Investment Update

April, 2015

2015 First Quarter Update

Review: Stocks marked time to begin the year, up a mere 1.0% in the quarter. Bonds had a better quarter, rising 1.6%. International equity markets had a good quarter. EAFE and Emerging Markets gained 4.9% and 2.4%, respectively, rebounding from the sharp declines of the previous two quarters.

Period	1Q15	4Q14	3Q14	2Q14
S&P 500	*0.9%*	*4.9%*	*1.1%*	*5.2%*
EAFE*	*4.9%*	*-3.6%*	*-5.9%*	*4.1%*
Emerging Markets	*2.4%*	*-4.5%*	*-3.5%*	*6.6%*
Barclays U.S. Aggregate Bond	*1.6%*	*1.8%*	*0.2%*	*2.0%*

*Europe, Australia, Far East

Domestic Economy: The severe winter made it difficult to gauge the health of the economy. Broadly, consumer spending held up reasonably well. Housing starts were understandably weak, but auto sales were robust. The job market was affected, especially the construction and leisure industries. An encouraging sign is that wages, which have been stagnant for five years, have begun to show signs of improvement. Although gains have not yet shown up in the official numbers, some large employers, including Target, Wal-Mart and McDonald's have announced wage increases. Energy prices, while up from the lows, were still well below the levels of a year ago, providing a tailwind for middle class consumers.

In summary, we expect the economy to continue on the path of moderate growth. The disruption caused by the harsh winter may cause our first estimate for 2015 GDP growth of about 3.0% to be a bit high, but we expect the economy to regain momentum as the year progresses.

International Economies: Broadly speaking, international economies have stabilized. In March the ECB finally began supplying stimulus to help the European economy recover. Many of the economic indicators, including consumer confidence and industrial orders, are improving. We expect the euro to stabilize as the outlook improves. The outlook for emerging economies is mixed, with China and Brazil continuing to work through the problems caused by years of hyper-growth. The adjustment

600 Atlantic Avenue
18th Floor
Boston, MA 02210-2211

Phone: 617-357-5101
Toll-free: 800-357-5101
Fax: 617-357-7199

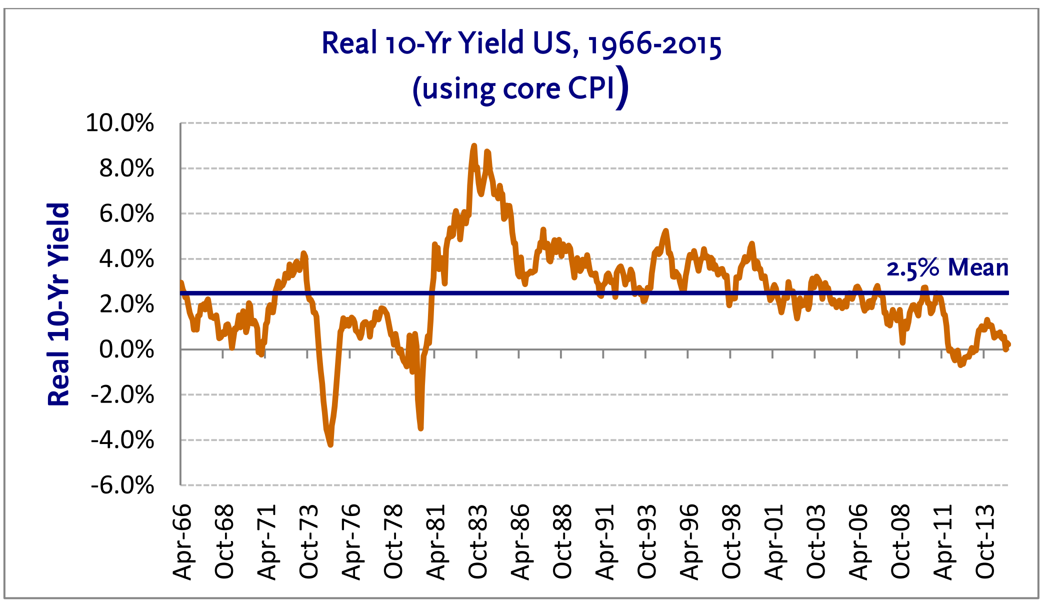
info@middletonco.com
www.middletonco.com

process may take several years. On the other hand, India appears to be improving now.

Our conclusion is that international economies will not detract meaningfully from domestic growth this year. However, foreign earnings of U.S. businesses will face a headwind for the next few quarters because the dollar, although now stable, is stronger than it was a year ago.

Strategy: Our U.S. strategy remains unchanged from last quarter. We believe that equity investments will be among the best relative performers over the next year. The stock market should increase in line with earnings, which we expect to rise 5-6%. Ample corporate cash flows will likely lead to stock buy backs and higher dividends, adding to returns.

Recent comments from the Fed suggest that interest rates will increase later this year, leading to negative bond returns. The vulnerability of bond investments is further underscored by the chart that follows, showing that real bond returns, as measured by the 10-year U.S. Treasury note, are near a thirty year low of approximately 0.0%, well below the long-term average real return of 2.5%.



In response, we have maintained short average maturities and added floating rate securities, where possible, to protect bond portfolios from rising rates.