PMC Impact Portfolios Quarterly Review

Fourth Quarter 2019

By Kiley Miller, Associate Portfolio Manager

Key Highlights

- Supported by progress on US-China trade agreement and a third interest rate cut by the Federal Reserve, markets climbed in the fourth quarter. The impact portfolios posted positive returns, with the higher-equity-exposure, more aggressive models outperforming the more fixed-income-heavy, conservative models. Absolute returns ranged from 1.84% for the more conservative models to 7.22% for the more aggressive models.
- The portfolios benefited from a slight overweight to US small cap, which slightly outpaced large cap stocks. Portfolio exposure to US equities in general was additive.
- Within fixed income, the models with higher exposure to international debt were helped by that allocation. The tax-sensitive models outpaced their taxable counterparts.
- Manager selection, particularly within equities, detracted from relative results and was the primary factor for underperforming the benchmarks. Seven of the eight equity funds trailed their benchmarks, with the largest underperformer being the Parnassus Mid Cap Fund, lagging its benchmark by 355 basis points. Although emerging markets was the best-performing asset class, manager selection detracted from returns, with the RBC Emerging Markets Fund trailing its benchmark by 196 basis points.
- The fixed income funds showed mixed results, with the intermediate bond strategies slightly trailing their benchmarks, and the Templeton Global Bond Fund contributing to returns, outperforming the FTSE WGBI by 1.91%.

Figure 1

4th Quarter 2019 Attribution			
Impact Models	**Allocation Effect**	**Selection Effect**	**Total Contribution**
Capital Preservation[1]	0.21%	-0.20%	0.01%
Conservative[2]	0.11%	-0.40%	-0.29%
Conservative Growth[3]	0.21%	-0.66%	-0.45%
Moderate[4]	0.09%	-0.92%	-0.83%
Moderate Growth[5]	0.02%	-1.16%	-1.14%
Growth[6]	-0.08%	-1.41%	-1.49%
Aggressive[7]	-0.11%	-1.58%	-1.69%

Source: Envestnet | PMC

[1] Benchmark is composed of Bloomberg Barclays Capital U.S. Aggregate Bond TR, 16% FTSE World Govt Bond Index Non-Usd 3-7 Us, 14% Russell 3000 TR, 6% MSCI All Country World Index exUS GR, 2% BOFAML 3-Month U.S. T-Bill TR
[2] Benchmark is composed of 51% Bloomberg Barclays Capital U.S. Aggregate Bond TR, 20% Russell 3000 TR, 14% FTSE World Govt Bond Index Non-Usd 3-7 Us, 13% MSCI All Country World Index exUS GR, 2% BOFAML 3-Month U.S. T-Bill TR
[3] Benchmark is composed of 41% Bloomberg Barclays Capital U.S. Aggregate Bond TR, 30% Russell 3000 TR, 16% MSCI All Country World Index exUS GR, 11% FTSE World Govt Bond Index Non-Usd 3-7 Us, 2% BOFAML 3-Month U.S. T-Bill TR
[4] Benchmark is composed of 40% Russell 3000 TR, 30% Bloomberg Barclays Capital U.S. Aggregate Bond TR, 20% MSCI All Country World Index exUS GR, 8% FTSE World Govt Bond Index Non-Usd 3-7 Us, 2% BOFAML 3-Month U.S. T-Bill TR
[5] Benchmark is composed of 50% Russell 3000 TR, 23% MSCI All Country World Index exUS GR, 19% Bloomberg Barclays Capital U.S. Aggregate Bond TR, 6% FTSE World Govt Bond Index Non-Usd 3-7 Us, 2% BOFAML 3-Month U.S. T-Bill TR
[6] Benchmark is composed of 56% Russell 3000 TR, 30% MSCI All Country World Index exUS GR, 9% Bloomberg Barclays Capital U.S. Aggregate Bond TR, 3% FTSE World Govt Bond Index Non-Usd 3-7 Us, 2% BOFAML 3-Month U.S. T-Bill TR
[7] Benchmark is composed of 67% Russell 3000 TR, 31% MSCI All Country World Index exUS GR, 2% BOFAML 3-Month U.S. T-Bill TR

