

# US Large-Cap Value Strategy Update

## Second Quarter, 2022



### Portfolio Activity

We continue to refine our portfolio's barbell positioning between cyclical and defensive exposure, using significant market moves to dynamically add to or trim holdings.

(1) We consolidated and diversified defensive holdings, adding to Verizon and Amgen and initiating three new positions in Healthcare: Gilead Sciences and Vertex Pharmaceuticals, both with improving fundamentals thanks to research-driven pipelines; and Hologic, a medical imaging and diagnostics company specializing in women's health enabling greater Access to Healthcare.

(2) We have moderated and refreshed our economically sensitive holdings, especially where valuation support allows investment in companies less vulnerable to the economic cycle. We trimmed exposure to retail and cyclical companies, redeploying proceeds to more traditionally defensive names and adding to holdings with improving execution such as Oracle, Morgan Stanley, and US Bancorp

(3) We made conventional valuation and conviction-led portfolio changes. In Utilities we sold NextEra Energy Partners LP on relative valuation concerns in favor of American Water Works, a steady operator of water and wastewater services. As interest rates appear to have stabilized at higher levels, we added to Financials with KeyCorp, a well-positioned regional bank with strong green offerings. In Consumer Discretionary, we sold Canadian auto parts manufacturer Magna International on declining conviction and added LKQ Corp, a distributor of replacement parts for vehicles, often recycled, refurbished, salvaged components. The new management team has gained traction in improving operational efficiencies in the US and EU in this strong circular economy company.

### Portfolio Review

Boston Common's Tax-Exempt US Value Equity composite declined -12.6% before fees, roughly in line with the Russell 1000 Value Index ("the Index"). Positive stock selection and a more defensive stance helped successfully reduce the impact of sector allocation challenges, such as no exposure to conventional Energy and an underweight to outperforming Utilities.

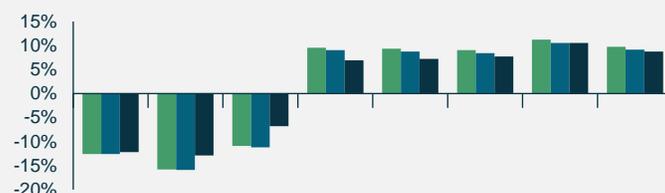
Many top contributors this quarter had strong positive returns despite difficult market conditions. Biotech company Amgen, multinational consumer products company Colgate-Palmolive, specialty insurer Unum Group, pharmaceutical Merck, and utility American Water Works, all saw price appreciation, the latter three rising more than ten percent. The Communication Services sector was a strong relative performer. Both the Financials and Technology sectors were net positive contributors. In the former, the decline in holdings such as American Express and Fifth Third Bancorp was more than offset by a combination of our underweight to the sector and strong returns from Unum. In Technology, the announced acquisition of VMware made up for weakness in other areas including memory company Micron Technology.

As concerns about recession, supply chain disruption, and cost-push inflation rose, the Industrials sector was the largest detractor. Our overweight to this sector was compounded by weakness in individual holdings: equipment rental company United Rentals, efficient refrigeration, and HVAC company Carrier Global, and Emerson Electric. Consumer Staples weighed on returns as pharmacy Walgreens lagged while our portfolios lacked exposure to the outperforming food and beverage industry. Additional detractors included general retailer Target and REIT holding Alexandria Real Estate.

### Annual Returns

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
<b>Gross</b>	-15.8%	24.3%	14.0%	29.0%	-8.8%	17.8%	13.0%	-1.6%	8.5%	35.1%
<b>Net</b>	-15.9%	23.7%	13.4%	28.3%	-9.3%	17.1%	12.3%	-2.3%	7.7%	34.0%
<b>Russell 1000</b>	-12.9%	25.2%	2.8%	26.5%	-8.3%	13.7%	17.3%	-3.8%	13.5%	32.5%

### Performance



	QTD	YTD	1Yr	3Yr	5Yr	7Yr	10Yr	Since Inception*
<b>Gross</b>	-12.6%	-15.8%	-10.9%	9.5%	9.3%	9.0%	11.2%	9.7%
<b>Net</b>	-12.6%	-15.9%	-11.2%	9.0%	8.7%	8.4%	10.5%	9.1%
<b>Russell 1000 Value</b>	-12.2%	-12.9%	-6.8%	6.9%	7.2%	7.7%	10.5%	8.7%

