BOSTON COMMON
ASSET MANAGEMENT

BOSTON
84 State Street, Suite 940
Boston, MA 02109
TEL (617) 720-5557
FAX (617) 720-5665

SAN FRANCISCO
111 Pine Street, Suite 1420
San Francisco, CA 94111
TEL (415) 757-5760
FAX (415) 233-4871

www.bostoncommonasset.com
invest@bostoncommonasset.com

Active Investor Social Update

Second Quarter, 2017

Ambitious Eco-Efficiency: Frugal, Creative, Green, and Smart!

By some estimates, efficiency gains will drive over half the changes needed for a timely transition to a sustainable future. A staggering $93trn of investment is required by 2030 to limit global warming to 2°C. We began **our ambitious, multi-year Eco-Efficiency initiative** in 2015 and have broadened our understanding of efficiency from energy conservation alone to now include emissions control, water use, and waste reduction. To reflect this broader reach, we named our campaign "Eco-Efficiency" and issued a call to action to corporations to increase "Resource Productivity." By this, we mean going beyond merely doing old tasks more efficiently, to more **ambitiously seeking to re-imagine products, redesign processes, and re-conceptualize strategy in order to cut resource use–namely energy, emissions, water, and waste.**

This type of pathbreaking innovation by businesses is critical to meeting the Paris Agreement climate goals. As we reflect on the President's recent decision to withdraw from the Agreement, we are proud to have been present at the COP21 conference in Paris for the inception of this Accord in 2015. Geeta Aiyer spoke on Energy Day of the conference as the investor voice on energy efficiency during the historic negotiations.

Product and process innovation underpins important strategic choices for our portfolio companies to secure industry leadership and profitable global growth in a time of climate change and resource scarcity. In a globally competitive marketplace, if our portfolio companies are not leaders in this regard, then others will likely fill the void and disrupt the old way of doing things, because increased Eco-Efficiency is rapidly becoming a necessity, not a choice.

Inside the Issue

Boston Common's forthcoming report, Engagement Impact in Public Equities *highlights our active engagement results in 2016.*

We found companies, such as **Air Liquide, Veolia, BMW, Simon Property Group, National Grid, Panasonic, Origin Energy, and Statoil**, eager to engage on this theme, as it provides a unifying framework for sustainability, going beyond climate change. *(Continued, pg. 2)*

TOO BIG TO LISTEN

Financial CHOICE Act and Shareholder Rights

Access to reliable and accurate information creates the foundation for well-functioning financial markets. Since the 1950s, investors seeking greater transparency and disclosure from companies, especially on Environmental, Social, and Governance (ESG) matters, have used **shareholder proposals** as a significant tool to achieve this. The proposed **Financial CHOICE Act**, now in the US Senate following easy approval in the House, **threatens to significantly restrict such shareholder access**, by making the requirements exceptionally onerous.

In 1997, the SEC amended Rule 14a-8 to allow investors with a minimum of $2,000 in shares or 1% held for a year or more to put a proposal on a corporate proxy ballot. The CHOICE Act proposes to dramatically raise the ownership requirement to a minimum of 1% of a company's outstanding common stock, and the holding period to three years. For many listed companies, this would set the threshold at an impossible level so that only the very biggest investors, if any, could have their proposals included in the company's proxy statement.
(Continued, pg. 3)

Active Investor Social Update

Second Quarter, 2017

Active Ownership Updates

AMBITIOUS ECO-EFFICIENCY (CONTINUED)

One important goal of the initiative is to create a narrative around Eco-Efficiency within companies. We want to help embed the concept of Eco-Efficiency at a management and corporate governance level, so that doing more with less is a consideration for every business decision. Lastly, we want to identify best practices across industries to provide examples for other companies to emulate and for investors to demand. It is gratifying to see how our portfolio companies with very different challenges on Eco-Efficiency have made ambitious changes, but we also see opportunities to improve:

Air Liquide believes it is nearing technical limits for energy efficiency in its air separation units that use large amounts of electricity to extract oxygen, nitrogen, and other gases from the atmosphere. So to further reduce their energy use, GHG emissions and costs, they have improved the logistics of transporting industrial gases by pipeline and trucks.

