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U.S. Large-Cap Core Strategy Update

Fourth Quarter, 2017

US MARKET & PORTFOLIO REVIEW

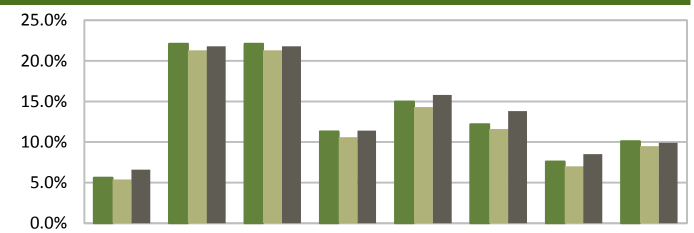
In the fourth quarter, the S&P 500 (the “Index”) continued to post strong returns, rising +6.6% to close out the quarter and the year at near-record highs. For 2017, the Index returned a stellar 21.8%, rising steadily throughout the year, supported by rising corporate profits, steadier global growth, low inflation, and low interest rates. Investors were also relieved that several global political threats and the most worrisome policy initiatives of the new US administration did not materialize. Trade wars did not erupt, Europe did not disintegrate, and a reversal in US monetary policy did not create market turmoil. Instead, confidence in synchronized global growth helped bolster economic expansion in the US, as Europe’s recovery continued. The Federal Reserve successfully began normalization of monetary policy by raising short-term rates three times and initiating steps to reduce its balance sheet. The 10-year Treasury yield ended the year at 2.4%, relatively unchanged from a year ago. The US Dollar declined, supporting US multinational profit growth. At year-end, a permanent reduction in corporate tax rates held the promise of further support to corporate earnings.

The fourth quarter’s performance reflected both cyclical and secular strength. Consumer Discretionary (+9.9%), the strongest sector, traded higher on news of a robust holiday season. Information Technology (+9.0%) continued its year-long rally as semiconductor stocks, among others, were strong. Within the Financials (+8.6%) sector, banks responded to the prospects of lower corporate tax rates and further short-term interest rate increases. Asset managers and brokers were buoyed by market activity. With increased confidence in global growth and the potential for infrastructure spending at home, the Materials (+6.9%) and Industrials (+6.0%) sectors rallied. The Energy (+6.0%) sector was strong, as Saudi Arabia indicated it would remain committed to production cuts, strengthening crude oil prices. With the exception of Consumer Staples (+6.5%), which was strong due to some stock-specific performance (e.g. Walmart), the defensive sectors of Telecom (+3.6%), Real Estate (+3.2%), Healthcare (+1.5%), and Utilities (+0.2%) all provided positive returns but meaningfully lagged the Index.

Boston Common’s Tax-Exempt US Large-Cap Core account composite lagged the Index for the quarter. This is not unexpected, as our investment approach, focusing on high-quality companies with growing end-markets, tends to lag a bit in sharply rising markets. For the year 2017, however, our composite had strong returns, in line with the S&P 500.

Although investors shied away from defensive sectors, our stock selection within the Utilities, Consumer Staples, Real Estate, and Telecom sectors was the major contributor to relative performance in the quarter. Cosmetics company Estee Lauder reported strong growth, while mobile cell tower REIT Crown Castle surprised with a larger-than-expected dividend increase. Both companies were among the portfolio’s top ten performers. Cyclical companies tied to strong economic growth helped propel relative performance in the Industrials sector, as domestic carrier Southwest Airlines, auto maintenance company Snap-On, and roofing and industrial company Carlisle Companies, Inc. were among the top performers. JP Morgan and Home Depot also contributed to relative performance.

