COHO PARTNERS, LTD.

April 4, 2015

Dear Friends of Coho Partners,

The broader averages spent most of the month in negative territory, rallying from a 3% intra-month decline to nearly breakeven at one point before finishing down less than 2%. This decline essentially erased the gains for the year. Performance for your portfolio slightly lagged the benchmark in the month but for the year-to-date period we are even with the benchmarks.

For the quarter, there was a small bias towards "defensive" sectors, as Healthcare was once again the best sector. Telecommunications, where we have no exposure performed well, while Consumer Staples matched the market's return and Utilities were the worse sector by far. We continue to have above average weights to both Healthcare and Consumer Staples.

During the month, we trimmed both Lorillard and Lowes, and we initiated positions in Gilead Sciences and WW Grainger. With Gilead, we believe investors are underappreciating the sustainability of its hepatitis franchise, where it has two blockbuster products in Sovaldi and Harvoni. These products actually cure the disease so the concern is the patient pool will quickly deplete, but we believe the domestic and global opportunity remains quite large and long-lived. At less than 11x forward earnings, a new initial $1.72 dividend, and a tripling of its share repurchase authorization, we believe we have a good risk/return situation. For WW Grainger, the stock has underperformed for a couple of years now despite consistent earnings and dividend growth. The valuation is now much more attractive, and the company, with only a 6% market share, is the dominant force in the highly fragmented $150 billion US market for maintenance, repair and operations (MRO). Admittedly, its Canadian business is struggling, but it is only 10% of sales and GWW has had problems here before and has demonstrated an ability to correct them. Meanwhile, the core US business, which is about 80% of revenues is performing very well.

Our decision to trim Lorillard was based partly on valuation and partly on concern over any adverse ruling by the FTC on the proposed merger with Reynolds America. We believe the deal should be approved but since this deal includes a stock component, the recent appreciation of Reynolds America's stock has introduced increased downside risk to a negative ruling. Therefore, we thought it prudent to reduce this holding. Nevertheless, we like the fundamentals of Lorillard and in particular the outlook for the menthol segment where Lorillard's Newport's brand is strong. As for Lowes, this trim was entirely due to valuation. The home improvement companies have enjoyed exceptional stock price appreciation as the housing market recovers. We still see further margin improvement and the differential in margins between Home Depot and Lowes should close. However, the risk/return is not as compelling as it once was and a trim was warranted.

At Coho Partners, we frequently write about the importance of downside protection, which is our primary objective, but a close secondary goal is to stay competitive during the advancing periods. With the S&P 500 up 162% over the past six and a quarter years with barely a meaningful correction over this period, we are not surprised by the growing drum beat to abandon all "active management" and go totally "passive" as index returns have tended to beat active managers over this period. Over this timeframe, Coho Partners essentially matched the S&P 500's advance. For our conservative and defensive management style, we believe those returns are respectable. We still very much believe in active management and we fully subscribe to long term investing. Going back to the beginning of 2009, when this current bull market began, we owned 29 companies and we still own 14 of those same companies today. Table 1 shows these long term holdings and compares their total returns (including dividends) to that of the S&P 500.

TABLE 1

COMPANY	PRICE 1/1/2009	PRICE 3/31/2015	TOTAL RETURN 1/1/2009 – 3/31/2015
3M Co.	$57.54	$164.95	237%
Amgen	$57.75	$159.85	197%
Automatic Data	$39.34	$85.64	198%
Chevron	$73.97	$104.98	76%
CVS/Caremark	$28.74	$103.21	290%
Illinois Tool Work	$35.05	$97.14	226%
Johnson & Johnson	$59.83	$100.60	106%
Microchip Tech.	$19.53	$48.90	225%
Philip Morris Int'l	$43.51	$75.33	128%
Procter & Gamble	$61.82	$81.94	61%
Royal Dutch	$52.94	$59.65	50%
Smucker JM	$43.36	$115.73	212%
Sysco	$22.94	$37.73	105%
United Health	$26.60	$118.29	380%
S&P 500	**903.25**	**2067.89**	**162%**

These companies, which accounted for roughly half of the portfolio's value over this period provided consistent performance. There was turnover in the other half of the portfolio, which generally was driven by companies that reached price objectives where the prospective risk/return was no longer favorable. We also had a few cases where our position paper was violated and this required elimination as well. New holdings were added when our independent research efforts found opportunities using our tried and true valuation tools which highlighted a favorable risk/return profile.

