

Bauers Family Tree Farms News

A Semi-Annual Newsletter

Issue N° - 15 October 2014

Farm Update



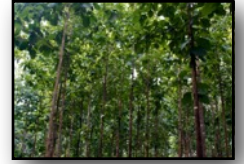
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Farm Update - October 2014

Here at the end of October 2014 we are wrapping up the 8th rainy season since the planting of the farm in 2007. The teak trees on the Bauers Family Tree farm continue down the path to maturity and continue to exhibit good growth characteristics. The 2014

weather patterns have deviated a bit from normal with a wet May and June followed by dryer than normal months in July and August and with the rains picking up somewhat in September and October resulting in a drier than average year, but with more than sufficient water for the trees to continue with good growth.

The teak trees underwent a major trimming this year as the trees have started significant branch growth. Last year was very rainy and the teak trees not only grew in height but also branched out quite a bit. Teak trees, like most trees, want to branch out and cover as much ground as possible, which allows them to absorb more sunlight and block out competition for light and water. However, when farming teak for lumber, the branching out must be controlled. If teak was left untrimmed it would quickly make "Y" and even "S" shapes causing the trees to be far less valuable. The pruning of branches also allows the trees to concentrate their energy



in growing taller and adding girth to the trunks as opposed to putting out and growing branches. The majority of value in a teak trees exists in the trunk and it is imperative that the trunk grows very straight and tall. Therefore trimming off all the bottom branches is key to raising valuable teak trees.

The majority of the pruning took place in April of this year. Approximately 8 workers trimmed off all of the bottom branches of the trees on the farm. The workers used saws on extension poles that were approximately 15 feet in length. The 15 feet of pole plus the 5 to



6 feet of height of the people allowed the saws to cut every single branch off the trees up to approximately 20 feet.

March and April are by far the hottest and driest months in Costa Rica. The reason the trimming was performed in April is because during the dry season the teak trees lose their leaves and the wood of the trees hardens up. Because the branches become drier and more brittle during this time they are actually easier to saw off than during the rainy season. It may seem that the branches would be easier to saw during the wet season due to them being more moist. However, due to the very fibrous nature of the wood when they are wet teak branches are much more stringy and are very difficult to saw through during the rainy season.

The beginning of May marked the start of the rainy season and as usual heavy rains returned to the farm. The leaves sprouted out in early May and

all the trees once again began growing both in height and girth, but now with a distinct mushroom top and very long trunk. Due to the removal of branches along the trunk the trees were naturally attempting to sucker up from the trunk and regrow bottom branches. Because if this a second pruning and ground clearing was perform in September and October. This will give the trees a great start when the growing season starts up again next year.

Forests at work storing carbon

As we have mentioned before timber not only acts as a great natural resource and sound investment, but if it is grown and managed properly it also can provided positive attributes to the earth and its climate.

On the follow page we have included an information sheet produce by Plum Creek Timber. Plum Creek Timber is publicly



traded REIT and the largest timberland owner in the United States.

They point out several of green attributes to timber such as carbon absorption and sequestration, improving air and water quality and providing habit for wildlife



Our Working Forests: A Continuous Cycle of Benefits

Plum Creek's working forests play a positive and essential role in the Carbon Cycle of our universe, contributing to the cycle of absorption, storage and release of carbon in our environment. Working forests like those managed by Plum Creek embrace a continuous cycle of inputs and outputs that provide many public benefits, including the products made from harvested trees, water and air quality benefits, energy production, diverse wildlife habitats and more.



Planting/Natural Regeneration – Plum Creek plants approximately 60 million trees annually and millions more are naturally regenerated from seed to ensure a continuous cycle of new, high-quality trees.



Natural Carbon Cycle – As trees grow, they are uniquely positioned to use power from the sun (photosynthesis) to capture and store carbon dioxide from the atmosphere and turn it into a solid form - wood. This continuous natural cycle slows climate change.



Water Quality – As forests grow they use and filter millions of gallons of water through transpiration (evaporation), returning it to watersheds and ecosystems.



Clean Air – Growing trees replenish the atmosphere with oxygen and also help trap and hold air pollutants (dust, ash and smoke).



Habitat – As working forests grow and are thinned and harvested, they produce a diversity of habitat to meet wildlife needs. Some species require open space, like cleared and harvested young forests, while others thrive in mature forests.



Recreation – Working forests are often open to the public to be enjoyed by hunters, hikers, bikers, birdwatchers, snowmobilers and others.



Harvest Rotations – Sustainable forestry, including thinning, optimizes forest growth and regrowth and maintains forest of all ages.



Forest health – Active forestry promotes healthy growing forests that resist disease and insect infestation and minimize the risk of wildfire.



Renewable Building Products & More – Mature, high-quality trees provide carbon-friendly building products versus carbon-intensive building materials such as steel and concrete. They also provide material for making durable, renewable products such as furniture, musical instruments, baseball bats and more.



Paper & More – Using parts of the tree, wood fiber is used for pulp to make paper, packaging materials and more.



Renewable Bioenergy – Tree tops, limbs and small, low-quality logs and other fiber can be used to produce energy, replacing fossil fuels and reducing the amount of carbon released from the earth's permanent storage.



Jobs & Economic Impact – Active forest management supports the U.S. forest products industry and rural communities, which according to the American Forest and Paper Association supports approximately 1 million jobs, \$54 million in payroll and over \$200 billion a year in sales.

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Timber Investing Articles

We continue to find nice articles written on the benefits of owning and investing in timber. The following one that we came across recent in from the New York Times.

