

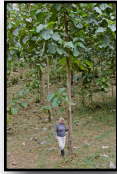
# Bauers Family Tree Farms News

A Semi-Annual Newsletter

Issue N° - 10 March 2012

## Farm Update

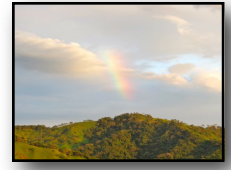
Five growing seasons complete and *A special article written by David Willard*  
Pages 1-2



Timber for a growing planet.  
Page 3



Costa Rica  
*An Eco Friendly Paradise.*  
Page 4



## Farm Update - March 2012

The trees on the farm just finished their 5<sup>th</sup> rainy season and are now leafless. They will remain so for the rest of the dry season. The rain will return to the farm in mid to late April and will become consistent and substantial towards the end of May. With the water the trees's vigorous growth will start again. Since planting the trees have enjoyed 5 consecutive years of very wet rainy seasons. and, as a result, the trees have been growing very well both in terms of height and girth. Some of the trees on the farm have reached a height of more than 50 feet (that's more than 10 feet of growth per year!) and have more than a 25 inch circumference. In addition to the impressive growth the farm has seen very few tree casualties in the first several years.



In December 2011 a Caterpillar Bulldozer was brought to the farm to grade the 5 kilometer main farm road as well

as some of the secondary roads. The road was graded as major tree trimming is scheduled for the early part of May, 2012. Because the farm is so large (it is basically the same size and distance of 18 hole golf course), the road must be maintained to provide easy access to all the workers who will be trimming branches at the start the next rainy season. Because Costa Rica and the farm receive over 100 inches of rain per year, the farm road erodes very easily and quickly. There are sections of farm road that cross through drainage ravines and become impassable if not frequently graded. Therefore in order to save the workers a two hour walk each way to the far reaches for the farm the roads are graded so that they can all hop in a truck and be to their worksite within 10 minutes.

With 5 growing seasons complete the trees are really starting to branch out (develop crowns in tree speak). In early May approximately 20 workers will be trimming the branches of the 40,000+ trees growing on the farm. The objective of the tree trimming will be to cut off all low hanging branches giving more strength to the trunk and to make sure that the trunk of each tree grows straight like a telephone pole. When the trimming is complete each tree will have a straight trunk and a mushroom top. This trimming technique allows the tree to focus the bulk of it wood growth into the trunk. The larger and straighter we can keep the trunks the more valuable the trees will be once they ultimately make it to the mill.



Timing is critical in all types of agriculture and it is no exception in teak farming. The reason the pruning is going to take place in the month of May is very specific. The first reason the trimming is taking place during the time is that the heavy rains have not yet set in and it is much easier to work in dryer part of the year. If trimming took place in rainy season the roads would be a muddy mess, vehicles would get stuck and climbing trees would be very slippery and dangerous. The month of May is the towards the beginning of the wet season. Having just been through the dry season the branches are at their most brittle stage of the year and it is the easiest time to cut branches. In the rainy season the branches become very moist and flexible and they are much more difficult to cut. The final reason for doing the trimming in May is that March and April are hotter months and the workers simply can not work as hard or as much due to sun, heat and humidity. In May the clouds start to return and temperatures cool and even though the rains are not in full force, the weather is much cooler and cloudy making conditions more pleasant for workers who trim the branches.

# A December Trip to the Farm - by David Williard

*David Williard and his wife, Jen, made a trip down to Costa Rica and the farm at the end of December last year. David graciously agreed to share his experience with us for newsletter. He put together the great piece that follows. Thanks David.*

My wife and I were fortunate enough to be able to spend our Christmas Break in 2011 on the Bauers Family Tree Farm. Joe Bauers invited us down to stay with him at the farm's guest house, and we had a fabulous time with him while exploring the farm and getting to know our new Costa Rican friends who live on the farm. Joe picked us up at the airport in Liberia, Costa Rica, which is a relatively short drive from the tree farm. On the way to the farm from the airport, we saw sugar cane plantations, small towns with rodeo



grounds in the town centers, and lots of people out socializing. I was immediately taken with the country.

