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Douglass Winthrop

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Dear Clients and Friends,

We are pleased to enclose our second quarter letter, including our commentary on the financial markets, announcement of our Environment Strategy, a personnel update and, for our clients, your account statements for the quarter ended June 30, 2016.

We are also proud to announce that Douglass Winthrop Advisors (DWA) has once again been selected as one of the Top 300 Registered Investment Advisers in the U.S. by the Financial Times, one of the world's most distinguished publishers.[a] To view the full report, please visit the FT's website at www.ft.com/reports.

May you live in interesting times…

Sometimes referred to as a Chinese curse, this phrase is typically quoted in periods of uncertainty and danger. A few, such as Robert Kennedy in a 1966 speech, have invoked the same words to underscore that tumultuous times are ripe with opportunities for creative minds. We are in the latter camp, and see the seeds of future gains in today's turbulent swirl of jarring headlines.

The second quarter was interesting indeed. In the United States, the presidential primary season was far from ordinary, as anti-establishment themes were manifest in both parties. These domestic fireworks paled in comparison to the bombshell results of the United Kingdom's referendum to leave the European Union. Literally overnight the political and economic future of a country, a continent and perhaps the entire world was altered, potentially significantly, and a large dose of uncertainty and volatility was injected into global financial markets.

The parallels between the events in the U.S. and U.K. are striking. In both cases, prognosticators underestimated populist sentiment and the nationalist backlash against globalism and free trade. Historical norms attributed to the political elite were bashed by iconoclasts who refuse to play by the old rules. And both served as reminders of how dynamic the geopolitical landscape can be.

…But not be overly interested in them

When what seemed impossible just months ago suddenly becomes reality, it's natural for market participants to wonder what else the pundits might have missed.

However, it's important to keep these events in perspective. The flurry of sensational headlines describe what is primarily a political crisis rather than an economic or financial one. There are few signs of the systemic liquidity issues or excess leverage responsible for past major corrections. Considering how shocking the U.K. vote to leave was, we think the market's initial reaction was fairly measured and rational. By the end of the quarter, the S&P 500 had recovered virtually all of the ground it lost in the first two days following the referendum to close in the black for the quarter and year-to-date.

It will take some time to determine which industries and companies will be impacted by the Brexit vote and to what extent. The negotiations between the E.U. and the U.K. are likely to be protracted and occasionally messy, and it would come as no surprise for some customers to postpone orders until greater clarity was apparent. That said, we think the domestic economy will withstand whatever chill falls on European business activity.

Prior to the U.K. referendum, the prospects for continued U.S expansion were slowly brightening. Unemployment is low and incomes are rising. According to the Conference Board, consumers' view of current conditions recently reached the highest level in nine months, providing a boost to home and auto sales. Business confidence has risen as well, suggesting that corporate leaders might loosen the purse strings for capital investments.

More important to our portfolios, the prospects for some firms appear bright regardless of what unfolds overseas. For example, both presumptive presidential candidates have made infrastructure spending a priority, a scenario that augurs well for construction materials companies. Large consumer companies should also be relatively insulated from global economic gyrations. These businesses boast wide economic moats such as trusted brands, unique customer relationships and supply chain advantages that protect them from competitors. Shares of these companies are rarely cheap, but we think their superior business qualities warrant their valuation premiums.

Announcing the DWA Environment Strategy

Since opening our doors sixteen years ago, Douglass Winthrop has offered a single product: concentrated, separately managed portfolios of well researched, global common stocks of companies characterized by significant competitive advantages, shareholder oriented managers, strong balance sheets, ample free cash flow and abundant opportunities to reinvest that cash in growing their business. Experience has confirmed our view that the long term ownership of high quality equities is an ideal strategy for maximizing risk-adjusted, after-tax returns, and our commitment to this approach remains undiminished.

We believe there is an opportunity to apply this same investment discipline to a new portfolio product with a specific focus on the environment. We are pleased to announce the DWA Environment Strategy, individually managed portfolios for investors who desire exposure to companies that are positioned to earn excess returns for their shareholders through thoughtful and intentional investments in sustainability and environmental benefit.

The environment captures an ever larger share of mind for policy makers and investors, driven by the need to address such issues as water scarcity, climate change, deforestation and food security. In our judgment, private sector capital – more than government aid or regulation – will be required to mitigate many of the world's most pressing environmental challenges. We are not passing ethical judgments; rather, we think companies that adopt sustainable policies or provide cost effective solutions to environmental problems will have competitive advantages that will translate into faster growth, higher profitability and better employee retention. The DWA Environment Strategy will seek to identify and own these companies, which must meet our firm's traditional quality and valuation standards as well as due diligence requirements relating directly to environmental sustainability. Importantly, our mandate is to earn superior investment returns for our clients.

Led by DWA partners and portfolio managers Jay Winthrop, Bowdy Train and Josh Huffard, with research assistance provided by Henry Kegan, the Environment Strategy will leverage our firm's existing research capacity and capitalize on our collective experience as trustees of and advisors to a number of national and local environmental organizations. Together they have already identified nearly two dozen of the world's most innovative and promising companies that will form the initial core of the portfolio. We look forward to discussing this exciting opportunity with you.

There's a new sheriff in town

Protecting our clients' interests is paramount to all we do at Douglass Winthrop, and compliance with the rules and regulations that govern our business is critical to achieving that goal. We are very pleased to welcome Tim Hughes as Managing Director and Chief Compliance Officer. Tim brings a wealth of experience to DWA, and we look forward to his leadership.

A final word

The value of thoughtful dialogue between a client and a trusted advisor is never more apparent than when unexpected events cause tremors in the financial markets. At Douglass Winthrop we treasure this role, and we encourage our clients to let us know what we are doing well and how we might serve you better. We stand ready to provide counsel when life events, be they joyful or otherwise, may call for a change in goals and the strategy to achieve them. While we are ever mindful of our investment performance and strive for the best results, the ultimate measure of our success is client engagement and satisfaction.

We wish you a safe and happy summer.

Sincerely,

Douglass Winthrop Advisors LLC

(a) The 2016 Financial Times Top 300 Registered Investment Advisers is an independent listing produced by the Financial Times (June 2016). The FT 300 is based on data gathered from registered investment adviser (RIA) firms, regulatory disclosures, and the FT's research. As identified by the FT, the listing reflected each practice's performance in six primary areas, including assets under management, asset growth, compliance record, years in existence, compliance record, industry credentials, and online accessibility. The majority of the score was determined by assets under management and asset growth. Neither the RIA firms nor their employees paid a fee to the FT in exchange for inclusion in the FT 300.