

Bauers Family Tree Farms News

A Semi-Annual Newsletter

Issue Nº - 1 August 2007

Newsletter No. 1

We are off to great start and happy to share it with you.

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Welcome to our first newsletter.

Can you believe our project has already been underway for almost a year! Although our aspirations for a tree farm started many years ago, it has now been just about a year since we acquired our first farm in Costa Rica.

In October of 2006 we purchased 260 acres of beautiful land in Miramar Costa Rica. (If you pull out a map of Costa Rica, Miramar in Guanacaste is on the peninsula of Nicoya just southwest of the capital city of Nicoya.) Since the purchase our crews have diligently prepared the land for planting, started a bunch of little trees in a nursery and since planted all of those trees in the ground.

Finding a farm in the jungle

Numerous trips to Costa Rica for Joe, Jaime and I to look for the perfect first farm was quite adventurous. On horseback, foot and in 4X4 vehicle we made our way through the Country. We drove through rivers that came over the hood of our car, hiked through mud up to our knees and I even took a tumble off a horse when it abruptly stopped to my surprise. In our adventures we saw magnificent sites, green lush vegetation, animals small and big and enough rain to last a couple of Coloradans a lifetime.

Although there were many unforgettable experiences the most memorable was our first trip to what would become Finca Miramar, our first farm.



It was a typical overcast Costa Rican afternoon when we made a left turn onto a dirt road towards Miramar. Our guide for the day, Walter, assured us that the trip was short. We nodded our heads with a touch of skepticism, after-all he had just taken us to a different farm that had taken us through four rivers on a hilly and very muddy road. Fortunately for us this road only lasted a short 7 miles up a well kept road. When we arrived at the farm the first thing we noticed were the views. The town of Miramar (literally "ocean view") sits several miles from the coast, but because it is on top of a small mountain you can see the ocean from many spots within the town. Also from the top of the mountain, where our property starts, you have incredible views of the surrounding, vegetation filled mountains. Add a little afternoon mist and moisture to this views and it truly becomes a site to see.

After the views we were able to enjoy the two rivers the property has as well as take a walk their the natural areas of the farms. On our walk we spotted and heard a number of howler monkeys, spotted blue morpho butterflies and saw a little armadillo running through the forest floor. From the first trip

we knew this was the spot for us.

Progress to date

Since we started this project in fall of 2006 the farm has progressed along wonderfully with the help of our team in Costa Rica. First we had to re-grade the roads that run through the farm. These important access roads make it possible for our team to get around the farm and to transport materials, tools and trees. Next 175 acres of land were prepared for planting by hand. This included clearing of overgrown grasses, shrubs and weeds with a machete, preparing the soil for planting and pre digging a small hole at the right spacing for each tree to go into. At the same time the land was being prepared our nursery was put in place. The work in the nursery involved starting 45,000 trees from seed, filling 45,000 small bags with soil, transplanting each little tree into a bag and then caring for them for the next four months as they grew.

All of the trees have now been planted in the ground now and the important work of keeping them growing has begun. You can read more about the current state of the farm the progress we have been making on page 2 under "Trees are in the Ground."

Thank You

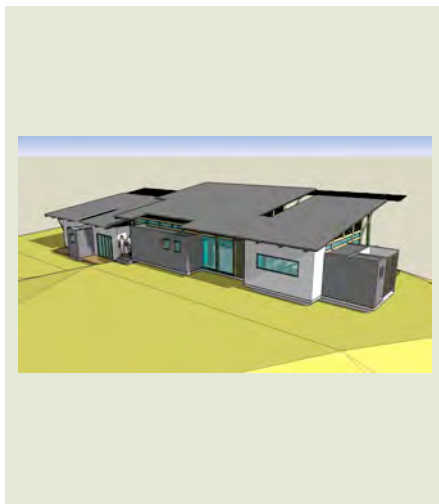
We thank each of you that have given us your generous support as we have got this project off the ground and especially thank those of you that have decided to join us in this venture.

Happy Growing!

- Jake Bauers

Guesthouse Gets Plans

Our architect in San Jose, Costa Rica has completed plans for the Bauers Family Tree Farm guesthouse. The house will be situated near the top of the farm and will have spectacular views of the farm and surrounding mountain landscape. The guesthouse is a wonderfully contemporary yet very simply in design. There will be a master suite on one side of the house, a kitchen and living room in the middle and two bedrooms sharing a Jack and Jill bathroom on the other end. At the location of the home site the terrain drops away quickly and there will be a deck coming across the back of the house to enjoy the sweeping vistas and lush environment that surrounds it. Because heating and cooling are not near the factor that they are in the US, a lot glass will be used giving the house an incredible open feeling.



While the trees were in the nursery and the farm was being prepared for planting it was necessary to build a barbed wired fence around the property to prevent any large animals from intruding and trampling trees. The fence post that the barbed wire are attached to are Pochote trees, a native Costa Rican tree. While working on the fence a number of the trees needed trimming or needed to be removed altogether. However, these cuttings did not go to waste. The cut trees will be sent to a local mill and will be returned to the Bauers Family Tree Farm to be used as door and window frames and trim for the guesthouse.

The best time to build in Costa Rica is the dry season which extends from December through March. Plans are to begin construction in December and with luck the house will be completed in spring of 2008. We encouraged you to come visit the farm and the guesthouse.

