

Global Equity Strategy Update

Fourth Quarter, 2016

GLOBAL MARKET REVIEW

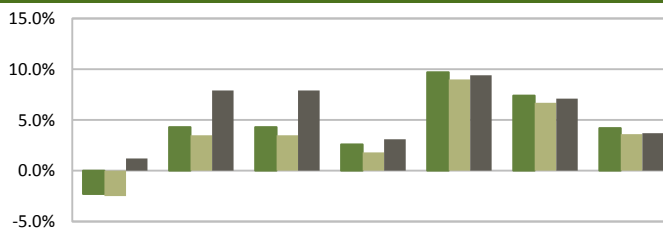
The MSCI ACWI Index (the "Index") gained +1.2% in the quarter. In local currency terms, the Index rose +4.1% as a stronger US Dollar detracted -2.9% from US investors' returns. The MSCI US Index rose +3.4%, while the MSCI ACWI ex. US Index fell -1.3%. The US Dollar strengthened versus most major currencies based on diverging growth and expected policy changes relative to other countries. The Yen (-13%) was the weakest performing currency, while the Euro, Pound, Swiss Franc, and Australian Dollar all declined in the 5% to 6% range. Europe (-0.1%) outperformed the Asia Pacific (-3.0%) region. The US election result and anticipated policy changes were primary drivers in an improving global cyclical outlook. Globally, economic indicators improved as manufacturing surveys approached a 4-year high in the US and the Eurozone. The UK economy has been performing surprisingly well; third quarter GDP grew 2% and retail sales remained robust. Japanese household spending continued to contract but manufacturing activity expanded.

The MSCI Emerging Markets Index fell -4.2% as Asia (-6.1%) performed poorly. China, Malaysia, Indonesia, and Mexico were among the worst performers, each down -7% to -8%, while Russia (+18.6%), Greece (+15.3%), and Hungary (+9.3%) did best. Economically sensitive sectors outperformed this quarter. Financials (+12.2%) was the best performing sector as earnings outlooks were helped by a recovery in capital markets activity and steepening yield curves. Energy (+7.4%) was strong, benefitting from a 13.5% rise in oil prices as OPEC agreed to cut supply. The Materials (+3.1%) sector was also relatively strong as Industrial metal prices rallied based on brighter demand prospects in China and the US. Real Estate (-6.3%), Consumer Staples (-6.0%), Health Care (-5.5%), and Utilities (-3.5%) were the worst performing sectors, as high-dividend stable stocks were affected by higher interest rates and investor sentiment shifting away from bond-like stocks. Within the developed world, countries with significant exposure to banks and energy generally outperformed. Italy (+10.8%), Austria (+6.5%), US (+3.4%) and Canada (+3.3%) were the best performing countries. Hong Kong (-9.0%) was weighed down by its real estate exposure. Israel (-11.3%) and Denmark (-8.7%) were weak given their large healthcare constituents.

PORTFOLIO REVIEW

A composite of accounts invested in the Boston Common Global strategy returned -2.3% before fees, meaningfully underperforming the Index. For the 2016 calendar year, the strategy lagged with a modest positive return, even though performance was in line with the benchmark through the end of September. Going into the final quarter, our portfolios were well-positioned for improving economic conditions, though we struggled amidst the unexpected election outcome and subsequent reaction in the international markets. Global investors responded positively to the US election result, focusing on the pro-cyclical aspects of expected policy reform: increased infrastructure spending, lighter regulation, and lower taxes. High-quality growth factors (less financial leverage, more stable earnings, and end-market growth) came under pressure while low-quality value stocks appreciated. Specifically, faster projected growth and easing deflationary pressures boosted interest rates and commodity prices, which particularly helped low-quality banks and commodity producers rebound

PERFORMANCE



	QTD	YTD	1Yr	3Yr	5Yr	7Yr	Since Inception*
Gross	-2.3%	4.3%	4.3%	2.6%	9.7%	7.4%	4.2%
Net	-2.5%	3.5%	3.5%	1.8%	9.0%	6.7%	3.6%
MSCI ACWI	1.2%	7.9%	7.9%	3.1%	9.4%	7.1%	3.7%