We drove on a dirt road for the last third of the drive to the tree farm. The area around the farm just got electricity a year ago, so there isn't much development in the area. It felt pristine and mostly undisturbed. We pulled into the farm in the late afternoon on Christmas Eve, and we had an opportunity to meet the caretaker family and then to take in the scenery around us.

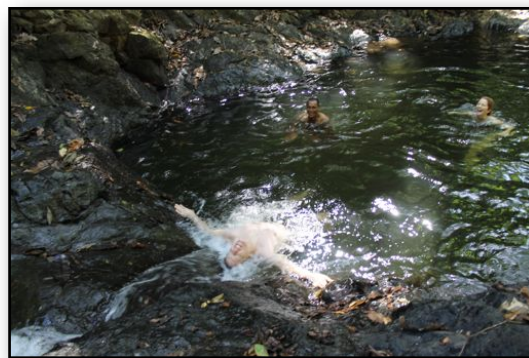
The guest house is situated on the edge of the tree farm, and the teak trees, many of which are nearly 50 feet tall, stretch right up to the edge of the house. The house overlooks the entire farm, so you can get a bird's eye view of the different parts of the farm, much of which has been left as virgin jungle. Across the valley from the guest house is a mountainous ridge which eventually winds its way down to the Pacific coast at Playa Samara. The farm is at the top of the valley, and the road to the beach winds some 15 miles down to the ocean. You can see the ocean from one spot on the farm called the "high point."

The guest house is amazing. I'd seen pictures of it and thought it looked interesting, but you really need to see this house. To begin with, the house is very well constructed. It has a huge concrete slab and is made of steel and concrete bricks. The master bedroom has lots of glass walls so that you can view the tree farm from almost every direction. The master bedroom also has an outdoor shower with heated water. One of our favorite things to do was to sit out on the covered porch that looks out over the farm. For me, there's nothing much better than a cold beverage, a rocking chair, and an incredible view. The house also includes a full kitchen, a large living/dining area, and several guest rooms. Joe gave us the master bedroom, and we felt a bit like royalty.

On our first night at the farm, we met the caretakers of the farm. Martin and his wife Noylin are local to the area, and they are raising 2 girls, one of whom, Kimberly, just entered high school. Martin used to work the farm when it was a cattle ranch prior to becoming the teak tree farm, and he clearly knows the farm very well. Noylin was kind enough to feed us during our visit, and got to enjoy

her special take on gallo pinto, a rice and bean dish that I could eat every day, every meal. I loved it.

On Christmas day, Joe and Martin took us on a tour of the farm. The roads on the farm were in terrific shape, as they had just been graded with a bulldozer a week earlier. We started by visiting the farm's tree nursery not far from the guest house



where the teak seedlings had been raised 5 years ago. The nursery is now planted with teak trees, and Martin taught us how to prune the trees to keep them growing straight, and activity that will consume much of Martin's work days in the coming months. Next, we drove through an area of jungle to reach some of the larger teak groves. The jungle itself was fascinating and is full of howler monkeys and other wildlife. We also saw some blue butterflies that were at least 4-5 times as large as an average butterfly in the United States. The jungle is also home to several ancient trees like a 300-year old pochote tree that Martin showed us.

As we drove through the jungle, viewing the growth in the large teak groves was staggering. To imagine that trees nearly fifty feet tall and six inches in diameter were tiny 6-inch seedlings in 2007 was pretty shocking to see in person. The rains have been generous on the farm, especially in the last five years, which has been perfect timing for enabling the trees to establish themselves in the crucial early years. It would seem that the farm is already well set up for a successful harvest in 20 years.

One of our favorite parts of the tree farm tour was hiking up a river on the farm to a beautiful swimming hole. Since we visited in the dry season, the river was fairly



low. We passed by lots of flowers and old growth trees as we walked through the ankle-deep water. After a 15-20 minute hike, we came upon a swimming hole which was nearly ten feet deep and fed by



a small waterfall. The swimming hole was surrounded by lush jungle and canopied by several old, very tall trees. We took turns diving into the water from the rock outcroppings that surround it. My wife and I were floating in the water when one of those huge blue butterflies happened by. My first thought – how quickly can we move here?

