

All Country International Strategy Update

Second Quarter, 2018

INTERNATIONAL MARKET REVIEW

The MSCI ACWIxUS Index (the "Index") fell -2.6% in US Dollar terms. In local currency terms, the Index rose +1.9% as the stronger US Dollar subtracted -4.5% from US investor returns. Political uncertainty in Europe, trade disputes, and expectations for tighter monetary policy in the US caused a depreciation of the UK Pound (-5.9%), Euro (-5.0%), and Yen (-4.0%) compared to the US Dollar. ACWI Europe (-1.6%) outperformed the Asia Pacific (-3.3%) region.

Economic indicators for the Eurozone suggest healthy growth, albeit decelerating from its historically fast pace of recent quarters. Business strength in Germany and France helped Eurozone services activity increase in June, even while Italy's new populist government caused investor anxiety. Perhaps feeling the effects of Brexit disruption, the UK economy expanded during the first quarter of 2018 at its slowest rate since 2012. In contrast with the US, the European Central Bank and Bank of Japan both pushed back expectations for the timing of higher interest rates in recent announcements. As of July 6th, China faces new 25% tariffs on \$34 billion worth of goods: mostly mechanical and electronic parts, machinery, and transport equipment. As expected, China responded in kind with its own tariffs on US goods.

Energy (+7.3%) was the best performing sector as oil prices increased about 10% on tighter supply estimates. Healthcare (+1.4%) was the second best performer, buoyed by healthcare equipment suppliers. Utilities (-1.5%) also outperformed the Index. Financials (-7.3%) was the worst performing sector, impacted by trade tensions and slower global growth prospects. Within developed countries, Australia (+5.2%) and Norway (+2.3%) were among the best performers in the Index thanks to commodity strength. Export-oriented sectors boosted the UK market (+2.9%). Austria (-10.6%) was the worst performing country in the Index due to corporate connections to Russian sanctions. Singapore (-7.5%) and Japan (-2.8%) were seen as vulnerable to collateral damage from tariffs on China. Italy (-7.3%) fell on fears its new populist leadership could bring radical economic policies.

The MSCI Emerging Markets Index declined -8.0% including a -4.5% foreign exchange loss, as the US Dollar strengthened against Emerging Market (EM) currencies in aggregate. EM Asia (-5.9%) was more resilient, while EMEA (-10.2%) and Latin America (-17.8%) lagged with currency depreciation accounting for the majority of the decline, -9.9% and -10.6%, respectively.

PORTFOLIO REVIEW

A composite of accounts invested in the Boston Common All Country International Equity strategy declined -2.3% before fees, slightly better than the Index.

PERFORMANCE



	QTD	YTD	1Yr	3Yr	5Yr	7Yr	Since Inception*
Gross	-2.3%	-1.6%	9.5%	6.3%	6.8%	5.3%	5.3%
Net	-2.5%	-1.9%	8.7%	5.5%	6.0%	4.5%	4.5%
MSCI ACWIxUS	-2.6%	-3.8%	7.3%	5.1%	6.0%	3.8%	4.1%

CONTRIBUTORS & DETRACTORS

TOP 10	% OF CAPITAL	RETURN	RELATIVE CONTRIB.	SECTOR
SHISEIDO CO LTD	1.9%	24.1%	0.49%	Consumer Staples
MACQUARIE GROUP LTD	1.6%	19.6%	0.33%	Financials
HOYA CORP	2.2%	13.7%	0.32%	Healthcare
SAP	1.6%	11.7%	0.21%	Technology
DAIKIN INDUSTRIES LTD	1.9%	8.5%	0.19%	Industrials
UMICORE	1.7%	9.3%	0.19%	Materials
ORIGIN ENERGY	1.4%	11.0%	0.18%	Energy
EQUINOR ASA	1.7%	12.9%	0.17%	Energy
HDFC BANK	1.7%	6.9%	0.16%	Financials
REPSOL SA	1.3%	10.4%	0.16%	Energy
			2.40%	

BOTTOM 10	% OF CAPITAL	RETURN	RELATIVE CONTRIB.	SECTOR
ITAU UNIBANCO HLDG SA	1.4%	-33.5%	-0.50%	Financials
BANK RAKYAT	1.8%	-22.3%	-0.40%	Financials
ING GROEP	2.4%	-12.6%	-0.28%	Financials
BYD CO	1.0%	-22.2%	-0.23%	Consumer Discretionary
TAIWAN SEMICONDUCTOR MFG	1.6%	-14.1%	-0.20%	Technology
PT KALBE FARMA	0.8%	-20.3%	-0.16%	Healthcare
ORIX CORPORATION	1.9%	-10.4%	-0.15%	Financials
SAMSUNG ELECTRONICS CO LTD	1.9%	-9.3%	-0.13%	Technology
KASIKORN BANK PLC FOREIGN	1.5%	-9.6%	-0.12%	Financials
ATLAS COPCO NPV	1.3%	-11.3%	-0.12%	Industrials
			-2.29%	

