BOSTON COMMON
ASSET MANAGEMENT

BOSTON
200 State Street, 7th Floor
Boston, MA 02109
TEL (617) 720-5557
FAX (617) 720-5665

SAN FRANCISCO
111 Pine Street, Suite 1420
San Francisco, CA 94111
TEL (415) 757-5760
FAX (415) 233-4871

www.bostoncommonasset.com
invest@bostoncommonasset.com

Active Investor Social Update

Fourth Quarter, 2017

Emerging Markets Engagement in Action: India

PROGRESS ON ESG & CORPORATE GOVERANCE

Successful ESG investing and "active ownership" in Emerging Markets requires local partnerships (with research providers, investors, stakeholders, and regulators) as well as in-person research trips to enhance our understanding of cultural context. We have built our own networks of contacts and reliable information sources to corroborate vendor data. This quarter, our Director of Shareowner Engagement, Lauren Compere, returned to India after a three-year hiatus, to gauge progress on: companies embedding ESG into their practices, and regulators and stock exchanges adopting higher ESG standards. She also participated in the Asian Corporate Governance Association (ACGA)'s annual conference held in Mumbai.

In a number of meetings with the **Securities and Exchange Board (SEBI)**, the **National Stock Exchange (NSE)** and the **Bombay Stock Exchange (BSE)** we discussed progress towards higher corporate governance standards and the promotion of voluntary ESG best practices and disclosure. India has seen rapid adoption of corporate governance standards, and there is a growing proxy agent market, in which there are now 3 domestic players. As of 2016, pension fund regulators require mutual funds to publish their voting policies and rationales. In 2017, India released a draft **Stewardship Code** joining Asian countries, such as China and South Korea, to promote more active stewardship and engagement by domestic institutional investors.

The **Kotak Corporate Governance Committee** released recommendations to provide increased protection to minority shareholders. Current corporate governance regulations for issuers include: one woman on the board; mandatory auditor and independent director rotation after 10 years; required approval by a majority of minority shareholders for related party transactions; and mandatory dividend distribution policy. *(continued, pg. 2)*

Inside the Issue

Company Engagement Spotlight:

Sustained Dialogue with Ford Motor Company

In November, Steven Heim (left), along with other investors and **Ford** staff, met with Ford's CEO Jim Hacket and Chairman Bill Ford to discuss Ford's approach to human rights, climate change reporting, and US fuel economy standards. Steven has served on a stakeholder advisory panel for Ford for 10 years. The group asked Ford to commit to **more robust human rights reporting** beyond conflict minerals and to **more advanced climate scenario analysis and disclosure** aligned with the Task Force on Climate-related Financial Disclosures (TCFD).

PRI GLOBAL INVESTMENT MEGATRENDS REPORT

Responding to Megatrends: Investment Institutions Trend Index 2017 compiled by PRI and Willis Towers Watson featured an interview with Boston Common Asset Management. The index is based on a comprehensive survey of major global asset owners, investment managers and service providers that were interviewed for the report released on December 14. The report identifies five key megatrends impacting the global economy, financial system, and the UN's Sustainable Development Goals (SDGs), as well as 21 'sub trends' and provides a framework for incorporating mega- and sub-trend analysis within portfolio construction. Lauren Compere and Steven Heim shared their perspective on the **financial service sector's transition to a low-carbon future** including the potential for many pipeline projects (e.g. the Dakota Access Pipeline) to become stranded assets.

Active Investor Social Update

Fourth Quarter, 2017

Active Ownership Updates

EM ENGAGEMENT IN ACTION: INDIA

SEBI now requires that the top 500 listed companies India produce a **Business Responsibility Report (BRR)** and 2% of three-year average profits must be spent on Corporate Social Responsibility (CSR). Locally, there is some concern that while a laudable effort, the "CSR tax" has not fulfilled its intended mission to divert investment into addressing critical societal needs, such as clean water, nutrition, children and women's rights, and climate change.

We focused our discussion with SEBI and NSE on voluntary guidance on ESG best practices for companies. We suggested that they review guidance such as that provided by the **Task Force on Climate-related Financial Disclosures (TCFD)**. The NSE and BSE both currently produce guidance for their listed companies on global ESG best practices with the intent of creating a "premium segment" brand for NSE listed companies. The BSE is releasing a best practice guide on ESG disclosure for its listed companies. We provided specific feedback and suggested including a reference to human rights disclosure, as detailed in the **UN Guiding Principles (UNGP) Reporting Framework**. The BSE has mapped the BRR report requirements to the Global Reporting Initiative (GRI) and is considering additional frameworks, such as the TCFD and Integrated Reporting for their 5,500 issuers.

