April 4, 2013

Dear Friends of Coho Partners,

Stock market performance for the first quarter of 2013 was much better than we had expected, with each of the first three months posting positive returns. The S&P 500 advanced a very healthy 10.6%, while the Russell 1000 Value Index rose an even better 12.3%. Our performance was competitive with the S&P 500, but we did lag the Russell benchmark slightly. Given the magnitude of this move in such a short period of time, we were satisfied with our results. One unusual benefit for us this quarter was the surprisingly good performance of Healthcare and Consumer Staples stocks. Generally, during strong advances the leadership of the advance comes from more economically sensitive sectors and not the traditionally more defensive sectors, such as Healthcare and Consumer Staples. One thought that we have on this is that US equity mutual funds have seen $73 billion of inflows this year, which is the most in quite some time. It is possible that these investors are nervous about buying in as the benchmarks are setting multi-year new highs and as such, they are tip-toeing back in via some of the more defensive sectors.

We are quite taken by the similarity of this advance relative to the same period last year. You may recall that 2012 began with quite a bang, followed by a meaningful correction in the second quarter before regaining its footing and finishing the year with a solid double digit return. Chart 1 and Chart 2 show this correlation between the 1st quarter of 2012 versus the 1st quarter of 2013 for both the S&P 500 and the Russell 1000 Value. We have no idea if this correlation over the remaining three quarters of 2013 will continue; however, our intuition suggests that some pull back is likely coming.

CHART 1
Performance Returns of 2013 vs. 2012 for the S&P 500

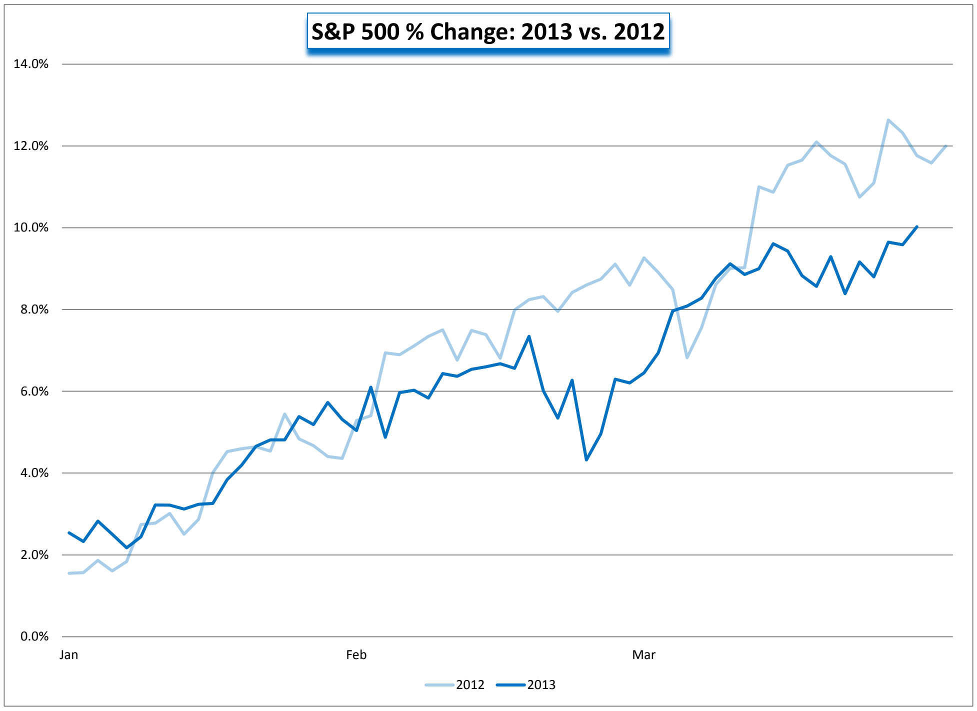
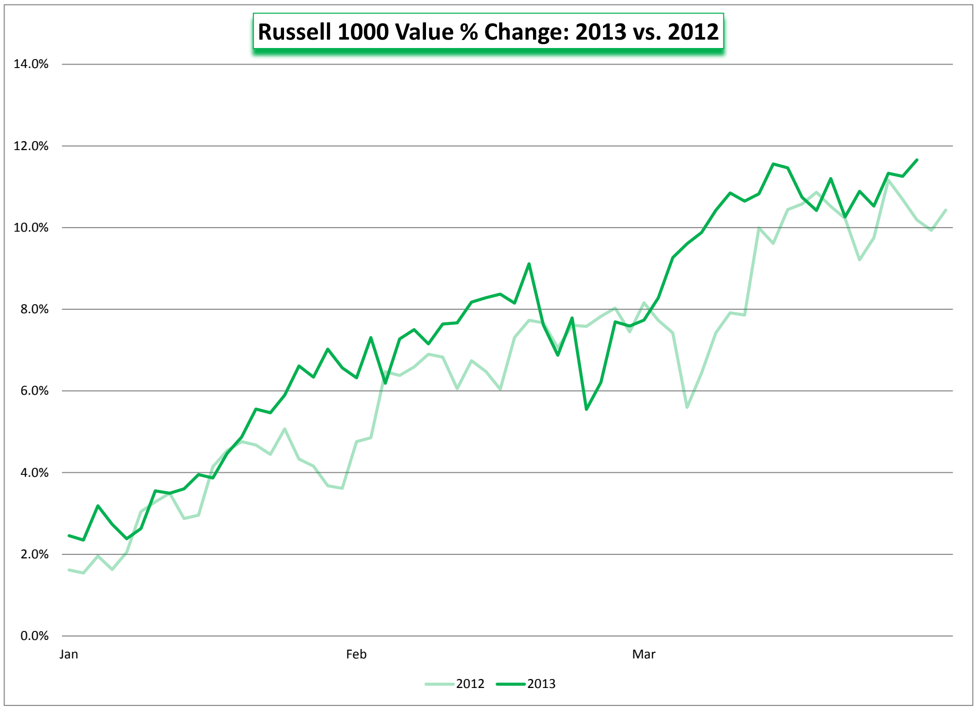