CONTRIBUTORS & DETRACTORS

TOP 10	% OF CAPITAL	RETURN	RELATIVE CONTRIB.	SECTOR
JPMORGAN CHASE & CO	2.6%	30.5%	0.65%	Financials
FIFTH THIRD BANCORP	1.6%	32.5%	0.43%	Financials
FIRST REP BK SAN FRANCISCO C	1.7%	19.7%	0.30%	Financials
CME GROUP INC	1.5%	14.0%	0.19%	Financials
DISNEY WALT CO	1.6%	13.1%	0.18%	Consumer Discretionary
MICROSOFT CORP	2.3%	8.6%	0.16%	Technology
SNAP ON INC	1.3%	13.2%	0.15%	Industrials
AXA	0.9%	18.9%	0.15%	Financials
MITSUBISHI UFJ FINL GROUP IN	0.8%	21.6%	0.14%	Financials
COGNIZANT TECHNOLOGY SOLUTIO	0.9%	17.4%	0.13%	Technology
			2.48%	

BOTTOM 10	% OF CAPITAL	RETURN	RELATIVE CONTRIB.	SECTOR
NASPERS	1.7%	-14.7%	-0.31%	Consumer Discretionary
ALIBABA GROUP HOLDINGS	1.5%	-17.0%	-0.30%	Technology
RAKUTEN INC	1.0%	-23.8%	-0.29%	Consumer Discretionary
FIRST SOLAR INC	0.5%	-25.9%	-0.25%	Technology
EDP RENOVAVEIS SA	1.0%	-20.7%	-0.24%	Utilities
AIA GROUP LTD	1.4%	-15.1%	-0.24%	Financials
EQUIFAX INC	1.4%	-11.9%	-0.23%	Industrials
NAVER CORP	0.9%	-19.9%	-0.21%	Technology
HDFC BANK	1.1%	-15.6%	-0.19%	Financials
NATIONAL GRID	0.6%	-19.0%	-0.19%	Utilities
			-2.45%	

from depressed levels. The strength of their rebound is reflected in the nearly seven percentage point outperformance of the ACWI Value (+4.8%) index compared to ACWI Growth (-2.3%), the largest quarterly outperformance since spring 2003—a period post the implosion of the dot.com bubble and the beginning of Iraq war II.

Over the entire quarter, Financials was the largest detractor from our relative results. We had less exposure to highly levered financials that benefited from improving risk appetite. Our Emerging Markets bank holdings HDFC (-15.6%), Bank Rakyat (-7.3%) and Kasikorn (-8.4%) declined on expectations for a tougher trade environment and a stronger Dollar. Rising interest rates also

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helped some insurance companies in the Index, while our historically strong Asian and Scandinavian insurance holdings, AIA Group (-15.2%) and Gjensidige (-10.2%), retreated. The Consumer Discretionary sector was also a drag, with ecommerce holdings Rakuten (-23.8%), Alibaba (-17.0%), and Naspers (-14.7%) declining as secular growth stocks fell out of favor. In the Materials sector, we had no exposure to the metals and mining industry (+4.4%) that rallied with commodity prices. Renewable energy providers First Solar (-25.9%) and Spanish EDP Renovaveis (-20.7%) reacted negatively to the changing market dynamics. Our underweight of the poorly performing Real Estate sectors was the largest positive contributor to results. Financial stocks accounted for six of our top ten contributors, including US financials JP Morgan (+30.5%), Fifth Third Bancorp (+32.5%), First Republic Bank (+19.7%) and CME Group (+14.0%). Overseas, French insurer AXA (+18.7%) and Japanese bank Mitsubishi UFJ (+23.3%) advanced with the brightening fundamental outlook. Additional key contributors included Walt Disney (+13.2%), Microsoft (+8.6%), and IT Services outsourcer Cognizant Technology (+17.4%).

