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GREEN SCREENING AND SHORT TERM SECURITIES: A BETTER WAY TO INVEST?

BY MATTHEW W. PATSKY, CFA

The case for investing in “environmentally effective” equities has, by now, been persuasively argued and documented (see the accompanying Marketbeat piece in this issue). But what about applying a green screen when it comes to investing in fixed income securities? That is a question we have been grappling with here at Winslow.

To us, it seemed intuitive that a strategy combining our own environmental research methodology with traditional financial analysis would work equally well in picking stocks and longer-term bonds. The approach seemed much less foolproof when it came to the short-term world of commer-

Please see GREEN SCREEN page 7

FEATURED COMPANY

Stake Technology Reaps the Benefits of Soy

BY ELLEN PFEIFER

NORVAL, ONTARIO SUDDENLY, SOYMILK SEEMS TO BE EVERYWHERE—LINING THE SHELVES AT BOTH THE NATURAL FOODS GROCERY STORE AND THE LOCAL SUPERMARKET. THERE IT IS KEEPING COMPANY WITH THE COCOAS AND TEAS, AND AGAIN IN THE REFRIGERATED DAIRY CASE NEXT TO THE MILK AND CREAM. CLEVERLY DESIGNED JUICE BOX-LIKE CONTAINERS FEATURE BUCOLIC SCENES IN PASTEL HUES. MORE CONVENTIONAL MILK



Soy milk in aseptic packaging whirs by on a production line at Stake's Nordic plant in Alexandria, MN.

cartons sport zippy graphics in primary colors and



depict a rich flow of soy milk splashing into a glass or a cereal bowl. The labels proudly trumpet the organic origins of the soy milk, the health-pro-

moting properties of isoflavones, and the exclusion of any genetically modified products. Did I mention that soy milk comes in several flavors – vanilla, chocolate and original? The shopper feels healthier even before taking a sip.

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Green Investing Advantage Validated

EcoValue'21® rating system supports Winslow Management's core assumptions

PORTFOLIO UPDATE PAGE 6

Strong New Leader at Conceptus

Mark M. Sieczkarek appointed as its new CEO, president, and director



LETTER TO THE EDITOR

To the Editor:

I love the new format of the newsletter. In the past, I found the issues were hard to even pick up much less read. The first thing I did when I got this new one was to pick it up and want to read it. I must say making it so reader friendly is important because you have such a valuable message to put out...investing in Green is very Green. By that, I mean investing in environmental funds makes economic sense with the Winslow Investment Funds. The investor is making both a positive statement about the environment and gets a great return on his investment. This type of investing gives the investor two "feel goods" at once...you can't beat that. I am sure that you will increase your readership BIG TIME.

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MARKETBEAT

Green Performance Creates Value and Competitive Advantage

BY CELINE M. SUAREZ

We at Winslow have long proclaimed that a strong environmental record enhances a company's financial performance. We have also maintained that screening stocks for their "green quotient", far from jeopardizing the value of an investment portfolio, may actually increase it. Our colleagues at Innovest Strategic Value Advisors, based in New York, Toronto, Paris, and London, have created a highly credible assessment tool that correlates eco-efficiency with financial performance and value-creation potential. No surprise to us, the proprietary EcoValue'21® rating system supports our core assumptions.

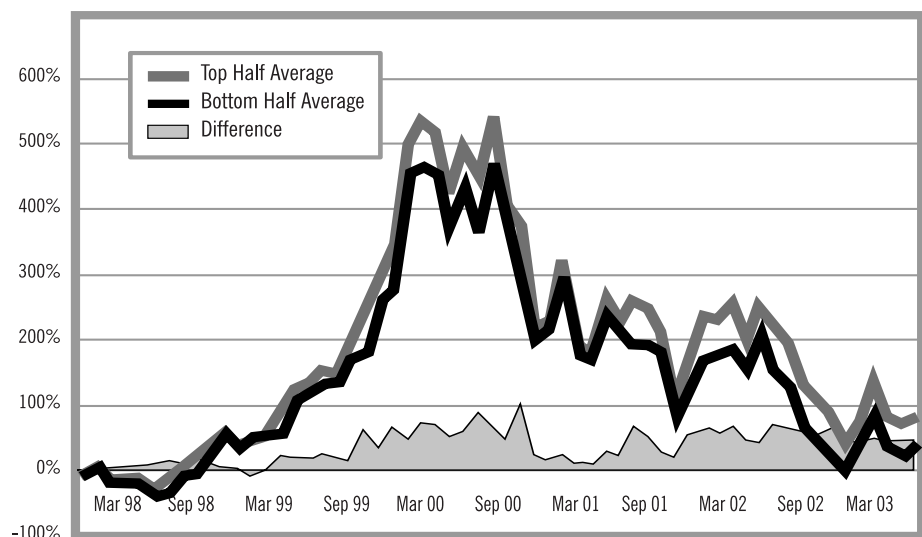
Consider, for example, Innovest's analysis of the semiconductor industry. Applying the EcoValue'21 system to the companies in this sector, the best environmental players were separated from the worst. Then, the performance of the two groups

