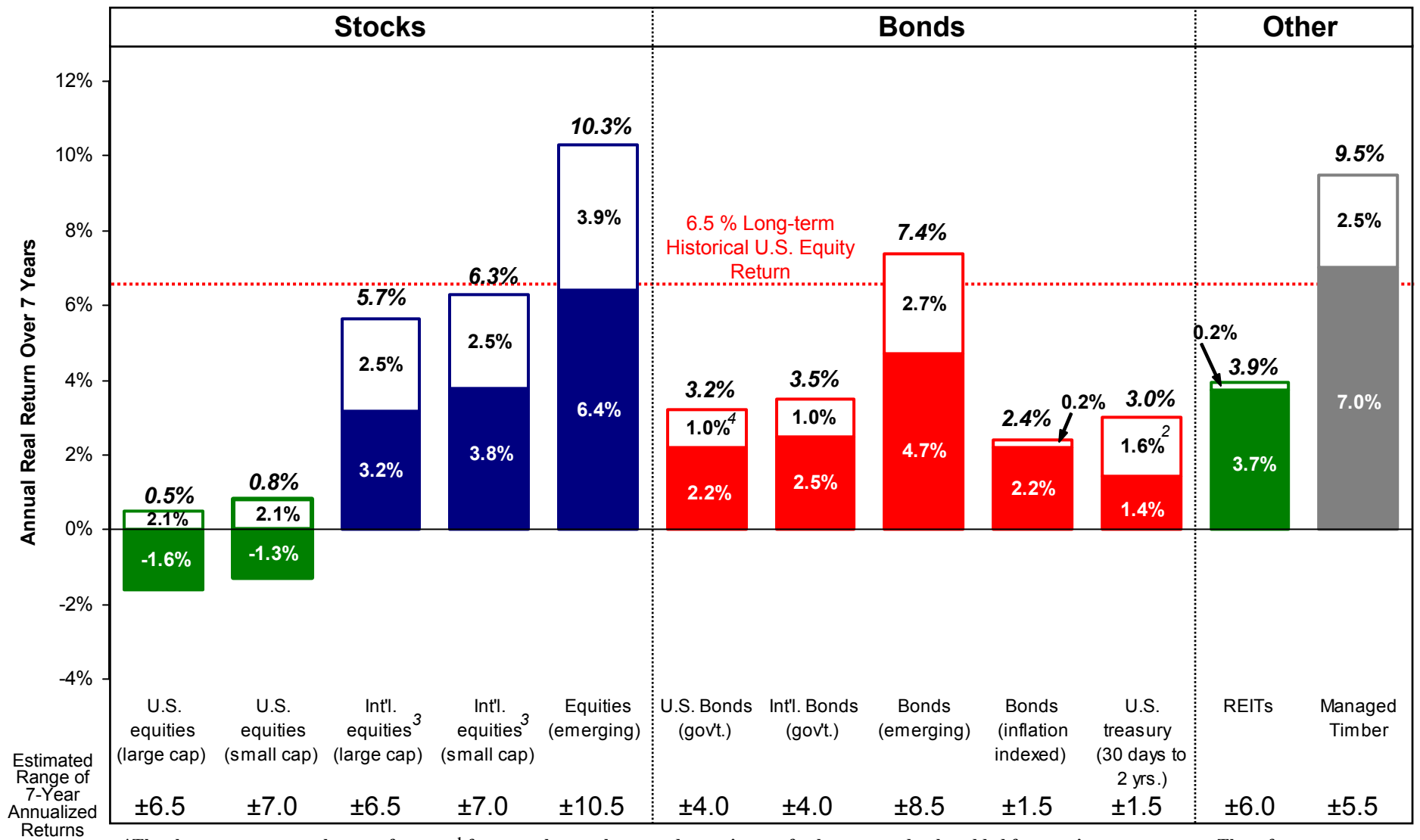
GMO RR target invest size is approximately USD 2 billion by 2010

Annualized as of December 31, 2003. Returns are Gross of Fees.

GMO 7-Year Asset Class Return Forecasts*

- Expected Value Added
 - Real Return (Asset Class Index)

As of May 31, 2004



*The chart represents real return forecasts¹ for several asset classes and an estimate of value expected to be added from active management. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO.

