

# US Large-Cap Core Strategy Update

Third Quarter, 2022



## Portfolio Activity

The US Core strategy seeks high-quality, primarily dividend growing companies that integrate Environmental, Social and Governance (ESG) criteria into their strategic decision-making. We seek predominantly US-domiciled names with underappreciated growth opportunities, robust cash generation and investment-grade balance sheets. Market corrections, like the one we have witnessed throughout 2022, afford us opportunities to purchase such names at prices more reasonable than in recent years.

In an effort to increase the portfolio's overall market capitalization and reduce its volatility, we sold many of our smaller company holdings, including housing-related names KB Homes, TopBuild and Hannon Armstrong, specialty grocer Sprouts Farmers Market and mass media publisher New York Times. We likewise exited semiconductor companies, Micron and Ciena, which had historically contributed to performance volatility and trimmed Enphase after its successful year-to-date run.

We redeployed proceeds to enhance defensive holdings, including adding to PNC Financial and American Water Works. In the same vein, we initiated a position in New York-based utility Consolidated Edison, which prioritizes grid hardening in response to climate change and growing electricity demand. We also started a position in upscale apparel manufacturer Ralph Lauren, which has successfully repositioned itself over the last four years to resonate with next generation consumers and deliver stronger cash flow.

## Portfolio Review

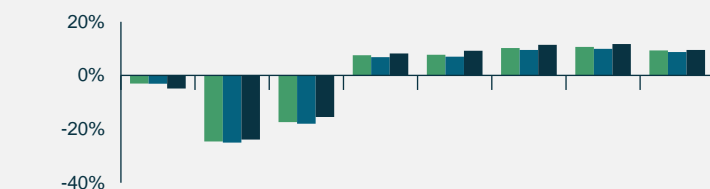
Boston Common's Tax-Exempt US Large-Cap Core account composite declined -3.0% during the quarter, nearly 2% less than the S&P 500 Index ("the Index"). Positive stock selection reflected our continued steps to reposition the portfolio toward large-cap, high-quality holdings that balance defensive and growth characteristics.

Stock selection in Healthcare contributed to this quarter's relative performance, thanks in part to biotechnology company Regeneron. Favorable results from Biogen's Alzheimer's trial catapulted its stock late in the quarter; having lost confidence in the company's long-term strategy, we took the opportunity to exit the position on this strength. Solar semiconductor innovator Enphase Energy, streaming giant Netflix and off-price retailer The TJX Companies also contributed.

## Annual Returns

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Gross	-24.6%	25.7%	20.3%	29.9%	-7.2%	22.1%	9.0%	3.6%	9.8%	33.0%
Net	-25.0%	24.9%	19.5%	29.1%	-7.8%	21.3%	8.3%	3.0%	9.1%	32.4%
S&P 500	-23.9%	28.7%	18.4%	31.5%	-4.4%	21.8%	12.0%	1.4%	13.7%	32.4%

## Performance



	QTD	YTD	1Yr	3Yr	5Yr	7Yr	10Yr	Since Inception*
Gross	-3.0%	-24.6%	-17.4%	7.5%	7.7%	10.2%	10.6%	9.3%
Net	-3.1%	-25.0%	-18.0%	6.8%	7.0%	9.5%	9.9%	8.7%
S&P 500	-4.9%	-23.9%	-15.5%	8.2%	9.2%	11.4%	11.7%	9.5%

## Portfolio Characteristics

	Boston Common	S&P 500
# Holdings	47	505
<b>Valuation</b>		
Price/EPS (NTM)	16.7	15.8
Enterprise Value/EBITDA (NTM)	12.6	11.4
Price/Book	4.2	3.6
Price/Sales	2.9	2.5
Dividend Yield	1.6%	1.6%
<b>Growth</b>		
3yr EPS Consensus Growth	5.0%	7.0%
3yr Sales consensus Growth	4.8%	5.4%
<b>Quality</b>		
Beta**	0.95	1.00
LT Debt to Cap.	40.8%	41.3%
Net Debt to EBITDA	0.9	1.0
Return on Equity	22.4%	18.5%
Earnings Variability***	18.2%	20.6%
Free Cash Flow Yield	3.6%	4.0%

