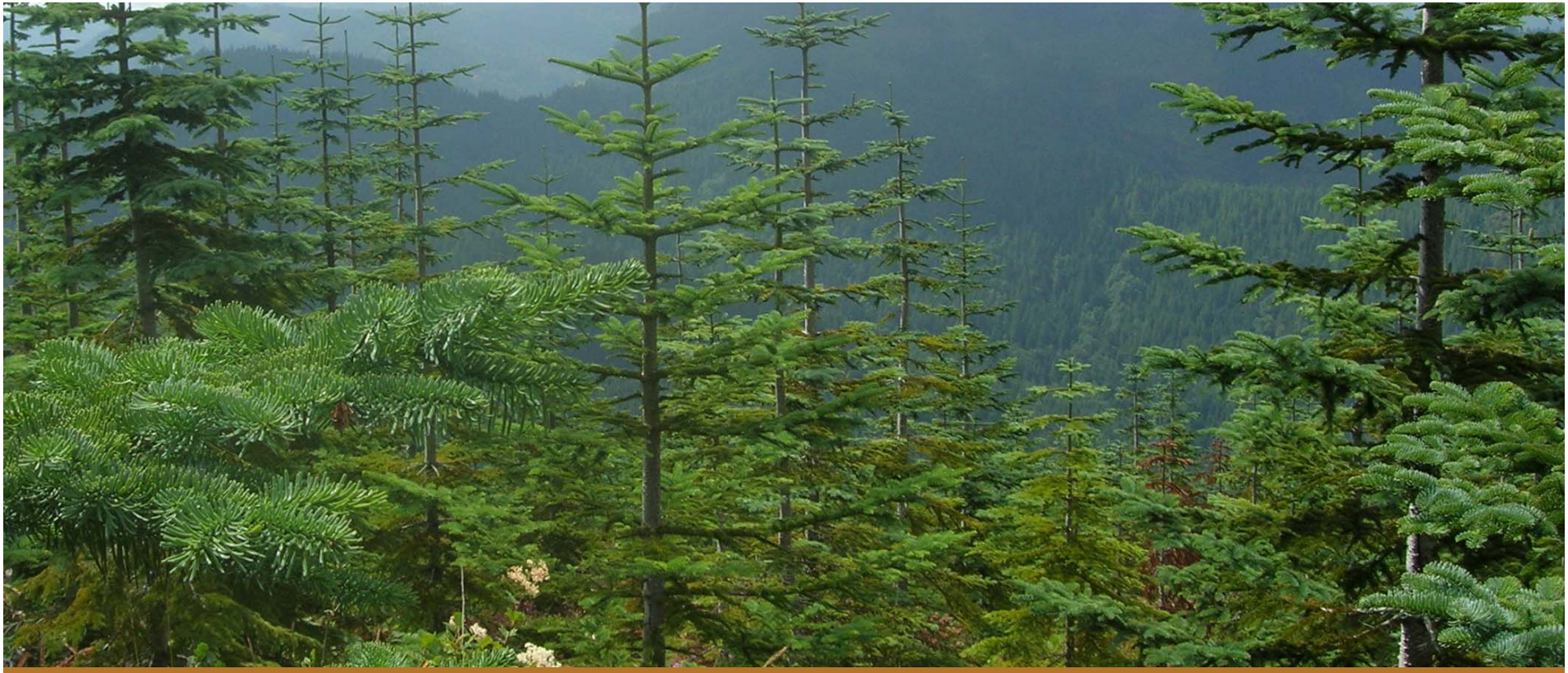
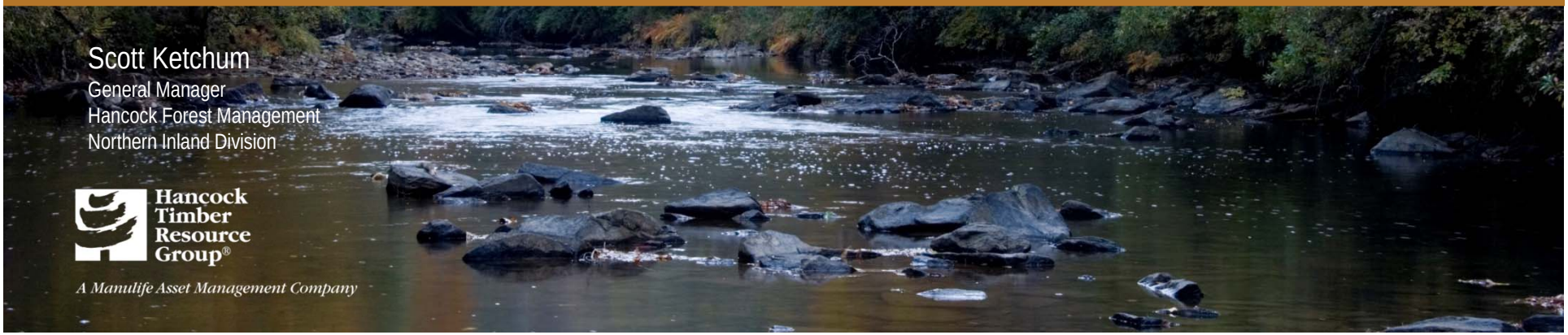


Hancock Natural Resource Group Report to: State of Idaho Joint Economic Outlook and Revenue Assessment Committee

January 2015



Scott Ketchum
General Manager
Hancock Forest Management
Northern Inland Division

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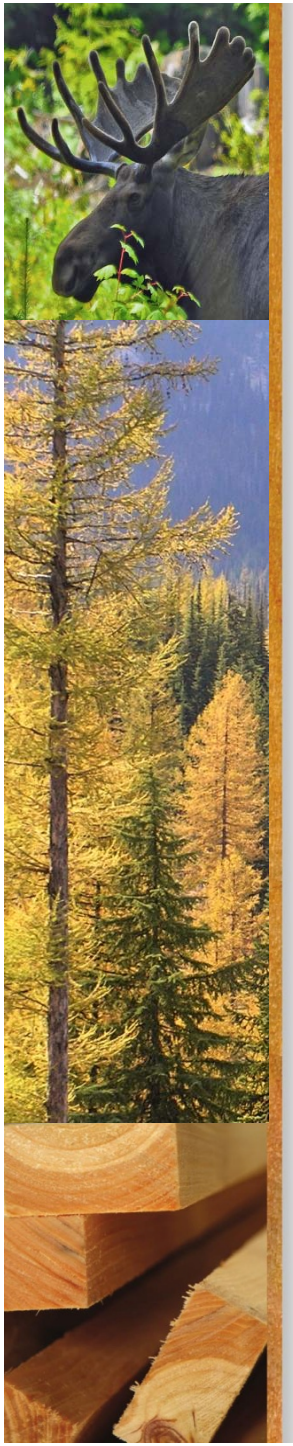

Hancock Natural Resource Group

Overview

- Hancock Timber Resource Group
  - Founded in 1985; subsidiary of Manulife Financial Corporation
  - Global portfolio: USD 12.1 billion / 6.4 million acres*
    - US, Canada, Australia, New Zealand, Chile and Brazil
    - World's largest timberland investment manager
    - Managing assets outside the US since 1992
- Hancock Agricultural Investment Group
  - $2.1 billion in investments in high quality farm ground
    - 235,000 acres in US., 6,000 acres Australia, 1,000 acres Canada
    - 14,000 acres in Idaho (alfalfa, potatoes, corn/soy beans, wheat)
- Hancock Renewable Energy Group
  - Focused on investments in the Renewable energy sector (wood pellets)
  - $320 million dollar investment in North Carolina plant and export facility (2015)

