



The Rainier philosophy is simple. We invest in quality growth companies at prices that make sense. We believe that rewarding stock performance comes from companies with superior growth, attractive relative valuations, competitive strength, and financial integrity. Our decisions are based on fundamental analysis, which emphasizes bottom-up stock selection by sector specialists. We invest in all major market sectors because we believe that investment opportunities are found in industries that are frequently overlooked.

Sector Insights

Focus: Consumer Staples

Consumer Staples sector specialists: Mark H. Dawson, Daniel M. Brewer

Q: How does Rainier use its sector experts to manage a diversified portfolio?

A: Sector teams consist of two to four people, with each person acting as both analyst and portfolio manager. These are sub-groups within the greater nine person equity team, in which each portfolio manager serves on multiple teams. We maintain a research focus in every area of the market, with a view that growth opportunities exist in all sectors and that market leadership shifts over time. Our sector teams seek to capitalize on that phenomenon. Different nuances exist for companies in different sectors related to the keys to growth, sources of profitability, and appropriate valuation metrics. Our sector teams specialize in understanding the most important factors that will influence price movements of stocks in their areas.

Q: What are the major industries within the sector and how are they characterized?

A: The consumer staples sector is comprised of beverage, food, personal care, drug/grocery stores and tobacco companies. Each of these industries is dominated by only a handful of global mega-cap companies stemming from a history of industry consolidation. An example of this was the purchase of Anheuser-Busch by the Brazilian-Belgian brewing company InBev in 2008 which reduced the beer industry down to just four major players. This type of competitor acquisition has

become a common theme within the sector—whether it is Proctor & Gamble in household products or Nestle in consumer foods—as large companies have consistently acquired smaller rivals to fuel continued growth. As a result, the consumer staples sector is relatively more concentrated and globalized than other areas of the market.

As the name “staples” implies, the products of companies in this sector are considered necessary purchases for consumers. Consumer staples companies are therefore often characterized by steady and predictable revenue patterns. However, these trends differ to varying degrees. Whereas food and prescription drugs are viewed as necessities, other purchases are considered more discretionary, such as beverages and tobacco. When people think of staples companies, they traditionally see a defensive or counter cyclical sector – not growth stocks. While it is true that many consumer staples companies experience conservative growth rates in the low- to mid-single digits, well-run global consumer brands can record higher earnings growth with fresh products or entry into new markets.

Q: What major changes have you seen in this sector over the past 10 years?

A: After steadily rising in terms of market capitalization in the 1980s, the consumer staples sector shrank in the 1990s as technology shares swelled in market value. Over the most recent decade, staples representation has

crawled back to about 10% in the large growth and value indices, while inclusion in small-cap indices ranges between a mere 3-6%. The theme of consolidation within industries continues today and the sector is increasingly dominated by a small number of mega-cap corporations often seeking to acquire small- and mid-cap companies in an effort to grow their global distribution outside the United States, enhance product lines and capitalize on economies of scale.

Although we believe they are still quite predictable, consumer staple companies have experienced some significant changes in recent years. Household product firms have pushed beyond their core historical emphasis on cleaning products, where growth has slowed and competition intensified and expanded into health and beauty categories. Food trends, while largely stable, are affected by changes in dietary preferences and major shifts in where people purchase groceries. One of the areas that has seen the most dynamic change in the sector has been food distribution, with increasing market share of discounters including Wal-Mart and Costco, as well as the specialty grocery chain Whole Foods. This expansion has come at the expense of traditional grocers such as Safeway.

Q: How does the sector typically react during economic cycles?

A: Over the last decade consumer staple stocks have been surprisingly good performers on a total return basis by showing resiliency during sharp downdrafts in more cyclical sectors such as technology, materials, financials and energy. The modest growth rates that characterized consumer staples stocks become significantly more attractive during periods of risk aversion and uncertainty as investors rotate to companies that have shown the ability to provide consistent earnings through multiple business cycles. To many, the big “blue chip” names in the sector such as Coca-Cola and Procter & Gamble have been considered quintessential “buy and hold” stocks, as staples have provided protection during sharp market downturns such as 2008. More recently the appeal of consumer staples has been enhanced by the comparatively high dividends that many of the companies offer, many of which have been boosted on a regular basis.

Q: What major themes do you see in this sector going forward?

A: The global consumer is at the forefront of one of the most profound trends of our time, the rise of the global middle class. For consumers in emerging markets, the purchase of a Coke,

or a tube of Colgate toothpaste, or even a pack of Marlboros is a mark of true success. Similar consumption trends can be seen in the consumer discretionary sector where companies such as McDonalds and Yum! Brands are also benefiting from rising disposable income growth in emerging markets. One could argue that today global restaurant brands are more similar to staples in terms of some of their most important growth drivers.

