TRILLIUM | Large Cap Core

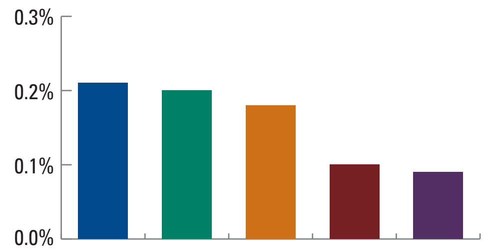
STRATEGY COMMENTARY
December 31, 2019 (4th Quarter)

The Large Cap Core strategy returned 7.22%, for the quarter ended December 31, 2019 and 31.10% for the past twelve months, net of fees compared to the benchmark S&P 500 index, which reported returns of 9.07% and 31.49% respectively. At quarter end, the portfolio contained 67 stocks across the eleven economic sectors comprising the S&P 500 index. For the past year, we have been positioned for a slowing economy, emphasizing companies with stable earnings. During the quarter, we observed signs of a bottoming in economic activity, and consequently moved the portfolio to a somewhat less defensive positioning, adding cyclical companies with strong balance sheets and strong industry positions. We added 2% to our Financial Services, 1.5% to our Information Technology, and 0.6% to our Industrials exposures, while reducing our Consumer Staples, Utilities, and Healthcare sector exposures. In the process, we established three new positions and sold six positions. At quarter end, we are overweight in Real Estate, Financials, Consumer Discretionary, and Information Technology; moderately overweight in Industrials and Health Care; moderately underweight in Consumer Staples and Materials, and underweight in Communication Services, Energy, and Utilities.

Within Health Care, we sold biotechnology company **Gilead** and healthcare product maker **Johnson & Johnson**, and repositioned into medical device manufacturer **Stryker** and pharmaceutical innovator **Merck**. **Johnson & Johnson** had underperformed in the third quarter on investor concerns about lawsuits on opioid manufacture and asbestos contamination of talc products. While we believe that **Johnson & Johnson** has limited legal exposure, we believe that concerns over these products will continue to hang over the stock, and we took advantage of 11% gain in the fourth quarter to exit and to reposition into global health care company **Merck**, which does not have these issues. In Industrials, we exited from **Verisk**, an industrial company with steady margins and sales, initiated a small position in **Deere**, judging that its valuation and the apparent bottoming of the agricultural contraction made is attractive, and increased positions in **Ingersoll Rand, Eaton**, and **Rockwell.** We sold health care real estate firm **Healthpeak Properties** in favor of the more economically sensitive real estate and property management company **CBRE Group**. We reduced our exposure to Utilities, selling over half of our position in **American Water Works**, and Consumer Staples, closing out a position in **General Mills** that we had established in March 2019. We added to the economic sensitivity of the portfolio by adding to three positions in Financials, regional banks **KeyCorp** and **First Republic** and life insurer **Lincoln National**. We added to our exposure to Information Technology while also increasing the economic sensitivity of our holdings. For example, we exited from integrated circuit maker **Analog Devices**, bought **ASML Holding**, the

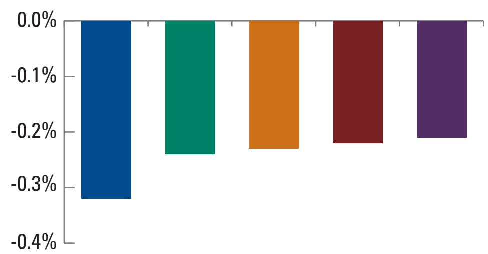
Top 5 Contributors (%)

	AVERAGE WEIGHT	PORTFOLIO RETURN	RELATIVE CONTRIBUTION
Target Corp.	2.17	20.64	0.21
Cigna Corp.	1.21	34.72	0.20
Bank of America Corp.	2.69	21.40	0.18
PNC Financial Services Group, Inc.	2.17	14.82	0.10
Adobe Inc.	1.52	19.39	0.09



Top 5 Detractors (%)

	AVERAGE WEIGHT	PORTFOLIO RETURN	RELATIVE CONTRIBUTION
Travelers Companies, Inc.	1.93	-7.34	-0.32
Unilever NV ADR	1.84	-3.66	-0.24
American Water Works Company, Inc.	2.18	-0.69	-0.23
Baxter International Inc.	1.69	-4.15	-0.22
Verisk Analytics Inc.	1.32	-5.72	-0.21



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 12/31/2019 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.

