

# US Large-Cap Core Strategy Update

Third Quarter, 2020



## Portfolio Performance Review

Boston Common's Tax-Exempt US Large-Cap Core account composite returned 7.9% gross of fees, slightly behind the S&P 500 Index. For the year-to-date period, the composite is in line with the Index: +5.6%, gross of fees.

As the US economy reopened gradually, many consumer stocks including companies like general retailer Target, cosmetic manufacturer Estee Lauder, and household products giant Procter & Gamble stood to benefit. Cummins, a manufacturer of diesel engines with lower emissions, also performed strongly. Healthcare conglomerate DanaHER also rallied. Railroad operator Kansas City Southern received a premium offer to be taken private by infrastructure funds. On a relative basis, the Real Estate and Utilities were the best-performing sectors, helped by a focus on renewables and solutions companies including the US' second-largest wind farm operator Avangrid and green infrastructure financier Hannon Armstrong.

This quarter saw mixed results for the Technology sector, negatively impacting the sector's relative returns. Underperforming due to disappointing near-term earnings outlook were telecom infrastructure provider Ciena and memory chips producer Micron Technology. On the positive side, Microsoft rose in the quarter but not at the same pace as the overall sector. In the meantime, Apple was the best relative performer, while utility-scale solar developer First Solar was not far behind.

Healthcare companies gave back some of the strong Covid-related performance from earlier in the year, including Remdesivir manufacturer Gilead and biotech Regeneron, both of which detracted from returns. Citigroup declined due to sector-related concerns and news of ongoing regulatory reviews, even as the company announced the first female CEO. Flooring manufacturer Mohawk declined slightly. Other detractors actually experienced positive returns, including Google parent Alphabet, capital markets firm Morgan Stanley, and global payment company Visa.

## Portfolio Activity

After the huge move in the equity markets and facing the near-term uncertainties of pandemic and politics, a disciplined approach remains important. The market continues its focus on larger technology companies, and certain "story" stocks leading to a belief in some froth in the market. From curb-side pickup to entertainment apps to Zoom, e-commerce, remote work, and digital streaming trends have advanced at a much more rapid pace than might have been possible in a world without Covid-19. We remain focused on these trends and on identifying companies with strong or improving ESG profiles, sustainable product/service offerings, credible management execution, and attractive valuation.

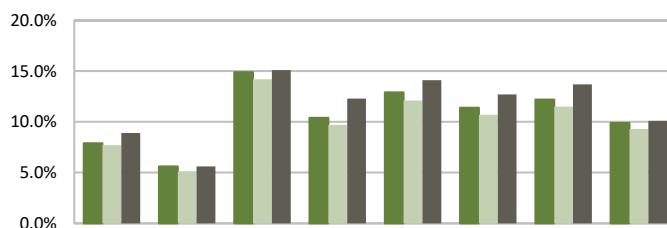
The portfolio remained positioned as a "barbell" balancing defensive and cyclical exposure. With a nod to an improving economy we lessened our overweight to the consumer staples sector, selling long-term holding PepsiCo, a company with ESG challenges within its product portfolio and an inability to upgrade a "healthy for you" perception.

We increased our exposure to the housing and home remodeling markets with a new purchase of insulation distributor TopBuild, which should benefit from the strong housing market and is a beneficiary of increased consumer emphasis on energy efficiency.

Within the Technology sector we also purchased initial positions in software company Salesforce.com and virtualization software VMware, both expanding the portfolio's exposure to cloud-based computing.

Keeping an eye on valuation, we took profits by trimming cosmetic manufacturer Estée Lauder, while redeploying proceeds to biotech holding Amgen at attractive levels. Having performed well during the market downturn, we sold cell tower REIT Crown Castle and our long-held position in database provider Oracle.

## Performance



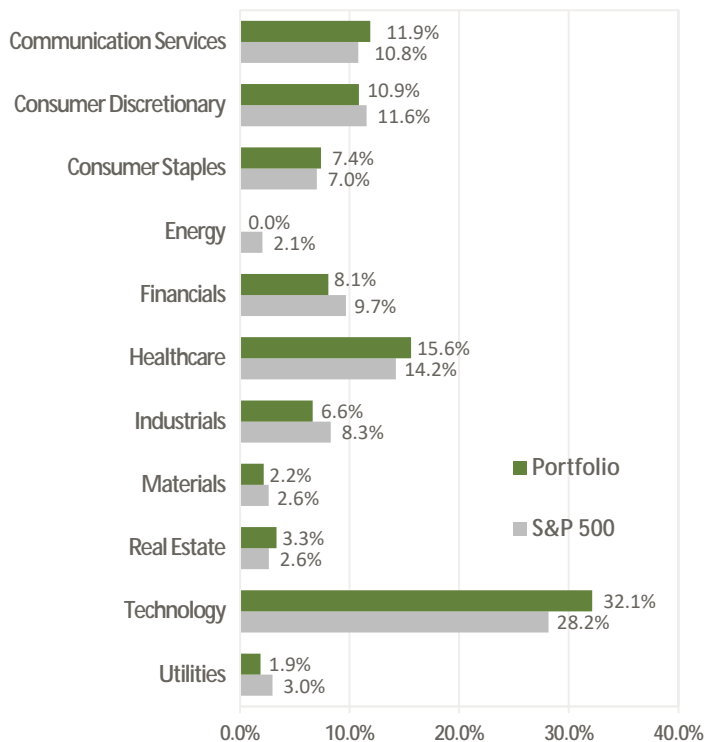
	QTD	YTD	1Yr	3Yr	5Yr	7Yr	10Yr	Since Inception*
Gross	7.9%	5.6%	14.9%	10.4%	12.9%	11.4%	12.2%	9.9%
Net	7.7%	5.1%	14.2%	9.7%	12.1%	10.7%	11.5%	9.3%
S&P 500	8.9%	5.6%	15.1%	12.3%	14.1%	12.7%	13.7%	10.1%

