



Blue Chip Seminar

KARL Class X

Wednesday November 11, 2010

Scribe – Mitchell Hall

After a summer break, KARL Class X reunited for its' second year of sessions with the Blue Chip Seminar. The class boarded a bus and departed from Manhattan, Kansas at 6:00 A.M. for the headquarters of CHS near Minneapolis, Minnesota.

After a short time for some napping, the class session started off with a reintroduction of sorts. Each classmate provided an update of happenings since our last meeting in March. Classmate Ty Brookover had the most change to report with the birth of his son, Max Michael, in September.

Next, KARL Board Member and CoBank employee, Jay Joy provided a discussion on the current agricultural economy. Recently producers have seen an increase in all commodities. Jay explained this phenomenon has occurred due to a weaker dollar driven by recent decisions by the Federal Reserve to purchase public debts in the form of bonds. Simple supply and demand fundamentals are also playing a role in the commodity increases. Finally, commodities are now being traded by hedge funds and other speculators as a part of an investment strategy. These speculators drive up prices as they “buy” commodities.

The ripple effects from the increasing prices of commodities are good for agricultural producers. At the same time this creates challenges for commodity traders as these commodity increases may result in the requirement for margin calls. On the other hand, there are opportunities with the existing market. Jay does not see an end in sight to the increased volatility of prices anytime soon.

The question was raised as to what source is best for maintaining a good knowledge base for agricultural markets. Jay suggested several sources but ultimately suggested to find a source that meets your needs and stay with it. There can be a lot of “noise” about the markets which can create information overload.

In his career, Jay primarily works with farmers cooperatives on their financing needs. He discussed the importance of understanding that cooperatives primarily trade basis – not price. The base for basis is driven by local supply and demand, interest rates and transportation costs. Typically around harvest time, when an abundance of supply exists, basis is higher.

Jay discussed the financial fallout of September 2008. Governmental policy was established in the 1990’s to encourage home ownership. Along with this policy new financial products were created and ultimately a lack of discipline existed in the market.

Carolyn Harms shared with the class her experiences in the aviation industry. Aviation comprises 25% of the Kansas economy. The industry employs 34,000 people in Wichita with an average wage of \$67,000 per year. Carolyn spent 32 years with Boeing and related companies. She worked with supply chain and aftermarket components of the industry. She continues to serve as a consultant in the aviation industry today.

The aviation industry is a very cyclical business and runs in 10 to 11 year cycles. Currently the outlook for aviation in Kansas is shaky. Hawker Beachcraft has recently considered an opportunity to move operations from Kansas to Louisiana. However, Carolyn says new markets exist for aircraft in Asia/Pacific and the Middle East.

Airbus created good competition for Boeing. They had a different philosophy which was to build aircraft even in times of slow sales. This allowed Airbus to have a ready supply to accommodate customers needs as sales rebounded. Boeing, on the other hand, had to hire back

workers and ramp up production to work to meet increased demand. This was a slower process and put Boeing at a disadvantage at times.

Airbus is government supported and this has caused the World Trade Organization to scrutinize the company's government assistance as it places Airbus at an advantage over other WTO trading partners.

Carolyn was heavily involved with international markets during her time with Boeing. She explained many foreign buyers of U.S. built aircraft required that a certain percentage of the product they purchased was built within their country. This drives many large U.S. companies to have a presence in foreign countries. In the case of China, the United States has played a critical role in developing the infrastructure for the Chinese to have the capability to handle the U.S. built aircraft. This has included the airports themselves and air traffic control systems.

Carolyn pointed out that as maturing economies increase in their abilities, they also increase their labor rates. This would lead to the conclusion that if the United States is assisting these growing markets with creating infrastructure and providing training to create skilled workers, what exists today as competitive labor rates in these countries will eventually catch up to the labor rates of Americans.

Carolyn discussed the challenges of working in an industry which has a major labor union presence. Certainly disagreement between the union and company officials can stale mate production. Similar issues exist in foreign countries that have production facilities for these companies. In Europe a typical work week is 34 to 36 hours. Strikes are frequent – particularly in the transportation sector. In Asia there are not as many unions, but labor is largely government controlled. This provides its own set of unique challenges.

Next J.J. Jones spoke about his role with the Kansas Department of Commerce (KDOC) and their foreign trade initiatives. For Kansas, the priorities have been to recruit and expand dairies and to expand international trade for Kansas products. J.J. pointed out 96% of the world population lives outside of the United States. Of world supplies of wheat, 17% comes from Kansas and 4% of worldwide beef production. China has recently seen a 3200% increase in protein consumption and 14% population growth.

