April 4, 2016

Dear Friends of Coho Partners,

It is truly hard to believe that U.S. equity benchmarks posted a positive return this quarter given the horrific start to the year. However, investors reversed their negative bias as concerns of a hard landing in China abated, oil prices rebounded off their lows and companies gave reasonably positive outlooks for 2016. Thus, the 5%+ declines seen in January for the major benchmarks were more than offset by the 6%+ gains enjoyed this month. When all the dust settled, the S&P 500 improved 1.4% and the Russell 1000 Value advanced 1.6%. The pattern of returns for your portfolio was consistent with historical norms, which means we declined less than the market in January, we outperformed in February which was essentially a flat month and we modestly lagged in March when the market soared. Putting that all together, we gained more than 3.5%, which compared favorably to the benchmarks.

For the quarter, the portfolio had positive stock selection in every sector in which we had exposure (we had no exposure to Materials, Telecommunications or Utilities this quarter). Given the volatile performance pattern of the equity markets, our relative performance was helped by our focus on investing in what are typically higher quality and more stable stocks. However, the Healthcare segment, which remains our largest sector weight, was the worst performing sector declining 5.5%, so our over-allocation to this area held back further gains. Our companies did better, but only three of our nine holdings beat the benchmark and regrettably two of our holdings (Perrigo Co. and AmerisourceBergen) declined by double digits. We have discussed this sector in the recent past and we continue to believe that the fundamentals of our companies are quite strong. Unfortunately, the political environment is currently casting a negative pall over the entire group. Over time, we believe the fundamentals will come through and other investors will appreciate the favorable risk/return to these companies.

Our strongest two sectors this quarter were Consumer Discretionary and Industrials, with five of the six holdings within those sectors appreciating by more than 10%. The two strongest sectors for the overall market were Telecommunications and Utilities, which gained 16.6% and 15.5% respectively. Those are enormous quarterly gains for very defensive sectors and we had no exposure to either as we do not believe they appropriately fit our investment philosophy. These two sectors do not carry huge weight, but they did contribute nearly 1% of the 1.4% return for the S&P 500.

Perhaps the most meaningful surprise this quarter was the reversal in the decline in crude prices. West Texas Intermediate crude prices bottomed on February 11th at $26.21. Since that date, it has rallied significantly, reaching an intra-month March high of $41.57 before ending the quarter at $38.34, still up 46% from the low. The S&P 500 bottomed on the exact same date at 1829. We do believe that an uptick in energy prices could signal improving global GDP, which would be good for global equity valuation and energy companies in particular. Our Energy holdings participated in this recovery, but the supply/demand outlook remains fragile, and we believe the prudent response to take at this time is to simply stay the course with the holdings that we have.

As is typical, 1st quarter earnings seem to come right on the heels of the release of 4th quarter earnings. So beginning in a couple weeks, we will start to see 1st quarter earnings and we expect the outlooks to remain healthy. Part of our confidence lies in what we have already seen on the dividend front from our companies, and to that end, five of our holdings announced increases this quarter. Reynolds America increased their dividend by 17%, Perrigo by 16%, Dollar General by 14%, Gilead Sciences by 9% and 3M by 8%. These increases are on top of year end increases from nine of our other holdings that were effective with the start of the new year. This brings the total dividend increases to essentially half of our portfolio holdings and we fully expect to see increases from the remaining half over the course of this year.

Although our research approach is very much a “bottom up” fundamental focus on the long term operating and financial strategies of a company, we are not oblivious to the macro influences during election years or periods when the Federal Reserve is “in motion.” These are not the only moving parts from a macro perspective, so our portfolio orientation remains fixed on business models that are reasonably impervious to exogenous forces (but not immune). Thus, our traditional portfolio construction remains in place and we have roughly 60% of the portfolio’s weight in “demand defensive” industries and the balance in more “economically sensitive” sectors. The portfolio is behaving the way we would expect, and we look forward to building on our returns and advantage over the benchmarks as the year progresses.

If you have questions or concerns about our outlook or the portfolio’s positioning, please do not hesitate to call us. In the meantime, we wish you a very peaceful and prosperous 2016.

Sincerely,

Brian Kramp, CFA   Christopher Leonard, CFA   Ruairi O’Neill, CFA   Peter Thompson