TRILLIUM

Sustainable Opportunities

STRATEGY COMMENTARY
December 31, 2018 (4th Quarter)

The Sustainable Opportunities (SO) strategy slightly outperformed the S&P 1500 benchmark in Q4, while outperforming it by over 200 for the full year, net of fees.

At quarter-end, the SO portfolio included 56 companies that are focused on our core themes of **Climate Solutions**, **Healthy Living**, and **Economic Empowerment**, themes that continue to be reinforced by empirical evidence. For example, on the day after Thanksgiving, thirteen U.S. federal agencies issued a well-documented study that laid out the extent to which climate change is already wreaking havoc in the U.S. in terms of drought, wildfires, and sea-level rise, big challenges for which there are attractive investment solutions.

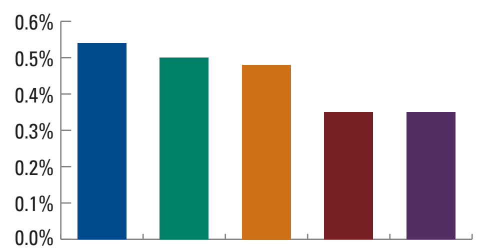
In the quarter, global capital markets experienced extreme volatility as investors became increasingly concerned about slowing global growth tied to rising interest rates, central bank monetary tightening, and the trade war with China. Oil prices fell precipitously, reaching two year lows and fossil fuel stocks, which we eschew in SO, also fell. While the market contracted, underlying economic data suggest a relatively strong, if slowing growth economy and leading economic indicators show no concrete evidence of impending recession.

Our companies represent all eleven of the sectors comprising the S&P 1500 index except traditional Energy, as we are a fossil fuel free strategy, and Telecom, where we have not identified any compelling solutions companies at present. During the quarter we were overweight the Consumer Discretionary, Consumer Staples, Financials, Industrials, Technology, Real Estate, and Utilities sectors, underweight Communication Services, Financials, and Healthcare, and roughly market weight in Materials.

This quarter, we executed minimal trades given the volatile market and in anticipation of a full rebalance in early 2019. That said, we sold out of our position in United Natural Foods after we lost faith in management's ability to successfully integrate the SuperValu acquisition, made clear after the December earnings release which showed falling operating margins at both companies. We also liquidated insurance company Horace Mann in favor of another existing insurance position, Travelers, which we believe is better positioned to evaluate and manage climate change risk. We added to

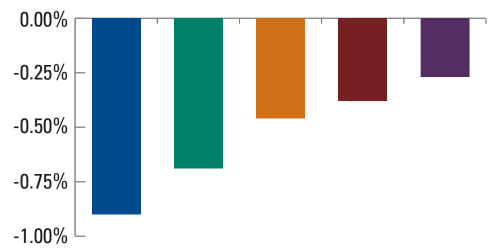
Top 5 Contributors (%)

	AVERAGE WEIGHT	PORTFOLIO RETURN	RELATIVE CONTRIBUTION
Starbucks Corporation	2.45	13.91	0.54
McCormick & Company, Incorporated	2.85	6.52	0.50
Merck & Co., Inc.	3.01	8.49	0.48
Church & Dwight Co., Inc.	1.53	11.13	0.35
American Water Works Company, Inc.	2.25	3.71	0.35



Top 5 Detractors (%)

	AVERAGE WEIGHT	PORTFOLIO RETURN	RELATIVE CONTRIBUTION
United Natural Foods, Inc.	1.09	-67.45	-0.90
SVB Financial Group	2.19	-38.90	-0.69
Blackbaud, Inc.	1.48	-37.91	-0.46
WW	0.86	-46.45	-0.38
Celgene Corporation	1.70	-28.38	-0.27



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positions in WW (formerly Weight Watchers), which we believe will benefit as it transitions to a broader wellness company, and Philips, a global leader in healthcare technology which, among other solutions, helps older individuals stay in their homes longer.

Sector allocation was positive in the quarter. Once again, not owning fossil fuels helped provide a tailwind, as the traditional Energy sector was down 25.4%. Our overweight to Real Estate, Utilities, and Staples also contributed to relative performance, but our underweight of Communication Services and Health Care detracted, as did our overweights of Industrial and Technology names.

Stock selection was positive or neutral in all but four sectors. Consumer Discretionary, Technology, and Materials were our top performing sectors, while Financials, Health Care, and Staples were our biggest detractors. In Discretionary, Starbucks provided a boost as new CFO Patrick Grismer helped convince investors they could overcome competition in China and a new delivery partnership with Alibaba was rolled out in that country. Child care provider Bright Horizons also continued a strong run as they accumulate more corporate clients. WW detracted as investors questioned earnings results that showed member growth slowing. We believe this is generally on trend per the usual calendar cycle, and that the company is well positioned going into the New Year's resolutions season with a "For Every Body" ad campaign featuring Oprah and new ambassador Kate Hudson. lululemon also gave back gains (still up 54.7% for the year) based on somewhat slowing sequential growth trend, although Men's and international growth was still impressive. In Technology, we gained considerable ground by not owning Apple (-29.9%), and our alternatives, such as PayPal (-4.3%) and LogMeIn (-8.1%) held up much better. Software company Blackbaud had a challenging earnings quarter and the stock declined (-37.9%) as they incurred customer losses amidst their transition to a cloud based model. In Materials, Owens-Illinois (-8.3%) held up on a relative basis as the turnaround there, although bumpy, continues.

In Financials, Silicon Valley Bank pulled back (-38.9%) as the risk-off environment made investors wary of their venture capital, technology exposure. In Staples, United Natural Foods fell -67.5%, as investors punished the aforementioned merger with SUPERVALU. However, McCormick and Church & Dwight provided ballast and rose 6.5% and 11.1% respectively. In healthcare, biotech names were under pressure, as Celgene (which has since rebounded on January 3rd from a proposed acquisition by Bristol Myers) fell -28.4%. Large pharma company Merck helped offset these detractors, however, and was up 8.5% for the period. American Water (3.7%), which we added to earlier in the year, was an excellent stabilizer in the portfolio with its steady regulated water utility business enjoying consistent, albeit modest, growth in cities across the U.S.

In closing, we are pleased to note that many of our sustainability solutions stocks (particularly dividend centric ones) held up reasonably well in the 4th quarter downturn. On the other hand, our holdings with exposure to China and the "trade war" generally fell more than the overall market. As we work through this market turbulence and eventually find a trade resolution, we believe our overall positioning in sustainability leaders will continue to be rewarding in terms of stability and growth.

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