



HISTORIC
FRANKLIN
TENNESSEE

ITEM #4
FINANCE
06-12-14

MEMORANDUM

June 6, 2014

TO: Board of Mayor & Aldermen
FROM: Eric S. Stuckey, City Administrator
Russ Truell, Assistant City Administrator
SUBJECT: Consideration of Conversion from RMS Forest Products to Evergreen Fund with Resources Management Service LLC

Purpose

The purpose of this agenda item is to seek direction on a possible conversion of a pension asset within the timber allocation.

Background

The Pension Committee and subsequently the Board of Mayor & Aldermen have adopted a five-percent allocation of pension assets to a timber allocation. As part of the allocation, RMS Forest Products was selected and the Board entered a limited partnership agreement with a timber management company on behalf of the Pension Plan. The investment has been successful.

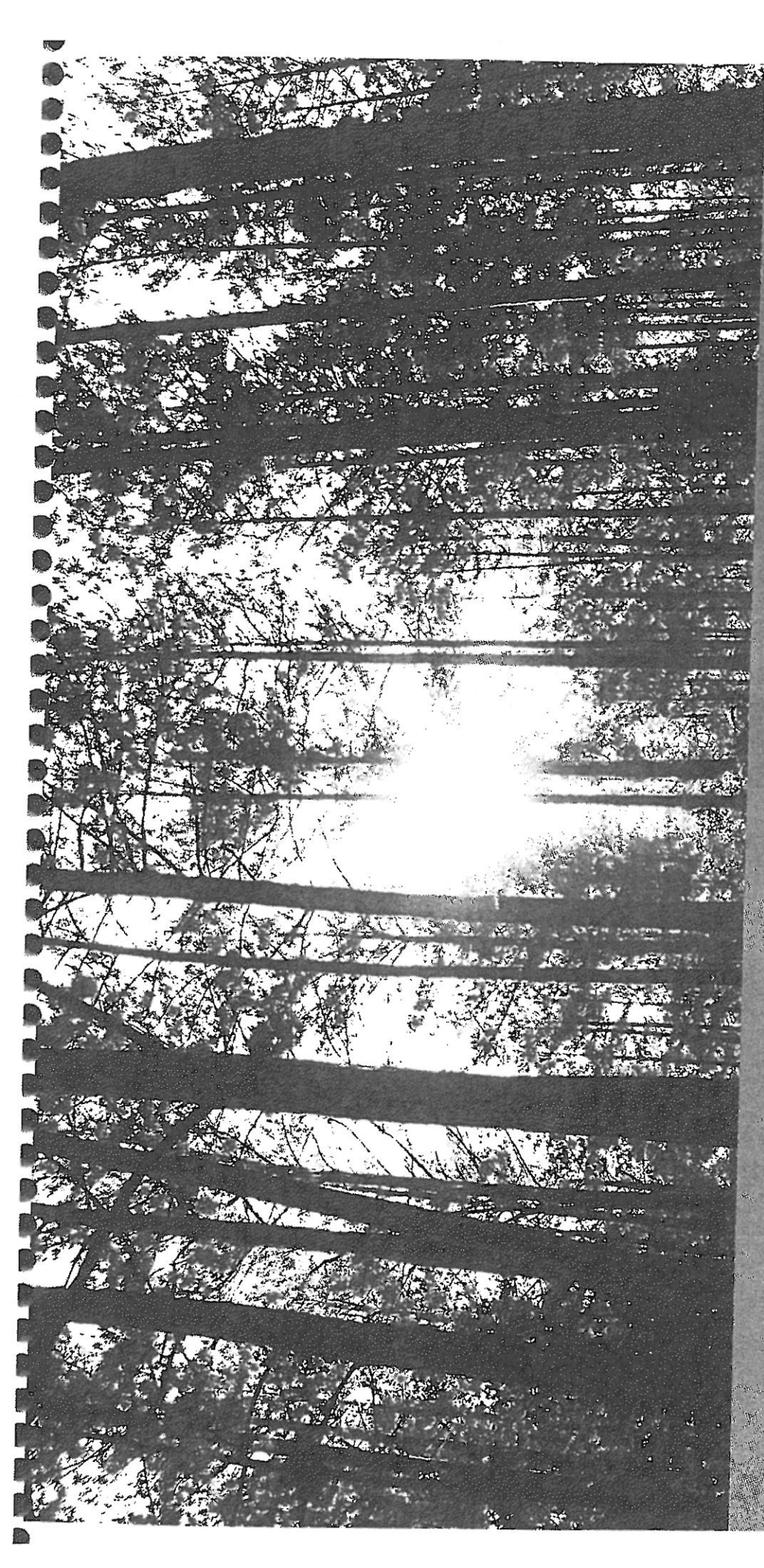
At its June meeting, the Pension Committee heard a presentation from the management company regarding a conversion from the limited partnership to a fund similar to a real estate investment trust. There are advantages that such a conversion would offer. The restricted access to the assets would be lessened. Currently, the investment is tied up for a discrete ten-year period with an option to be extended if market circumstances are not favorable at maturity. The investment trust would allow participants to withdraw funds, with limitations, during the term of the agreement. The investment trust would also increase diversity of assets, as the Forest Products partnership members would blend with assets from another, much larger, partnership to form the new entity. One major advantage would be the City's capability of adding funds as our Pension Plan grows or our timber allocation percentage changes. There are some disadvantages also. Currently, the annual net asset valuation is not a critical consideration because the termination value is of primary significance. It would be critical if participants in the new trust were adding or withdrawing from their position. The City's overall position would be further diluted because of the potentially larger size of the new trust.

Options

Resource Management Service has asked for a non-binding indication of the City's interest in moving to the Evergreen fund. Their requested deadline is July 15, 2014, with an anticipated closing in January of next year. The Pension Committee did not take a position, pending information from our pension financial advisor.

