

# Winslow Environmental News

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## The Changing Face of the Organic Foods Industry

BY ELLEN PFEIFER



BUYING ORGANIC ISN'T WHAT IT USED TO BE. NO LONGER THE REALM OF COLLEGE-EDUCATED GRANOLA CONSUMERS, ORGANIC FOOD HAS GONE MAINSTREAM, WITH THE GREATEST GROWTH AMONG YOUNGER, LESS AFFLUENT, LESS WELL-EDUCATED SHOPPERS. AND IT'S NO LONGER RELEGATED TO A CORNER IN HEALTH FOOD STORES – ORGANICS ARE NOW MORE OFTEN PARADED IN OUTSIZED "SUPERNATURALS" LIKE WHOLE FOODS MARKETS, AND EVEN IN BIG BOX STORES LIKE WAL-MART. TO SUPPLY THEM, MANY GIANT CORPORATIONS HAVE GOTTEN INTO THE ACT, ACQUIRING TRADITIONAL ORGANIC COMPANIES AND PRODUCING organic versions of their own products. So, as improbable as it may seem, Kraft organic Mac 'n Cheese is now a reality and organic Oreos are on the way. But if you think the growth of the organics industry represents an unmitigated success, think again.

### What about supply?

Demand for organic food is clearly on the rise. According to the Organic Trade Association, organic food sales have increased by about 20% annually in recent years with Americans spending

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### FEATURED COMPANY

## GREEN MOUNTAIN COFFEE ROASTERS: FUEL FOR GROWTH

BY ELIZABETH LEVY

As specialty coffee houses have sprung up on almost every block in America, Green Mountain Coffee may be even more ubiquitous. Whether it's the break room in a corporate tower, the local



McDonald's, the bagel shop around the corner, or even your own kitchen, you can't miss that now familiar green oval label lettered in white and sprinkled with red coffee beans. Green Mountain is there when you need your morning buzz, an afternoon pick-me-up, something to sip in the car, or a beverage to go with dessert – in enough styles to suit everyone from the coffee

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### MARKETBEAT PAGE 2

## Healthy Returns from Healthy Living

*Healthy Living Index has produced sizable absolute and relative returns*



### PORTFOLIO UPDATE PAGE 6

## Certicom Inks Licensing Agreement

*ERUCES looks beyond open source software to Security Builder GSE and SSL*

## WINSLOW OFFSETS 100% OF ITS GREENHOUSE GAS EMISSIONS

In June, Winslow announced that it had taken steps to eliminate its impact on global warming. By purchasing carbon offsets from its partner TerraPass, Winslow is now 100% “carbon neutral”—meaning that it has offset 100% of the carbon dioxide emissions generated from its business operations and travel.

Winslow views this action as an important step in its ongoing effort to maintain sustainable business practices. Purchasing carbon offsets helps to fund renewable energy projects around the country, and allows Winslow to counteract the environmental impact of its necessary business activities, such as air travel to visit portfolio companies.

Winslow is pleased to be working with TerraPass, a for-profit environmental start-up, as its partner in offsetting emissions. In a very short time, TerraPass has helped individuals and corporations offset 100 million pounds of carbon dioxide emissions and provided funding to nine separate clean energy projects.

“Winslow invests in small, dynamic, environmentally-oriented companies, so we were delighted to be able to work with TerraPass on this project. We’re very happy to support their entrepreneurial spirit,” said Elizabeth Levy, Winslow’s senior environmental analyst.

MARKET BEAT

# WHAT A LONG, HEALTHY TRIP IT’S BEEN

BY JACKSON W. ROBINSON

Some years ago, a boss and mentor of mine peered over his big desk with its sign proclaiming “Learn to Listen” and told me, “Remember, always, that financial health is second only to one’s personal health.” A successful and wise investor by any measure, Harold Bache, then the CEO of Bache & Co. in New York, would be pleased to know that today one can invest in companies that offer health enhancing personal products or services, and produce healthy financial returns to shareholders.

