



DECEMBER 2021

The investment objective of the Fund is to provide capital appreciation by investing in a diversified portfolio of global timber companies operating in the plantation and management of forests and the processing, production and distribution of timber and related wood products. The investment universe is not restricted to a specific geographic zone. The Fund will seek to achieve its investment objective by actively trading in shares of public companies listed on North American stock exchanges.

The Corton Global Timber Fund LP ended 2021 at an all-time high of 11.9987 which represented – **an annual increase of 20.3%** (after fees and expenses). The Corton Global Timber Fund II ended the year at 4.7427 up 11.4% in December. The Fund's benchmark, the S&P Global Timber and Forestry Index was up 14.5% in 2021.

HIGHLIGHTS OF THE YEAR

The biggest event in the year was undoubtedly the significant price increase for wood products, namely lumber and panelboards (plywood and OSB). **The Cash price for WSPF 2X4 closed on December 31 at US\$1,045.** The average lumber price for 2021 was 58% higher than in 2020. Meanwhile, **OSB prices closed on December 31 at US\$685.** The average price for OSB in 2021 was 82% higher than in 2020.

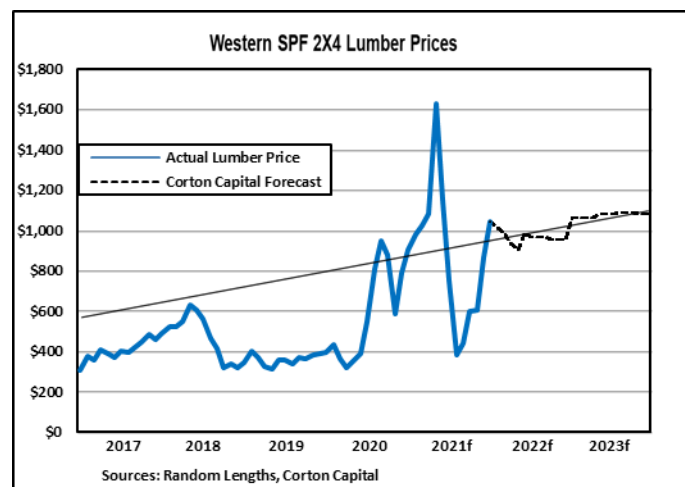
Other significant events in the forest sector in 2021 include:

- Record high free cashflows which allowed many companies to become debt-free and give money back to shareholders by way of increased dividends, special dividends, and share buybacks.
- Increased M&A activity in the timberland/wood product industry in North America, with 14 major deals totaling in excess of US\$9 billion – 2021 was the biggest year for deals in the sector in many decades. As a result, the top 25 lumber producers in Canada and the U.S. now own and operate 247 sawmills and have a 66.5% market share – up significantly since the early 2000s.
- Increased homebuilding and lumber consumption in North America with both hitting 12-year highs. Lumber consumption in North America in 2021 is expected to total 61.1 billion fbm – and increase of 4.7% over 2020.

As we enter 2022, most of the companies held in the Global Timber Fund are expected to generate very high cashflows and will continue to return surplus cash to shareholders.

The consolidation in the industry, we believe, will continue in 2022. Mill closures, particularly in B.C., as we have been predicting, will also be a key topic in 2022. This will in turn, will further tighten supply/demand and lead to strong pricing and cash flows.

CHART OF THE YEAR



As illustrated in the above chart, WSPF 2X4 prices have increased 171% since bottoming out in mid-August at US\$385 per mfbm. As a result of the rapid rebound, **we expect prices to average 40% higher in Q4'21 versus Q3'21.**

We are holding to our 2022 average price forecast of \$965, which is considerably higher than the bank analyst consensus of \$586.

WHAT'S ON OUR RADAR SCREEN?

On January 28, the **U.S. International Trade Administration (Department of Commerce)** is scheduled to announce the results of its third Administrative Review (AR3) of the CVD/AD duties on softwood lumber imports from Canada. At the same time the ITA will release the preliminary new duty rates. AR3 is based on 2020 pricing and cost data, when lumber prices were substantially (+58%) higher than in 2019. As a result, we expect the final duty rates (effective in late July) to fall to 5%. The current rates, which went to effect last month, are set at 17.9%.

B.C. Government Policy Changes – on November 15, 2021, the B.C. government introduced **Bill 28, Forest Amendment Act.** The new bill contains a series of major policy changes including forest tenure redistribution and old growth deferrals.

