Trillium Asset Management

TRILLIUM GLOBAL SUSTAINABLE OPPORTUNITIES FUND A CLASS

March 2022

FUND FACTS

Investment objective: To provide investors with long-term capital growth through investment in global companies driving the transition to a more sustainable economy. To outperform the benchmark (before fees and taxes) over a rolling 3 year period.

FUND BENEFITS

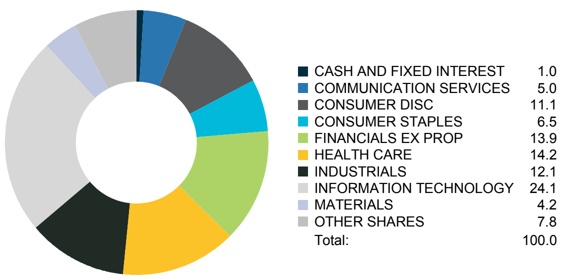
The diversified portfolio is constructed within a framework that is independent of the benchmark in terms of stock and sector weights. Added value is expected to come from the high conviction approach to stock selection. The portfolio has no fossil fuel exposure

FUND RISKS

All investments carry risk and different strategies may carry different levels of risk. The relevant product disclosure statement or offer document for a fund should be considered before deciding whether to acquire or hold units in that fund. Your financial adviser can assist you in determining whether a fund is suited to your financial needs.

Benchmark: MSCI World Net Total Return Index ($A)
Inception Date: August 2020
Size of Portfolio: $21.82 million as at 31 Mar 2022
APIR: PER4964AU
Management Fee: 0.99%*
Investment style: Growth
Suggested minimum investment period: Seven years or longer

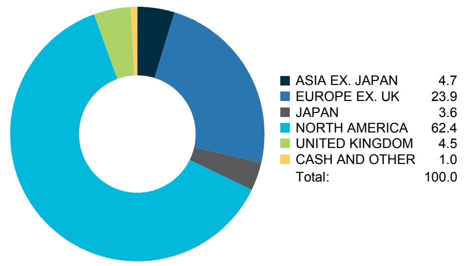
PORTFOLIO SECTORS



TOP 10 STOCK HOLDINGS

	% of Portfolio
Alphabet Inc.	3.5%
Mastercard Incorporated Class A	3.1%
Palo Alto Networks, Inc.	3.0%
Novo Nordisk A/S Class B	2.8%
Roche Holding Ltd Dividend Right Cert.	2.6%
Taiwan Semiconductor Manufacturing Co.	2.4%
KBC Group N.V.	2.3%
Unilever PLC	2.3%
AIA Group Limited	2.2%
PayPal Holdings, Inc.	2.2%

PORTFOLIO REGIONS



PERFORMANCE- periods ending 31 March 2022

	Fund	Benchmark	Excess
1 month	-2.56	-0.72	-1.85
3 months	-12.88	-8.17	-4.71
FYTD	-6.05	2.18	-8.23
1 year	1.90	11.69	-9.79
2 year p.a.	-	-	-
3 year p.a.	-	-	-
4 year p.a.	-	-	-
5 year p.a.	-	-	-
7 year p.a.	-	-	-
10 year p.a.	-	-	-
Since incep.	14.04	15.75	-1.70

Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	23.8	17.6
Dividend Yield*	2.1%	2.4%
Price / Book	3.3	2.8
Debt / Equity	38.9%	50.7%
Return on Equity*	15.5%	16.6%

^ Portfolio Fundamentals are compiled using our methodology and provided only for the purpose of illustrating Trillium's investment style in action. These figures are forecast estimates, calculated based on consensus broker estimates where available, and should not be relied upon. Dividend Yield is a dividend forecast of underlying securities for the portfolio and does not reflect the distributions to be determined for the fund.
* Forward looking 12-month estimate.

Information on Management Costs (including estimated indirect costs) and a full description of the Fund's performance fee is set out in the Fund's PDS.

MARKET COMMENTARY

Few markets or asset classes escaped the downdraft in the first quarter of 2022. Additional bricks were stacked on an already high "wall of worry" during the quarter, including the addition of the central banks' high-wire act of taming the rapid rise in inflation without slowing economic growth too quickly.

