



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

For multi-generational Italian households in Western Pennsylvania during the Depression meat, especially beef, was a luxury. Cows & goats were required for milk, chickens for eggs. Rabbits & doves were raised for their meat. Stews & sauces disguised the eagle-eyed shooting of a squirrel. Taking down a deer meant a winter of venison sausage & salami. If a cow was slaughtered, every part ended up on the table or in a salami. The rest was stored, if the weather was cold, wrapped under the front porch & always served well done, to kill bacteria & contaminants. Canned meat was an expensive luxury!

Spam: Even as a 1960s child growing up on the decaying east side of Cleveland, our family held onto certain past behaviors. My father liked his beef cooked to texture of shoe leather. Uncles invited for dinner was an excuse for meals we children *could not stomach* like tripe, cervella fritte, tongue, kidney stew & blood soup. But a luxurious weekend breakfast (if after payday there was some money left from paying bills & buying regular groceries), one we kids really loved, was scrambled eggs & *Spam*, fried in olive oil with sage that was grown between the asphalt driveway and the house.

Today, **The Litchfield Fund’s** Scottsdale residence sits just a few short miles, as the Gambel’s Quail flutters or the Western Diamondback slithers, from the iconic mansions of two Big Food families, Wrigley & Hormel. This week, Hormel, the maker of that iconic *Spam*, purchased *Applegate Farms*. Hormel’s CEO admitted, for the most part, that his company didn’t understand millennials’ tastes or the movement to new & different foods! The \$877M purchase leaves Applegate Founder & CEO Stephen McDonnell in place, for that *obvious reason*. Perhaps when the remodeled *Spam Museum* reopens in downtown Austin, MN, in 2016 there will be a new *Applegate Farms* wing, dedicated to a changing American eating style!

Obvious reasons: Broadcast journalist Edward R. Murrow once said. “The obscure we see eventually. The completely obvious, it seems, takes longer.” **The Litchfield Fund** continues to believe that the only way Big Food companies will enter the organic, natural, & just plain better for you food product arena is to purchase companies with new, innovative, healthy products. (It took General Mills (**GIS**), a food stalwart we believe is doing all the right things to change their company, almost 4 years of work to produce gluten free Cheerios!) By buying a small new company, with a growing product & consumer base & already using a co-packer/producer, buying means not having to change existing expensive operating infrastructure, sacrifice current shelf space or find a younger, hipper, media/marketing consultant (which **GIS** has been doing). Non-GMO, HPP, CP, GF, Grass-fed, etc., mean something to these young companies,

and Hormel's recent purchase is just another example of buying product, market, employees, & consumers! Are there *other reasons* for the buying to continue? Costco, now with a \$4B annual run rate in organic sales revenues, will surpass Whole Foods Market (**WFM**) in total organic sales revenue. Even more interesting is that the average age of Costco's customers is falling, getting closer to traditional retailers. Costco attracting a younger consumer is, we believe, huge news for the retailer, whose traditional customer was older & more affluent than average. Finally, Pizza Hut & Taco Bell both announced this week that they would be removing artificial ingredients.

The economy, the market, oil & food prices: The 1st QTR GDP contraction, supported by disappointing Chicago PMI numbers, led to a general stock sell-off by the end of the week, giving further credence to the no-sooner-than-September rate hike mantra. The GDP contraction rested squarely on the shoulders of a harsh winter, the strong dollar & the extended but little reported dock workers strike. Greece agreed to delay pre-election anti-austerity pledges in order to strike a deal with its creditors. While oil prices have rallied in the last 6 weeks, shipping costs are on the upswing, as there is still an oil glut with too much supply & too few tankers, with some sitting idle but full. The price rally will likely be short lived. Food prices fell through April. As an example, along with oil, there is a milk glut. Milk prices had been increasing but are now falling due to an increase in supply, changes in Chinese export rules & the strong dollar. Analysts suggest the possibility of a competitive supermarket price war. Falling prices & the strong dollar may plague food companies into the 2nd QTR. However, most market analysts see a general rebound for stocks in the S&P in the 2nd half of the year.

Portfolio news: Speculation continues to surround Whitewave (**WWAV**), Hain Celestial (**HAIN**) & Boulder Brands (**BDBD**) as takeover candidates. For **WWAV**, the almond milk market continues on a path of significant growth. Lifeway (**LWAY**) is expanding to Mexico. United Natural Foods (**UNFI**) has consensus BUY rating. Heinz is trying to get an appeals court to reverse a decision that **BDBD's Smart Balance** was *not* infringing upon Heinz's *Smart Ones* trademark. Heinz may also ask the judge to trademark *Smart Aleck*, *Smart Cookie*, & the phrase "*Oh that smarts!*"

Seeds, Sprouts, Grow, Harvest!

The Litchfield Fund

v1issue50.05.30.15