

Active Investor Social Update

First Quarter, 2015

PNC Financial recently announced commendable changes to its approach to environmental and climate-related risks—a **direct response to Boston Common’s multi-year investor dialogue with the bank!** In its 2015 Corporate Responsibility Report, PNC commits to enhance due diligence around environmental issues, to **hire a Social and Environmental Risk Officer, and to no longer extend credit to coal producers with 25% or more of their production coming from mountaintop removal (MTR) mining—an egregious form of coal extraction**, which involves the removal of mountain ranges to expose coal seams. MTR has destroyed “more than 500 mountains encompassing more than 1 million acres of central and southern Appalachia,” devastated local ecosystem diversity, and polluted nearby waters.¹ We will continue to work actively with PNC as it develops a leadership role in its industry. **Barclays**, another bank we have engaged, released a public position on MTR, announcing it will impose a policy on lending financial support “by exception only” to companies that are significant producers of MTR-sourced coal. We met with Barclays in March to support public, sector-specific guidance on carbon-intensive practices including MTR.



Mountaintop removal coal mine in southern West Virginia encroaching on a small community. Credit: Vivian Stockman, Ohio Valley Environmental Coalition. Flyover courtesy of SouthWings.org.

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Taking Stock: Reflecting on the Quarter

	Milestones	Work in Progress
<i>Environmental Risk Management</i>	<p>PNC Financial announced new policies to restrict funding of mountaintop removal (MTR) mining and to increase due diligence and risk management</p> <p>Barclays announced it will begin phasing out financial support to companies that are significant producers of MTR-sourced coal</p>	Encourage Indian companies to respond to the CDP Water and Carbon questionnaires
<i>Governance & Transparency</i>	Costco committed to increase its disclosure of climate change-related programs and achievements	Vote on the Morgan Stanley shareholder resolution we co-filed asking the company to use a simple majority vote tally for proposals on its proxy statement as opposed to counting abstentions as “no” votes
<i>Human Rights</i>	Led \$4 trillion investor coalition to raise awareness and increase corporate commitments to the UN Guiding Principles Reporting Framework	Urge The World Bank to revise its Environmental and Social Safeguards Framework to appropriately consider Indigenous Peoples’ rights

¹<http://appvoices.org/end-mountaintop-removal/ecology/>

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Spotlight on India: Company Research



Axis Bank is notable for its focus on financial inclusion in retail and small and medium enterprises (SMEs). These loans make up 15% of its portfolio.



HDFC Bank's credit risk policy is commendable, as it incorporates a specific Social and Environmental Risk Management System.



Yes Bank is the first Indian bank to sign the UN Global Compact and the only Indian bank to sign the Natural Capitalism Declaration. It is also the first Indian bank to be included on the CDP Carbon Disclosure Leadership Index. Yes Bank has notable lending practices specified in its Social and Environmental Policy. It has clear policies to avoid financing high-risk sectors, such as weapons manufacturers and land development, given land grab issues. As we go to press, Yes is issuing Green Bonds--another first in India!



Hindustan Unilever (HUL) is looking at ways to recycle sachet waste from single serving products. HUL is investing in a technology that converts polymer plastic into fuel for its factories. HUL is focused on sustainable sourcing; its palm oil comes from sustainable sources and 13% of its tea is certified by Rainforest Alliance. Other sustainably sourced raw commodities include nearly 80% of its tomatoes and all of its bananas, pears, garlic, onions, and gherkins in India.



Wipro has been included on the CDP Climate Performance Leaders Index for four years. 22% of Wipro's energy is from renewable resources. Wipro has 19 LEED-certified campuses, recycles 30% of its water, and has achieved a 30% reduction in electricity intensity over the last five years. It has a proactive policy to hire people with disabilities and a robust supply chain oversight process, which includes a human rights policy.