Strong financial results boosted Japanese air-conditioning manufacturer Daikin (+8.5%) as well as plumbing distributor Ferguson (+8.8%) and energy-efficient systems provider Spirax-Sarco (+7.8%), the latter two based in the UK. Consumer Staples was also a positive contributor driven by continued expansion of Japanese cosmetics company Shiseido (+24.1%). From a regional perspective, stock selection in Japan helped performance. Besides Daikin and Shiseido, healthcare company Hoya (+13.7%) delivered strong returns. Other key contributors included German software developer SAP (+11.7%), Belgian battery technology and recycling leader Umicore (+9.3%), Australian financial services provider Macquarie (+19.6%), and energy companies Repsol (+13.6%) and Origin Energy (+11.0%).

All Country International Strategy Update

Second Quarter, 2018

Stock selection in the Healthcare sector was the largest negative contributor. European pharmaceuticals Novartis (-6.0%), Novo-Nordisk (-5.5%), and Roche (-2.9%) declined on disappointing results, as did Indonesian consumer health company PT Kalbe (-20.3%). The Technology sector also detracted from results. Semiconductor holdings declined with global trade disruption and economic slowdown concerns: Taiwan Semiconductor (-14.1%) and Samsung Electronics (-9.3%). The UK market was among the largest regional detractors. We were underweight the strong market and our portfolio holdings underperformed benchmark holdings, especially energy stocks. British bank holding Barclays (-13.9%) was a key detractor, as were emerging market banks: Brazilian Itau Unibanco (-33.5%), Indonesian Bank Rakyat (-22.3%), and Thai Kasikornbank (-9.6%). Chinese electric vehicle manufacturer BYD (-22.2%) also performed poorly on short-term government subsidy disruptions.

PORTFOLIO ACTIVITY

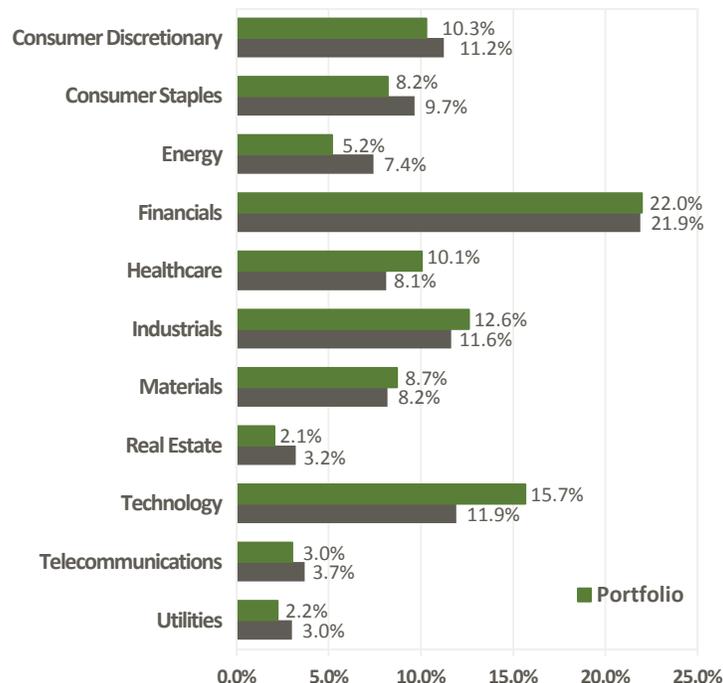
Among our portfolio actions this quarter, we purchased Vonovia, the largest residential real estate company in Germany, focused on providing accessible, affordable, and inclusive housing. The company has delivered consistent earnings growth, operating in a real estate market characterized by a structural shortage of supply and stable demand driven by a robust labor market. Vonovia is refurbishing its buildings to improve energy efficiency and has an above-average corporate governance profile. Trading at 1.3x book value with a 3.2% dividend yield, we find Vonovia a compelling defensive investment. We also purchased Covestro, a German chemical company with a leading position in the consolidated polyurethane and polycarbonate markets. Many of the company's advanced materials are used in clean technology applications, including wind and solar energy and energy-efficient autos and buildings. The company has also set a target to use mainly bio-based feedstock materials by 2025. In our view, Covestro's inexpensive valuation (12% Free Cash Flow yield) overly discounts a potential cyclical softening.

