



Invests in small and mid cap stocks that are well-diversified across economic sectors and meet Trillium's sustainability criteria.

## PORTFOLIO COMMENTARY

The Small/Mid Cap Core strategy outperformed its benchmark for the quarter and the year, net of fees.

At quarter end, the portfolio contained 75 stocks, representing ten of the eleven economic sectors comprising the S&P 1000 index. The portfolio currently does not have a Telecommunications holding. During the quarter, relative to the sector weights in the S&P 1000, the portfolio was overweight the Information Technology, Financials, Materials, Healthcare, Utilities, and Industrial sectors. The portfolio was underweight Energy, Real Estate, and Consumer (both Discretionary and Staples).

Late in the quarter, we trimmed some of our bigger winners in Technology, like IPG Photonics and Zendesk. While we are still favorable on Technology, we wanted to take some money off the table given the magnitude of outperformance. We also narrowed our underweight in Energy. While still cautious long-term on the sector, the degree of underperformance the past few years seems unlikely to last in the intermediate term. We initiated a position in Tallgrass Energy, an energy transportation, storage and logistics solution company, headquartered in Leawood, KS. We also exited our position in SBA Communications, the cell tower Specialty REIT, as the market cap had outgrown our strategy.

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## PERFORMANCE (as of 12/31/2017)

		FUND	S&P 1000	RUSSELL 2500
Quarter	Return (%)	6.98%	5.54%	5.24%
1 Year	Return (%)	18.97%	15.33%	16.81%
Since Inception (8/31/15)	Return (%)	12.07%	15.72%	13.90%
Gross Expense Ratio (%)		4.53%*		

*Performance data quoted represents past performance; past performance does not guarantee future results. The Russell 2500 is provided as supplemental information. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. The fund imposes a redemption fee of 2.00% on shares held for 90 days or less. Performance data does not reflect the redemption fee. If it had, returns would be reduced. Performance data current to the most recent month end may be obtained by calling 800-853-1311.*

\*Total Annual Fund Operating Expenses Ratio after Fee Waiver and/or Expense Reimbursement for TSMDX is 1.00%. This is what the investor has paid. Trillium Asset Management, as advisor to TSMDX, has contractually agreed to reduce our fees to 0.98% through October 31, 2018.

## INVESTMENT ADVISOR OVERVIEW

- Trillium Asset Management is a Boston based firm started in 1982
- Over \$2.6 billion in assets under management
- Over \$300 million in model-driven platform assets
- Employee owned, with broad distribution of shares
- Deep expertise in domestic equities with a focus on full Environmental, Social, and Governance (ESG) integration

## INSTITUTIONAL

Symbol.....	TSMDX
Inception Date .....	08.31.15
Minimum Investment .....	\$100,000
Gross Expense Ratio .....	4.53%*

*(Registered Investment Advisors may aggregate client accounts to meet the minimum)*

## INVESTMENT ADVISOR

Trillium Asset Management  
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60 South Street  
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Boston, MA 02111  
800.853.1311

## SECTOR WEIGHTINGS

SECTOR	PORTFOLIO %	S&P 1000 %
Consumer Disc.	12.6%	13.3%
Consumer Staples	3.9%	3.5%
Energy	3.0%	4.1%
Financial Services	17.1%	17.0%
Health Care	9.4%	9.3%
Industrial Goods	17.2%	16.8%
Materials	6.4%	6.6%
Real Estate	6.7%	8.2%
Technology	18.0%	16.3%
Telecommunications	0.0%	0.5%
Utilities	4.8%	4.5%

## CHARACTERISTICS

<b>Benchmark</b>	S&P 1000
<b>Inception Date</b>	August 31, 2015
<b>Fund Assets</b>	\$14.5 million
<b>Holdings</b>	70-80
<b>Max Position Sizes</b>	5%
<b>Target tracking Error</b>	4-5%
<b>Sector Deviation +/-</b>	3%
<b>Asset Allocation:</b>	
Equities:	97.7%
Cash:	2.3%
<b>Weighted Avg Market Cap (\$ bil):</b>	
Portfolio:	\$6.8
S&P 1000:	\$4.7
<b>Weighted Harmonic Avg fwd P/E (x)</b>	
Portfolio:	21.1
S&P 1000:	19.8
<b>Weighted Avg P/B (x):</b>	
Portfolio:	3.0
S&P 1000:	2.3

