

Timber Finance Carbon Capture and Storage Index: Rebalancing Report Q1 2023

1. Introduction

The Timber Finance Carbon Capture and Storage Index (“TFCCS Index”) is an equity index which tracks the modern forest and timber industry in USA, Canada, and Europe. The index aims to identify the leading companies contributing to the production of engineered timber and the long-term storage of CO₂ in the form of timber buildings.

The unique methodology of the index incorporates the entire Mass Timber value chain, from the forest to the frame of finished buildings.

The quantitative and qualitative selection criteria allow the index to track the leading companies in the Mass Timber movement, as well as incorporate technologically innovative companies and game changers from the built environment.

On the 21st of March 2023, Timber Finance Management (TFM) rebalanced the TFCCS Index in accordance with the semi-annual rebalancing cycle. The new composition of the index came into effect on 3rd of April 2023.

The rebalanced index is the result of a bottom-up process which tracks the developments within the key areas of the quantitative and qualitative selection criteria. The revised index Guidelines can be found [here](#).

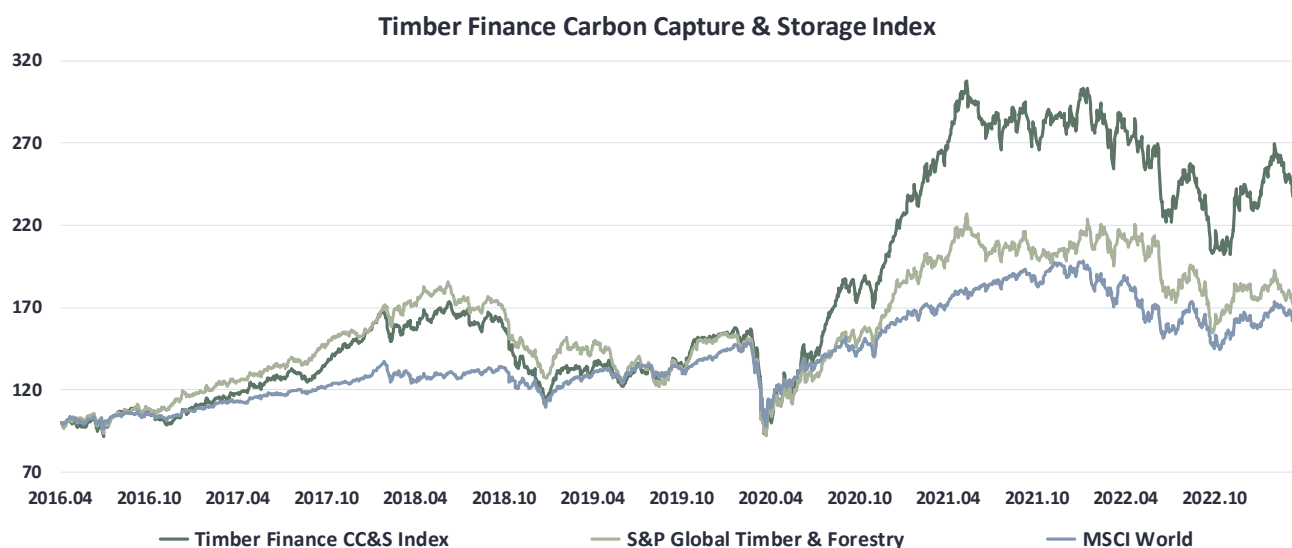


Chart 1. Performance as per March 31, 2023. Sources: Solactive, Bloomberg

The Timber Finance Carbon Capture & Storage Index was launched on 17/09/2021. All information prior to its launch date is hypothetical back-tested, not actual performance, based on the index methodology in effect on the launch date.

