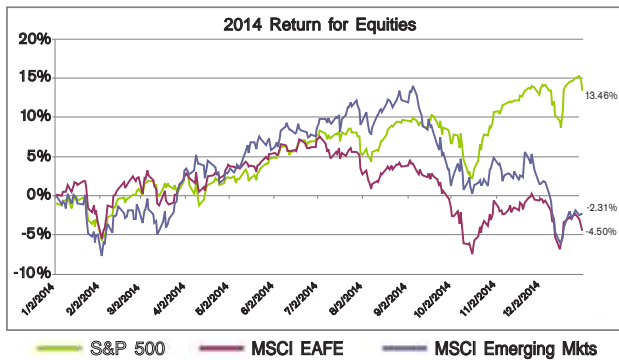




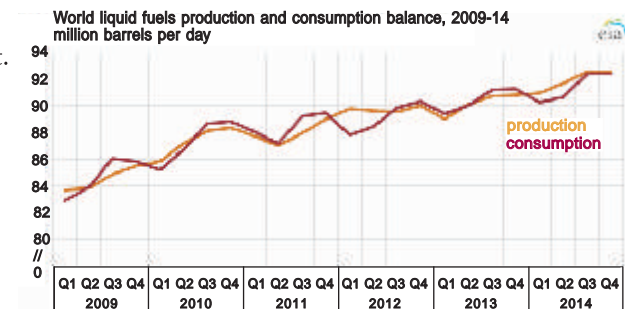
Fourth Quarter 2014 Report

The new year is a traditional time both to review and to look ahead. We came into 2014 propelled by five strong years of US equity returns and with the S&P 500 up 32.4% in 2013 alone. While we saw some parts of the market trading at elevated valuations, we felt the US economy would continue its advance, spurred by growth in other countries who were slower to react after the Great Recession. Although the US economy has continued to grow at an impressive pace (posting 5% growth in Q3), we've seen less positive news elsewhere. While some skepticism about the numbers from China is warranted, its economy is slowing, and significantly so. Europe is working to avoid deflation and continues its painfully slow process of reforms, with many structural issues unanswered. In Japan, Prime Minister Shinzo Abe's three-arrow policy (monetary policy, fiscal stimulus and structural reform) has had mixed results. As a result of the weakness overseas, foreign money has sought the safety of US Treasuries and the attractive dividend yields of high quality US multinationals stocks. These money flows have put upward pressure on the US dollar and helped the S&P 500 generate a 13.7% return in 2014, versus the MSCI ACWI ex US (All Country World Index Ex US) of -3.9%.



Lower Oil Prices – Good or Bad?

The major news over the last months has been the precipitous fall in energy prices, now down over 50% from June highs. While this has had negative implications for energy stocks and economies dependent on energy prices, we view this as a net positive for the broader US and global economies. Over the short term, we've seen a boost to US consumer spending. In addition, we expect corporations to build lower commodity prices into their budgets and increase capital expenditures over the next year. As to our direct energy holdings, we don't know when prices will rise. However, having managed assets through major pullbacks before, we know the characteristics of companies that tend to exit these crises stronger: those with strong market positions, balance sheets, technology and management. Over the coming years, we see energy demand increasing globally, led by developing countries. We feel comfortable with the core energy names in client portfolios, but have stepped up monitoring their operations.



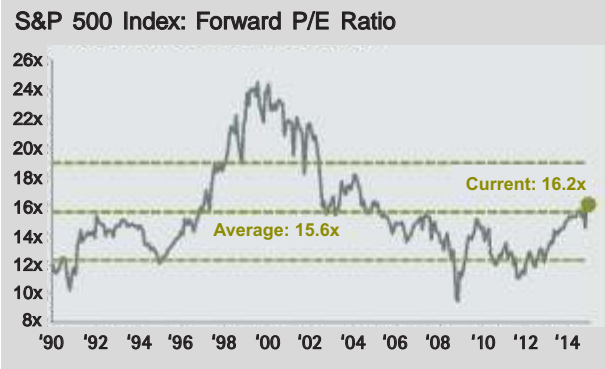
Fourth Quarter 2014 Report (continued)

The Fed's Role

In October, the Federal Reserve ended its program of buying fixed income securities, so-called quantitative easing. The Fed is expected to start raising short term interest rates in mid-2015. Historically, when the Fed hikes rates after a contraction in the economy, those rate increases are seen as a sign of a recovery and are typically followed by strong equity returns. While this has not been a traditional recovery, we still don't see the prospect of higher short term bond yields derailing this economy. In fact, given the inflows to the US dollar, we don't see short term rates having a meaningful impact on longer term bond yields and do not expect bond returns to outpace inflation.

Looking Forward

The S&P 500 currently trades at 16.2 times forward earnings. While reasonable by historical standards, the median stock trades over 20 times earnings, and this is on top of multi-decade high profit margins. While we still believe US stocks offer the best risk adjusted returns over the intermediate term, we are not alone. Bloomberg recently noted that all 18 investment strategists they follow expect higher returns in 2015 (the first time since 2007). This requires us to be vigilant as we review portfolios, many with tremendous embedded gains. Within equity portfolios, we are focusing as much on valuations as growth prospects and are staying disciplined in trimming overweight positions or exiting holdings whose valuations are stretched.



Firm Update

After over 40 years as our colleague, Mike Elefante, who has led HTC's investment efforts, has announced his retirement. He leaves the firm strong, for which we are deeply grateful. We thank him and look forward to his continuing role as Managing Director. Going forward, Michael Puzo will chair the Investment Committee at Hemenway Trust Company, working with his fellow directors and portfolio managers and overseeing a team of professionals to set the firm's investment strategies, including asset allocation and stock selection. Mike O'Leary will serve as the firm's Chief Investment Officer, tailoring investment strategies for our clients, and Christian Russo will serve as Investment Analyst.

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