If ever there were a “twofer”, it would be the “Healthy Living” category of companies. These companies offer products and services that help keep us healthy personally, while the stocks of many of these companies can generate healthy investment returns for our portfolios.

### Healthy Living

The research department of what was formerly known as Adams Harkness & Hill coined the term “Healthy Living.” Winslow’s own Partner and Portfolio Manager Matt Patsky, then an analyst at Adams, created this term in the early 1990s to reflect the trends that he saw developing at the time. He noticed a confluence of factors leading people to be more concerned with the way they treated their own bodies and health: the aging of the baby boomers, the growing availability of organic foods, and the increasing research demonstrating the importance of vitamins, supplements and minerals to health. Those trends are even more important today than they were 15 years ago.

In 1995, the research department of Adams, now known as Canaccord-Adams (CA), created an equal-weighted index of 29 public “Healthy Living”

companies to track the performance of this sector.\* Since its inception, the CA research department has maintained and updated the index, adding and removing companies from the index periodically. The index currently includes 42 companies, listed on the next page. The CA Healthy Living Index has produced sizable absolute and relative returns over the last five years, as reflected in the accompanying chart. Although the most recent one-year return of 5% underperforms the Russell 2000 and S&P 500, the five-year return of 472% has been astounding.\*

### Healthy Companies

In addition to all being labeled “Healthy Living” companies by CA (as of 8/31/06), the companies within the index have other characteristics in common:

- *They are small companies.* Ranging in size from the very successful Whole Foods, with a \$7.3 billion market capitalization, to the tiny Galaxy Nutritionals at \$6.6 million, the average market capitalization is \$676 million, well below the \$2 billion generally considered the beginning of the mid capitalization universe.
- *They are growth companies.* According to consensus estimates by Wall Street analysts, the averaged projected three to five years earnings growth rates<sup>1</sup> for the index companies is +21% annually, about twice that of estimates for the S&P 500.
- *They are reasonably priced.* Expected to grow at 21% and selling at an average estimated price-to earnings ratio of 24x on 2007 earnings, the group is selling at an average PEG (price to earnings/growth rate<sup>2</sup>) of 1.15, a modest premium to their earnings growth rate.

What has been this index's secret to success? First, the macro trends that Matt observed in the 1990s are still true today – if anything, they have gained momentum. In particular, as the main article in this issue of *WEN* points out, organic foods have become almost too popular, as producers are struggling to keep up with demand, often leading to shortages in supply. Several of the companies that have been in this index since its inception have been an important part of that shift, such as Hain Celestial Food Group (both Hain and Celestial Seasonings were founding index members), Green

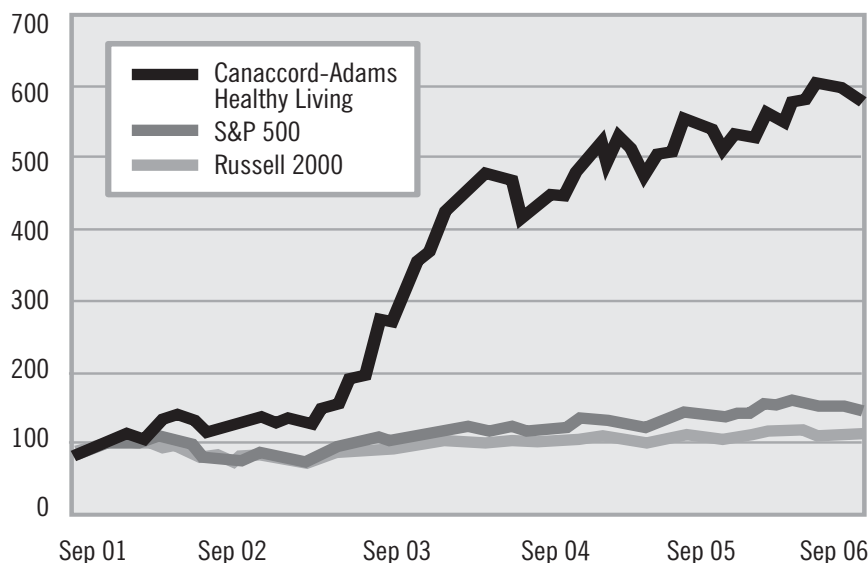
healthy lifestyle.