After soaking in the swimming hole, we went down to the neighborhood Christmas Party, where the food was excellent and the soccer matches were fascinating. A member of the Costa Rican national team was actually on one of the teams. I loved having an opportunity to practice Spanish at the party, which is a great challenge after 4 Imperials, the most excellent beer of Costa Rica. Noylin and Martin and family invited us over for Christmas dinner that evening, and Joe and I took turns playing Christmas carols on guitar. How fun to hack my way through “Feliz Navidad” and have everyone sing along!

After 3 days on the farm, my wife and I then spent 4 more days at a condo down on the coast. We rented a car and visited lots of beaches (and Arenal National Park, a cloud forest with a volcano in the middle of it), but we really wanted to be back at the farm. It’s just so peaceful.

As a result of our trip to the farm, my wife decided to become a tree farm investor as well. It’s exciting to invest in a commodity that you can go and visit! What I can say about the farm is that it is extremely well managed and cared for. I

feel very comfortable with our investment, and we are looking forward to watching the trees mature year after year.

We are very much looking forward to a return trip to the farm soon! Pura vida!

## Growing Trees for an Expanding World

We recently came across a blue paper written by US Trust, the private wealth management arm of Bank of America, that did an excellent job of summarizing upcoming trends that relate to the trees as well as illustrating a number of investment characteristics that we have spoke about for some time. The paper is titled “Food, Forests, and Fuel” and was originally published in June of 2011. We have included the paper in this newsletter, it is a good quick read.

The main theme of the paper is that the world population is continuing to expand and that the majority of global growth is shifting from developed nations to developing nations. These are clearly themes that have been taking place for sometime now and will most likely continue for a long time to come. We have all heard and seen the impressive growth an development of countries such as Brazil, India and China over the past decade. Particularly impressive and interesting is the rise of the middle class in these countries and their increased demand for goods and services.

The paper gives some impressive statistics on population growth citing that the world population is expanding by 200,000 people per day, that the world population has now exceeded 7 billion people and that less than 1 billion of the worlds population lives in the developed world.

The paper very nicely summed of this theme in its summary “*As the balance of growth shifts from developed to developing nations, the world clamors for natural resources. Land capable of satisfying that demand can help investors reduce portfo-*

*lio volatility and protect principal, while providing steady income or appreciation as well as a hedge against inflation. There’s also the reassurance of owning something real.”*

As the main and other themes of the paper relate to the Bauers Family Tree Farm we see the following trends being the most interesting:

- World population is growing and will continue to do so for some time. Population growth will create increased and growing demand on natural resources. In the case of timber, and especially Teak, there has been a decline in timber coming out of natural forests (mainly due to a severe decline in natural forests and previous extensive harvesting of the prized wood.) This should make future supplies of resources all the more valuable.
- As the paper mentions there is major



trend of global growth from the developed to the developing world. Less than 15% of the current world population is considered developed and as the world continues on this trend as moving from developed to developing the citizens of those countries will grow an increasing demand for goods and services. In our case the we expect to see an increasing demand for things such as furniture, flooring and other beautifully made household goods.

- The paper also touches on many of the timber investment attributes that we



## Costa Rica - An Eco Friendly Paradise

Costa Rica was just named the 5th greenest country in the world as published in the Environmental Performance Index (EPI) published by groups at Yale and Columbia Universities. The EPI ranks countries on performance indicators tracked across policy categories that cover both environmental public health and ecosystem vitality. The report can be found at <http://epi.yale.edu/>.

Costa Rica is in impressive company at the top of the list with Switzerland, Latvia, Norway and Luxembourg ranking 1 through 4 and ranks very high across a broad range of categories. For comparison's sake the United States comes in at 49 and is in the modest performer category. Towards the bottom are China at 116, Pakistan at 120, India at 125 with the very bottom being Iraq at 132.

Some interesting facts about Costa Rica include that they generate 99.2% of their electricity from renewable sources (nearly all electricity is generated by either hydroelectric or geothermal power plants), more than half of Costa Rica is covered by forest, Costa Rica has morphed itself over the last 30 years from a net loser of forest cover to a net gainer, Costa Rica has successfully protected more than 26% of its total land area either in the form of

count.) Costa has achieved such a high level of environmentalism through a strong commitment and love of the environment. A large part of Costa Rica's successful journey here was abolishment their military in 1948. This freed up a tremendous amount resources that were rededicated to education, health and the environment. In addition Costa Rica has been successful in transforming its main industry from agriculture to tourism with the majority of such tourism being eco tourism. This has successfully aligned the countries interests with that of the environment.