In our discussions with the head of CDP-India, we learned that Carbon and Water survey responses have become quite robust even though participation rates have not grown; two-thirds of the current CDP Carbon survey is aligned with TCFD on climate risk. One key driver for responding to CDP in India is whether a company is a supplier or vendor to multinational companies. Some of our portfolio holdings, such as **Unilever** and **Dr. Reddy's,** did well in responding to CDP last year. HDFC Bank chose not to respond in 2017.

GLOBAL STANDARDS, LOCAL CONTEXT

As part of an investor delegation, Boston Common co-convened an investor-roundtable for the **Access to Nutrition Index (ATNI)** to discuss the **2016 ATNI India Spotlight Index** results, and to get feedback on ATNI's approach for the 2018 Index. More than 97 million children in India are underweight. 39% have stunted growth while 70% are iron deficient. At the same time, India is the second-most obese country in the world, behind China. 70 million people are diabetic, which is expected to increase to 120 million in 20 years.

The food and nutrition science teams of **Pepsi India** and **Unilever HUL** shared how they are addressing the **double burden of nutrient deficiencies and growing obesity**. With growing consumption of packaged foods in India, there is a role for the food and beverage sector to promote better nutritional practices, including appropriate food fortification (fruit juices, bread, and cereals) to address current nutrient deficiencies.

The 2016 ATNI India Spotlight Index assessed the largest 10 food and beverage manufacturers in India on their corporate profiles, product profiles and marketing approaches to breast milk substitutes. **Nestle India**, **Unilever HUL** and **PepsiCo India** ranked in the top three for the overall 2016 ranking. Local companies, including Mother Dairy and Amul, generally performed better in the Product Profile ranking over global brands. The Product Profile analysis found that only 12% of beverages and 16% of foods sold by Index companies were of high nutritional quality. Boston Common engaged **Mondelēz**, **PepsiCo** and **Unilever** on the 2016 India Spotlight findings in its 2017 dialogues. We are already seeing an impact; **companies are reviewing their nutrition profiling systems**, and the Indian **government is increasing commitment to labeling regulation and fortification standards** to combat micronutrient deficiencies. This Product Profile exercise in India will inform ATNI's approach for the 2018 Global and US Indices.

Shareholder Resolutions Spotlight: 2018 Resolutions Filed

ISSUE	COMPANY
Climate Change (Energy Productivity & Renewable Energy Targets or Science-based Targets for GHG Emissions Reductions)	Gilead Sciences*, Kansas City Southern
Drug Pricing Strategy Transparency	Biogen, Bristol Myers Squibb
Lobbying Disclosure	American Water Works*, Verizon Communications*
Racial Diversity (Executive Compensation Links to ESG Performance)	Alphabet (Google)
Separation of Chair & CEO	Johnson & Johnson

*Lead Filer

Active Investor Social Update

Fourth Quarter, 2017

Active Ownership Updates

Boston Common met with PepsiCo India and Unilever HUL on the local implementation of each company's global standards, including a focus on climate change, human rights, responsible sourcing, and water stewardship. **Unilever HUL** shared the local implementation of its **Sustainable Living Plan**, focused on how its products are addressing fundamental health issues in India. **Pureit has purified 74 billion liters of safe drinking water**. The company also shared its approaches to **Responsible Sourcing** and to **Eco-Efficiency (energy, water, and waste management). It has achieved 49% reduction in CO_2, 53% in water and 45% in total waste**. The company sources 100% of tomatoes and close to 50% of tea in India from sustainable sources.

PepsiCo India's local implementation of its **Agenda 2025** focuses on nutrition and product reformulation. Under its Quaker and Tata brands, the company has addressed micronutrient deficiencies. It has launched a Quaker Nutri Dosa, which is a source of protein and fiber, and Tata Water Plus, which addresses copper and Zinc needs at affordable prices.

PRI LABOR STANDARDS IN THE SUPPLY CHAIN

Boston Common led calls with Mondelez and PepsiCo in December on their approach to human rights and responsible sourcing, through the **PRI Labor Standards in the Agricultural Supply Chain engagement**. In 2017, **PepsiCo** used the UNGP Reporting Framework to guide its salience assessment of human rights exposure across its value chain. PepsiCo identified six priority areas including working hours/wages, land rights, freedom of association, workers (age/gender/trafficking issues), and the human right to water. PepsiCo has **prioritized human rights in its new strategy in four key commodities: palm oil, sugar, potatoes, and citrus**. Its leverage and approach depends on whether the company has a direct contract, such as with potato farmers in India or with the mills for its sourcing of palm oil and sugar. In 2016, **Mondelēz** mapped out key agricultural commodities, including cocoa and palm oil, which have the most potential leverage to impact change. Mondelēz has committed to invest $400 million by 2022 to empower cocoa small farmer holders in its supply chain. Under its 2020 goals, it has **committed to having 100% of its cocoa (compared to 21% as of 2016) and its palm oil sustainably sourced and third party certified**, with 96% traceability to the mills and 99% Roundtable on Sustainable Palm Oil (RSPO) certified suppliers. Mondelēz also **committed to 100% of its eggs being cage-free in the US and Canada by 2020 and in the EU by 2025**.