PORTFOLIO ACTIVITY

Among our portfolio actions this quarter, we purchased Reckitt Benckiser, a British hygiene, home care, and consumer health company, with 19 major brands including Mucinex and Finish. The company has been expanding its focus on the fragmented over-the-counter health market that should drive high-single-digit, top-line growth over the medium term. Reckitt trades at 20x forward earnings, which looks compelling considering the company's growth profile, solid operational history, and consistent cash generation. We also bought Swiss private bank Julius Baer, which is poised to benefit from higher allocation to equities and easing financial regulation and trades at an attractive valuation of 2x book value. In addition, we purchased Yandex, the leading Russian Internet search engine. We sold Italian bank Unicredit as we believe valuation will be unattractive after the upcoming large share issuance. We also believe more political uncertainty in Italy will complicate the necessary steps to reform the economy and banking system. We also sold Swiss cocoa supplier, Barry Callebaut, on valuation concerns.

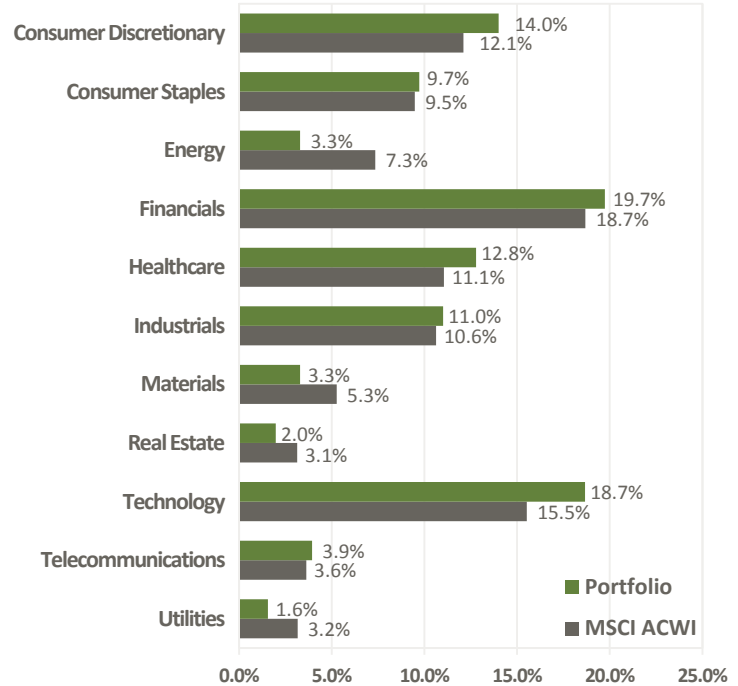
ECONOMIC & MARKET OUTLOOK

Globally, leading indicators suggest economic growth is accelerating. A simultaneous improvement in developed economies should increase demand for a wider range of industries compared to the narrow market movement of the past quarter. At the same time, the European Central Bank and Bank of Japan are likely to remain accommodative as low inflation persists. The MSCI ACWI is trading at 15x forward earnings, in line with its 20-year average, and is inexpensive relative to the S&P 500 at 17.3x. In our opinion, the combination of accelerating demand, potential for profit margin expansion, and pro-growth policies creates a favorable investment backdrop for international equities. We are mindful of the risks related to rising populism, trade policy disruption, and geopolitical shocks as we develop a portfolio strategy to navigate potential short-term volatility while investing for the long term. Amid the evolving geopolitical landscape, we are constantly assessing the validity of investor conclusions regarding potential winners and losers of changed policies. In some cases, we believe the markets' dramatic initial reactions have been too far too fast and are looking to capitalize on lower relative valuations of quality growth companies.

