July 7, 2016

Dear Friends of Coho Partners,

June was looking just fine until the unexpected "leave" vote on Brexit cast a sharp negative pall over most markets, but the two day panic quickly reversed and we were able to produce a solid positive return for the month and outperform both the S&P 500 and the Russell 1000 Value benchmarks. Additionally, returns for the quarter and for the year-to-date period all compare favorably to the benchmarks.

Performance for the month had a strong defensive bias with Telecom and Utilities, two sectors in which we have no exposure, posting the strongest gains, up 9.4% and 7.8% respectively. The next best sectors were Consumer Staples and Healthcare where we tend to be overweighted. Our best performing companies were JM Smucker, up 18.0%, Royal Dutch, up 13.9% and Reynolds American, up 9.4%. The weakest sectors for the month were Financials and Technology, which fell 3.2% and 2.8% respectively. Fortunately, we had good stock selection within those sectors with the majority of our holdings actually showing positive returns.

Performance for the quarter was also influenced by a defensive bias, but Energy was the strongest sector, up 11.6%, aided by the recovery in the price of oil. Each of our Energy holdings appreciated more than 11% as well. Healthcare rose 6.3% and Consumer Staples added 4.6%. Within Healthcare, a good portion of our holdings rose more than 10% including Becton Dickinson, United Healthcare, Baxter Int'l and Johnson & Johnson. Our overweight in Consumer Staples was helpful and most of our holdings outperformed the sector's return.

With half the year now behind us, we are in good position relative to the benchmarks. We look to build on this advantage as the year progresses.

Undoubtedly, the second half will have more speed bumps, which we will attempt to navigate, but the immediate concern will be discerning the impact of the Brexit vote on our holdings. From our perspective, we do not see any material negative consequences because by our estimation less than 3% of our portfolio's revenues come from the UK. Additionally, most of these revenues relate to products or services that consumers tend to use in every-day life and as such those revenues are highly recurring and likely quite enduring.

One new nuance to our thinking is that it now appears the Federal Reserve may need to delay their next rate hike due to the Brexit vote. It is likely that the foreign exchange relationships will become more volatile, and if the Federal Reserve moves too quickly on its plan to increase rates it could exacerbate the U.S. dollar's current strength against many of our major trading partners.

However, the greatest risk is the health of our economy and the global economy as well. Although we are at the half way point of the year, we have really only seen the earnings results from the first quarter, but we are optimistic about the outlooks for our holdings and believe results for 2016 and beyond will continue to grow. Part of our confidence is reflected by what our companies do with regards to their annual dividends. So far this year, of the twenty-nine holdings in our portfolio, twenty-four have increased their dividends and we still expect four of the remaining companies to do the same prior to the end of the year. Just this past June United Healthcare increased its dividend by 25%, Kroger by 14% and State Street by 12%. Now eleven of our holdings have increased their dividend by more than 10% this year, and we estimate that the incremental income increase this year over 2015 will be in the high single digit range. We view this as a very positive insight into what the Boards and senior managements of our companies are seeing in their fundamentals over the intermediate future.

Our research focus remains on the long term operating and financial strategies of companies that have what we believe are advantaged business models supported by strong balance sheets. These types of companies tend to provide protection during corrections and yet they participate meaningfully during market advances. Today's portfolio reflects these types of companies and we look forward to updating you on their progress.

If you have questions or concerns about our outlook or the portfolio's positioning, please do not hesitate to call us.

Sincerely,

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