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Active Investor Social Update

Fourth Quarter, 2015

Our Work on Climate Change and Efficiency

In a landmark agreement, policymakers from 195 countries banded together to adopt a global accord in December at the COP21 Climate Conference in Paris. The ambitious agreement sets forth an objective to limit global temperature rises to "well below 2°C."[1] The universal nature of such an agreement is important and a catalyst for change.

Boston Common's Founder & President, **Geeta Aiyer, was honored to be the only asset manager to speak on "Energy Day" of the Lima-Paris Action Agenda at the 21st session of the Conference of the Parties (COP21).** Amidst great excitement in the Paris exhibit halls—where people demonstrated personal commitment to sustainable energy, by using the kinetic power of cycling to charge their phones, for example—Geeta spoke about the transformative power of investors in shaping a low-carbon future, highlighting the role of energy efficiency:

We stand at the confluence of two huge forces: the colossal waste and inefficiency in energy use; and the voice and determination of investors. Some 60% of the 100 quadrillion BTUs of energy used annually in the U.S. is wasted and does not do the work it was intended for.[2] We know that 50% of the de-carbonization goals to achieve a 2°C limit must come from energy efficiency. Clearly, doing more with less is imperative!

Meanwhile, the UN Principles for Responsible Investment (PRI), a community of asset owners and managers committed to sustainability, represents almost $60 trillion in assets—and investors with almost $4 trillion in assets, including Boston Common, have signed the G20 Energy Efficiency Investor statement.

Inside the Issue

Geeta Aiyer (right), speaking at the COP21 climate conference in Paris on the "Energy Efficiency Finance" panel.

Investors play a role in this transformation in three ways:

- By using our capital to complement the efforts of banks and development finance – for example, with long-term funds for improving the efficiency of real estate.
- By changing our narrative, so when we talk about a "good investment" we mean a "win/win/win/win" investment: great for corporations, for shareholders, the planet, and the community.
- By using our voice as assertive, engaged stewards of our investments to challenge companies across all industries to redirect capital financing capacity, R&D efforts, and ingenuity towards cleaner, more efficient methods and processes.

Paris has given Climate Change a legitimate place in all decision-making. We must make the best use of the planet's scarce carbon capacity. The time is short. Action now to reduce energy demand will enable a transition to clean energy in a realistic timeframe.

[1] http://www.reuters.com/article/us-climatechange-summit-idUSKBN0TV04L20151213
[2] Prentiss, Mara. 2015. *Energy Revolution: The Physics and the Promise of Efficient Technology.* Cambridge: Belknap Press

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SUSTAINED DIALOGUE

PNC Financial invited us to meet with CEO Bill Demchek and senior executives, as part of our continuing engagement, to get our input on strategies to embed environmental and social risk across PNC's business model. PNC has committed to: board level oversight, enhanced high-risk sector policies, client due diligence, and improved disclosure.

We discussed PNC's progress toward these commitments. In 2015, PNC performed an environmental stress test on its coal and utilities portfolios, analyzed the regulatory impact of the U.S. Environmental Protection Agency's (EPA) Clean Power Plan, implemented sector-specific policies for coal-fired power plants and Mountaintop Removal Coal Mining (MTR), and formed a working group to increase employee engagement on environmental issues. **PNC is now on track to achieve its goal to reduce Scope 1 and 2 emissions by 30% by 2020.** The company shared its second annual board report on environmental issues and has added an environmental assessment to two critical functions in its lending process: pre-screening and customer-level portfolio review.

In October, **Qualcomm** announced ambitious, science-based, greenhouse gas (GHG) reduction goals, following a year-long dialogue led by Boston Common in coalition with Interfaith Center on Corporate Responsibility (ICCR) members. **By 2025, Qualcomm aims to reduce its absolute Scope 1 and Scope 2 GHG emissions from global operations by 30%, compared to its 2014 baseline.** The company also joined the White House-led American Business Act on Climate Pledge and is a signatory to the Climate Declaration. Qualcomm is a major "fabless" telecommunications semiconductor design company whose primary GHG reductions stem from operating more efficient R&D campuses and buildings, in addition to expanding its renewable energy sourcing. **We have encouraged the company to expand its "Internet of Everything" connectivity products, which help reduce energy use, for example in municipal lighting and automotive applications.**

We met with **Simon Property Group** in November to discuss our "Eco-Resource Efficiency" initiative, regarding Real Estate Investment Trusts (REITs) and property management companies. **The building sector contributes to 36% of direct, energy-related GHG emissions in the U.S., and Simon Property is the largest shopping center operator in the country.** Boston Common first engaged REITs on energy efficiency issues in 2008.

