Hemenway Trust Company LLC

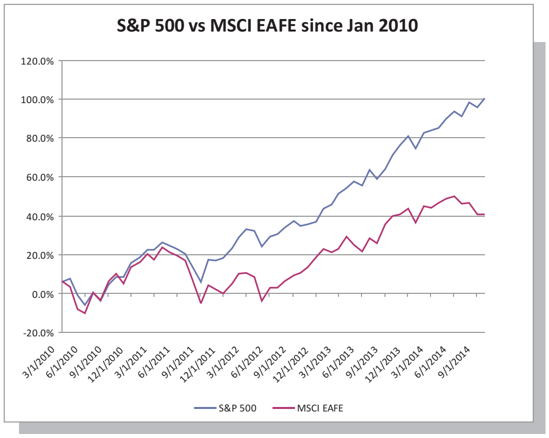
Third Quarter 2014 Report

Dear Valued Client:

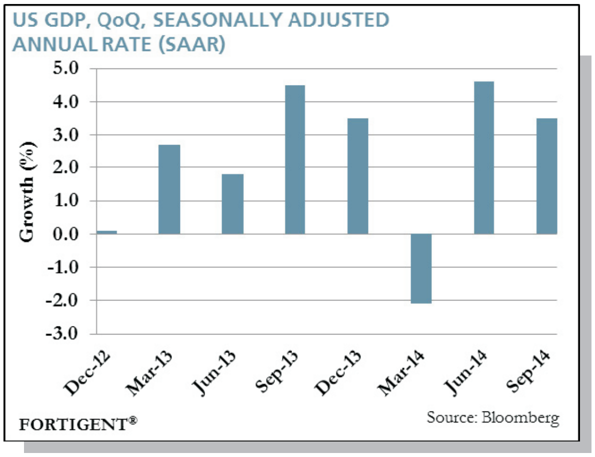
Prior to the stock market turmoil of mid-September, the theme of the third quarter was steady as she goes. GDP growth in the third quarter was 3.5%, after a strong second quarter. Employment gains averaged over 200,000 per month in the quarter and the unemployment rate dropped to 5.9% in September. The Conference Board's Leading Economic Index was up 0.8% in September. The ISM (Institute for Supply Management) Manufacturing and Non-Manufacturing levels stood at 56.6% and 58.6%, respectively- strong results but down slightly in September. Housing prices continued to improve with the Case Shiller Home Price Index up 5.6% for August. Inflation continued to remain below the Fed's target of 2% and rose only 1.7% over the prior year in September.

Index	Qtr	YTD
S&P 500	1.13	8.34
Russell 2000	7.36	-4.41
MSCI EAFE	-5.83	-0.99
MSCI Emerging Mkt	-3.36	2.75
Barclays Treas Interm	0.02	1.59
Barclays Agg Bond	0.17	4.10
DJ Commodity	-11.83	-5.59
HFRI Global Hedge	-0.57	1.19
10 Yr Treasury Yield	2.49	3.04

Despite a relatively positive backdrop for the US economy, performance across asset classes was mixed for the quarter. While large US stocks (as represented by the S&P 500) held up well, returning 1.1% in Q3 and 8.3% year to date through September 30, weakness across Europe and China drove down stock prices in most non-US markets. In particular, fears of deflation and weakening currency in Europe resulted in the MSCI EAFE Index going down 5.8%. Slower growth across the globe and increasing supplies also put pressure on commodities. In particular, oil prices declined 11.5% and natural gas fell 9.2% for the quarter. Volatility picked up on September 18th when the S&P 500 stood at 2011.36. The S&P 500 dropped 150 points from September 18th to October 15th; over that period there were nine days in which the market was down 1% or more and the VIX Index jumped from 16 to 25. Even US small capitalization stocks, which are more domestically focused, fell 7.4% in Q3 as a result of higher valuations. However, just as quickly as markets fell, the market turned around on October 15th when James Bullard, a non-voting member of the FOMC (Federal Open Market Committee), said the Fed should consider delaying the end of the Quantitative Easing program. While the Fed confirmed they will end bond purchases at the end of this month, the S&P 500 has fully recovered and now stands at all-time highs.



Third Quarter 2014 Report (continued)



The performance of the bond market was fairly muted in Q3 with no change in the 10-year Treasury yield. The Barclay's Aggregate Index was up just 0.2%, leaving it up 4.1% on a year to date basis. Municipal bond performance was stronger with an increase of 1.5% for the quarter as muni credit concerns have subsided. Contrary to the expectation of most commentators, long duration bonds outperformed for the quarter. The Bar Cap U.S. Treasury Long Index was up 2.7% in the third quarter and 15.1% for the year to date.

In our view, the U.S. economy and asset markets remain relatively healthy and we expect the economy to continue to grow at a steady, but modest, pace. The extended period of low interest rates undoubtedly has helped to support the economy. As rates return to more normal levels, the economy will have to stand on its own and periods of volatility, as seen in September and October, are likely to increase. The S&P 500 is currently trading at 17.3 times 2014 earnings and 16.3 times projected 2015 earnings. These are relatively hefty values, but not yet in bubble territory. We continue to recommend rebalancing portfolios back toward their target equity allocation.

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