April 6, 2017

Dear Friends of Coho Partners,

For March, the S&P 500 was essentially flat, and we declined about 80 basis points. There was a modest tilt to some of the more economically sensitive sectors which hurt our monthly performance. Our best performer this month was Lowe's which rose 10.6% after reporting an outstanding fourth quarter and delivering an encouraging outlook.

For the first quarter, the S&P 500 appreciated just over 6.0% vs about 4.8% for Coho portfolios. Our underweight to Technology, which was by far and away the best sector, was a meaningful headwind of 82 basis points and explains the majority of our underperformance. Apple and Facebook, which are philosophically outside of our investment discipline were up 24.6% and 23.5% respectively. Those two stocks accounted for more than 1% of the S&P 500's return for the period. Growth indices, which tend to have a larger exposure to Technology easily surpassed the value indices and when this happens, it tends to be a drag to our performance.

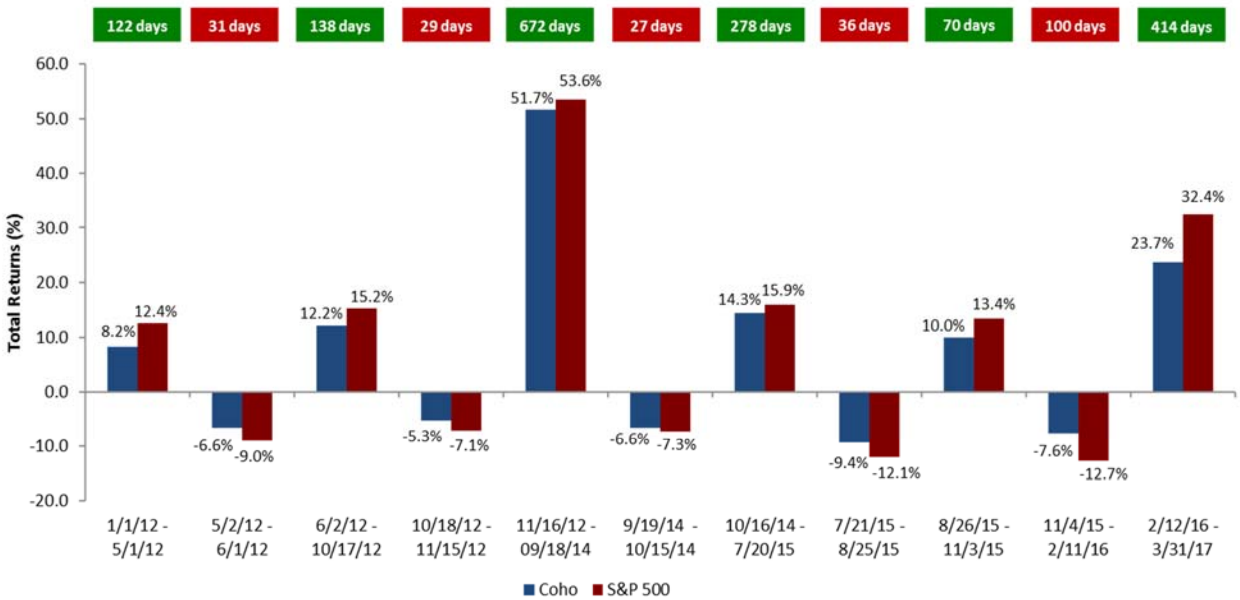
Given the polarization in Washington, investor focus seems to be much more on the political trends and much less on company fundamentals. This will likely change in April when, once again, companies will be reporting first quarter earnings and hopefully the sentiment will return to a more fundamental analysis of longer term operating and financial strategies.

During the quarter, roughly one third of our holdings rose more than 10% with nearly half of these companies being in Health Care. The primary reason for these returns was solid fourth quarter earnings and a better-than-expected outlook for 2017. The only area of real softness was in Energy, which suffered from the decline in the price of oil and natural gas. Our worst holding was Kroger, the largest grocery chain in North America. The company is being hurt by food deflation, which we believe is now reversing.

So, with one quarter done this year, we are lagging somewhat but we remain confident and optimistic about the portfolio's prospects.

During the past few years, "passive management" has produced better returns than most "active managers" and thus it is not unusual that the sirens are blaring over the demise of "active management." Clearly it is illogical to pay higher fees for active management if the end result is lower returns. Coho Partners may be biased in our position here since we firmly believe in active management. As such, we would like to analyze our results over the period of January 1, 2012 through the end of this quarter. We chose this starting point because it comes after a "bearish period" where we performed well and we did not want to bias the starting point. As you can see from Chart 1 below, the period from January 1, 2012 to the present has been one of predominantly advancing periods, occasionally interrupted by a brief correction. Over this period, the S&P 500 advanced about 88% of the time, leaving the correcting periods to the remaining 12%.

Chart 1
Pattern of Returns From 1/1/12 through 3/31/17



From 1.1.12 to 3.15.17; Source: FactSet (Holdings Based, Daily)
Note: "Coho" in the chart above reflects performance for the Coho Relative Value Equity Model (gross of fees). Returns presented for all periods are cumulative. Past performance is not indicative of future results.

The investment philosophy that underpins our strategy is to provide protection during corrections with meaningful participation during advances. We believe this pattern was realized over this measurement period. Of the five correction periods, only one truly exceeded a month in duration, with the other four essentially representing about a month or less in length. Coho Partners was able to provide protection in all of these brief down periods but the "value added" over these periods was more than offset by the preponderance of advancing periods. For the full time period (1/1/12 through 3/31/17), the S&P 500 advanced over 15% annualized and Coho Partners returned 14% annualized. We believe this very much represents our ability to participate in the most recent bull market. Importantly, this participation has been achieved while maintaining our typical defensive orientation in the portfolio. And perhaps more importantly, this 90-95% upside capture was attained with less risk and volatility than the overall market. To that point our standard deviation over this period was 9.2% compared to 10.2% for the S&P 500.

It would be lovely if the markets consistently produced high single to low double-digit returns. If this were true, we too might be moved to adopt a passive strategy. However, we find this premise to be false and hence, we still believe in active management and particularly in our strategy, process, and philosophy. We do think “the market” is somewhat expensive, but we do not own the market. We own a high conviction portfolio of outstanding businesses, which have demonstrated an ability to produce consistent earnings and dividend growth in good and bad times. While we can’t predict when a correction is coming, we do know that one will come. When it does, we fully expect the characteristics that we desire from our holdings coupled with the valuation disciplines that we employ before buying, will provide the portfolio downside protection.

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 2017.

Sincerely,

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