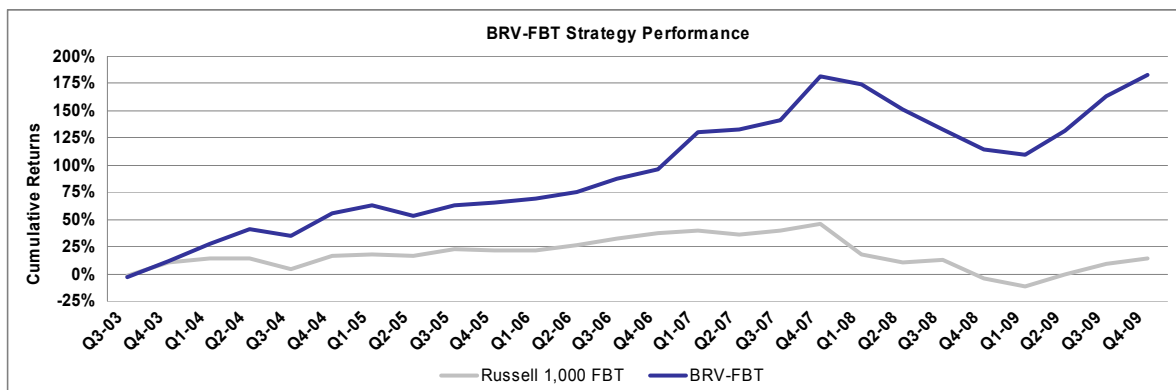


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### Increasing Exposure to Beverages, Agricultural Products

Given the uncertainty surrounding the speed of the economic recovery, we expect consumers to continue to emphasize 'value' categories well into 2010. Accordingly, we anticipate private label manufacturers to gain market share at the expense of branded products and a softness in organic food sales to persist. Additionally, we expect competition from private labels to drive household names such as General Mills (NYSE: GIS, \$71.03), Kellogg Company (NYSE: K, \$54.72) and Kraft (NYSE: KFT, \$28.06) to increase targeted ad-spending and focus on innovating products that emphasize value. Going forward, we expect M&A activity in the sector to intensify, as these companies add strategic targets to their portfolios as part of an overall branding strategy. Finally, we believe that improved economic conditions in the latter half of 2010 could lead to increased restaurant traffic, decreasing the volume of frozen foods consumed at home.

- Our Food, Beverage & Tobacco sector strategy (BRV-FBT) is a long-only, large-cap, sector-specific model strategy with an annualized return of 17.4% versus the benchmark at 2.1% over the June, 2003—December 30, 2009 period. In the most recent quarter, the BRV-FBT strategy returned 7.6% outperforming the custom FBT benchmark which returned 4.6%\*. The top performers in our portfolio last quarter included Reynolds American, Inc. (NYSE: RAI, \$53.63) +19.0%, J.M. Smucker Co. (NYSE: SJM, \$61.12) +16.5% and Altria Group, Inc. (NYSE: MO, \$19.88) +10.2%. The majority of positive returns in our portfolio were associated with attractive price-to-cash-flow valuations.
- Household packaged foods names, especially SJM, contributed significantly to our returns last quarter. We are decreasing our exposure to these companies in the current quarter as we expect competition from private label companies offering value-oriented products to intensify. While we continue to own 4 household names in the packaged foods space with KFT as our largest holding, we are increasing our exposure to agricultural products to include Bunge Ltd. (NYSE: BG, \$59.67) (Exhibit 1).
- We are also increasing our exposure to Beverage companies this quarter to include Coca-Cola Enterprises (NYSE: CCE, \$20.46) and Pepsi Bottling Group, Inc. (NYSE: PBG, \$37.63). Year-over-year projected EPS growth for CCE is 25% next quarter and at 12.7x forward EPS, shares are currently trading below the FBT sector group average of 14.5x. PBG shares have recently experienced strong price and earnings momentum and at 4.0x, shares are trading below the average FBT group book multiple of 5.2x.



\* For more information regarding sector strategy and custom index construction contact Blaylock Robert Van LLC.