Douglass Winthrop Advisors, LLC
521 Fifth Avenue, 19th Floor
New York, NY 10175

New York
Boston
Washington, D.C.
West Palm Beach

Telephone 212 557 7680
Telefax 212 557 7683
douglasswinthrop.com

Douglass Winthrop

July 4, 2020

Dear Clients and Friends,

We hope you all enjoyed this 4th of July weekend and its symbolism, both the freedom and independence represented by its origin and the celebration of friends, family and summer that it has become.

We are pleased to present you with our second quarter 2020 report. For clients, your portfolio appraisal is attached, along with your performance and year-to-date realized gains and losses. To frame this period through the lens of the stock market, it was among the strongest quarters we have ever seen, with the S&P 500 up 20%, the Dow Jones Industrial Average up 18% and the NASDAQ Composite up an astonishing 31%. Such a trajectory is clearly unsustainable, and visibility has rarely been so limited, so caution is warranted. But, as we discuss in this letter, so is optimism.

The First 100 Days of COVID-19

Douglass Winthrop implemented its Business Continuity Plan in mid-March. We initially anticipated that we would hunker down and work remotely for a couple of weeks while our government leaders focused on slowing the spread of the virus and ensuring that essential services would continue. Over the next 100 days the world moved in dog years. New York City became the epicenter of the virus, and it has only recently started to gradually re-open. The United States experienced the most dramatic loss of jobs in our history, resulting in 25.4 million unemployed Americans at the end of April. Congress passed the $2.2 trillion CARES Act as a first response to get cash into the hands of Americans to keep the economy going. The Federal Reserve vowed to do "whatever it takes" to support our economy. Governments around the world provided $18.4 trillion (and counting) of fiscal and monetary stimulus to keep the global economy afloat while front line workers, scientists and elected officials worked to treat patients and to mobilize resources to develop treatments and vaccines. Add record corporate bond issuances of more than $6.4 trillion year-to-date, as companies sought to keep operations going and employees on payrolls, and the total capital deployed to protect the world against COVID-19 over the first 100 days is larger than the annual GDP of the United States.

What we learned during this time is that people around the world, with support from governments and businesses, can adapt quickly and in a mostly self-directed fashion. Within 100 days, schools, businesses, and governments adapted to working remotely. Families, individuals and "pods" of people learned the art of social distancing. And together, we fought a world war against the virus and kept the world economy functioning through this first wave of the global pandemic of 2020. The first 100 days also brought into stark contrast the outcomes and risks faced by the most vulnerable populations in our country and around the world.

As if a virulent and lethal virus and a global lockdown weren't enough to grapple with, Americans took to the streets in hundreds of cities across the nation in late May to protest against racial and economic injustice, and concerned citizens around the world followed suit. This emotional outpouring could have added another incendiary element to the 2020 global crisis, but the vast majority exercised their First Amendment rights peacefully, catalyzing constructive dialogue and raising the possibility of systemic change. Much work remains, and attitudinal shifts take time. But every marathon begins with a few small steps, and consumer sentiment has already ticked up a bit, a hopeful green shoot in a desiccated social and economic landscape.

With Change Comes Opportunity

The amount of news that we have processed and acted upon over the past 100 days dwarfs any prior period. From a strong macro-economic backdrop in mid-March to a rapidly evolving global pandemic and near-total lockdown, through a gut-wrenching market crash to a breathtaking rebound, the statistical noise has intensified as time has passed, raising far more questions than answers for policy makers, health care providers and investors trying to make reasonable assumptions about the future. Faced with this cacophony, we were able to upgrade the quality of our portfolio and mitigate risks by staying focused on company fundamentals and earnings growth prospects. We took advantage of market moves driven by fear and a sell-off where nearly all stocks were punished indiscriminately (thank you index funds and passive investing strategies). One specific upgrade shows how our process works and how our diverse group of portfolio companies helps inform our outlook for the future: we added Amazon to the Approved List and removed Discover Financial Services. The story behind both decisions is illustrative of our process and the constant and healthy tension that comes from demanding quality and growth in our portfolio while adhering to a rigorous and disciplined process that seeks value.

First, the Discover story. As we entered 2020, we believed that the stock market was fully valued and noted that most of the strong gains achieved in 2019 were tied to expanding valuation, not earnings growth. With this in mind we were on the lookout for value opportunities where we might be able to find high-quality businesses at a low price-to-earnings multiple and where we had a variant perception vis-à-vis the market. In Discover we saw a well-managed company that was trading at 8.5x anticipated earnings, with a strong balance sheet and a track record of successfully managing through the financial crisis of 2008-9. We liked its strategic investments in technology and marketing, aimed at increasing client satisfaction and attracting new customers. We believed this could be a growth story hidden behind a value multiple in a sector that was out of favor, and we established a position in the first quarter. When the global lockdown began, cascading job losses kindled fear of rapid acceleration in delinquencies and deteriorating earnings. We re-ran all of our models, listened to company management and concluded that the company would survive. However, we also determined that the COVID-induced economic shock would likely set the company's growth strategy back by at least two or three years, limiting the stock's potential.