## TOP TEN HOLDINGS

COMPANY	% OF FUND	SECTOR
Lululemon Athletica Inc	2.5	Consumer Discretionary
Reinsurance Group Amer Inc	2.2	Financial Services
Hunt JB Trans Svcs Inc	2.2	Industrial Goods
Hexcel Corp New	2.1	Industrial Goods
Tractor Supply Co	2.1	Consumer Discretionary
Middleby Corp	2.1	Industrial Goods
Logmein Inc	2.1	Technology
East West Bancorp Inc	2.1	Financial Services
United Nat Foods Inc	2.1	Consumer Staples
Wabtec Corp	2.0	Industrial Goods

## PORTFOLIO COMMENTARY *Continued*

Relative to the S&P 1000, the contribution from sector weighting was slightly positive. We benefited from our underweight in Energy and Real Estate as well as not owning Telecommunications. This was only minimally offset by our underweight in Consumer Discretionary, which was the top performing sector in the benchmark (+9%) for the quarter.

Overall, we saw positive impact from stock selection in the quarter, with Consumer Discretionary and Information Technology once again driving the performance. Within Discretionary, Lululemon (+26%), Tailored Brands (+52%), and Tractor Supply (+19%) were all top contributors to the performance. Lululemon benefited from strong sales and margin expansion in its quarterly report along with a bullish tone regarding the recent Holiday. Tailored Brands and Tractor Supply rallied from washed out levels on a solid quarter and decreasing concerns that all retail store formats are obsolete.

The top contributor in the IT sector was IPG Photonics (16%), a manufacturer of industrial fiber lasers, which has been strongly beating expectations as fiber lasers gain share from traditional CO2 lasers given greater energy efficiency and productivity. ANSYS, a simulation software company whose products are utilized by engineers, designers, and researchers across multiple end markets, continues to benefit from better economics as its client base transitions to a subscription-based revenue model.

Stock selection was weakest in Healthcare and Materials. Within Healthcare, Cambrex (-13%) was the biggest detractor as declining volumes in a key Hepatitis-C drug will pressure its growth rate and margins in the coming year. However, the company continued to invest in capacity and is signing new customers, making this feel like a speed bump versus a step down in growth potential. The other weak name in Healthcare

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Top 5 Contributors (%)	PORTFOLIO RETURN	RELATIVE CONTRIBUTION
Lululemon Athletica, Inc	26.25	0.42
Tailored Brands, Inc	52.49	0.33
IPG Photonics Corporation	15.71	0.31
ANSYS, Inc	20.26	0.25
Tractor Supply Company	18.60	0.23

Top 5 Detractors (%)	PORTFOLIO RETURN	RELATIVE CONTRIBUTION
Cambrex Corporation	-12.73	-0.41
Owens-Illinois, Inc.	-11.88	-0.32
First Republic Bank	-16.92	-0.26
Eagle Bancorp, Inc.	-13.65	-0.20
Five Prime Therapeutics, Inc.	-46.42	-0.20

This information is not intended as investment advice or a recommendation to purchase or sell specific securities. Sector and stock performance included in portfolio commentary reflects a representative account as of 12/31/2017 and excludes cash. Actual holdings will vary for each client and there is no guarantee that a particular client's account will hold any or all of the securities/sectors listed. Additional information regarding the calculation methodology, as well as each holding's contribution to the strategy's performance is available on request.

## PORTFOLIO COMMENTARY *Continued*

was Five Prime (-46%), a biotech name, who released drug trial data (with partner Bristol Myers) that underwhelmed the Street. As an early stage company (not profitable), the stocks are highly sensitive to data points that tend to be volatile at this phase in their lifecycles. We are hopeful future milestones will corroborate our positive investment thesis going forward. The weakness in Materials was driven by Owens-Illinois (-12%). Owens-Illinois has been impacted by weakness in beer volumes in North America which offset gains in other regions. Long-term, the company is on track to deliver cost savings, margin improvement, and improved free cash flow generation through operational efficiencies, supply chain management, and debt reduction. Rounding out the bottom were two of our Financial names, First Republic (-17%), a commercial bank and trust, and Eagle Bancorp (-14%), a regional bank in the Maryland/DC/Virginia area. First Republic's margins were pressured by the flat yield curve combined with continued investment in new growth opportunities such as wealth management, while Eagle Bancorp pulled back on a short seller's report that we feel was overblown.

