

US Large-Cap Core Strategy Update

Fourth 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 that have underappreciated growth opportunities, robust cash generation, and investment-grade balance sheets. The 2022 market correction has offered an opportunity to purchase such names at more reasonable prices.

Despite an initial purchase in January, we sold Hasbro, as management lost its grip on the transition from toy manufacturer to media company. We redeployed proceeds to other discretionary names: TJX, Ralph Lauren, and Target. We removed software company Salesforce, as we also lost confidence in its management, plagued now by in-fighting. This sale strategically reduced our software exposure and helped develop a slight underweight to Technology, an underweight we intend to maintain in 2023. Anticipating weaker wealth management and investment banking revenue, we trimmed financial services company Morgan Stanley. We used proceeds to initiate a position in life insurance provider MetLife, increasing our interest-rate sensitive exposure.

We also started a position in healthcare services provider Quest Diagnostics, which should help diversify the sector's exposure away from pharmaceuticals, biotech, and life sciences. Quest runs the world's largest network of diagnostic laboratories and could benefit from increasing visits to physicians and rescheduled surgeries, delayed during the pandemic, as well as Covid- and flu-related testing this winter. The company also provides access to women's health via its proprietary breast cancer screening test, BRCA.

Portfolio Review

Boston Common's Tax-Exempt US Large-Cap Core account composite returned +9.7%, outperforming the S&P 500 Index ("the Index") by more than 200 basis points during the quarter. Positive stock selection underpinned performance.

Stock selection in Healthcare stood out, thanks to pharmaceutical companies Merck and Novo-Nordisk and life sciences company Agilent. Merck's absolute stock performance, coupled with its significant overweight, positioned the Keytruda manufacturer as the biggest contributor to the portfolio's quarterly return.

Stock selection in Industrials and Consumer Discretionary was also valuable. Providing products and engineering services to industrial, commercial, and consumer end markets, Emerson Electric was a leading contributor, as was water technology provider Xylem, despite its slow start to 2022. Apparel manufacturer Ralph Lauren and off-price retailer TJX likewise aided quarterly performance, the latter representing the second largest contribution to return.

Annual Returns

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Gross	-17.3%	25.7%	20.3%	29.9%	-7.2%	22.1%	9.0%	3.6%	9.8%	33.0%
Net	-17.8%	24.9%	19.5%	29.1%	-7.8%	21.3%	8.3%	3.0%	9.1%	32.4%
S&P 500	-18.1%	28.7%	18.4%	31.5%	-4.4%	21.8%	12.0%	1.4%	13.7%	32.4%

Performance



Portfolio Characteristics

	Boston Common	S&P 500
# Holdings	47	503
Valuation		
Price/EPS (NTM)	18.6	17.4
Enterprise Value/EBITDA (NTM)	13.5	12.1
Price/Book	4.5	3.8
Price/Sales	2.9	2.6
Dividend Yield	1.5%	1.6%
Growth		
3yr EPS Consensus Growth	3.1%	1.4%
3yr Sales consensus Growth	3.9%	4.9%
Quality		
Beta**	0.95	1.00
LT Debt to Cap.	41.9%	43.0%
Net Debt to EBITDA	1.0	1.1
Return on Equity	21.8%	18.5%
Earnings Variability***	18.04%	20.2%
Free Cash Flow Yield	3.8%	4.3%

Strategy Vehicle Options

Separate Account, Commingled Fund, Model/ADR, Mutual Fund¹

¹Subadvised 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)

Technology, by contrast, detracted. Our slight overweight to behemoths Apple and Microsoft (as well as Alphabet, classified in Communication Services) hampered performance, as shares in those companies faced significant pressure all year. Online payments system PayPal also weighed on performance. Because Boston Common elects to avoid investment in fossil fuel extractors, the portfolio's naked underweight to Energy was another relative drag. The portfolio's outperformance despite no exposure to the S&P's strongest sector is a testament to the power of critical, ESG-integrated thought, well-researched stock selection, and sound portfolio construction.

Outlook and Positioning

US economic growth may gradually slow during 2023, reflecting a lagged effect from inflation, higher interest rates, supply chain disruptions, military conflicts, and pandemic concerns. Persistent deglobalization, rising wages, and empowered collective bargaining could also weigh on corporate profitability. Conversely, China's reopening, easing transportation costs, and a warmer-than-expected winter in the Northern Hemisphere could alleviate revenue- and expense-related pressures, while better-managed inventory could preserve full-priced sales and mitigate markdown risk.

Considering both headwinds and pockets of potential alleviation, we have positioned the Core portfolio to be exactly that, core. Balancing our stock selection to reflect defensive and growth characteristics and maintaining sector neutrality where appropriate, we take advantage of the market's stylistic leanings to tilt the portfolio advantageously.

Our bottom-up stock selection remains focused on high-quality companies with strong balance sheets, improving return-on-equity, disciplined capital management, and attention to end-market growth. The sustainability-oriented strategies of these companies should garner increased share of consumer preference and capital expenditure over time.

Contributors & Detractors

Top 10	% of Capital	Return	Relative Contrib.	Sector
MERCK & CO INC	5.1%	29.7%	0.98%	Healthcare
TJX COS INC	2.8%	28.1%	0.49%	Consumer Discretionary
EMERSON ELEC CO	2.1%	31.9%	0.42%	Industrials
NOVO-NORDISK	1.3%	35.8%	0.30%	Healthcare
VISA INC	3.5%	17.2%	0.30%	Technology
XYLEM INC	1.7%	26.9%	0.29%	Industrials
AGILENT TECHNOLOGIES	1.8%	23.3%	0.25%	Healthcare
NETFLIX INC	1.5%	25.2%	0.23%	Communication Services
RALPH LAUREN CORP	1.5%	25.9%	0.22%	Consumer Discretionary
AMERIPRISE FINL INC	1.5%	24.1%	0.21%	Financials
			3.70%	

Bottom 10	% of Capital	Return	Relative Contrib.	Sector
APPLE INC	6.7%	-5.8%	-0.87%	Technology
ALPHABET INC	4.5%	-7.7%	-0.69%	Communication Services
MICROSOFT CORP	7.1%	3.3%	-0.29%	Technology
ENPHASE ENERGY INC	1.9%	-4.5%	-0.24%	Technology
PAYPAL HLDGS INC	0.9%	-17.3%	-0.23%	Technology
CME GROUP INC	2.0%	-2.2%	-0.20%	Financials
COSTCO WHSL CORP	2.0%	-3.2%	-0.20%	Consumer Staples
VERTEX PHARMACEUTICALS	2.1%	-0.3%	-0.16%	Healthcare
TARGET CORP	2.0%	0.6%	-0.15%	Consumer Discretionary
ADVANCE AUTO PARTS INC	1.1%	-6.0%	-0.14%	Consumer Discretionary
			-3.16%	

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

