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Active Investor Social Update

Third Quarter, 2017

United Nations Sustainable Development Goals

Boston Common's President, Geeta Aiyer, was one of 10 chief executives to be profiled in a Report released at the United Nations Global Compact (UNGC) Leaders Summit. The Report, entitled Business Solutions to Sustainable Development, showcases the impact of the global business community in achieving the Sustainable Development Goals (SDGs)[1] and was released during this year's United Nations General Assembly meeting. Boston Common was selected as an inspiring example for the leadership shown by proving that financial returns and sustainability go hand in hand.

The report also includes findings from a 2017 survey of the 9,500 companies that participate in the UNGC, revealing how businesses embed the Ten Principles in their operations in order to align with the universal values of the UN. The report also describes how more than 75% of companies are taking actions aimed at advancing the SDGs, demonstrating clear global private sector support for sustainable and responsible business practices, while 69% of companies report that their CEOs are involved in developing and evaluating sustainability policies and strategies.

In her interview, Geeta highlights why companies cannot afford to ignore sustainability. With the growing sense of political risk, corporate and investor leaders now have an even bigger voice and role to play as pillars of society. She emphasizes that, as investors face game-changing phenomena like climate change, **we need to modify most of our investment assumptions on risk, return and value**. She firmly believes that companies at the forefront of these issues – those who see and address the challenges of sustainability and inclusive growth – are the better long-term investments. This underpins Boston Common's ESG integration approach.

Inside the Issue

2017 United Nations Global Compact Progress Report: Buisness Solutions to Sustainable Development

BANKS & CLIMATE CHANGE UPDATE

The devastation caused by Hurricanes Harvey, Irma, and Maria across the Caribbean and Southern United States serves as a reminder to asset owners and asset managers of the urgent need to step up the fight against climate change. Financing new low-carbon technology and climate mitigation infrastructure was at the top of the agenda during New York Climate Week in September *(see pg. 3)*, highlighting the important role the world's largest banks play in rising to this challenge.

Boston Common has continued to lead a coalition of over one hundred investors with assets totaling nearly $2 trillion, calling on the world's largest banks – including the likes of **HSBC**, **Lloyds**, **Bank of America**, **JPMorgan Chase**, **Morgan Stanley** and **Deutsche Bank** - to disclose more information about their exposure to climate-related risks and opportunities, and how these are being managed by banks' Boards and senior executives.

This month, the coalition coordinated by Boston Common and UK-based responsible investment non-profit ShareAction, called for more robust and relevant climate-related disclosure to be supplied to investors on four key areas: climate-relevant strategy and implementation, climate-related risk assessments and management, low-carbon banking products and services, and banks' public policy engagements collaboration with other actors on climate change. *(Continued, pg. 3)*

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Active Ownership Updates

ACCESS TO LIFE-SAVING MEDICINES

How Investors Can Help Correct a Market Failure[2]

The world relies on big pharmaceutical companies which operate for-profit business models to develop cures for diseases like HIV/AIDS. Meanwhile, we also expect these medicines to be available to the poorest citizens of the world in countries where healthcare budgets are often constrained. Right now, 55% of people living with HIV/AIDS do not have access to anti-retroviral drugs, and two billion people around the world still do not have access to the most basic vaccines.

This lack of equitable access and affordability of life-saving medicines, especially in emerging markets, is a market failure that leads to unnecessary human suffering and hampers economic growth. To ensure the success of their investments in the long term, pharmaceutical companies and responsible investors must respond.

Long-term investors can see that a growing slice of profits for pharmaceutical companies will come from the developing world, where there is a mismatch between demand and ability to pay. Emerging markets have already overtaken the EU5 markets (Germany, France, Italy, UK, and Spain) in pharmaceutical spending.

Boston Common has supported the Access to Medicines Index, one of the tools encouraging market correction, since the outset. Thus far, the Index has proved effective, as evidenced by the examples of GlaxoSmithKline and Astellas, two pharmaceutical companies that have found themselves at opposite ends of the ranking.

For highly ranked companies such as GlaxoSmithKline, the Index creates an internal incentive to ensure continued best practice in order to remain at the top. For example, **GlaxoSmithKline** has capped the prices of their patented medicines and vaccines in Least Developed Countries (LDCs) at 25% of those in the EU5. Similarly, for companies who find themselves further down in the ranking, the Index provides a useful tool to help improve disclosure around access strategies. Since 2014, the Japanese pharmaceutical company **Astellas** has demonstrated a focus on drug discovery research for the treatment of neglected tropical diseases (NTDs).

Responsible investors should engage with the pharmaceutical companies in their portfolios to encourage the development of robust access strategies. An analysis by McKinsey & Co. shows that big pharmaceuticals dedicate between 7-10% of their commercial staff to access in developed markets, while the corresponding figure in emerging markets is only 3-5%.