2. Additions and Removals

The Q1 2023 rebalancing was characterized by a number of index components entering and exiting the index, as per Table 1 below, in part due to market developments (decreased trading activity), in part due to changes to the guidelines (see specific section in this regard) and also due to more stringent qualitative requirements applied to construction companies:

Additions			
Company	Region	TFI Industry Sector	New Weight
Bergs Timber AB Class B	Northern Europe	Secondary Products	5.33%
Removals			
Company	Region	TFI Industry Sector	Previous Weight
Bird Construction Inc.	Canada	Construction & Mass Timber	1.39%
STRABAG	Central Europe	Construction & Mass Timber	1.39%
Implenia AG	Central Europe	Construction & Mass Timber	1.39%
Sweco AB Class B	Northern Europe	Construction & Mass Timber	1.39%
Resolute Forest Products Inc.	Canada	Primary Products	2.08%
Doman Building Materials Group Ltd	Canada	Secondary Products	4.17%
Ponsse Oyj	Northern Europe	Forestry Machines	4.17%
Acadian Timber Corp.	Canada	Primary Products	4.17%
Accsys Technologies PLC	United Kingdom	Secondary Products	1.39%
Spinnova Oy	Northern Europe	Other	8.33%

Tab 1: Additions and Removals as per March 31, 2023

Changes due to Quantitative Selection:

Three companies, **Ponsse Oyj**, **Acadian Timber** and **Accsys Technologies** were removed from the index due to their liquidity, as measured by average traded volume over one month being below the minimum liquidity threshold of ADV \$ 100'000 for index inclusion.

Bergs Timber was added as it fulfils the index guidelines' minimum certified wood requirements. The company reported for 2021 69% timber from certified forests in their supply chain and 95% including Controlled Wood. It should be noted that the company reported an improvement from 59% in 2020 to the 69% in 2021 and has a respectable goal of 80% by 2024.

Doman Building Materials was removed due to a lack of transparency with regards to the reported rate of certified timber materials or chain-of-custody certified manufacturing.

Changes due to Qualitative selection:

Three construction companies, **Strabag**, **Implenia**, **Bird Construction** and one engineering company, **Sweco**, were removed from the index after the index committee revised requirements for companies from the construction sector. Those four companies, while being actively involved in timber construction, are not yet systematically and formally committing in their official reports to clear goals with regards to timber construction and/or have not committed to SBTi

emission reduction targets. It is the Index Committee's view that companies who have clear timber targets and/or have a declared objective of using timber in construction combined with a strong commitment to reducing emissions (as in the case of an SBTi commitment) have a more credible strategy and are eligible for inclusion in the index. Finnish Biotextile company **Spinnova** was removed from the index in order to further focus on the construction value chain.

Changes due to Mergers & Acquisitions

Resolute Forest Products was acquired by the Paper Excellence Group. The purchase was announced in July last year and was completed on March 1st, 2023. Due to the delisting, Resolute Forest Products is no longer included in the Index.

3. Significant Changes to the Index Guidelines

During the last quarter, the index guidelines were amended to increase the robustness of the index's weighing methodology, more formally recognize the contribution of forests in the process of absorbing and storing CO₂ and increase the level of detail with respect to acceptable wood certifications. Our aim is to provide high consistency to the index guidelines, while ensuring that the index remains relevant and robust.

Index weights: a cap on qualitative index components was added and set to 20%, meaning that the stocks included in the index based on a qualitative assessment cannot cumulatively represent more than 20% of the index. This was done to limit the influence of discretionary inclusions in the index and ensure that the majority of the index can be backed by transparent quantitative criteria, while maintaining the qualitative stock selection as a pragmatic tool in order to map the entire timber value chain within the index. Stocks are now equally weighted within the quantitative and qualitative groups and are no longer dependent on index classifications that vary from one sector classification provider to another.

Forest assets: a new quantitative criterion for forest assets has been introduced. As a result, companies with forest assets representing more than 30% of their total assets are added to the quantitative pool. The environmental value of durable wood products originates from the forest's sequestration capacity and therefore, in our view, companies with significant forest holdings deserve to be automatically included into the quantitative pool.

Certification requirements: a deeper level of detail has been added with regards to the type and extent of certifications required from companies who own forests and/or manufacture wood products to be included in the index. Instead of the previous generic 70% certification requirement, we introduced a requirement for either reported 60% wood certified according to the established *wood production standards* (such as Controlled Wood) and/or an estimated 80% of supply going through a *chain of custody* standard¹. Companies who put a significant effort into obtaining certifications across their entire timber supply chain should be recognised, as these efforts strengthen the sustainability credentials of the entire timber industry. While chain-of-custody does not per se guarantee a minimum level of certified wood in the products, it is an essential step towards making the end-product certification possible, hence it can be seen as a positive contribution towards transparency, which is a necessary condition for sustainability. As part of the index review, a company (Doman Building Materials) was removed due to insufficient transparency on their product and supply-chain certification level.

