COHO PARTNERS, LTD.

October 3, 2011

Dear Friends of Coho Partners:

The third quarter was a very trying period with three consecutive months of negative returns and the magnitudes of the monthly declines accelerating throughout the quarter. As this sell off intensified, our relative performance actually improved, but we still suffered meaningful losses for the quarter. Much of the relative outperformance this quarter was attributable to our avoidance of both the Materials and Financial sectors, which had particularly bad returns, and our typically large overweight to the Consumer Staples sector, which had an excellent quarter of relative performance.

On a year to date basis, we are modestly negative. We had remained positive throughout the year until September. The outperformance over this period is again explained mostly by our underweight in Financials and our overweight in Consumer Staples, coupled with good stock selection in Energy, Healthcare and Technology.

After such a nice start to the year, U.S. equity markets have now had five consecutive months of declines. We posit that the reason for these declines and the recent dramatic increase in volatility may relate to nervousness about the ability policy makers to properly address their respective economic issues both in the U.S. and in Western Europe. According to the International Monetary Fund (IMF), the world's gross domestic product (GDP) in 2010 was $74.4 trillion, with the European Union and the USA representing 20.4% and 19.5% of this total, or roughly 40% of the world's GDP. This is a lot of concentration and it appears that the level of economic activity within these two geographies is slowing. This is having a major impact in the overall growth rate for global GDP. As consumption in the developed markets slows, this in turn puts pressure on the developing and emerging markets, which rely on the developed markets to consume the goods and services that they produce. This may explain why many of the "export driven" economies are also slowing so rapidly.

Thus it is vitally important that the structural problems confronting the developed economies be corrected so that the global economy can return to long term sustainable economic growth. Is this likely? Possibly, but in our opinion the process will take quite some time.

The developed economies are at a crossroads. The deficits are real and growing and they need to be reduced. The good news/ bad news is that we have finally admitted there is a problem and “kicking the can down the road” is no longer an option. Coming up with acceptable solutions will be challenging, but doable. The results will likely entail below average growth rates in the developed markets for some time and this will also slow the growth rates in the developing and emerging markets. However, if this view is correct, the global environment for our investment strategy should be very good because we favor companies that make products or provide services that consumers demand regardless of the pace of global GDP. So when global GDP is slow and uncertainty is high, we should produce solid relative results as we have this year. So we will remain focused on our primary mission of preserving principle.

As we enter the final quarter of the year, all but one of our holdings has increased its dividend this year and the average increase in cash received by shareholders was over 10%. This type of dividend growth is not unusual for us and given that our current dividend yield is about 3%, we see the combination of current yield and expected dividend growth as both a material component to total return and a powerful shock absorber to further protect from the loss of principle.

Last month we thought it was a good time to commit capital to our investment philosophy and we feel that is true even more so today. As long term investors, we try to build positions with favorable risk/return outcomes. The rumblings of another recession are clearly getting louder, but as we look forward to 2012 for our companies, we feel optimistic about their earnings’ potential. Higher earnings should support future dividend increases and more ongoing share repurchase. Even during this difficult year, we expect 85% of our holdings to actually reduce their outstanding share base this year, which benefits all existing shareholders.

We remain encouraged by our portfolio and its potential despite the uncertainty regarding the global economy. The portfolio consists of companies with well articulated operating and financial strategies that have a rising income stream that supports both dividend growth and share repurchases. With an overall portfolio P/E of 12 on 2011’s earnings, we believe we are well positioned for the longer term.

Please feel free to contact us at any time to discuss our outlook on the portfolio.

Sincerely,

Peter A. Thompson　　　　Brian L. Kramp, CFA