was graphed over a five-year period. Sure enough, the top half's environmental leaders out-performed the bottom half's environmental laggards by 46.2% (see graph). Innovest's results also held true over the medium- to long-term in other sectors including electric utilities, retail, real estate, steel, and mining.

Putting the theory to the test

In recent years, many financial analysts and asset managers have begun to acknowledge the success of companies with innovative environmental/sustainability programs. And they have lots of questions. They want to know how green performance impacts a company's future value-creation capability. They want to see whether eco-efficiency gives a company a unique competitive advantage. And they want to know how sustainability initiatives influence entire industries. The answers they want are accurate metrics, not just anecdotal evidence. To

**Semiconductor Industry
EcoValue 21® Leaders vs. Laggards: 5-Year Return**



*Data, graphs, and research for this article provided by Innovest Strategic Value Advisors. Past performance does not predict future results.

address this demand, Innovest spent over three years developing the EcoValue'21 rating system.

A synthesis of qualitative and quantitative data, this tool uses multi-factor algorithms to integrate over 60 data points. On the qualitative side, the system rates a company's relative ability to manage environmental issues into the future without compromising profitability. It analyzes such factors as strategic corporate governance capability, company-wide environmental management, environmental cost accounting, social issues performance, supply chain management, and stakeholder relations. On the quantitative side, the system measures a company's potential exposure through the number of Superfund sites, the sector's historical risk profile, ratios of environmental fines to revenues, concentration of high-risk products in the company's portfolio, and budget funds allocated to environmental protection and R&D.

The end result is a relative scoring scale, with the best performance within an industry sector given a ten and worst performance given a zero.

Two sides to every story

Innovest's system computes both the negative and positive environmental factors that can affect companies' bottom lines. Potential damage arising from neglect or mismanagement of ecological responsibilities includes:

- Balance sheet risk from historic liabilities
- Market risk such as damage to the company's reputation and image
- Capital cost risk in the form of pollution control expenditures
- Operating risk from product liability

On the flip side, superior environmental performance can create competitive advantages. Innovest has identified five key areas in which financial opportunities result from environmental innovation:

- Cost containment from pollution prevention and waste reduction
- Sales and market share growth from environ-

mentally preferable products and services

- Franchise value enhanced by a green reputation
- Stakeholder satisfaction whereby customers, employees, suppliers, regulators, local communities, and other key stakeholders are positively influenced by a superior environmental track record
- Innovation capacity which spreads to other functions, departments, and corporate players

Through its EcoValue'21 research, Innovest has concluded that outstanding environmental performance, along with "human capital, stakeholder capital and sustainable governance" are among "the most powerful clusters of intangible value drivers" affecting companies' true worth and competitive prospects.

Winslow tracks the smaller stocks

Though most of the EcoValue'21 research is focused on large-cap stocks and is similar to screening we have done on the S&P 500, we at Winslow have been also working to build an analogous tracking system for smaller companies. Our core research has traditionally been centered on small- to mid-cap stocks, and includes an evaluation of each company's potential for good financial return and its environmental impact relative to its peers. By building an environmental data bank on smaller companies, we intend to not only maximize returns for our clients, but also encourage green growth in the companies themselves. By opening a dialogue on sustainability, we help introduce some firms to the concepts of eco-efficiency at an early stage, which will likely contribute to stronger environmental and financial performance over time.