¹ Certifications by the Sustainable Forestry Initiative (SFI) and the Forest Stewardship Council (FSC) include *Forest Management* for sustainable forestry; *Chain of Custody* for the ability to identify certified sources in the supply chain; *FSC Controlled Wood* for the implementation of risk-mitigation measures aimed at ensuring that no wood is sourced that was illegally harvested or produced according to specific controversial practices; *SFI Certified Sourcing* is also for risk-mitigation measures in connection with illegally, or through specific controversial practices, harvested wood, and has additional sustainability requirements for the certificate holder.

4. TFI Industry Sectors

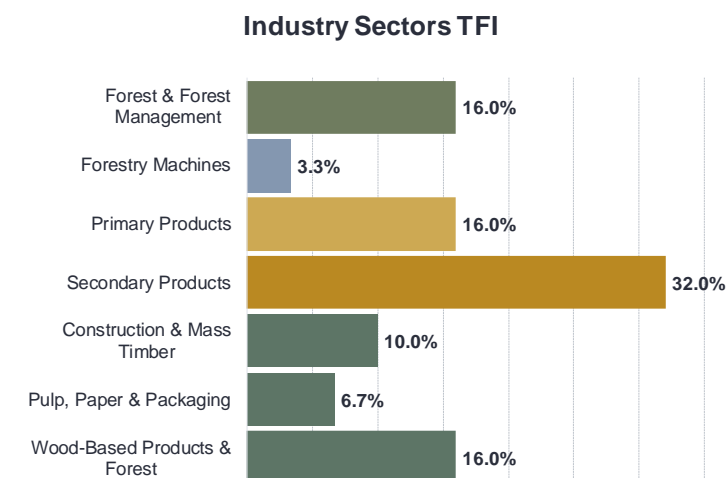
As of Q1 2023, we introduced the new sector classifications Pulp, Paper & Packaging and Wood-Based Products & Forest², to more granularly reflect certain differences across companies, also in relation with sector benchmarks. It should be noted that the companies in the TFCCS Index classified under these new sectors produce long-term durable wood products, including engineered wood products, and not only paper or packaging products with shorter life cycles. The following sector exposures and their variations relative to the previous rebalancing date, reflect this amended sector classifications.

According to the TFI Industry Sector classification the largest sector remained Secondary Products³ (32.0%). After the changes to the index methodology, Primary Products became the second largest sector (16.0% up from 10.4%) at the same level as Forest & Forest Management (16.0% up from 8.3%) and Wood-Based Products & Forest (16.0% up from 14.6%) which tracks companies with significant forest holdings who also produce a variety of products. Construction & Mass Timber fell from 16.7% to 10.0% and Forestry Machines fell from 8.3% to 3.3%.

The amended index weighting methodology that caps qualitatively selected stocks and equally-weights all components in the quantitative and qualitative groups, was the main driver of the reduction in the weights of forestry machines and mass timber construction, as these stocks belong to the qualitative pool. The increase in Forestry stocks and Primary products was driven by the new equal-weighting mechanism and the new quantitative criteria mentioned above.

5. Regional Exposures

The index weighting adjustments also led to some changes in the geographic allocations, with an increased exposure to the United States (+8.9%) and Canada (+5.2%) and reduction in the exposure to European companies.



Regions	30.09.2022	31.03.2023	Δ
Northern Europe	31.9%	28.0%	-3.94%
United States	26.4%	35.3%	8.94%
Canada	19.4%	24.7%	5.22%
Central Europe	20.8%	12.0%	-8.83%
United Kingdom	1.4%	0.0%	-1.39%

Source: Timber Finance

² The Wood-Based Products & Forest category refers to companies that have significant forest holdings.

³ The Secondary Products category refers to wood products such as engineered wood products with higher value added compared to Primary Products such as logs and (commodity) lumber.