BMW has saved 50 million Euro through efficiency initiatives since 2006. One BMW plant site in San Luis Potosi, Mexico uses 100% renewable energy and recycles all wastewater. The company now invests in electric vehicles and is making strides toward manufacturing cars with carbon fiber rather than metal in order to reduce car weight and increase gas mileage. With Ceres and The Climate Group we are encouraging BMW to join the EP100 as the company has achieved a 36% per vehicle reduction in energy consumption since 2006 and is already on track to double its energy productivity by 2025!

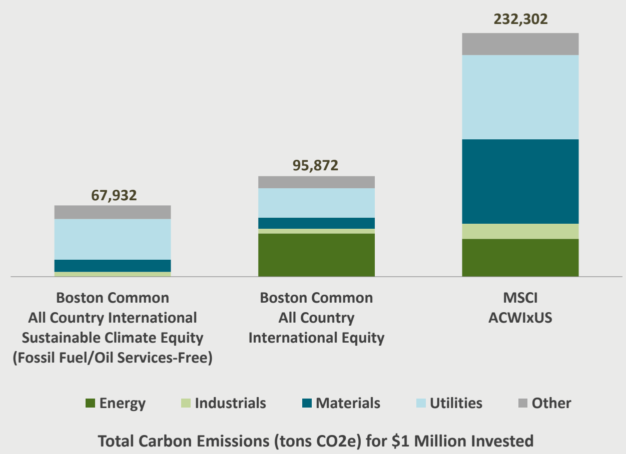
Simon Property Group prioritizes energy management in its corporate sustainability strategy that also includes recycling, water management and renewable energy systems at shopping malls. The company has changed its governance structure to embed sustainability throughout the organization. The building sector alone contributes to 36% of direct, energy-related GHG emissions in the U.S.

As long-term investors, our end-goal is to prompt companies to reassess their risks and opportunities, to see if they are prepared for the new era of carbon budgets and resource constraints. Thus our engagement efforts will continue to focus on these themes. **Companies with products and processes that address these challenges head-on will be critical to society's transition to a low-carbon and more efficient future.** These companies will also be leaders in profitable growth and risk management. We see our Eco-Efficiency campaign as a win/win effort for investors, communities, and planet Earth.

This quarter, we joined an initiative led by Ceres and the World Wildlife Fund with over 1,200 investors, businesses, states, cities, and universities pledging to help the US deliver on its climate commitments. We have also urged global leaders to stand by their commitments to the Paris Agreement, alongside a coalition of investors led by the Principles for Responsible Investment (PRI), in a letter signed by over 280 investors representing more than US $17 trillion in assets.

Portfolio Carbon Footprint

Boston Common's All Country International Portfolios



We first began measuring, disclosing, and setting a baseline for the carbon footprint of our portfolios in 2015 as an early signatory and ambassador for the **Montréal Carbon Pledge**, which is overseen by the UN-supported Principles for Responsible Investment. This year, we have added a sector-level analysis for each strategy relative to their respective benchmarks, in addition to carbon intensity and total greenhouse gas (GHG) emissions. The results show that **Boston Common's core strategies produce significantly fewer emissions than their benchmarks**.

This assessment further informs our integrated ESG investment approach, which excludes companies we view as the riskiest, highest-emitting players. We then engage portfolio companies to further improve their management of carbon through initiatives such as Eco-Efficiency.

Our forthcoming 2017 report will explore how analyzing a company's ability to effectively manage energy, water, and waste can help fill in the gaps until more sophisticated metrics, such as avoided GHG emissions, become available.

Active Investor Social Update

Second Quarter, 2017

Active Ownership Updates

TOO BIG TO LISTEN (CONTINUED)

For example, even Harvard with its $36 billion endowment would need to put almost 20% of its assets into Apple ($758 billon market cap) in order to own the 1% needed to be eligible under the new Act!

We believe this exclusion of shareholder voice is a loss in terms of risk management and return creation. A vibrant marketplace of questions and ideas helps businesses improve. Many such queries come from small, minority stakeholders who are also important stakeholders. Diversity is one example of shareholders using resolutions as a mutually-beneficial tool to improve corporate performance. This spring we saw several large US financial companies – **Bank of America, Citigroup** and **Wells Fargo** – face shareholder votes asking them to report on the gender pay gap, an effort that appears to already be creating more transparency and prudent management of the issue at these firms.