We believe that with a proven history in hand, mainstream investors should be able to see (and not just believe) that strong environmental performance is a key driver of highly competitive financial performance. □

Innovest has concluded that outstanding environmental performance, along with "human capital, stakeholder capital and sustainable governance" are among "the most powerful clusters of intangible value drivers" affecting companies' true worth and competitive prospects.

Special thanks to Innovest for providing the graph and other information for this article. For more information about the company's work and the EcoValue'21® rating system, please visit www.innovestgroup.com.

PROGRESSIVE INVESTOR

If you like WEN, you might also enjoy another green investing newsletter, Progressive Investor (PI). Winslow has been working with PI as a Contributing Partner since its launch almost a year ago. PI is an excellent way to learn about many of the companies Winslow covers. Its purpose is to show how environmentally responsible companies are leading the way to a clean economy through fuel cells, renewable energy, green building, and organic foods. It is the only newsletter that covers the top sustainable firms across the full range of industry sectors worldwide.

Each issue includes a "conversation" among world-class sustainable investment analysts for their insights and opinions on viable green investments and companies. Recent issues have focused on how to invest in the wind industry; stocks for a stagnant economy; and community investing. There are also company profiles that detail the financial and sustainable accomplishments of companies that might fall under the green investor's radar screen, such as Chiquita Brands.

With the surge of investment in green private companies, you might be interested in learning how to include some private equities in your portfolio. Each issue includes an interview with a leading green angel or venture capital firm discussing this unusual niche category.

To learn more and subscribe: <http://www.sustainablebusiness.com/progressiveinvestor/index.cfm>

STAKE continued from page 1

Fortunately for a company like Stake Technology, which has... umm... staked its future on the exponential growth of natural foods, soymilk and other soy products like edamame, are hot properties. The



company (Nasdaq: STKL) is North America's largest supplier of soy concentrate and the world's largest supplier of oat fiber.

The Norval, Ontario-based company, is a three-pronged operation focused on environmental responsibility and the health and well being of its communities. It recently crowned 22 consecutive quarters of record sales growth with a 78% increase in overall sales for 1Q'03 and a 98% increase in its natural and organic food segment. The record results were due primarily to surging sales of aseptic packaged soymilk products (those juice box containers), sales of bulk grains and specialty beans, and the cost reductions resulting from several important acquisitions in late 2002. Banking on this growth, the company expects to see a 45% boost in 2003 revenues, up to \$175,000,000.

Soy Foods Take Off

Because of consumers' worries about the health consequences of pesticides and fertilizers in their foods and their suspicion of genetically modified ingredients, organic and natural foods have become

the fastest-growing food category in the United States. Indeed, sales reached \$34 billion in 2001, according to the trade publication, Natural Foods Merchandiser. Within this natural foods segment, soy products are taking off, with more than 20%

growth annually, says Christopher Krueger, an analyst at Miller Johnson Steichen Kinnard.

Not only are consumers attracted by organic purity, but they are enthusiastic about soy's multiple benefits as a lactose-free alternative to milk, as a potent but low fat source of protein, as a contributor to lower risks of cancer and cardiovascular disease, and as an antidote to the symptoms of menopause.

Multi-faceted company moves to vertical integration

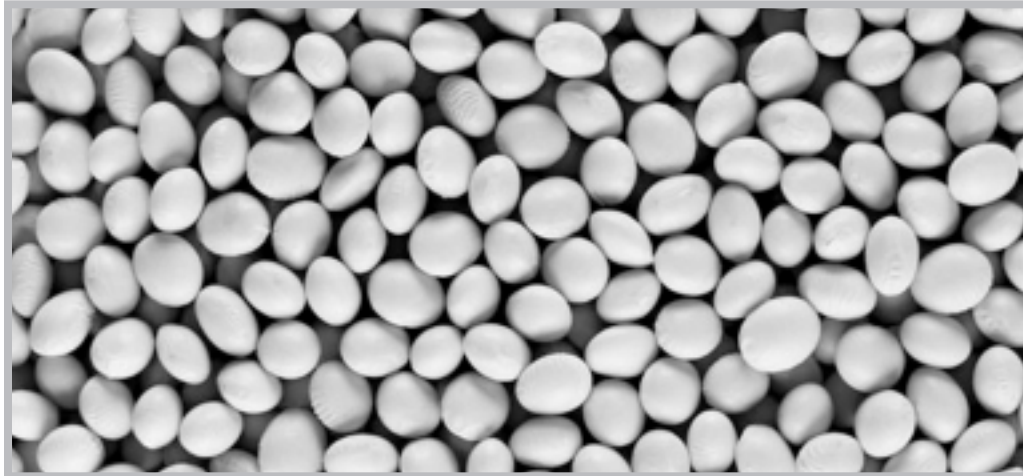
Founded in 1973 and publicly traded since 1981, Stake started as a technology company. Until 1999, it was primarily involved in manufacturing environmentally benign industrial cleaning abrasives. However, with the rapid acquisition of eight natural foods companies and the startup of another in the last four years, it has switched its core business, while retaining its commitment to ethical principles.

