TRILLIUM | All Cap Core

STRATEGY COMMENTARY
December 31, 2019 (4th Quarter)

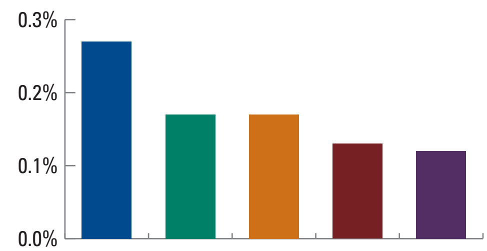
The All Cap Core strategy generated a return of 7.1%, net of fees, for the quarter ended December 31, 2019, compared to the benchmark S&P 1500 index, which returned 8.9% during the same period. For the full year, the strategy returned 28.9% net of fees compared to the benchmark's 30.9%. At quarter-end, the portfolio contained 78 stocks, representing all 11 of the economic sectors comprising the benchmark S&P 1500 index. Our intention for more than a year has been to have sector allocations be aligned relatively close to the benchmark, and this quarter we continued to adjust sector weights somewhat closer to this goal. The portfolio maintained its largest deviations in Materials and Communications Services, with Materials approximately 1.1% overweight the benchmark and Communications approximately 1.4% underweight on average during the quarter. All other sectors deviated by less than a percent.

This quarter, investors seemed to digest decreasing trade tensions and the Fed's actions to lower interest rates by once again embracing larger and growth-oriented stocks, which outperformed smaller and value stocks. While the benchmark was up approximately 9% for the quarter, the Information Technology and Health Care sectors were each up more than 14% in the benchmark, and safe haven sectors Real Estate and Utilities, which are often considered defensive bond proxies and were the third quarter's star performers, were essentially flat. This past fall began with investor worries about recession, but the year ended with the market at new highs and prognostications of smooth sailing.

Taking this into consideration, our trading during the fourth quarter sought to modestly increase the cyclicality of the portfolio without making dramatic changes, in-line with our economic view. We also used this time to re-adjust some positons that had grown through strong performance, such as water utility **American Water Works**, and reinvest where we saw better value. In Consumer Discretionary, for example, we trimmed large positions in retailers **Target** and **Home Depot** and initiated a new position in retailer **Tractor Supply**. The Company serves customers in rural areas and has recently taken a more proactive stance on chemicals within its supplier base by phasing out pesticides that have been linked to declines in populations of pollinators such as honeybees. In Real Estate, we switched from health care real estate firm **Healthpeak Properties**, which we felt was at a high valuation, to real estate services firm **Jones Lang LaSalle** which we believe is well-positioned, via more cyclical exposure than other real estate firms, and has been diversifying into real estate capital markets. In Health Care, we closed our position in equipment company **Waters**, which we fear has not made the necessary investment in new innovations, as their historic strength in mass spectrometry is being increasingly challenged. We initiated a position in **Omnicell**, a health care technology company that provides market-leading medication dispensing automation

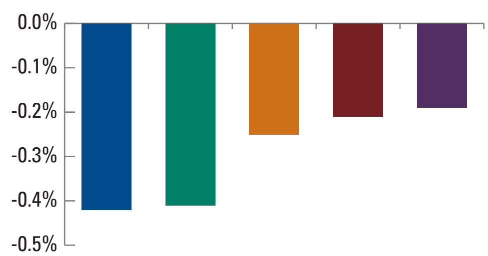
Top 5 Contributors (%)

	AVERAGE WEIGHT	PORTFOLIO RETURN	RELATIVE CONTRIBUTION
Cigna Corp.	1.48	34.72	0.27
Bank of America Corp.	2.46	21.40	0.17
Target Corp.	1.83	20.64	0.17
First Republic Bank	1.17	21.67	0.13
Lululemon Athletica Inc.	1.18	20.33	0.12



Top 5 Detractors (%)

	AVERAGE WEIGHT	PORTFOLIO RETURN	RELATIVE CONTRIBUTION
Travelers Companies, Inc.	2.42	-7.34	-0.42
Apple Inc.	1.75	31.50	-0.41
Hexcel Corp.	1.23	-10.54	-0.25
American Water Works Company, Inc.	2.00	-0.69	-0.21
SBA Communications Corp. Class A	2.18	0.09	-0.19



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and software solutions, among other services. We conclude the company was at an attractive valuation. We also made small increases to several smaller positions that we felt were attractively valued, including **First Solar**, **New York Times**, and **IPG Photonics**.

Relative to the S&P 1500, the contribution from sector weighting was neutral, as our generally small sector deviations from the benchmark kept any sector allocation from contributing much to performance.

The portfolio's under performance this quarter was driven by stock selection, primarily in Health Care followed by Information Technology, the strongest sector performers within the benchmark. Within Health Care, the main driver of the underperformance was our underexposure to and stock selection in Biotechnology. While the company we own, **Gilead**, returned 3% for the quarter and thus was slightly detractive, the other large biotech companies in the index returned 20-30%. Similarly in Technology, several large semiconductor companies returned 15-50%, and our holdings did not keep up.

Overall across sectors, our biggest detractor was insurer **Travelers**, which fell 7% during the quarter. As investors became generally more positive, interest rates rebounded, the yield curve steepened, and within Financials, investors abandoned defensive property and casualty insurers which fell 5% on average. Our second detractor was **Apple**, which returned 32% during the quarter, and detracted from performance in the quarter given our underweighted position in the name. Recent concerns over revenue impacts from slowing iPhone unit sales were overblown, while margin contribution from the services business helped the company hit earnings targets. We continue to monitor Apple and the fundamentals of the handset space in order to reassess potential risk and reward in this name. Airplane component manufacturer **Hexcel** fell 11% during the quarter as fears about when and if the Boeing 737 Max will return to production continued to hit the stock. Well-run water utility **American Water Works** fell by 1% during the quarter, as utilities fell out of investor preference and the company released long term growth guidance slightly below investors' hopes, along with news of the retirement of the company's CEO. As the long time COO will be taking over the helm, we are not concerned about the transition.

On the positive side, our top contributor was health insurer Cigna, which returned 35% during the quarter. After underperforming earlier in the year on fears of political intervention in the health insurance market, health insurer stocks were generally strong in the fourth quarter as investor fears about the political appetite for a single payer health care system seemed to wane. Bank of America was our second largest contributor, returning 21% during the quarter. Banks generally benefitted from the rotation of Financials investor preferences within the Financial sector, as large banks gained 15-20% on average. In addition, retailer **Target Corp** (+21%), continued to show strong performance with sales ahead of expectations in store and especially on line.

For more than a year, we have been positioned for slowing economic growth, although not a recession. This position is based on the lagged effects of the gradual global tightening of monetary policy in place from late 2015 to mid-2019. We were anticipating that this would begin to slow economic growth worldwide, and, indeed, U.S. GDP growth slowed from 3.2% year-over-year in the second quarter of 2018 to an expected 2.2% in the fourth quarter of 2019. Recently, global cyclical indicators, such as the global purchasing manager's index, have been stabilizing. As indicated above, during the fourth quarter we began to take steps to slightly increase the cyclicality of the portfolio, without sacrificing either fundamental or ESG quality, as we believe that we will begin to see both corporate earnings and developed economies' economic growth accelerating in 2020. Nonetheless, we remain watchful over the seeming lack of sustainable growth drivers and the feeling that we are at or approaching a business cycle peak. Therefore, although we have slightly increased the economic sensitivity of the portfolio, we are still close to our benchmark, and intend to stay that way until we see clearer signs of faster earnings growth. 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.

CONTACT INFORMATION

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