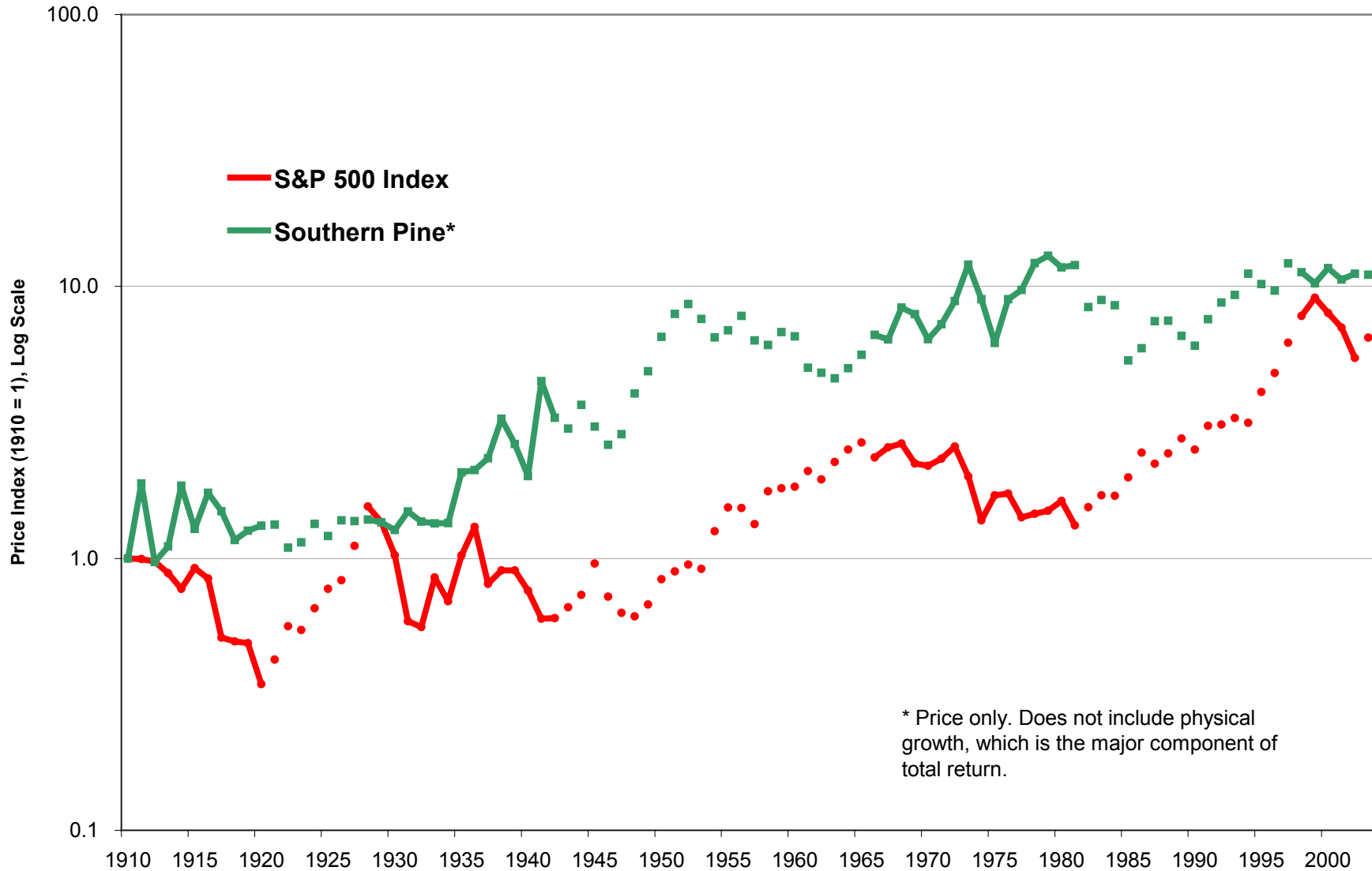
¹ Long-term inflation assumption: 2.2% per year.
² Alpha transported from management of global equities.
³ Return forecasts for international equities are ex-Japan.
⁴ Alpha transported from management of global bonds.

Timberland: A “Near Perfect Asset”*

- Like **private equity**, deals are opportunistic. Experienced research and analysis is rewarded.
- Like **real estate**, a real asset and a hedge against inflation, however, owners have the choice between harvesting standing timber today or allowing it to grow larger during periods when prices are depressed.
- Like **annuities**, mature forests and diversified portfolios can produce a predictable cash flow stream.
- Timberland is **not a commodity**. Although many of the end products produced from a forest are commodities, each forest is unique in age distribution, stocking, species mix and site quality.

