

# US Large-Cap Core Equity Strategy Update

Second Quarter, 2020



## Portfolio Review

Boston Common's Tax-Exempt US Large-Cap Core account composite returned 20.2% gross of fees, just slightly behind the S&P 500 Index. For the year-to-date period, the composite is down -2.1% versus the Index at -3.1%. During periods of severe market stress, our ESG-driven active management style guides sector and stock selection to mitigate the downside while participating in strong up markets.

The Financials and Technology sectors were major contributors to the quarter's relative performance thanks to both positive selection and allocation. Our underweight to Financials suggests an ongoing challenging operating environment for most financial institutions during a period of historically low interest rates. Even so, asset manager Morgan Stanley was a top performing holding. Our long-term overweight to Technology recognizes the compelling secular tailwinds that continue to benefit sector holdings Apple, Microsoft, and Adobe, as well as optical components provider Ciena Corp and utility-scale solar manufacturer First Solar. The Real Estate sector was another positive contributor to relative performance highlighted by infrastructure financier Hannon Armstrong. Finally, despite strong performance of Consumer Discretionary holdings including Do-it-Yourself retailer Home Depot, flooring manufacturer Mohawk, and aftermarket auto parts retailer Advanced Auto Parts, these names could not fully keep up with the overall sector return in which Amazon plays such a dominant role.

Reversing strong performance in the previous quarter, the Healthcare sector was the largest detractor. Biotech company Biogen was particularly hurt by the sooner-than-expected patent loss to generic competition while Life Sciences company Waters reported disappointing earnings. Several holdings, including biopharma firm Gilead Sciences and global pharmaceutical companies Merck and Novo-Nordisk lagged as the market surged higher. Defensive holdings such as telecommunications company Verizon, confectioner Mondelez, and utility Avangrid, which had provided relative performance stability during February and March, did not keep up this quarter. Other laggards included roofing company Carlisle and commodity exchange CME Group.

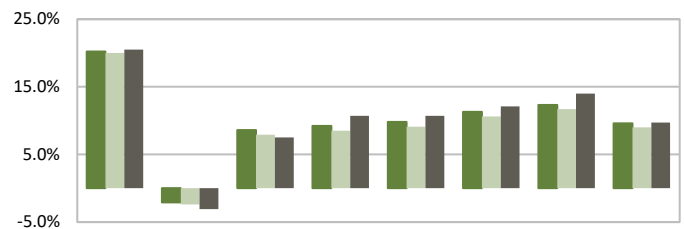
## Portfolio Activity

Given the uncertainties around the pandemic and the trajectory of economic recovery, the portfolio remains in a "barbell" position. During periods of extreme volatility, such as we have experienced this year, this approach helps position the portfolio to catch trends as they develop. This quarter, as investors flipped from panic to optimism, we used strength to take profits in holdings that had done well. These holdings supported the portfolio during the decline, and through rebalancing, we sought to take advantage of new opportunities. Overall, in these uncertain times, a significant portion of the portfolio remains in companies that can successfully navigate near-term disruptions, with strong execution and high-quality management teams. The current pandemic has refocused consumers towards activities that enable the stay-at-home trend as well as help relieve the stress of social isolation. We purchased media company Netflix this quarter. With the secular changes in how entertainment is consumed, we see the company's leading position in content streaming as sustainable.

In fact, given the tailwind of 'at-home' activities, subscriber growth has been faster than originally expected. Netflix is a global platform, and even as competition heats up, the company continues to demonstrate ability to incrementally raise prices. Strong subscriber growth, pricing power, and double-digit earnings growth supports valuation that had recently declined from lofty heights. Netflix has motivated other giants such as Amazon, Disney, and HBO to develop similar platforms giving independent content producers more egalitarian access to large audiences rather than having traditional studios serve as gatekeepers.

