



January 3, 2012

Dear Friends of Coho Partners:

Enclosed you will find the portfolio summary for the month of December, along with the month's transactions. We have also included your realized gains and losses and income for the year.

The fourth quarter was the best quarter of the year, with double digit gains for the benchmarks and for your portfolio. The final quarter returns allowed the benchmarks to end the year showing flat to small gains for the full year. Calendar year 2011 was another year marked by unusually high volatility. There were periods of rapidly rising prices and conversely, there were times of rapidly declining valuations. Throughout this volatility, our pattern of returns reflected our investment philosophy as we were able to protect principal during the corrections while staying competitive during the rising times. By the end of the year we had produced a double digit return, which compares favorably with the benchmarks on both an absolute and relative basis.

Our performance attribution suggests that our outperformance this year was balanced between good sector allocation and good stock selection. Our overweight in Consumer Staples and Healthcare was beneficial to performance and our continued underweight in Financials was also helpful. For our fully discretionary clients, quite a number of our companies performed well this year, with United Health and Abbott Labs within the healthcare sector gaining 42% and 22% respectively, while Philip Morris International (+40%), Altria (+28%) and Colgate (+18%) all posted solid returns within the Consumer Staples area. Several of our other holdings also performed well, including IBM (+27%), Home Depot (+23%), Chevron (+20%) and Family Dollar (+18%).

2011 was a very good year for Coho Partners on a variety of fronts. Most importantly, we were pleased that the pattern of returns was true to form, especially given the rather schizophrenic market environment throughout the year.

Secondly, we were encouraged by how our companies executed against their long term operating and financial strategies. In another very challenging year from an economic standpoint, these well managed companies continued to grow their earnings, increase their dividends and in most cases buy back stock. We very much believe that if a company can achieve these things during stressful markets, investors will tend to gravitate to such stocks and thus help provide an additional measure of downside protection. For all of 2011, all but one of our companies increased their dividend and we believe that all but two will have posted higher earnings when the final quarter is reported in early 2012. In addition, more than 80% of our holdings will have reduced their outstanding share count this year. We expect similar results in 2012 from these companies.

Thirdly, we improved our systems and our staff. Despite our low turnover, we nevertheless adopted Moxy as our new trading platform. This investment increases our efficiency and it allows us to customize client preferences. We also expanded the role of Kyle Bubeck of Beacon Compliance Inc. by adding additional operating and financial duties to his plate. Kyle has been a true unsung hero for our firm during the past couple of years. We engaged True North Marketing Services to help us with our marketing effort. Kristen Cossel has been invaluable in updating data bases, completing requests for information and generally helping with our marketing efforts. As a client of ours, you may not notice the benefits of these investments, but they are made with an eye towards maintaining and enhancing our focus on the two most important services that we endeavor to provide to you—investment excellence and superior client service. Feedback from you on how we can further improve in these areas is always welcome.

Finally, all of the aforementioned events allowed us to have our best year of new business growth in our twelve year history. We have much to be thankful for but without your support and trust in allowing us to oversee your portfolio, we would not be successful. We work very hard each and every day to grow your assets in a measured low risk manner. We often say that investing is like a marathon without an end point. It is not a sprint with a specific dollar objective at the end. We made good progress this past year, but a new year has already begun and 2012 will likely present new challenges. We feel that the portfolio is well structured and believe that our companies' business prospects are bright and their goals are realistic and achievable.

Now about the new challenges coming our way in 2012. We are not going to bring anything new to the table concerning Europe, the Fed, commodity prices, the election or the ultimate impact of the Arab Spring. We do, however, remain particularly concerned about the government debt and deficit levels both here and abroad and their potential outsized impact on our economic growth and stability over the near and longer term. We are conversely encouraged by the gradual improvement in the US consumer's financial circumstances and the extraordinary profit performance of the corporate sector in these uncertain times. We remain steadfastly committed to owning high quality, well managed companies with resilient, growing cash flows at reasonable valuations. To that end, the portfolio characteristics remain the same as they have in the past. The portfolio's dividend yield is higher than that of both the S&P 500 and the Russell 1000 Value index and its dividend growth has had an annualized growth rate of 12% over the past five years. This compares to negative dividend growth for these same benchmarks over this same period. The portfolio's P/E on a forward four quarter basis is slightly higher than that of the benchmarks, but still quite reasonable at less than 13x. Our companies are growing, stable and underleveraged, highly profitable and not overly capital intensive. We believe these qualities will be rewarded again in 2012 and beyond, and we look forward to updating you on our progress as the year develops.

Please feel free to contact us at any time to discuss our outlook on the portfolio.

Sincerely,

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Partner / Portfolio Manager / Analyst

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