TRILLIUM

All Cap Core

STRATEGY COMMENTARY
December 31, 2018 (4th Quarter)

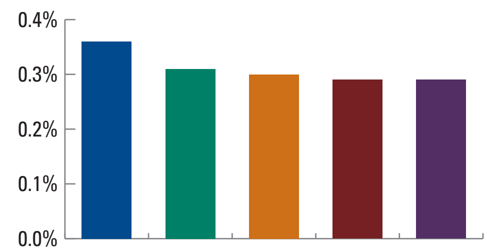
The All Cap Core strategy performed above its benchmark, the S&P 1500, for the quarter and year. Volatility and uncertainty returned to the market this quarter and year, and our commitment to maintaining our investment discipline was rewarded. At quarter end, the portfolio contained 77 stocks, representing all 11 of the economic sectors comprising the S&P 1500 index. As we have noted all year, our intention has been to have sector allocations relatively close to the benchmark. However, as discussed in our third quarter 2018 commentary, our underweight to the FANG group of internet stocks left us significantly underweight to the new Communication Services sector that replaced Telecommunications Services during the fourth quarter, with little desire to reduce the underweight given macro, market, and company specific factors. We were also underweight Financials and Energy, each by less than a percent. Our overweight sectors were Materials and Information Technology, each by about a percent.

The equity market was sharply negative in the fourth quarter (particularly the month of December), with falling energy, commodity and global stock prices, especially among technology stocks. Relative to the benchmark, the portfolio stumbled slightly in October during the first leg down, was strong during the brief recovery in November, and continued to gain ground during December's fall. Our underweight to the FANG internet group proved to be a key driver of outperformance this quarter, as market fears weighed heavily on the group. While larger companies generally had stronger returns than smaller ones this quarter, and this portfolio has a lower average market cap than its benchmark, avoiding this group led to strong stock selection among large caps stocks.

During the fourth quarter, trading remained light, as it has all year. There were two focuses of trading during the quarter: trimming profits from some successful positions in sectors we were overweight, including Consumer Discretionary and Materials; and closing positions in companies that we had less faith in, ahead of expected continued market volatility. Discretionary had been a large overweight exposure post the GICS reshuffle when Communication Services was broken out, and so we trimmed TJ Maxx and Nike after strong performance, moving the proceeds into neutral-weighted Health Care. We initiated a position in home health care firm LHC Group, which we believed is attractively valued with strong sectoral growth. Within Heath Care, we also closed our positon in surgical products company Hologic Inc. and reinvested in medical supplies company Becton, Dickinson and Co., a larger health care company with a steady growth profile and a strong acquisition track record, as it works on integrating recent purchase C.R. Bard. In Materials, we trimmed profits from Ecolab and closed our position in plastic packaging company Sealed Air. We initiated a position in industrial gas company Air Products, which we anticipate

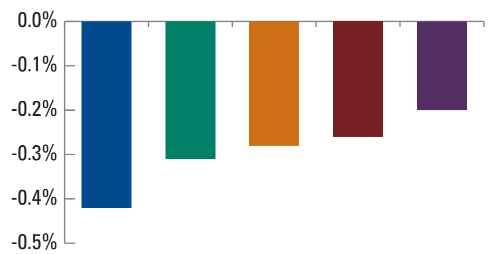
Top 5 Contributors (%)

	AVERAGE WEIGHT	PORTFOLIO RETURN	RELATIVE CONTRIBUTION
Apple Inc.	1.59	-29.88	0.36
Starbucks Corporation	1.54	13.91	0.31
McCormick & Company, Incorporated	1.75	6.52	0.30
American Water Works Company, Inc.	1.91	3.71	0.29
Omnicom Group Inc	1.48	8.57	0.29



Top 5 Detractors (%)

	AVERAGE WEIGHT	PORTFOLIO RETURN	RELATIVE CONTRIBUTION
Core Laboratories NV	0.91	-48.22	-0.42
United Natural Foods, Inc.	0.42	-64.64	-0.31
Westinghouse Air Brake Tech. Corp.	1.23	-32.93	-0.28
EOG Resources, Inc.	1.44	-31.51	-0.26
East West Bancorp, Inc.	1.29	-27.58	-0.20



TRILLIUM ASSET MANAGEMENT®

has more stability in a slower growth economy, and may benefit from channel confusion in the market as their main competitor is digested by its new foreign parent.

Relative to the S&P 1500, the contribution from sector weighting was marginally negative, as our generally small sector deviations from the benchmark kept any sector allocation from contributing much to performance. We were underweight Energy, by far the benchmark's worst performer, and neutral to the benchmark's only positive contributing sector, Utilities.

Our outperformance this quarter was generated by stock selection, primarily in Communication Services and Information Technology, and benefitted as much from what we didn't own as what we did. We had good contribution from Communications stocks such as Omnicom Group (+8.6% during the quarter), which reported better than expected growth, and Verizon Communications (+6.5%), which benefitted from AT&T's struggles, as well as semiconductor company Xilinx (+6.7%) in Technology, which reported much better than expected performance in the third quarter. We also benefited from our underweight position in Apple (-30%), as trade and sales growth fears weighed on the stock during the quarter.

Overall, our biggest detractors during the quarter were Core Laboratories (-48%), United Natural Foods (-65%) and Wabtec (-33%). Core Labs, a service provider to oil and gas firms, fell in line with its peers as the commodity price collapsed and fears grew about demand for their services, despite a business model we had hoped would be more resilient. Natural foods distributor United Natural Foods fell through the quarter as the company closed the acquisition of Supervalu and lowered expectations for the combined company, partly due to increased financing costs as well as lower revenue. Train component manufacturer Wabtec underperformed in December as investors feared their acquisition of GE's train business and related higher financing costs.

On the positive side, our biggest contributor was our underweight positon in Apple (-30%), as we own less than half of the benchmark's positon. In terms of what we do own, Starbucks (+14%) and spice company McCormick & Co (+6.5%) were the next contributors. Starbucks reported positive comparable sales in the US as well stabilizing sales in China. McCormick reported stronger sales than expected and continued peer-leading growth.

For the past year, we have noted our belief that the gradual tightening of monetary policy, underway since December 2015, would begin to slow the economy's growth. In addition, we have been mindful that policies coming from the current administration have not necessarily been fully vetted for unintended consequences. This quarter, other investors seemed to come to similar conclusions, all at the same time. While both Wall Street and Main Street chatter about recession has picked up over the past quarter, we remain convinced by the economic data and leading indicators that we are not imminently headed for recession. However, as has been true for the last year, we remain watchful over the seeming lack of sustainable growth drivers and the feeling we are at or approaching a business cycle peak. Therefore, we have been positioned closely to our benchmark, neither aggressive nor defensive, and intend to stay that way. As always, we continue to remain focused on high-quality and sustainability-centric growth companies selling at reasonable prices that can deliver improving earnings profiles independent of a more challenging macro environment.

CONTACT INFORMATION

Regional Sales Consultant
Eastern United States
Tom Simunovic
tsimunovic@trilliuminvest.com
617-532-6673

Regional Sales Consultant
Western United States
Emily Lee
elee@trilliuminvest.com
415-925-1498