J.J. discussed countries viewed as growing and potential markets for Kansas products including Russia and Costa Rica for beef, Asia and Africa for wheat. The Russian government has identified the goal to expand their beef cattle herd from one million cows to fifty million. The KDOC has played an important role in connecting Kansas producers with opportunities to ship their high quality beef genetics to Russian beef producers to give them the good foundation for raising beef. Additionally, the department has also worked to educate Russian producers about beef cattle production and help them understand even the simplest of issues related to beef production.

Similarly, Costa Rica has the desire to acquire U.S. beef genetics and to better understand the various cuts of beef. Currently meat is sold there at a flat rate and without knowledge of the difference in the quality variance of beef cuts.

China is widely viewed as an opportunity for many industries and agriculture is no different. J.J. explained China primarily trades beef with Australia and New Zealand. However, the U.S. does have some opportunity to work to expand this market. The Chinese will focus in coming years on their production of pork, dairy and corn. Recently China invited officials from the State of Kansas, as well as Kansas companies, to participate in a trade show. This was a big deal for Kansas as they were the only state invited from the U.S. Kansas has a trade office in two foreign countries – China and Mexico. These foreign offices and the representatives that work there help to identify opportunities for trade and help those interested in trade in those countries to have prospects to trade with.

Finally, J.J. explained the Kansas International Trade Show Assistance Program (KITSAP). The program will pay 50% of the expense of a Kansas company to attend an international trade show. There are few limitations to the program and companies can apply for the assistance to the KDOC. The program has not been highly utilized in the past and is meant to encourage Kansas companies to explore foreign market opportunities.

Leslie Kauffman, from the Kansas Cooperative Council, provided an overview and introduction to cooperatives. The Capper Volstead Act is the federal legislation that allows cooperatives to exist without violating anti-trust laws. Farmers cooperatives were started primarily to help producers to effectively market their grain. In Kansas there are just under 90 farmers cooperatives and 30 electric cooperatives. Farm Credit and CoBank are other examples of cooperatives. CoBank is a wholesale provider of funding for Farm Credit and does extensive financing for farmers cooperatives throughout the country.

Leslie's presentation included a video about CHS along with a quiz about cooperatives and what makes their structure unique. Cooperatives are taxed similarly to partnerships. They are required by law to pay out at least 20% of their profits in a cash patronage.

Jeff Zortman, Class X member, serves on the Fowler Equity Cooperative Board of Directors. Jeff discussed his experience as a cooperative board member and the issues he sees his cooperative face. Jeff said his COOP faces a continual shortage of storage capacity. Like all agricultural enterprises, they focus on managing risk and volatility in prices of inputs and commodities. Jeff discussed the additional side business that cooperatives often have including spraying and chemical businesses which can create profit potential for the COOP. Often these side businesses can become as large, or larger, than the cooperative itself. Today with more and more frequency COOPs are partnering with other COOPs and with private businesses to provide necessary services and products to their owner members.

After the conclusion of the more than 10 hour bus ride, the group arrived at our hotel in Minneapolis. A very nice dinner was shared with officials that would help to host the KARL Class X the next day at the CHS Headquarters.

BLUE CHIP SEMINAR – CHS

Scribe Notes: Jeff Grier

November 11, 2010



Following a wonderful day of traveling on the open road we started our day by loading onto the bus and taking the 3 minute hop over to the CHS global headquarter building. As it was Veteran's Day, as KARL Class X entered the CHS lobby we were greeted by veterans who were doing some fundraising for the Wounded Warrior Project. A brief reminder of an important day.



William Nelson, Linda Tank, and Mike Phelps welcomed us and got right into introducing Class X to CHS, starting with Vision, Mission, and Core Values:

Our Vision

To be a globally integrated energy, grains and foods system innovatively linking producers with consumers.

Our Mission

To grow company profitability and stakeholder value.

Our Values

At CHS, we value:

- Our tradition of partnership and shared success
- Building lasting and mutually rewarding customer relationships
- Managing our business with the highest integrity
- Being responsible stewards in our communities
- Our people and their innovative spirit



Linda Tank

Linda Tank is vice president of Marketing Communications for CHS, a Fortune 100 diversified energy, grains and foods company committed to providing the essential resources that enrich lives. CHS is owned by farmers, ranchers and cooperatives, along with thousands of preferred stockholders.

Ms. Tank is responsible for the company's internal and external communications, including corporate image, advertising, publications, community relations, and CHS stewardship initiatives, including the CHS Foundation which grants more than \$1.5 million to rural America annually

Linda Tank gave a bit more internal information to us about CHS now a Fortune 100 company (91). As an organization, they choose to focus on earnings rather than income due to commodity environment. As a cooperative, they returned \$1.8 billion to individual members and their communities. Ownership of CHS consists of 52,000 producers (through company owned facilities); 1,000 local co-ops with voting rights; and 8,000 preferred stockholders as CHS is traded as CHSCP thru NASDAQ. Governance consists of 17 producer/member directors who must be full time producers.