Collaboration through groups such as the **RSPO and the Consumer Goods Forum (CGF)** is critical for addressing systemic risk issues in agricultural supply chains. Boston Common emphasized in both dialogues the need to focus on critical leverage points in the supply chain to "know and show" how they are respecting human rights under the UNGPs.

Taking Stock: Reflecting on the Quarter

Milestones	**Climate Change:** In October, **EOG Resources** committed to publish its **first sustainability report in 2018**, following three years of sustained dialogue led by Boston Common and supported by a large investor group (20 investors). In that time, we have engaged EOG on issues such as the governance of sustainability, hydraulic fracturing ("fracking") operations, climate change, methane, human rights, water stewardship, and board diversity.
Work in Progress	**Conflict Minerals:** The fight to keep **Conflict Minerals Reporting** continues as 2017 ends with a **proposed US House Appropriations Amendment cutting funding for Section 1502 of the Dodd-Frank Act** relating to conflict minerals. Boston Common is a lead investor supporting a new statement that went to the Congressional leadership on December 22nd supported by **80 investors with over $2 trillion in assets**, **to urge them to reject this appropriations amendment**. We led previous investor statements supporting Section 1502 in 2017, along with the Responsible Sourcing Network and others; the statements were signed by 127 investors with over $4.8 trillion in assets.
	Chemical Safety: In December, Boston Common co-convened an investor workshop with the **Chemical Footprint Project** and spoke on a panel at the BizNGO conference to raise the profile of this important **due diligence tool for investors and companies** and to address our precautionary approach to chemical safety. A new study released in the journal Environmental Health concludes that **exposure to toxic chemicals, such as lead, mercury, and pesticides, may cost the world up to 10% of GDP**. Boston Common met with **CVS Health** about the implementation of its plan to **ban phthalates, parabens and prevalent formaldehyde donors in store brand beauty and personal care products,** to which they committed in 2017. We asked CVS to publicly report on benchmarks and a timeline for implementing its policy and raised the issue of **fragrance-ingredient labeling** following the efforts by peers Procter & Gamble, Target, Unilever and Walmart.
New Initiatives	**Racial Diversity:** We co-filed our first racial diversity shareholder resolution with **Alphabet** which seeks to **link CEO compensation with the achievement of sustainability metrics including metrics on diversity** within the executive ranks. Though Alphabet, the parent company for Google, has publicly disclosed demographic data for its employees since 2014, progress has been slow. Google recognizes that the lack of inclusion of women and minorities in the tech space is a problem. Eileen Naughton, Vice-President, People Operations at Google has noted in a blog post, "Our employees, product and business depend on us getting this [more diverse and inclusive workforce] right."
	Climate Change: Boston Common is a founding signatory to the **Climate Action 100+**, a new **five-year initiative led by investors to engage the world's largest corporate greenhouse gas (GHG) emitters** to curb emissions, strengthen climate-related financial disclosures, and improve governance on climate change. The initiative aligns with the global investor initiative we have led for the past 3 years to engage 60 global banks to adopt the recommnedations of the **Task Force on Climate-related Financial Disclosures (TCFD)** and to engage their own high-carbon sector clients on TCFD. We are engaging companies such as **Costco, Qualcomm, Kansas City Southern** and **Gilead Sciences** to establish science-based targets to cut GHG emissions or raise renewable energy use. We have committed to further this work by engaging some of our highest carbon footprint portfolio companies including **Air Liquide, Origin Energy, Statoil** and **Veolia Environnement** in 2018.

[1]Naughton, Eileen 'Making Progress on Diversity and inclusion: "https://www.blog.google/topics/diversity/making-progress-diversity-and-inclusion/" Published June 29th,2017.

