

Active Investor Social Update

Third Quarter, 2014

In September, **Statoil ASA** shelved its multibillion-dollar, steam-driven oil sands project, Corner, in Alberta for a minimum of three years. In a model of trans-Atlantic collaboration, Boston Common led a coalition of U.S. investors to amplify the effort from Norwegian investors and activists—such as Storebrand, Greenpeace Norway, and the World Wildlife Fund Norway—and focus Statoil’s attention on the prudent deployment of shareholder capital and corporate resources. Statoil’s halted Corner project would have produced 1.3 billion barrels of bitumen over the life of its operation, resulting in 777.4 million metric tons of CO₂, equivalent to one year’s emissions from 204 U.S. coal plants or 164 million passenger vehicles.¹ Boston Common will continue to urge Statoil to withdraw from its Canadian oil sands operations.



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Taking Stock: Reflecting on the Quarter

	<i>Milestones</i>	<i>Work in Progress</i>
<i>Environmental Risk Management</i>	Statoil halted a major Canadian oil sands project for 3 years.	Statoil’s divestment from Canadian oil sands operations.
	Filed shareholder proposals with Costco and Qualcomm , asking each to set GHG emissions reduction targets.	Adoption of science-based, time-bound, quantitative, GHG emissions reduction targets by all companies.
	Met with Golden-Agri Resources to discuss the company’s current practices for sustainable palm oil production.	Fulfillment of Golden-Agri’s public commitment to end deforestation in its supply chain by 2015.
<i>Global Health</i>	Organized a dialogue with Disney regarding the company’s approach to health and nutrition.	Adoption of globally applicable nutritional guidelines and the implementation of robust policies around marketing to children.
<i>Disclosure and Transparency</i>	Together with 77 institutional investors, called upon 63 global banks that include the largest underwriters to carbon-intensive industries, to implement carbon-related actions and disclosures.	Integration of climate-related risks and opportunities into banks’ long-term strategic planning processes.
		Improvement of VF Corporation’s sustainability disclosure, including in the areas of water, chemicals, human rights, and supply chain management
<i>Human Rights</i>	Urged Discovery Communications to improve Board-level gender diversity.	Consideration of women and minority candidates as part of all companies’ director searches.

¹<http://tarsandsolutions.org/member-blogs/yet-another-tar-sands-project-cancellation>

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Spotlight on Climate Change & Banks

Financing Climate Change: Carbon Risk in the Banking Sector

This quarter, we published a report, “Financing Climate Change: Carbon Risk in the Banking Sector,” in which we called on investors to push for systemic change in the banking industry to address climate-related risks.

Banks are tied to every market sector, making them uniquely vulnerable to the economic and political uncertainty associated with climate change. When a bank does not provide comprehensive disclosure around its exposure to and management of climate-related risks, investors cannot adequately assess that bank’s risk profile. Unfortunately, today’s banks have not successfully integrated climate-related risks into their long-term strategic planning processes or publicly acknowledged the implications of climate change for their business operations. Risks that ought to be of significant concern to investors include: changing regulatory environments, uncertain demand for high-carbon fuels, reputational risks, and misalignment of banker incentives.

In September, Boston Common was joined by 77 institutional investors from around the world, representing \$540 billion in assets under management, in writing to 63 global banks that include the largest underwriters of carbon-intensive industries: oil, gas, pipeline, electric power, and coal mining. The letter calls upon banks to develop a long-term climate strategy and to help investors make informed decisions by implementing climate-related disclosures. It also supports the positive role banks should play in financing a more sustainable climate future.

Through this global collaboration, Boston Common hopes to elevate the dialogue between investors and banks, calling attention to banks’ exposure to climate-related risks and lack of related disclosure, while supporting the critical role banks must play in the transition to a low-carbon economy. Boston Common is joined in this initiative by Australian Ethical Investment, Cometa Pension Funds, and Church of Sweden, all of which will play key roles in their respective markets.



ENVIRONMENTAL RISK MANAGEMENT

Climate Change

In July, senior executives at **PNC Bank** met with Boston Common and other investors. PNC expressed appreciation for the investor group’s insights and work related to the long-term risks associated with climate change. The information shared through this dialogue will help inform their broad risk underwriting processes.