**According to Smart Money Magazine*

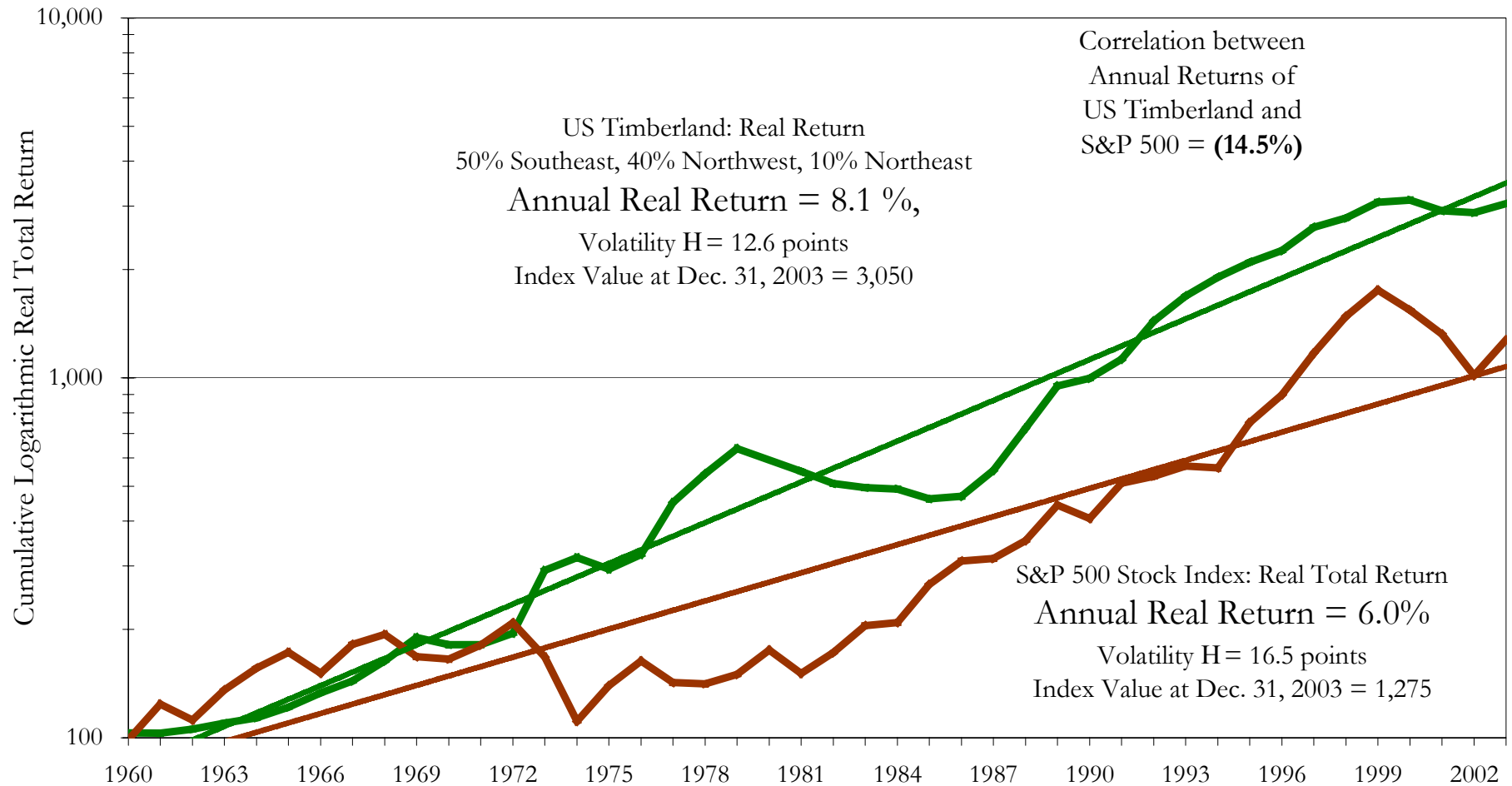
Timber: A Good Hedge in Bear Markets



Solid lines indicate bear markets in S&P; dotted lines represent the periods in between bear markets.

Timberland Outperforms U.S. Equities

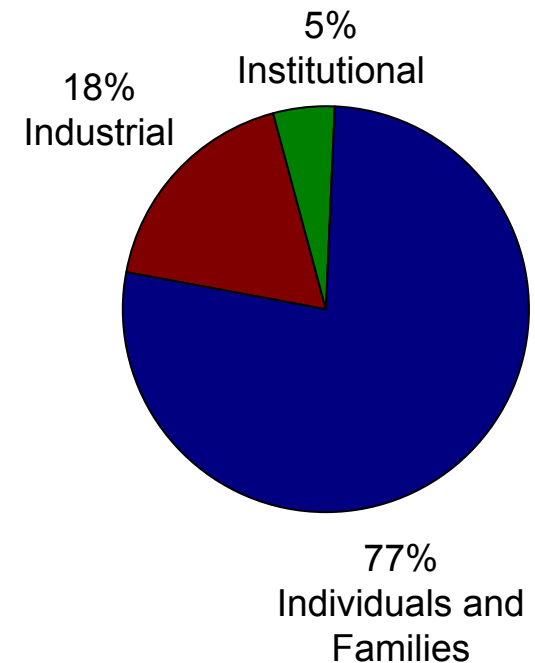
U.S. Timberland versus the S&P 500
Total Real Return from 1960 through 2003, Logarithmic Scale



