Cambridge Trust Company

Equity Income - Balanced Portfolio

Portfolio Managers
Eric G. Warasta, CFA
Eric C. Jussaume

Fact Sheet as of 9/30/2013

INVESTMENT OBJECTIVE

Our objective is to provide above-average current income with lower volatility than the benchmark, while generating long-term capital appreciation. Asset allocation will reflect our outlook on the relative attractiveness of the appropriate asset classes.

Our equity strategy prioritizes dividend sustainability, growth potential, and yield, driven by proprietary bottom-up fundamental analysis. We focus on high-quality companies that offer a mix of current income and capital appreciation opportunity, and not the highest yield per se. For inclusion in the portfolio, companies must pay a dividend, have a market capitalization of at least $1 billion, and demonstrate a high level of dividend sustainability and growth potential.

Bonds are selected that meet our fundamental credit criteria with the goal of providing attractive risk-adjusted returns. We actively manage the fixed income holdings to control risk, while seeking opportunities along the yield curve to incrementally improve returns.

Overall portfolio risk is managed by limiting exposure to an asset class, sector, and individual position through rebalancing and a rigorous sell discipline. As of September 30, 2013, assets in the Equity Income – Balanced composite totaled $39.1 million.

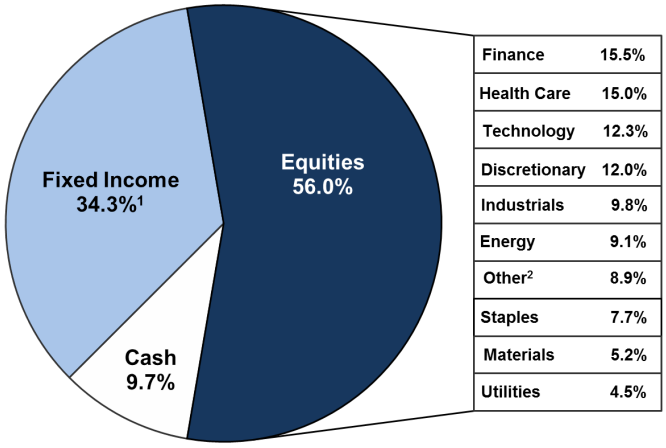
Through September 30, 2013	YTD	1 YEAR	2 YEARS	3 YEARS	5 YEARS	SINCE INCEPTION
CTC - Equity Income Balanced[1]	9.4%	9.9%	12.5%	9.5%	NA	9.5%
Balanced Benchmark[2]	7.1%	7.7%	11.5%	8.3%	7.7%	8.3%
Lipper Balanced Fund Index[3]	10.3%	11.7%	14.7%	9.7%	8.1%	9.7%

[1]Inception date is October 1, 2010. Periods greater than one year are annualized. Performance shown is total return and gross of fees.
[2]Balanced Benchmark is composed of 47.5% Barclays Capital Government/Credit Index, 38.0% S&P 500, 9.5% MSCI All-Country World ex-U.S. Index, and 5.0% Lipper Money Market Index.
[3]Lipper Balanced Fund Index is based on the 30 largest funds by asset size within the balanced objective, returns are net of fees. Typically, the stock/bond ratio ranges around 60%/40%.

TOP 10 EQUITY HOLDINGS

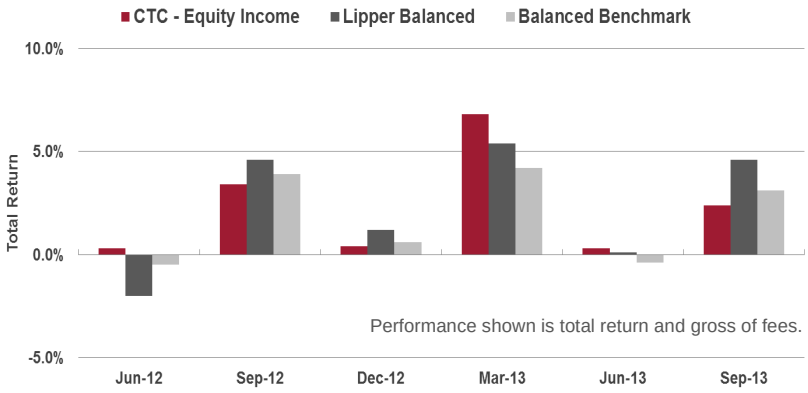
Automated Data Processing	3.8%
M&T Bank	3.7%
General Electric	3.6%
Sanofi	3.3%
Unilever	3.2%
PNC Financial Services	3.2%
Johnson & Johnson	3.1%
Pfizer	3.1%
VF Corp.	2.9%
Blackrock	2.8%