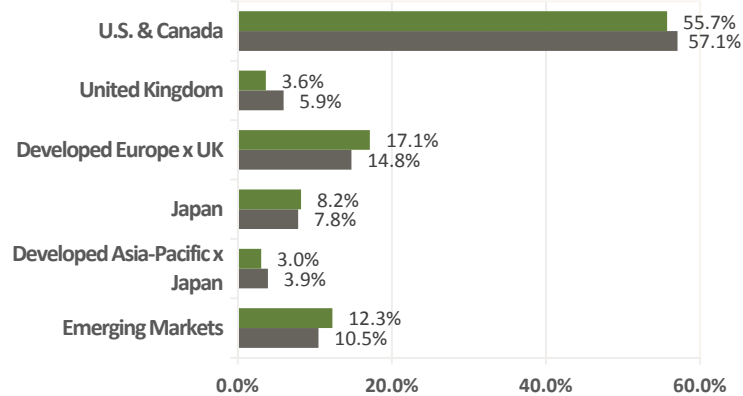
US & Canada

The US economy continues to grow at a 2% real rate, with unemployment at 4.7% and positive signs of wage growth and rising participation among Millennials. At the aggregate level, households have seen rising net worth with a falling debt burden and lower debt service costs. Home purchases have been strong, as have auto sales, and there are positive signs of resurgence in the manufacturing sector. Now, with additional fiscal stimulus in the form of tax cuts, proposed spending on US defense and infrastructure, and economic

SECTOR ALLOCATION



REGIONAL ALLOCATION



PORTFOLIO CHARACTERISTICS

	BOSTON COMMON	MSCI ACWI
# HOLDINGS	86	2,486
Valuation		
Next 12m Price to Earnings	17.0	15.6
Price to Book Value	2.9	2.1
Price to Sales	2.5	1.5
Dividend Yield	1.8%	2.5%
Growth		
5yr Sales Growth	4.4%	-0.5%
5yr EPS Growth	7.0%	3.9%
Risk		
Wtd Avg Mkt Cap	107,882	100,998
LT Debt/Cap	32.9%	40.4%
Beta	1.03	1.00

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recovery expanding in the rest of the world, the current expansion appears set to continue a while longer. We expect growth in the US to rise this year and next. The anticipated pickup in growth could be muted by the potential for trade policy disruption and geopolitical flare-ups. We expect this to be a period when active investors can add value through judgment and patience. At current valuation levels, we anticipate a range bound market and prefer to maintain our focus on stable, high- quality growers

Europe

Economic momentum has been slowly gaining speed in Europe over the past five years. GDP growth has been relatively stable in the 1.5% to 2.0% range, but the labor market has been steadily improving. Eurozone unemployment has declined to 9.8%, the lowest level since 2009. Business confidence in December reached a more than five-year high. Rising commodity prices have helped Eurozone inflation accelerate to 1.1%, breaking out of a near zero average over the past three years. A healing consumer and some pricing power should enhance corporate profits, which have been stagnant over the past five years. While political uncertainty has been and remains one of the headwinds and risks to investments in Europe, we do not foresee a replay of the 2012 sovereign-debt crisis. Italian politics faces another transition after Prime Minister Matteo Renzi resigned following the sound rejection of a constitutional reform referendum he sponsored. Leadership disruption in Italy is not new, however, as the country has changed governments 64 times in the past 70 years.

In our view, the anti-establishment groundswell reflects disillusionment with the poorly distributed gains of globalization; the free flow of goods, technology, and people. A reactionary insular economic system may appeal to disenfranchised voters, but we suspect a broad turn inward will lead to slower growth and lower standards of living. Germany, France, and the Netherlands will have elections this year that could provide populist parties a platform to spring forward. We are vigilantly monitoring political developments and note that current polls and victories by traditional parties in Spain and Austria suggest populist parties are unlikely to win control of the major European governments. Easier fiscal policy could come in response to the success of populist parties, with lower taxes and higher government spending complementing extremely low interest rates and quantitative easing. Weaker currencies make exports more competitive and could provide a third leg of economic support for Europe. Pro-growth policies, strengthening underlying economies, and valuations in line with long-term averages create an appealing backdrop for European equities. Our portfolios are overweight Europe, although we have a more cautious position in the UK given our concern about the effects of Brexit on the domestic market.

