TRILLIUM | Large Cap Core

STRATEGY COMMENTARY
March 31, 2019 (1st Quarter)

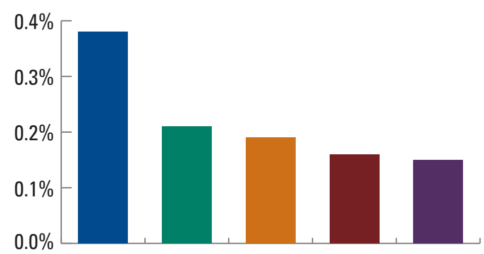
The Large Cap Core strategy underperformed its benchmark, the S&P 500 index, for the quarter and returned above its benchmark for the past twelve months, net of fees. At a few points over the last year, increasing concern about rising interest rates, the rising value of the U.S. dollar, a brewing trade war, and softening global growth shook investors' confidence, culminating in a sharp drop in equity prices in the fourth quarter. In January, the Federal Reserve shifted its stance, indicating that it would pause in its cycle of interest rate hikes, U.S. dollar appreciation slowed down, and trade war escalation seemed less likely. Equity investors responded enthusiastically: the S&P 500 index rose over 20% from its low on December 24, 2018, and finished the quarter with a 13.6% total return. The portfolio kept up with the market, benefitting from our relatively neutral sector positioning and our focus on companies with steady growth patterns, solid profitability, high-quality earnings and balance sheets and demonstrable commitments to ESG factors. This high-quality positioning contributed positively for the quarter, as companies with lower volatility and higher profitability were favored by the market.

We made modest changes to the portfolio during the quarter, adding three holdings and selling two, while seeking to increase the quality of the portfolio and the stability of earnings. At quarter end, the portfolio contained 71 stocks representing each of the eleven economic sectors comprising the S&P 500 index. During the quarter, we reduced our Financials weight and increased our overweight to Consumer Staples. We also made some intra-sector trades, looking to take some profits and re-deploy to slightly cheaper names. We are overweight in Health Care, Consumer Staples, and Information Technology, underweight in Energy, Communications Services, Financials, and Materials, and neutral in Consumer Discretionary, Industrials, Real Estate and Utilities.

Within Financials, we sold property/casualty insurance company Chubb Corporation due to merger-related concerns after the legacy company Chubb was acquired by ACE in 2016. We redeployed these funds into a more diversified, fundamentally strong property/casualty insurance company, The Travelers Companies. We also sold index provider MSCI Inc., taking profits after a 30% rise in the quarter, and used part of the proceeds to establish a position in Lincoln National, a life insurance company. In Consumer Staples, we trimmed spice and seasoning company McCormick & Co. and purchased more modestly valued packaged consumer food company General Mills, maker of cereal, granola bars, and yogurt, including the organic and natural food lines

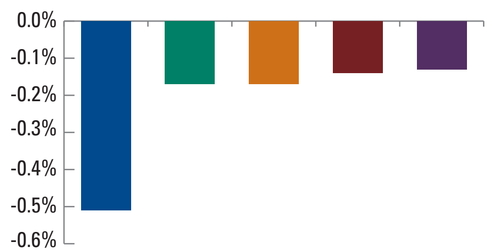
Top 5 Contributors (%)

	AVERAGE WEIGHT	PORTFOLIO RETURN	RELATIVE CONTRIBUTION
Celgene Corporation	1.68	47.20	0.38
Mastercard Incorporated Class A	2.92	25.02	0.21
Palo Alto Networks, Inc.	1.47	28.95	0.19
MSCI Inc. Class A	1.03	29.96	0.16
ONEOK, Inc.	1.11	31.24	0.15



Top 5 Detractors (%)

	AVERAGE WEIGHT	PORTFOLIO RETURN	RELATIVE CONTRIBUTION
Cigna Corporation	2.02	-15.30	-0.51
Biogen Inc.	0.82	-21.45	-0.17
International Flavors & Fragrances Inc.	1.02	-3.52	-0.17
McCormick & Company, Inc.	1.43	8.18	-0.14
Verizon Communications Inc.	2.73	6.29	-0.13



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Cascadian Farms and Muir Glen. In Information Technology, we trimmed PayPal, (up 37% in the past twelve months), and purchased Cisco Systems.

Relative to the S&P 500, the contribution from sector weighting was slightly negative. We were overweight to Health Care, the benchmark's lowest performing sector, and were roughly neutral to Information Technology and to Real Estate, the two best performing sectors. Positive stock selection drove relative performance, particularly in Information Technology, including two of our top five contributors, Financials, and Health Care. Stock selection was weakest in Communication Services, and detracted slightly in Energy, Materials, and Industrials.

Pharmaceutical company Bristol-Myers Squibb announced its intention to acquire Celgene Corporation (+47%), making large biotech drug manufacturer Celgene our top contributor after it had dropped by -28% during the fourth quarter 2018. Financial Index provider MSCI Inc. (+30%) saw significant multiple expansion, as management increased their growth expectations for its Analytics, ESG, and Real Estate business lines. Internet Technology security provider Palo Alto Networks, Inc. (+29%) reported robust performance on continued strong demand for network and data security products in the company's core target market. Payments processor Mastercard (+25%) benefitted from a lower than expected tax rate and from management's increased expectations for revenue growth over the next three years. Midstream natural gas company ONEOK, Inc. (+31%) rose in line with other oil and gas storage and transportation companies, consistent with the 32% increase in West Texas Intermediate oil prices in the quarter. We had negative stock selection in Communication Services, from Verizon Communications (+6%) and Omnicom Group (+0.5%), both of which had been strong performers in the prior quarter, and in Energy, from Marathon Petroleum Corporation (+2%) and National Oilwell Varco, Inc. (+4%).

Our detractors for the quarter included two healthcare companies, Cigna (-15%) and Biogen (-21%), two food-related companies, International Flavors and Fragrances (-4%) and McCormick (+8%), and Verizon (+6%). Health insurer Cigna Corporation (-15%) dropped mid-quarter as the U.S. Congress began considering the concept of Medicare For All, potentially signaling challenges for the insurers' business model during the election season this year and next. Biotechnology stalwart Biogen Inc. (-21%) surprised investors with an early termination of a Phase 3 trial for an Alzheimer's' treatment based on lack of evidence of its efficacy. International Flavors & Fragrances (-4%) reported a disappointing fourth quarter, the first to fully include recent acquisition Frutarom; we believe that the long-term thesis of growth and synergies is sound and are prepared to be patient. Fourth quarter earnings were a bit light for premium-valued McCormick & Company, Inc. (+8%), as one of its key customers struggled with restocking issues tied to an internal software transition. After a very strong relative performance in the fourth quarter, Verizon (+6%) lagged behind the overall market and behind other members of the Communications Services sector.

We have long expected that the gradual tightening of monetary policy, in place since December 2015, would begin to slow U.S. economic growth. 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, since we remain watchful over the seeming lack of sustainable growth drivers and the feeling we are at or approaching a business cycle peak, we are positioned closely to our benchmark, neither aggressive nor defensive, and intend to stay that way. 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.

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