## Portfolio Characteristics

	Boston Common	S&P 500
# Holdings	58	505
Valuation	Portfolio	S&P 500
Price/EPS (NTM)	20.8	22.0
Enterprise Value/EBITDA (NTM)	14.2x	14.6x
Price/Book	4.1	3.9
Price/Sales	3.3	2.9
Dividend Yield	1.4%	1.6%
Growth		
3yr EPS Consensus Growth	7.2%	6.3%
3yr Sales consensus Growth	2.6%	2.6%
Quality		
Beta**	0.94	1.00
LT Debt to Cap.	40.7%	43.6%
Net Debt to EBITDA	0.5x	1.0x
Return on Equity	22.8%	17.4%
Earnings Stability***	16.1%	19.2%
Free Cash Flow Yield	4.4%	4.0%

\*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, \*\*\*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

## Sector Allocation



## Contributors & Detractors

Top 10	% of Capital	Return	Relative Contrib.	Sector
APPLE INC	6.4%	27.2%	0.99%	Technology
HANNON ARMSTRONG	2.1%	50.3%	0.67%	Real Estate
FIRST SOLAR INC	1.9%	33.8%	0.35%	Technology
TARGET CORP	1.7%	31.9%	0.34%	Consumer Discretionary
DANAHER CORPORATION	1.6%	21.9%	0.19%	Healthcare
CUMMINS INC	1.3%	22.6%	0.16%	Industrials
PROCTER & GAMBLE CO	1.9%	17.0%	0.14%	Consumer Staples
KANSAS CITY SOUTHERN	1.0%	21.4%	0.11%	Industrials
AVANGRID INC	0.9%	21.3%	0.10%	Utilities
LAUDER ESTEE COS INC	1.2%	16.0%	0.09%	Consumer Staples
			3.14%	
Bottom 10				
GILEAD SCIENCES INC	1.6%	-17.0%	-0.47%	Healthcare
CITIGROUP INC	1.9%	-14.8%	-0.45%	Financials
MICROSOFT CORP	8.3%	3.6%	-0.42%	Technology
CIENA CORP	1.2%	-26.7%	-0.41%	Technology
REGENERON PHARMACEUTICALS	1.6%	-10.2%	-0.31%	Healthcare
MICRON TECHNOLOGY INC	1.6%	-8.9%	-0.30%	Technology
ALPHABET INC	5.3%	4.0%	-0.26%	Communication Services
MOHAWK INDS INC	1.4%	-4.1%	-0.21%	Consumer Discretionary
VISA INC	3.8%	3.7%	-0.20%	Technology
MORGAN STANLEY	2.0%	0.8%	-0.16%	Financials
			-3.19%	

## Portfolio Activity

Closed	Sector	% of Port.
CROWN CASTLE INTL CORP NEW COM	Real Estate	1.3%
ORACLE CORP COM	Technology	1.0%
PEPSICO INC COM	Consumer Staples	0.9%
<b>Total Closed</b>		<b>3.3%</b>

New	Sector	% of Port.
SALESFORCE COM INC COM	Technology	0.7%
TOPBUILD CORP COM	Consumer Discretionary	1.2%
VMWARE INC CL A COM	Technology	0.8%
<b>Total New</b>		<b>2.7%</b>

## Shareowner Engagement Highlights

We sent letters to nine companies on **addressing racial equity across the value chain**, including board and executive accountability, corporate culture, and reporting. We have already received positive responses from Kroger, Novartis, GSK, and TJX.

Bank Rakyat responded to our Banks and Climate Change survey with updates in key areas, including **green bonds and their improving risk management practices with high carbon sector clients like palm oil producers**. Citigroup and Morgan Stanley joined the Partnership for Carbon Accounting Financials (PCAF).

Boston Common contributed to the development of PCAF's **global standards for six assets classes**, including listed equities. PCAF is supported by more than 70 financial institutions with close to \$10 trillion in assets.

Taiwan Semiconductor joined RE100, a global initiative that brings together companies committed to 100% renewable electricity.

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