### Portfolio Characteristics

	Boston Common	Russell 1000 Value
# Holdings	55	859
<b>Valuation</b>		
Price/EPS (NTM)	13.0	15.6
Enterprise Value/EBITDA (NTM)	9.3	9.6
Price/Book	2.5	2.6
Price/Sales	1.9	2.3
Dividend Yield	2.1%	1.7%
<b>Growth</b>		
3yr EPS Consensus Growth	3.3%	2.1%
3yr Sales consensus Growth	3.8%	3.9%
<b>Quality</b>		
Beta**	0.92	1.00
LT Debt to Cap.	48.1%	38.2%
Net Debt to EBITDA	2.3	1.9
Return on Equity	18.1%	15.0%
Earnings Variability***	20.0%	22.4%
Free Cash Flow Yield	5.5%	5.1%

### Strategy Vehicle Options

Separate Account, Commingled Fund, Model/ADR, Mutual Fund\*\*

\*\*Subadvised by Boston Common

**Source: APX Advent Portfolio Exchange. Past performance does not guarantee future results. All investments involve risk, including the risk of losing principal**  
 \*Since Inception: December 31, 2002 \*\*The Beta calculation is based on the trailing five-year performance of a representative account within a portfolio's strategy, \*\*\*Variability is calculated as the mean absolute difference between actual earnings per share and a five-year historical growth trendline, expressed as a percentage of trendline

## Portfolio Outlook and Strategy

Several crosscurrents made market conditions volatile. Inflation reached 40-year highs, exacerbated by the war in Ukraine and its impact on commodity markets. Housing and demand for goods have begun to cool and unsold inventories are increasing. Supply chain challenges remain, although China's easing of COVID restrictions could help improve inflationary pressures. Consumer sentiment is at lows not seen since the Great Recession as the end of fiscal stimulus and rising monetary tightness pose challenges for the economy and for financial markets.

Economic slowdown looks probable. Economists continue to assess whether it will meet the definition of a "recession", but most agree it is unlikely to be severe. There is debate about the likely duration and intensity of inflation challenges. The Fed and other central banks have been reluctant to tighten monetary conditions significantly, attributing high inflation levels primarily to supply disruptions, including those related to the Ukraine war. Inflationary pressures appear to be broadening to core (ex-food and energy) elements of the assessment, and inflation expectations may be rising. The Fed appears ready to move aggressively, evidenced by the 75-basis point rate increase in June with the expectation of more to follow. Equity and bond markets have declined substantially, and the flat (and sometimes inverted) yield curve appears to be pricing in strong Fed action resulting in lower levels of inflation and economic activity. While concerns about stagflation remain, we believe the Fed has room to tighten and balance slowing growth against a backdrop of continued robust employment.

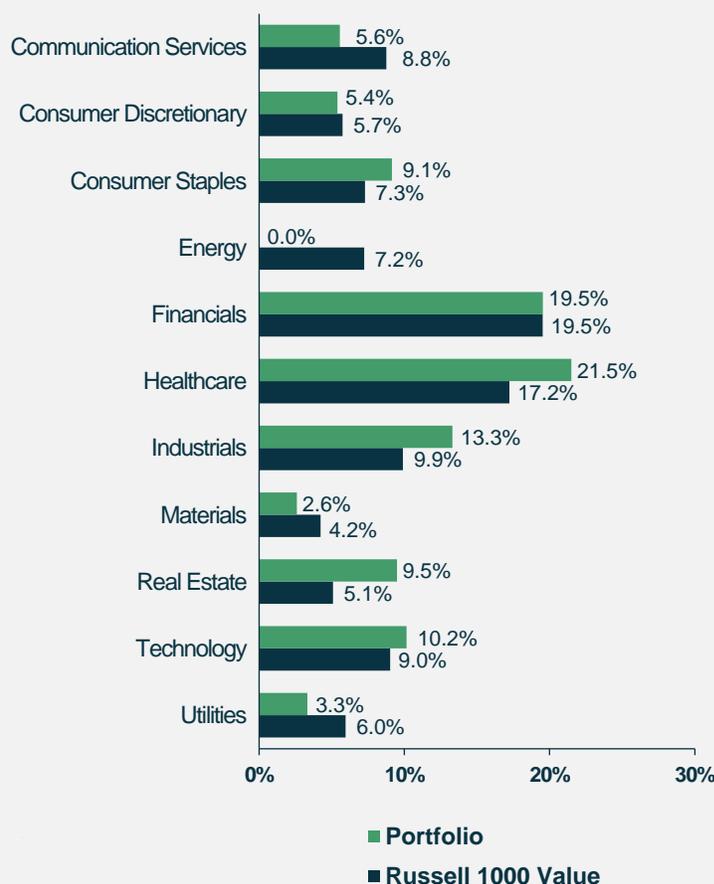
Commentary from company managements remains sanguine, making the upcoming earnings season crucial for the second half of the year. Earnings revisions are muted, as analysts appear to still expect improved results towards year end. We anticipate continued market volatility, as market participants assess potential outcomes. Given the high degree of uncertainty, we remain focused on valuation and management quality.