Growing Interest in Timberland

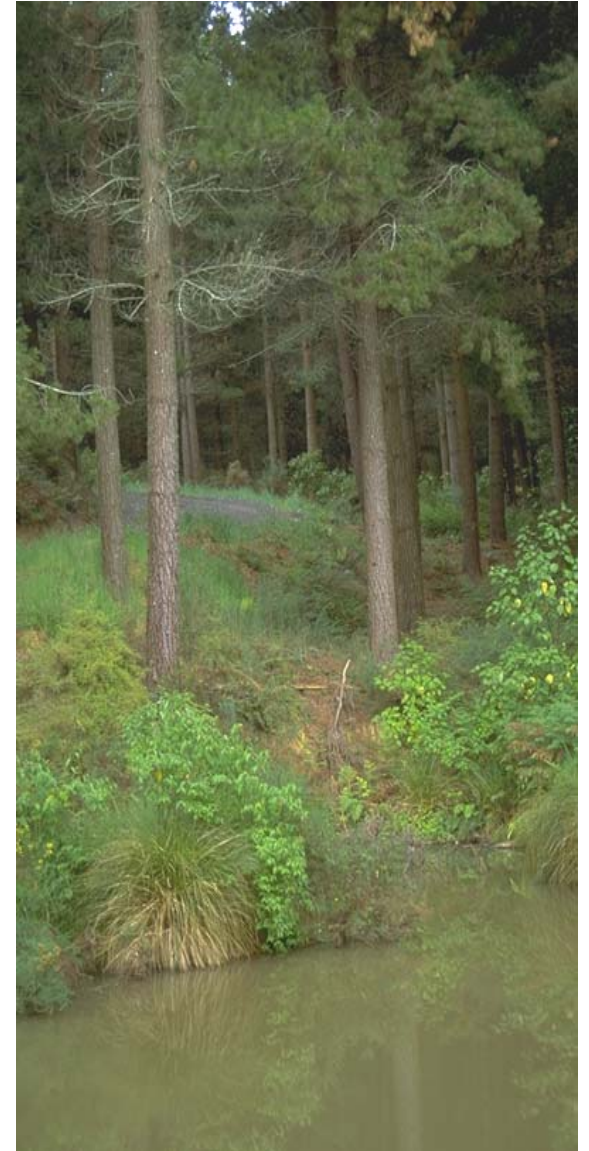
- Timberland managed by Timber Investment Management Organisations (TIMO's)
 - 1990 - \$1.0 billion
 - 2000 - \$10.0 billion
 - 2004-approx \$15 billion
 - 2015 - \$ 45 billion (?)
- Migration of industrial timberlands to private investors, TIMO's, individuals, and pensions.

U.S. Private Timberland Ownership



Key Characteristics of Sustainable Forestry Practice

- **An acceptable rate of return.** If it does not make money it will not attract money.
- **Soil and water quality, stability**
- **Biodiversity**
- **Community co- dependence / support**
- **Political support / stability**
- **Workable regulations**
- **Overall positive environmental and social impact resulting from investment**



Investment Process and Due Diligence

- Financial model
- Preliminary due diligence and deal negotiations
 - Quality information
 - Environmental monitoring / benchmarking
 - Working examples of similar operations
 - Risk assessment
- Consideration of local regulatory issues
- **Environmental Risk:** Many environmental risks are also opportunities. Increasing environmental pressure heightens the scarcity value of timber
- **Financial Model** – Risk adjusted rate of return
- Use equity to drive responsible forest management – **Not Cash Flow Driven**

Will GMO RR Invest in Asia?

Tenure of ownership

- Trees, Land, Joint ventures with land owners

Reliable Resource Descriptions

- Areas, Volumes, Species

Politics

- Stable and investment friendly, Currency (US Based investment), Workable regulatory environment

Sustainable Management that Builds Value

- Quality orientated investment (solid wood versus pulp, Teak versus Acacia)

Certification ?

- GMO RR Experience to date is added cost without adding value

We already work with conservation groups and indigenous land owners to create new investment opportunities

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