GREENWOOD REPORT

A LOOK AT THE CONSUMER

Last week, we attended the 2009 CAGNY Conference. CAGNY, the Consumer Analysts Group of New York, is the only independent investment conference of its kind and features presentations from twenty-eight Chief Executive Officers and/or Chief Financial Officers from companies in the food, beverage and consumer products sector. Collectively, these executives provided a macro outlook for how this segment of Main Street is addressing the challenges of a difficult economic environment. Specifically, it was a unique opportunity to evaluate top management of several companies that we have in portfolios. Coincidently, Wal-Mart is the largest customer of many of these companies and their strategic priorities were present in many of the companies' presentations. A complete listing of the companies we heard from is shown below. We would like to share the following takeaways from the conference:

1. The executives discussed their competitive positions focusing on what they are doing to meet the current challenges and compete for the consumer's dollar. They emphasized *"we read the same newspapers and watch the same television as you do,"* but their comments did not center on blaming mortgage borrowers and lenders, commercial or investment banks, government, Republicans, or Democrats. Rather, their remarks were forward-looking and provided compelling perspective on financial management, evolving demographics, and competitive strategies that are helping them weather the storm.

2. The consumer's mindset was a hot topic at the conference. Consumers are shopping less often, reducing inventories in their home pantry, buying on promotional offers, and avoiding the temptations of discretionary items. While nearly every executive cited data that supported these claims, we were encouraged to hear that the consumer is still purchasing basic consumer goods – historically one of the last sectors to experience cuts in recessionary times. In this challenging environment, these companies are refining their marketing strategies and are relying more than ever on their knowledge of demographics to market relevant products to the fastest growing subsets of the population.

3. In the competitive arena, the consumer products companies are very concerned about maintaining market share and meeting private label competition because of the choices consumers make as they shift down the value chain. Private label (store or generic brand) market share is of particular concern because the retailer controls both the price and shelf space allocation, but also may be de-loading inventory of branded products. Most executives looked to strengthen brand loyalty by focusing advertising on their core billion dollar revenue brands while at the same time offering products across the value-to-premium price points. It will be a tough tradeoff between top line growth and market share volume.

4. Utilizing their enterprise management software (primarily SAP), companies are focusing on strategies to reduce costs and manage cash flow. In the cost reduction area, they are emphasizing logistics and supply chain efficiencies, working to mitigate input cost inflation from commodities, and protecting the price increases they took in 2008. Cash management challenges included managing advertising programs to take advantage of reduced media costs, suspending share repurchase programs, and evaluating dividend payout policies – though none of the companies specifically

addressed an imminent dividend cut. Additionally, due to declines in global financial markets, companies are being required to provide special cash contributions to their defined benefit pension plans to meet underfunded liabilities. Similarly, they are reducing the matching portion of their defined contribution plans, e.g. 401k plans.

5. Virtually all of these companies are globally integrated and have foreign exchange risks. Focus in this environment was more on transactional costs than on translational costs. To illustrate, when production costs are in Euros, but the revenues are in Pounds, then the company can gain or lose transactionally before having a translation gain or loss when reported on US Dollar-denominated financial statements. The recent volatility between and among currencies has served to exacerbate foreign exchange risk management.

6. Emerging markets continue to be important globally with the new CEO of Coke emphasizing future development. Over the next ten years, emerging market wealth is expected to double, yet Coke is working to 'teach' those populations to consume through smaller, single-serve portions and other promotions. The CEO of Campbell Soup also discussed emerging market opportunities illustrating that his company could achieve 60 percent of the US soup market in one Chinese city, Shanghai.

7. The re-organization, re-structuring, re-vitalization and other "re" programs that were introduced some five years ago at CAGNY are beginning to be completed. Companies have implemented SAP software, reduced working capital, focused on their core billion dollar revenue brands, extended those brands, reduced their SKU's, pushed innovation, and embraced environmental concerns. This year, however, it may be that survivability has moved ahead of sustainability.

As we continue to research these companies, as well as others, we will evaluate their inclusion in our investment universe. Good management and good companies are part of the American landscape.

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PRESENTING COMPANIES AT CAGNY 2009

Altria Group, Inc.
Archer Daniels Midland Co.
Avon Products, Inc.
Campbell Soup Company
Church & Dwight Co., Inc.
The Clorox Company
The Coca-Cola Company
Coca-Cola Hellenic Bottling Co.
Colgate-Palmolive Company
ConAgra Foods, Inc.
Diageo
Fortune Brands, Inc.
General Mills
H.J. Heinz Company
Kellogg Company
Kimberly-Clark Corp.
Kraft Foods Inc.
McCormick & Company, Inc.
PepsiCo
The Pepsi Bottling Group
Philip Morris International
Procter & Gamble
SABMiller
Sara Lee Corporation
Smithfield Foods, Inc.
The J.M. Smucker Company
Sysco
Unilever