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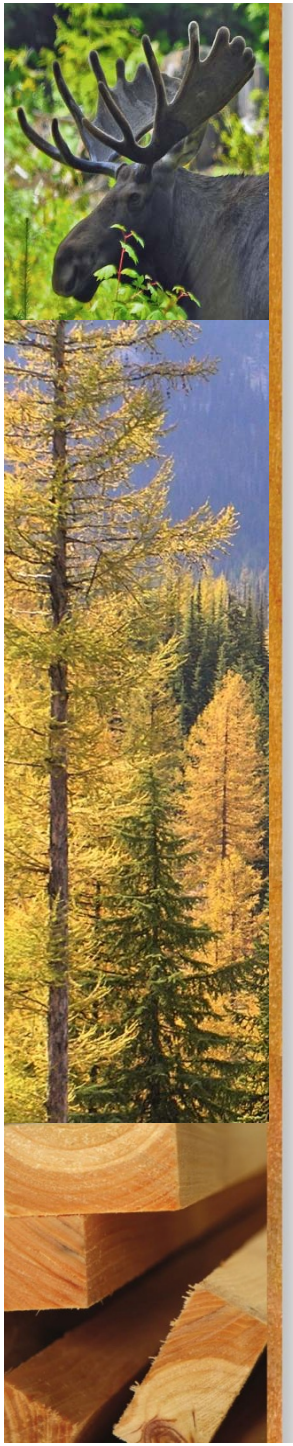
* As of June 30, 2014



Hancock Timber Resource Group

Global timberland manager

- Approximately 311 investment clients located in United States, Canada, Europe, Australia, New Zealand, and Japan
- Timberlands

Region	Acres	Hectares	% of Area
US South	2,350,000	951,000	37%
US Northwest / Canada	1,610,000	652,000	25%
Australia	1,447,000	585,000	23%
New Zealand	765,000	310,000	12%
Chile	122,000	50,000	2%
Brazil	1,700	700	<1%
	6,424,000	2,600,000	100%

* As of June 2014

- 2013 harvested 22 million m³ logs (8.5 billion board feet), planted 50 million trees
- Sustainable forest management certified by SFI or FSC

SUSTAINABLE FORESTRY INITIATIVE
www.sfiprogram.org
SFI-00046

FSC
www.fsc.org
FSC® C013109

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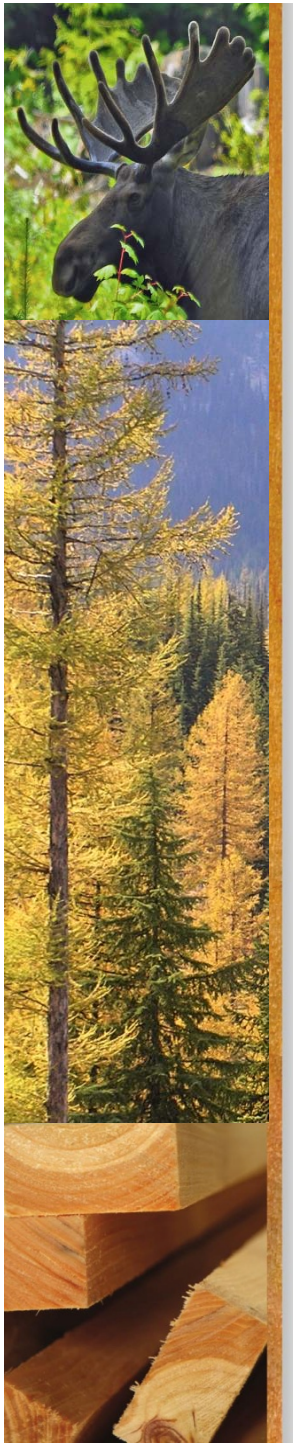
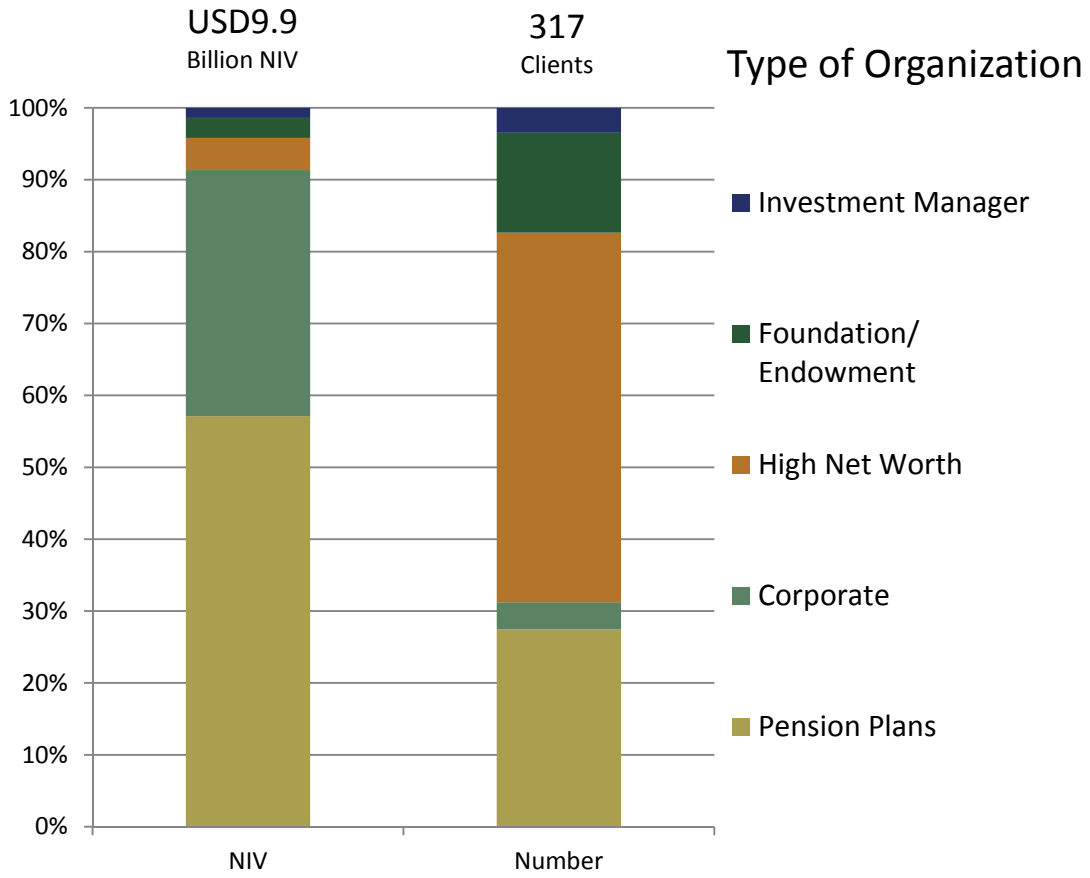


