While the response from beverage companies is aimed toward steering clear of HFCS, this switch is unlikely to affect the overall problem of obesity in the US. Even so, a shift from HFCS to sugar may not be a solution to obesity, as high fructose content in beverages will not cause a person to feel full. This will make it more likely for a person to consume more calories, according to a Bloomberg article published in January 2, 2013.

ORGANIC, "NATURAL" FOODS ATTRACT INTEREST

We believe that consumers remain interested in how their food is produced and grown. Organic or "natural" foods have been growth drivers for a number of food manufacturers, some of which have added brands through acquisitions. Increasing awareness on health and food safety has helped organic and natural foods to gain popularity. (Keep in mind that "natural" lacks the USDA definition and certification of "organic.")

Organic foods are more likely to be produced by farmers who emphasize the use of renewable resources and the conservation of soil and water. To be considered organic, meat, poultry, and eggs must contain no antibiotics or growth hormones. Organic produce is grown without conventional pesticides, bioengineering, or ionizing radiation, and without the use of fertilizers that contain synthetic ingredients or sewage sludge. In 2002, the USDA allowed food makers to label goods as "USDA-Organic" if they contain 95%-100% organic ingredients. Foods that contain at least 70% organic ingredients can indicate that they contain organic ingredients. Use of the USDA-Organic seal on products is voluntary.

The US and the European Union (EU) signed an agreement in February 2012 to allow food certified as organic by the US or the EU to be sold in either region. This agreement allows companies and farmers to connect with each other and opens new markets for all.

We think that US consumer demand for organic food is significantly outpacing the growth in overall food sales, bolstered by health considerations and increased availability of organic products. According to the Organic Trade Association (OTA), a trade group, US sales of organic food grew by 35% in a recent five-year period, reaching $29 billion in 2012. Considering the wide availability of organic products, particularly in natural food supermarkets and chains, the USDA expects sales of organic products to reach $35 billion in 2014. Companies focusing on organic or "natural" products include Hain Celestial Group Inc., with brands that include Terra Chips, Garden of Eatin', and Earth's Best; WhiteWave Foods, whose product line includes Horizon organic dairy products, as well as the Silk soymilk business; and Annie's Inc., whose products include pastas, pizza, and snacks.

A number of large food companies offer organic foods under smaller brands. For example, General Mills Inc. owns the Cascadian Farm and Muir Glen labels; Kellogg Co. has the Kashi brand; and Kraft Foods owns the Boca and Back to Nature brands. Large food makers have also rolled out organic versions of some of their best-known products. For example, Campbell Soup Co. offers organic V8 juice, while Kraft sells organic macaroni and cheese.

During the past few years, we think that supermarkets have bolstered their lineups of organic foods. Wal-Mart Stores Inc., the world's largest retailer and one of the biggest supermarket operators in the US, began selling organic produce in its stores in 2006. We think traditional supermarkets' investment in organic foods helps them to better compete with a retailer such as Whole Foods Markets Inc. and with farmers' markets. For example, we think Kroger Co., which has 2,200 grocery stores, has introduced new natural and organic foods brand to bolster profitability and be more competitive.

In a project begun by a foundation affiliated with Sabritas, its Mexican snack foods division, PepsiCo has begun working directly with small farmers in Mexico rather than intermediaries to save transportation costs and improve access to corn and sunflower oil better suited to its products. PepsiCo guarantees the price it will pay for the crops upfront and allows small farmers to access credit to buy seeds, fertilizer, crop insurance, and equipment. Besides potentially improving profitability and demand, the program has raised farmer income and raised nutritional and educational standards, and likely, reduced illegal immigration.

Just like PepsiCo, other food and beverages companies have been relying on the popularity of organic products. The company's rival, Coca-Cola, has acquired 10% shares in Green Mountain Coffee, a company...