Japan

Japan appears to be a model of political stability compared to its developed world peers. Prime Minister Shinzo Abe has led the country for over four years while the economy has notably improved. Japan's unemployment rate of 3.1% is a more than 20-year low and the jobs-to-applicants ratio of 1.41 is a 25-year high. The strong hiring has also coincided with an expansion of the female labor force participation rate to 77%, a higher level than in the US. Despite the worker-friendly market, average earnings have been stagnant as low-wage, part-time employees take a growing share of the labor force from well-compensated permanent employees. This negative mix, combined with the continually aging population, likely explains nine straight months of declines in household spending. The Bank of Japan has played a key role in providing economic stimulus. Relatively easy monetary policy has pushed down the value of the Yen, which helps boost exporters' competitiveness and profits. The recent run-up in the Dollar helps Japan in this way, but President-elect Trump's plan to scrap the Trans-Pacific Partnership will stop one of Prime Minister Abe's efforts at structural reform. For export-oriented Japan, the benefit of stronger US growth and a weaker Yen may be offset by slowing

NEW & CLOSED POSITIONS

CLOSED	SECTOR	% OF PORT.
AKZO NOBEL	Materials	0.9%
BARRY CALLEBAUT AG-REG	Consumer Staples	0.7%
CORE LABORATORIES N.V.	Energy	0.7%
EROS INTL PLC SHS NEW	Consumer Discretionary	0.5%
FIRST SOLAR INC COM	Technology	0.9%
GIJENSIDIGE FORSIKRING ASA	Financials	0.9%
NATIONAL GRID PLC	Utilities	1.0%
UNICREDIT SPA	Financials	0.4%
TOTAL CLOSED		6.1%

NEW	SECTOR	% OF PORT.
JULIUS BAER GRUPPE	Financials	1.5%
KANSAS CITY SOUTHERN	Industrials	0.7%
PPG INDUSTRIES INC	Materials	1.2%
PROSIEBENSAT 1 MEDIA AG	Consumer Discretionary	0.9%
RECKITT BENCK GRP	Consumer Staples	0.8%
YANDEX N V SHS CLASS A	Technology	0.5%
TOTAL NEW		5.5%

COMPANY SPOTLIGHT: FIFTH THIRD BANCORP

Description

Fifth Third Bancorp (FITB) is a regional bank operating primarily in the Midwest and Southeast. Revenues are split between Commercial (42%) and Branch (37%) Banking with small Consumer Lending (11%) and Investment Advisory (9%) businesses. Fifth Third's footprint encompasses many regions that are underserved by financial institutions. The Bank has programs in place to address financial literacy to help its customer base and to support Small & Medium Business Enterprises (SMEs), in line with industry best practices. Fifth Third Bancorp was founded in 1862 and is headquartered in Cincinnati, Ohio.

Integrated Investment Thesis

In 2016, Fifth Third launched project North Star, a long-term plan designed to improve its profitability by consolidating branches, optimizing its balance sheet and developing programs to increase fee income. The drastic decline in oil prices in early 2016 impacted margins as loan losses accelerated, but these have now stabilized. Due to Fifth Third's strong balance sheet and proceeds from equity, the Bank has been able to make large capital returns to shareholders in the form of special dividends and stock buy backs. Under-banked individuals and SMEs represent a significant long-term opportunity for banks. Organizations that make a serious commitment to financial inclusion can gain access to new markets with sustainable growth potential. In 2015, Fifth Third Bancorp announced a \$ 27.5 bn, five-year community commitment, including \$ 10 bn in mortgage credit access, \$ 10 bn in small business loans and \$ 1 bn in investments to support affordable housing, revitalization and historic preservation.

ESG Highlights

Boston Common has engaged Fifth Third Bank since 2015 through the Banks and Climate Change initiative asking them to establish more robust environmental risk due diligence procedures, adopt board level oversight of climate risk, and increase investments in energy efficiency and renewable energy as appropriate. We met with senior management during the 4th quarter of 2016 to discuss the steps they have taken to date and encouraged them to take further action.

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trade, partially due to protectionist policies. Corporate governance reform in Japan is particularly appealing as the country has historically lagged other markets in terms of profitability, independent directors, and shareholder distributions. Japan's overall market valuation looks inexpensive; the country is trading at 14.7x price to forward earnings, well below its 20-year average of 20.7x. Japan looks like an attractive market based on its valuation, stability, and active policy support. Our Japanese holdings tend to be oriented towards world-class manufacturers of consumer, industrial, and technology products. Despite our substantial cyclical exposure in Japan, our portfolios are about equal weight the market because we do not have any Japanese holdings in the telecom, utilities, or commodity sectors where we favor stocks in other regions.