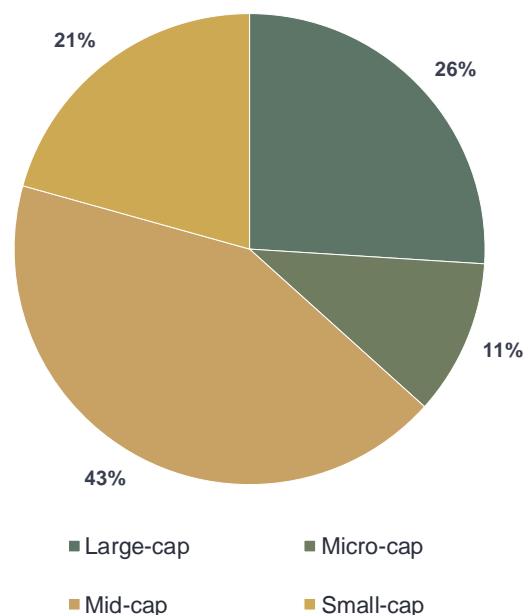
6. Market Capitalization

The exposure to Large-cap companies was 26% while 74% was allocated to Mid-, Small- and Micro-caps, with Mid-caps taking the largest share at 43%. As a consequence of the index methodology amendments, the exposure to Mid-caps was increased significantly while at the same time the exposure to Small-caps was reduced.

Mkt Capitalisation	In USD mlns
Min	119
Max	125'288
Median	2'382
Average	8'444

Source: Bloomberg, Timber Finance

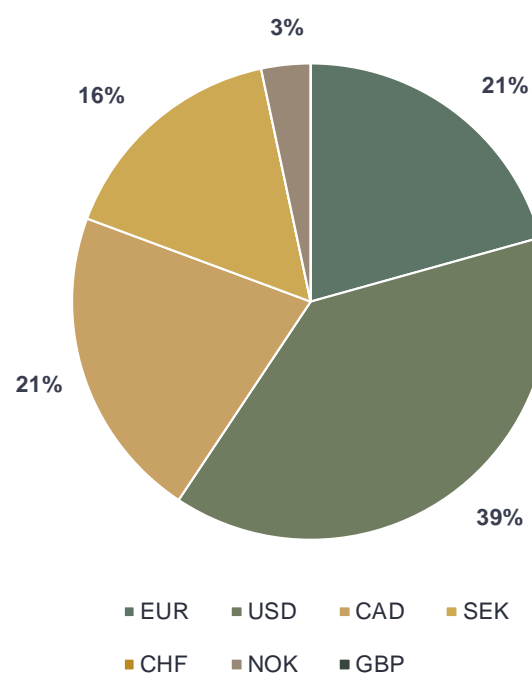
Market Capitalisation



7. Currency allocation

The largest currency allocation was to the USD (38.7%), followed by the CAD (21.3%) and the EUR (20.7%). Currency allocations were subject to significant changes as a consequence of the amendments to the index methodology that led to the portfolio adjustments cited above.

Currency Allocation



8. Timber Finance Index Methodology

The Timber Finance Carbon Capture & Storage Index aims to represent companies which have direct or indirect exposure to the production and use of long-term durable wood products.

Index components are selected based on quantitative as well as qualitative criteria. Below a summary, for more details, please refer to the official index guidelines.

Quantitative Selection

- Companies generating more than 50% of their revenues from forestry, timber, lumber or otherwise contributing to the production and use of durable wood products.
- Companies with forest assets representing more than 30% of their total assets.

Qualitative Selection

- Have a dedicated and documented timber, biomass or biochar strategy.
- Contribute to the construction of large-scale Mass Timber buildings.
- Domestic leading timber company, or international frontrunner in the timber industry based on the country of incorporation.
- Significant one year revenue growth in timber and/or durable wood product business segment.
- Commitment to the advancement of Mass Timber and further development of the bio-based renewable materials market.

Sustainability requirements

Companies which directly own forests or procure timber for their manufacturing activities must be committed to sustainable forestry and have these practices documented. They must fulfil at least one of the following criteria:

- minimum 60% of their lumber is sourced according to certifications such as FSC Controlled Wood, SFI Fiber Sourcing, SFI Certified Sourcing (or higher). Acceptable certifications include Forest Stewardship Council ("FSC"), Sustainable Forestry Initiative ("SFI"), Program for the Endorsement of Forest Certification ("PEFC") or other comparable certifications.
- minimum 80% of the company's facilities or procurement units have a Chain-of-Custody certification from FSC or SFI.

9. Rebalancing Timeline

In line with the semi-annual rebalancing cycle, the next rebalancing will occur in September 2023.

For more details and questions, please do not hesitate to get in touch with us at info@timberfinance.ch or:

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