HTRG has a Diverse Client Base



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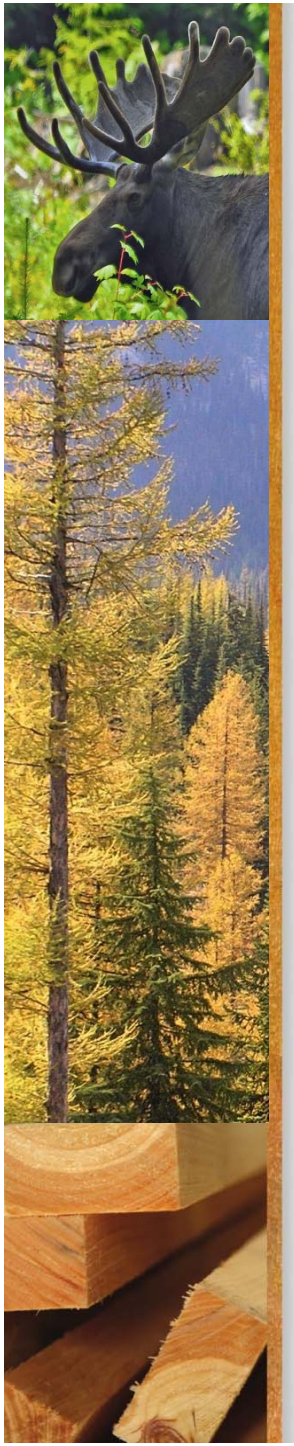
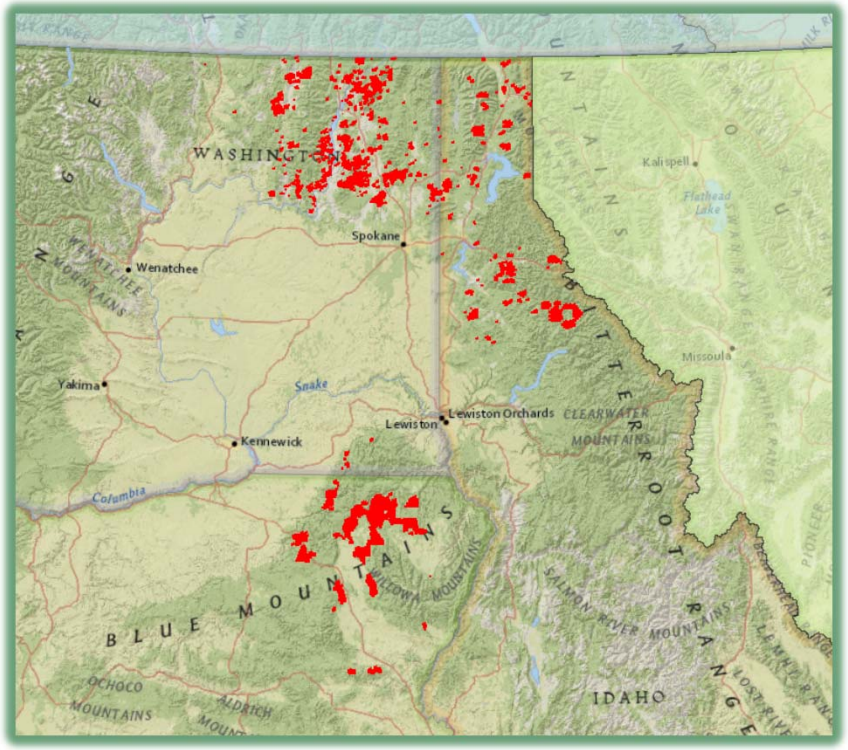


Northern Inland Timberlands

- Approximately 700,000 acres
- Mixed conifer forest of Douglas Fir, Western Larch, Grand Fir, Ponderosa Pine, and a small component of high value Red Cedar (also alpine fir, western hemlock, mountain hemlock, western white pine, lodge pole pine and spruce)
- In Idaho roughly 140,000 acres under management.



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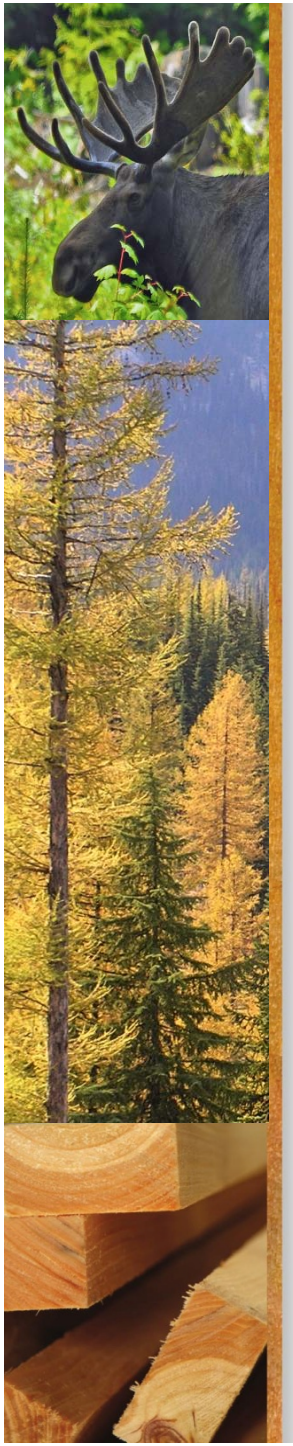
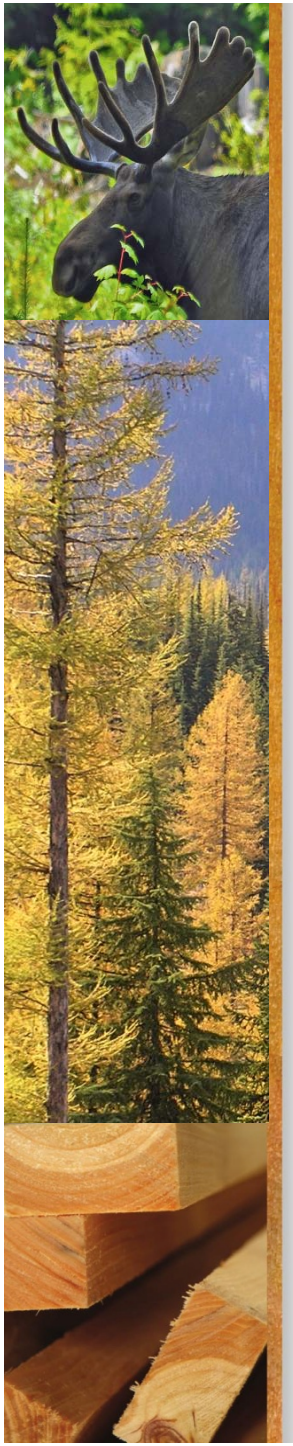


Idaho

- Idaho is a good place to do business and a great place to invest in and manage timberland.
  - High quality timberlands exhibiting moderate growth rates.
  - Mature market place with state of the art milling infrastructure.
    - Extremely important not only to our lands in Idaho but we also sell significant percentages of our harvests from NEWA and NEOR into the Idaho markets.
  - Stable timber supply well mixed between private, state, and federal suppliers.
  - Idaho has well designed forest practice regulations
    - Excellent balance between strong environmental stewardship and operational flexibility.
  - Idaho Department of Lands does an excellent job of protecting private forests from fire as well works in partnership with Industry to navigate the often difficult and confusing nexus of federal EPA regulations.



Impacts of Forest Products Industry on Idaho

- Forest products industry in Idaho created 11,740 direct jobs in 2014 up 2% from 2013.
  - An additional 10,621 indirect jobs are also created.
- Equates to $429 million in wages and salaries up 1.7% form 2013
  - Average salary is $56,800, 37% higher than the Idaho average
    - Most come with full benefits.
    - 1.7% of all state wages.
- 2014 Industry Revenue $2.6 billion up 4.5% over 2013.
  - 2015 expectations are expected to exceed 2014.
- For every $1 of value exported out of state of primary wood products it generates $0.6 of sales in other industries.
  - 90% of primary wood and 56% of primary paper products are exported yearly.