The article touches on many great things about timber such as the natural growth of timber overtime, timber as a hedge against other investments and timber's consistent price appreciation among other things. One thing that stood out in this articles is the difficulty smaller investors have finding a true timber investment. Hopefully what we are doing helps in this regard.

Seeing the Forest for Its Hedges

FOR decades, some university endowments, pension funds and other big investors have put part of their money to work in the woods. They've bought large tracts of timberland, viewing them as an asset class separate from stocks, bonds and other forms of real estate. Jeremy Grantham, co-founder and chief investment strategist at GMO, the asset manager based in Boston, calls timber "a perfect investment" for someone with a time horizon of, say, 20 years or more. "Timber is safer than stocks but not quite as safe as Treasury inflation-protected bonds," he said. "And as long as the sun shines and the rain rains, trees grow." Timber also acts as an inflation hedge. "If you look at commodities, you find a pattern that all of them, except timber, had a declining real price up until 10

years ago," Mr. Grantham said. "But standing timber has a long-term record of modestly rising prices." Retail investors, for the most

timber. The Claymore/Beacon Global Timber Index E.T.F. and the iShares S.&P. Global Timber and Forestry Index fund buy securities like timber-related



part, haven't been able to exploit the investment benefits of timberland because acquiring it has demanded too much money and expertise. A typical swath of Georgia pine or Maine spruce could sell for millions of dollars, and buying it required knowledge that couldn't be gleaned from typical investment books. A buyer had to understand land, lumber and even bugs, said Bob L. Izlar, director of the Center for Forest Business at the University of Georgia. After all, an insect infestation can destroy a stand of trees just as surely as a financial crisis can bring down a bank. "The mountain pine beetle has eaten 70 million acres of timber in Canada," Mr. Izlar said. Lately, however, novices have been invited to play in the woods. Over the last three years, exchange-traded funds have been introduced that, in theory, provide easier access to the diversification benefits of





stocks and real estate investment trusts.

“The traditional timber market had very high barriers to entry,” said Steven A. Baffico, head of United States retail distribution for Guggenheim Claymore. Besides being costly and hard to understand, it required that investors lock up their cash. Unloading timberland can take anywhere from six months to two years, Mr. Baffico said. And if you want to enjoy the full benefit of your investment, you may have to wait decades for trees to mature.

In contrast, an exchange-traded fund holding easy-to-trade stocks and REITs gives investors the ability to sell shares daily: it may lack larches and lodgepoles but compensates with convenience. Besides, companies in the Claymore/Beacon index, like Weyerhaeuser, often own ample acres themselves, Mr. Baffico said. “Beacon measures the amount of timber ownership of the underlying companies,” he added. “We want a good proxy for the timber industry at large.” Experts are divided over whether E.T.F.’s can replicate timberland closely enough to

serve as a substitute investment.

Andrew W. Lo, a finance professor at Massachusetts Institute of Technology, likes the diversification that timberland investments bring: he said that the returns correlate less with, say, United States stocks than Western European stocks would. As a result, timberland might help to prop up the value of a portfolio during a bear market.

E.T.F.’s, by design, dilute that benefit, Professor Lo said. Someone like David F. Swensen, head of Yale’s endowment and a pioneering timber investor, “is buying actual forests and getting direct exposure to the asset,” he said. “E.T.F.’s don’t do that, so they’re changing the investment focus.”

Because they own shares of companies,

not just land and trees, E.T.F.’s are making bets on all timber-related sectors of the economy — everything from papermaking to homebuilding. As a result, their long-term price performance could end up correlated more with stocks than with timberlands, Professor Lo said.

“The jury is still out on whether E.T.F.’s can provide the kind of exposure to timber that David Swensen can get for Yale,” he said. “If they do, they could add value for investors.”

J. Brian Fiacco, owner of Timberlands Strategies in Summerville, S.C., advises institutional investors on timber purchases, and has concluded that E.T.F.’s are not an accurate





proxy for timberland. Too many of the companies that they hold no longer own much, if any, actual timber, he said. Consider International Paper, whose shares are owned by both iShares and Claymore Beacon. It sold the bulk of its timber-

land to focus on manufacturing, he said.

In addition to E.T.F.'s, investors can buy shares of timber REIT's. The United States has three — Plum Creek, Potlatch and Rayonier — and Weyerhaeuser is taking steps to become one. All four have substantial land holdings. For example, Plum Creek, based in Seattle, owns seven million acres in 19 states. Although the REITs are closer to a timber pure play than the E.T.F.'s, they are still likely to be more correlated with Wall Street than with the woods, Mr. Fiacco said. So he is skeptical of using them to achieve diversification.

INSTEAD, he advocates the old-fashioned path of just buying timberland. That's more expensive and time-consuming than buying a security, but may not be out of reach for some affluent people. "You can own small tracts," he said. "I have 58 acres

right outside of Charleston. I also own 150 acres in the northern Adirondacks."

Timberland brokers and appraisers can help with the identification and evaluation of properties, and buyers can pool their funds with other people to reduce their risk, he said. A group of friends might form a limited liability corporation and buy a few hundred, or even a few thousand, acres.

To be affordable, the land would probably have to be a long drive from, say, New York City or Boston — perhaps in the Adirondacks or rural Maine, he said. And as the trees grow, the land could produce a modest flow of cash through a hunting lease.

"It's both possible and practical," Mr. Fiacco said. "Your timberlands don't have to be diversified. If you're a huge timberland investor, yes, the age and diversity of the trees and the region of the country — all of that stuff matters. But the average investor, who already has a 401(k) and stocks and bonds, if they buy one tract of timberland, that's additional diversification."

Thank You

Thank you for your interest and support.

Jake, Joe, Jaime