As part of our long-term dialogue with **Veolia** on access to water and sanitation services as a human right, we led a dialogue with other investors at year-end about Veolia's new business model shift to serving 50% municipal clients and 50% industrial clients. **This has created opportunities to help clients realize cost savings through more efficient use of water, energy, and waste, and it has raised Veolia's sustainability profile.** Under the new business strategy, Veolia is helping industrial clients with solutions towards preserving clean potable water for the benefit of communities. This includes technology for industrial clients to rely on waste water or recycled water as opposed to using potable water. Veolia provides solutions to help clients not only conserve and minimize water use but also prevent water pollution. In 2014, Veolia set up a Human Rights Committee to evaluate all departments and coordinate activities globally, with priority regions for initial human rights assessments in Latin America, the Middle East, Africa, and Asia. The company is currently undertaking 14 assessments, which include forced labor; free, prior, and informed consent; the right to water and sanitation; and health and safety.

Investor Statements on Climate Change

Boston Common is supporting global public policy and making public commitments to climate action:

- **Montreal Carbon Pledge**: Publicly disclosing the carbon footprint of our investment portfolios annually and serving as an ambassador for the Pledge
- **G20 Energy Efficiency Investor Statement:** Considering energy efficiency as we evaluate and engage portfolio companies
- **Global Investor Statement on Climate Change**: Deepening our engagement with policy makers to support the transition to a low-carbon economy and assessing climate-related risks and opportunities
- ***L'Appel de Paris*, or The Paris Pledge for Action:** Bringing together a multitude of voices on an unprecedented scale within a single, collective statement, pledging our support to ensure that the level of ambition set by the agreement is met or exceeded

PUBLIC POLICY PARTICIPATION

In December, Boston Common provided comments for the EPA's proposed regulations to reduce methane emissions from new oil and gas wells, as part of an ICCR-led investor coalition. Methane is considered a much more potent greenhouse gas than CO_2—up to 84 times more potent in the first 20 years after its release. According to an Environmental Defense Fund study, system-wide natural gas methane releases

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need to be lower than 3.6% for a net-climate benefit versus coal. Boston Common encourages aggressive voluntary measures by companies to reduce and eliminate fugitive methane emissions, but we believe industry-wide regulations are still necessary. Boston Common was the lead investor with ICCR asking **Apache**, **EOG**, **Statoil**, **Cimarex**, and **ConocoPhillips** to provide constructive comments to the EPA for its proposed methane regulations. We organized in-depth investor dialogue meetings with Apache and EOG, addressing the EPA's methane regulations and carbon asset risk. We also asked them to publicly support carbon pricing, as 7 European oil and gas companies did this summer, in order to drive greater reductions in GHG emissions globally.

INTERNATIONAL COLLABORATION

In October, we launched our report **"Are Banks Prepared for Climate Change?"** at the Milan Expo on **The Role of the Financial Sector in a low-carbon future**. The Milan Expo was a six-month sustainability world fair "Feeding the Planet, Energy for Life," with exhibits from around the world focused on green architecture, clean energy, water conservation, and sustainable food production.

Our report highlights some best-practices case studies; however, there is a notable disconnect between the scale of these isolated examples and the overall management of climate risk and opportunity. We call for a more concerted effort from global banks to capitalize on the huge market opportunity that a shift to a low-carbon economy will bring.

The Intergovernmental Panel on Climate Change (IPCC) estimates that the energy sector alone needs an additional investment of up to US$900 billion if average global temperatures are to be capped at 2°C. If banks are to protect their clients and customers from the drastic effects of climate-related risk, they must:

- Establish a long-term, comprehensive climate strategy with board-level oversight and links to compensation
- Report on the total carbon footprint of their financing activities and develop reduction targets
- Report quantitative figures and targets for supporting energy efficiency and renewable energy
- Conduct regular environmental stress tests.

METRICS AND SCORECARDS

In November, Boston Common and lead investor partners for "Are Banks Prepared for Climate Change?" provided specific feedback into the Portfolio Carbon Initiative's climate performance metrics for banks. We emphasized that a majority of banks do not disclose how they define "clean tech" or "clean energy," nor do they set quantitative targets for increased financing of these projects. Limited corporate disclosure impedes investors' ability to determine whether a bank is investing in sustainable solutions. **We advocated for specific metrics to embed climate strategy at the group level: quantitative targets for financing energy efficiency and renewables, board-level oversight, and links to executive compensation.**