As the US and other developed countries will soon no longer provide the primary driver of growth for pharmaceuticals, it is an area that these companies cannot afford to neglect.

Sustained Engagement Success

As part of Boston Common's sustained engagement with **PNC Financial**, we invited them to share their insights this quarter at the ICCR Fall meeting with investors. Joining Boston Common's Lauren Compere, PNC's Lora Phillips, AVP of Corporate Social Responsibility & Communications and Gary Way, SVP, Credit Strategy/C&I Portfolio Management shared their perspective on where the bank is on its journey, what it has accomplished, and challenges it faces in shifting its culture to proactively manage climate risk and seek opportunities as the bank realigns to a low carbon future.

In the last 12 months, several emerging risks including oil and gas price volatility, auto demand for electric vehicle production, and increasing use of alternative energy from utilities has changed their analytical focus from shock sensitivity assessment to strategic risk/opportunity assessment.

In terms of board level oversight, while the bank has reported to the board annually on CSR issues over the past several years, PNC expects to make CSR a formal mandate of the Board in November 2017. PNC also signed the Green Bond Principles as the framework is aligned with their commitment to sustainable finance and directly relevant to their client base. In 2016, PNC's sustainable financing totaled more than $5 billion from diverse areas such as equipment finance, public finance, and real estate finance businesses. PNC Energy Capital has been in the solar market segment for 10 years and is one of the largest providers of capital to US companies that distribute solar generation business.

As PNC continues to address ESG issues in its business model, it acknowledges that getting it right requires a high degree of internal collaboration and experimentation. The team tries to leverage its existing risk management tools to do a better job of screening for ESG considerations but recognizes that this requires some creativity, flexibility, and time to determine what works best.

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Banks & climate change *(Continued from pg. 1)*

These are also the four core areas that the Task Force on Climate-related Financial Disclosures (TCFD), a G20-supported initiative chaired by financial heavyweights Mark Carney and Michael Bloomberg, offered as a standard framework which all companies and financial institutions can report on. The new norms and expectations recommended by the TCFD are important and may prove to be a game changer.

Considering these recent efforts, how do investors and asset owners want banks to respond? Some of the best-practice standards that we have seen emerging (and have encouraged) include:

- Risk management commitments such as one made by **Standard Chartered** to introduce new assessment criteria relating to climate risks for energy industry clients in order to promote alignment with a 1.5°C climate scenario. We've also seen **Natixis** commit to not financing coal-fired power plants or thermal coal mines, and **ING** will exclude financing directly linked to the mining, exploration, transportation and processing of oil sands.
- Strategy and governance commitments such as **Barclays** linking senior executive compensation to company performance on climate strategy-related goals.
- Commitments to low-carbon products and services. For example, **JPMorgan Chase's** recent commitment to facilitate $200 billion in clean financing through 2025, one of the largest initiatives the banking industry has seen to date.
- Policy engagement such as that initiated by the insurance sector. In August 2016, **Aviva**, **Aegon** and **Amlin**, which together manage $1.2 trillion in assets, issued a joint statement urging world leaders to build on previous commitments and end fossil fuel subsidies within four years.

We need to see broad adoption of best practices such as these across the board. This is not just in the interests of the planet; it is also in the interests of banks and their shareholders.

Accelerating ambitious climate policy

During New York Climate Week, Lauren Compere spoke at two roundtables focused on accelerating ambitious climate policy globally and the essential role of companies in using their public policy influence to advocate for positive climate policy. At one event, **InfluenceMap** shared findings in its report "**Corporate Carbon Policy Footprint**", which focused on the top 50 global influential companies on climate policy. The report revealed that of the top 50 companies analyzed, 35 are *actively lobbying against* climate policy while 200 of the 250 analyzed are on the

Launched in 2009, "Climate Week NYC" has become a key international summit pushing climate action forward. This year's event took place alongside the UN General Assembly.[3]

fence. Only 15 are using their voice to advocate for progressive policy, including **Apple**, **Ikea**, **Unilever**, **Coca-Cola** and **Nestle**.

Lauren shared what we expect of companies in terms of advocating for positive climate policy. We believe it is a matter of good corporate governance for companies to ensure that any political involvement is both legitimate and transparent. Specifically related to climate, there has already been much work done to articulate what a "climate-competent board looks like" and progressive public policy engagement fits right in. Our expectations are global - although you may expect this to be a focus in only the US and Europe, more recently we have expanded our spotlight to include Japan. Japan is especially worrisome given its government's public support for increasing the use of coal for electric power generation through 2040, which is at odds with most other developed nations. This type of energy policy could put Japanese companies at a competitive disadvantage on the world stage and put investor returns at risk.

