Hemenway
Trust Company LLC

Spring 2020 Investment Report

A Message From Our Investment Committee Chair:

As trustees, we have a broad range of duties under the trusts for which we are responsible...investment management...maintaining adequate cash reserves... making distributions...paying bills...staying in touch... to name just some. In the weeks since the Covid-19 outbreak began wreaking havoc with the health and well-being of so many, and causing turmoil in the markets, we have kept our focus. With Q1 now behind us, we are sharing our Spring Investment Letter, which follows this overview of some nuts and bolts issues. What we're doing and how we're doing it.

On the investment front, we have continued to review accounts in a disciplined way. As you would expect, there have been more frequent reviews of discrete accounts and particular holdings and sectors, but maintaining our long time discipline is essential, particularly now. We are staying the course, with a continued emphasis on security selection, keeping bond and cash positions in balance, paring back holdings that remain outsized, adding to names that seem undervalued and building core positions in newer accounts.

On the operations front, the time taken and investments made over the past several years to allow us to work "on-line" and from multiple locations are paying dividends today. Investment meetings are being hosted by phone and video conference. Direct dial numbers are being routed to our mobile phones, so you can reach us just as you would normally. Our administrative staff members have been wonderful - flexible, dependable and doing their collective best not to miss a beat. Trades and distributions are being made, bills paid, special requests responded to promptly. If there is anything that you feel we can do for you, please let us know. We'll do our best to respond quickly and effectively.

The essence of trust work is, as they say, right in the name...trust. Earning and keeping your trust is of paramount importance to us. Times like these test us all and we will do our utmost to do what is expected of us and do it well.

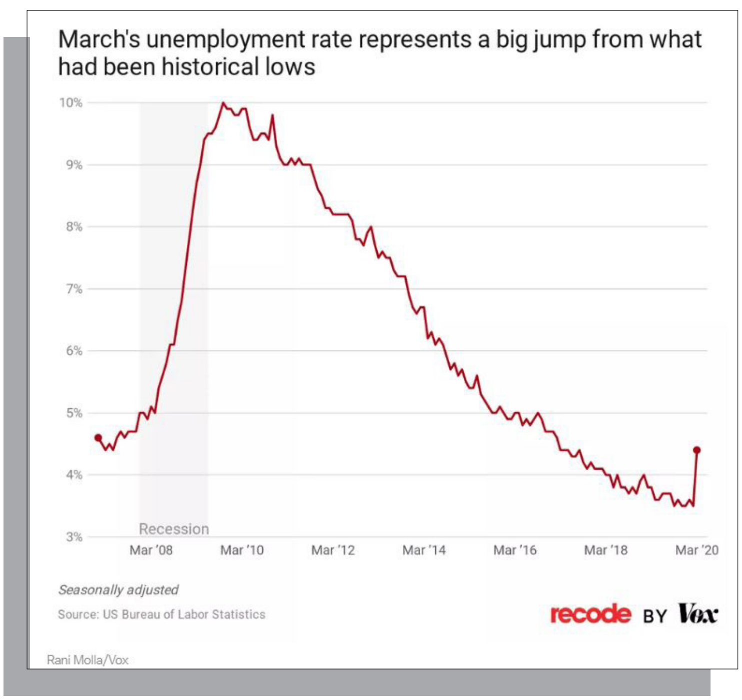
Michael J. Puzo
Investment Committee Chair

Navigating Economic Uncertainty

The health and economic impact of the coronavirus has led to an unprecedented global sell off across asset classes and has brought an end to the longest running US bull market - just under 11 years old and cumulative return over 450% for the S&P 500. At the end of our last quarterly letter, we said that "the next 10 years will surely include at least one economic recession." Unfortunately, the contraction hit in less than 10 weeks.

While we can never be fully insulated from the volatility in the market, we are reassured that our focus on high quality stocks and bonds has not only been able to outperform over the 11 year bull run, but also preserved clients' wealth better over the bear market seen over the last six weeks. Just as importantly, we feel client portfolios are well positioned to take advantage of investment opportunities that can add wealth over the next decade.

It is still too early to know when the coronavirus will be contained or when the US economy will open up again. In addition to the devastating health impact, as companies curtail or shut down operations, we have seen over 10 million Americans file for unemployment. This has pushed the unemployment rate from 3.5% in February to 4.4%, with some economists thinking it could temporarily rise to >20%. For comparison, the unemployment rate only hit 10% in October 2009. Unlike the 2008 recession, small businesses, which have accounted for the majority of employment growth over the last 10 years, have been hardest hit. Because of this, we do not expect a v-shaped recovery in the near term.



There's a saying that markets don't like uncertainty. While we believe this crisis will last months, not years, we cannot think of a time where there was more uncertainty in the short term. In fact, companies, which typically provide granular projections on their business operations, have been eerily quiet through the crisis. This has led to wild swings in the stock market, with the Dow Index moving +/-4% in 15 of the trading days since late February. We also saw the (usually sleepy) fixed income market partially freeze up in mid-March, as many investors rushed to shed riskier bonds and find liquidity. As many clients know, over the last 2.5 years, we had greatly reduced our corporate bond exposure in favor of US Treasuries, due to a belief that the interest rate differential did not warrant the additional credit risk.

While this crisis is much different than 2008, the US government has used a similar playbook to battle this recession. To date, the Federal Reserve and Congress have unleashed three rounds of monetary and fiscal programs totaling $6 trillion to shore up the credit market and provide cash and loans to individuals/businesses most at risk. These programs have worked to improve the liquidity of the bond market, and will, but many agree that the final tab will be significantly higher.

Even though we expect to see more negative economic news in the coming weeks, we want to stress that much of this is built into current asset prices. The S&P 500 bottomed on March 23rd and has since risen 19%. However, with more negative headlines, and inevitably more businesses unable to survive this recession, we may not have seen the bottom of this market. Our portfolios are favorably positioned due to our disciplined investment approach. We have always focused on the most well-capitalized companies in each industry and generally underweighted or avoided the most impacted sectors (energy, consumer discretionary, financials). Not only are these companies able to weather the crisis longer and access capital, we believe they will recover quicker than their weaker peers. In addition to keeping on top of current holdings, we are also looking for new investments, stocks that have either been historically too expensive or are now trading at such a discount that we are comfortable with the risks. In these uncertain times, our investment approach remains focused on balancing high quality securities, maintaining bond and cash positions, and evaluating new opportunities.

As we navigate these uncertain times, please know that we are here to answer your questions. Our office phone numbers and emails continue to be the best way to reach us while we are working remotely.