2017 was a favorable year for our product, with outperformance being helped by sector allocation as well as solid stock selection across many of our sectors. Our underweight in Energy, traditional REITs, and Telecommunications was a tailwind. Stock selection was especially beneficial in Information Technology and Consumer Discretionary. Our IT names overall returned 40%, almost double the benchmark sector return of 21%, while Discretionary was up 34% versus 18% for the benchmark. As mentioned earlier, we are tweaking a few of our sector exposures, pulling back on IT and upping Energy. Overall, we will maintain a generally neutral sector positioning, with stock selection being the main driver of our performance. While the continued bull market has expanded valuations, we will continue to search for high quality names with solid environmental, social, and governance characteristics that we can hold for the longer term.

## PORTFOLIO MANAGERS



### **Laura L. McGonagle, CFA**

- Former Equity Research Analyst at Adams, Harkness, and Hill as sell-side analyst in "Healthy Living" group, covering specialty consumer stocks addressing the consumers' growing awareness of the impact of nutrition, environment, and lifestyle choices on their well-being
- B.A., Quantitative Economics, Tufts University



### **Matthew W. Patsky, CFA**

- Former Director of Research, Chairman of the Investment Committee, and PM at Winslow Management Company
- First sell-side analyst in U.S. to publish on the topic of socially responsible investing in 1994
- Serves on the Boards of Environmental League of Massachusetts (ELM), Shared Interest, and Pro Mujer
- Member of the Social Venture Network (SVN)
- B.S., Economics, Rensselaer Polytechnic Institute

**The Weighted Average Market Capitalization** is a stock market index weighted by the market capitalization of each stock in the index. **The Weighted Harmonic Avg fwd P/E** is the ratio of the portfolio's total market value to the total earnings of the portfolio. **The Weighted Avg P/B** is the weighted average of the price/book ratios of all the stocks in a portfolio.

Free cash flow (FCF) is operating expenses minus capital expenditures.

*The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory and summary prospectuses contain this and other important information about the investment company, and it may be obtained by calling 866-209-1962, or visiting [trilliummutualfunds.com](http://trilliummutualfunds.com). Read it carefully before investing.*

Fund holdings and sector allocations are subject to change at any time and should not be considered a recommendation to buy or sell any security. **Earnings growth is not a measure of the Fund's future performance.**

References to other mutual funds should not to be considered an offer to buy or sell these securities.

**Trillium's Small / Mid Cap Fund may invest in foreign securities, which are subject to the risks of currency fluctuations, political and economic instability and differences in accounting methods. Investing in foreign securities is riskier than investing in domestic securities. The Fund invests in smaller and medium companies, which involve additional risks such as limited liquidity and greater volatility. Trillium's Small / Mid Cap Fund environmental policy could cause it to make or avoid investments that could result in the portfolio underperforming similar funds that do not have an environmental policy. There are no assurances that the fund will achieve its objective and/or strategy. Short term performance, in particular, is not a good indication of the fund's future performance, and an investment should not be made based solely on returns. Diversification does not assure a profit or protect against a loss in a declining market.**

The S&P Indices are widely recognized, unmanaged indices of common stock. The S&P 1000 combines the S&P MidCap 400 and the S&P SmallCap 600, to form a benchmark for the small-mid cap universe of the U.S. equity market. Returns reported reflect the net total return index, which reinvests dividends after the deduction of withholding taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

The S&P 400 Index serves as a barometer for the U.S. mid-cap equities sector. The S&P 600 Index covers a broad range of small cap stocks in the United States.

The Russell 2500 is a market cap weighted index that includes the smallest 2,500 companies covered in the Russell 3000 universe of United States-based listed equities.

An investment cannot be made directly in an index.

Trillium Asset Management is the advisor to the Trillium Small/Mid Cap Fund and the Portfolio 21 Global Equity Fund which are distributed by Quasar Distributors, LLC.



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