Current dividend income and the growth in that income stream is another important component to our investment approach. In Table 2 we take the portfolio as it is at the end of the quarter and see how the dividends have grown since the start of 2009. Admittedly about half of the current portfolio was not in place at the start of 2009, but we have "bolded" those holdings that have been present throughout this period so hopefully this analysis will still provide some insight on the types of companies we admire and their dividend histories. The table shows the annual dividend rate that was in place at the beginning of 2009 and what the current annualized dividend rate is as of the end of the first quarter of 2015.

Over this period, the dividend for the S&P 500 increased about 47% cumulatively. Dividend increases for our “legacy holdings”, as well as those companies added over this period have tended to have superior dividend growth. Even though the earnings per share for the S&P 500 is now expected to be flat for the year, mostly due to lower earnings from the Energy sector, we expect all of our holdings, with the exception of Royal Dutch to increase their dividend rate in 2015. In April, we expect increases from Chevron, Cullen Frost, WW Grainger, Johnson & Johnson, Omnicom, Procter & Gamble and UnitedHealth Group.

TABLE 2

COMPANY	DIVIDEND 1/1/2009	DIVIDEND 3/31/2015	CHANGE
3M Co.	**$2.00**	**$4.10**	**105%**
Abbott Labs	$0.47 *	$0.96	104%
Aflac	$0.96	$1.56	62.5%
Amgen	**$0.00**	**$3.16**	**nm**
Automatic Data	**$1.32**	**$1.96**	**48.5%**
Baxter Int’l	$1.07	$2.08	94.4%
Becton Dickinson	$1.14	$2.40	110%
Chevron	**$2.60**	**$4.28**	**64.6%**
Cullen Frost	$1.66	$2.04	22.9%
CVS/Caremark	**$0.28**	**$1.40**	**400%**
Gilead Sciences	$0.00	$0.00	0.0%
Grainger WW	$1.55	$4.32	179%
Illinois Tool Work	**$1.24**	**$1.92**	**58.1%**
Johnson & Johnson	**$1.84**	**$2.80**	**52.2%**
Lorillard	$1.28	$2.64	106%
Lowes	$0.34	$0.92	170%
Marsh & McLennan	$0.80	$1.12	40.0%
Microchip Tech.	**$1.35**	**$1.41**	**4.4%**
Occidental Petroleum	$1.14	$2.88	153%
Omnicom	$0.60	$2.00	233%
Philip Morris Int’l	**$2.16**	**$4.00**	**85.2%**
Procter & Gamble	**$1.60**	**$2.57**	**60.6%**
Royal Dutch	**$3.20**	**$3.76**	**17.5%**
Smucker JM	**$1.28**	**$2.56**	**100%**
State Street	$0.95	$1.20	26.3%
Sysco	**$0.96**	**$1.20**	**25.0%**
United Health	**$0.03**	**$1.50**	**nm**
Walmart	$0.95	$1.96	106%
S&P 500	28.60	42.04	47.0%

* This is our best estimate of what Abbott’s dividend would have been in 2009 had they not owned Abbvie, which was spun out of Abbott in 2012

As we begin a new quarter, there is no shortage of issues to worry about. Chairman Yellen is suggesting that the Fed is likely to increase rates later this year. The dollar continues to appreciate against most currencies putting pressure on many of our companies with international sales. The collapse in energy prices has impacted our Integrated Energy holdings but as we have written previously, we see no threat to their current dividends and expect their stock prices to recover when better demand ultimately reduces some of the excess supply that currently exists.

From our perspective, we remain focused not just on what we can make in the market, but more importantly on what we potentially can lose, and we try to minimize this. We still believe that the holdings in this portfolio offer excellent long term potential and we will monitor their operating and financial progress the same way that we have been doing since our founding more than 15 years ago. The past six plus years of equity returns have been wonderful but we remain vigilant on valuations. We will constantly look to reduce risk whenever possible, especially when we can hopefully improve future returns.

We look forward to sharing our results as the year progresses, but if you have questions or concerns about our outlook, please do not hesitate to call us.

We wish you all the best.

Peter A. Thompson Brian L. Kramp, CFA