Recommendation

Staff recommends that we indicate an interest in the Evergreen Fund, subject to additional information and documentation.



2014 | RMS – City of Franklin

Evergreen US Forestland Fund



RMS
Resource Management Service, LLC

Contents

- The Offer
- What is the Evergreen Fund?
- What is Red Mountain Timberlands?
- Advantages for FGIII LPs
- Path Forward



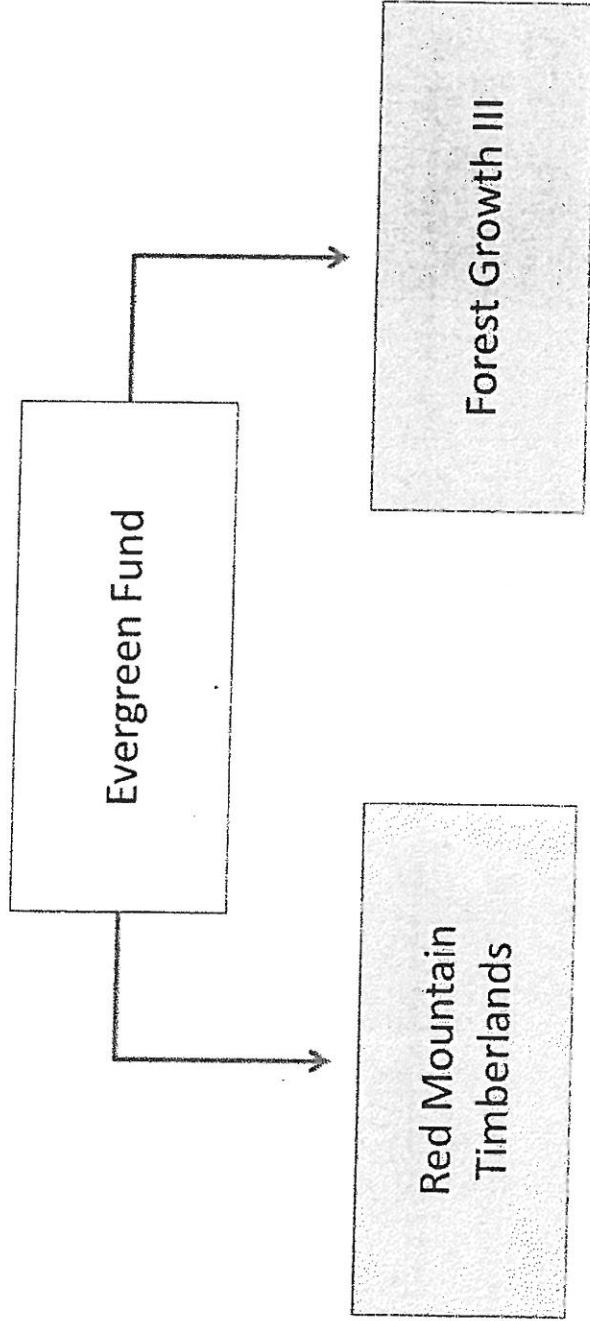
The offer

- Participants in Forest Growth III LP are being offered the opportunity to convert their FGIII interest into shares in the Evergreen Fund.
- The conversion will entail swapping a direct interest in FGIII for an equal value share of the Evergreen Fund.
- After conversion, the Evergreen Fund will become a participating member of Forest Growth III, and Red Mountain Timberlands.
- The RMS Evergreen Fund:
 - Will not have a fixed term
 - Will allow limited liquidity
 - Will be focused on the US South
 - Will grow with acquisitions that are additive to the portfolio



The Offer

- Evergreen Fund will be a member in Red Mountain Timberlands and FGIII
 - Alongside Red Mountain and FGIII investors not choosing to participate in Evergreen



Why an Evergreen Fund?

- Removes the artificial end date of the structure
 - Sell timberland when market conditions warrant
- Allows investor liquidity
 - Commitment to support redemption of 10% of fund interests annually
 - Investors can strategically alter their exposure to timberland (down or up)
 - Redemptions transact at NAV – *no secondary discounts*
 - More robust valuation process – *3rd party appraisals twice per year*
- Removes risks for new equity
 - Investing in existing timberland portfolio – *no investment period*
 - Diversified across eight southern states – *you know what you are getting*
 - Track record of eight year operating history – *proven performance*
- Manager focus
 - Evergreen will be the growth vehicle of RMS into the future



Red Mountain Timberlands

- Acquired from International Paper in 2006
- 2.3 million acres, distributed across eight southern states
- High quality, well managed industrial timberland property
- Located in proximity to vibrant timber markets
 - lumber, plywood, pulp & paper, MDF, wood pellet
- Scale of this asset allows RMS to be a preferred seller of timber
 - Multiple timber sales strategies: *supply agreement, stumpage, delivered*
 - 34% levered – accretive to return
 - Long term goal is to reduce leverage to ~20%
- Since-inception return of 6.4%, versus 4.8% for NCREIF-South benchmark
- Obvious advantage for FGIII investors:
 - Dramatic increase in exposure to a diversified, large scale timberland portfolio
 - ‘Timberland S&P 500’ of the South



Process and Safe Harbor

- Forest Growth III and Red Mountain Timberlands investors are asked to give a non-binding indication of interest by 15 July 2014
- If a critical mass wish to convert, RMS will draft legal documents
- Evergreen Fund will be formally established on 1 January 2015
- Safe Harbor Provision:
 - If RMS is unable to provide a prescribed level of liquidity through redemptions, Evergreen Fund LPs must vote to continue
 - Otherwise, Evergreen will terminate

Red Mountain Timberlands