In the past fifteen years, shareholder resolutions have resulted in meaningful changes in corporate governance policies, practices, and disclosure:

- Changed governance procedures, e.g. annual election of Directors, access to the proxy, majority vote for Directors, shareholder approval of executive compensation packages
- Elicited Sustainability Reports for investors from almost 100 companies since 2009
- Catalyzed numerous companies to broaden their search for diversity on their Boards and added women or people of color
- Prompted over 150 company commitments to disclose and set up Board oversight of political spending

Many of the proposals above were filed by minority shareholders, whether individuals or institutional; yet these are very engaged investors who would be cut out of the process entirely by the Financial CHOICE Act. If enacted, this Act will change many aspects of the landmark Dodd-Frank 2010 law.

Dodd-Frank was created to stop some companies becoming 'Too big to fail', yet the proposed Act would enable them to ignore shareholders and act as if they are 'too big to listen'. **Shareholder proposal rules support the ownership interests of all shareholders** including the beneficiaries of pension and endowment funds, savings, and retirement accounts. As stewards of these beneficiaries' interests, it is vital that we retain every avenue for investors' voices to be heard.

WATER IS WORTH IT

Water is essential to life. It accounts for two thirds of the earth's surface and two thirds of human body weight. Unfortunately, more than 97% of earth's water is salty seawater,[1] and the bulk of earth's freshwater is locked in polar ice caps, meaning there is little left directly for humans. So important is water to people and the planet, that the UN Sustainable Development Goals (SDGs) make 'access to clean water and sanitation' and 'oceans conservation' a key priority.

Industries from agriculture to apparel, extractives to energy require large and secure access to water, yet by 2035 some 40 per cent of the world population is expected to live in areas facing water scarcity[2], putting companies in competition with people and farming. A significant proportion of the world's freshwater resources are contaminated with pollutants from farming, energy generation and other industries. It is estimated that 70% of industrial waste in developing countries are dumped untreated into waterways[3], limiting usable water supply. **Companies that fail to manage water efficiently while protecting access for local communities endanger their ability to operate and ultimately damage value.** Recent data from CDP, for example, indicates that in 2015 water related impacts cost companies US$14bn.[4]

There are **three key areas where investors can use their influence as shareholders** to help ensure sustainable water use by companies:

- Encouraging water-related disclosure
- Improving behavior, and
- Allocating capital to companies providing solutions.

Investors are increasingly asking companies to disclose how water is used and water risks managed as an important first step, because if something is not monitored it cannot be managed. At Boston Common, water is a long-term and on-going engagement theme. Since 2013, we have engaged with a number of companies including **J. Front Retailing, Kao, Panasonic, Orix, Shiseido, and VF Corporation** to encourage them to report on water use via the CDP Water Survey. As a result, VF Corp., an apparel company with Wrangler, The North Face, and Timberland brands, completed its first CDP Water Report in 2016. VF is now working with World Wildlife Fund (WWF) to develop a global water strategy that addresses water use and impacts throughout its facilities and supply chain.

We have been proactive with companies in our portfolio to encourage responsible use of water. **EOG Resources**, for example, has implemented a pre-drilling water testing program for all its US operations.

[1] https://en.wikipedia.org/wiki/Water_distribution_on_Earth
[2] https://www.ft.com/content/fa9f125c-0b0d-11e7-ac5a-903b21361b43
[3] http://www.nationalgeographic.com/environment/freshwater/pollution/
[4] https://www.cdp.net/en/water

Active Investor Social Update

Second Quarter, 2017

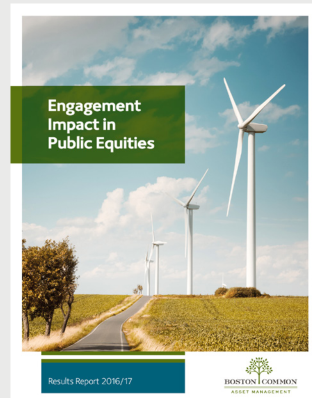
Active Ownership Updates

Similarly, our multi-year engagement has led **Apache Corporation** to develop innovative water approaches, such as the use of brackish water, water recycling, and cutting freshwater use for hydraulic fracturing of new wells in the dry conditions of west Texas. **These initiatives reduce stress on local freshwater sources and help the company to reduce costs.** We have worked with French firm **Veolia Environnment** for a number of years regarding the protection of water access and clean sanitation as a human rights issue. We also seek out companies providing solutions to water challenges, such as Japanese firm **Kubota** (wastewater management solutions) and British company **Spirax-Sarco** (water efficient steam systems and pumps).