Contributors to Performance

Templeton Global Bond Fund (TGBAX) — *International Bond*

Templeton Global Bond Fund returned 1.56% in the fourth quarter, beating its benchmark, the FTSE WGBI, by 1.91%. The fund is managed with a contrarian approach and invests the majority of its assets in bonds of global governments and government agencies. Led by Dr. Michael Hasenstab, the strategy focuses on identifying value among currencies, sovereign credit, and interest rates in countries with healthy or improving fundamentals that the team believes are underappreciated in the market. The team's patient approach adds value, as it avoids tactical trading and prefers to hold a position until the investment thesis either is realized or no longer valid. While the fund's high-conviction, contrarian approach can result in short-term volatility, the strategy's long-term focus has proven to be successful, generating top-tier, long-term performance, while simultaneously delivering strong downside protection. The fund is invested mainly through currency strategies, thus avoiding direct investments in alcohol, tobacco, adult entertainment, and other categories that generally violate ESG criteria.

TIAA-CREF Social Choice Equity Fund (TICHX) — *Large Cap Core*

The TIAA-CREF Social Choice Equity Fund lagged its benchmark, the Russell 3000 Index, by seven basis points in the fourth quarter, but returned 9.03% overall, making the fund a top contributor to absolute portfolio returns. This was driven primarily by stock selection in the Health Care sector. The fund seeks a favorable long-term total return that reflects the investment performance of the overall US stock market while giving special consideration to certain ESG criteria. The fund follows a best-in-class ESG Integration approach, relying on research and ratings by MSCI. Currently, public company constituents of the MSCI USA IMI ESG Index are eligible to be included in the fund. The MSCI ESG Impact Monitor is used to exclude companies with the worst rankings from the index. The Impact Monitor provides ranking assessments of ESG controversies in areas such as the environment, employee relations, and customer relations. Controversies relate to corporate transgressions of broadly accepted international norms, global conventions and local laws, and legal actions by stakeholders. TIAA-CREF is an engaged shareholder regarding ESG issues, meeting with management, filing or joining resolutions, and voting proxies all in an effort to improve company performance on ESG issues.

Detractors to Performance

Parnassus Core Equity Fund (PRBLX) — *Large Cap Core*

The Parnassus Core Equity Fund trailed its benchmark, the S&P 500 Index, by 275 basis points in the fourth quarter. Results were driven by stock selection in the Technology, Health Care, and Industrials sectors. An overweight to Consumer Staples also detracted. As Parnassus' flagship strategy, the fund is run by CIO Todd Ahlsten, who became manager in 2002, and CEO Ben Allen, who joined the management team in 2012. The fund seeks to achieve both capital appreciation and current income, with an emphasis on downside protection, through a concentrated portfolio of approximately 40 stocks. Specifically, the strategy aims to exploit quality and time arbitrage market inefficiencies through investing primarily in dividend-paying, large cap companies determined to be undervalued at time of purchase. The fund invests in companies with sustainable competitive advantages, relevant products and services, strong management teams, and compelling ESG profiles. ESG assessments include both exclusionary screens and a bottom-up ESG evaluation of each company being considered for investment. Parnassus has established five firm-wide factors when performing its ESG evaluation: governance, workplace, environment, community, and customers. The fund avoids investments in alcohol, weapons, tobacco, gambling, and nuclear energy.

Parnassus Mid Cap Fund (PFPMX) — *Mid Cap Core*

Parnassus Mid Cap Equity Fund returned 3.51% in the third quarter, trailing its benchmark, the Russell Mid Cap Index, by 355 basis points. Underperformance was primarily driven by stock selection in Technology and Real Estate. Stock selection in Health Care and Industrials also detracted from performance. The Parnassus investment team uses a comprehensive process that fully integrates fundamental and ESG research to assess the business quality and valuation of potential portfolio companies. The ESG assessments include both exclusionary screens and a bottom-up ESG evaluation of each company being considered for investment. The team considers five primary factors when performing its ESG evaluation: governance, workplace, environment, community, and customers. The strategy avoids investments in alcohol, weapons, tobacco, gambling, and nuclear energy. The fund also invests in Community Development Financial Institutions (CDFIs) that offer credit, capital, and financial services to individuals and organizations engaged in work that benefits low-income communities.

