

Food Beverage & Tobacco

Quarterly Report

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Sector Strategy

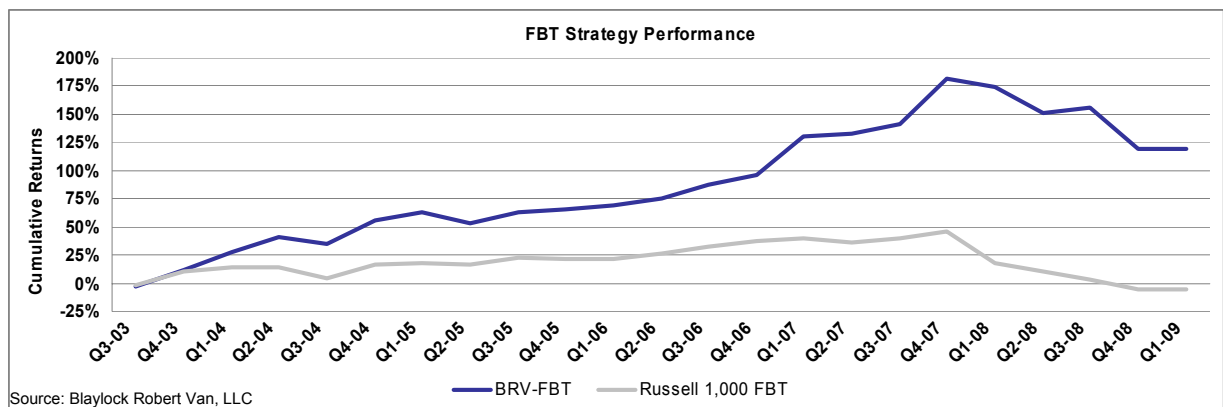
Strongly Underweight Beverage Group

Our Food, Beverage & Tobacco sector strategy (BRV-FBT) demonstrates consistent outperformance when compared with a custom benchmark comprised of the Food, Beverage & Tobacco stocks in the Russell 1000, garnering an annualized return of 13.78% versus the benchmark at -2.13% over the June, 2003—March 2009 period*. In addition, the BRV-FBT strategy has outperformed the benchmark in the most recent quarter with returns of -2.28% versus the benchmark at -8.26%. At the beginning of each quarter, we select the top 10 names in the group as ranked by our BRV-FBT model and construct optimal portfolios. With respect to stock selection, we are focused on fundamental factors that we believe are key to identifying outperformers in the FBT group. We are primarily concerned with stocks in the group that exhibit accelerated near-term earnings growth, demonstrate a history of growing profitability and trade at reasonable valuations. Our strategy also places a strong emphasis on holding positions in the larger names. In any given quarter, we hold an average of 6 out of 10 stocks with market capitalizations of \$10 billion or greater. The key points below highlight our positions in the current quarter:

- We are strongly underweight Beverage companies relative to the custom FBT benchmark*. The group has experienced relatively weak sales and negative EPS momentum in the recent quarter. In addition, the current earnings multiple for the group is above the average earnings multiple for the Food, Beverage and Tobacco universe as a whole. In the current quarter, we are long Coca-Cola Enterprises, Inc. (NYSE: CCE, \$14.89) and Molson Coors Brewing Co. (NYSE: TAP, \$38.38). We believe that owning these names provides us with a risk-controlled exposure to the Beverage industry.
- At 11.6x forward earnings, Molson Coors Brewing Co. (NYSE: TAP, \$38.38) is priced near the bottom of its 52-week trading range with EPS expected to grow 32% this quarter**. Coca-Cola Enterprises, Inc. (NYSE: CCE, \$14.89) experienced only a modest sales decline in the most recent quarter and we are forecasting 12-month price appreciation of more than 50%.

* See Appendix A for a more detailed explanation of the Russell 1,000 Food, Beverage & Tobacco custom benchmark.

** First Call estimates



Source: Blaylock Robert Van, LLC