Cambridge Trust Company

Equity Income - Balanced Portfolio

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

Fact Sheet as of 6/30/2013

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 June 30, 2013, assets in the Equity Income – Balanced composite totaled $41.5 million.

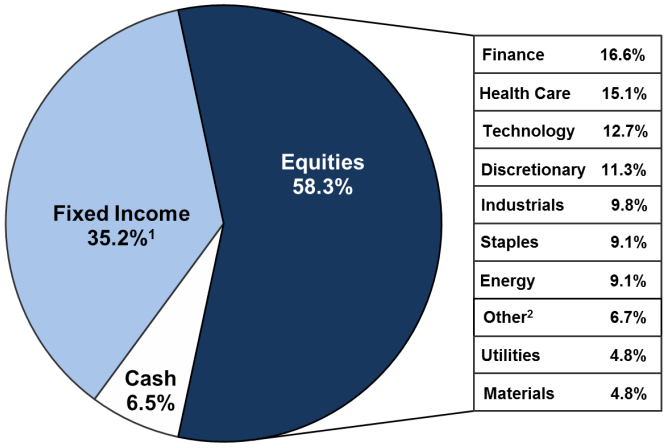
Through June 30, 2013	YTD	1 YEAR	2 YEARS	3 YEARS	5 YEARS	SINCE INCEPTION
CTC - Equity Income Balanced[1]	7.0%	11.2%	8.5%	NA	NA	9.6%
Balanced Benchmark[2]	3.8%	8.5%	6.9%	9.8%	5.7%	7.8%
Lipper Balanced Fund Index[3]	5.5%	11.7%	6.6%	11.0%	5.3%	8.8%

[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

M&T Bank	3.8%
Automated Data Processing	3.7%
General Electric	3.5%
Sanofi	3.4%
Unilever	3.4%
PNC Financial Services	3.3%
Johnson & Johnson	3.2%
Pfizer	3.1%
VF Corp.	2.9%
Blackrock	2.8%

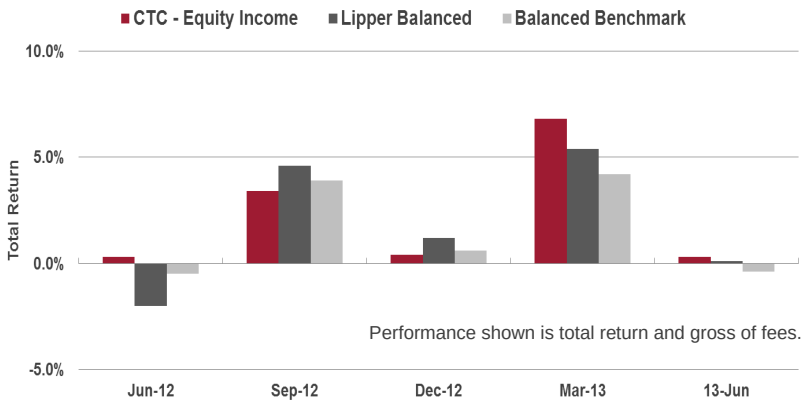
ASSET ALLOCATION



[1]Includes: Corporate (27.1%), US Gov't Agency (5.1%), Municipal (0.8%) and Bond Funds (2.2%)
[2]Includes: International funds and ETFs (4.8%) and domestic equity funds (1.9%)

QUARTERLY COMMENTARY

The Equity Income – Balanced composite gained 0.3% in the second quarter, ahead of the benchmark's -0.4% return and the Lipper Balanced Fund Index's 0.1% return. The portfolio's stocks posted positive returns, while bonds declined in the quarter due to an increase in interest rates. The portfolio's outperformance versus the benchmark was the result of our overweight in stocks (largely domestic equities), underweight in bonds, and favorable relative performance in both asset classes.



The composite's equties gained 1.9% in the quarter, while the global equity benchmark (80% S&P 500/20% MSCI All Country World ex-US) gained 1.8%. Volatility increased, largely due to the market adjusting to the expected change in Federal Reserve policy and the impact on interest rates. Despite the increase in volatility and economic growth that continues to be sluggish in the U.S. and weak in most of the rest of the world (with the exception of Japan), we remain approximately 10% overweight equities in the strategy, as equities still compare favorably to bonds in our view. Similar to the first quarter, U.S. equities outperformed international equities by a wide margin. The MSCI All Country World ex-US Index was down 2.9% in the quarter and is now roughly flat for the year while the S&P 500 was up 2.9% in the quarter and has gained 13.8% year to date. Our underweight in international equities versus the benchmark (14% vs. 20%) was beneficial. On an individual stock basis, the portfolio's largest contributors were Microsoft, Ford, VF Corp., Wells Fargo, and FactSet.

The composite's fixed income holdings returned -2.3% in the second quarter, while the benchmark returned -2.5%. The portfolio benefited from being underweight duration during a period of rising interest rates (the 10-year Treasury rose 65 basis points during 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

	CAMBRIDGE TRUST EQUITY INCOME	S&P 500
Number of Holdings	45	500
Dividend Yield[1]	2.7%	2.1%
Dividend Growth (5 yr)[1]	14.0%	5.0%
Dividend Payout[1]	43.1%	31.7%
Earnings Growth[1]	9.0%	—
Beta[1]	0.92	1.00
Market Cap[1]	$93.2 B	$111.2 B
P/E Ratio (2013)[1]	15.0x	14.7x
Price to Book[1]	3.2x	2.4x

FIXED INCOME CHARACTERISTICS

	CAMBRIDGE TRUST TAXABLE BOND	BARCLAY'S GOV'T/CREDIT INDEX
Current Yield	4.26%	—
Yield to Maturity	2.29%	2.1%
Duration	4.65	5.69
Credit Quality	A2/A	AA2/AA3
Corporate	81%	40%
Agency	13%	7%
US Treasury	0%	53%
Municipal	2%	0%
Mortgage-Backed	2%	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

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