Second, there have been a few stars that have driven the index's performance. In particular, the stock price of Usana has increased more than 5000% over the five-year period ending in August, closing August 2006 at \$44.76, up from \$0.85 in August 2001. Usana's main business is developing and selling health-based products such as vitamins and nutritional supplements, as well as natural-based personal care products; they have clearly benefited from the macro trends that have shifted this industry. However, even without Usana's

### Current members of the Canaccord-Adams Healthy Living Index

- Nutrition 21 (NXXI)
- Chiquita Brands (CQBW)
- Calavo Growers (CVGW)
- Z Trim Holdings (ZTM)
- Cyanotech (CYAN)
- Fresh Del Monte (FDP)
- Forbes MediTech (FMTI)
- Galaxy Nutritionals (GXY)
- Hansen Natural Corporation (HANS)
- Herbalife International (HLF)
- Green Mountain Coffee (GMCR)
- Hain Celestial Food Group (HAIN)
- Glacier Water Services (HOO)
- Integrated Biopharma (INB)
- John B. Sanfilippo (JBSS)
- Lifeway Foods (LWAY)
- Martek Biosciences (MATK)
- Medifast (MED)
- MGP Ingredients (MGPI)
- Maui Land Pineapple (MLP)
- Mannatech (MTEX)
- Natrol (NTOL)
- Natural Alternatives (NAII)
- Nature's Sunshine Products (NATR)
- Natural Health Trends (NHLG)
- NBTY Inc. (NTY)
- Nu Skin Enterprises (NUS)
- ML Macadamia Orchards (NUT)
- Nutraaceutical International (NUTR)
- Omega-Protein Corporation (OME)
- Monterey Gourmet Foods (PSTA)
- Reliv International (RELV)
- JM Smucker (SJM)
- SunOpta (STKL)
- Tofutti Brands (TOF)
- United Natural Foods (UNFI)
- USANA, Inc. (USNA)
- Vermont Pure Holdings (VPS)
- Weider Nutrition International (WNI)
- Whole Foods Market (WFMI)
- Wild Oats Markets (OATS)
- YoCream (YOCM)

5-Year Performance of Healthy Living vs. Broad Indices



Mountain Coffee Roasters, SunOpta (both Stake Technology and Opta Food Ingredients), and Whole Foods Markets. And, as this short list demonstrates, there has been consolidation within this industry, which can often provide greater efficiency and create greater capacity to help accelerate growth. Similarly, the demand for nutrition-based products has also continued to grow, as the aging population seeks to maintain a

growth, the index would still have increased 330% over the same time period, impressive even though past performance is not indicative of future results.

We believe these trends are here to stay; people will continue to take better care of themselves and organic and natural food production and consumption will continue to flourish. And, we believe, the Healthy Living Index will continue to rise. □

\*The Healthy Living Index is an equal-weighted index created and maintained by Canaccord Adams and does not represent actual trading in a client or proprietary account. The S&P 500 is an unmanaged index that includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The Russell 2000 is an unmanaged index that includes the 2,000 smallest companies in the Russell 3000 Index, and index which includes the largest 3000 companies in the U.S. equity market. Returns for the S&P and Russell 2000 are calculated monthly, assume reinvestment of dividends and, unlike an investment in a mutual fund or other account, do not reflect any fees, charges or expenses. An investor cannot invest directly in any of the indices mentioned. **Past performance is not indicative of future results.**

1 Earnings growth rate refers to the compound annual year over year earnings growth rate. 2 PEG is the company's stock price relative to its earnings per share and growth rate.