## Strategy Vehicle Options

Separate Account, Commingled Fund, Model/ADR, Mutual Fund<sup>1</sup>

<sup>1</sup>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 Review (continued)

The Consumer sectors, both Discretionary and Staples, were significant detractors. Reflecting weak governance and limited transparency, Boston Common foregoes investments in Discretionary's largest companies, Amazon and Tesla. The strategy's investment in toy manufacturer turned entertainment leader Hasbro also weighed on performance, as did cosmetics' giant Estee Lauder and spice producer McCormick. Because Boston Common also elects to avoid investment in fossil fuel extractors, the portfolio's naked underweight to Energy was another relative drag.

## Portfolio Outlook and Positioning

Inflationary concerns and recessionary fears persist. Commodity-related inflation appears to be easing, as corporations right-size supply chains and consumer demand moderates. Wage pressure remains, particularly in the hospitality and services sector, though hourly workers still exhibit a propensity to spend.

Committed to fighting inflation, the Federal Reserve has telegraphed additional interest rate hikes into next year. Though an inverted yield curve, as we see today, has preceded every American recession, an inversion on its own does not necessitate one. To the contrary, most corporate management commentary implies optimism about future growth.

The war in Ukraine and related European energy crisis are outsized geopolitical threats that hinder domestic and international economic strength. China's reluctance to abandon its 'no-covid' policy also stymies global growth. Such factors will continue to underpin market volatility. As uncertainty around these events takes time to resolve, we remain focused on high-quality companies, the sustainability-oriented strategies of which should garner increasing share of capital expenditure and consumer preference.

## Contributors & Detractors

Top 10	% of Capital	Return	Relative Contrib.	Sector	Bottom 10	% of Capital	Return	Relative Contrib.	Sector
ENPHASE ENERGY INC	2.1%	46.8%	0.93%	Technology	VERIZON COMMUNICATIONS	2.0%	-24.2%	-0.42%	Communication Services
REGENERON PHARMACEUTICALS	1.8%	16.6%	0.43%	Healthcare	ALPHABET INC	5.3%	-12.1%	-0.37%	Communication Services
APPLE INC	7.1%	1.2%	0.40%	Technology	ADOBE SYSTEMS INC	1.7%	-24.8%	-0.33%	Technology
NETFLIX INC	1.1%	34.6%	0.39%	Communication Services	MICROSOFT CORP	7.9%	-9.1%	-0.31%	Technology
BIOGEN INC	0.9%	28.6%	0.32%	Healthcare	LAUDER ESTEE COS INC	1.9%	-15.1%	-0.24%	Consumer Staples
TJX COS INC	2.0%	11.8%	0.31%	Consumer Discretionary	HASBRO INC	1.8%	-16.9%	-0.23%	Consumer Discretionary
HANNON ARMSTRONG	0.6%	16.0%	0.26%	Real Estate	MCCORMICK & CO INC	1.9%	-14.6%	-0.22%	Consumer Staples
MORGAN STANLEY	2.7%	4.8%	0.24%	Financials	CONSOLIDATED EDISON INC	1.0%	-12.8%	-0.21%	Utilities
MICRON TECHNOLOGY INC	0.7%	15.6%	0.24%	Technology	AMERICAN WTR WKS CO INC	1.5%	-14.4%	-0.21%	Utilities
SPROUTS FMRS MKT INC	0.5%	17.3%	0.23%	Consumer Staples	VISA INC	3.5%	-9.6%	-0.16%	Technology
			<b>3.73%</b>					<b>-2.71%</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 S&P 500 Index (the "Index") is a broad market index of the 500 largest U.S. large cap 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.

## Sector Allocation

