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ACTIVE INVESTOR SOCIAL UPDATE FOURTH QUARTER, 2011

We have used the last quarter of the year to reflect on existing company dialogues, identify new opportunities for engagement, and define our engagement strategy for 2012. We look forward to engaging companies in the key environmental, social, and governance issues that best represent the interests of our clients. Happy New Year to All!

Sustainability in Japan

The Tohoku earthquake and tsunami in Japan in March 2011 left the world worrying about the consequences of the Fukushima nuclear plant disaster. In November, Constantina Bichta traveled to Japan and held meetings with six core-holding companies to discuss the impact of the March events and progress on key ESG areas.¹

A clear pattern emerged from the discussions: Japanese companies approach human rights issues by focusing primarily on employment harassment. Companies manage their environmental impacts and those of their suppliers, but they are lagging relative to US and European peers in raising labor and human rights standards in the supply chain. Female representation at all company levels is highly inadequate. Boston Common asked all companies to commit publicly to a target for improving diversi-



¹Constantina met with Terumo Corporation, Sony, Honda, Toray Industries, Mitsui Fudosan and Takeda in Japan to discuss key ESG issues.

ty efforts in Japan and to adopt a due diligence process to assess human rights impacts as they expand in emerging markets.

Boston Common encouraged **Sony** to strengthen core competencies, such as **environmental and labor standards in the supply chain**, and to further improve its reporting. We asked Sony to clarify in the next reporting cycle its decision to audit Original Equipment (OEM) suppliers versus Sony-owned factories, as well as to conduct and report audits at Sony-owned factories. Given the company's exposure to conflict minerals, we encouraged Sony to take a leadership role and to consider adopting a conflict minerals sourcing policy. Sony has taken a proactive step by joining the Public-Private Alliance for Responsible Minerals Trade, a multi-stakeholder coalition supported by the US Department of State to develop a conflict-free certification and traceability scheme in the Congo.

We encouraged **Toray Industries** to lead the way amongst Japanese peers in assessing its **water footprint**, given the large volume of water used in its textiles business. We recommended that Toray join the CEO Water Mandate and assess its footprint through the Water Disclosure Project (WDP). Toray has adopted the ISO 14046 Water Standard to help it address water usage issues.

Terumo Corporation told us it conducts environmental auditing of plants but fails to disclose audit results. We encouraged Terumo to start disclosing information on environmental auditing, given its number of manufacturing factories in the Philippines and Vietnam. We asked the company to broaden the focus of its **Human Rights policy** to include child and forced labor, fair wages, freedom of association, and collective bargaining issues affecting the supply chain. We encouraged the company to develop a questionnaire containing social and environmental criteria for auditing suppliers overseas and to publish figures related to the reduction of animals in product testing.

Our meeting with **Honda** focused primarily on labor and supply chain issues. Honda buys from 15,000 suppliers and uses a green purchasing guide for first-tier suppliers, covering greenhouse gas emissions, water, and waste management issues. We encouraged Honda to **add social standards to their purchasing guide** to cover fair labor and freedom of association standards, leveraging capabilities in their supply chain. We also

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asked Honda to apply the Honda Group labor standards to joint ventures in China, Thailand, and Indonesia.

We asked **Mitsui Fudosan** to report in accordance with the GRI sector supplement on Construction and Real Estate, which considers the life cycle of a building and the child labor issues affecting the construction industry. We asked Mitsui, the second largest real estate developer in Japan, to disclose publicly how **community consultation and participation** takes place before and upon delivery of projects. We learned that Mitsui worked collaboratively with residents, the Tokyo University, and prefectural governments on the Kashiwanoha Campus City Project, one of the largest urban projects in Japan, to turn a brown site to a world class city campus. Because Mitsui Fudosan is also a high-volume user of timber, we encouraged the company to adopt a **timber sourcing policy** favoring FSC certified timber.

Human Rights & Indigenous Peoples' Rights

In October, Boston Common represented investors at the first Silicon Valley **Human Rights Conference** to discuss **human rights related to internet freedom of expression and privacy**. Lauren Compere spoke on a panel that examined the challenge of balancing national security and child protection issues with freedom of expression and user privacy. Google, Nokia, Vodafone, and Yahoo have faced reputational risks related to human rights and internet freedom of expression and may face increasing legal risk.

In the fall, Steven Heim spoke at conferences about **shareholder advocacy for Indigenous Peoples' rights** and met with leaders of large **American Indian tribes**. At SRI in the Rockies, Steven gave an investor perspective on the business case and challenges for companies implementing Free, Prior, and Informed Consent policies for Indigenous Peoples.² At the Native American Financial Officers Association fall conference, Steven shared Boston Common's successes and lessons from pushing extractives companies to respect the rights of Indigenous Peoples. In December, Steven and Carla Fredericks of Milberg LLP gave a presentation on SRI and hydraulic fracturing to the inaugural meeting of the Council of Large Tribes (COLT), a new organization promoting the interests of American Indian tribes with large land bases.

Health & Environment

For the past year, Lauren Compere has served on the Expert Group of the **Access to Nutrition Index** (ANTI) to help develop a methodology to assess the nutrition practices of the large-

est food and beverage companies.³ Boston Common engaged its portfolio holdings including Kraft, Pepsi, and Unilever to participate in a stakeholder consultation, after which ANTI released a draft methodology. In 2012, ANTI will release a Core Index of the 25 largest, global food and beverage companies, in addition to three Spotlight Indexes in Brazil, India, and South Africa, which face under-nutrition as well as growing obesity.

Boston Common helped launch the **2012 edition of the Silicon Valley Toxic Coalition's (SVTV) Solar Scorecard**, which aims to promote responsible environmental and supply chain practices by solar photovoltaic companies. We advised SVTC on the new questionnaire they sent to over 200 solar companies globally. Boston Common helped organize a group of US and European investors, representing \$1.2 trillion in assets under management, to sign our cover letter encouraging companies to answer SVTC's survey. The Solar Energy Industries Association also interviewed us for their Solar Industry Code of Conduct in development.

Boston Common co-authored a guide articulating best management practices and key performance indicators (KPIs) for natural gas operations in shale formations: *Extracting the Facts: An Investor Guide to Disclosing Risks from Hydraulic Fracturing Operations*, released in December. The guide follows eighteen months of intensive meetings that Boston Common organized with Apache Corp., investors, and other companies. Over 40 organizations, representing \$55 billion in assets under management, supported the document as a public statement of investor expectations regarding policies, practices, and reporting on hydraulic fracturing.

Emerging Markets Disclosure & Reporting

Boston Common continued its leadership with the **Emerging Markets Disclosure Project** (EMDP) by updating the ESG Disclosure Scorecards for the 10 Korean companies analyzed in the 2010 report and by laying plans to engage those companies in 2012. We also joined the EMDP Brazil team to encourage Brazilian companies to publish a GRI-based report. Boston Common participated in a dialogue with the NYSE Euronext to review their sustainability report and to discuss how they can encourage companies to improve their reporting and to provide training opportunities to members on emerging ESG issues.

² <http://www.sriintherockies.com/2011/audio/B-07.mp3>

³ www.accessnutrition.org/about-atni/expert-group