PERFORMANCE



	QTD	YTD	1Yr	3Yr	5Yr	7Yr	10Yr	Since Inception*
Gross	5.6%	22.1%	22.1%	11.3%	15.0%	12.2%	7.6%	10.1%
Net	5.4%	21.3%	21.3%	10.6%	14.3%	11.6%	7.0%	9.5%
S&P 500	6.6%	21.8%	21.8%	11.4%	15.8%	13.8%	8.5%	9.9%

CONTRIBUTORS & DETRACTORS

TOP 10	% OF CAPITAL	RETURN	RELATIVE CONTRIB.	SECTOR
MICROSOFT CORP	4.1%	15.4%	0.32%	Technology
APPLE INC	6.4%	10.2%	0.20%	Technology
JPMORGAN CHASE & CO	3.5%	12.6%	0.19%	Financials
ESTEE LAUDER COMPANIES	1.8%	18.3%	0.19%	Consumer Staples
HOME DEPOT INC	2.0%	16.5%	0.18%	Consumer Discretionary
SOUTHWEST AIRLS CO	1.0%	17.2%	0.10%	Industrials
SNAP-ON INC	1.0%	17.6%	0.10%	Industrials
EOG RES INC	2.1%	11.7%	0.10%	Energy
CROWN CASTLE INTL CORP	2.0%	12.1%	0.09%	Real Estate
CARLISLE COS INC	1.5%	13.7%	0.09%	Industrials
			1.56%	

BOTTOM 10	% OF CAPITAL	RETURN	RELATIVE CONTRIB.	SECTOR
MERCK & CO INC	1.9%	-11.4%	-0.37%	Healthcare
CHECK POINT SOFTWARE TECH LT	1.7%	-9.1%	-0.28%	Technology
REGENERON PHARMACEUTICALS	1.1%	-15.9%	-0.27%	Healthcare
GILEAD SCIENCES INC	1.3%	-11.0%	-0.25%	Healthcare
ALBEMARLE CORP	1.7%	-6.0%	-0.22%	Materials
ORACLE CORP	2.4%	-1.8%	-0.20%	Technology
NIELSEN HLDGS	1.0%	-11.4%	-0.19%	Industrials
PRICELINE GROUP, INC	1.4%	-5.1%	-0.16%	Consumer Discretionary
AON	1.0%	-8.1%	-0.16%	Financials
APPLIED MATLS INC	1.8%	-1.7%	-0.15%	Technology
			-2.25%	

Stock selection within Information Technology was a major drag on relative performance, even though the top two best performing holdings this quarter were tech companies Microsoft and Apple. Earnings disappointment from Check Point Software and Oracle presented near-term setbacks. In addition, the portfolio’s semiconductor holdings did not keep pace with the more commodity-based semi companies that rallied strongly this quarter. Relative performance was held back in Consumer Discretionary by not owning many of the beleaguered traditional retailers that saw better sales near year-end. In addition, concerns about the devastation caused by this fall’s hurricanes in Caribbean destinations and political unrest in Spain hurt investor confidence

*Since Inception: December 31, 2002

in cruise provider Royal Caribbean and online travel agency Priceline Group, respectively. Healthcare holdings including Merck, Regeneron, and Gilead Sciences were weak. Investors were disappointed by recent product developments, but we continue to like them based on their long-term commercial opportunities, research capabilities, and attractive valuations.

PORTFOLIO STRATEGY

At this time last year, we were assessing contradictory signals from the US election. Although we saw the new Administration as being capital-friendly, we did not expect such high investor enthusiasm and low volatility. Looking ahead, we anticipate a year of greater market volatility along with shifts in sector leadership. We believe active investors can add value through judgment and patience, with a focus on the long-term opportunities underpinned by the integration of environmental, social, and governance dynamics into corporate planning.

In the current low inflation, low interest-rate environment, we remain reasonably constructive about equities this coming year. We do not foresee material, near-term structural challenges to the current equity rally that would warrant more defensive positioning. We believe geopolitical surprises represent the biggest risks to investors; such developments could derail the strong earnings-driven rally that is underway. We maintain our tactical tilt in favor of equities over fixed income within balanced portfolios.

