



ALL EARS!!

*The Litchfield Fund
Weekly Newsletter*

“We just don’t hear it on the street, we have our ears spread across all the fields!!!!”



Litchfield

The image of Father Time as an elderly man with a scythe began in the Renaissance. It was likely a mix of the gods Chronos & Saturn. Chronos was old & carried a scythe. He became decrepit by devouring his offspring; an allegory for the passing of time & generations. Time was among Saturn’s many purviews. ‘Saturn’ uses the same root as the Roman word for sowing; marking seed to harvest. Time passing leads us to reflection. Confucius, da Vinci & Thomas Paine said reflection was the noblest way to learn & a mark of bravery. Having made no 2016 predictions, our reflections on this past year makes us neither noble or brave.

Reflection: At the beginning of 2016, we did not make any forecasts! We simply identified storylines we would follow with interest. And although some might disagree, The Yellowstone Caldera did not explode & wipe out North America!

Oil, inflation, interest rates, etc.: We began the year worried about the FED using interest rates to target inflation. Our concern was that a jump in oil prices from \$35/barrel to a more historic \$75/barrel would spark inflation. Oil prices did rise, but stayed in what many analysts consider a sweet spot, \$45 to \$50 a barrel. Inflation remained tame because of the general *growth & earnings malaise* the U.S. economy has been suffering through for the last eight years. The strong dollar continued to impact earnings.

Innovation: There is not enough space available in *All Ears!!* to cover the innovation we have seen in our industry in 2016. As we expected, the innovation abounded with unusual flavors, new superfoods, clever packaging & the shift from traditional ingredients -- dairy, eggs & wheat -- to higher nutritionally wealthy ingredients such as nuts, beans, lentils & ancient grains.

Probiotics, prebiotics & protein: Brands jumped on board the protein & probiotic train! The big win for consumers is being able to choose products they enjoy for breakfast, lunch, dinner, snacks, on-the-go & for their kids that provide these very basic needs for healthy bodies. It is great to see brands & consumers recognize that these basic elements of health can be provided around the clock! Prebiotics was not as big a storyline to follow in 2016 as we expected.

Investment & Consolidation: Again, we do not have the space to recount all the consolidations & investments of 2016. Indeed, it was pervasive throughout the industry involving Food Giants & investment/venture firms big & small. Perhaps the most interesting development is larger Food Giants & venture companies dipping in the investment pool of much younger companies.

Retail stores: It was a down year for grocers & retailing. Large retailers continued to find acquisition targets while smaller chains continued to expand. *Whole Foods* has yet seen positive results from any its strategic actions. *Target* is re-evaluating its grocery delivery. Private label products are expanding at all stores. Price deflation has prevented earnings growth. The expansion of natural & organic at C-stores has begun, but admittedly we expected to see this take place much more rapidly than it actually did in 2016.

Next week, All Ears!! will offer up the 2017 stories we will be following! And by the way....

Happy New Year from The Litchfield Fund!

Industry News: *Hershey* named company veteran Michele Buck as the next CEO, replacing retiring John Bilbrey. Following a troubled 2016, *GNC* ends the year with a new model on pricing & loyalty programs, throwing away its previous model. They are once again focusing on improving the consumer experience. *General Mills* reported a down 2nd QTR with sales of both *Yoplait* yogurt & *Progressive* soups sales sagging. *General Mills* also lowered its 2017 targets & will look at younger innovative brands to spark growth. ConAgra brands posted a 2nd QTR decline. *Tyson* is upgrading its Kentucky processing plant to meet consumer demand.

Both R-T-D & packaged U.S. coffee sales are projected to grow at 10% annually to reach \$18B by 2020. Worldwide herbal supplement/remedy sales are forecasted to be at \$115B by 2020. *The Nutrition Capital Network (NCN)* has been acquired by *New Hope Network*, a part of *Informa PLC*. *NCN* holds conferences throughout the year that bring together branded products with investors of all sizes. *New Hope* hosts Natural Products Expo East & West, the largest industry trade shows! We congratulate our friends at both organizations & wish them the best of luck!

The USDA has recommended that 'best if used by' be the standard for products. They believe this will reduce food waste & improve safety. (If that is what they want, wouldn't 'destroy on' be clearer?) The Institute of Food Technologists is petitioning the FDA to do more research on reducing the sodium in foods. We find Congressman Peter Welch (Democrat- VT) seeking to have the FDA prevent plant-based beverages from using the term milk as exactly the kind of unnecessary regulation career politicians propose.

Market News: The markets continued to hit record highs with a bit of moderation as the week went along, closing the week with gains. We wait to see if DOW 20K is in the works for year end!

Seeds, Sprouts, Grow, Harvest!

The Litchfield Fund

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