

Q4 2021 ESG Large Value Strategy

by Adam Peck

The Large strategy slightly underperformed its benchmark, the Russell 1000 Value Index, for the quarter, which was up 7.8%. For the year, we trailed by a good margin unable to claw back any ground from underperformance from the first quarter.

Equities that outperformed during the quarter included Pfizer (PFE), Union Pacific (UNP) and Exelon (EXC). Pfizer benefitted from their continued efforts against Covid and Union Pacific capitalized on the supply constraints with elevated pricing and volumes in rail markets. Exelon continued to march higher as demand for electricity and energy continued to grow.

Equities detracting from performance included Medtronic (MDT), Disney (DIS), and Zimmer Biomet (ZBH). Both Medtronic and Zimmer Biomet suffered as hospitals remained constrained with Covid related activity while elective surgeries took a back seat. Additionally, Disney underperformed as online streaming growth slowed and park revenue remained depressed.

In the quarter, we sold our positions in Viatris (VTRS), Raytheon Technologies (RTX) and Newmont Corp (NEM) and trimmed our position in Berkshire Hathaway (BRK.B). Viatris was a spin off from Pfizer and we didn't feel the fundamentals warranted a continued position. Raytheon and Newmont were sold in search of more attractive investments offering superior fundamentals, valuations and ESG characteristics. We trimmed Berkshire for a source of capital, however, it remains a core holding.

The above equity sales were replaced with new positions in Charles River (CRL), EOG Resources (EOG), Owens Corning (OC), PACCAR (PCAR) and Regions Financial (RF). Charles River was formerly held in our SMID Value strategy and has grown into a large cap company. EOG is an oil and gas company that has developed a forward-thinking culture and is strategically positioned for the energy transition, all while embracing an ESG approach. Owens Corning, a roofing and building materials company, is a leader in insulation and well positioned for the cyclical trend in residential housing.

PACCAR (PCAR) designs, manufactures, and distributes light, medium, and heavy-duty commercial trucks under the brand names Peterbilt, Kenworth, and DAF. While PCAR and the entire trucking industry has been impacted by the chip shortage, 2022 is setting up to be a big year for PCAR. Inventory levels for class 8 trucks are close to a record low while backlogs for PCAR are close to all-time highs. If supply chain issues continue to persist, PCAR has a large parts business that does greater than 20% operating margins and will continue to grow with trucking utilization hovering around 100%.

An under the radar catalyst for 2021/22 is the spinoff of Daimler Trucks from the Daimler conglomerate. Daimler Trucks has been the low-price leader in the industry and now that it is a separate company responsible for its own income statement, pricing should move higher. This

benefits the entire trucking industry. While many of the sexy EV and hydrogen trucks like Tesla and Nikola get the headlines, PCAR has a formidable portfolio of non-fossil fuel trucks. PCAR's R&D efforts include several demonstration and development projects for Kenworth, Peterbilt and DAF vehicles, including battery electric, hydrogen fuel cell, and hybrid technologies. More than 60 of these vehicles in customer field testing have accumulated more than 500,000 miles.

Regions Financial (RF) provides banking and bank-related services to individual and corporate customers. It operates through three segments: Corporate Bank, Consumer Bank, and Wealth Management. RF is a beneficiary of rising interest rates and specifically a steepening of the yield curve. With inflation on the rise and the economy coming out of the pandemic, upward pressure will be put on yields going higher. RF is in attractive growth regions of the United States in the South, Midwest, and Texas. Management does extensive work on the ESG front and produced a 120-page sustainability report that outlines tangible environmental goals the company can track.

While we underperformed the benchmark for the year, we remain confident in our process and optimistic about the strategy and positioning in the market.

Letter continues below with ESG Large Value Strategy Largest Contributors & Detractors Q4 2021 and 2021.

ESG Large Value Strategy Largest Contributors & Detractors Q4 2021

5 Best - Absolute Contribution

Ticker	Company	Average Weight	Contribution
PFE	Pfizer Inc.	4.04 %	1.35 bps
UNP	Union Pacific Corp.	3.35 %	0.76 bps
EXC	Exelon Corp.	3.67 %	0.74 bps
TMO	Thermo Fisher Scientific	3.85 %	0.59 bps
NSRGY	Nestle S.A.	3.65 %	0.57 bps
5 Best Total		18.57 %	4.02 bps

5 Worst - Absolute Contribution

Ticker	Company	Average Weight	Contribution
MDT	Medtronic Plc.	3.51 %	0.72 bps
DIS	Walt Disney Company	4.13 %	0.55 bps
ZBH	Zimmer Biomet Holdings	2.44 %	0.41 bps
T	AT&T Inc.	1.84 %	0.16 bps
FSLR	First Solar Inc.	1.44 %	0.12 bps
5 Worst Total		13.36 %	1.97 bps

Contribution reflects the impact of performance and the portfolio weight to total portfolio return.

Data shown is from a representative account of the Strategy Name Composite. All Returns Are Gross-of-Fees. Included as supplemental information and complements a full disclosure presentation, which can be found in the appendix section of this presentation. Reader should not assume that investments in the securities identified were or will be profitable. Timing differences of purchases and sales may have a modest impact on the actual contribution numbers presented. The holdings identified do not represent all of the securities purchased, sold, or recommended. The calculation's methodology along with details on all holding's contribution to the overall account's performance during the measurement period are available upon request. Past performance does not guarantee future results.

ESG Large Value Strategy Largest Contributors & Detractors 2021

2021

5 Best - Absolute Contribution

Ticker	Company	Average Weight	Contribution
PFE	Pfizer Inc.	3.55 %	1.97 bps
PNC	PNC Financial Services	5.49 %	1.92 bps
BRK	Berkshire Hathaway	5.83 %	1.59 bps
ABB	ABB Ltd.	3.82 %	1.34 bps
TMO	Thermo Fisher Scientific	3.39 %	1.30 bps
5 Best Total		22.08 %	8.11 bps

5 Worst - Absolute Contribution

Ticker	Company	Average Weight	Contribution
DIS	Walt Disney Company	4.68 %	0.65 bps
VTRS	Viatis Inc.	1.66 %	0.56 bps
ZBH	Zimmer Biomet Holdings	2.88 %	0.42 bps
MDT	Medtronic Plc.	3.83 %	0.31 bps
NEM	Newmont Corp.	3.77 %	0.30 bps
5 Worst Total		16.83 %	2.24 bps

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