During the quarter, we sold Israeli cyber security company Check Point Software. In our opinion, persistent market share losses diminish Check Point's long-term growth prospects. We also sold Japanese pharmaceutical company Astellas based on increasing generic and branded competition for its most important product. Patent expirations will pressure some of Astellas' other key drugs and the company's pipeline appears insufficient to offset top-line headwinds.

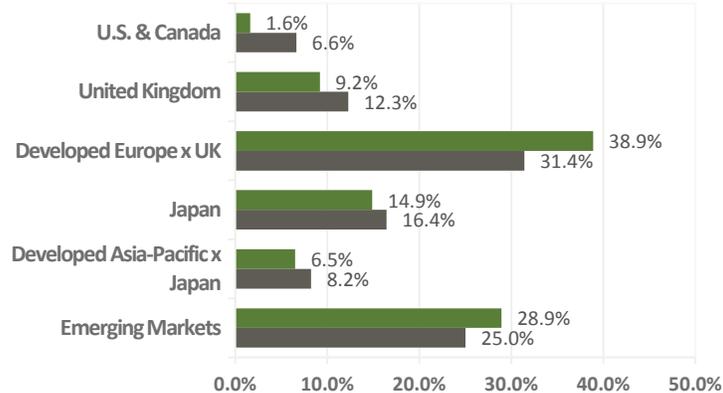
ECONOMIC & MARKET OUTLOOK

Europe and Japan are projected to average low- to mid-single-digit economic growth over the next two years. A broadening trade dispute is a rising risk to the market, but we believe material trade-related damage is still an unlikely scenario. We expect global supply chains will deter policymakers from excessive tariffs, since taxing foreign intermediate goods may ultimately hurt domestic producers. Asia Pacific and Emerging Markets face short-term challenges from higher US short-term interest rates and a stronger Dollar but offer appealing long-term growth opportunities. The Japanese market has positive idiosyncratic attributes, including a stable and supportive policy framework, improving corporate governance, and beneficial leverage to a depreciating Yen. International equities appear to offer a favorable balance between fundamentals and valuation. The MSCI ACWIUS is trading at a 13x forward earnings, a nearly 10% discount to its 20-year average. The Index projected earnings growth is 8% and has a 3.4% dividend yield.

SECTOR ALLOCATION



REGIONAL ALLOCATION



PORTFOLIO CHARACTERISTICS

	BOSTON COMMON	MSCI ACWIXUS
# HOLDINGS	70	2,154
Valuation		
Next 12m Price to Earnings	15.2	12.9
Price to Book Value	2.6	1.7
Price to Sales	2.0	1.2
Dividend Yield	2.1%	3.0%
Growth		
5yr Sales Growth	3.6%	0.2%
5yr EPS Growth	10.2%	5.9%
Risk		
Wtd Avg Mkt Cap	66,620	68,537
LT Debt/Cap	25.8%	31.0%
Beta	1.03	1.00

All Country International Strategy Update

Second Quarter, 2018

Our portfolios have higher growth prospects and trade at slightly higher multiples. We favor the industrial cyclical sectors compared to the Index, especially semiconductors, energy efficient industrial equipment, and green chemicals. In contrast, we are underweight Energy and Consumer Discretionary, wary of long-term disruption from electric vehicles and ecommerce. Our focus on high-quality financial and ESG leaders should balance our pro-cyclical positioning, but we are prepared to implement changes if we perceive deteriorating investment conditions.

Europe

Last year, centrist Emmanuel Macron's election in France was a key catalyst for the European market's strong recovery. This spring, political uncertainty has again disturbed economic and market sentiment. In Italy, the coalition of left (Five Star Movement) and right (Lega) populist parties filled cabinet posts with Eurosceptics, politicians who distrust Europe's collective institutions, including the monetary union. In our view, broad popular support for the Euro is the most important basis for the continent's integrated future, and recent polls show that two-thirds of Italians want the country to remain in the Eurozone. Despite political distractions, the Eurozone labor market continues to heal, with hourly wage growth reaching a five-year high in the first quarter. In France and Germany, average real wages are over 10% above 2007 levels, approximately twice the raise the average US worker has experienced. The UK, on the other hand, has seen a 2.6% contraction of average real wages over the past 10 years, slightly worse than Italy's 2.0% decline. Stagnant living standards for the middle class and rising inequality seem to prime a population for anti-establishment, populist rhetoric.