The growing scale of water scarcity poses an enormous challenge to the world, but it can also be viewed as a sustainable investment opportunity. If we can empower investors and companies to invest in solutions and manage water risk, then we have a better chance of protecting precious freshwater supplies for future generations.

New Report: Engagement Impact in Public Equities

Our forthcoming Engagement Impact Report, to be released in July, details elements of our environmental, social, and governance performance for the 2016 calendar year. **We engaged over 190 companies around the world last year and 44 companies made substantive changes following our engagement.** We are proud of our significant impact last year, but mindful of the urgent, transformative changes required for a more sustainable, equitable future, we continue to activate client assets and use our shareholder voice to help create it.



Taking Stock: Reflecting on the Quarter

Milestones	**Chemical Safety –** In April, **CVS Health** announced its intention to **remove all parabens, phthalates and the most prevalent formaldehyde donors across nearly 600 beauty and personal care products** from store brand CVS Health, Beauty 360, Essence of Beauty, and Blade product lines by the end of 2019. The company is also publishing a full list of chemicals restricted from use in current store brands by product category. We are encouraging CVS to expand this effort beyond its private brands.
	Corporate Governance & Shareholder Rights - Alphabet (Google) class A shareholders receive only one vote per share owned, while class B holders (typically insiders) outweigh "outsiders" with 10 times the voting rights. Boston Common co-filed an **equal voting rights shareholder proposal** at Alphabet, which received an overall "for" vote of 28.9% when counting both voting classes (A and B) together. **Almost 99% of class A shareholders supported the proposal.**
Work in Progress	**Global Health -** We are leading an investor engagement on improving the nutritional practices of 13 leading Food & Beverage companies benchmarked by the **Access to Nutrition Index (ATNI)**, including **Mondelēz** and **Unilever.** As of 2016, 35% of Unilever's portfolio by volume met the highest nutritional standards (based on globally recognized dietary guidelines), and the company is on track to achieve its 60% goal by 2020. We encouraged Unilever to add more positive nutrients under its product reformulation efforts. With Mondelēz, we discussed nutritional performance in the context of promoting health of consumers and links to a more sustainable food system.
	Eco-Efficiency – We met with the CEO of electric and gas utilities **Origin Energy** and **National Grid** staff to discuss **GHG emissions and Eco-Efficiency**. Origin plans to retire coal-fired power plants and replace them with wind and solar power. National Grid plans to replace leaky gas pipes in New York and expand regional transmission lines to carry renewable power. We are continuing to encourage **BMW** to join the EP100.
	Supply Chain Management & Workplace Safety – Four years following the collapse of Rana Plaza, we continue to support the **Bangladesh Accord on Fire and Building Safety** in a coalition of global investors representing over U.S. $4.3 trillion, which issued a recent statement on its success. We are also engaging **VF Corp (Timberland)** on a new aspect of Bangladesh where **egregious labor and environmental practices were discovered in the $1 billion-per-year tannery industry including widespread child labor and no water effluent treatment** for 150 tanneries in Hazaribag.
New Initiatives	**Gender Equality –** We launched our **Gender Equality initiative** this quarter and evaluated 8 portfolio companies held in both our U.S. Core and Value strategies, including **CME Group, Mohawk Industries** and **Oracle**. We became a signatory to the Women's Empowerment Principles in 2015 and are urging companies to: **improve disclosure on board level oversight of diversity initiatives, provide internal research on the gender pay gap, and develop metrics to measure progress on how equal opportunities are upheld**. We have written to each company, highlighting examples of good management practices on gender equality, wherever possible.

Boston Common Asset Management is a federally registered investment adviser. The firm provides socially responsible investment management services to individuals and institutions who seek sustainable, long-term capital appreciation with social screening and shareholder advocacy. The information in this document should not be considered a recommendation to buy or sell any security. There is no assurance that any securities we discuss will remain in an account's portfolio at the time you receive this document. The securities discussed do not represent an account's entire portfolio and may represent only a small portion of an account's holdings. It should not be assumed that any securities transactions we discuss were or will prove to be profitable. Past performance does not guarantee future results. All investments involve risk, including the risk of losing principal.