Mike Phelps

Following Linda Tank, Mike Phelps gave us a very clear understanding of the history and modern day use of the cooperative system and how it fits with the CHS business model.

Michael Phelps is training manager for CHS Business Solutions Consulting and diversified services manager for Ag States Group, with responsibilities in employment services and safety services. Prior to that he was the director of human resources and union contracts for CHS, and director of repositioning for Agriliance, responsible for the divestment of the Terra retail facilities to local ag businesses.

Mr. Phelps elaborated on all of the various types of cooperatives and the required federal minimums for patronage and how different cooperative systems choose to manage their respective business models.





Tom Traub

Tom Traub has been an Officer and Vice President of Human Resources for CHS, Inc. since March, 2004. As the top human resources officer for CHS, Tom is responsible for all human resources functions including compensation and benefits, staffing, college relations, employee relations, talent management and leadership development. Tom serves on the boards of directors for the COOP 401K Plan and Agriculture Future of America (AFA).

Mr. Traub spent his time speaking to Class X about the hiring, evaluation, coaching, and development practices of CHS. As was apparent with all of the executive leadership team members the message was very consistent. CHS takes tremendous effort on the front end of the hiring process to evaluate candidates to ensure proper hiring decisions and placement within areas of the company to provide the most growth opportunity for employees. Ongoing coaching, evaluation, and feedback are the basis to the human capital asset development program within CHS. Mr. Traub touched on financial performance during the question and answer period, he stated that return on equity is the final company measurement, and 15% is considered successful.



Dan Mack

Dan Mack is Vice President of transportation for CHS Inc. Dan is responsible for all rail transportation activities, serving the organization's grain marketing, crop nutrients, country operations, oilseed processing, and renewable fuels business units. He is also responsible for business development within CHS' grain marketing business unit.

Mr. Mack briefed Class X on the wide scope of logistical services which CHS purchases or performs internally. With a global perspective of transportation of products from crude oil to grain; Mr. Mack gave us a window into the complex world of risk management.





Tour and Meeting the CEO

During our tour of the CHS global headquarters building we had the opportunity to visit the Board of Directors Conference Room, where we were surprised having an interaction with the CEO, John Johnson. Mr. Johnson shared his words of wisdom with the group and was nice enough to answer a few questions before getting back to his day. The highlights of his visit with class included the importance of corporate leadership built on integrity and faith.

John Johnson is president and chief executive officer of CHS Inc., one of the nation's leading energy, grains and foods companies. CHS currently ranks number 91 on the Fortune 500 list and is the largest cooperative business in the United States.



Johnson began his career in 1976 with Harvest States, a predecessor to CHS, as a feed consultant in its GTA Feeds Division, later becoming its manager, director of sales and marketing and, finally, general manager. In 1992, he was named group vice president of Harvest States' retail operations and in 1995 became that company's president and CEO of Harvest States. With the 1998 merger of Harvest States and Cenex, Johnson was named president and general manager and moved into his current position in 2000. He serves on the boards of Ventura Foods, LLC, CF Industries, the National Council of Farmer Cooperatives and the Greater Twin Cities United Way.



Kevin Williams

Kevin Williams is senior vice president, energy sales for CHS, responsible for growing propane, lubricants and refined fuels under the Cenex Energy brand. He has been involved in the energy business for nearly three decades years, serving in business development, operations, marketing, supply, sales and general management leadership positions.

Kevin Williams entered the group into a presentation and discussion around energy innovation; including renewable fuels, the Cenex brand of premium fuels, and lubricants.



Drew Combs

Drew Combs is vice president of Commercial Supply and Provista Renewable Fuels for CHS Inc., a leading energy, grains and fuels company. In his role, Drew oversees supply and trading of refined and renewable fuels for CHS energy customers marketed under the Cenex brand. In addition, he has responsibility for the sales, risk management, marketing and distribution of

ethanol and biodiesel that is marketed through Provista Renewable Fuels Wholesale Marketing, LLC.

A Kansas native, and Wichita State alumni, Mr. Combs spoke to Class X around CHS's involvement and development of renewable fuels, mostly centered around ethanol and biodiesel. Currently there are about 2.8 billion gallons of fuels sold under the Cenex brand, with ethanol blends ranging from E10 to E85. With a growing focus on renewable fuels CHS is working on joint ventures with grain marketing groups and other forward thinking types of growth opportunities.



Rick Cummings

Rick Cummings is Vice President of Refined Fuels Marketing for the Energy Division of CHS Inc., a diversified energy, grains and foods Fortune 500 company. Rick is currently responsible for all petroleum retail brand and product marketing activities, including the growth and development of the Cenex branded retail fueling and convenience store network. Rick also oversees the management of CHS Energy's Petroleum Equipment and Payment Solutions groups.

