



J&O FOREST FUND

MONTHLY REPORT APRIL 2019

APR
+10.4%*









*Class A EUR

J&O Forest Fund is a diversified timber investment fund focusing its investments in two different forest regions representing different characteristics: South America and Europe.

INVESTMENT MANAGER COMMENT

April performance of +10.4% for Class A EUR stems from the effect of the biological growth of the Brazilian plantations. The cubic meter volume of some plantations has been constant for more than 12 months. With third-party valuations finally concluded the amassed growth hits the balance sheet instantly. For further insight into valuation methodology, see next page.

2019 NAV AND PERFORMANCE

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
CLASS A													
EUR													
NAV 	166.22	167.52	168.96	186.52									
Change	+0.62%	+0.78%	+0.86%	+10.39%									+12.91%
USD													
NAV 	196.06	196.46	195.75	216.2									
Change	+0.45%	+0.20%	-0.36%	+10.45%									+10.76%
GBP													
NAV 	219.79	217.78	220.84	244.04									
Change	-2.13%	-0.91%	+1.41%	+10.51%									+8.67%
NOK													
NAV 	1696.63	1727.37	1733.81	1913.98									
Change	-1.89%	+1.81%	+0.37%	+10.39%									+10.68%
CLASS C													
EUR													
NAV 	120.52	121.73	123.04	136.8									
Change	+0.83%	+1.00%	+1.08%	+11.18%									+14.45%
SEK													
NAV 	1500.63	1535.31	1541.59	1745.89									
Change	+2.88%	+2.31%	+0.41%	+13.25%									+19.69%
USD													
NAV 	109.07	109.5	109.31	121.52									
Change	+0.64%	+0.39%	-0.17%	+11.17%									+12.12%
CLASS D													
SEK													
NAV 	1404.94	1431.64	1435.12	1598.82									
Change	+2.81%	+1.90%	+0.24%	+11.41%									+17.00%

HISTORIC PERFORMANCE CLASS A EUR

2013	+13.1%*	2015	+9.5%*	2017	+14.8%*
2014	+15.0%*	2016	+13.5%*	2018	+16.15%*

Note: Up until Jan 2017 all currency classes had the same performance through equalization across currency classes.

*Compounded Performance Net of Fees.

KEY FIGURES AS OF APRIL 30 2019

YTD:	+12.9%*
AUM:	67 MEUR
POSITIVE MONTHS:	94%**

*Class A EUR

** Since Jan 1, 2013

CLARIFICATION ON METHODOLOGY OF VALUATION OF FOREST HOLDINGS

BACKGROUND – FUND HOLDINGS IN BRAZIL

The Fund four plantations in Brazil are long-term leased with full access and ownership of the standing trees now aged 12-22 years. The traditional way of determining the value of standing timber is to assess the total volume in cubic meters and apply a price factor to the volume. This gives you the value of standing timber in whatever currency the price factor was supplied in. The strategy for the plantations is to hold them until the trees have reached the optimal commercial age, which in this case for teak trees is 25 years. It is possible to do mid-clearings and get a smaller cash flow while also freeing up space and nutrition for the remaining trees. Currently this is being planned to be carried out in 2019 for the Aurora plantation as well as the Boa plantation.

However, as mentioned, the overall strategy is buy and hold. Therefore it is important to find a good methodology for setting the value of the biological assets each month, since the fund is monthly traded.

Up until Feb 2018 the valuation method has been that a certified forest engineer does the volume assessment and then applies a range of price data to produce a number (i.e. value) of the held plots in each plantation. The price data and period have been arbitrary. The last volume assessments were made in the fall of 2017.

After a discussion with the funds auditor, KPMG, the IM saw an opportunity to change the reporting and valuation format going forward (from Feb 2018) by breaking up the volume component and the price component so that the same person (certified forest engineer) does not provide both and introduce both more local external price data as well as define the format. Therefore the IM reached out to one of the forest engineers to work solely on gathering external price data via tenders to sawmills and factories, for similar trees, in terms of specie, age and grade. This price factor, which was delivered as the average price over the last 6 months, was

then applied across to all plantations multiplied with the volume component of the latest assessment available.


VOLUME ASSESSMENTS

The aim is to commission updated volume measurements annually by a certified forest engineer, not the same person providing the prices though. This is a very hands-on task involving taking physical measurements of sample trees across plantations. Calculating the number of trees is a fairly straightforward task, using both satellite and drones. It has taken longer than expected to get the assessments done. The last assessments were made between August 2017 and October 2017, depending on plantation (as explained they were made by different forest engineers). Now they have all been measured by the same person. Due to the strong underlying biological growth and the fact that it has been closer to 1.5 years since last assessment the effect on the balance sheet is unusually strong.