This quarter, Boston Common is co-leading shareholder proposals with **Costco** and **Qualcomm**. The proposals ask the companies to adopt absolute, time-bound, and quantitative targets to reduce emissions. We are asking Costco and Qualcomm to use these assessments to guide their GHG reduction targets. The most recent assessment of the Intergovernmental Panel on Climate Change (IPCC) estimates that a 50% reduction in GHG emissions (relative to 1990 levels) is needed by 2050 to stabilize global temperatures, signifying that the U.S. needs a target of 80% reductions. Failing to address climate change could lead to a 5% loss of global GDP.² *Risky Business*, a recent analysis of climate change impact, finds serious economic effects, including property damage, shifting agricultural patterns, reduced labor productivity, and increased energy costs. These effects could substantially impact a company’s business operations, revenue, or expenditures.³

Both Costco and Qualcomm lag behind their industry peers: Costco has yet to respond to CDP’s annual survey, while Qualcomm received low CDP disclosure scores for 2012 and 2013. Unlike peers Cisco, Motorola Solutions, and Nokia and tech companies Intel and AMD, Qualcomm has not set specific GHG emissions reduction targets. Cisco, for example, has set a science-based target to reduce its absolute Scope 1 and 2 GHG emissions by 40% (relative to 2007 levels) by 2017 and reports savings of more than \$100 million per year through reduced business travel. On the retail front, Target, Wal-Mart Stores, Kohl’s, CVS, Best Buy, Lowe’s, Home Depot, Staples, Whole Foods, and Tesco have all set targets to reduce GHG emissions.

²The Stern Review on the Economic Effects of Climate Change, 2006.

³American Climate Prospectus: Economic Risks in the United States, 2014.

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Energy

In August, Steven met with several energy portfolio companies in Houston to address key issues, such as water use for hydraulic fracturing, methane emissions, and energy policy. For the sixth year, he met one-on-one with **Apache's** Chair and CEO, Steve Farris. They discussed progress Apache has made in the past year on ESG issues and planned a September meeting with shareholders to be led by Boston Common. In September, Apache said it was not renewing its membership in the U.S. Chamber of Commerce, a major step forward, following a few years of dialogue with shareholders led by Boston Common.

Energy services company **Baker Hughes** shared with Steven details about its March 2014 decision to disclose 100% of the chemicals used in its fracturing fluids in order to build public trust.⁴ Baker Hughes is the first energy services company to implement full public disclosure. Boston Common first engaged Baker Hughes on the issue of fracking chemicals in 2008. The company later developed a "green chemicals" line and a toxicity scoring system for its fracturing fluids. Last year, we discussed with Baker Hughes how it can be more proactive in addressing public concerns about hydraulic fracturing. Boston Common has encouraged oil and gas companies to disclose the chemicals used for hydraulic fracturing and, to date, trade secret claims have been a barrier. See [Disclosingthefacts.org](http://disclosingthefacts.org) for more information.

For the third year, Steven Heim and Constantina Bichta met with **National Oilwell Varco (NOV)** to discuss the company's development of new technologies that will help its oil and gas industry customers save water or capture methane. The company also laid out its new global environment, health, and safety organization that fits its reshaped business units of Rig Systems, Rig Aftermarket, Completion and Production Solutions, and Wellbore Technologies. We commended NOV for improving the gender diversity of its Board of Directors earlier in 2014. We first raised this issue in 2012 as lead investor with NOV for The 30% Coalition.⁵ We also advised NOV on how it could improve its sustainability reporting.

Water

VF Corporation (VF) invited Boston Common to provide feedback on its biannual stakeholder engagement framework. VF is developing its first sustainability report. We offered critical input into the company's strategic priorities for 2015-2016, to be included in the report. About 70% of VF's production is outsourced, so we asked VF to strengthen its human rights

framework to cover its supply chain. We recommended that water management remain a focus for VF, because jeanswear production is water intensive. VF may face new carbon footprint rules for its products sold in European and Japanese markets. We therefore advised VF to conduct carbon footprint assessments of its core products, similar to assessments by industry leaders H&M, Inditex, and Marks & Spencer.

Sustainable Palm Oil

Boston Common is leading a dialogue with **Golden-Agri Resources (GAR)**, one of the world's largest palm oil producers with 5% of total global palm oil production. The production of palm oil is controversial, as traditionally it has led to deforestation and displacement of communities and indigenous groups. Our dialogue with GAR aims at driving improvements in palm oil production. GAR operates exclusively in Indonesia, where it has 467,000 hectares of planted palm trees. GAR has obtained international sustainable certifications, including from the Roundtable on Sustainable Palm Oil (RSPO), the Indonesian Sustainable Palm Oil (ISPO) System, and the International Sustainability and Carbon Certification (ISCC) System. The company has adopted policies on forest conservation, pest management, and yield improvement in order to support sustainable palm oil production.