CHART 1
Performance Returns of 2013 vs. 2012 for the Russell 1000 Value



Investing involves risk assessments across a number of fronts, such as the company's business model, the competitive landscape, the macro economy, regulatory risk, and geopolitical risk to name just a few. We endeavor to mitigate risk as much as possible so that the portfolio's return will show a special pattern of returns. Specifically, we seek to preserve principal well during the down periods, while still meaningfully participating during the advancing times. We believe there are certain characteristics and disciplines that increase the probability that we can continue to produce this asymmetric pattern of returns. We endeavor to:

- Focus on companies whose business models are reasonably impervious to downturns in the business cycle. The earnings from such companies tend to hold up well during economic corrections.

- Require strong balance sheets, which should minimize financial risk.

- Focus on companies which are not overly capital intensive and which have defensible profit margins.

- Own enterprises that generate cash flows in excess of what are needed to properly resource their ongoing business. These companies tend to pay competitive dividends, but moreover, they tend to have generous annual dividend increases.

- Try to minimize regulatory risk. It is virtually impossible to eliminate it, but not all regulatory risk is the same.

- Own businesses with global reach and established presences in developing and emerging markets that should provide a long term advantage.

- Over-index at the portfolio level to the more defensive sectors vs. our benchmarks.

- Finally and most importantly, be conservative and careful in your valuation techniques. The best defense to not losing principal is to not over pay when you make your initial investment.

Our portfolio is a collection of high quality companies that reflects many of these attributes. We do not get this right all the time, but we are guided by these considerations and many others.

Although we have only completed one quarter of 2013 and first quarter earnings reports have yet to begin, we still believe that each of our holdings will have higher earnings in 2013 than they had in 2012. Moreover, we also anticipate that each of these holdings will increase their dividend this year. So far, just under half of the portfolio's holdings have raised their indicated dividend for 2013, so we are off to a very good start.

Before the completion of the 1st quarter, the S&P 500 surpassed its old previous high set back in October of 2007, which was prior to the last serious correction. From a valuation standpoint, how do current metrics compare to those in place in October of 2007 and also in 2000 before the dot com bubble burst? Table 1 highlights some traditional valuation measures.

TABLE 1
S&P 500 Valuations

	2000	**2007**	**TODAY**
S&P 500	1,527	1,565	1,569
Trailing EPS	$51.02	$90.06	$101.99
Trailing P/E	29.9x	17.4x	15.4x
Forward P/E	25.1x	15.0x	13.6x
Dividend Yield	1.1%	1.8%	2.1%
10 Year Treasury Yield	6.2%	4.7%	1.8%

Source: B of A Merrill Lynch US Equity & Quant Strategy, I/B/E/S, Bureau of Labor Statistics

Clearly valuations are more attractive today than they were at these prior peaks. The S&P 500's current P/E is lower and its dividend yield is higher. At the end of the quarter, Coho's portfolio's P/E was 14.7x on a trailing basis, lower again on a forward basis and its dividend yield was meaningfully higher than that of the market. Moreover, we believe the quality and consistency of Coho's earnings and dividend growth is also much better than that of the market.

We are not sure what the rest of the year will bring, but we do believe this portfolio offers good risk/return metrics for the uncertain times in which we are operating.

Please do not hesitate to call us with questions or concerns about our outlook or the portfolio.

Sincerely,

Peter A. Thompson　　　　Brian L. Kramp, CFA

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