January 9, 2009

Dear Friends,

We are pleased to enclose our year-end investment commentary and, for our clients, your 2008 performance history, portfolio appraisal and realized gains and losses reports. Our privacy statement and a financial planning update for 2009 written by our partner, Lea Highet, are enclosed. Our Form ADV – Part 2 is available upon request.

The stock market's performance was horrendous last year. The S&P 500 plunged 38.5%, shedding over $5 trillion in market value and recording its worst annual result since the 1930s. At its November 20 low the S&P 500 had fallen 52% from its October 2007 high, erasing virtually all stock market gains of the prior decade. The only safe havens in 2008 were Treasury bonds and gold. Commodities, common stocks, corporate bonds, hedge funds, private equity funds and index funds all disappointed. Indeed, the so-called Yale model of diversifying into alternative assets did not save that university endowment, which lost 25% in the last six months of 2008. World stock markets fared even worse with many declining more than 50%, including China (Shenzen) -62% and Iceland -95%

In a vicious bear market for almost every asset class, our firm's composite returned - 24.9% after fees, considerably ahead of the S&P 500 which returned -38.5% (-37.0%

including dividends).[1] As shown in the table below, even after last year's results, our

common stocks have returned +31.3% since inception vs. +15.2% for the S&P 500 including dividends. $1,000 invested in our equity composite on December 31, 2002 would be worth $1,313 today before fees vs. $1,152 invested in the S&P 500 with dividends reinvested.

Figures in %	Composite (Gross of fees)	Composite (Net of fees)	Composite (Stocks only)	S&P 500 (Index)	S&P 500 (w/ Divs.)
2008	(24.4)	(24.9)	(29.1)	(38.5)	(37.0)
2003-08 Total	29.3	23.1	31.3	2.7	15.2
2003-08 Annualized	4.4	3.5	4.6	0.4	2.4

Few people with responsibility for managing portfolios accurately foresaw the events of 2008. The bankruptcy of Lehman Brothers in September was a major destabilizing factor, engulfing institutional funds held in custody at that firm and unleashing a wave of panic selling and distrust of financial institutions. Three month LIBOR, an inter-bank lending rate, soared in the fourth quarter of 2008 to over 4.0%, and for weeks seemed immune to the efforts of central banks to ease the liquidity crisis.

[1]Composite includes all fee-paying, discretionary accounts that provide data to Douglass Winthrop's Advent system with an equity weighting of 65% or greater and a total value of $100,000 or greater on the last day of the prior quarter. Equity composite represents the equity portion of all accounts in DWA's composite. Composite and equity composite results are calculated using a "Time Weighted Rate of Return" methodology, are gross of fees except where indicated, and include the reinvestment of dividends.Composite accounts that maintain legacy positions not initiated by Douglass Winthrop where these positions comprise more than 25% of account's value, and accounts open for less than one quarter, are excluded. Past performance is no guarantee of future performance. Results are unaudited.

In the tumult, stand-alone investment banks virtually disappeared, as Merrill Lynch and Bear Stearns were sold at fire sale prices and Morgan Stanley and Goldman Sachs became bank holding companies. The financial industry was further shaken when AIG, Freddie Mac and Fannie Mae were effectively nationalized, their stockholders all but wiped out. Commodities collapsed along with stocks, paced by a breathtaking $100 per barrel decline in oil. The discovery that Bernard Madoff, a former chairman of NASDAQ, stole up to $50 billion in history's largest Ponzi scheme left investors exhausted and fearful. Many fled from mutual funds, withdrawing an estimated $320 billion during the year, a record in dollar and percentage terms. Action in the Treasury market reflected panic selling of risky assets as yields on Treasury bills turned negative, meaning investors were paying the Government to hold cash.

The events of 2008 set in motion forces that will change how economic activity is regulated and investments are managed. A deepening global recession is an immediate consequence of the excesses in financial and housing markets. With rising unemployment in developed countries, we expect to hear populist voices advocating protectionist policies. While we do not expect a permanent threat to free trade, we envision a period of heightened regulation in most developed economies. French President Nicholas Sarkozy recently declared, "Laissez-faire c'est fini," reflecting a widespread desire to roll back perceived excesses in free market capitalism. A less entrepreneurial economy may result, one characterized by larger financial institutions and heavier state presence in economic activity. As the U.S. labors to emerge from recession and grapples with a more regulated economy, it seems likely that an era of realism may take hold in economic and political affairs. Beset by two intractable wars, facing deep recession and trillion-dollar deficits, Americans will be forced to make difficult choices. Entitlement programs will be reformed, taxes will almost certainly rise and the voice of America in global affairs will be joined by others from the developing world, notably China, India and Brazil. How the Obama Administration deals with the economic challenges ahead and the fading reach of American power abroad will determine the success of his presidency and capacity for America to rebound from its current troubles.