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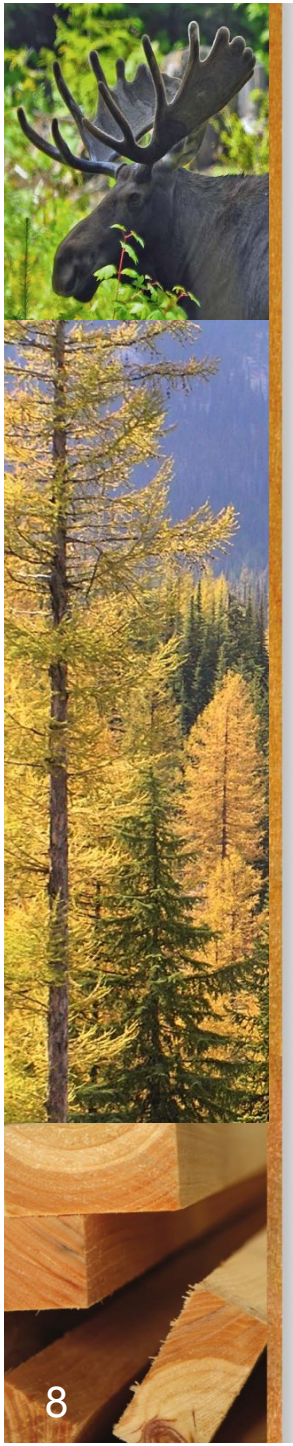

North American Lumber and Structural Panel Market Outlook

- The Outlook is Good!
  - GDP growth approaching normal levels
  - Lowering of Unemployment
  - High Housing Affordability
  - Access to Financing Improving.

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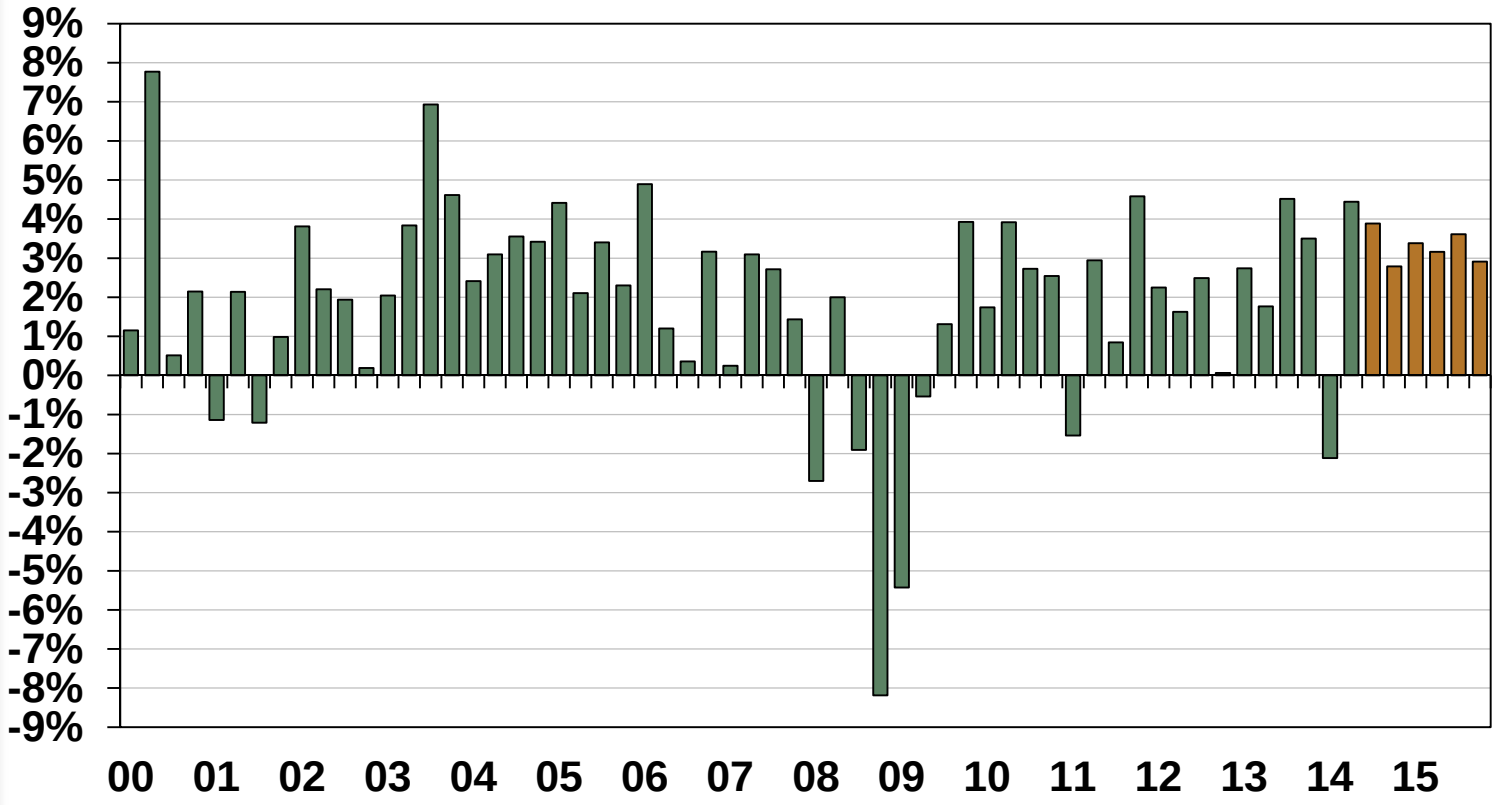
US Economy Growth Back to Trend Level

