

Green Returns

Combining growth investing with environmentally responsible practices does not seem that difficult when you talk to the manager of the Winslow Green Growth Fund. Not limited only to renewable energy or organic food industries, the fund finds many opportunities among young technology, science, or consumer companies that are established with a bias towards responsible practices.

Q: What is the investment philosophy behind the fund?

A: Environmental impact is an important factor in our investment decisions and that's a key differentiator of our fund. The company's roots are with Jack Robinson, the founder and a traditional fund manager, who used both back-testing and evaluation analysis to determine the positive correlation between companies that minimized the environmental impact and their returns over time.

Our focus is on small-cap growth stocks because that's where we feel there's most value added. It is an area where the market is inefficient and it presents an opportunity to add alpha through good fundamental research. We're looking for companies that are positioned to be industry leaders, and that can grow by more than 20% annually over the next five years. We're also looking for stocks where the valuation is compelling and are poised to double over the next 18 to 24 months.

Q: Would you explain your definitions of "green" and "environmentally responsible"?

A: We talk about our universe in terms of cleans, greens and dirties. Clean companies are responsible, in

terms of environmental impact, while green companies have a positive or proactive impact on the environment. Most of the healthcare, software, and young technology companies are clean, not green. A biotech company with innovative solution in the treatment of heart disease that has a responsible process for handling the waste stream would be a clean company.

When we define green companies, we hold them to a standard of how their actual business model is improving the environment. An example would be Whole Foods, which is promoting organic and natural foods and has 100% of its electricity needs coming from renewable sources. Solar companies and a lot of the renewable energy plays would also be labeled "green".

We try to eliminate investing in dirty companies or companies with a negligent approach to environmental policy. We look to put as many compelling green ideas as possible into the portfolio, and the rest is filled with clean companies, which are easier to find.

Q: British Petroleum has green gas or oil but that may appear as just another marketing tactic of a gasoline company. How do you handle such situations?

A: The transition of companies from traditionally dirty industries to

Winslow Green Growth Fund

Fund Facts

Symbol	WGGFX
Website	www.winslowgreen.com
Address	Winslow Management Company, LLC 99 High Street, 12th Floor Boston, MA 02110
Tel. No.	888-314-9049
Inception	5/3/1994

Portfolio

Total Net Assets *	\$ 290
Avg Mkt Cap (\$ Weighted) *	\$ 663
Average Price/Earnings Ratio	32.5
Average Price/Book Ratio	N/A
Turnover Ratio	15.3 %

Investment Information

New Investment	Open
Min Initial Investment	\$ 5,000
Min Subsequent Investment	N/A
Min Initial IRA Investment	\$ 2,000

Risk (Against S&P 500 - 3 Years)

Alpha	1.77
Beta	1.93
R-Squared	N/A
Ann Std Deviation	N/A
Sharpe Ratio	0.80

Returns vs. Russell 2000 Growth Index

	WGGFX	Index
1 Year (Cum.)	21.56 %	14.58 %
3 Year (Ann.)	19.66 %	16.27 %
5 Year (Ann.)	8.19 %	3.49 %

Returns vs. S&P 500

	WGGFX	Index
1 Year (Cum.)	21.56 %	8.63 %
3 Year (Ann.)	19.66 %	11.21 %
5 Year (Ann.)	8.19 %	2.49 %

Fees and Expenses

Max Sales Charge - Front	0.00 %
Max Sales Charge - Deferred	0.00 %
Max Redemption Fee **	2.00 %
Total Expense Ratio	1.45 %

Portfolio Manager

Matthew W. Patsky, CFA	Jul-2003
Jackson W. Robinson	Mar-2001

* millions ** for shares redeemed less than 90 days after purchase

Data through: 6/30/2006

Source: Company Documents; Lipper



TICKER'S CHOICE

wards more environmentally responsible practices, can have more positive impact than most of the smaller companies combined. British Petroleum lowering its carbon footprint would indeed have some real impact. How much of it is for marketing and how much is real? That question is legitimate but we don't get involved in that debate, in actual decisions on investments, because we're not investing in large-cap companies. Since we're working predominately in small-cap domestic equities with growth bias, we're not involved in inherently dirty industries.

Q: *So you would focus on ethanol or solar energy instead?*

A: Yes, although we believe that right now ethanol and solar are overvalued so we're not invested in any of those. But they are both green energy plays that we have invested in in the past. The same is true about fuel cells, wind and geothermal energy. Right now our cleaner energy plays tend to be suppliers to the wind and clean coal industries. As a nation we are not in a position to entirely replace our use of fossil fuels, so we'll continue to use them. We can however, invest in the technologies that allow us to burn them in a cleaner and more efficient way.

Q: *After you separate the dirty companies from the clean and the green ones, how large is your universe?*

A: If we divide the companies in the Russell 2000 Growth Index, we'd probably end up with 10% being dirty, 20% being green, and the vast majority being clean, which is still a large universe. It is not unusual for a young company in technology, science, or consumer to have started with a bias towards behaving in an environmentally positive way.

A lot of people don't think about it, but if you have developed an entire line around better power management for electronics, if all your designs are built

to improve the efficiency of power usage, that's environmentally positive. Often these companies and technologies are fueled by a real passion from the management for behaving in environmentally responsible way. While the obvious green areas are renewable energy and natural foods, there are many other plays that fit our criteria.

