



NOVEMBER 2022

*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 the month of November at 9.3653 – a month-over-month gain of 2.6% (after fees and expenses). Meanwhile, the Fund's benchmark, the S&P Global Timber and Forestry Index was up 7.1% in November.

### HIGHLIGHTS OF THE MONTH

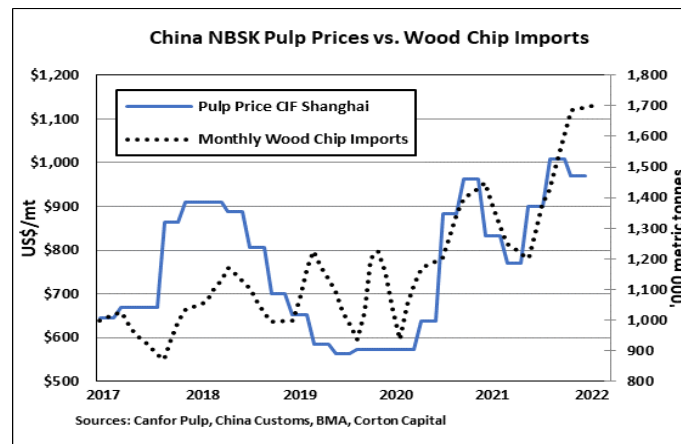
The biggest events in the month were the drop in residential construction in the U.S. and the resulting drop in wood product consumption and shipments.

- The **Random Lengths Framing Lumber Composite Price** ended the month at US\$436 – down 12% since the end of October, however, 13% higher than in August 2021.
- On November 17, the U.S. Department of Commerce reported housing starts at a seasonally adjusted annual rate of 1.425 million units for the month of October. This figure was 4.2% below the September 2022 rate and 8.8% below the October 2021 rate. Higher interest rates and concerns about housing affordability are the major reasons for the drop in housing starts. Meanwhile, U.S. building permits issued in October remained at a healthy rate of 1.526 million units as did housing units under construction at a rate of 1.722 million units.
- Economists are trimming their 2022/23 housing start forecasts. After hitting a 15 year high of 1.601 million units in 2021, U.S. total starts are expected to drop to 1.55 million units in 2022 and 1.355 million units in 2023. However, many economists are now looking for a rebound to 1.4 million+ starts in 2024 as interest rates peak and start to adjust slightly downwards. There remains a large deficit (an estimated 3.8 million units) in the U.S.

### RUSSIAN WOOD PRODUCTION UPDATE

The invasion of Ukraine by Russia and the resulting trade sanctions on the Russian forest industry continue to take their toll on Russian lumber and plywood production. In October, according to the Russian Federal Service for State Statistics (Rosstat), lumber production decreased by 18.3% year-over-year while plywood production decreased by 37% year-over-year.

### CHART OF THE MONTH



As illustrated in the above chart, despite the Chinese Government's harsh zero-COVID policies, pulp prices and wood chip imports are hitting new highs in China. What is happening? Softwood kraft pulp (NBSK) is in large demand by Chinese tissue paper producers as the lockdowns increase the domestic consumption of staples like toilet paper and paper toweling. In addition, domestic pulp producers are scrambling to find wood raw material (namely hardwood wood chips) as Russian wood supply is negatively affected by the ban on Russian log exports.

The largest benefactors of this shift in trade and COVID-related demand are the Canadian pulp producers namely those operating mills in B.C. Companies like **Canfor Pulp** and **West Fraser Timber** have also seen ocean freight costs slashed in recent months as container ship operators have overcome supply chain issues and fuel costs have dropped. In addition, record profits by the large container shipping companies are leading to a significant (25%) increase in container ship capacity over the next two years.

### WHAT'S ON OUR RADAR SCREEN?

**Inventory Rebuilding in early 2023** – For months, buyers in most framing lumber and structural panel markets have been purchasing just enough product to cover immediate needs.

This strategy is reminiscent of January 2020 when inventories at the field level were non-existent and North American sawmill operating rates were cut by 25%. Lumber prices bottomed out at US\$350 before running up to US\$1,000.



### NOVEMBER TOP and BOTTOM CONTRIBUTORS:

Ironically, the top and bottom contributors in the Timber Fund were inter-related **Canfor Corporation** and **Canfor Pulp Products Inc.** This is proof of the inefficiency of the stock market.

### NOVEMBER TOP CONTRIBUTOR: CANFOR CORPORATION

**Canfor** is the second largest lumber producer in North America and the world's largest softwood lumber producer. The Company owns and operates 13 sawmills in Western Canada, 12 sawmills in the U.S. South, and 12 sawmills in Sweden. In addition, CFP owns a 55% interest in **Canfor Pulp** with 4 pulp mills in B.C. and is one of the largest global producers of northern bleached softwood kraft pulp (1 million tonnes annually). Canfor also owns (or has an equity interest in) 16 value-added facilities that produce wood pellets, glulam beams, green energy, packaging, and modular housing. In early 2023, the Company will start-up its greenfield sawmill in DeRidder, Louisiana.

The key driver for CFP's stock performance in November (up 16.4%) was recognition by investors that the Company was trading at only 50% of book value and despite a \$500 million capex program in 2023, CFP has a very strong balance sheet with \$1.6 billion in cash and \$878 million in lumber duty cash deposits.

### NOVEMBER BOTTOM CONTRIBUTOR: CANFOR PULP PRODUCTS INC.

**Canfor Pulp** is the largest NBSK pulp producer in North America and the 7<sup>th</sup> largest worldwide. CFX is also the leading "pure play" listed pulp company. The Company owns and operates four pulp (and paper) mills in B.C. with a total annual productive capacity of 1.3 million tonnes of NBSL/BCTMP pulp and 140,000 tonnes of kraft paper. Canfor Pulp is 54.8% owned by **Canfor Corporation**.

The weakness in CFX's stock price in November (-11.2%) was due to investor over-reaction to a temporary curtailment of its Intercontinental Pulp mill in Prince George due to the lack of available economic fibre. Regular operations resumed in late October. The outlook for CFX remains positive due to: lower shipping costs, strong pulp demand from China despite COVID-related weakness in the overall economy (refer to Chart of the Month). Analysts' 12-month stock price forecasts range from \$6.00-\$8.00 a share representing a 35% to 80% return from current the current stock price.

### For more information, please contact:

David Jarvis (416) 627-5625 [david@cortoncapital.ca](mailto:david@cortoncapital.ca)  
 John Duncanson (416) 301-1826 [john@cortoncapital.ca](mailto:john@cortoncapital.ca)  
 Julian Clas (647) 402-1639 [julian@cortoncapital.ca](mailto:julian@cortoncapital.ca)  
 Leyland Gordon\* (416) 885-8346 [leyland@cortoncapital.ca](mailto:leyland@cortoncapital.ca)  
 Bob Barootes\* (416) 278-5796 [bob@cortoncapital.ca](mailto:bob@cortoncapital.ca)  
 Jenny O'Meara\* (647) 287-9135 [jenny@cortoncapital.ca](mailto:jenny@cortoncapital.ca)

*\* The contact is not an investment advisor nor a dealing representative and cannot provide advice of investing in the Fund.*

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.*