Trees are in the Ground

The 45,000 trees that have been growing in the nursery since February have all been planted in the ground. Planting began in mid June at the beginning of the rainy season and continued for a little more than a month wrapping up in the end of July. We had some 40 workers on the farm every day carefully planting the trees. The farm inventory consists of approximately 39,000 Teak trees which make up the majority of the farm and approximately 6,000 Melina trees. Teak grows best on gently sloping surfaces where erosion is less of an issue.



Therefore on the steeper parts on the farm our forest engineers deemed it better to plant Melina, a native Costa Rican tree. Melina has a light colored wood and has a number of uses from furniture to doors.

So far it has been a very rainy year in Costa Rica providing important moisture to our young trees. The recent hurricanes going through the Caribbean have been good news for the tree farm at the same time they have brought devastation to the areas they have hit. While hurricanes

have rarely directly hit Costa Rica the long bands of moisture reach down through Central America and dump torrential rains onto its land. Costa Rica is perfectly situated to pick up rain produced from hurricanes, tropical storms and daily thunderstorm build up. It is for this reason that it is one of the rainiest countries in the world.

Now back to the tress. The trees are planted about 12 feet apart and at the moment are just about a foot tall, but that will all change very soon. Teak has survived in the tropics for millions of years by skyrocketing straight up and making their way to the top of the jungle canopy. (Teak has a very fast growth rate.) We can expect that by the end of the rainy season that the trees will have grown several feet tall. In just a few short years the trees will become taller than humans. In approximately 10-11 years the trees will be 20-30 feet tall, the canopies will start to grow together and it will be time for the first thinnings.



From there the Teak trees will continue to grow towards the heavens and eventually end up being 60-70 ft tall.

- Joe Bauers

Investing in Timber

As I sit here writing this on August 18 the Dow Jones sits at 13,078 down some 8% from a little more than a moth ago. The US and global equity markets have been beat up as investors worry about liquidity and credit markets. A number of mortgage lenders have gone belly up and investment and commercial banks are struggling to put together large leveraged buyouts that had been put together early in the year. All of this recent volatility brings to light the importance of proper portfolio allocations and diversification.



Timber can be an important part of a diversified portfolio creating outsized returns with less risk. The main reason for this is that timber has a low correlation to bond and equity investments. In addition to low correlation timber also tends to have less volatility than other investments. A big part that contributes to both of these factors are that a large portion of the return on a timber investment is due to organic growth of the actual trees. That is to say trees get bigger every year and yield more timber as a result. Another important factors leading to timber investment returns are an increasing demand for timber as the world population grows and develops and a decreasing supply as forests are cut and cleared for other uses.

A timely article relating to this came out in this months issue of Smart Money Magazine entitled "A League of Their Own." The articles speaks of the very impressive annual returns that have been gen-

erated by Harvard's and Yale's endowment funds. The article recognizes that not only have these two endowment funds put up fantastic returns they have done it with very diversified portfolios that are considerably different than that of almost all individual investors. Looking at the portfolios that Harvard and Yale keep the thing that jumps out the most to me is that they both keep about 30% of their portfolios in real assets by far their largest asset class. Real assets include such things as real estate, commodities, oil and gas, and specifically timber. In fact not long ago Harvard was the largest institutional owner of timber in the world. This may be surprising, but at the same time Harvard endowment fund has investments worth some \$29 billion. Now back to diversification. Jack Meyer the former investment manager of the Harvard endowment fund was quoted in the article saying "The most powerful tool an investor has working for him or her is diversification. True diversification allows you to build portfolios with higher returns for the same risk." Now that is a powerful statement. So take a look at your own portfolio, compare it to those of the two universities are see where you stand. I would guess most people are far to overweighted in domestic equity and lacking in the other asset categories including timber.



Even though we might produce emissions in Colorado, trees to offset this can be planted across the world in countries like Costa Rica. In fact Costa Rica has been recognized as one of the world leaders in oxygen production because of it's extensive conservationist programs of it's natural resources. When Jake, Joe and I decided to pursue this venture, we did it as nature lovers



Going Green

Going green is the topic du jour and for good reason. The world finally recognized the urgent need to control our carbon emissions and save the natural resources that we have left on our planet. Now terms like carbon footprint, carbon credits, eco-friendly and many more are part of our everyday vocabulary. It is a new conscience in people, countries, governments and companies that see the consequences if we ignore the signs. There is a common consensus among everyone that one of the ways to offset this trend is through reforestation. Trees, as we all know, not only consume carbon dioxide, CO₂, but produce oxygen as a byproduct. Better yet the carbon consumed by the trees gets locked into them through a process called carbon sequestration.

Trees bring back a balance in the ecosystem, helping avert erosion, providing habitat for wildlife, encouraging biodiversity and keeping water supplies clean and clear.

Because this is a world problem the solution is anywhere and everywhere, not necessarily in our own backyard.

and as businessmen. We also felt that we could share the opportunity with others that would also see this as a great opportunity to maintain a balance between sustainability and profit. Now that we have begun the process and have over 45,000 Teak and Melina trees planted in our farm, we believe we are on the right track and would like to thank those of you that have supported us and those that will come later. Together we can make a difference.

-Jaime Pardo