Real GDP Growth, Annualized Percent Change



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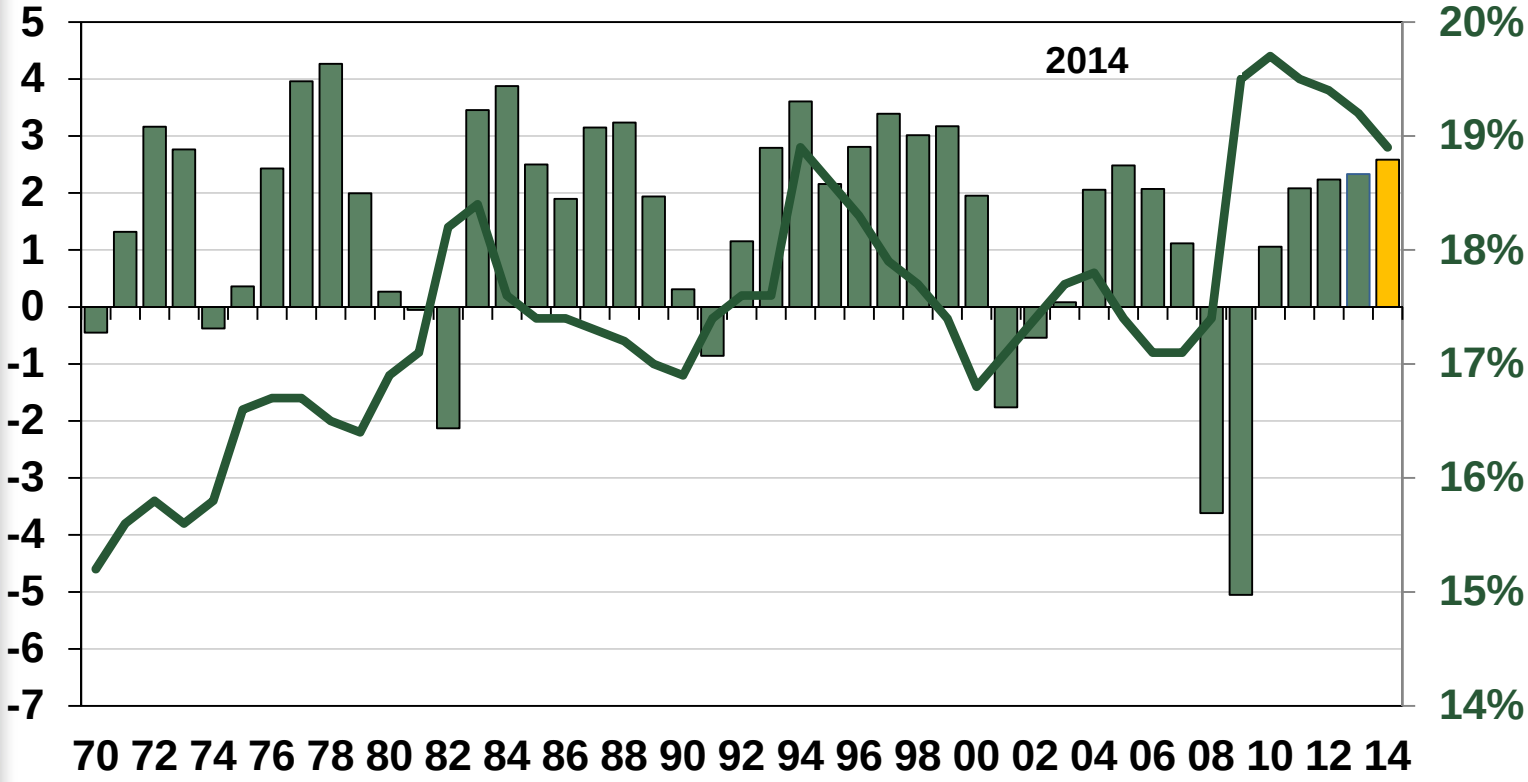
Source: BEA, RISI

Job Growth Continues to Improve Along with the Quality of Jobs

Change in US Total Payroll Employment, Millions and Share of Part Time Employment (Right Hand Scale)



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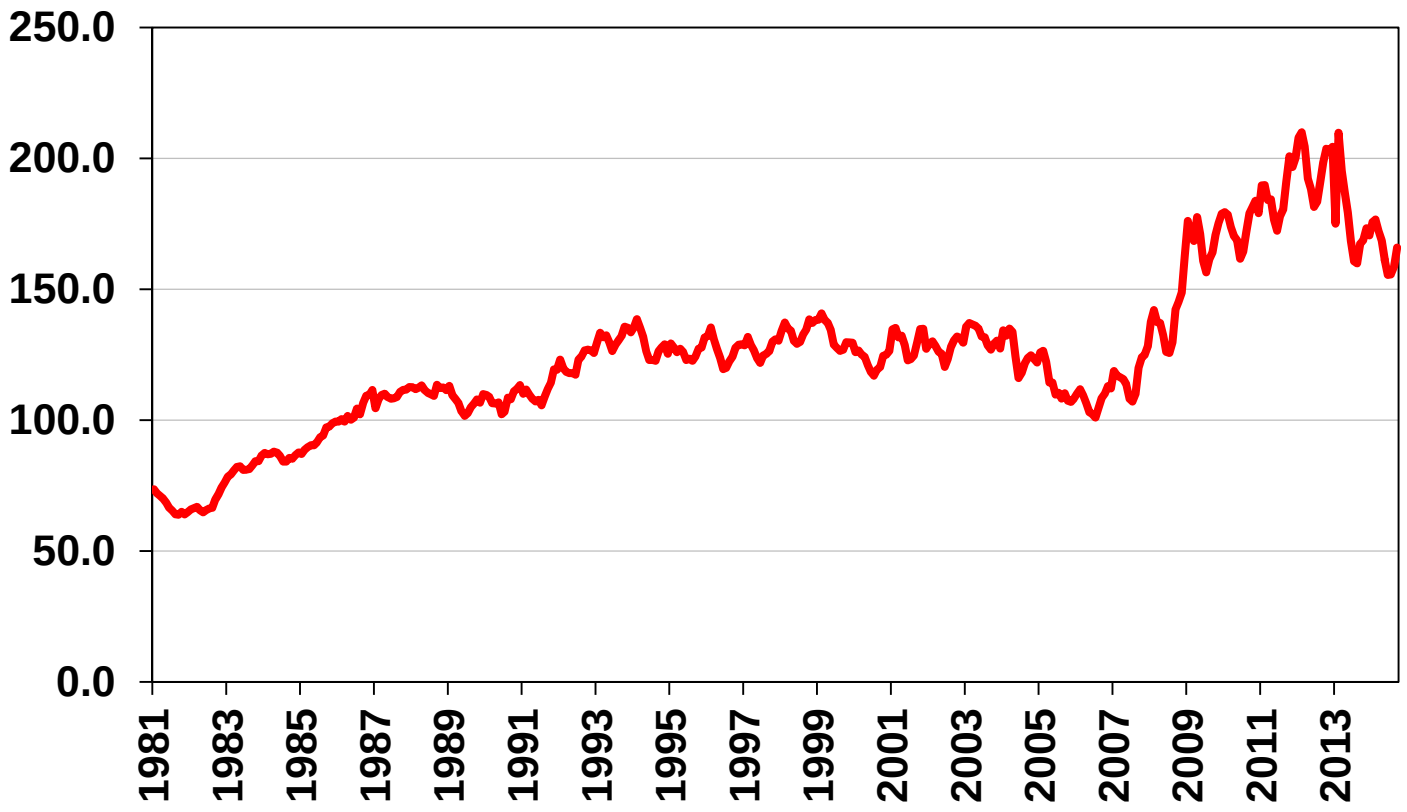
Source: BLS