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**Green Mountain has long been a buyer and seller of organic and Fair Trade beans, and 27% of all the coffee the company sells is now certified Fair Trade and/or organic.**

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*GREEN MOUNTAIN continued from page 1*

novice to the most diehard caffeine addict.

Green Mountain is everywhere, thanks to the ingenious variety of packaging and channels through which its coffee is sold. You can purchase it in bags at the supermarket; in bags and single-serve cups ordered directly from the company; in cups freshly brewed at convenience stores; and in single-serve cups dispensed in offices, coffee shops and restaurants.

But why get excited about a coffee company?

Three reasons: the coffee, the coffee, and the company.

#### **The Coffee**

The first reason to be excited about Green Mountain's coffee is that it's good coffee. If you thought that a Cup o' Joe came only in flavors such as strong, weak, bitter, and burnt, you're in for several kinds of surprises. Green Mountain offers classic and exotic varieties such as Colombian Supremo, Mocha Java, Kenyan, Kona Mountain and Costa Rican Peaberry plus a range of house blends, roasted on a scale from light to dark. Then, there are the flavored coffees such as French Vanilla, Hazelnut Cream, Chocolate Raspberry Truffle, and the current seasonal favorite, Pumpkin Spice. But regardless of the exotic flavors layered on top, the underlying quality of Green Mountain's coffee, sourced from places like Guatemala, Kenya, and

Indonesia, and its skillful roasting of the beans are what make the brew so good.

Green Mountain's own tasters evaluate their beans according to seven criteria that call to mind the attributes of fine wine: fragrance, aroma, acidity, flavor, body, finish, and balance. And outside reviewers agree. CoffeeReview.com gave Green Mountain an average score of 89 points in 2004, versus 85 for Seattle's Best and 83 for Seattle's other best, Starbucks.

#### **Fair Trade and Organic are Huge**

The second reason to be excited about Green Mountain coffee is the company's leadership within the exploding Fair Trade and organic coffee segments. Just as sales of organic foods are growing (see the main article in this issue of *WEN*), organic and Fair Trade coffee – which guarantees that coffee farmers are paid a living wage – are also enjoying rapidly increasing popularity. Green Mountain has long been a key buyer and seller of organic and Fair Trade beans, and the company's most recent quarterly report (as of July 1, 2006) noted that 27% of all the coffee the company sells is now certified Fair Trade and/or organic. A large portion of that is the co-branded coffee that Green Mountain sells, such as Newman's Own Organics coffee that is sold at McDonald's throughout the northeast, or National Wildlife Federation coffees that benefit that organization.

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## **GREEN GROWTH FUND MANAGER RANKED #1 IN BARRON'S**

*Barron's* recently published its annual fund manager rankings for 2006, based on a Value Line survey of equity mutual funds. The manager of the Winslow Green Growth Fund was ranked as the #1 aggressive growth fund manager in the U.S., and the #9 equity mutual fund manager overall.

Jack Robinson, President of Winslow Management Company and lead manager for the Fund, viewed the ranking as an affirmation of Winslow's green investing philosophy. "Aggressive growth managers did very well generally in this survey, since that style has been in favor for the past few years," Robinson said. "But for Winslow to be ranked higher than any other aggressive growth manager – that's a terrific confirmation of the tremendous growth opportunities in green investing."

*Before investing you should carefully consider the Winslow Green Growth Fund's investment objectives, risks, charges and expenses. This and other information is in the prospectus, a copy of which may be obtained by visiting the Fund's website at [www.winslowgreen.com](http://www.winslowgreen.com). Please read the prospectus carefully before you invest. Foreside Fund Services, LLC, distributor.*

In addition to buying and selling organic and Fair Trade beans, Green Mountain has made strong commitments to the regions where the coffee is grown, sponsoring community development, health, education, and environmental projects. As the company's website explains, such initiatives not only help people, but "they also help to stabilize the supply of quality coffees," which is key to Green Mountain's own high quality.

