TRILLIUM | Large Cap Core

STRATEGY COMMENTARY
June 30, 2019 (2nd Quarter)

The Large Cap Core strategy outperformed its benchmark, the S&P 500 index, for the quarter ended June 30, 2019 and for the past twelve months, net of fees. During the second quarter of 2019, U.S. equity market investors and bond investors read the high-frequency economic data differently. Treasury yields dropped across all maturities, as bond investors focused on softer economic data and on potential economic damage from newly imposed tariffs and trade restrictions, while stock prices rose in April, dropped in May, and then rose again in June as equity investors began to assume that the Federal Reserve would soon react by cutting short-term interest rates.

In a quarter with considerable and rapid sector rotation, the portfolio benefitted from our relatively neutral sector positioning and our focus on companies with steady growth patterns, solid profitability, high-quality earnings, steady 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.

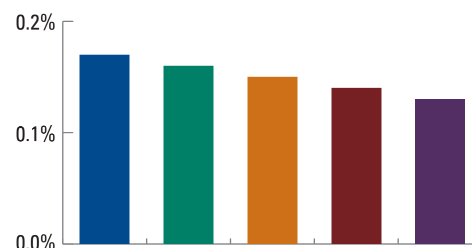
As such, we made modest changes to the portfolio during the quarter, adding to four positions, trimming two, and selling two positions, while seeking to increase the quality of the portfolio and the stability of earnings. At quarter-end, the portfolio contained 69 stocks representing each of the eleven economic sectors comprising the S&P 500 index. During the quarter, we slightly increased our Real Estate exposure, and allowed the Energy sector exposure to decline as Energy stock prices dropped over the quarter. We are overweight in Health Care, Consumer Staples, and Information Technology, underweight in Energy, Communications Services, Financials, and Materials, slightly underweight in Industrials, and neutral in Consumer Discretionary, Real Estate and Utilities.

Within Health Care, we sold Biogen, after disappointing results in Phase 3 trials for what had been expected to be a very promising Alzheimer's drug; we redeployed the proceeds to CVS Health Corporation, in the expectation that CVS will begin to realize benefits from its integration with Aetna, which is acquired in late 2018. We consolidated our holdings in the Energy sector, exiting from oil and gas services and equipment company National Oilwell Varco and adding the proceeds to our existing position in exploration and production company Marathon Oil. After an intra-quarter 14% bounce by retail coffee powerhouse Starbucks, we took some profits, and re-deployed capital into athletic apparel Nike athletic apparel. For portfolio balance, we trimmed long-term holding Microsoft (up over 40% on average for the last three years), and added to our position in American Tower Corp., a real-estate investment trust that owns and operates wireless communications and broadcast towers worldwide.

Relative to the S&P 500, the contribution from sector weighting was neutral. We were overweight to Health Care,

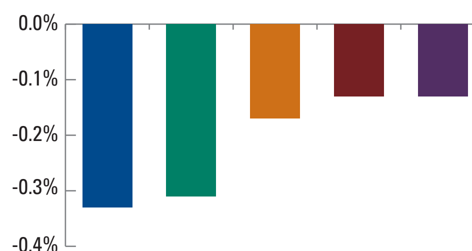
Top 5 Contributors (%)

	AVERAGE WEIGHT	PORTFOLIO RETURN	RELATIVE CONTRIBUTION
Mastercard Incorporated Class A	3.18	12.51	0.17
American Water Works Company, Inc.	2.32	11.77	0.16
Ingersoll-Rand Plc	1.35	17.84	0.15
PNC Financial Services Group, Inc.	2.07	12.73	0.14
Starbucks Corporation	1.68	13.29	0.13



Top 5 Detractors (%)