The main drivers that took Costa Rica to the top of the index were forest coverage and wood stock, limited greenhouse gas emissions and the use and commitment to renewable energy generation.

It is truly great to in and a part of a country that embraces the beautiful surroundings that it has.

## New Pay Over Time Option.

We are now also offering the opportunity to pay for your trees over time where you can spread out the payment for up to 60 months. We hope this makes this unique opportunity available to more people. Please contact us for details.

## Self directed IRA

We have many investors in the farm who have purchased and own trees through their Self Directed IRA. Did you know that you can transfer funds from a normal IRA account (stocks or mutual funds) and purchase trees is a Self Directed IRA? Did you know that you can contribute your yearly maximum (normally \$5000 per year) to a Self Directed IRA to purchase trees? It is easy to do - Ask us how.

### Thank You

Thanks for everyone's continued interest and support.

Jake, Joe, Jaime

have mentioned before and like about timber. Some of these are that timber can offer principal and risk protection, timber acts an excellent hedge against inflation, timber offers investment appreciation as trees naturally grow, and finally trees can act as a store of value in times of depressed pricing or other market volatility.

- The final interesting point made in paper, although simple and just briefly mentioned, is that there is reassurance

Level of Aggregation	Performance		Performance Score with Trend Shading		Five Year Trend Results	
	Score	Rank	0	50	Score (0 to 100)	Rank
Environmental Performance Index	69.0	5			-6.5	133
Environmental Health	76.2	53			9.1	67
Air (Effects on Human Health)	64.9	70			0.1	69
Environmental Burden of Disease	57.5	35			11.5	90
Water (Effects on Human Health)	64.8	57			13.2	42
Ecosystem Vitality	66.0	4			-4.4	107
Agriculture	50.9	66			0.0	56
Air (Ecosystem Effects)	60.2	26			20.7	33
Biodiversity and Habitat	72.9	45			0.1	61
Climate Change	79.0	8			-29.4	127
Fisheries	22.8	74			-13.4	85
Forests	65.3	27			-2.3	27
Water Resources (Ecosystem Effects)	61.1	13			-24.5	15



in owning something real. As we hear so much these days about "the cloud", see stock prices as numbers on a page rather the value of the companies they represent and see more and more companies that invest huge amounts into code that only exists in cyberspace it is refreshing to have an asset that you can touch, see and measure as it grows. It is reassuring to know that as when markets enter into times of volatility that

national parks or through private protection, and 6% of the earth's biodiversity is in Costa Rica (impressive when the small land mass of Costa Rica is taken into ac-



BLUE PAPER

EXECUTIVE SUMMARY

JUNE 2011

To receive a more in-depth report on this topic or to discuss this information in light of your particular wealth planning objectives, please contact a [U.S. Trust advisor](#).

# Food, Forests and Fuel

As the balance of growth shifts from developed to developing nations, the world clamors for natural resources. Land capable of satisfying that demand can help investors reduce portfolio volatility and protect principal, while providing steady income or appreciation as well as a hedge against inflation. There's also the reassurance of owning something real.

THE U.S. AND GLOBAL ECONOMIES ARE ON THE VERGE of what may prove to be the longest and broadest economic expansion in many decades. The rise in capital expenditures, improving consumer confidence, robust productivity, and a solid upturn in global trade are all pointing in the right direction.

Equities, while enjoying a strong two-year cyclical rally, don't tell the whole story of what is, at base, a fundamental and secular global rebalancing of growth away from the developed world and toward the developing.

World population, expanding by 200,000<sup>1</sup> people a day, is expected to reach 7 billion<sup>2</sup> this year—with fewer than 1 billion of that number living in the developed world. Developing nations now account for nearly 40% of total world imports and millions of new middle class consumers. One of the most salient features of this global bull marathon is likely to be an appetite for natural resources unprecedented in human history. For investors, these trends present significant opportunities in food (agriculture), forest (timber), and fuel (energy).