Tata Motors has a notable commitment to renewable energy, including biomass energy and rooftop solar. Tata has completed a water footprint assessment for its manufacturing sites in India and is working with select vendors to assess its water footprint. Tata's use of recycled or reused water increased by almost 2/3 from FY 2013 to FY 2014.



SPOTLIGHT ON INDIA

As global investors, it is essential that we experience first-hand the countries in which we invest. Direct research provides us insight into local market conditions and companies; it helps ensure that our work as shareholder activists is effective. **In January, Geeta Aiyer and Lauren Compere traveled to India** and were featured speakers at "Managing Global Investors' Expectations on Environmental and Social Practices," a discussion held at the World Bank's International Finance Corporation's Mumbai office. While there, they met with portfolio and potential investment companies to discuss the financial implications of key sustainability issues. They also met with organizations in the sustainability and governance space that work on proxy research and sustainable finance, as well as NGOs that focus on affordable housing, agriculture, nutrition, and sustainable sourcing.

According to McKinsey & Company's 2015 outlook for global growth, India is slated to grow by 6.5% through 2016, in contrast to global growth of just below 3%. At the same time, almost a quarter of India's 1.2 billion people still live on less than \$1.25 a day and spend up to 65% of their income on food costs. The World Bank research indicates that over 40% of the world's malnourished children are in India, yet nutrition-related health concerns, such as obesity, high cholesterol, and cardiovascular disease, are also rampant. Diet-related, chronic disease is expected to cost the Indian economy \$6 trillion in output losses by 2030.

India has 4% of the world's water but is home to 16% of the world's population. **India is on the path to becoming a water-scarce nation.** We consider the CDP Water questionnaire on corporate water policies and practices to be a critical first step to help companies assess and manage their water footprints. In 2014, only 14 Indian companies responded to CDP Water and none of the companies Boston Common met with during its India

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visit submitted a reply. Boston Common requested that all manufacturing companies including **Tata Motors, Titan, Unilever, and Wipro** respond in 2015.

Among the 50 companies in India that responded to CDP's 2014 carbon questionnaire, **Dr. Reddy's, Wipro, and Yes Bank** are on CDP's global leaders list. While **HDFC** and **Tata Motors** participated, Boston Common encouraged them to work with CDP in 2015 to improve their CDP performance and disclosure scores, respectively. Beyond disclosure, climate programs were a key focus in Boston Common's discussions with Indian companies, including how they are changing their energy mix to increase the use of renewables, such as solar and wind, investing in energy efficiency, and reducing their carbon footprint in other ways.

Companies in India are mandated by law to **spend 2% of net profits annually on corporate social responsibility (CSR)**, establish a board-level CSR Committee with at least 1/3 independent directors, and develop a CSR policy. **The top 100 listed Indian companies must issue an integrated report** using India's "National Voluntary Guidelines on Social, Environmental, and Economic Responsibility of Business," as ruled by the Securities Exchange Bureau of India (SEBI).

Financial inclusion—serving the unbanked or underbanked in both rural and urban regions—was a key focus of our discussions in India with **HDFC, Axis, and Yes Bank**. 64% of Indians currently lack access to savings accounts, 87% lack access to ATMs, and 73% of farming communities lack access to institutional credit. Banks are required to have 10% of new branches open in rural areas that are unbanked.

Another focal point in our conversations with banks was the **new Indian sexual harassment law** that requires companies to establish both central and regional committees to address workplace conditions. All the banks we visited have developed substantive training and rollout plans. **Axis Bank**, for example, hired a group to perform skits and role playing exercises for its thousands of personnel.

ENVIRONMENTAL RISK MANAGEMENT

Climate Change

Boston Common's investor **initiative to survey banks' programs and policies to address climate change has garnered strong response**. More than 2/3 of the 63 banks surveyed have responded in some form to the letter sent by a coalition of 80 investors led by Boston Common. We asked banks about their



financing decisions as they relate to climate change and tailored each letter according to the bank's known climate programs. Boston Common is analyzing the data received to benchmark the banks against one another regarding their preparedness to address climate change, as well as to understand best practices and points of innovation. We plan to issue a report detailing the results of the initiative and our findings in advance of the UN Climate Change Conference, which will be held in Paris this fall.