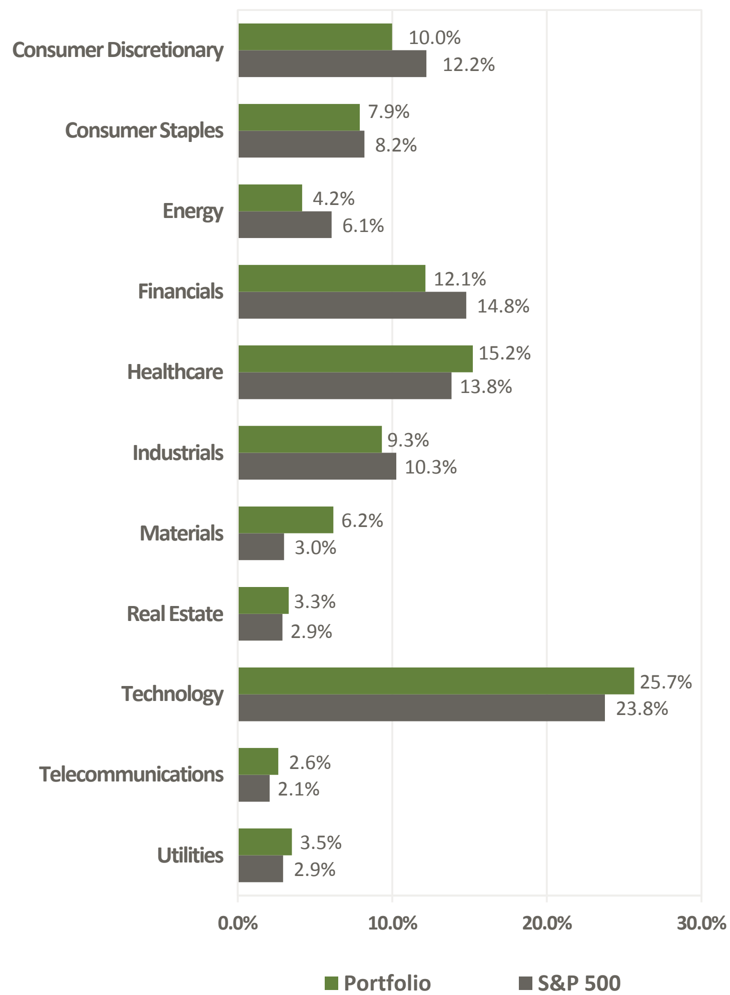
Within fixed income investments, we have been shorter in average duration, with a high-quality credit profile, preferring corporate bonds issued by well-run, sustainable companies over Treasuries. We have also maintained an overweight in inflation-protected bonds, believing that the market was discounting an unrealistically low level of inflation.

In equity portfolios we added Cummins Inc., a manufacturer of the most efficient heavy- & medium-duty truck engines. Sales of these trucks have rebounded but are not back to cycle highs. The increase in ecommerce supports ongoing growth in trucking activity, and the trend towards tighter emission standards should require fleet upgrades. Cummins has exposure to China and benefits from its expanding consumer class. We added Cummins after a recent pullback from what we believe were unfounded concerns regarding the likelihood of competition from electric engines.

Early in the quarter we added Analog Devices (ADI). As technological applications increase, semiconductor proliferation is finding its way into new end-markets like healthcare. As the name implies, ADI's expertise is in analog applications, a necessary interface between the digital and human worlds. Well diversified by end-market and geography, ADI looks to be in a strong competitive position after a recent acquisition resulted in leading market share in most categories. As the quarter ended, we exited semiconductor equipment manufacturer ASML Holdings, taking profits as we felt valuation had become a bit stretched.

We made some changes within the more defensive sectors by trimming a few holdings that have performed well. Concerns over competition from Amazon and disruption from the proposed acquisition of Aetna caused us to sell drug retailer and PBM provider CVS Health. Proceeds were redirected to Weyerhaeuser, a REIT and the largest private timberland owner in the US. A recent acquisition provides cost savings, while stronger demand is expected to underpin higher lumber prices. The company pays a lot of attention to sustainable forestry practices, manages its environmental footprint, and is receptive to stakeholder engagement. We took profits in long-term holding First Republic Bank. While trading at lofty multiples, the bank's management outlined that lending activities had been met with extremely competitive pressures in their respective segments while deposit costs began showing upward pressure.