### The Company

Green Mountain had its origins in a café in Waitsfield, Vermont that Bob Stiller opened in 1981 – a decade after starting his first business, Robert Burton Associates, which developed and sold E-Z Wider cigarette rolling papers. As the coffee grew more popular, Green Mountain grew from a café to a mail order coffee business to the company it is today, and became a publicly-traded company in 1993.

Green Mountain sells its coffee as whole beans ready for grinding, ground beans, and single serve K-Cups. The latter – small, sealed containers with a built-in filter and just the right amount of coffee for one perfect cup – are designed to operate with the single-cup coffee brewing systems manufactured for home and office by Keurig, Inc. of Wakefield, MA, acquired by Green Mountain this spring.

Foreseeing the importance that single cup brewing could play in the growing coffee market, Green Mountain initially invested in Keurig in 1996. Keurig is currently the leader in office-based single-cup brewing, and is actively growing its sales in the home use market. A key feature of the Keurig system is the wide diversity of beverages available for use with the brewers. While Green Mountain coffee currently fills more than 60% of K-Cups sold, they

are also filled with coffee from Green Mountain's competitors such as Gloria Jean's, Timothy's, and Van Houtte, and with tea from Celestial Seasonings. Green Mountain has announced it will maintain that brand diversity in K-Cup choices.

### Top Corporate Citizen

Green Mountain's social responsibility also has a domestic focus. The company's employee-crafted



guiding principles, for example, mandate shared ownership, world betterment through global and local changes, and commitment to sustainability, along with financial success. As reported in the last issue of WEN, Green Mountain recently announced that it has become a carbon neutral company. Even more recently, it has developed the first plant-based, hot beverage disposable

cup in a partnership with International Paper. While the company readily admits it has work to do, such as minimizing the negative environmental impact of discarded K-cups, Green Mountain's wide variety of corporate social responsibility programs garnered the company the top spot on *Business Ethics*' "Top 100 Best Corporate Citizens" this year.

The next year will be an interesting one for Green Mountain, as the company continues to integrate Keurig into its operations. Green Mountain alone has forecast sales growth of 24-28% for 2006, and increased that projection to 36-40% with the addition of Keurig. Green Mountain has indicated that key goals include increasing sales of Keurig brewers and K-cups on the wholesale side as well as enhancing direct-to-consumer sales. With plenty of good coffee to fuel the hard work, Green Mountain Coffee Roasters is ready to tackle the challenge. □

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**EMCORE Corp.** (NASDAQ:EMKR)  
SOMERSET, NJ – Emcore, a leading provider of compound semiconductor-based components, announced in August that it has sold its 49% membership interest in GELcore, LLC to the Lighting operations of GE Consumer & Industrial, a division of General Electric for \$100 million in cash. GE owned a 51% membership interest in GELcore prior to acquiring the remaining 49% from Emcore.

In 1999, GE and Emcore formed GELcore as a joint venture to address the solid-state lighting market with high brightness light emitting diode-based (HB-LED) lighting systems. GELcore's products include traffic lights, channel letters, and other signage and display products that incorporate HB-LEDs. Emcore and GE have collaborated over the past seven years as GELcore has grown to become a leading solid-state lighting company.

"The sale of GELcore has come at an opportune time for Emcore as we enter the terrestrial solar market, which represents an enormous end market for Emcore" stated Reuben F. Richards, Jr., Emcore's chief executive officer. He added, "This sale

provides us with one of the strongest balance sheets in our industry and positions us extremely well to advance our industry leading technology in both fiber optics and photovoltaics."

### **Services Acquisition Corp. International**

(AMEX:SVI)

FORT LAUDERDALE, FL – On August 30, Services Acquisition Corp. International (SACI), a "blank check" acquisition corporation, and Jamba Juice Company, the company SACI announced as its acquisition target, jointly announced that they had extended their September 15, 2006 deadline for merger termination until November 17, 2006.