The K-Stater of the group, Rick Cummings spoke with the class about the premium fuels program built on the Cenex brand. The marketing and brand programs built on the image of The Cenex Guy and other fleet card programs, including one with Cabelas, are pieces of Cenex's aggressive marketing strategy. The quality testing around filter testing and compliance with Tier 4 engine performance tolerances have Cenex investing tremendously in research and development. Mr. Cummings shared his technical knowledge very willingly with Class X.



Andy Arendt

Andy Arendt is Director Marketing, Lubricants, for CHS. He is responsible for development of marketing strategies for the lubricants department including pricing, retail promotions, packaging, product distribution, advertising and product development.

Mr. Arendt spoke passionately about his product area, lubricants, to Class X. Although many of us probably weren't expecting much around a presentation on engine and machine lubricants it turned into one of the highlights of the entire day. One interesting note, was that Cenex lubricants is the private label manufacturer of many OEM brands. Although Andy would not share who those brands are we can probably guess who they might be.





Josh Blaisdell and William Nelson

Josh Blaisdell has served as vice president of Corporate Compliance for CHS Inc. since January 1, 2010. In that role, he provides leadership for both domestic and international corporate compliance and audit programs heading a team that includes CHS environmental, health and safety, business continuity/disaster recovery and internal audit functions.

William J. Nelson is president of the CHS Foundation and director of corporate giving for CHS Inc. Nelson provides leadership for CHS Stewardship, a company-wide initiative focused on investing time, talent and resources to build our communities. The CHS Foundation offers support through university partnerships, rural leadership development, cooperative education, and farm and agricultural safety programs.

Mr. Blaisdell and Mr. Nelson shared their personal and corporate beliefs around stewardship of CHS and how it applies to each of us individually and to our communities. With a new website coming, we were all invited to visit www.chsstewards.com to gain more knowledge of the CHS philosophy on stewardship.





Following the wrap up Class X thanked the team at CHS and loaded onto our bus for the quick trip back to the hotel for a short break. Following a quick refresher at the hotel, we were back on the bus and headed to dinner with the director and alumni of the Minnesota Agricultural Rural Leadership Program (MARL). During a great dinner we had the chance to hear Tim Alcorn, Executive Director of MARL discuss how KARL, and specifically Jack Lindquist, played such a vital role in the development and ongoing success of MARL.

Following dinner we again loaded onto our chariot and headed back to the hotel. Following a subdued evening on Wednesday night, Class X successfully cleaned out the sports bar across from the hotel of a particular preferred beverage during executive session. What a day, but a good one.

Follow up: following our visit a new CEO for CHS was named to replace the retiring John Johnson.

Blue Chip Session

The Return Trip.....

Friday, November 12, 2010 – Linda Craghead, Scribe

After an extensive Executive Session that extended well into the night, the crew started the day off with breakfast at 5:30 a.m. The bus departed the Country Inn & Suites promptly at 6:00 a.m. We were advised by Jack to enter into a state of quiet contemplation or visitation for the next couple of hours.

At approximately 7:55, our rolling classroom paused at the Iowa Visitor's Center to allow for a community break.

At 8:15, the journey continued with discussion about our CHS visit. As a Class IX participant, Jay Joy had the opportunity to share the differences between their visit to Cargill's world headquarters and this trip to CHS. He indicated that he believed that the two organizations shared similar values and leadership principles. However, both were significantly different in their structure and size. Jay advised us that Cargill's management team focused more on their strategic plan for the future and what economic factors they used to establish that plan whereas CHS seemed to focus more on the actual operations of each business unit. Both presentations were good & very beneficial.....they were just different. Becky Cooper & Linda Craghead were then asked to share information about their employment experience with Cargill, Inc.

Carolyn Harms, KARL Board member, discussed her career path from an entry level position with Boeing to a top female executive with Spirit AeroSystems.

Leslie Kaufman, Executive Director of Kansas Cooperative Council, discussed the involvement of women as executives, managers and board members in the co-ops of Kansas.

We stopped at the Toot Toot restaurant in Bethany, MO for lunch. Lunch was provided by Aaron Gerdes, Class IX.

Carolyn Harms and Jack Lindquist shared a variety of photos & experiences from their pre-visit to Vietnam. They provided insight to assist us in preparing both physically & mentally for our trip in March. Carolyn highly recommends that we consider purchasing the book *DK Eye Witness Travel – Vietnam* from our local book store.....it served as a great (& accurate) resource for her prior to the pre-trip.

Jay Joy & Carolyn Harms encouraged continued involvement with KARL Class X & the whole KARL program after completion of this year end.

One last pit stop at McDonald's on the turnpike & then....

Jack provided a pre-view of the Pittsburgh session. Brian encouraged everyone to write their "thank you's"....and the team took advantage of the last bit of time to visit with each other about family, friends, k-state basketball & our future until 5:00 when we arrived back in Manhattan.

"With Leadership Comes Responsibility"