TRILLIUM

Fossil Fuel Free Core

STRATEGY COMMENTARY

June 30, 2019 (2nd Quarter)

The Fossil Fuel Free Core strategy performed ahead of its benchmark, the S&P 1500, for the quarter-ended June 30, 2019, net of fees. 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 previously, our desire over the last 18 months has been to have sector allocations relatively close to the benchmark, once the reallocation of Energy is taken into consideration. However, the portfolio's underweight to the FANG group of internet stocks left it significantly underweight to the new (established September 2018) Communication Services sector, with little desire to reduce the underweight given macro, market, company specific, and potential regulatory factors. The portfolio was correspondingly overweight Information Technology with Materials also, 2% greater than benchmark. The portfolio was also slightly under the benchmark in Industrials.

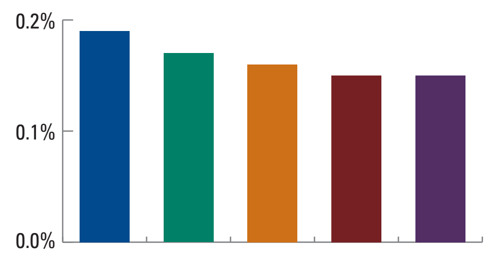
At a few points over the last year, uncertainty about the trajectory of the economy's growth shook investors' confidence and the equity market; at other times, the market seemed to anticipate continued stability. This quarter, the market's mood, driven by economic data and assumptions about the Fed's future interest rate path, corresponded neatly with the months: moderate optimism in in April, followed by pessimism in May that was offset by optimism again in June. This portfolio continues to be positioned for slowing growth. Consistent with that orientation, the portfolio lost ground compared to the benchmark in April, and then performed comparatively strongly in May and roughly in line with the benchmark in June.

While trading was light in the second quarter, we did move around some positions to take advantage of opportunities to improve quality characteristics and capitalize on specific situations. In Industrials, we closed our position in buildings services company Johnson Controls after the company announced the spinoff of its battery business. We reinvested in Ingersoll Rand, which provides similar HVAC building products, with a clearer focus, a more well-defined sustainability strategy and quality advantage. In Financials, we sold our holding in the turnaround Key Bank, increased ownership of insurer Travelers, and added to the well-situated Silicon Valley Bank, which had pulled back more than other regional banks. Together these trades reduced regional bank exposure, increased more stable insurance exposure, and slightly increased capital markets exposure. Finally, in Technology, we took profits from our large holding in MasterCard and initiated a positon in consulting firm Accenture, which provides diversification inside the large Tech sector and continues to benefit from the transition to the digital cloud.

More than half of the upside to the benchmark was driven by sector allocation this quarter, with a preponderance of the benefit being from not investing in the benchmark's

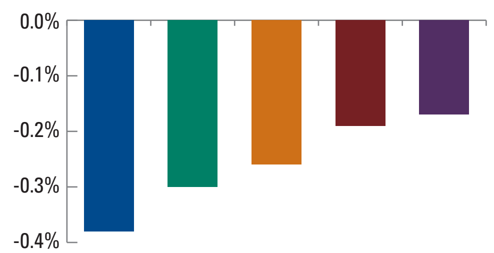
Top 5 Contributors (%)

	AVERAGE WEIGHT	PORTFOLIO RETURN	RELATIVE CONTRIBUTION
Air Products and Chemicals, Inc.	1.52	19.15	0.19
First Solar, Inc.	0.93	24.30	0.17
American Water Works Company, Inc.	2.32	11.77	0.16
Mastercard Incorporated Class A	2.51	12.51	0.15
Hexcel Corporation	1.17	17.19	0.15



Top 5 Detractors (%)

	AVERAGE WEIGHT	PORTFOLIO RETURN	RELATIVE CONTRIBUTION
Alphabet Inc. Class A	4.33	-7.99	-0.38
Waters Corporation	1.43	-14.49	-0.30
Palo Alto Networks, Inc.	1.16	-16.11	-0.26
Lamb Weston Holdings, Inc.	0.91	-15.20	-0.19
Bank of New York Mellon Corporation	1.16	-11.95	-0.17



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worst performing sector, Energy. The portfolio was also slightly overweight the benchmark's best performing sector, Financials.

Stock selection was also additive, particularly in Materials, where three of our holdings were notably strong performers: Air Products and Chemicals (+19% during the period), International Flavors & Fragrances (+13%), and Ecoloab (+12%). On the other hand, stock selection in Communication Services was weak, although as is frequently the case, this was partially a matter of what we didn't own. Facebook (+16%), which isn't held in this strategy, performed strongly during the quarter and was a detractor, while Alphabet (-8%), which we did own, also negatively impacted performance. Alphabet detracted from performance as year-over-year sales growth at the company continues to moderate, coming in below 20% in the recent quarter, which was below consensus. This, coupled with big tech regulatory concerns, led to pressure on the multiple, although our thesis remains intact and view the risk to reward ratio looking more favorable at present.

Overall across sectors, while Alphabet was the biggest detractor, the next two detractors had been top contributors in the first quarter, Palo Alto Networks (-16%) and Waters Corp (-14). After a very strong start to the year, technology security provider Palo Alto Networks came under pressure as billings growth slowed due to fewer long-term contracts booked. As a result, near-term free cash flow margin guidance was lowered slightly, but is expected to improve in coming quarters, as cloud based revenue streams become a bigger part of the overall revenue mix. The secular tailwinds for security and management execution keep this name as a core technology holding.

Despite seeing a rebound in its revenue performance late in 2018, health care tools supplier Waters reported disappointing first quarter results, mainly due to lower than expected orders from its key pharma/biotechnology and industrials segments customers. While the company lowered its full year 2019 financial outlook, management noted that pharma/biotech company order volume could accelerate as the year progresses, similar to 2018.

On the positive side, our biggest contributors were Air Products and Chemicals (+19%), First Solar (+24%), and American Water Works (+12%). Air Products has benefitted from strong volume growth in industrial gases as well as solid pricing momentum that has driven margin expansion and earnings growth. The company continues to have a healthy project backlog across most geographies. Photovoltaic equipment manufacturer and project developer First Solar continues to be a well-run company, making solid progress towards clear milestones as a leading provider of clean energy solutions and is increasingly earning the trust of clients and investors. Water utility American Water Works continued to demonstrate consistent execution; the company is one of only three companies in the S&P 500 with both a female CEO and a female CFO.

For more than a 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. While both Wall Street and Main Street chatter about a potential change in interest rate regime has continued to pick up over the past quarter, driven by the Fed's actions and communications, we remain convinced by the economic data and leading indicators that while we are not imminently headed for recession, there are reasons to be cautious. 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-centered growth companies selling at reasonable prices that can deliver improving earnings profiles independent of a more challenging macro environment.

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