MANAGER FOCUS: DOMINI IMPACT INVESTMENTS LLC

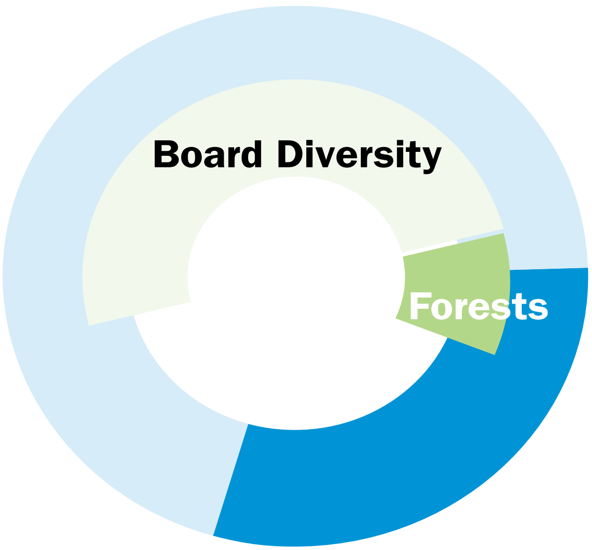
PMC selects impact managers to be included in the portfolios by conducting a rigorous and multifaceted due diligence process. In addition to the traditional due diligence, we evaluate a manager's ability to generate positive environmental and social impact alongside financial return. Domini Impact Investments LLC is a woman-led registered investment advisor that focuses exclusively on impact investing. Domini implements this approach by using three fundamental impact investing strategies to further the firm's overarching goals of universal human dignity and ecological sustainability. First, Domini applies social and environmental standards across all investments. Second, it directs capital to support building strong, healthy communities. And third, it engages with companies, civil society organizations, and policymakers to effect positive change.

Domini's quarterly impact update highlights key areas of engagement around specific environmental and social themes. In the third quarter, the firm highlighted a few areas of focus: diversity in the boardroom, health and safety, standing up for workers, how Domini investment standards relate to the UN Sustainable Development Goals, and community investing. As a member of The Thirty Percent Coalition, Domini participated in contacting 237 of the biggest companies in the US that had either one or no women on their boards. Earlier this year, Domini adopted a new proxy voting standard for diversity on boards: the Domini Funds will oppose the election of some or all directors where women make up less than 40% of the board. The firm will apply the same standards for historically underrepresented ethnic and racial groups. It is one of the most ambitious standards in the industry. At this year's annual meetings, Domini followed through on that commitment, voting against nearly two-thirds of directors that it considered (it does not vote against women or new candidates).

Domini also engages with companies on climate change. The firm joined a coalition of investors representing more than $5.5 trillion in assets to call on companies publically to defend existing regulations that limit methane emissions. Domini also made that ask of 33 specific companies, and, additionally, worked with a separate coalition to contact 47 of the biggest emitters to state the firm's expectation that any lobbying on climate policy be aligned with the goals of the Paris Agreement.

MANAGER FOCUS: DOMINI IMPACT INVESTMENTS LLC

ENGAGEMENT BY THE NUMBERS



Engagements by topic

- Universal Human Dignity
- Ecological Sustainability

Our third-quarter engagements reached

361 U.S. Companies &

109 Non-U.S. Companies

We also signed onto

7 Public Policy Statements

Source: https://www.domini.com/uploads/files/impact-updates/Domini-Funds-Impact-Update-3Q-2019.pdf

General Market Environment

The US economy's growth continued to slow modestly in the quarter. The Bureau of Economic Analysis reported its third estimate of third quarter 2019 gross domestic product (GDP) of 2.1%, in line with the prior estimate, and slightly higher than the second quarter's 2.0% reading. The employment situation surged in the latest month, with an average of approximately 205,000 jobs added each month of the quarter. The unemployment rate dipped to 3.5%. The Federal Open Market Committee (FOMC) modified its interest rate policy by lowering the federal funds rate target once during the quarter, to a range of 1.50% to 1.75%. Economists currently expect the FOMC to maintain the fed funds rate at current levels through 2020.

