TRILLIUM

Fossil Fuel Free Core

STRATEGY COMMENTARY
December 31, 2019 (4th Quarter)

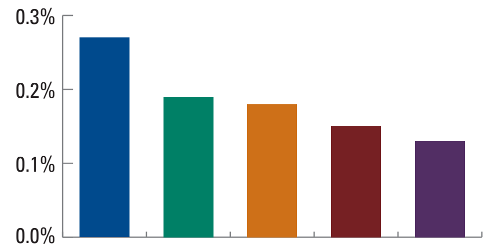
The Fossil Fuel Free Core strategy generated a return of 7.3%, net of fees, for the quarter ended December 31, 2019, compared the benchmark S&P 1500 index, which returned 8.9% during the same period. For the full year, the strategy returned 30.1% net of fees compared to the benchmark's 30.9%. At quarter-end, the portfolio contained 73 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. Our intention for more than a year has been to have sector allocations relatively close to the benchmark once the reallocation of Energy is taken into consideration, and this quarter we continued to adjust sector weights somewhat closer to this goal. The portfolio maintained largest overweight exposures, relative to the benchmark, to Information Technology and Materials, at 2.4% and 1.7% respectively, and was most underweight Communication Services and Industrials, at 0.9% and 0.7% respectively, on average during the quarter.

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.

Taking this into consideration, our trading during the fourth quarter sought to modestly increase the cyclicality of the portfolio, 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** which has \ phased 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 and software solutions, among other services. We conclude that the company was at an attractive valuation. In Materials, we closed our position in industrial gas company **Air Products** as the company focuses more on gasification, and opened a position in packing company **Ball Corp**. We increased Industrials exposure through increasing position sizes in

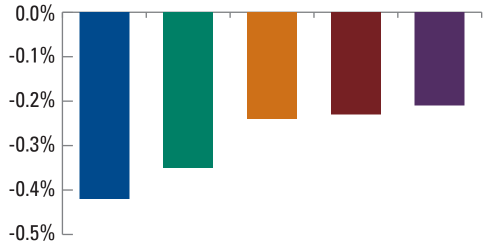
Top 5 Contributors (%)

	AVERAGE WEIGHT	PORTFOLIO RETURN	RELATIVE CONTRIBUTION
Cigna Corp.	1.47	34.72	0.27
Bank of America Corp.	2.62	21.40	0.19
First Republic Bank	1.57	21.67	0.18
Lululemon Athletica Inc.	1.48	20.33	0.15
Target Corp.	1.43	20.64	0.13



Top 5 Detractors (%)

	AVERAGE WEIGHT	PORTFOLIO RETURN	RELATIVE CONTRIBUTION
Travelers Companies, Inc.	2.44	-7.34	-0.42
Apple Inc.	2.07	31.50	-0.35
Hexcel Corp.	1.16	-10.54	-0.24
American Water Works Company, Inc.	2.20	-0.69	-0.23
Blackbaud, Inc.	0.94	-11.76	-0.21



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long term holdings **Hexcel** and **Xylem**, both of which were at attractive valuations. 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 positive. Energy continued to underperform the benchmark, so our lack of exposure was additive, as was our large overweight exposure to one of the benchmark's best performing sectors, Information Technology.

The portfolio's under performance this quarter was driven by stock selection, primarily in Health Care followed by Information Technology, the benchmark's best performing sectors. 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. Within Financials, as investors became generally more positive, they 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. 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. 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. Banks **Bank of America** (+21%) and **First Republic** (+22%) were the next largest contributors. Banks generally benefitted from the rotation of investor preferences within the Financials sector, as large banks gained 15-20% on average. In addition, athleisure apparel manufacturer **Lululemon Athletica** (+20%) and retailer **Target Corp** (+21%), both continued to show strong performance as retailers benefitted from expectations of strong holiday spending, particularly on line.

For more than a year, we have been positioned for slowing economic growth, although not for 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 has slowed. 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.

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