With economic and political uncertainties impacting the outlook for energy and resources, the drive towards efficiency remains well supported. We see opportunity for existing companies to explore circular economy solutions – recycling and reusing inputs on the path to net zero. We seek visionary managements that find opportunity in the circular and shared economy.

## Contributors & Detractors

Top 10	% of Capital	Return	Relative Contrib.	Sector
MERCK & CO INC	5.9%	11.1%	1.33%	Healthcare
VERIZON COMMUNICATIONS INC	3.9%	0.7%	0.54%	Communication Services
UNUM GROUP	2.0%	9.0%	0.39%	Financials
AMGEN INC	2.8%	1.3%	0.37%	Healthcare
COLGATE PALMOLIVE CO	1.3%	6.3%	0.24%	Consumer Staples
VMWARE INC	1.7%	0.1%	0.21%	Technology
PROCTER AND GAMBLE CO	2.9%	-5.4%	0.20%	Consumer Staples
ORGANON & CO	2.0%	-2.6%	0.20%	Healthcare
AMERICAN WTR WKS CO INC	0.2%	10.6%	0.16%	Utilities
CUMMINS INC	2.0%	-5.0%	0.14%	Industrials
			<b>3.79%</b>	

## Sector Allocation



Bottom 10	% of Capital	Return	Relative Contrib.	Sector
UNITED RENTALS INC	2.0%	-31.6%	-0.48%	Industrials
AMERICAN EXPRESS CO	2.8%	-25.4%	-0.42%	Financials
TARGET CORP	1.6%	-33.2%	-0.40%	Consumer Discretionary
MICRON TECHNOLOGY INC	1.9%	-28.9%	-0.36%	Technology
CIENA CORP	1.8%	-24.6%	-0.26%	Technology
ALEXANDRIA REAL ESTATE	1.4%	-27.3%	-0.24%	Real Estate
T ROWE PRICE GROUP INC	1.8%	-24.0%	-0.24%	Financials
FIFTH THIRD BANCORP	2.3%	-21.3%	-0.24%	Financials
CARRIER GLOBAL CORPORATION	1.8%	-22.0%	-0.20%	Industrials
EMERSON ELEC CO	2.1%	-18.3%	-0.19%	Industrials
			<b>-3.04%</b>	

**Source: APX Advent Portfolio Exchange. Past performance does not guarantee future results. All investments involve risk, including the risk of losing principal.** The information in this document is not a recommendation to buy or sell any security. There is no assurance that securities discussed will remain in a strategy upon receiving this document. Securities discussed represent only a portion of a strategy's holdings. It should not be assumed that securities transactions discussed were or will be profitable. Composite returns are presented in U.S. dollars, net of transaction costs, management fees and withholding taxes, with interest and dividends accrued. Returns for periods greater than one year are annualized. The Russell 1000 Value Index is a capitalization-weighted index of the largest publicly-traded U.S. companies that have a low price-to-book, price-to-earnings, and price-to-cash-flow valuations relative to a broader universe of companies. The index is unmanaged and does not incur management fees, transaction costs, or other expenses associated with separately managed accounts. The composition of our composite varies from the composition of the Index because of differences in sector and industry exposure, risk, volatility and holdings. Boston Common claims compliance with Global Investment Performance Standards (GIPS®). For a full listing of Boston Common's composites and to request a GIPS® Compliant presentation, please call 617-720-5557.