Taking Stock: Reflecting on the Quarter

Milestones	**Qualcomm:** announced ambitious, science-based GHG reduction goals following a year-long Boston Common led dialogue. By 2025, Qualcomm aims to reduce its absolute GHG emissions from its global operations by 30%, compared to 2014 baseline.
	PNC Financial: CDP included PNC in its S&P 500® Climate Disclosure Leadership Index (CDLI) for improving their CDP carbon disclosure score from 86% in 2014 to 99% in 2015. Boston Common and other investors provided substantive feedback on how we could improve its answers for CDP, which directly improved PNC's score.
Work in Progress	**Mondelez:** focusing 70% of its new product developments on healthier products and recently announced it will no longer market to children under 12—progress for Boston Common's multi-year dialogue on nutrition and responsible marketing with the company.
	Microsoft: became the first technology company to publicly report under the UN Guiding Principles Reporting Framework on its human rights performance. Boston Common is leading an investor coalition of nearly $5 trillion backing this reporting framework and will use Microsoft as a good-practice model for other technology companies.
New Initiatives	**Food Waste:** Boston Common is joining other investors to engage portfolio companies to reduce food waste and set reduction targets, including Costco. 25% of water, 30% of fertilizer, and 31% of cropland in the U.S. are wasted in the production of food that ends up in landfills and costs Americans an estimated $165 billion per year.
	FAIRR: Boston Common joined the Farm Animal Investment Risk & Return (FAIRR) Initiative and signed an open letter ahead of COP21 about the lack of policy focus on the contribution of livestock to climate change—despite the fact this sector represents around 15% of total GHG emissions.

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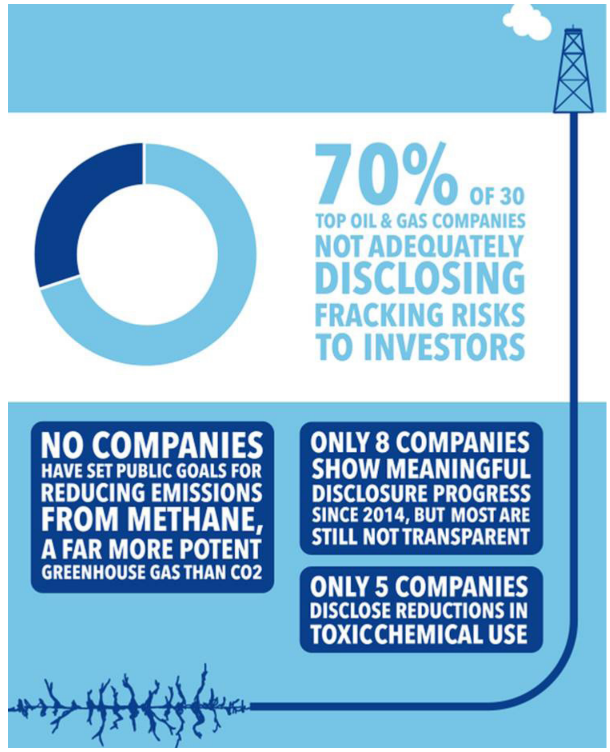
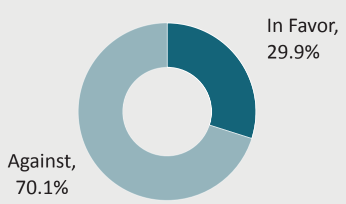
Disclosing the Facts: 2015 Fracking Scorecard

In December, Boston Common partnered with As You Sow and the Investor Environmental Health Network to publish the third annual report, **“Disclosing the Facts: Transparency and Risk in Hydraulic Fracturing Operations” (DTF 2015)**, accompanied by its annual scorecard of 30 oil and gas companies’ practices related to hydraulic fracturing operations in the U.S. and Canada. “Disclosing the Facts” has been a crucial resource for global investors to press oil & gas companies and helps drive best practices by the industry; The scorecard showed improved risk disclosure by several companies but 70 percent of them continue to get failing marks. The report gauges how well the oil and gas companies provide investors information to accurately assess how, or whether, these companies manage key risks of fracking. This includes disclosure on the use of toxic chemicals, water consumption and water quality, waste management, air emissions, methane leakage, and community impacts. **Apache Corp.** continued to rank in the leading companies with a score of 20 out of 39 possible points. Apache is still one of the few companies to report its methane leakage rate, which is a key measure of operational efficiency and climate impact. This is the result of Boston Common’s sustained engagement with the company.



Shareholder Resolutions & Annual Meetings

Annual Meeting Representation



While Boston Common’s shareholder resolution on lobbying transparency at **Oracle garnered a strong vote in favor with 29.9%** in November, the company continues to be reluctant to engage with us in dialogue.

2015 U.S. Shareholder Resolutions filed

- **Cognizant Technologies** – co-filed resolution to increase board diversity as the company only has one woman the board.
- **Discovery Communications** – co-filed resolution to increase board diversity as the company does not have any women on the board.
- **Morgan Stanley** – co-filed a second year resolution on vote count tally given lack of progress in the dialogue.
- **Time Warner** – co-filed resolution to adopt responsible marketing policies linked to the use of their characters on food products geared to children.
- **Verizon Communications** – lead filer on lobbying disclosure as the company does not disclose its payments to trade associations or the amounts used for lobbying.