Hemenway Trust Company LLC

Spring 2019 Investment Report

Going *Green*!

The *Quarterly Investment Report* will be sent via email only beginning on August 1, 2019.

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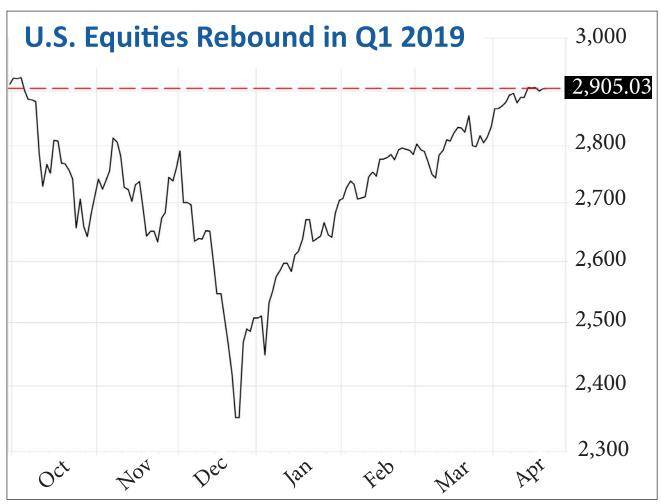
The stock market has always had a herd instinct, but it seems more pronounced now in the age of ETF investments, algorithmic trading funds, and "tactical" allocation funds that think they can time the market. We see this new paradigm reflected in the last two quarters.

In Q4 2018, investors ran for the door on fears of a slowing economy, despite record earnings across most industries. As we noted in our Winter 2019 Investment Report, we thought these fears were overdone. As you can see in the chart below, in Q1 2019 we have seen a quick snapback in markets as the herd moves back into the same positions they were selling just a quarter ago.

A Look Back at the Past Quarter

Global equity indices were up 10-16% in Q1 and continued to rally into April. As always, there are multiple reasons why stocks have moved up, but the big drivers have been falling interest rates (globally) and more government intervention to stabilize markets. Just within the last three months, we've seen the US treasury curve invert (10-year Treasury note fell below the yield on the three-month Treasury bill) and the Federal Reserve has announced there will be no further short-term rate increases in 2019. In Europe, the ECB pushed back a rate increase to late-2020, and China is in the midst of a massive stimulus plan that has loosened bank lending requirements and cut taxes for individuals.



A Disciplined Investment Approach

We are taking advantage of this run-up in the equity market by reducing positions at the top end of their valuation range and building cash and short dated bonds. This is not to say we expect another major pullback like Q4, but a prudent move as valuations move up and earning expectations come down.

Our Long-Term Outlook

While we write about the investment landscape quarterly, the fact is, our investment strategy is based on a much longer-term outlook. As you have heard us say before, we evaluate companies and broader investment themes, in years, not over the next quarter. This longer time horizon coincides well with the many multi-generational trusts that we manage – some dating back to the 1920s. The goals for these trusts were not to beat a particular benchmark but to provide a stream of income and capital growth that would outpace inflation all in a tax-efficient manner.

We seek to avoid the herd mentality by keeping this long-term outlook in mind when our investment committee reviews each portfolio and decides what trades to make. During our review, we weigh each client's objectives, cash needs, unique preferences like ESG (Environmental, Social and Governance) factors and taxes. This customized investment process is time consuming, and not a common industry practice. We think it is worth the effort, as demonstrated by our strong investment returns (both absolute and relative) and the growth of our funds under management, which now exceed $5 billion.

$5 billion
under advisement

We thank you for entrusting your family and charitable accounts with us and for referring your friends and relatives.

Investment Focus: Ecommerce and Global Payments

According to the latest United Nations Conference on Trade and Development (UNCTAD) data, Global ecommerce sales were $29 trillion in 2017 and the number of online shoppers jumped to 1.3 billion globally. This was roughly a 13% increase year over year. While business-to-business (B2B) ecommerce accounts for roughly 88% of all online sales, business-to-consumer (B2C) growth is accelerating at a faster pace (22%). This growth has impacted virtually all companies and the ways they interact with customers and suppliers - particularly how payments are made.

We have been following these new payment methods and investing in this explosive growth area for the past 10 years, including:

- MasterCard (NYSE: MA), the second largest credit card network, after Visa, with 2.4 billion cards in circulation. While not a new company, it has become a dominant player. MasterCard receives a small portion of each transaction that runs through its network. We believe Mastercard can continue double-digit growth in sales and earnings as more people globally move away from cash and the number of transactions increase with mobile payment.

- Fiserv (NASDAQ: FISV), a provider of technology services to over 18,000 financial institutions - including internet banking, bill payment and risk management solutions. We believe Fiserv will maintain its strong growth as banks continue to outsource non-core, capital intensive operations and individuals continue to migrate to online banking. In January, Fiserv said it would buy First Data Corporation for $22 billion. First Data's merchant focus and POS (point of sale) technology will allow Fiserv to sell its technology services to a larger customer base.

- PayPal (NASDAQ: PYPL), one of the purest forms of a digital wallet, provides small and large businesses with a safer and simpler way to accept payments online, and provides additional data security for purchasers. This is a relatively new position that we have been adding to growth oriented accounts. PayPal's Venmo service is a popular way to transfer money person-to-person (P2P).

Source: https://economictimes.indiatimes.com/industry/services/retail/globalecommerce-sales-surged-to-29-trillion-in-2017/articleshow/68747974.cms