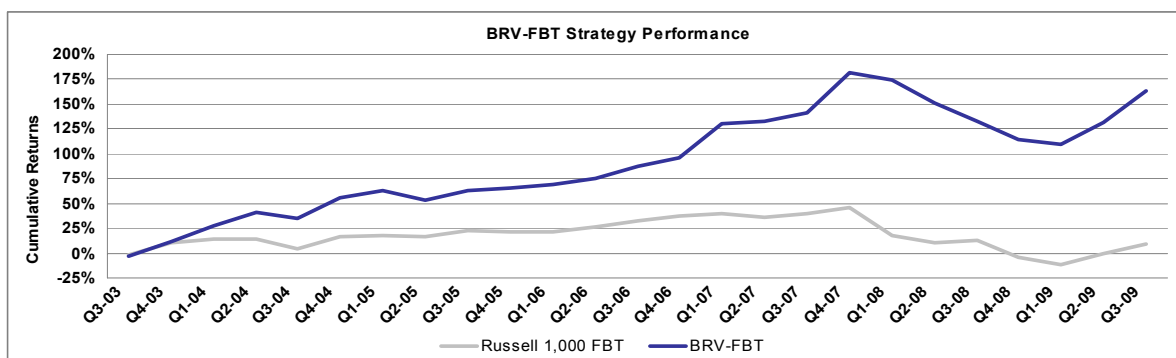


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Fundamental Picture Continues to Support Overweight in Packaged Foods

Our Food, Beverage & Tobacco sector strategy (BRV-FBT) is a long-only, large-cap, sector-specific strategy. In implementing this model strategy, we select the top 10 names in the group as ranked by our BRV-FBT model and construct optimal portfolios. Our 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 16.7% versus the benchmark at 1.4% over the June, 2003—September 30, 2009 period*. In implementing our strategy, we identify names that exhibit accelerated near-term earnings growth, demonstrate a history of growing profitability and trade at attractive relative valuations.

- In the most recent quarter, our Food, Beverage & Tobacco sector strategy (BRV-FBT) returned 13.4% outperforming the custom FBT benchmark which returned 10.1%. The top performers in our portfolio included Coca-Cola Enterprises (NYSE: CCE, \$20.92) +28.6%, Del Monte Foods Co. (NYSE: DLM, \$11.15) +23.5% and Reynolds American, Inc. (NYSE: RAI, \$46.86) +15.3%. The majority of positive returns in our portfolio were associated with valuation factors (specifically price-to-book and price-to-cash-flow multiples).
- As in the prior two quarters, we continue to be overweight packaged foods relative to the benchmark (Exhibit 1). Packaged Food sales (frozen foods in particular) have benefitted from recent consumer tendencies to eat cheaper, frozen foods at home rather than dining out at restaurants in response to the recession. In addition, consumers have preferred cheaper fast food dining over full-service restaurants and fast food restaurants are a large consumer of frozen foods. This quarter, we own 6 names in the Packaged Foods space. Our largest holding in this space is General Mills, Inc. (NYSE: GIS, \$64.80).
- Outside of the Packaged Foods space, we are long Altria Group, Inc. (NYSE: MO, \$18.06). We like the Company's near-term revenue and EPS growth profile and at 9.8x forward EPS, the stock is trading at a discount to the average FBT group multiple of 15.5x. In addition, it carries a yield of 7.5% and is expected to appreciate more than 20% over the next 12 months.
- The dividend yield on our current model portfolio is in line with the benchmark dividend yield of 3.5%. On average, we are selecting companies with higher near-term EPS momentum, lower forward EPS and book multiples and lower leverage. Overall, we are more heavily weighted in low-beta stocks relative to the benchmark.



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