

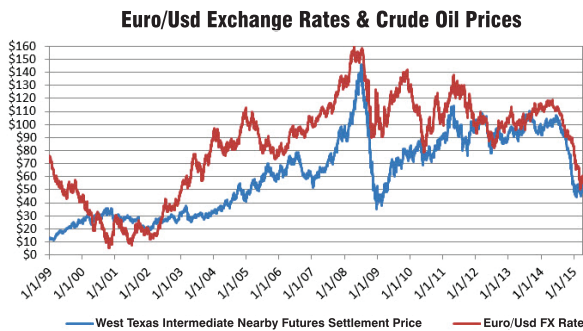


First Quarter 2015 Report

Spring has finally come to the Northeast! Our long winter now seems in the distant past and the warmer weather has brightened our spirits. We've also seen investment markets settle down after a choppy first quarter. The first three months of 2015 saw an uptick in volatility, as currencies across the globe moved dramatically over the period. Domestically, U.S. companies saw a decrease in economic activity as a result of the weather, West Coast port strikes, and a U.S. dollar now at a 12-year high. Despite these headwinds, the S&P 500 showed its resilience and was able to eke out a positive return in Q1.

Impact of a Strong U.S. Dollar

Over the past nine months, the U.S. dollar has appreciated 25% against major global currencies as foreign central bankers either initiated or ramped up their own Quantitative Easing programs just as the U.S. has been winding down theirs. While we dislike this much government intervention in global markets and are not sure what unintended consequences may flow from it, we continue to keep a long term focus and spend our time analyzing business fundamentals versus macro noise. While the strength of the dollar has depressed corporate earnings expectations, a strong dollar has many positive effects, such as boosting global spending and demand for dollar denominated assets. This is a primary reason for the outperformance of U.S. high quality large cap stocks over the last year. Remember too,



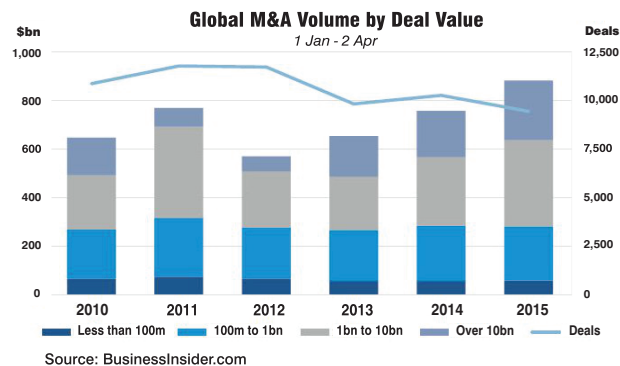
that many commodities are denominated in U.S. dollars – and the strength in the dollar has been an important factor to the recent fall in oil prices. This relationship has continued over the last two months, as both currencies and energy prices have stabilized.

M&A Activity

According to Thomson Reuters, M&A activity increased 23% over 2014 and had its largest Q1 volume since 2000. After years of running businesses conservatively and building up cash on balance sheets, companies are thinking strategically and are both shedding non-core businesses and acquiring other companies (large and small) that will help drive both top and bottom line growth. While some deal valuations seem extended, most transactions have been synergistic, based on reasonable economic assumptions and have been accretive to earnings. In many cases, this has led to both the acquirer's and target's stock prices moving upon deal announcements. M&A activity has been most pronounced in the healthcare sector – up 70% in 2014. This has been a mixed blessing for our portfolios. While we like to see companies pay healthy premiums for stocks that we own, we do not always like the new combined

First Quarter 2015 Report (continued)

businesses and are forced to realize capital gains on investments we had expected to deliver compounded growth for years to come. Most recently, we've had to analyze Mylan's offer to buy Perrigo, a stock we've held in many accounts. Mylan, which has a large generic pharmaceutical business, has offered a 30% premium for Perrigo and is attracted to the company's generic (over-the-counter and prescription) pharmaceutical businesses. In this situation, we like the combination of Mylan and Perrigo and hope the deal goes through. However, since the announcement, other players have come into the mix that may derail a deal. We have taken some profits in accounts with overweight positions, but have largely held the stock with the view that either a Perrigo only or a combined Perrigo/Mylan company fills an important role in reducing healthcare costs globally. Conversely, we recently sold a fairly new position in City National, after news that it would be acquired by Royal Bank of Canada. We liked the demographics of City National's deposit base and its straightforward lending business, but have some concerns with the headwinds Canadian banks face, given



their heavy reliance on energy and real estate. We were hoping City National would be a long term position that would grow both organically and through acquisition, but here we decided to take the 20% premium and look for better opportunities.

These corporate events are not only good for stock prices, they are good for our own investment process. They push us to reevaluate a company, its competition, long term business strategy and valuations. We always hope that each new position will be held for decades. We must, however, stay disciplined and true to our basic investment thesis, to seek growth of income and principal through equity investing. We balance equity risk with bonds and cash reserves and, where appropriate to the situation, other asset classes. Now six years into this economic recovery, we know our job of enhancing and preserving the wealth of our clients is harder today than it was when the market indices traded at half their current valuations. That said, we will continue to maintain well-balanced portfolios and look for opportunities here and abroad. Given that many parts of the world have not seen as robust growth as has the U.S., a diversified portfolio of stocks in companies that generate more than half of their sales outside the U.S. should lead to further upside. Along the way, market volatility may keep things “interesting.”

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