According to the companies, this extension is due to the additional time needed to update the proxy statement to include Jamba Juice Company's recently completed fiscal year-end financial statements and to respond to Securities and Exchange Commission comments on the proxy. At the same time, SACI announced that investors in its private placement financings to support the acquisition had also approved extending their commitment date to November 17, 2006, from September 15, 2006. SACI intends to announce a new record date, previously fixed at the close of business on July 28, 2006, for the determination of stockholders entitled to notice of, and to vote at, the special meeting of stockholders.

Steve Berrard and Paul Clayton, the Chief Executive Officers of SACI and Jamba Juice Company, respectively, jointly commented, "While we are working on the final stages of completing the transaction, the Board of

Directors of both SACI and Jamba Juice Company continue to be excited about the opportunities for the combined company."

### **ThermoGenesis Corp.**

(NASDAQ: KOOL)

RANCHO CORDOVA, CA –

ThermoGenesis Corp. announced in August that GE Healthcare (GEHC) and Cord Blood Registry (CBR), the world's largest family cord blood bank, have signed a multi-year contract to supply CBR with ThermoGenesis' AutoXpress cord blood processing system for 15 years. This agreement also initiates the development of an advanced cord blood stem cell container, which will also be exclusively distributed through GEHC. The AutoXpress System automates the isolation and capture of stem cells from umbilical cord blood in a functionally closed system.

"The agreement between GEHC and CBR and our long term supply commitment to CBR is an important milestone for the company. In June 2006 the New York Blood Center's National Cord Blood Program, the pioneering and largest public cord blood bank, became the first to adopt the AutoXpress System. Now, both the largest private and public cord blood banks in the world have committed to using ThermoGenesis' AutoXpress System to automate processing of cord blood stem cells," ThermoGenesis' CEO, Philip Coelho said. "There are more than 70 public and 100 private cord blood banks worldwide. We anticipate other cord blood banks may follow these two industry leaders, making our products the industry standard and accelerating ThermoGenesis' transition from a

technology platform developer to a market-driven commercial business."

### **Certicom Corp.** (TSX:CIC)

MISSISSAUGA, ONTARIO –

Certicom Corp. announced in August that ERUCES, a provider of data encryption software, is responding to data security demands of their clients by licensing Certicom's security modules to add Suite B algorithms to its products.

Under the agreement, ERUCES has licensed Certicom's Security Builder GSE, as well as Security Builder SSL, which includes a standards-based TLS (Transport Layer Security) protocol module for implementing a secure tunnel between a server and client device. For several years, ERUCES has been offering solutions with open source alternatives but its customers, particularly government organizations, are now demanding ECC as outlined in the National Security Agency's (NSA) Suite B guidelines.

Suite B is a set of cryptographic algorithms recommended by the NSA to provide standard, interoperable security for protecting unclassified and classified information. ECC-based algorithms are the only ones recommended for key agreement and digital signatures. AES is recommended for encryption. Suite B products will provide strong security that can be used by a wider audience to meet not only the evolving communications needs of the DoD but also those of state and local governments, Coalition partners, North Atlantic Treaty Organization (NATO) countries and industry.

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\$13.8 billion in 2005. In April 2000, Carolyn Dimitri of the U.S. Department of Agriculture and Nessa J. Richman of the Henry A. Wallace Center for Agricultural & Environmental Policy warned of two major challenges to the organics industry as the result of exploding growth: “ensuring product integrity and ensuring efficient production and distribution.”

Their remarks were prescient. Consumers would buy even more organics – if they could. According to a March 2006 *Business Week* article, for example, consumption of organic milk nationwide is growing 30% annually, while in 2005 “demand for organic milk outstripped the supply by 10%, creating acute shortages.” In August, *The Wall Street Journal* reported that the entry of stores such as Wal-Mart and Safeway into the organic market is starting to have real impacts in terms of demand, and the supply of organic products such as apples and almonds is struggling to catch up.