In the UK, domestic debate has delayed constructive progress towards an exit from the European Union, demonstrating the challenges and costs of economic separation. We are concerned that the UK faces more friction ahead and consequently remain underweight that market. We are overweight Europe ex. UK, especially the Healthcare, Materials, and Technology sectors, based on favorable earnings prospects and our view that political risks are overly discounted in attractive valuations.

Japan

Over the past few years, we have increased our allocation to Japan as its stable leadership implements creative pro-growth policies and the corporate profit outlook improves. Extraordinary monetary stimulus is targeting 2.0% core inflation, which has stubbornly persisted below 1.0%. The Bank of Japan's stance is likely to stand out as other central banks end bond purchases and raise interest rates. The monetary policy differential should weaken the Yen, helping Japan's export-oriented market.

While Japan's shrinking population limits its productive capacity, policymakers have been pushing to utilize existing resources more effectively. Female labor force participation has expanded dramatically, and now the country is softening its immigration requirements. The government recently announced new five-year permits for guest workers to ease labor shortages; the unemployment rate is currently 2.2%.

NEW & CLOSED POSITIONS

CLOSED	SECTOR	% OF PORT.
ASTELLAS PHARMA INC	Healthcare	1.4%
CHECK POINT SOFTWARE TECH LTD ORD	Technology	1.2%
VEOLIA ENVIRONNEMENT	Utilities	1.0%
TOTAL CLOSED		3.5%

NEW	SECTOR	% OF PORT.
COVESTRO ASG	Materials	1.0%
SUNDRUG CO LTD	Consumer Staples	1.0%
VONOVIA SE	Real Estate	1.0%
TOTAL NEW		3.0%

COMPANY SPOTLIGHT: HOYA

Company Profile

Based in Tokyo, Hoya's Technology division (33% of sales, 55% of profits) includes the production of hard disk drive glass substrates, camera lenses, and semiconductor masks & blanks. The Life Care division (66% of sales, 45% of profits) involves manufacturing eyeglass lenses and endoscopes as well as operating contact lens stores in Japan. Geographically, revenues are split among Asia/Pacific (52%), Americas (21%), Europe (20%), and Africa/Middle East (7%).

Hoya has partnered with the non-profit organization OneDollarGlasses to offer glasses to children and adults in the developing world living on less than \$1 per day. In addition to the positive social aspects of the majority of its products, Hoya has been investing to improve the environmental efficiency of its operations. Actions include promoting industrial waste recycling and establishing a 5% carbon emissions reduction goal by 2020 based on a 2014 benchmark.

ESG Integrated Investment Thesis

Hoya has been a historically well-managed company with varied end markets offering stable sales and profitability (Technology) as well as attractive growth opportunities (Life Care). The company is the second largest producer of eyeglass lenses in the world, a consolidated industry with strong underlying demand and clear social benefits - improving the quality of life of an aging population. While the eyeglass lens pricing environment may come under pressure, Hoya has been able to improve profitability by expanding its presence in the Americas and by shifting its focus towards more profitable specialty lenses. Within Hoya's technology business, a key driver has been the sale of photomasks and blanks, which are integral to the R&D and mass production of semiconductor chips. Among Japanese peers, the company's management stands out for its diversity, its disciplined acquisitions and divestitures, and its relatively high dividends and share buybacks. Hoya's valuation appears attractive given our favorable fundamental outlook for the business.

All Country International Strategy Update

Second Quarter, 2018

Policy initiatives have been complemented by improvements in corporate profitability and governance: operating efficiencies, more shareholder-friendly capital allocation, more independent members on Boards, and unwinding conflicts of interest. Based on these appealing trends, as well as inexpensive valuations compared to history and global peers, we have a historically high allocation to Japan. Nearly half of our Japanese exposure is in the Industrials, Consumer Staples, and Technology sectors.

Asia Pacific & Emerging Markets

Emerging Market currencies and equities have been pressured by interrelated factors. Higher US interest rates have sparked capital outflows and resulted in an appreciating Dollar.

Some central banks are responding to foreign exchange market pressures by raising their own interest rates, but that can have a negative effect on growth. Risk aversion related to US trade disputes with China and Mexico has exacerbated cyclical headwinds.

China's shift away from debt-financed property development towards consumption and services is timely, since it has the added benefit of reducing its exposure to global trade. In our view, China is capable of navigating trade negotiations given its \$3 trillion of foreign exchange reserves and its vast economic controls. Asia Pacific and Emerging Markets include a diverse set of countries with different near-term risks and opportunities. We mostly find attractive sustainable growth companies clustered in the Emerging Markets consumer and financial segments, and our portfolios are thus overweight the region.