Asia Pacific & Emerging Markets

China has been a key target of President-elect Trump's anti-trade rhetoric with campaign threats of tariffs up to 45% on Chinese imports, tagging the country as a currency manipulator, and by flouting the one-China policy through direct communication with Taiwan's president. Deterioration of Sino-US relations is a key risk as friction between the two largest economies would likely have global repercussions. Additionally, China's foreign exchange reserves have declined by nearly one trillion Dollars from its 2014 high of nearly \$4 trillion as the government works to prevent its currency, the Yuan, from excessive depreciation. India will likely be the fastest growing large economy in 2017 with forecasts for over 7% GDP growth, but Prime Minister Narendra Modi has recently ushered in a

radical economic experiment. In November, the government announced an overnight ban on the use of 500 and 1,000 Rupee notes (equivalent to approximately \$7 and \$14) that together accounted for 86% of India's cash in circulation. The move is intended to bring to light "black money" sourced from illegal activities, but the whole country has been plunged into upheaval trying to comply with the change. We expect the severe economic disruption will be short-lived, but near-term growth could be clipped and Prime Minister Modi's popularity will likely suffer over time. Global investors are typically patient with Emerging Markets' governments when they are implementing bold structural reform. For example, Brazil was one of the strongest performing markets in 2016 as political stabilization overshadowed a struggling economy.

In a divergence from historical trends, commodity prices rallied this past quarter while the Dollar strengthened. A stronger Dollar is typically correlated with weaker commodity prices since non-US production costs decline in Dollar terms. Lower marginal costs should foster greater supply and ultimately lower equilibrium prices. Most commodity markets have sufficient spare capacity and face unfavorable trends in economic development and efficiency, which should hamper long-term demand. This outlook leads us to retain a cautious underweight position in commodity sectors and countries like Australia. Emerging Markets have followed their historical pattern by moving inversely with the US Dollar. In the Emerging Markets, we have selective exposure to companies with sustainable growth drivers and countries with strong macroeconomic foundations.

Shareholder Engagement Highlights

Milestones

Dakota Access Pipeline and Banks: Boston Common met with **all four of the major lenders to the Dakota Access Pipeline. TD Bank and Citibank** have issued statements in response expressing concern for the manner in which Energy Transfer Partners has handled the project. Lauren traveled to Japan to meet with **Mitsubishi UFJ Financial Group**; they have yet to comment publicly, but we urged them to issue a statement. **Mizuho** responded that Mizuho Americas has issued a public statement about their steps to perform enhanced human rights due diligence on this project. Read our [DAPL statement and join us in engaging banks.](#)

Eco-Efficiency: Statoil sold off its oil sands operations in Canada, following engagement by Norwegian investors, Boston Common and others.

Work in Progress

2016 Access to Nutrition Index (ATNI): We are co-leading an international collaborative engagement using the Access to Nutrition Index (ATNI) 2016 Index findings to the **engage thirteen food & beverage companies on their nutrition practices**, including how the company has incorporated the Index recommendations to inform their nutrition strategies and at what level were the Index findings shared in the company. Boston Common is leading or co-leading dialogues with **Ajinomoto, Mondelez, PepsiCo, and Unilever.**

Sustainability in Japan: Lauren Compere traveled to Japan and met with six of our portfolio holdings (**Astellas Pharma, Kao, MUFG, Orix, Panasonic and Shiseido**) on material ESG/CSR issues linked to each company's core business model. Issues covered including board governance on sustainability issues and diversity, CSR management, eco-efficiency, responsible sourcing practices, supply chain oversight, and women's advancement in the workplace.

New Initiatives

Drug Pricing Transparency: This 2017 ICCR Shareholder Initiative includes investor **engagement with 21 leading pharmaceutical companies**, all of which have the potential to demonstrate leadership by agreeing to **expand disclosure around their drug pricing strategies** in the US. Boston Common is leading engagements with **GlaxoSmithKline and Novartis** and co-filed resolutions with **Biogen, Bristol Meyers Squibb, Gilead, Johnson & Johnson, Merck, and Regeneron.**

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