We added to holdings purchased earlier in the year: discount retailer Target, home products giant Procter & Gamble, and medical software company Cerner. These companies should continue to benefit from a focus on health and wellbeing spending for the former two and ongoing digitalization of medical information for the latter. While we are long-term investors, we remain disciplined to exit holdings where we see a change in a company's prospects. Though positive on the strong ESG fundamentals for sustainable forester Weyerhaeuser, recent steps to shore up its balance sheet by cutting the dividend led us to sell. American Express is in the unfortunate situation of being exposed to both travel and small- and medium-sized business activity, both of which face near-term headwinds as business, entertainment, and travel activity remains muted.

## Performance



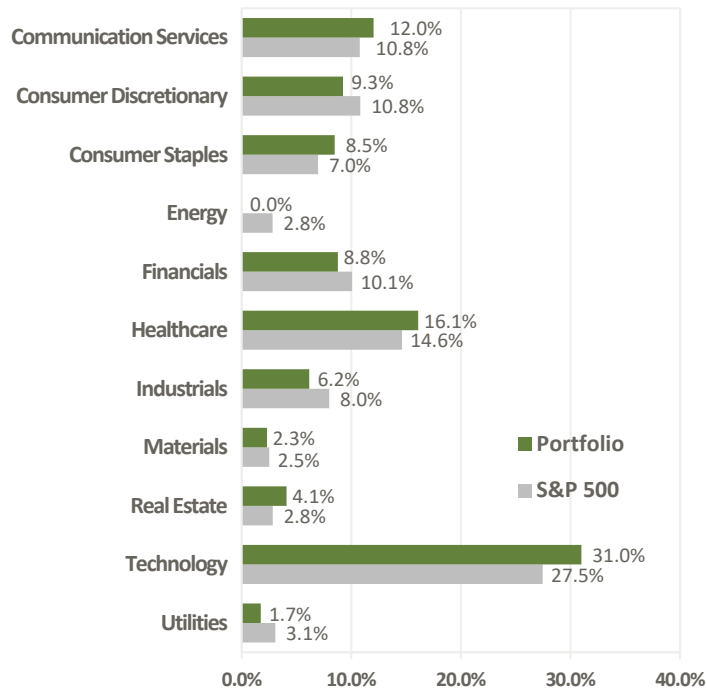
	QTD	YTD	1Yr	3Yr	5Yr	7Yr	10Yr	Since Inception*
Gross	20.2%	-2.1%	8.6%	9.2%	9.8%	11.3%	12.3%	9.6%
Net	20.0%	-2.4%	7.9%	8.5%	9.1%	10.6%	11.7%	9.0%
S&P 500	20.5%	-3.1%	7.5%	10.7%	10.7%	12.1%	14.0%	9.7%

## Portfolio Characteristics

	Boston Common	S&P 500
# Holdings	58	506
<b>Valuation</b>	<b>Portfolio</b>	<b>S&amp;P 500</b>
Price/EPS (NTM)	21.0	21.5
Enterprise Value/EBITDA (NTM)	14.7x	14.5x
Price/Book	3.9	3.7
Price/Sales	3.1	2.6
Dividend Yield	1.5%	1.7%
<b>Growth</b>		
3yr EPS Consensus Growth	4.3%	4.4%
3yr Sales consensus Growth	2.0%	2.1%
<b>Quality</b>		
Beta**	0.93	1.00
LT Debt to Cap.	39.8%	43.3%
Net Debt to EBITDA	0.6x	1.0x
Return on Equity	21.8%	16.6%
Earnings Stability***	15.5%	18.2%
Free Cash Flow Yield	4.5%	4.1%

