July 14, 2011

Dear Friends of Coho Partners:

Had it not been for the strong rally in the final week of the month, June would have been quite negative, but the month still proved challenging. The weak jobs data on June 3rd punctuated a string of weakening economic reports, which when coupled with Greece's problems had June's returns down nearly 6% at one point. These losses were reduced meaningfully by the end of the month and we were able to modestly outperform for the period.

The second quarter began with a strong April, but May and June produced negative returns, which more than erased the early gains. Returns for the Coho Relative Value Equity portfolio fared much better, as they should have since we focus on downside protection. We posted a positive return this quarter, which compared favorably to the benchmark's breakeven return.

Sector allocation and stock selection were both material contributors to our outperformance this quarter. Staples and Healthcare, two of our larger over-weighted sectors showed significantly better returns than the market, while Financials and Materials, where we are underweighted bore the brunt of the difficult quarter. Double digit quarterly returns were recorded for United Health, JNJ and Sysco, while Abbott Labs, Amgen, Colgate, CVS and JM Smucker posted 7% or better quarterly returns.

Year to date, we have outperformed the benchmark by essentially equaling the benchmark's return in the 1st quarter and then adding value during the flat 2nd quarter. This is precisely the pattern of returns for which we strive. Our ability to outperform during a flat or down period is consistent with previous challenging times and is the reason we remain confident in our longer term performance.

July will usher in the start of second quarter earnings. We would not be surprised to see some disappointments in some of the more economically sensitive industries and sectors because the recent economic news is suggesting a fairly rapid slow down in many parts of the world. However, we believe that we are invested in companies that should be less prone to earnings disappointments and as such, we are cautiously optimistic about the upcoming earnings season. We are comforted by the fact that the vast majority of our holdings are in "demand defensive" industries, meaning that they produce goods or services that have consistent consumer demand throughout changing economic climates. These types of companies are typically found in consumer goods and staples and healthcare related issues. These companies have been facing rising input costs, which pressures margins, but so far, they have been able to raise price without meaningfully compromising volumes or demand. Since May, there has been a noticeable decline in many key commodities prices (see Table 1). The Reuters-Jeffries CRB Index, which captures the price changes across a wide range of commodities, has fallen 8.2% since its intra year high on May 2nd. If this trend were to continue, gross margins would benefit and overall profit margins might expand. Competitive dynamics will ultimately lead to price rollbacks, but the reality is that there is a lag between price declines and the actual input cost decline. Thus, we remain optimistic about the earnings outlook for our companies.

TABLE 1

YEAR TO DATE COMMODITY MOVEMENTS

	12/31/10	2011 HIGH	6/30/11
Energy			
Oil	91	114 (April 29, 2011)	95
Unleaded Gas	239	335 (May 10, 2011)	285
Metals/Forest			
Copper	9,650	10,179 (Feb 14, 2011)	9,312
Aluminum	2,461	2,785 (June 14, 2011)	2,503
Lumber	240	321 (January 11, 2100)	237
Agricultural			
Wheat	781	896 (February 9, 2011)	645
Corn	590	781 (June 10, 2011)	631
Oats	397	428 (February 9, 2011)	334
Coffee	217	297 (May 3, 2011)	250
Sugar	36	39 (February 2, 2011)	31
Fiber			
Cotton	136	211 (March 7, 2011)	132
CRB Index	**332.80**	**368.17 (May 2, 1011)**	**338.05**

Source: Baseline

During periods of economic slowdown, we would expect our more economically sensitive holdings to underperform our defensive holdings. However, even these holdings should provide downside protection, because they are the most conservative companies within their respective industries. We believe this held true during this most recent quarter.

We have been cautiously optimistic that the second half of 2011 will be economically stronger than the first half, but this position is getting more difficult to defend given the dysfunctional political environment both here and abroad. On top of this, we still have elevated unemployment, home prices that are still declining, high fuel and food costs and weak consumer confidence. This suggests tepid growth at best. The corporate sector remains cautious in its spending and hiring needs as it awaits more clarity on pending regulatory and fiscal legislation.

If we are correct in our assessment, then we believe that dividend income will play a much more important role in overall return going forward. Dividend yield and the growth of the income stream play an integral role in our investment strategy. At the end of the quarter, the portfolio's yield was meaningfully higher than the market's and by year end, we expect all but one of our holdings will have increased their dividend. The full year dividend income growth should exceed 10%. This type of dividend growth for our portfolio is not unusual. Given our low turnover, we took our current model portfolio and looked at how its dividend and earnings growth would have done over the trailing one, three or five year periods and compared them to those of many of the well known benchmarks. This is shown below in Table 2. Our dividend growth has tended to be higher and more consistent than the other benchmarks, particularly as you lengthen the time period. The primary reason for this relates to steady net income growth, which obviously supports and funds the dividend.

Table 2

Annualized Dividend and EPS Growth Rates
Trailing Periods (as of June 30, 2011) **

	DIVIDEND GROWTH			EARNINGS GROWTH		
	1 Yr	**3 Yrs**	**5 Yrs**	**1 Yr**	**3 Yrs**	**5 Yrs**
Coho Partners	9.3%	8.8%	12.1%	14.6%	5.1%	7.1%
S&P 500	11.7%	-3.5%	0.4%	10.6%	13.3%	1.8%
Russell 1000 Value	12.7%	-7.9%	-3.3%	14.6%	17.6%	-1.7%

** Current holdings looking back over these periods
Source: Baseline

We look forward to updating you on our progress as we move forward. Please feel free to contact us at any time to discuss our outlook on the portfolio.

Sincerely,

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