Throughout the agricultural spectrum, producers are straining to meet demand. At the Fifth Annual Iowa Organic Conference held at Iowa State University last November, speakers observed that “too few acres of cropland are devoted to organic production,” reported the Des Moines Register. “And too few farmers are willing or able to farm without the use of synthetic fertilizers and chemicals.”

To catch up, many farmers have been making the expensive and complex three-year transition to organic. For example, in California in 2005, “the state showed an increase of 40,000 acres, or 27%, in organic livestock production” and “an increase of 5000 acres, or 12%, in organic vegetable production,” according to the California Certified Organic Farmers trade association. An enticement for the switch is the hefty price premium organic farmers

can charge for their products, such as the \$6 farmers can charge per bushel of organic corn, versus \$2 for conventional, according to the Des Moines Register.

### Changing the Rules of the Game

If the first effect of major corporations entering the organic world has been raging demand, the secondary effects are coming. Although demand has surged ahead of supply as large corporations such as Kraft, Dean Foods, and Wal-Mart leap into the market, their enormous supply and distribution networks are likely to smooth the market and more efficiently meet demand. With their competitive edge, they may also drive down prices paid by consumers, thereby opening up the organic food market to less affluent customers. This was the explanation given by Wal-Mart CEO Lee Scott last year as the company announced plans to offer a full selection of organic food. But the mass commercialization of organic foods may also mean lower prices paid to farmers for the extra work of organic farming and brings the possibility of smaller players being driven out of business. “Wal-Mart has the reputation of beating up on its suppliers. I certainly don’t see ‘selling at a lower price’ as an opportunity,” said South Dakota organic farmer Richard DeWilde in *Business Week* this March.

At the same time, standards of organic purity are also being tested. Giant agricultural conglomerates have begun to lobby for relaxed restrictions on domestic food production, while some are importing food from foreign countries where prices are cheaper and organic standards may not be intensely enforced. So, for example, the Organic Trade Association, which represents Kraft, Dole, and Dean Foods among others, lobbied successfully for a rider to the 2006 Agricultural Appropriations Bill to allow synthetic ingredients in organic foods,

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over the objections of natural foods activists who insisted that it would open up the possibility of even more non-organic ingredients being allowed without rigorous review from the National Organics Standards Board.

### More than Organic

For many organic consumers, the purity of their food is not their only concern. As the organic industry changes, they “want products with ecologically friendly attributes like locally grown, fairly traded, or humanely or sustainably produced,” says Sarah Miles of New Leaf Community Markets in Santa Cruz, CA. Quoted in *Natural Foods Merchandiser* this July, she asserted that these values are spawning a new movement, dubbed “beyond organic,” stating that “the locally grown movement is so popular at New Leaf that customers definitely prefer local over organic.”

Nor is the locally grown movement an isolated phenomenon. All over the country, people are jumping onto the bandwagon. And these

consumers are prepared to spend more for locally grown food; this August, *Natural Foods Merchandiser* published a survey showing that respondents were willing to spend an extra 32 cents on a \$1 food item if that item was locally produced.

That sentiment was captured this spring in an on-line debate between Whole Foods Market’s CEO John Mackey and Michael Pollan, author of the recent book “The Omnivore’s Dilemma.” Pollan accused Whole Foods of generally being part of the corporatization of organics generally and not supporting local farms. While the debate was lively and informative on both sides, at least one visible result was the announcement this summer that Whole Foods was creating a \$10 million fund to promote sales of local produce in its stores and opening its parking lots to farmers markets.

Clearly, the growth of the organic foods industry – while it may contribute to a healthier life – can expect a wild ride, fraught with controversy not only about economic and purity issues, but also about social and environmental values. □



Should you invest for  
the **environment**  
**superior growth**  
or **both?**

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