Affordability Is Down But Not Out: Housing Is Still Very Affordable

Housing Affordability Index, Monthly, Not Seasonally Adjusted



Source: National Association of Realtors

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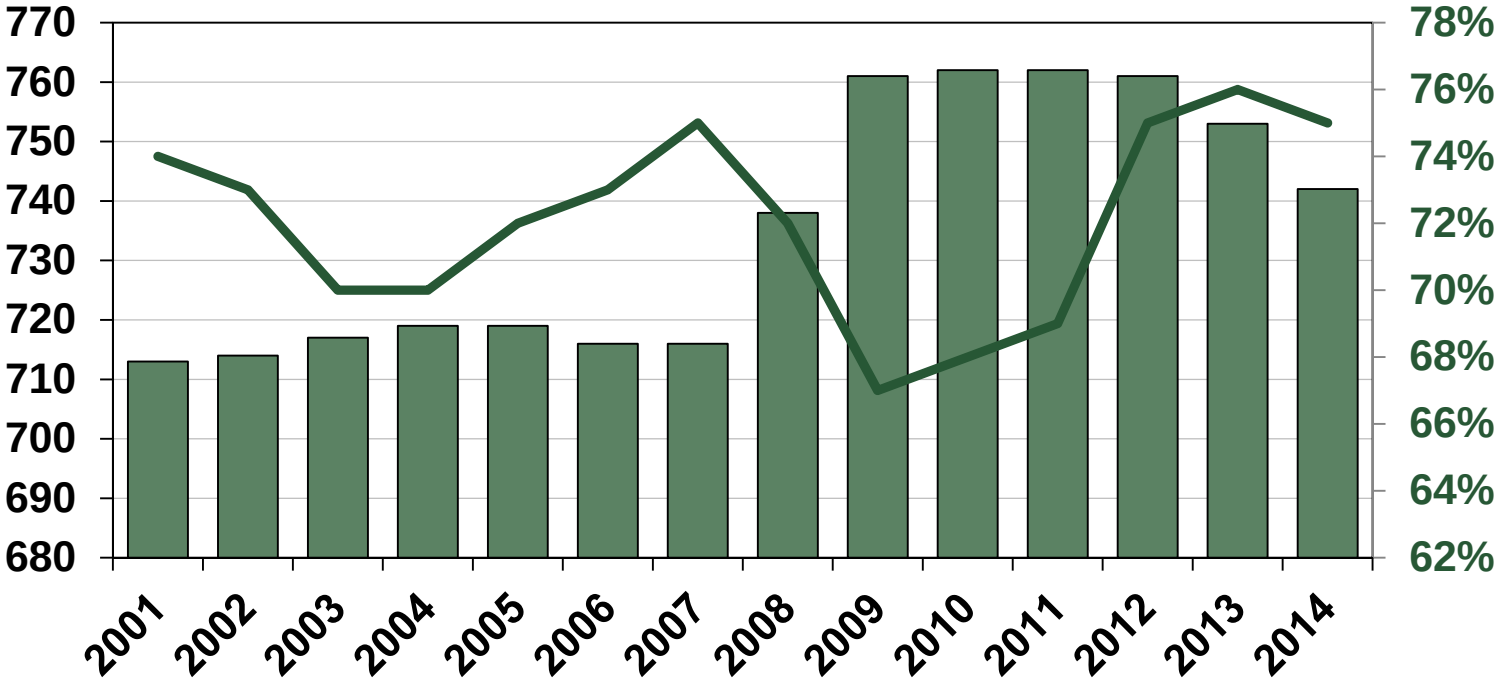
Mortgage Lending Standards Are Easing

Average FICO Scores for Approved Loans and Loan-to-Value (Right Hand Scale)



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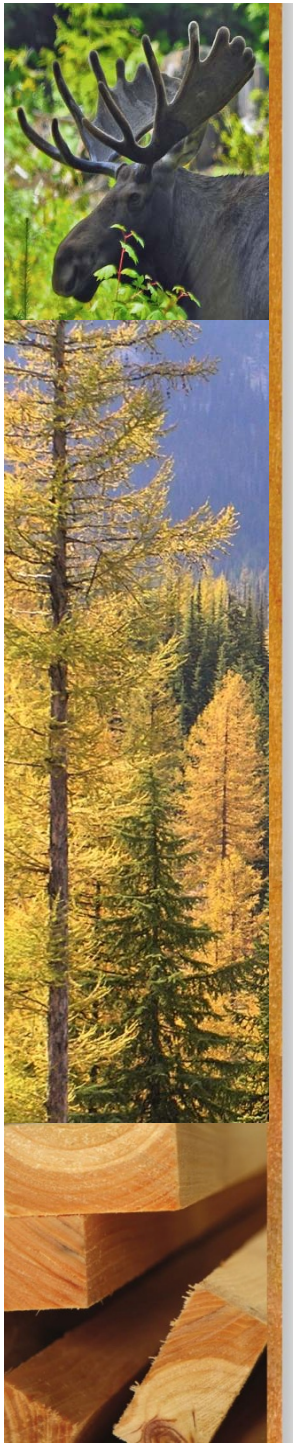
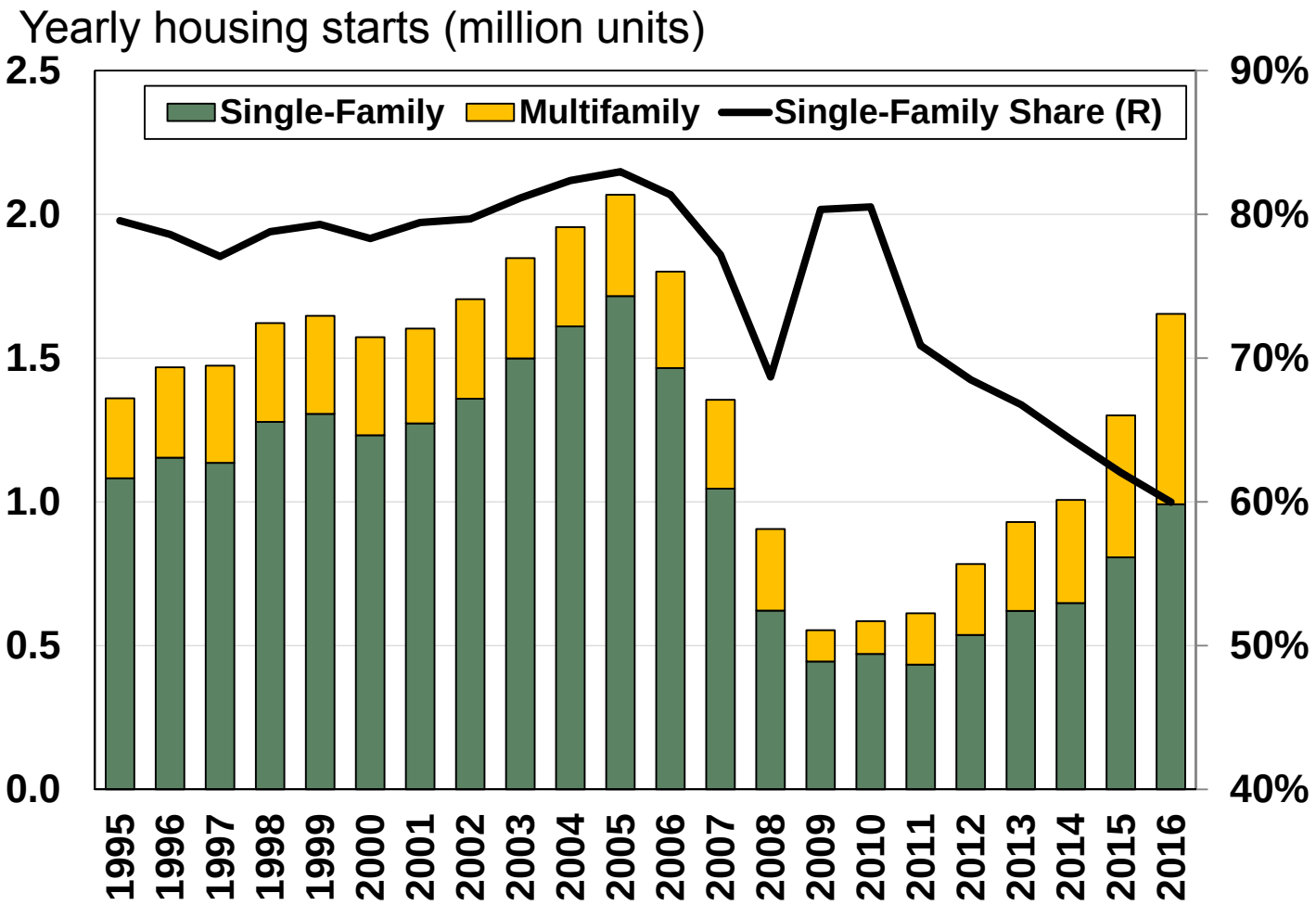
Source: Fannie Mae



Timber Industry in Idaho Strongly linked to National Housing Starts.