\*Since Inception: December 31, 2002

## Sector Allocation\*



## Contributors & Detractors

Top 10	% of Capital	Return	Relative Contrib.	Sector
APPLE INC	5.2%	43.8%	0.98%	Technology
MICROSOFT CORP	8.2%	29.4%	0.62%	Technology
MORGAN STANLEY	1.9%	43.3%	0.36%	Financials
ADOBE INC	2.2%	36.8%	0.30%	Technology
HOME DEPOT INC	2.4%	35.0%	0.28%	Consumer Discretionary
HANNON ARMSTRONG SUST INFR	1.8%	41.8%	0.27%	Real Estate
ADVANCE AUTO PARTS INC	0.9%	52.9%	0.21%	Consumer Discretionary
FIRST SOLAR INC	1.4%	37.3%	0.19%	Technology
MOHAWK INDS INC	1.5%	33.5%	0.17%	Consumer Discretionary
CIENA CORP	1.1%	36.0%	0.15%	Technology
			<b>3.53%</b>	
Bottom 10				
BIOGEN INC	2.1%	-15.4%	-0.80%	Healthcare
VERIZON COMMUNICATIONS INC	3.2%	3.7%	-0.50%	Communication Services
MERCK & CO. INC	2.1%	1.3%	-0.40%	Healthcare
GILEAD SCIENCES INC	2.1%	3.8%	-0.34%	Healthcare
CME GROUP INC	1.2%	-5.6%	-0.30%	Financials
MONDELEZ INTL INC	1.6%	2.7%	-0.28%	Consumer Staples
CARLISLE COS INC	0.9%	-4.0%	-0.23%	Industrials
AVANGRID INC	0.9%	-3.2%	-0.22%	Utilities
WATERS CORP	1.0%	-0.9%	-0.21%	Healthcare
NOVO-NORDISK A S	1.7%	8.8%	-0.19%	Healthcare
			<b>-3.46%</b>	

## Portfolio Activity

Closed	Sector	% of Port.
AMERICAN EXPRESS CO COM	Financials	0.8%
WEYERHAEUSER CO MTN BE COM NEW	Real Estate	0.9%
<b>Total Closed</b>		<b>1.8%</b>

New	Sector	% of Port.
NETFLIX INC COM	Communication Services	1.3%
<b>Total New</b>		<b>1.3%</b>

## Shareowner Engagement Highlights

We jumped into action this quarter with sector-specific asks to address both immediate and long term COVID impacts on business models, including with pharmaceuticals, food and beverage companies, retailers, personal care products, and apparel. We have had robust responses or dialogue with Novartis, GlaxoSmithKline, Mondelez, PepsiCo, Unilever, Kroger, Target, PVH, Essity and Colgate-Palmolive.

**Google AGM, June 2020:** Boston Common co-filed a shareholder resolution encouraging the establishment of a board level human rights risk oversight committee to mitigate the evolving risks that Google's technology poses to the company, consumers, shareholders, and society at large.

**ConocoPhillips AGM, May 2020:** We supported the advancement and ambition of the company's climate goals. We commend the steps ConocoPhillips has taken to protect its employees and other stakeholders during the COVID-19 pandemic.

Boston Common was a part of the investor group, which holds more than 1.9 trillion in assets, that [called on drug makers](#) to set aside rivalries and short-term interests and **cooperate on finding solutions to the coronavirus**. As part of this effort we are leading engagements with Novartis and GlaxoSmithKline.

\*As % of Equities. \*\*The Beta calculation is based on the trailing five-year performance of a representative account within a portfolio's strategy, \*\*\*Stability 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. Past performance does not guarantee future results. All investments involve risk, including the risk of losing principal. The information in this document should not be considered a recommendation to buy or sell any security. There is no assurance that any securities we discuss will remain in a strategy at the time you receive this document. The securities discussed do not represent a strategy's entire portfolio and may represent only a small portion of a strategy's holdings. It should not be assumed that any securities transactions we discuss were or will prove to be profitable. A different company is selected each quarter to be featured in our Company Spotlight. The company is chosen based on any potential updates to our investment thesis and/or ESG case. 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. This product invests in foreign securities, which are subject to special currency, political and economic risks. 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 is different from the composition of these indices 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 the Compliance department at 617-720-5557.