Shareholder Engagement Highlights

Milestones

Lobbying Disclosure & Climate Change: Boston Common's [resolutions on Lobbying Disclosure](#) at **American Water Works (40.3% in favor)** and **Verizon Communications (36.3% in favor)** received strong support from shareholders at their respective Annual meetings in May. **The UN Principles for Responsible Investment (PRI)** launched a new publication, "[Converging on Climate Lobbying: Aligning Corporate Practice](#)" with Investor Expectations, which features Boston Common's case study on Lobbying in the banking sector.

Climate Change: ConocoPhillips became one of the **first major US energy companies to publicly support** many of the recommendations of the **Task Force on Climate Related Financial Disclosure**. Boston Common is leading the investor initiative with ConocoPhillips in the **Climate Action 100+** global collaborative engagement.

Work in Progress

Conflict Minerals & Child Labor: Boston Common led an investor call with **Microsoft on cobalt sourcing and child labor in the Congo**. The company is mapping participants in its cobalt supply chain (smelters, traders, mine sites, and battery suppliers). As a result of Microsoft's on-the-ground work with Pact, a nonprofit, on the **Children out of Mining program** in the Katanga region of the DRC, Pact has seen a reduction in the use of child labor between 77% to 97% since 2015. Microsoft committed to expand the program to a new region with a further three year financial commitment to Pact.

Banks & Climate Change: In our [Banking on a Low-Carbon Future](#) initiative, we engaged **JPMorgan Chase, Morgan Stanley, PNC Financial** and **TD Bank** this quarter. TD is using the UN Environment Programme Finance Initiative **Taskforce on Climate-related Financial Disclosures (TCFD)** to inform its own approach to climate risk, as well as with its high-emissions clients. **PNC Financial** provided further insights into its **integrated governance approach to environmental and social risk** due diligence across its lending activities. PNC expanded analysis of key emerging threats and opportunities to include adoption of **electric vehicles, emergence of alternative energy, and stranded assets**.

Human Rights of Indigenous People: We sent an investor letter to the **Equator Principles Association** advocating for the **rights of Indigenous Peoples** and asking the Association to consult with Indigenous Peoples in the revision of the Equator Principles. Last October, the **Association of over 90 banks globally committed to revise its policies on Indigenous Peoples in response to the Dakota Access Pipeline controversy and a Boston Common-led global investor engagement**.

New Initiatives

Gun Violence: Boston Common joined a coalition of 44 investors to [engage 20 banks](#) that recently **provided direct financing to firearms manufacturers or are involved in credit merchant processing**. We are urging banks to **prohibit lending or the use of credit cards/payment systems to gun manufacturers that sell, produce, or design specific weapons or ammunition** -as well as those that do not support federal universal background checks and/or endorse the Sandy Hook Principles. Boston Common is leading the outreach with **PNC Financial** and **JPMorgan Chase** and participated in dialogues with **Morgan Stanley** and **Visa**. Other portfolio companies include **Barclays, TD Bank, and US Bank**.

Past performance does not guarantee future results. All investments involve risk, including the risk of losing principal. The information in this document should not be considered a recommendation to buy or sell any security. There is no assurance that any securities we discuss will remain in a strategy at the time you receive this document. The securities discussed do not represent a strategy's entire portfolio and may represent only a small portion of a strategy's holdings. It should not be assumed that any securities transactions we discuss were or will prove to be profitable. A different company is selected each quarter to be featured in our Company Spotlight. The company is chosen based on any potential updates to our investment thesis and/or ESG case. Composite returns are presented in U.S. dollars, net of transaction costs, management fees and withholding taxes, with interest and dividends accrued. Returns for periods greater than one year are annualized. This product invests in foreign securities, which are subject to special currency, political and economic risks. The MSCI ACWI ex. U.S. Index is a free-float adjusted, market capitalization weighted index of the largest publicly traded companies listed on the exchanges of developed and emerging market countries around the world, excluding U.S.-based companies. The index is unmanaged and does not incur management fees, transaction costs, or other expenses associated with separately managed accounts. The composition of our composite is different from the composition of these indices because of differences in sector and industry exposure, risk, volatility and holdings. Boston Common claims compliance with Global Investment Performance Standards (GIPS®). For a full listing of Boston Common's composites and to request a GIPS® Compliant presentation, please call the Compliance department at 617-720-5557.