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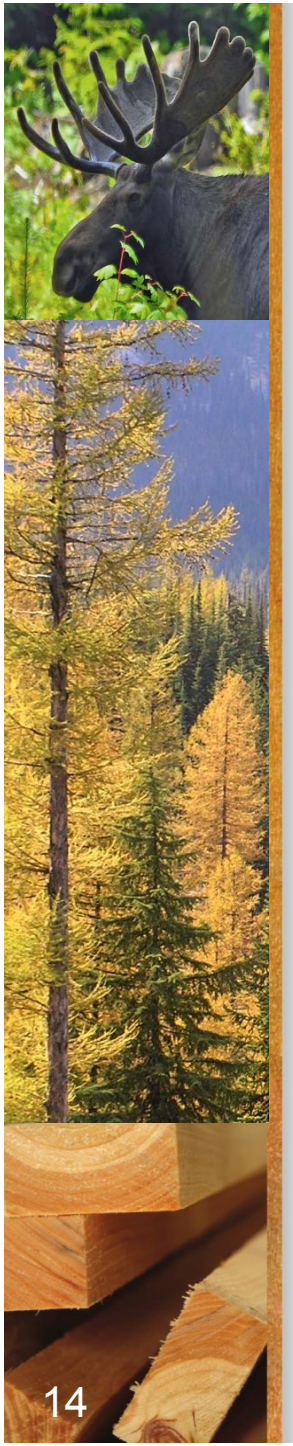
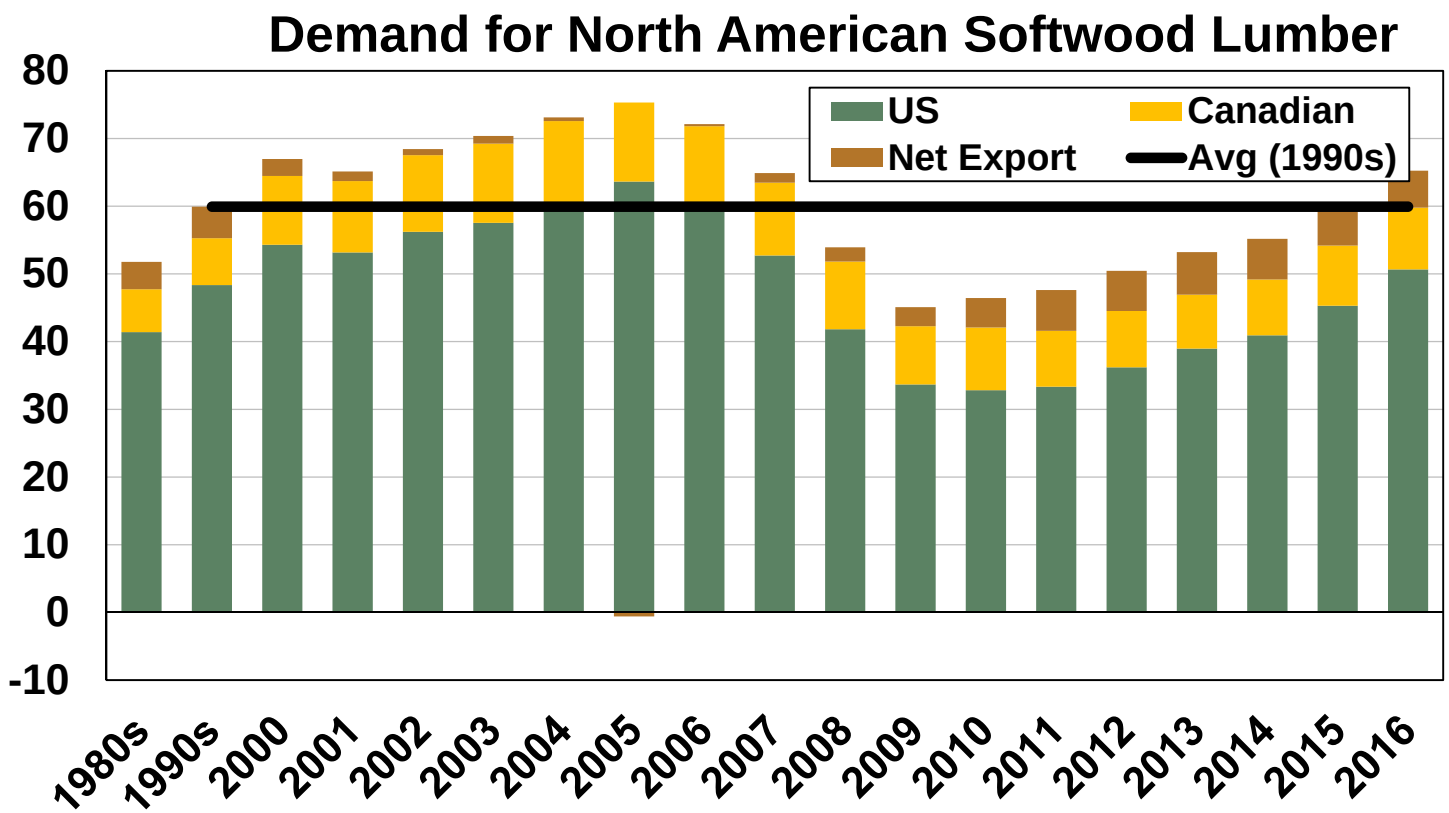
Source: BEA, RISI



Demand for North American Softwood Lumber: Will Return to 1990's Level by Mid-Decade