Experts in the B.C. industry believe that the new policies will result in the permanent closure of 10-12 sawmills.

The mill closures will have a significant impact on lumber supply and will result in higher prices, especially for Spruce/Pine/Fir lumber.



2021 TOP CONTRIBUTORS:

LOUISIANA-PACIFIC CORPORATION

LPX is the largest engineered wood technology company in the world with market-leading positions in several products such as: siding (#1 producer of treated engineered wood siding in the world), OSB (#2), I-joists (#1 in North America), and laminated veneer and strand lumber (#3 in North America). The Company is the only producer of OSB in South America.

The key drivers for LPX's stock performance in 2021 (up 110.7%) were the higher prices for OSB, siding, and engineered wood products. In December 2020, our 12-month target price for LPX was \$68.66. The analyst consensus target price was \$41.00. The stock closed 2021 at \$78.34.

INTERFOR CORPORATION

Interfor is the fourth largest lumber producer in North America with 28 sawmills and an annual total productive capacity of 4.8 billion board feet. Seventeen of its sawmills are located in the U.S. The Company is a pure lumber play.

The key driver for IFP's stock performance in 2021 (up 70.4%) apart from higher lumber prices, was the November 23 acquisition of **EACOM Timber**. The acquisition, which is expected to close in early 2022, will add seven Eastern Canadian (Ontario and Quebec) sawmills to Interfor's lumber production base and will further reduce the company's exposure to B.C. After the acquisition, IFP will have less than 20% of its lumber capacity located in B.C.

In December 2020, our 12-month target price for IFP was \$43.02. The analyst consensus target price was \$33.90. The stock closed 2021 at \$40.51.

2021 BOTTOM CONTRIBUTOR:

STELLA-JONES INC.

Stella-Jones is a leading producer and marketer of pressure treated wood products. The Company owns and operates 40 wood treating facilities (25 in the U.S. and 15 in Canada). SJ supplies North America's electrical utilities and telecommunication companies with utility poles (36% of sales) and the continent's railway operators with railway ties and timbers (31% of sales).

The relative weakness in SJ's stock price in 2021 (-13.5%) was a result of lower-than-expected earnings in Q3'21 and analysts reducing their stock price targets. In December 2020, our 12-month target price was \$57.34. The analyst consensus target price was \$52.33. The stock closed 2021 at \$40.01.

The outlook for Stella-Jones, however, remains positive. Damage from Hurricane Ida and the recent devastating tornadoes in Kentucky has increased the demand for utility poles. The consolidation in the North American railway industry (Canadian Pacific Railway's acquisition of CSX) will increase the demand for SJ railway ties. Longer term, the Company will benefit from the recently passed U.S. Infrastructure Bill which budgets US\$548 billion for new rail, bridge and power grid projects.

For more information, please contact:

David Jarvis (416) 627-5625 david@cortoncapital.ca
 John Duncanson (416) 301-1826 john@cortoncapital.ca
 Julian Clas (647) 402-1639 julian@cortoncapital.ca
 Jenny O'Meara (647) 287-9135 jenny@cortoncapital.ca

Corton Capital Inc. ("Corton") is registered with the Ontario Securities Commission as an Exempt Market Dealer, Portfolio Manager and Investment Fund Manager. Corton is also registered in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Quebec, New Brunswick, and Nova Scotia as an Exempt Market Dealer.

Readers of this information ("Fund Commentary") are expressly cautioned to seek the advice of a registered Dealing Representative or other professional advisors, as applicable, regarding the appropriateness of investing in any securities or any investment strategies, including those discussed above. Please review the most recent offering memorandum for a detailed description of the Corton Global Timber Fund LP ("Fund"), the Fund's strategies, objectives and risk factors. Individuals who qualify to invest in prospectus exempt products should be aware that all prospectus exempt products involve significant risks and such individuals could lose their entire investment. Corton does not arrange nor recommend that individuals borrow money to invest in any qualifying funds. The items referenced or contained in this Commentary are for information purposes only and do not constitute an offering memorandum. No securities authority/regulatory body in Ontario has reviewed or in any way passed upon the Commentary or the merits of the investment. All information has been obtained from sources believed to be reliable; however, neither the information's accuracy nor any third party's expectations can be guaranteed. Past returns are not necessarily indicative of future performance.