On the other hand, Amazon is a company we have studied and admired for years, but whose shares had always seemed fully valued to us. Long known as an e-commerce juggernaut—we estimate that it accounts for some 30% of all online purchases in the U.S.—the company has built an impressive cloud computing business, Amazon Web Services, which is expected to fuel mid-to-high-teens earnings growth for years to come. The company has ample reinvestment opportunities, the list of which grows every quarter. Consumers around the globe, housebound by mandatory quarantines, flocked to Amazon as their primary (or sole) supplier when local retailers ran out of stock. Having discovered the convenience of shopping from their couches, many have likely permanently changed their habits. Unlike Discover, Amazon's business prospects have been enhanced by recent events, *accelerating* growth. When the shares got caught in the market's downdraft, declining roughly 25% from peak to trough, we quickly dusted off our research file, updated our models and concluded that the stock's reward/risk profile was attractive.

By studying all of the individual businesses in our portfolios and on our watch list, we were able to gain insights into what was happening in real-time to dramatically change the prospects of these two companies. Thanks to our repeatable process we completed the analysis and made timely decisions on these and several other stocks, including recent Approved List additions Deere & Co., Roper Technologies Inc. and JPMorgan Chase & Co. All of these stocks bring strong fundamentals to our portfolios, with valuations that should limit downside risk in the event that the economy falters in the face of a second wave of COVID-19 infections.

Spotlight on our business

We entered the year with two strategic priorities aimed at strengthening our firm and supporting our long-term mission to protect and grow our clients' capital. The first is a push to work with larger clients, specifically endowments and institutions interested in allocating a portion of their assets to our management. The second is rolling out the DWA Environment Strategy to a broader audience after a five-year vetting process to become our second product alongside our DWA Equity Strategy. Both strategies follow our five-filter research process and are "core" portfolios designed to weather any storm and be capable of serving as the only portfolio for many of our clients. The Environment Strategy adds an integrated 6th filter that requires companies in this portfolio be environmental leaders as best-in-class operators or solutions providers. We have

Douglass Winthrop

identified eight companies that have earned inclusion in both portfolios and, although we have dedicated portfolio management committees to finalize investment decisions for each strategy, both are supported by our entire firm. A unified team is an important strategic imperative for our colleagues and our clients.

Speaking of our team, we are pleased to note that Pam Raviol, Garrett Hayward and Jeff Muscatello have become shareholders of the firm, and Pam is now a Principal as well. Congratulations for this well-deserved recognition. We appreciate their deep commitment to our clients and our partnership.

Parting thoughts on Independence Day 2020

One of the most satisfying parts of our investment approach is that it leads us to study many of the best managed companies in the world. A common bond between them is strong leadership that has, over time, created a strong culture. Merriam-Webster defines culture as "the set of shared attitudes, values, goals, and practices that characterizes an institution or organization." At Douglass Winthrop we strive to establish a culture based on teamwork, intellectual debate, high ethical standards and civility. We think of our clients, colleagues and partners as family. We value good communication as an essential skill. We feel we are most successful when this culture encourages vigorous debate, makes allowance for inevitable mistakes and permits change and progress. At its best, this could also describe the culture of our country, which is one of the reasons we maintain our positive long-term view on equities. We are most encouraged by the loyalty of our clients to whom we are deeply grateful.

We wish you a happy and restful summer and leave you with a parting quote from Winston Churchill that we tend to agree with: ***"The United States is like a giant boiler. Once the fire is lighted under it, there is no limit to the power it can generate."***

Warm regards,

Douglass Winthrop Advisors

This communication contains the opinions of Douglass Winthrop Advisors, LLC about the securities, investments and/or economic subjects discussed as of the date set forth herein. This communication is intended for information purposes only and does not recommend or solicit the purchase or sale of specific securities or investment services. Readers should not infer or assume that any securities, sectors or markets described were or will be profitable or are appropriate to meet the objectives, situation or needs of a particular individual or family, as the implementation of any financial strategy should only be made after consultation with your attorney, tax advisor and investment advisor. All material presented is compiled from sources believed to be reliable, but accuracy or completeness cannot be guaranteed. PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS. INVESTMENTS BEAR RISK INCLUDING THE POSSIBLE LOSS OF INVESTED PRINCIPAL.

© 2018 – 2020 Douglass Winthrop Advisors, LLC