In March, Boston Common led a dialogue call with **Qualcomm** about how it is **developing climate change goals and targets and improving its sustainability performance**. Qualcomm is a leader in developing electronic communications components that other companies license and/or manufacture. Qualcomm is exploring alternatives to add renewable energy capacity and plans to use reclaimed water for cogeneration power plants at its main campus in San Diego. We encouraged the company to develop new technologies and products that improve energy efficiency. In the coming months, we will review Qualcomm's progress on developing GHG emissions reduction goals and provide additional input to its programs.

Boston Common participated in a meeting with **Costco Wholesale's** CEO, Craig Jelinek. In January, Boston Common and other co-filers announced that they had **successfully withdrawn their shareholder proposal at Costco**, requesting that the company disclose its greenhouse gas emissions and climate change policy. The proposal was withdrawn following several commitments from the company. Costco's next sustainability report will include a discussion of the company's approach to energy use and Costco will reply to the CDP Carbon questionnaire. Costco has also committed to **capping the percentage growth of its GHG emissions to less than its percentage sales growth over the next five years**.

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Boston Common was one of 26 investors to sign onto a Statement of Investor Expectations for the Green Bond Market, which explicitly supports the Green Bond Principles. These Principles set forth appropriate common criteria concerning eligibility, disclosure, transparency and impact reporting for green bonds.

HUMAN RIGHTS

Indigenous Peoples' Rights

Boston Common, along with Calvert and NEI Investments, led a group of over 20 investors in encouraging **The World Bank** to revise its Environmental and Social Safeguards Framework, which it issued last July. In our letter, we asked The World Bank to make its framework more consistent with international human rights law and, in particular, the United Nations Declaration on the Rights of Indigenous Peoples and the Guiding Principles on Business and Human Rights. We are concerned that The World Bank's proposed draft does not explicitly reference the respect and protection of human rights as a core expectation. We have asked The World Bank for a meeting later this spring.

Human Rights Reporting

There is increasing evidence that mismanagement of human rights risks may lead to share value degradation. With this in mind, in February Boston Common spearheaded a group of over 60 investors from around the world with \$3.9 trillion of assets under management in a joint investor statement backing the new **UN Guiding Principles Reporting Framework**.

This Framework helps companies to "know and show" their management of human rights risks and enables companies to assess, manage, and disclose their human rights performance in line with global standards. The new framework has already been adopted by companies, including **Unilever** (the first adopter), **Ericsson**, **H&M**, **Nestlé**, and **Newmont**. The investor coalition will further engage high-risk sector companies, such as apparel and information and communications technology companies, by leveraging the investor statement in 2015.

GOVERNANCE & TRANSPARENCY

Proxy Access

This spring, **Morgan Stanley** shareholders will be voting on a shareholder proposal, co-filed by Boston Common, asking the company to report the votes for proposals on its proxy statement by using a simple majority vote tally. Presently, Morgan Stanley counts abstentions as votes against a proposal.

In January, we shared our concerns with Morgan Stanley executives on a conference call with the lead filer, Investors Voice. We co-filed a similar proposal with **Simon Property Group**, which will also be going to a vote. A study by CalPERS and GMI Ratings found that 48% of the S&P 500 and Russell 1000 companies employ simple majority vote counting.

Boardroom Diversity

Germany is the latest country, and largest market to date, to **mandate 30% representation by women on the boards of its larger corporations**. The law, scheduled to come into effect in 2016, will have Germany joining Norway, France, Spain, and the Netherlands in having introduced rules to expand the number of women on boards. Currently, 19% of supervisory board seats at the top 160 Germany companies are held by women. Boston Common is part of the Thirty Percent Coalition, a group of investors, corporate governance experts, and board members pushing for greater gender diversity in U.S. public company boardrooms.

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