The company's operations are currently divided into three business units: the Food Group, the Environmental Industrial Group, and the Steam

Explosion Technology Group (which has pioneered a proprietary, pulping process to create paper out of non-wood products like straw – a cleaner alternative to traditional methods). In FY02, about 80% of the company's sales were generated by the Food

sweeteners, flours, meal and oils. It processes soymilk concentrate, soluble fiber products, and natural preservatives. And it manufactures aseptic packaging for shelf-stable beverages.

- **Opta Food Ingredients** – The world's largest



Group, about 20% by the environmental segment; and less than 1% from the steam explosion technology group. Analysts such as Krueger are betting that the food unit will generate 85% of FY03 sales. They are also predicting that the company will spin off its two smaller divisions – a theory given credence by the resignation in February of COO and President John D. Taylor, who had been overseeing the commercialization of the Steam Explosion Technology unit. The company announced at the time that it does not plan to replace him.

Three divisions within Food Group

Within Stake's Food Group are three subdivisions that form the basis of the company's vertically integrated operations. Through these divisions, the company can control production of everything from the seeds to the processing and packaging of its food products. The segments include:

- **SunRich Food Group** – The first of Stake's natural foods acquisitions, SunRich specializes in identity-preserved, organic grain products from soybeans to corn, soy ingredients, grain

supplier of oat fiber, a developer of starch-based texturizers, and manufacturer of stabilizer blends.

- **Canadian Organic Food Group** – Through this division, Stake is developing a distribution network for organic and natural foods in Canada.

We have seen the future: it's green and doesn't moo

Among the positive outlooks for Stake are plans by several other food products companies and restaurants to promote soymilk. For example, Dean Foods, parent company of White Wave (the producer of Silk brand soymilk), plans to increase its advertising spending on soymilk. In doing so, it expects to grow sales by 40% in 2003. Stake produces and packages a portion of Dean's soymilk products, including 100% of its SunSoy brand. Also, Starbucks Coffee has begun selling White Wave's Silk at 4000 of its cafes.

Can't you just picture it? Frappuccinos made with soy and cappuccinos featuring a froth of soymilk on top. And they're good for you too. □

In FY02, about 80% of the company's sales were generated by the Food Group. Analysts such as Krueger are betting that the food unit will generate 85% of FY03 sales.

PORTFOLIO UPDATE

Conceptus

(NASDAQ: CPTS)

SAN CARLOS, CA – In mid-April, Conceptus announced the appointment of Mark M. Sieczkarek as its new CEO, president, and director. Formerly president of Bausch and Lomb, Inc.'s Americas division (NYSE: BOL), Mr. Sieczkarek garnered experience in general management, marketing, finance, corporate development, and led his region to double-digit revenue and profit growth. Mr. Sieczkarek has also held positions at KOS Pharmaceuticals and Bristol-Myers Squibb where he was involved in the commercialization and development of several new products.

Conceptus is the developer of the non-incisional permanent birth control procedure Essure™ which the US FDA approved last November. The procedure is becoming increasingly available nationwide, and is covered by many of the leading health insurance carriers.

Regarding his new appointment Mr. Sieczkarek remarked in a recent press release: "I am

extremely excited to be joining a company with a product that will set a new standard of care in women's health. Essure is an extraordinary product – ready for wide-scale commercialization – and I welcome the opportunity to lead an outstanding organization in bringing" a non-invasive and permanent birth control "alternative to women in the U.S. and worldwide." As previously announced, Steven Bacich, former CEO and president since 2000, will assist in the transition, his primary focus being research and development, business development, and clinical and medical affairs.