ALIGNING PRICING METHODOLOGY WITH FUND STRATEGY

There is no accessible Brazilian market with transparent pricing of teak timber. The solution is to use a state certified forest engineer to gather tenders and deliver a 6-month average price is deemed to be what is best available and it is also hands on, just like everything else in the forest business.

Now, with one year's experience from the new methodology the IM argues that six months is a too short period for the price factor given that 1) the Fund strategy is to buy and hold, not harvest every six months, or even yearly 2) changes in the price factor creates a swing in the NAV - up or down - that is not reflecting any immediate change. Unlike a fund investing into listed shares or traded commodities a swing up or down will not trigger any activity from the IM, the basic strategy of buy and hold remains the same in order to capture the benefits of the biological growth.



Therefore in February 2019 it was decided that a *12 month average price* updated every six months for the plantations in Brazil was to be used.

PRICING OF YIELDING STANDARD CONTRACTS

In Brazil the Fund has managed to negotiate with forest management companies to offer a contract, internally referred to as a Standard Contract, with an annual yield. This yield is not expressed in per cent but in EUR per annum per 1/10ha (one plot). It is a three-party arrangement with the lessor of the plots, for example Terra Arboretum, with the Fund as leasee. In this leasehold agreement the lessor agrees to pay back the full lease amount after 18 years of lease, in terms of valuation this can be likened to the face value of a bond. The other party to the agreement is the so called Rental company, for example Cuidado Florestal, which for the time of the lease agrees to manage the plots in all forest aspects and annually provide a rent. Again, referring to a bond, this would be the annual yield.

The Fund has no right to the standing timber under this arrangement, it lies all with the Rental Company. However, the setup is beneficial to the fund as it easily reflects the biological growth of the asset and constitutes a yield component in the Fund biological portfolio.

Because of the nature of these two contracts the value should be the face value, which is the actual amount paid for the lease, and the rent accrued until paid.

BACKGROUND – FUND HOLDINGS IN LATVIA

The Fund owns forest land in Latvia via shares in the public Swedish entity Baltic Forest AB. This entity is a holding company and in turn fully owns three Latvian companies that actually own the forest estates.

The shares of Baltic Forest AB are non-listed and in order to calculate a value, aligned with the Brazilian method discussed above, the Administrator, receives a third party valuation including

cubic metres, which is based on measurements when the estates were acquired minus harvests, plus market prices available for each segment of the forest trade (timber of various species, pulp and biomass). The third party supplier in this case is Skogssällskapet, one of the major forest management companies in the Nordic countries. As there is also fellow land that can be forested with EU subsidies as well as farmland a price for the land itself is also produced by Skogssällskapet based on their price lists from sales and acquisitions of forest estates that they have access to as a broker of forest land.

The strategy is conceptually the same in Latvia, buy and hold, but a lot more opportunistic as there are other types of deals to be made when you actually own the land, rather than long-term lease it. Forest land can be sold for the timber or for alternative use such as farming, wind mill parks or even as commercial land for gas stations or shopping malls. Further, since this is natural forest of all ages between 0 and 100 years it is always possible to do some harvesting each year. The commercial age for harvest is 80 to 100 years, specie depending.

The valuation method for the forest holdings in Latvia is to use 24 month sliding average with a monthly update. The reasons are: 1) It is actually possible to get monthly updates. 2) for the same reasons as for the Brazilian holdings, the strategy is long term, therefore a monthly price quote is both irrelevant and could be highly misleading as prices fluctuate a lot on this market. 3) Due to the fact that the commercial age for harvest on the Latvian forest estates is three to fourfold that of the Brazilian ones it also makes sense to have a longer period for average pricing.

The volume component of the Latvian holdings is the volume reported in the forest report at purchase. This is updated annually too. However, the biological growth is, for apparent reasons, much slower in the Baltics compared to Brazil.

SUMMARY

HOLDING	PRICED	PRICE METHODOLOGY	VOLUME MEASURED
Leased plantation full right to trees	Bi-annually through tenders	12 month sliding average	Annually
Leased plantation no rights to trees, yield income	Face value (investment value)	Accrual of rent income	Not relevant
Natural forest land in Latvia via Baltic Forest AB	Monthly	24 month sliding average	At purchase updated according to official forest plan



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