It is important for companies to proactively manage reputational risk associated with public policy advocacy and enable a regulatory environment that facilitates more green financing, adoption of cleaner technologies, and accelerated adoption of energy efficiency measures and renewable use. Transparency on climate lobby has been a core part of our engagements focused on the Banking Sector and Eco-Efficiency. It is crucial that investors demand best practices around corporate lobbying - not only by commending companies that are more transparent about their lobbying activities to support a positive climate regulatory environment, but to also call out those that are opposing or obstructing this type of progress.

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[1] https://www.unglobalcompact.org/sdgs

[2] http://www.huffingtonpost.com/entry/59c8d64ee4b02df5e83afdd

[3] http://www.climateweeknyc.org/about-us

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New Boston Common Report:

Re-paving the BRICS: ESG & End Market Growth in Emerging Markets

Emerging Markets (EM) have grown in importance and changed in composition. Against the backdrop of climate change, resource pressure, and new technological opportunities, ESG issues now receive greater attention from consumers, corporations, and regulators across EM.

Integrating ESG analysis into the investment process both mitigates risks and offers alpha potential for active investors, particularly in Emerging Markets.

Taking Stock: Reflecting on the Quarter

Milestones	**Impact Report –** Our first Engagement Report "Achieving Impact in Public Equities", was released, highlighting our engagement results on Environmental, Social and Governance (ESG) issues. We engaged over 190 companies around the world in 2016, resulting in 44 companies making significant changes or commitments on products, processes and practices.
	Banks & Climate Change: We launched the third phase of our Banks & Climate Change engagement in collaboration with **ShareAction**, a UK pension advocacy group, calling on banks to align with the Taskforce on Climate-related Financial Disclosures. **Our letters to 60 banks were signed by over 100 investors with $1.8 trillion in assets under management.** We met with Bank Rakyat, Barclays, Fiftth Third Bank, PNC Financial and Standard Chartered. During July, we held our third in-person senior executive meeting (including the Chair and Vice Chair of the Board) in Pittsburg with PNC to advance our dialogue. In September, PNC shared their perspectives on how they were addressing E&S risk across the business at a roundtable we co-convened at the Interfaith Center on Corporate Responsibility (ICCR).
Work in Progress	**International Flavors & Fragrances:** We met with International Flavors & Fragrances (IFF) as part of our ongoing Eco-Efficiency engagement. The company's Vision 2020 business strategy uses circular economy concepts to advance the long-term success of IFF. I**FF is on track to reduce by 2020 its energy intensity by 20%, GHG emissions intensity by 25%, water use intensity by 50% and hazardous waste intensity by 25%.** We encouraged IFF to explicitly cite cost savings from its Eco- Efficiency initiatives in its quarterly earnings presentations. Additionally, we drilled down into how IFF is addressing water risk in its agricultural supply chain and could utilize the Chemical Footprint Project (CFP) framework.
	Access to Nutrition Index: Boston Common is Co-Chair of the Access to Nutrition Foundation (ANTF) Investor Group. This quarter, we wrote to 19 companies; including **Group Bimbo**, **Mondelez**, **PepsiCo**, and **Unilever**; to support active engagement and data collection ahead of the 2018 Indices. We also participated in an ATNF roundtable discussion with US companies on the first US Spotlight Index focused on corporate, marketing, and sales practices.
	PepsiCo: In September, Boston Common helped to lead a multi-issue engagement with PepsiCo which included senior level representatives across a number of functional areas. **Issues advanced included the governance of sustainability, nutrition, human rights, responsible sourcing and water stewardship. PepsiCo shared that it recently adopted a science-based target to reduce its absolute greenhouse gas emissions by 20% by 2030.** Boston Common has engaged PepsiCo on E&S risks in its agricultural supply chain since 2013. Since then, **Pepsi has made strides by adopting the UN Guiding Principles Reporting Framework (backed by almost 100 investors with $5 trillion in assets under management)** to enhance its human rights assessment and reporting. They have also formed a new board-level Public Policy and Sustainability Committee to provide more robust sustainability oversight.
New Initiatives	**Tax Transparency:** Boston Common joined the **PRI advisory committee** focused on tax transparency. This initiative will **focus on engaging IT and Healthcare companies** to encourage best practices in corporate income tax disclosure and mitigating tax risks
	Gender Diversity on Boards: Boston Common's Lisa Hayles joined the board of the 30% Coalition this month, a national collaboration of investors, companies and researchers focused on raising the participation of women on the boards of publicly listed companies. Since the launch of the coalition, **more than 150 companies have added women to their boards of directors**.

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