Boston Common discussed with Golden-Agri its current practices for sustainable palm oil production. Our main concerns were the following: how GAR works with smallholders (plasma and independent growers) to improve their yield efficiency techniques and capabilities; GAR's efforts to improve the traceability of certified sustainable palm oil throughout the value chain; how GAR collaborates with authorities on land ownership issues; how GAR participates in the Palm Oil Innovation Group (POIG); and lessons GAR learned from its High Carbon Stock (HCS) forest conservation pilot study, which it launched with its PT SMART subsidiary in 2011. Next the dialogue will cover how GAR implements the findings of its forest conservation pilot study, affecting 19,000 HCS hectares. We will also discuss how GAR plans to fulfill its public commitment to end deforestation in its supply chain by 2015.

At the recent UN Climate Summit in New York City, GAR announced its commitment to support the New York Declaration on Forests to address deforestation, as it aligns with GAR's Forest Conservation Policy.

⁴<http://www.bakerhughes.com/news-and-media/press-center/press-releases/2014-10-01-baker-hughes-implements-new-policy-of-full-chemical-disclosure-for-fracturing-operations>

⁵www.30percentcoalition.org

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Ending Deforestation

Boston Common was among the first U.S. investors to support the **New York Declaration on Forests**, which was launched at the UN Climate Summit in September 2014. The Declaration aligns with Boston Common's long-standing work on ending deforestation and clear-cutting, as well as advocating for sustainable practices in food, agriculture, and palm oil. The Declaration is a collective action by public and private sectors to address deforestation and to promote restoration of forests. It aims to halve deforestation by 2020 and end it by 2030. It calls for the support and participation of private companies involved in the production of agricultural commodities such as palm oil, soy, paper, and beef.

WORKPLACE & HUMAN RIGHTS

Labor Standards in the Agricultural Supply Chain

Boston Common serves on the Steering Committee of the **PRI-coordinated engagement on labor standards in the agricultural supply chain**. Investors with over \$2.2 trillion in assets are engaging 35 large, global food and beverage companies—including producers, processors, and retailers—to improve labor conditions in the companies' agricultural supply chains. Boston Common is leading a number of engagements with portfolio companies under this initiative. Objectives include identifying and assessing existing company practices, encouraging improved due diligence and capacity building with suppliers, and requesting enhanced transparency and reporting.

Boston Common asked **adidas Group** to update us on its Bangladesh operations. The company has only four suppliers in the country now, providing less than 0.5% of their global sourcing volume. adidas is supportive of the Accord's multi-stakeholder approach including worker participation. Following Rana Plaza, adidas commissioned independent structural engineering reviews of each of their suppliers. The company works with a local NGO that visits factories monthly and reports safety issues. adidas continues to pre-screen proposed Bangladesh factories, including mandatory structural engineering screens and electrical and fire safety assessments. The company's global supplier network training also includes supervised evacuation procedures and fire drill training.

Diversity

In July, Boston Common launched a direct appeal to **Discovery Communications** about the representation of women on its Board of Directors. Unlike its peers, such as DirectTV, TimeWarner, and Disney, Discovery has no women on its board. We encouraged the company to revise its director nomination process to add stronger language on the importance of diversity in candidate selection, to ensure women and minority candidates are routinely considered as part of every director search, and to expand director searches to include candidates from government, academia, and non-profit organizations.

Greater diversity improves Board decision-making by encouraging healthy debate across perspectives and reducing social similarities that can lead to premature consensus. With Discovery's ownership of cable TV channels with a high percentage of women viewers—including the Discovery Channel, TLC, Animal Planet, and OWN (the Oprah Winfrey Network)—we believe the company can only benefit from more explicit attention to Board-level diversity. We will continue to advocate for Board diversity both directly with companies and through our work with The 30% Coalition.

GLOBAL HEALTH

This quarter, in conjunction with the Interfaith Center on Corporate Responsibility (ICCR), Boston Common organized a dialogue with **Disney** regarding its approach to nutrition and healthy living. In 2012, Disney became the first media company to set nutritional guidelines for the use of its brands and characters. The company's priorities include having best-in-class nutrition guidelines, promoting healthy lifestyles through consumer campaigns, promoting access to healthy living through philanthropy, and implementing the "Mickey Check" tool, an icon that identifies nutritious food and menu items sold in stores, online, or at Disney's U.S. parks and resorts. Boston Common commended Disney for leading its industry in adopting strict nutritional guidelines for marketing to children and for applying the criteria to its advertisers, in addition to Disney characters and brands. We encouraged the company to expand its policies on marketing to children over the age of 12 and to apply its nutritional criteria globally.

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