V.I. Technologies (Vitex)

(NASDAQ: VITX)

WATERTOWN, MA – Recovering from near delisting by the Nasdaq, Vitex announced in late May that it successfully concluded its shareholder rights offering, with total commitments in excess of \$14.4 million. Several existing venture and institutional investors participated, as did all of the current directors and executive officers. The company also announced it will close a \$4 million equity milestone investment from Long Island-based Pall Corporation. The resulting gross proceeds exceed \$18.3 million.

Vitex's unique blood purification system called INACTINE™ works by binding to bacteria, viruses, proteins, white blood cells, and other contaminants in bags of separated red blood cells. The result is a safe unit of blood for transfusion into a patient.

With the recent outbreak of mad cow disease in Canada, Vitex officers are stressing the need for commercialization of the system, as it is capable of inactivating not only mad cow pathogens but others such as West Nile virus, Lyme disease, and HIV.

IMPCO Technologies

(NASDAQ: IMCO)

CERRITOS, CA – Designer, manufacturer, and marketer of advanced alternative fuel products and systems, IMPCO Technologies closed a deal in early May to acquire BRC S.r.l., a major global supplier of gaseous fuel products and systems used in automobiles.

Mr. Robert Stemmler, president and CEO of IMPCO, and Mr. Mariano Costamanga, president and CEO of BRC, signed the agreement in Milan, Italy. In a recent press release both commented, "The combined effort of our organizations will positively influence the very nature of the gaseous fuels equipment industry in a unique and positive manner. The combination of our business resources will improve each other's manufacturing, technical, and market/sales capabilities."

BRC is located in Cherasco, Italy and has four production facilities and regional offices worldwide. The company is widely known within the industry and has a strong presence in over 50 countries.

AstroPower

(NASDAQ: APWRE)

NEWARK, DE – In a management shakeup at the solar product

manufacturer AstroPower, President and CEO Dr. Alan Barnett and CFO Thomas J. Stiner resigned as officers on Friday, May 23, 2003. They will continue to serve as directors, and it is likely that Mr. Stiner will remain with the company in a consulting capacity during the transition to new management. AstroPower's vice-president of Sales and Marketing, Peter Aschenbrenner, has also left the company.

The company's board of directors authorized an immediate search for a new CEO and CFO. In the interim, the independent directors have assumed the responsibility of running the company's daily operations. Dr. George W. Roland has been appointed acting CEO, and Gilbert Steinberg will assume the role of acting CFO and non-executive chairman of the board. Dr. Roland previously served as president and CEO of AstroPower's Solar Power Business from 1996 to late 1998, when he retired as an officer and employee. Since 1997 he has served on the board of directors. Roland also served as president of Siemens Solar Industries, L.P., an affiliate of Siemens Corporation. Mr. Steinberg has served as a director of AstroPower since 1989. He was vice-president of Astrosystems Inc., a manufacturer of electronic, electromechanical, and power conversion devices until 1996.