After battling through the adverse seasonal headwinds at the beginning of the quarter, equity markets provided consistent and steady gains throughout the quarter. September and October are often difficult months for stocks, and 2019 was not an exception, as broad-based indices declined roughly 3.5% in the first week of October. However, as economic data remained solid, and as the trade situation continued to thaw, markets recovered and established new all-time highs. Within that context, the S&P 500 Index finished the quarter with a gain of +9.1%. For the year, the S&P 500 delivered a total return of +31.5%. Performance of the eleven primary economic sectors was positive during the quarter, with ten sectors delivering positive gains and only one producing a negative return. Health Care, Information Technology and Financials were the strongest performers on a relative basis, generating returns of +14.4%, +14.4%, and +10.5%, respectively. The Real Estate, Utilities and Consumer Staples sectors were the poorest relative performers, posting returns of -0.5%, +0.8%, and +3.5%, respectively. The Russell 1000 Index of large capitalization stocks generated a +9.0% total return. Within the large cap segment, growth stocks outperformed value stocks. Small cap stocks, as represented by the Russell 2000 Index, slightly outperformed large caps, and finished the quarter with a total return of +9.9%. Small cap growth outperformed small cap value. The NASDAQ Composite, dominated by information technology stocks, finished the quarter with a gain of +12.5%. The Dow Jones Industrial Average of 30 large industrial companies advanced +6.7%. Real Estate Investment Trusts (REITs) gave up ground during the quarter, with the DJ US Select REIT Index down -1.2%. Commodities were higher, with the Bloomberg Commodity Index gaining +4.4% for the quarter.

International stocks delivered strong gains during the quarter, and generally performed in line with US equities. As in the US, global growth has slowed in recent quarters, but has remained positive. The MSCI ACWI Ex-USA Index, which measures performance of world markets outside the US, rallied by +8.9%. The MSCI EAFE Index of developed markets stocks rose by +8.2%. Regional performance was positive across the board for the quarter. China was the strongest performer on a relative basis, with a return of +14.7%. The Pacific region ex-Japan was the poorest relative performer, gaining +5.8%. Emerging markets performance was quite strong, as the MSCI Emerging Markets Index was higher by +11.8%.

Fixed income securities' prices and yields were impacted by several important factors during the quarter, including an acceleration in job growth and expectations for an easing in the trade tensions with China. In addition, Boris Johnson's decisive re-election as UK Prime Minister is expected to bring greater clarity to the Brexit situation that has cast a cloud over the region for more than three years. For its part, the FOMC lowered interest rates once during the quarter, bringing the target federal funds rate range to 1.50%-1.75%. The combination of these factors resulted in a more normal yield curve shape, with generally higher yields overall. Economists expect yields to closely track the economy going forward, as the FOMC committee members anticipate no additional rate reductions (or increases) in 2020.

The US economy is in the midst of the longest expansion on record at 126 months, and at this point in the cycle the slowing growth that has been experienced should be expected. But the economy is nothing if not resilient, continuing to deliver gains in the face of the continuing trade war with China and other significant trading partners, geopolitical tensions, and deep political fissures that have resulted in the impeachment of President Trump. By most accounts the FOMC has seemed to have reversed the damage done by its decision in 2018 to raise interest rates too much and too quickly. The committee's three rate reductions in 2019 seem to have been enough for the economy to remain on track for continued modest growth. Expectations among economists are that President Trump and China's president Xi Jinping will continue to de-escalate the trade war, both because of the damage it has already inflicted on the Chinese economy and the fact that 2020 is a presidential election year in the US. The consumer has been the linchpin of growth not only in the US but across world economies. Many analysts believe the outlook for consumers remains bright as a result of the combination of household deleveraging that has occurred over the past decade and growth in personal income. Economists warn that one risk to the US economy in 2020 may be that because there are stark differences in the economic policies of President Trump and his Democratic rivals, uncertainty about the election's outcome may alter consumer behavior such that it adversely impacts the economy. Elections have historically had little impact on the economy, but some economists believe that with the prevailing deep political divide 2020 may be an exception.