	AVERAGE WEIGHT	PORTFOLIO RETURN	RELATIVE CONTRIBUTION
Alphabet Inc. Class A	4.08	-7.99	-0.33
Palo Alto Networks, Inc.	1.40	-16.11	-0.31
Bank of New York Mellon Corporation	1.17	-11.95	-0.17
J.B. Hunt Transport Services, Inc.	0.94	-9.51	-0.13
Marathon Oil Corporation	0.72	-14.69	-0.13



This information is not intended as investment advice or a recommendation to purchase or sell specific securities. Sector and stock performance included in portfolio commentary reflects a representative account as of 06/30/2019 and excludes cash. Actual holdings will vary for each client and there is no guarantee that a particular client's account will hold any or all of the securities/sectors listed. Additional information regarding the calculation methodology, as well as each holding's contribution to the strategy's performance is available on request.

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the benchmark's second worst performing sector, balanced by an underweight to Energy, the worst performing sector; we were underweight to Financials and Materials, the two best performing sectors, but overweight to Information Technology, the third best performing sector. Positive stock selection drove relative performance, particularly in Information Technology, Health Care, and Utilities. Stock selection was weakest in Communication Services, Financials, and Energy.

Payments processor Master Card (+13%) was the top performer in the portfolio, due to consistent revenue gains across all geographies and overall above consensus earnings results. We continue to like the stock for its stability in earnings growth, high quality financial characteristics, and exposure to the growing importance of financial inclusion in emerging market economies. American Water Works Company (+12%) a provider of drinking water and wastewater services for municipalities in the U.S. and Ontario, continued to benefit from solid execution; the company is one of only three companies in the S&P 500 with both a female CEO and a female CFO. Commercial and Residential Building Equipment and Supplies company Ingersoll-Rand, PLC, (+18%) announced a strategic merger of its Industrials division with Gardner Denver, thus focusing Ingersoll Rand on its faster-growing Climate business and resulting in a higher valuation. PNC Bank (+13%) benefitted from favorable sentiment on their consumer exposure and a positive result on the Federal Reserve's most recent round of stress testing, which should allow for higher shareholder payout ratios in the future. Starbucks (+13%) reported an impressive 80 basis point increase in its pre-tax margin, with increased sales driven by increased ticket charges, while store traffic was unchanged. Lastly, the Company has also been aggressively repurchasing its stock.

Alphabet (-8%) 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. Coupled with big tech regulatory concerns, this slowing revenue growth led to pressure on the multiple. Our thesis remains intact and we view the risk to reward ratio as improving. Palo Alto Networks (-16%) dropped on what we believe to be temporary pressure on free cash flow margin; we expect margin improvement in coming quarters as cloud-based revenue streams continue to grow as a percentage of overall revenue; increasing needs for data security continues to be a strong secular tailwind for this core technology holding. Bank of New York Mellon (-12%) found that its trust banking clients rapidly adjusted to the falling interest rate environment by shifting their short-term instrument mix and thus temporarily pressuring both net interest income and revenues at the large custodial bank. J.B. Hunt Transport Services (-10%) was affected by weather and rail service issues, resulting in slowing volumes and margins in the intermodal market. Oil and gas exploration and production company Marathon Oil (-15%) declined in-line with exploration and production companies as the industry faced volatile oil prices, including a 20% mid-quarter drop in the price of West Texas Intermediate Oil.

For several quarters, we have noted that the gradual tightening of monetary policy, in place in the U.S. since December 2015, and worldwide since early 2017, would begin to slow economic growth worldwide, and indeed, indicators of growth in emerging markets, in the Eurozone, and the U.S. have all signaled either slowing or declining growth. Additionally, the uncertainty associated with rapidly changing signals on tariffs and trade restrictions have increased the level of uncertainty. Nonetheless, tighter monetary policy in the U.S. is offset substantially by very expansive fiscal policy, as the Federal Government is running a substantial budget deficit. 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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The S&P Indices are widely recognized, unmanaged indices of common stock. It is not possible to invest directly in an index. The S&P 500 Index is recognized as a gauge of the large cap U.S. equities market.