the properties in the Timberland Account by assuming the orderly liquidation of said properties, normal expenses of liquidation and income tax liabilities based on an estimate prepared by an independent certified public accounting firm approved by both the Trusts and the Investment Manager.

16. The following examples illustrate the manner in which the Incentive Fee would be calculated in four hypothetical situations:

• *Example 1.*

Assume that Timberland has a life of 7 years and that the Trusts invest a total of $100 million in Timberland. At the end of year 7, the sales price of timber plus land, net of all expenses, is $207,620,000. Assume also that the rate of inflation is 0%. The IRR for this investment can be calculated directly because there is a single cash outflow of $100,000,000 and a single cash inflow of $207,620,000. The calculation is as follows: $[(\$207,620,000/\$100,000,000)^{1/7}-1]\times100=11\%$

Once the IRR is calculated, the Incentive Fee that will be paid by the Trusts can be determined from the Incentive Fee Payment Schedule which has been reproduced, in part, as follows:

Annual real IRR (> or =)	Incentive fee payment
10.8%	$2,646,000
10.9%	2,697,750
11.0%	2,750,000

Thus, the total Incentive Fee that will be paid by the Trusts to the Investment Manager based upon an IRR of 11% is $2,750,000.

The above IRR is both a *nominal* and a *real* rate because inflation was assumed to be 0%. If inflation is positive, however, the nominal IRR will be greater than the real IRR. With positive inflation as measured by the CPI, the nominal IRR must be adjusted for inflation and the Incentive Fee calculated on the basis of the adjusted or real IRR. This is done in Example 2.

• *Example 2.*

Same as Example 1, except now assume inflation occurred at a 4% annual rate over the life of the Trusts' investment in Timberland.

To determine the real IRR, the 11% nominal IRR must be adjusted for 4% inflation. This figure is calculated by dividing the nominal IRR by the CPI: 1.11/1.04=1.0673=6.73%.

Once the real IRR is computed, the Incentive Fee that will be paid by Trusts can be determined by referring to the Incentive Fee Payment Schedule which has been reproduced, in part, as follows:

Annual real IRR (> or =)	Incentive fee payment
6.6%	$924,000
6.7%	954,750
6.8%	986,000

Thus, the total Incentive Fee that will be paid by the Trusts to the Investment Manager based upon a real IRR of 6.73% is $954,750.

• *Example 3.*

Assume the Trusts give the Investment Manager $100 million to invest in Timberland and that the Investment Manager increases the investment amount to $170 million (which is the fair market value determined by independent appraisals), net of expenses, by the end of 4 years. Assume also that the Investment Manager resigns and is replaced by a new Investment Manager. Assume further that the rate of inflation over the 4 year period is 4% annually.

The nominal IRR can be computed directly because there is one cash inflow and one cash outflow: $[(\$170,000,000/\$100,000,000)^{1/4}-1]\times100=14.19\%$. To determine the real IRR, the 14.19% nominal IRR must be adjusted for 4% inflation. This figure is calculated by dividing the nominal IRR by the CPI: 1.1419/1.04=1.0979=9.79%.

From the Incentive Fee Payment Schedule, the Trusts would pay the former Investment Manager an Incentive Fee of $2,109,750 based upon a real IRR of 9.79%.

Annual real IRR (> or =)	Incentive fee payment
9.6%	$2,064,000
9.7%	2,109,750
9.8%	2,156,000

However, the actual fee paid to the former Investment Manager would be the lowest of (a) $2,109,750, (b) the Alternative Fee or (c) an Incentive Fee determined by reference to the IRR achieved through the complete liquidation of Timberland (including investment results achieved by the successor Investment Manager).

Example 4 demonstrates how poor performance by a successor Investment Manager can reduce the actual payment made to the former Investment Manager.

• *Example 4.*

Same as Example 3, assuming further that the successor Investment Manager continues for a year and that all of Timberland's assets are liquidated in one transaction at the end of that period. During the extra year, the fair market value of Timberland remains at $170 million and the rate of inflation remains at 4 percent.

The nominal IRR can be computed as follows: $[(\$170,000,000/\$100,000,000)^{1/5}-1]\times100=11.20\%$.

To determine the real IRR, the 11.20% nominal IRR must be adjusted for 4% inflation. This figure is calculated by dividing the nominal IRR by the CPI: 1.112/1.04=6.92%.

From the Incentive Fee Payment Schedule, shown in part below, the former Investment Manager would be entitled to an Incentive Fee of $1,017,750 based on a real IRR of 6.92 percent.

Annual real IRR (> or =)	Incentive fee payment
6.8%	$986,000
6.9%	1,017,750
7.0%	1,050,000

Since this Incentive Fee is lower than the Incentive Fee based on independent appraisals (see Example 3), the Trusts would pay the former Investment Manager the lower of this fee or the Alternative Fee.

17. The Investment Manager will provide the Trusts with quarterly unaudited financial statements prepared by Price Waterhouse & Company (Price Waterhouse). In addition, the Investment Manager will provide the Trusts with annual audited financial statements, also prepared by Price Waterhouse. These documents will generally be issued within thirty days following their preparation.

18. In summary, it is represented that the proposed transaction will satisfy the statutory criteria for an exemption under section 408(a) of the Act because:

(a) The investment of the assets of each Trust in Timberland, including the terms and payment of the Incentive Fee, has been approved in writing by a fiduciary who is independent of the Investment Manager and its affiliates.

(b) Each Trust participating in Timberland has total assets that are in excess of $50 million and no Trust may invest more than one percent of its assets in Timberland.

(c) The terms of the Trusts' investment management agreements for Timberland, including the Incentive Fee, will remain at least as favorable to the Trusts as those obtainable in an arm's length transaction with an unrelated party.

(d) Prior to investing in Timberland, each Independent Fiduciary received offering materials which disclose all material facts concerning the purpose, structure and operation of Timberland including the fee arrangements.

(e) The Investment Manager will make periodic written disclosures to the Trusts with respect to the financial condition of Timberland and the fees paid to the Investment Manager.

(f) The total fees paid to the Investment Manager will constitute no more than reasonable compensation.

(g) The Incentive Fee will be payable to the Investment Manager upon the complete liquidation of the Timberland Account and only if the Trusts recover distributions equal to their initial investments in Timberland.

(h) In the event that the Investment Manager resigns or is removed prior to the complete liquidation of the Timberland Account, the Trusts will appoint a successor Investment Manager to effect the liquidation of such account. Under such circumstances, the Incentive Fee will not be paid to the former Investment Manager until the Timberland Account is fully liquidated and if paid, such Incentive Fee must be