Portfolios' Attribution

Ticker	Fund Name	Asset Class	Weight		Q4 Return Contribution		Q4 Total Fund Return
			Low	High	Low	High	
CRANX	CRA Qualified Investment	Intermediate Bond	0.0%	25.0%	0.0%	0.05%	0.19%
TGBAX	Templeton Global Bond	International Bond	0.0%	16.0%	0.0%	0.25%	1.56%
TSBIX	TIAA-CREF Social Choice Bond	Intermediate Bond	0.0%	25.0%	0.0%	0.02%	0.06%
VSGDX	Vanguard Short-Term Federal Adm	Short Bond	0.0%	12.0%	0.0%	0.05%	0.44%
DOMYX	Domini Impact International Equity	Foreign Large Cap Value	3.0%	14.5%	0.23%	1.09%	7.55%
PFPMX	Parnassus Mid Cap	Mid Cap Core	3.5%	13.0%	0.12%	0.46%	3.51%
PMFIX	Parnassus Core Equity	Large Cap Core	4.0%	18.5%	0.25%	1.17%	6.32%
PXNIX	Pax MSCI EAFE ESG Leaders Index	International Developed Markets	2.5%	9.5%	0.21%	0.81%	8.53%
TISCX	TIAA-CREF Social Choice Equity	Large Cap Core	7.0%	27.5%	0.63%	2.48%	9.03%
PGINX	Pax Global Environmental Markets	Global Equity	0.0%	4.0%	0.0%	0.35%	8.86%
PXSIX	Pax Small Cap	Small Cap Core	0.0%	6.5%	0.0%	0.43%	6.62%
REEIX	RBC Emerging Markets Equity	International Emerging Markets	0.0%	4.5%	0.0%	0.44%	9.88%

Index Overview

Index performance is presented for illustrative purposes only and does not represent the performance of any specific investment product or portfolio. An investment cannot be made directly into an index.

The **S&P 500 Index** is an unmanaged index comprising 500 widely held securities considered to be representative of the stock market in general. The **MSCI EAFE Index** represents 21 developed markets outside North America. The **MSCI Emerging Markets Index** is a market-capitalization index that is designed to measure equity market performance in the global emerging markets. The **Russell 2000 Index** is an unmanaged market-capitalization-weighted index measuring the performance of the 2,000 smallest US companies, on a market-capitalization basis, in the Russell 3000 Index. The **Bloomberg BarCap U.S. Corporate High Yield Index** covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The Index may include emerging markets debt. The **Bloomberg BarCap Municipal Bond Index** is a widely recognized, unmanaged index of municipal bonds with maturities of at least one year. The **NASDAQ Composite** is an index of the common stocks and similar securities (e.g., ADRs, tracking stocks, limited partnership interests) listed on the NASDAQ stock market, meaning that it has more than 3,000 components. It is highly followed in the US as an indicator of the performance of stocks of technology and growth companies. Since both US and non-US companies are listed on the NASDAQ stock market, the Index is not exclusively a US index. The **MSCI Europe Index** captures large and mid cap representation across 15 developed markets countries in Europe.* With 432 constituents, the Index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe. The **Russell 1000 Index** is a market-capitalization-weighted benchmark index made up of the 1000 largest US companies in the Russell 3000 Index. **The Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The **MSCI ACWI Ex-U.S. Index** is a market-capitalization-weighted index maintained by Morgan Stanley Capital International (MSCI) and designed to provide a broad measure of stock performance throughout the world, with the exception of US-based companies. The **MSCI All Country World Index Ex-U.S.** includes both developed and emerging markets. The **MSCI China Index** captures large and mid cap representation across China H shares, B shares, Red chips, and P chips. With 143 constituents, the Index covers about 85% of this China equity universe. **The MSCI Emerging Markets (EM) Asia Index** captures large and mid cap representation across 8 emerging markets countries (China, India, Indonesia, Korea, Malaysia, the Philippines, Taiwan, and Thailand). With 535 constituents, the Index covers approximately 85% of the free float-adjusted market capitalization in each country. Sector performance is represented by the **Global Industry Classification Standard (GICS)** sectors, developed by Standard & Poor's and MSCI Barra. The **CBOE Volatility Index (VIX)** is an up-to-the-minute market estimate of expected volatility that is calculated by using real-time S&P 500 Index option bid/ask quotes. The Index uses nearby and second nearby options with at least 8 days left to expiration and then weights them to yield a constant, 30-day measure of the expected volatility of the S&P 500 Index. **Bloomberg Barclays Capital U.S. Aggregate Bond Index** is an unmanaged index of prices of U.S. dollar-denominated investment grade fixed income securities with remaining maturities of one year and longer.

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An investment in these portfolios is subject to market risk and an investor may experience loss of principal. The recent growth rate in the stock market has helped to produce short-term returns that are not typical and may not continue in the future. Returns are presented without provision for federal or state taxes. Under no circumstances does the information contained within represent a recommendation to buy or sell securities. This is not a sales solicitation, but rather a research profile on a specific investment option.

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