TRILLIUM ASSET MANAGEMENT®

leading manufacturer of lithography-based machinery used to produce the next generation of semiconductor chips, and added to existing positions in semiconductor manufacturer **Texas Instruments**, and software company **Autodesk**, a maker of two and three dimensional design software for architectural and mechanical design. As we have become more comfortable with the consistency of Apple's revenue stream from its services business over the past year, we brought our position in **Apple** up to a market weight. On balance, these trades move the portfolio from the slightly defensive positioning that we had maintained for several quarters to neutral.

Prior to mid-October, our sector weighting decisions were slightly positive, and stock selection was neutral. In mid-October, the market tone changed, with a rapid rotation in favor of more cyclical sectors such as Information Technology, Financials, and Energy and away from Utilities, Consumer Discretionary, and Consumer Staples; sector weighting for this latter part of the quarter was negative due to our orientation toward more stable sectors. Looking at the entire quarter, we were overweight to the more poorly-performing sectors of Real Estate, Consumer Staples, and Consumer Discretionary, neutral to high-returning Health Care, and underweight to two high-performing sectors, Information Technology and Financials. Negative stock selection drove relative performance in Health Care, Information Technology, Industrials and Consumer Staples. Stock selection was positive in Consumer Discretionary and Real Estate.

For a second quarter, retailer **Target** (+21%) was the top contributor in the portfolio, as the company's digital sales grew at 31%, propelling the company through a strong Black Friday season for on-line retailers. 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; **Cigna** (+35%) recovered after underperforming earlier in 2019 on fears of political intervention in the health insurance market. **Bank of America** (+21%) and **PNC Financial Services** (+15%) both received a boost from rising interest rates and a steepening yield curve, as investors became more positive on the economy and rotated into banks and out of insurance. Computer Software developer and core Information Technology holding **Adobe** (+19%) continued to deliver very strong quarterly financial results, with consistent revenue growth, excellent margin performance, and strong market share gains.

Our biggest detractor was **Travelers Companies** (-7%), which declined in line with other property-casualty insurance companies. Softness in developing markets led international consumer goods company **Unilever** (-4%) to preannounce a slight sales miss for the quarter. Water utility **American Water Works** (-1%) declined as investors began to favor more cyclical industries, and as the company announced the retirement of its CEO and released long term growth guidance slightly below investors' expectations. Health Care supplier **Baxter International** (-4%) dropped after announcing an internal accounting investigation related to its booking of foreign exchange currency gains and losses; we continue to hold **Baxter** in the belief that any restatement will not be material. **Verisk Analytics** (-6%) continues to show stable, high-single digit organic growth and the potential for margin expansion in its insurance, financial services and energy segments, but its premium valuation contracted slightly as the equity market began to favor more cyclical names.

For more than a year, we have anticipated that economic growth would moderate as a result of the lagged effects of tightening monetary policy from late 2015 to mid-2019. Indeed, U.S. GDP growth slowed from 3.2% in mid-2018 to an expected 2.2% in late 2019. The Federal Reserve's last interest rate hike was in late 2018, and global cyclical indicators have been stabilizing. We believe that we will begin to see both corporate earnings and developed economies economic growth accelerating in 2020, and therefore we are beginning to slightly increase the cyclicality of the portfolio, without sacrificing either fundamental or ESG quality. We remain vigilant over the seeming lack of sustainable growth drivers and the feeling that we are at or approaching a business cycle peak. While 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. 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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