SECTOR ALLOCATION



PORTFOLIO CHARACTERISTICS

	BOSTON COMMON	S&P 500
# HOLDINGS	62	500
Valuation		
Next 12m Price to Earnings	19.0	18.4
Price to Book Value	3.8	3.3
Price to Sales	3.3	2.3
Dividend Yield	1.6%	1.9%
Growth		
5yr Sales Growth	4.4%	3.0%
5yr EPS Growth	9.2%	5.7%
Risk		
Wtd Avg Mkt Cap	201,110	196,620
LT Debt/Cap	37.5%	45.5%
Beta	1.04	1.00

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ECONOMIC & MARKET OUTLOOK

After nine years of economic recovery, it is natural that investors look for signs that growth can be sustained even after extraordinary monetary support is withdrawn. The initial years after the Financial Crisis saw the resuscitation of financial institutions and significant increases in asset values, without a commensurate boost to incomes. This enriched asset owners primarily, exacerbating inequality and creating an unsustainably poor trajectory in real incomes for the majority of the population. Risk assets, especially real estate and stocks, have seen dramatic increases in this period. Employment has also grown; the unemployment rate peaked at 10% in October 2009, but now stands at 4.1%. With the economy operating close to capacity, the Federal Reserve has begun unwinding its extreme monetary measures.

Now, as the tide of monetary support recedes, there are signs that the recovery has indeed broadened and that the economic cycle can remain strong in the coming year. Following years of growth in consumption and housing, business investment now appears poised to take the baton forward. Cyclical spending is at historically low levels relative to GDP and will likely increase. Resurgent corporate profit growth, coupled with supportive global trends (shrinking wage gap with China, falling costs of industrial robotics) and added resources from the recently introduced tax bill could enable a revitalization of US industrial production. Any future investment in defense or infrastructure improvements would support this trend.

At year end, the US Congress ended an era of fiscal austerity with the passage of a significant tax plan; on balance, the deficit is expected to increase by $1.5 trillion over ten years. In comparison, the previous fiscal stimulus plan, passed in the depths of the 2009 financial crisis, was worth $813 billion. Subsequent sequestration of federal spending (automatic across-the-board cuts) began in 2013, when the economy was operating well below capacity. This policy lowered the potential for growth in favor of fiscal austerity. In the current environment, by contrast, the US economy is growing at a rate close to or above the 1.6% potential growth estimated by the Congressional Budget Office.

The 2017 tax bill permanently lowers the federal tax rate for corporations from 35% to 21% while temporarily reducing the current 39.6% top individual income tax rate to 37% and revising other individual rates and brackets. The bill also significantly modifies international tax rules. For many corporations, this is a boost to earnings welcomed by investors. Early reports indicate that several corporations have plans to use a portion of the tax savings for modest one-time bonus payments to employees, while a few have announced hourly wage increases, charitable contributions, and capital expenditure plans. We also expect the trend of significant share buybacks to continue.

As the economic expansion matures, lagging inflation and wage growth could improve. Tighter labor markets and the investment of tax savings may start to impact average hourly earnings, which have trended higher in 2017. Several global deflationary forces, such as falling oil prices and prices of imported manufactured goods, have bottomed. On balance, we expect a firming of inflation levels but do not expect extreme shifts at this point. Higher inflation will confirm the steps currently underway by the Federal Reserve to raise interest rates. Through her clear and concise communication, Janet Yellen, whose tenure as Chair will come to an end this February, has helped global markets to digest higher US interest rates without much concern. The new chairman, Jerome Powell, a Fed member since 2012, is expected to follow along a similar path, though the change does introduce grounds for future uncertainty.