Investors should consider the implications of these events. Treasury bonds, now the safest asset in the world and the recipient of trillions of dollars fleeing risky assets, will decline in price. Whether or not the Fed succeeds in restoring lending activity and economic growth, long term interest rates will eventually turn higher, driven by unprecedented government intervention in the U.S. economy and a waning appetite by foreign buyers for U.S. debt. Beyond a probable sell-off in Treasuries, we expect muted returns across many asset classes. The process of de-leveraging for banks, corporations and consumers means less capital available to invest in risky assets. Companies with sustainable competitive advantages that are not dependent on the capital markets to finance their growth will enjoy clear sailing for a time. Finally, it seems apparent that the bloom is off the rose for many alternative asset managers, certainly for the myriad fund-of-funds that were able to raise capital on the promise of consistently high returns with no risk. Trust, safety, transparency, liquidity, tax-efficiency, simplicity and fairness may return to the investment business, demanded by investors who were burned by the elixir of black box investment strategies. Despite talk of the end of buy and hold investing, we may soon witness its rebirth. Following a decade in which equities provided no return and alternative investments soared in popularity, long term investors in quality equities may have their moment in the sun.

We believe the investment landscape ahead is well suited to the business we have established at Douglass Winthrop. Our founding principles are to put our clients' interest first, manage their assets as if they were are own and charge a fair fee. We are long term owners of exceptional businesses, defined by their strategic advantages, management quality and financial attributes. Adhering to these principles, we believe our clients will enjoy a satisfactory return in the years ahead. This view may be unpopular considering the dreary economic news sure to come. However, our optimism is grounded in factual observation of the market's valuation, its historical returns and the unprecedented wave of government support for a recovery. Valuation is below the market's long term average with many quality stocks available for less than 10x free cash flow and 2x book value. Comparing the earnings yield on stocks to the meager 2.4% yield on 10-year Treasuries leads one to conclude that stocks are historically cheap, bonds are extremely overvalued or both. Pessimism is widespread and many investors have retreated to cash, opting to wait out the current uncertainty. At such times it is useful to recall opportunities present in past crises. The early 1980s, for example, were a great time to buy stocks even as *Business Week* famously declared the "Death of Equities" in a 1979 cover, inflation soared over 10% and the economy was mired in deep recession. As Warren Buffett noted in his recent *New York Times* op-ed, the future is always uncertain but "if you wait for the robins spring will be over."

The safety of our clients' assets is of paramount importance. In the wake of the Lehman Brothers bankruptcy and the Madoff scandal, it is worth noting the strength of our clients' custodians, especially BNY Mellon and Pershing LLC (its 100% owned subsidiary), which we believe are among the best capitalized custodians in the world. We selected these firms carefully because of their strong balance sheets, dedication to the custody business and government and private insurance protection for client accounts. For clients using other custodians, we are confident in the protection offered by these institutions as well. All clients receive separate statements from their custodian and Douglass Winthrop Advisors LLC. A related matter is the safety of cash balances in client accounts.
Following disruption in the commercial paper and short term money markets, we opted to switch money market funds for the majority of our clients with accounts at BNY Mellon or Pershing LLC into funds invested exclusively in Treasury and U.S Government obligations. This change had the effect of lowering the interest rate on cash but greatly reduced the risk that clients would experience a loss. We continue to favor short-term, high quality bonds in balanced accounts and to date have never experienced a default in the fixed-income area. Finally, we are pleased to note that certain of our clients have taken advantage of their custody relationship with BNY Mellon to access that firm's private banking and fiduciary services.

We thank you for your confidence in our firm and wish you good health and prosperity in the New Year. It is truly our pleasure to serve as your financial advisor. As always, please don't hesitate to call any one of us if we can be helpful.

Sincerely,

Jay Winthrop
Robert R. Douglass, Jr. Lea P. Highet
Charles T. Howard

Enclosures