Q: *Can you explain your research process?*

A: We consider ourselves bottom-up stock pickers and we work diligently on a lot of names that come from a number of sources. We have found that the most useful information comes from small boutique firms, as there is very little value added for us



from the larger firms. They're focused on large-caps, where 20 analysts are researching the same company, so it's hard to add a lot of value when you're one of 20 analysts.

We also have a considerable amount of internal capabilities. For example, Jack Robinson has been involved and active within the renewable energy and healthcare industries for over 20 years and my specialty and background is mostly in the consumer segment, particularly in the natural and organic food space.

There's plenty of information from industry consultants and participants that we know. We also have long-lasting relationships with other managers and we regularly share ideas.

Q: *How does an idea become a holding in your portfolio?*

A: Before we commit to a 5-percent position in a company, it has to pass a review of its environmental and governance practices and must have a compelling fundamental case. If we have an intriguing idea that meets our criteria for growth, our next step is due diligence on both the fundamentals and the environmental and governance issues.

Normally, we schedule to meet the management. Sometimes that happens because they are coming through town but we also visit the corporate offices. We also like to do a facilities tour before we invest, although it sometimes can be within several months of starting to establish a position.

In the small-cap growth world, it is important to be on top of the story, to know the management, to be able to talk to them regularly. You need to understand the story as sometimes it can change very rapidly and you've got to react quickly.

Q: *What would be the reasons for selling a stock?*

A: One of the reasons is valuation meeting the price target. In that case, we would sell the position or simply trim it. The other big factor is if something has changed; if we've found a problem with corporate governance or with environmental policies.

We actually just had that happen. We were holding a nice technology company that we considered clean but there was a scandal around options pricing. That was an issue with good governance practices so we're now out of the name. Luckily, most of the position was sold at about 30% higher than the current price as the stock continues to drift down.

It is not unusual in the small-cap world for a stock to tumble down fast, but sometimes that can be the best opportunity to establish a full position. If a stock has moved from \$10 to \$5, this could mean that you need to sell it and

accept that something has changed in the business model. But the small-cap market is so inefficient that a 50-percent decline could easily be misleading. It could mean that a large shareholder decided to liquidate a position.

Often the signals sent by activity in the market can be misleading both on the up and down side. We've had names where we know the business nearly better than anyone else; where there's no coverage. When such a stock goes down 20%, you may find that the investors, who participated in the convertible offering a year ago, are now selling short the entire position to make sure that they have hedged their exposure. That has nothing to do with the fundamentals of the business and if you're on top of the story, you recognize it for what it is instead of being spooked.

Q: *Can you give us some specific examples of your buy and sell discipline?*

A: In the beginning of 2006 we had significant exposure to renewable energy. We were getting close to our valuation targets on a number of names, particularly in solar energy, so we started to make decisions about liquidating holdings on valuation basis.

We came across Zoltek, which is a maker of carbon fibers, sold primarily for brake pads for aircraft. The business model was shifting though and now two of their largest customers are the largest makers of wind turbines. With the creation of larger wind turbines, you have to use larger blades to get efficiency and you could no longer use fiberglass.

We're getting beyond the capability of fiberglass in terms of strength and durability. Carbon fiber is stronger, while it is as light as fiberglass. It is more expensive but because of the efficiencies, the payback is quick. So now there's a transition across the entire wind turbine industry to carbon fiber as the primary material for blades. It is amazing how limited the capacity is in that space.

Zoltek is contracted out through 2007 for all of its capacity. There was no

coverage on the stock; it started the year below \$10 and in February the stock had run up almost 50%. We began to build the position at the \$15 to \$16 level. Since then it has gotten coverage and now the stock is up to \$27 and it is still growing rapidly. That's a classic example of a name on which we did more work than any analysts. We had visited the facilities in the U.S. and the facility outside Budapest, Hungary, which they bought during the post-communism privatization process and which has turned this company around.

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about

Matthew W. Patsky

Matthew Patsky is a Partner and Portfolio Manager for Winslow Management Company, and brings 19 years of investment research experience to the company. Prior to joining Winslow in 2002, Matt served as Director of Equity Research for Boston-based Adams Harkness, Inc., where he supervised 21 research analysts focused on emerging growth technology, healthcare and consumer companies.

Q: *How many stocks do you own and what is your average turnover?*

A: We run a concentrated fund. After we've decided on a name, we look to buy a 5-percent position. Our ideal portfolio would be 20 names at 5% each, but we tend to invest in about 30 names at any given time. While we look for long-term growth from our holdings, there is a fair amount of turnover in our portfolios - about 100% for the year.

Q: *What's your strategy for measuring and mitigating risks?*

A: We control the risk of being overexposed by an automatic default of trimming positions if they bump up to 10% of the portfolio. If there's a fundamental issue with a stock, we'll end up selling it. If we have a position where the stock is cheap and we expect it to double, we map out the reason why it can double. If it doubles in six months, we may be liquidating the entire position if nothing else has changed.

But sometimes it doubles quickly because fundamentals have improved dramatically and we don't want to sell the entire position. We employ certain strategies in larger established positions, where we've decided a name is one we really like and one we'd like to ride in the long run. Whole Foods Market, one of our oldest and largest holdings, would be a good example, even though it is no longer a small-cap stock. There have been brief periods when the stock was undervalued and more periods when the stock was ahead of itself.

In such cases, if there is still a reason for the stock to go higher over time despite a possible correction over the next months, then we just sell separate calls to pick up some yield. In the case of Whole Foods, the coverage call writing strategy was at about 11% annual yield. This year that mitigated the losses because the stock has drifted downwards. But last year, when the stock was up about 25%, we picked up another 11% in return by this strategy. ■

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