As a result, the biggest opportunity for most consumer staples companies has been international expansion – especially for beverage, household product and tobacco companies. For example, domestic carbonated soft drinks sales are not growing at the rate they once did. To participate in international growth, both Coke and PepsiCo have aggressively expanded outside of the United States. Today Coca-Cola derives only about 15% of its operating income from North America and is perhaps the premier consumer brand around the world. On the other hand, food and grocery companies have been in a less favorable position to globalize as local tastes have been more of a factor in determining consumption trends.

Q: What is Rainier’s approach to buying stocks in the consumer staples sector?

A: As in other sectors, our focus is on identifying companies where top- and bottom-line growth are accelerating, leading to above-peer growth rates and upward revisions to estimates. Organic revenue growth is a key measure of the underlying strength of these businesses, and thus plays a critical role in our investment decisions. Pricing and the level of promotion are crucial indicators of how competitive a category is at a given time. Along with the direction of input costs, pricing-power dictates whether margins are expanding or under pressure and is therefore a key positive attribute we seek in addition to categories that are experiencing particularly robust growth. While earnings growth for most consumer staples companies is modest, we believe the combination of moderate top-line volume growth, pricing and margin improvement can be a potent recipe over time. Although there are opportunities to invest in some truly aggressive growth companies within the staples arena, we believe the overwhelming characteristic of the sector is steady, modest growth. If the growth for the market overall is declining or risk aversion heightened, conservative growth rates become more attractive and sector’s defensive attributes have typically shined.

Next edition: Utilities

Opinions expressed are subject to change at any time, are not guaranteed and should not be considered investment advice.

Mutual fund investing involves risk. Principal loss is possible. Small- and mid-cap companies tend to have limited liquidity and greater price volatility than large-cap companies. Growth stocks typically are more volatile than value stocks; however, value stocks have a lower expected growth rate in earnings and sales. Diversification does not assure a profit or protect against a loss in a declining market.

Fund holdings and sector allocation are subject to change and should not be considered a recommendation to buy or sell any security.

The Funds investment objectives, risks, charges and expenses must be considered carefully before investing. The summary and statutory prospectuses contain this and other important information about the investment company, and may be obtained by calling 800.536.4640 or by visiting www.rainierfunds.com. Read carefully before investing.

The Rainier Funds are distributed by Quasar Distributors, LLC.

Top Ten Holdings as of 12/31/11 are as follows:

Large Cap Equity Portfolio	
Apple Inc.	4.5
Chevron Corp.	4.4
Kraft Foods Inc.	2.5
J.P. Morgan Chase & Co.	2.2
Precision Castparts Corp.	2.2
CSX Corp.	2.0
The Coca-Cola Corp.	1.9
Qualcomm Inc.	1.9
Allergan Inc.	1.8
Google Inc.	1.8

Mid Cap Equity Portfolio	
Baker Hughes Inc.	2.1
AES Corp.	2.0
East West Bancorp Inc.	1.9
Chicago Bridge & Iron Co.	1.9
Plains Exploration & Production	1.8
ECOLAB Inc.	1.8
Macy's Inc.	1.8
Alliance Data Systems Corp.	1.7
Fifth Third Bancorp	1.7
BE Aerospace Inc.	1.7

Small/Mid Cap Equity Portfolio	
Plains Exporation & Production Co.	2.3
Energy XXI	2.2
Chicago Bridge & Iron Co.	2.0
BE Aerospace Inc.	2.0
East West Bancorp Inc.	1.9
Wright Express Corp.	1.9
Perrigo Co	1.8
Alliance Data Systems Corp.	1.7
Weatherford International Ltd.	1.7
Signature Bank	1.7

Balanced Portfolio	
Apple Inc.	2.8
Chevron Corp.	2.8
Bear Stearns LLC 5.550% Due 01-22-17	1.7
General Electric Capital Corp. 5.625% Due 09-15-17	1.7
Federal Home Loan 5.625% Due 06-13-16	1.6
Kraft Foods Inc.	1.6
JPMorgan Chase & Co.	1.4
Precision Castparts Corp.	1.3
Analog Devices Corp. 5.000% Due 07-01-14	1.3
CSX Corp.	1.3

Intermediate Fixed Income Portfolio	
General Electric Capital Corp. 5.625% Due 09/15/2017	4.3
Bear Stearns LLC 5.550% Due 01/22/2017	4.3
Royal Bank Of Canada 2.875% Due 04/19/2016	3.2
Analog Devices Inc. 5.000% Due 07/01/2014	2.9
Federal Home Loan Mortgage 4.500% Due 07/15/2013	2.7
Toyota Motor Credit Corp 2.800% Due 01/11/2016	2.7
Morgan Stanley 4.750% Due 04/01/2014	2.6
U.S. Treasury Note 2.250% Due 11/30/2017	2.4
Caterpillar Financial Services 6.125% Due 02/17/2014	2.2
Citigroup Inc. 5.000% Due 09/15/2014	2.2