Additionally, Russia's invasion of Ukraine, pushed commodity prices higher and further disrupted global supply chains. Against this backdrop, U.S. equities declined nearly 5%, yet fared better than most markets around the world. Continental European stocks were pushed lower as expected higher energy costs added to already slowing growth, creating concerns of a near-term recession in the region. Japan was similarly impacted given its need to import gasoline at higher prices though the government did introduce some gasoline subsidies to help household consumption.

Emerging markets fared the worst in the quarter. After what looked like a promising start to the year, Chinese stocks fell precipitously, as China continued to pursue a zero COVID policy and introduced major lockdowns in cities such as Shenzhen and Shanghai. Conversely, the U.K., with its higher exposure to commodities (Energy and Materials), actually posted positive returns in the quarter.

At a sector level, there was a meaningful bifurcation in performance as the Energy sector was up over the quarter on the back of crude oil up 33% and natural gas up more than 51%. Conversely, the Communication Services, Consumer Discretionary, and Information Technology sectors were down more than -10%. With the MSCI World Value Index underweight these sectors while overweighting the Materials, Financials, and Utilities sectors, the MSCI World Value Index outpaced the MSCI World Growth Index.

PORTFOLIO COMMENTARY

At March 31, 2022, the Fund’s largest active overweight positions included network security company Palo Alto Networks, payments company Mastercard, and pharmaceutical company Novo Nordisk. The Fund’s largest underweight positions included Apple, Microsoft, and Amazon.com, none of which is held in the Fund.

The top relative performer for the quarter was Palo Alto Networks (+8.3%). Palo Alto Networks reported another strong quarter, benefitting from business spending on network security. Supply chain cost pressures were offset by price increases, which along with sales leverage, helped to boost operating margin. The company raised guidance for the year, and shares continued to rerate higher as analysts expect network security companies to see a further boost in demand as a defence against potential Russian cyber-attacks.

A leading provider of solar and energy-related innovations, SolarEdge Technologies (+11.2%) was also a top contributor to portfolio returns as shares appreciated on a solid earnings release that showed strong residential and commercial demand. While supply chain issues created shortages in batteries and depressed gross margin guidance, the overall business seems very well positioned to recover moving forward and nicely aligned with the continued secular movement toward consumer electrification.

In terms of detractors, PayPal (-40.6%) suffered from pressure on e-commerce sales generally due to consumer concern over prices, Omicron, supply chain disruptions, and small business pressures. In general, the high growth beneficiaries of the pandemic have been hit hard by a re-rating of investor expectations. Management is signalling that strategically, the company is now going to focus more intently on maximising ARPU of higher value existing customers rather than spending on boosting the growth of new customers. We believe this strategic bet will yield better FCF and ROIC performance longer-term.

Another high growth stock that detracted notably in the period, Etsy (-45.0%), reported very strong fourth-quarter sales numbers, with a holiday sales season buoyed by a diversified supply base versus competitors. Nevertheless, the stock saw pressure as investors continued to pivot away from the growth/momentum style that performed well during the pandemic. Rising inflation, particular with gas prices, raises questions about the durability of consumer spending, particularly as the company faces tough comps. We believe the company has a differentiated and defendable proposition in this market and will prove resilient even as consumers return to in-store shopping post-pandemic.

OUTLOOK

The Russian invasion of Ukraine shook global markets already tense over rising global inflation and the prospect of central banks tightening. The events in Russia, on balance, raised expectations for growing inflation, particularly given the sharp rise in commodity prices, including agricultural goods, metals, and oil and gas. As a result, a major risk-off move, particularly with European equities, has punished many companies.

Midway through the quarter, certain technology and clean energy stocks saw some relief, although this proved short-lived as inflation readings continued to come in ahead of expectations and the Fed signals even more hawkish moves than anticipated. In the US, a flattening yield curve, which has at points inverted, has led to concerns about a potential recession. In Europe, the case is even stronger given the dependence on Russian energy and expected supply chain shocks. China is not helping the situation, as renewed COVID outbreaks have tested the effectiveness of the “No-COVID” policy and spurred new lock-downs in major cities.

The labour market in the US continues to be strong, although this raises the prospect of a wage-price spiral. Consumer spending so far has been resilient in the face of rising gas prices, and we have seen a rebound in travel and experience-related spending. With the increase in global volatility, we are reviewing our portfolio exposures to minimise potential risks given the emerging threats. We continue to invest in the long-term, focusing on high-quality companies with proven management, strong balance sheets, and astute management of ESG related risks.

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