ASSET ALLOCATION



[1]Includes: Corporate (25.5%), U.S. Gov't Agency (4.5%), Municipal (0.7%) and Bond Funds (3.6%)
[2]Includes: International funds and ETFs (4.8%) and domestic equity funds (1.9%)

QUARTERLY COMMENTARY



The Equity Income – Balanced composite gained 2.4% in the second quarter, while the benchmark returned 3.1% and the Lipper Balanced Fund Index was up 4.6%. The composite's stock and bond positions both posted positive returns in the quarter. Relative to the benchmark, the portfolio is overweight in stocks (largely domestic equities) and underweight in bonds.

The composite's equities gained 3.6% in the quarter, while the global equity benchmark (80% S&P 500 and 20% MSCI All Country World ex US) gained 6.2%. Equity markets continued to climb despite global economic growth and forward profit growth expectations remaining relatively subdued. Foreign equity markets outpaced U.S. markets in the third quarter, with MSCI All World ex-US up 10.2%, versus the S&P 500 increase of 5.2%. An apparent bottoming of economic activity in Europe, initial signs of a slight acceleration in China and continued growth in Japan helped drive strong returns in international markets. International equities now represent over 16% of the portfolio, as we have taken advantage of attractive valuations over the last several quarters, having more than doubled our exposure since the beginning of 2012; we continue to selectively add positions. We also maintain our significant equity overweight due to low bond yields, reasonable equity valuations, and our expectation for continued gradual improvement in corporate profits. On an individual stock basis, the portfolio's largest contributors were Burberry, Schlumberger, Apple, and Ecolab.

The composite's fixed income holdings returned 1.1% in the quarter, outperforming the benchmark's 0.4% return. The portfolio benefited from being underweight duration during a period of rising interest rates, overweight corporate bonds and holding mortgaged backed securities which were strong performers in the quarter. We continue to position the portfolio with a shorter duration than the benchmark as our long-term concern remains the impact of a rise in interest rates on principal.

EQUITY CHARACTERISTICS

	CTC EQUITY INCOME BALANCED	S&P 500
Number of Holdings	44	500
Dividend Yield[1]	2.8%	2.1%
Dividend Growth (5 yr)[1]	10%	5%
Dividend Payout[1]	42%	32%
10 Year EPS Growth[1]	9%	8%
Beta[1]	0.92	1.00
Market Cap[1]	$100.5 B	$109.7 B
P/E Ratio (2013)[1]	15.5x	15.3x
Price to Book[1]	3.2x	2.5x

FIXED INCOME CHARACTERISTICS

	CTC EQUITY INCOME BALANCED	BARCLAY'S GOV'T/CREDIT INDEX
Current Yield	4.24%	—
Yield to Maturity	2.12%	2.04%
Duration	4.70	5.65
Credit Quality	A2/A	AA2/AA3
Corporate	75%	41%
Agency	3%	6%
US Treasury	0%	53%
Municipal	4%	0%
Mortgage-Backed	10%	0%

[1]Portfolio weighted average Source: Bloomberg, Baseline.

Portfolio characteristics represent a typical account invested according to this investment style. Actual account holdings may vary slightly.

CONTACT US

Massachusetts: Erin Cooper, 617-503-5285, erin.cooper@cambridgetrust.com
Robert MacAllister, 617-441-1599, robert.macallister@cambridgetrust.com
William Yates, 617-503-4041, william.yates@cambridgetrust.com

New Hampshire: Susan Martore-Baker, 603-369-5101, susan.martore-baker@cambridgetrust.com

Securities and other investment products are:

Not FDIC Insured • May Lose Value • Not Bank Guaranteed
Not a Deposit • Not Insured By Any Government Agency