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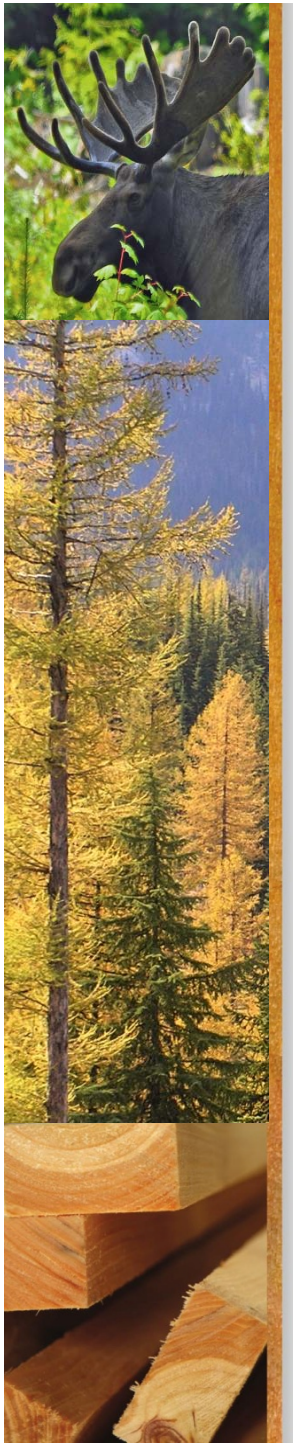
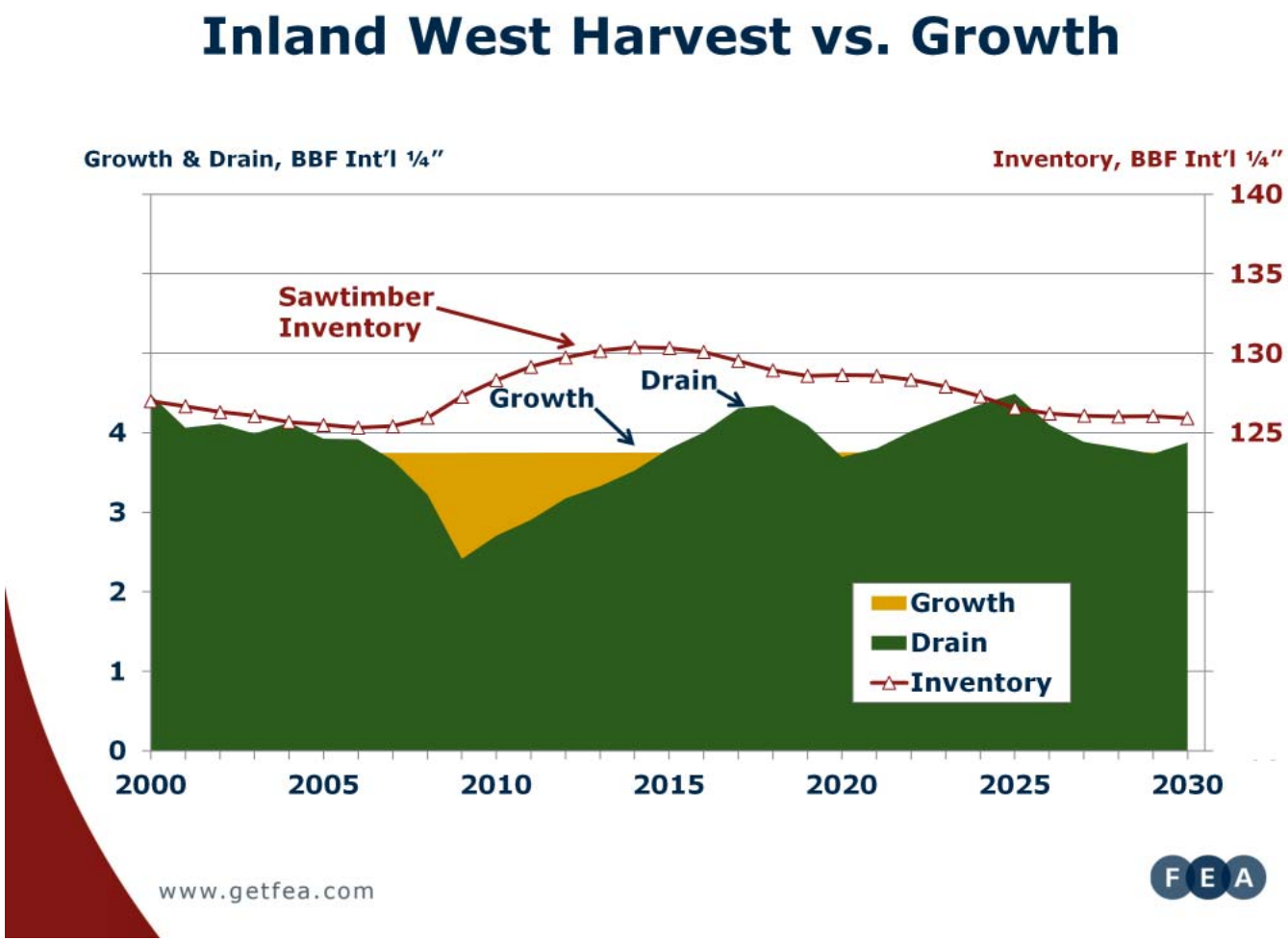


Influence of Standing Inventory on Inland Log Market



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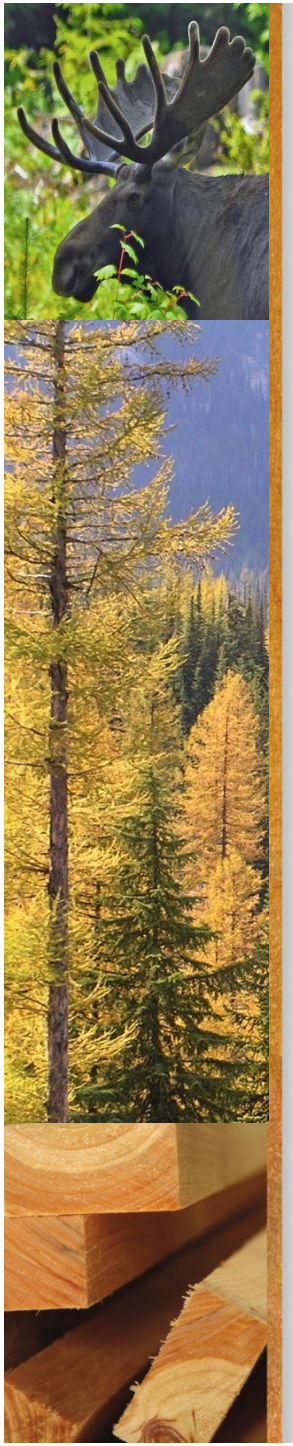

Risks

- Demand
  - Economy Stalls Due to Outside Shocks
  - Housing market remains flat or worse
  - Exports more price sensitive than estimated
- Supply
  - Too much (Eastern Canada, US South)

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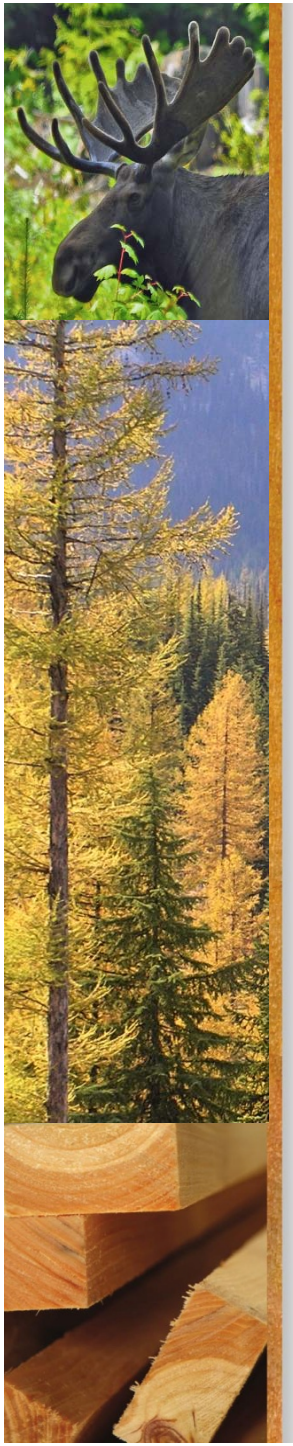

A Couple Closing Observations

- Applaud the efforts of the Idaho Department of lands.
  - Forged constructive partnerships with industry.
  - Provide adequate regulator oversight minimizing the hindrance of operational needs while still vigorously protecting the environment.

- Much of the actual logging and hauling that takes place in Idaho is done by relatively small harvest and haul contractors.
  - The global financial crisis has been hard on this sector of our industry.
  - Their continual survival is vital for the timber industry to prosper. It is important that Idaho maintains an encourages an environment where these small businesses can prosper.

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