TRILLIUM | # Fossil Fuel Free Core

STRATEGY COMMENTARY
December 31, 2018 (4th Quarter)

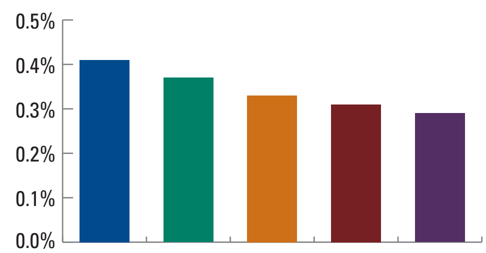
The Fossil Fuel Free Core strategy performed above its benchmark, the S&P 1500, for the quarter and year. Volatility and uncertainty returned to the market this quarter and year, and our commitment to maintaining our investment discipline was rewarded. At quarter end, the portfolio contained 74 stocks, representing 10 of the 11 economic sectors comprising the benchmark S&P 1500, all but Energy. Due to the lack of Energy exposure, the Fossil Fuel Free Core portfolio typically has an overweight to most other sectors, although as we have noted all year, our intention has been to have sector allocations relatively close to the benchmark, once the reallocation of Energy is taken into consideration. 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 that underweight given macro, market, and company specific factors. Our overweight sectors were Materials and Information Technology, each by about two percent compared to the benchmark.

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. Our avoidance of Energy and underweight the FANG group of internet stocks proved to be key drivers of outperformance this quarter, as market fears weighed heavily on both. While larger companies generally had stronger returns than smaller ones this quarter, and this portfolio has a lower average market cap than its benchmark, underweighting the FANG group in particular 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 has

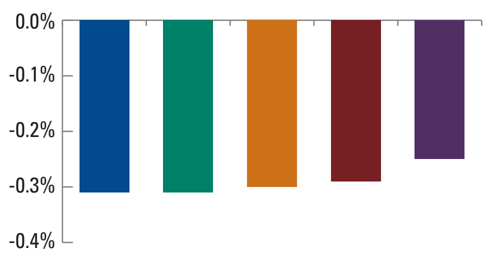
Top 5 Contributors (%)

	AVERAGE WEIGHT	PORTFOLIO RETURN	RELATIVE CONTRIBUTION
McCormick & Company, Inc.	2.31	6.52	0.41
Starbucks Corporation	1.80	13.91	0.37
American Water Works Co, Inc.	2.11	3.71	0.33
Apple Inc.	1.85	-29.88	0.31
Omnicom Group Inc	1.48	8.57	0.29



Top 5 Detractors (%)

	AVERAGE WEIGHT	PORTFOLIO RETURN	RELATIVE CONTRIBUTION
United Natural Foods, Inc.	0.43	-64.64	-0.31
SVB Financial Group	1.01	-38.90	-0.31
Blackbaud, Inc.	0.94	-37.91	-0.30
Westinghouse Air Brake Tech. Corp.	1.24	-32.93	-0.29
East West Bancorp, Inc.	1.57	-27.58	-0.25



TRILLIUM ASSET MANAGEMENT®

more stability in a slower growth economy, and may benefit from 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 positive, driven by our avoidance of Energy, by far the benchmark's worst performer.

The rest of our outperformance this quarter was generated by stock selection, primarily in Communication Services and to a lesser extent Information Technology. 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. Also in Technology, we benefitted from our underweight positon in Apple (-30%), as trade and sales growth fears weighed on the stock during the quarter.

Overall, our biggest detractors during the quarter were United Natural Foods (-65%), SVB Financial Group (-39%), and Blauckbaud Inc (-38%). Natural foods distributor United Naturals 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. While regional banks fell on average approximately 20% during the quarter, Silicon Valley-based SVB performed worse than peers due to additional concerns about their tech-heavy portfolio, as well as expense and competition growth. Blackbaud, a provider of software applications primarily to non-profit organizations, performed poorly in the quarter after the company negatively preannounced a reduction to 2019 earnings based on subscription model weakness in international markets and lower payment revenue in the tuition business. We believe that these factors are temporary and manageable going forward and we expect the company to continue to execute on its growth strategy, including completing value added, tuck-in acquisitions.

On the positive side, our biggest contributors were spice company McCormick & Co (+6.5%), Starbucks (+14%) and water utility American Water Works (+3.7%). McCormick reported stronger sales than expected and continued peer-leading growth. Starbucks reported positive comparable sales in the US as well stabilizing sales in China. Utilities were the only positive performing sector in the benchmark as investors sought dividends and stability, and American Water's performance was slightly ahead of the average large cap utility performance after reporting a reasonable quarter.

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