GREEN SCREEN continued from page 1

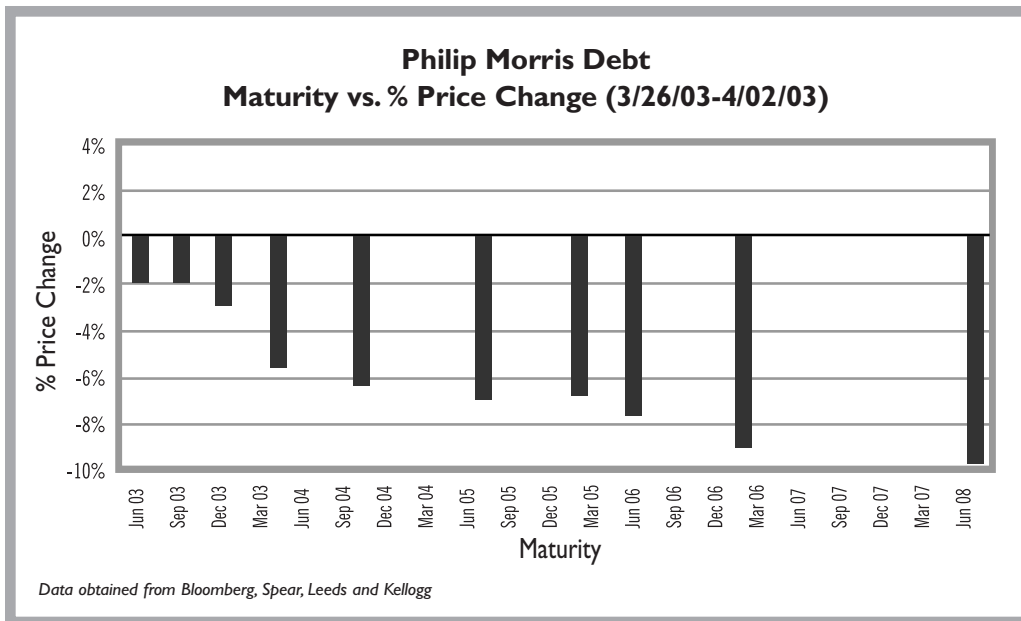
cial paper. Our assumption had been that the shorter the investment time frame, the less impact our screens would have on returns. However, we were also confident that, regardless of the term, screening would have no negative impact. To test this theory, we decided last March to look at the example of commercial paper from a dirty company that failed one of our proprietary screens. We chose Philip Morris (now part of the Altria Group).

Within a week of losing a tobacco-related lawsuit in Illinois, Philip Morris's debt rating was reduced by two rating agencies Moody's and Fitch. The effect of

a company, which are the potentially fatal icebergs that include environmental performance.

Separating the greens from the browns

About ten years ago, Winslow created a screen that split the S&P 500 into two groups: clean and dirty. The idea for this project came from a concerned investor, who was interested in large-cap stocks but wished to avoid dirty companies that carried inherent environmental and financial risk. Because we believe that firms with superior environmental performance are more likely to produce above-average, long-term investment returns, this project made perfect sense to us – even though our



the downgrades combined with the size of the court judgment put substantial pressure on the stock and long-term bonds of Philip Morris. The surprise was how much impact it had on the market value of even the shortest duration commercial paper. As the accompanying graph shows, securities with maturities of three months to eight years plummeted in market value from just under -2% to almost -10% over a one-week period.

We believe the message is clear. Investors in all asset classes need to look beyond conventional balance sheets and consider the hidden liabilities of

traditional emphasis has been on small- and mid-cap equities.

In separating the environmental sheep from the goats, we collected both quantitative and qualitative data on the eco-efficiency of all S&P 500 companies. Such data includes Superfund sites, Resource Conservation and Recovery Act (RCRA) initiatives, and other criteria. We compared each company to its own industry average and assigned it a relative environmental score. We also identified firms heavily involved in nuclear energy and tobacco, cognizant

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the **environment**
could mean to
your **investments?**

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of the significant off-balance sheet liabilities inherent in these businesses. In addition to our own research, we culled information from the Investor Responsibility Research Center's On-line Analyst and KLD Research & Analytics' Socrates database. After compiling all the statistics, we graded each company and assigned it to one of the two categories, "clean" or "dirty".

We have continued to update the screen's environmental data annually. On a quarterly basis, we correct the screen for any additions or deletions to the S&P Index. In our most recent analysis, 270 of

the 500 companies passed environmental muster, and are considered "clean" relative to their peers.

Diving into a pool of "greens and cleans"

At around the same time we were testing our theory on Phillip Morris, we created an Enhanced Cash Management product that invests in commercial paper and other fixed income securities. Our mission was to deliver improved yield on investors' short-term cash while reducing their exposure to companies with high risk for environmental liabilities. Believing that we have demonstrated that long-term investments in company stocks benefit from environmental screening, we felt emboldened to apply the logic to short-term securities. Geared to the institutional market, the Winslow ECM uses our proprietary environmental screen to select a list of attractive investment candidates. We think we are onto something, and the Phillip Morris debacle has confirmed and surpassed even our most optimistic predictions. Time, of course, will tell. But now, more than ever, we believe green screening is the way to go. □

Matthew Patsky is portfolio manager for Winslow Management Company.

Believing that we have demonstrated that long-term investments in company stocks benefit from environmental screening, we felt emboldened to apply the logic to short-term securities.

Winslow Environmental News

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