**Back to the future.** Fully capitalizing on the opportunities means turning back to the asset class that fueled the first great American fortunes: land. Real property—and the physical resources that spring from its soil or lie beneath its surface—has pushed its way once again into the consciousness of affluent investors.

When the economy is strong, the products it yields can provide a natural hedge against inflation. And when the economy suffers, the land holds a store of value that many other investments don't. As such, these assets enjoy very low correlation to stocks, bonds, and other financial markets.

<sup>1</sup> Center for Sustainability, May 5, 2011, <http://www.centerforsustainability.org/resources.php?root=&category=205>.

<sup>2</sup> United Nations, October 31, 2011, [http://countryoffice.unfpa.org/myanmar/2011/05/03/3305/world\\_population\\_to\\_reach\\_7\\_billion\\_on\\_31\\_october\\_2011/](http://countryoffice.unfpa.org/myanmar/2011/05/03/3305/world_population_to_reach_7_billion_on_31_october_2011/).

**All sector and asset allocation recommendations must be considered in the context of an individual investor's goals, time horizon and risk tolerance. Not all recommendations will be suitable for all investors.**

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## FOOD, FORESTS AND FUEL

**“Considering the insatiable global appetite, it is difficult to imagine a scenario in which good land, capable of growing food, could lose value over the long term.”**

— **Chris Hyzy**  
Chief Investment Officer,  
U.S. Trust

### FOOD FOR A HUNGRY WORLD

Arable land worldwide will shrink to only half an acre or so per person by 2030, according to the United Nations, down from more than an acre in 1960 and three-quarters of an acre in 2000. China, for example, with 20% of the world’s population, has only 7% of the arable land. It became the largest importer of U.S. soybeans in 2000 and now consumes half of U.S. soybean exports.

As in investment, farmland<sup>3</sup> offers such advantages as steady income from leases to farmers, principal and risk protection, and ease and simplicity. U.S. Trust currently has 13 full-time farm managers who can handle all of the regular details of ownership.

### FORESTS OF POSSIBILITIES

Despite a serious downturn in home construction that will require several years to correct, wood and wood fiber remain in high demand for use in paper, tissue, packaging and other products. Even limbs and other parts that were considered waste to be left on the forest floor are now being made into pellets to generate electricity and heat homes in Europe. And by 2015, China is expected to consume about 325 million metric tons of wood fiber, while producing just 200 million tons<sup>4</sup>—a gap that will have to be made up by imports.

As an investment, timberland, like farms, offers principal and risk protection, and a hedge against inflation. Timber also offers investment appreciation as trees

naturally grow, as well as tax and wealth transfer advantages, and the flexibility to harvest according to your own financial schedule and needs.

### FUELING THE FUTURE

Despite short-term price volatility, global energy demand—with oil leading the way—is likely only to increase as global development rises. Another promising energy source is natural gas, made more attractive by new methods for extracting it from vastly abundant shale rock.

Buying land for its energy potential is much riskier than buying farms or timberland. Property with proven reserves can be exorbitant, and buying land in hopes of a gusher is highly speculative. Therefore, in our view, the best way to benefit from the world’s growing demand for energy may be through traditional stock purchases in multinational oil producers, shale gas companies, or refinery and pipeline construction companies.

**Considering the momentous demographic changes taking place in the world, now may be the time to speak with your advisor about the possible advantages of incorporating food, forest and fuel themes into your portfolio. Your advisor can arrange a meeting with U.S. Trust’s leading experts in these fields to see whether an investment in the earth’s bounty may be right for you.**

<sup>3</sup> **Nonfinancial assets, such as closely-held businesses, real estate, oil, gas and mineral properties, and timberland, farm and ranch land, are complex in nature and involve risks including total loss of value. Special risk considerations include natural events (for example, earthquakes or fires), complex tax considerations, and lack of liquidity. Nonfinancial assets are not suitable for all investors.**

<sup>4</sup> Sources: State Forestry Administration (SFA), Poyry, International Wood Markets Group Inc. Resource Information Systems Inc., as of January 2011

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