In the bond market, after an extended period of declining rates, investors will now start to factor in higher short-term rates as well as the possibility of higher long-term rates. The Fed has cut its bond buying by $50 billion a month, while the new Tax Bill expands the deficit, requiring added borrowing by the

NEW & CLOSED POSITIONS

CLOSED	SECTOR	% OF PORT.
ASML HOLDING N V N Y REGISTRY SHS	Technology	1.4%
CVS HEALTH CORP COM	Consumer Staples	0.8%
FIRST REP BK SAN FRANCISCO CALIF NEW COM	Financials	1.1%
INTERPUBLIC GROUP COS INC	Consumer Discretionary	0.8%
TOTAL CLOSED		**4.2%**

NEW	SECTOR	% OF PORT.
ANALOG DEVICES INC COM	Technology	1.3%
CUMMINS INC COM	Industrials	1.4%
WEYERHAEUSER CO COM	Real Estate	1.0%
TOTAL NEW		**3.7%**

COMPANY SPOTLIGHT: COLGATE-PALMOLIVE

ESG Integrated Investment Thesis

Colgate's dominant market share, strong innovation, and longstanding presence in many markets, especially emerging economies, provide a competitive advantage. Colgate ranks in the industry's top quartile for offering healthier household and personal products, having eliminated the use of chemicals such as microbeads, phthalates, parabens, and formaldehyde donors in its products. Colgate's partnerships with professionals (Dentists, Dermatologists, and Veterinarians) reinforce brand equity and help to minimize private label risk.

Colgate's focus on emerging market consumers allows for a stronger revenue growth profile than many of its peers. Colgate continues to re-imagine its products in response to the health and sanitation needs of consumers in developing markets. While growth has stalled for global consumer products companies, Colgate's focus on the highly loyal oral care category helps to build a sustainable advantage. Celebrating more than 25 years in outreach, Colgate's 'Bright Smiles, Bright Futures' oral health education program touched over 50 million children in 2016. Colgate recommitted to increasing advertising spending in 2017 after a period of lower spending, which we expect to rejuvenate top-line growth.

Colgate's carbon and energy reduction programs cover all core production facilities, and the company has an increasing number of suppliers involved in its carbon reduction program. These savings initiatives, along with streamlining other processes, continue to generate strong cash flow that supports both company growth initiatives and profit margin expansion. We believe current valuation appears reasonable when compared to its global peers.

Company Profile

Founded more than 200 years ago as a soap and candle business, Colgate is now a global consumer products company with a presence in over 200 countries and territories. While many may think of Colgate, still headquartered in NYC, as an "American" company, almost 80% of revenues come from outside the US, with almost 50% from emerging market economies. The company's four focus areas are Oral Care, Personal Care, Home Care, and Pet Nutrition, under the brand name Hill's. Colgate maintains strong market shares with global brands like Colgate, Palmolive, Ajax, and Speed Stick, in addition to popular regional brands. The company has reduced absolute greenhouse gas emissions from manufacturing by 25% in 2016 when compared to 2002. In recognition of its performance and reporting, Colgate made both the CDP Climate A List and CDP Water A List in 2016, a rating achieved by less than 4% of over 700 company responders.

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Treasury. Recently, however, the yield curve has flattened, with the two-year Treasury yield approaching 2%, while the ten-year Treasury only yields 2.4%. At year-end, the 56 basis point spread stood lower than September's reading as well as the 40-year average. Concerned about rising rates, we remain reluctant to extend portfolio maturities at this point.

In addition to the one-time step-up from lower taxes, we expect earnings growth to continue, helped by accelerating global expansion, ongoing cost efficiencies, and innovation. Revenues are expected to rise by over 5% this year and 4% next year. Analysts project that margins expansion, leading to a 10-12% improvement in earnings. With this outlook, the US equity market valuation appears consistent with the last few years. Investors can reasonably expect equities to rise in line with earnings. US investors face risks from a global recalibration of monetary policy and attractive international equity valuations, however, so we do not expect multiple expansion from current levels.

Shareholder Engagement Highlights

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 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 e**xposure 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** seeking to **link CEO compensation with the achievement of sustainability metrics including metrics on diversity** within the executive ranks. Though Alphabet, the parent company of 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 recommendations 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 reduce their own GHG emissions or adopt targets for energy efficiency and renewable energy. 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.