Active Investor Social Update

Fourth Quarter, 2017

Metrics & Scorecards

New Report:
Disclosing the Facts 2017: Special Methane Edition

"This year's report reflects rising investor concern that excessive methane emissions from oil and gas operations will undercut the potential net climate benefit of substituting natural gas for coal, especially in decarbonizing energy markets," said Steven Heim. "Investors are increasing their focus on carbon risk, shown clearly by majority shareholder votes this year calling for 2 degree scenario reporting."

In December, Boston Common, in partnership with As You Sow and The Investor Environmental Health Network, released a **2017 special edition of the "Disclosing the Facts" scorecard**. The special report focused on the **critical risk of methane emissions** – a potent contributor to global climate change – and how oil and gas companies are managing methane reductions. **The 2017 report found a striking range of differences among the 28 companies' methane management disclosures.** Portfolio holding **Apache** received an almost perfect score with 12 out of 13 points, as did **Southwestern Energy** and **BHP**. Meanwhile a third of companies provided minimal reporting, including industry giant Chevron. The previous four "Disclosing the Facts" annual reports and scorecards focused on oil and gas company management of environmental and community risks from hydraulic fracturing operations. The reports have driven best practice reporting by a number of companies in a "race to the top." To download the report see: Disclosingthefacts.org.

2017 SCORECARD

COMPANY	TOTAL
Apache Corp. (APA)	12
BHP Billiton, Ltd. (BHP)	12
Southwestern Energy Co. (SWN)	12
ConocoPhillips Corp. (COP)	11
Hess Corp. (HES)	11
Royal Dutch Shell plc (RDS)	11
Chesapeake Energy Corp. (CHK)	10
Newfield Exploration Co. (NFX)	10
Range Resources Corp. (RRC)	10
Exxon Mobil Corp. (XOM)	9
Noble Energy, Inc. (NBL)	9
Pioneer Natural Resources (PXD)	9
Carrizo Oil & Gas, Inc. (CRZO)	7
CONSOL Energy, Inc. (CNX)	7
Devon Energy Corp. (DVN)	7
EOG Resources, Inc. (EOG)	6
Anadarko Petroleum Corp. (APC)	5
WPX Energy, Inc. (WPX)	5
Antero Resources (AR)	4
Occidental Petroleum Corp. (OXY)	4
BP plc (BP)	3
Chevron Corp. (CVX)	2
Continental Resources, Inc. (CLR)	1
EQT Corp. (EQT)	1
QEP Resources, Inc. (QEP)	1
Whiting Petroleum Corp. (WLL)	1
Cabot Oil & Gas Corp. (COG)	0
Encana Corp. (ECA)	0

PRI LABOR STANDARDS IN THE SUPPLY CHAIN

(Continued from pg. 3)

Mondelēz is the co-chair of the CGF Palm Oil Working Group and works to leverage industry action on issues such as ethical recruitment. While both companies have advanced governance of human rights and robust due diligence, both received a 0 score on Ethical Recruitment in the Know the Chain's 2017 report. We have asked both companies to adopt specific language in their policies on ethical recruitment and to provide more robust disclosure on how they are addressing this issue.

CARBON ASSET RISK TOOLS & DISCLOSURE

As part of our ongoing engagement strategy, we continue to support robust disclosure frameworks, such as those developed by CDP and the Task Force on Climate-related Financial Disclosures (TCFD), to accelerate action across all sectors on climate risk and support the transition to a low-carbon future. In 2018, the **CDP Carbon survey will be 100% aligned with the TCFD recommendations for non-financial sectors**. In 2017, Boston Common convened three investor-company **Carbon Asset Risk Roundtables,** which included eight to twelve oil & gas and energy companies each, with participation by Carbon Tracker, CDP and Ceres. With up to 50 or more participants in each session, **we helped accelerate company understanding of the carbon asset risk disclosures required by investors**, now outlined by TCFD. Companies included **Apache, Chevron, ConocoPhillips, EOG, Noble Energy, Occidental, Southwestern**, and **Statoil**. We also organized two critical CDP feedback consultations in Houston for investors and twelve energy companies, prompting CDP to improve its industry-specific questions for 2018.

In our ongoing carbon asset risk and **Eco-Efficiency** work, this fall we organized investor briefings by Mark Boling, a former top executive with Southwestern Energy, outlining the 2°C Energy/Rystad Budgeted Resource Model. It is a powerful new tool to assess carbon asset risk. The tool integrates hydrocarbon supply cost data and carbon intensity data at both the oil & gas field and total supply chain levels. It may **help investors, companies, and policy makers identify the oil and gas resources that are burnable or not in a 2°C or less world**. The model also demonstrates that **steep methane reductions now can provide extra room in the global carbon budget** for future production or for developing countries. Our focus on methane reduction across all sectors is a high priority for our work in 2018.