Trillium Asset Management

TRILLIUM ESG GLOBAL EQUITY FUND - CLASS A

December 2024

FUND FACTS

Investment objective: To provide investors with long-term capital growth through investment in quality global shares. To outperform the benchmark (before fees and taxes) over a rolling 3 year period.

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.

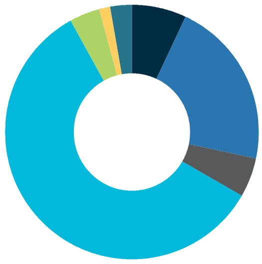
Benchmark: MSCI AC World Net Total Return Index (AUD)
Inception Date: August 2020
Size of Portfolio: $31.85 million as at 30 Sep 2024
APIR: PER2095AU
Management Fee: 0.89%*
Investment style: Core
Suggested minimum investment period: Seven years or longer

PORTFOLIO SECTORS

TOP 10 STOCK HOLDINGS

	% of Portfolio
Microsoft Corporation	5.4%
Alphabet Inc.	4.8%
NVIDIA Corporation	4.5%
Apple Inc.	3.6%
Visa Inc.	2.3%
Taiwan Semiconductor Manufacturing Co.	2.0%
TJX Companies Inc	1.7%
ServiceNow, Inc.	1.7%
Unilever PLC	1.6%
Novo Nordisk A/S	1.5%

PORTFOLIO REGIONS



PERFORMANCE- periods ending 31 December 2024

	Fund	Benchmark	Excess
1 month	2.14	2.73	-0.58
3 months	7.27	10.94	-3.67
1 year	18.85	29.48	-10.64
2 year p.a.	18.44	25.40	-6.96
3 year p.a.	5.19	11.23	-6.05
4 year p.a.	10.86	14.71	-3.86
5 year p.a.	-	-	-
7 year p.a.	-	-	-
10 year p.a.	-	-	-
Since incep.	12.54	15.18	-2.64

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

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	18.9	17.8
Dividend Yield*	2.1%	2.2%
Price / Book	3.8	2.9
Debt / Equity	43.8%	47.6%
Return on Equity*	21.7%	16.8%

^ 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

The fourth quarter capped another strong year for asset class returns, particularly in equities. The MSCI World Index rose 19% in 2024, driven by U.S. markets, where the S&P 500 gained 25% and surpassed 6000 in mid-December. Despite solid performances from China (+19%) and tech-focused Taiwan (+34%), emerging markets underperformed their developed counterparts, with the MSCI Emerging Market Index returning a more modest 8%. Outside the third quarter, a narrow group of stocks, including the Magnificent 7, drove markets higher, fueled by growth, momentum, and mega-cap factors. This trend was especially pronounced in the U.S., which recorded its best two-year period since the late 1990s, driven by a handful of technology-related stocks at increasingly high valuations. This narrow market environment has left many sectors undervalued, presenting compelling opportunities for value investors. In Europe, 2024 results were mixed. Germany (+10%) and Italy (+11%) posted strong gains, the UK saw moderate returns (+8%), and France struggled (-5%). We have observed a clear shift from value to growth stocks since early 2023, spurred by expectations that interest rates had peaked, easing inflation, and normalizing supply chains. However, only a narrow set of AI/tech-related stocks and Financials delivered outsized returns, as investors avoided more controversial areas of the market. Despite this concentration, we remain confident that our contrarian, value-focused approach is well-positioned for a market environment where fundamentals regain prominence.

PORTFOLIO COMMENTARY

For the quarter ended September 30, 2024, the Trillium Global Equity fund reported a return of 0.91% versus the benchmark, MSCI All Country World Index (ACWI), which reported a return of 2.63% over the same period. The Fund's largest overweight positions at quarter end included Alphabet Inc, Unilever, and TJX Companies. The Fund's largest underweight positions include Amazon.com, Meta, and Apple. Amazon.com and Meta are not held in the portfolio due to sustainability and ESG-related concerns.

The overweight position in Lululemon Athletica contributed to relative performance (+57.9%). LULU outperformed after reporting beat-and-raise quarterly results that were driven by its international business. The company also showed early progress with initiatives to restore its top line in the US.

The overweight position in Alphabet contributed to relative performance (+28.0%). Alphabet was a top contributor as the company continued to post strong quarterly revenue and earnings growth. Digital ad markets remain robust with good volume and pricing performance. This, coupled with a reasonable valuation, dissipating legal and regulatory concerns, and above average business visibility led to an improving stock price.

The overweight position in Novo Nordisk (-21.2%) detracted from relative performance. Novo Nordisk underperformed in the quarter after it reported mixed financial results highlighted by lower-than-expected product revenues from its GLP-1 obesity treatment Wegovy. While competition in the GLP-1 space has started to become a headwind for Novo, we remain optimistic about the company's opportunities for sales growth with the total addressable market for GLP-1 products rapidly expanding. Although Novo experienced product development setbacks during the period, though they remain a leader in the obesity treatment segment and we see the upcoming release of CagriSema, a potentially more competitive GLP-1 product, Phase III study results as a potential catalyst for outperformance.

The overweight position in Edward Lifescience's Corporation (-31.2%) detracted from relative performance. Edwards Lifesciences underperformed in the quarter after lowering their full year outlook due to slower-than-expected sales growth for its Transcatheter Aortic Valve Replacement (TAVR) product. We believe TAVR growth headwinds are attributable to increasing competition but looking towards the future we see Edwards' in a favorable position to seize opportunities from expanded usage of TAVR products.

OUTLOOK

Trump's return to power in the United States is consistent with a worldwide trend of exasperation with political leaders. Last July, we noted that over 60 countries were holding national elections in 2024. By the first week in 2025, government control had changed hands across much of the world. Since the COVID-19 pandemic began in 2020, 75% of incumbent governments have lost power. Worldwide, sustained high inflation, increasing wealth inequality, and economic and supply chain disruption stoked voter dissatisfactions, leading voters to turn to candidates running as outsiders and disruptors. While the specific impacts of most of these elections have yet to play out, we believe the loss of institutional knowledge that accompanies this widespread political turnover presents a risk to international relationship networks, including with respect to economic and regulatory agreements. The Federal Reserve cut its Federal Funds Rate by 50 basis points in the fourth quarter but made clear that further cuts will be dependent on the continued decline of inflation towards their 2% target. As of year-end, the market is pricing in less than 50 basis points of rate cuts in 2025, with inflation expected to plateau around 2.5%. This, in combination with concerns of inflationary trade policy, has kept interest rates high for companies and consumers, which could weigh on economic data and financial market performance in 2025. Lofty valuations, expected moderate economic growth of approximately 2%, and expectations of potentially significant changes in economic and political policies, such as new tariffs, potential changes in political alliances, and promised changes in immigration policies all reduce our expectations of potential return and elevate our perception of potential risk. The significant P/E expansion seen in 2023 and 2024, together with mild to moderate expected economic growth indicate that earnings growth will be the primary source of equity return in 2025 rather than further P/E expansion. Even with positive expectations or earnings growth, returns are likely to be modest, in comparison to the outsized equity returns seen in 2023 and 2024. Additionally, Chairman Powell's caution concerning the inflation outlook indicates a restrained outlook for Federal Reserve rate cuts in 2025, or possibly even potential for rising interest rates if new tariffs spur rising prices. With modest expected upside, we continue to seek quality in our holdings, even as these quality factors have been out of favour for the past year. In a somewhat uncertain economic environment, we favour companies with strong balance sheets, demonstrated profitability, and steadier revenue flows. While we are mindful of having been too cautious in our positioning over the past year, we also need to protect against market overexuberance.

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