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Emerging Markets Strategy Update

Second Quarter, 2018

INTERNATIONAL MARKET REVIEW

The MSCI Emerging Market Index ("the Index") declined -8.0% in the second quarter. The sell-off in local currency terms was relatively modest, but a strengthening dollar subtracted 4.6% from US investors' returns. Expectations of tighter monetary policy in the US, as well as escalating trade disputes, have served to increase risk aversion toward EM equities. EM Asia (-5.9%) was more resilient, while EMEA (-10.2%) and Latin America (-17.8%) lagged, with currency depreciation accounting for a majority of the decline, -9.9% and -10.6%, respectively.

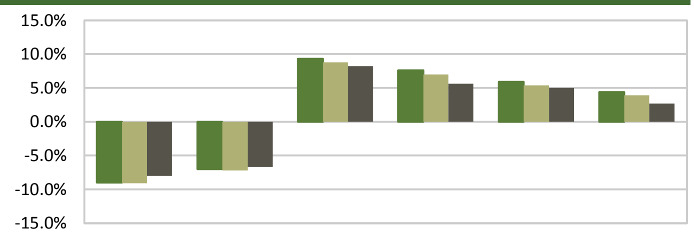
Brazil (-26.4%) was the worst performing country in the second quarter, pressured by political unrest and a truck driver strike that paralyzed the economy. Colombia (+6.7%) led Index performance thanks to the favorable presidential election outcome. Countries with high external funding needs, such as Turkey (-25.9%), have come under significant pressure. Softer economic growth momentum in Europe weighed on Central European countries, including Hungary (-14.4%) and Poland (-11.6%). India (-0.6%) led performance in Asia. China (-3.5%) held up better than the Index, even as recent economic data signaled slower growth momentum and its currency, the RMB, faced downward pressure. The Chinese Central Bank cut the reserve ratio requirement for banks in order to support domestic liquidity. Korea (-9.2%) also declined despite positive developments with North Korea. Southeast Asian countries have lagged, weighed down by currency weakness and global trade concerns: Indonesia (-12.5%), Thailand (-15.0%), and Malaysia (-11.4%).

All sectors declined in the second quarter. Trade tensions and rising risk aversion struck the Financials (-12.7%) and Real Estate (-11.2%) sectors, the worst performing in the Index. Energy (-4.7%) and Materials (-5.5%) were among the best performing sectors as oil prices moved higher on tight supply estimates. Information Technology (-5.1%) also fared better, supported by resilient earnings. Healthcare (-5.1%) and Consumer Staples (-6.2%) outperformed the Index thanks to their defensive nature.

PORTFOLIO REVIEW

The Boston Common Sustainable Emerging Market Equity strategy returned -9.0% during the quarter, before fees, lagging the Index. Stock selection in the Utilities sector was the largest positive contributor. Chinese natural gas distributor ENN Energy (+9.6%) benefited from strong demand as consumers and businesses shift away from coal. Consumer Staples was a positive contributor, driven by the continued expansion of Korean cosmetics company LG Household & Health (+7.3%). From a country perspective, stock selection in South Africa and India helped performance. Key contributors included South African Internet company Naspers (+2.9%), Indian software company Infosys (+12.3%), and Indian HDFC Bank (+6.5%).

PERFORMANCE



	QTD	YTD	1Yr	3Yr	5Yr	Since Inception*
Gross	-9.0%	-7.0%	9.3%	7.6%	5.9%	4.4%
Net	-9.1%	-7.2%	8.8%	7.0%	5.4%	3.9%
MSCI EM	-8.0%	-6.7%	8.2%	5.6%	5.0%	2.7%

CONTRIBUTORS & DETRACTORS

TOP 10	% OF CAPITAL	RETURN	RELATIVE CONTRIB.	SECTOR
NASPERS	5.2%	2.9%	0.59%	Consumer Discretionary
ALIBABA GROUP HOLDINGS	5.4%	2.4%	0.51%	Technology
LG HOUSEHOLD & HEALTH CARE	2.6%	7.3%	0.40%	Consumer Staples
ENN ENERGY HOLDINGS LTD	2.3%	9.6%	0.40%	Utilities
HDFC BANK	2.8%	6.5%	0.40%	Financials
INFOSYS LTD	1.6%	12.3%	0.35%	Technology
SOCIEDAD QUIMICA MINERA DE C	2.1%	0.1%	0.25%	Materials
SUNNY OPTICAL TECH	2.5%	2.2%	0.24%	Technology
CTRIP COM INTL	1.7%	3.2%	0.18%	Consumer Discretionary
BANK OF COMMUNICATIONS CO	3.0%	-2.9%	0.15%	Financials
			3.46%	

BOTTOM 10	% OF CAPITAL	RETURN	RELATIVE CONTRIB.	SECTOR
ITAU UNIBANCO HLDG SA	2.9%	-33.2%	-0.87%	Financials
PTT GLOBAL CHEMICAL PCL-NVDR	2.5%	-26.9%	-0.49%	Materials
BANK RAKYAT	2.5%	-23.4%	-0.46%	Financials
VIPSHOP HLDGS LTD	1.4%	-34.1%	-0.43%	Consumer Discretionary
ULTRAPAR PARTICPAC	0.7%	-41.7%	-0.37%	Energy
SBERBANK RUSSIA	2.3%	-19.6%	-0.33%	Financials
STANDARD BK GR LTD	2.0%	-22.5%	-0.31%	Financials
HYPERA SA	0.9%	-32.9%	-0.27%	Healthcare
GROWTHPOINT PROPERTIES	2.2%	-19.0%	-0.25%	Real Estate
TAIWAN SEMICONDUCTOR MFG	4.9%	-13.0%	-0.25%	Technology
			-4.02%	

Chilean lithium producer SQM (+0.1%) also boosted performance in Chile. Other notable contributors include Chinese Internet company Alibaba Group (+2.4%), technology company Sunny Optical (+2.2%), and online travel provider Ctrip (+3.2%). Stock selection in Financials was a significant detractor. Itaú Unibanco (-33.2%) in Brazil and Bank Rakyat (-23.4%) in Indonesia struggled in the face of sharp currency depreciation and deteriorating investor sentiment. Our holdings in the Energy and Materials sectors were another drag on performance. Brazilian refiner Ultrapar (-41.7%) sold off on rising competitive concerns. Weaker-than-expected earnings weighed on Thai petrochemical company PTT Global Chemical (-26.9%). The Healthcare sector also detracted from relative results.

*Since Inception: December 31, 2012

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The Healthcare sector also detracted from relative results. Brazilian consumer health company Hypera (-32.9%) suffered due to regulatory pressures. From a country perspective, stock selection in Taiwan hurt performance. Electronics and semiconductor suppliers Delta Electronics (-19.8%) and Taiwan Semiconductor (-13.0%) were weak due to concerns about a potential global slowdown. Our exposure to Russia also detracted from relative results: Sberbank (-19.6%) and Yandex (-8.9%) were affected by new US sanctions on Russian individuals.

PORTFOLIO ACTIVITY

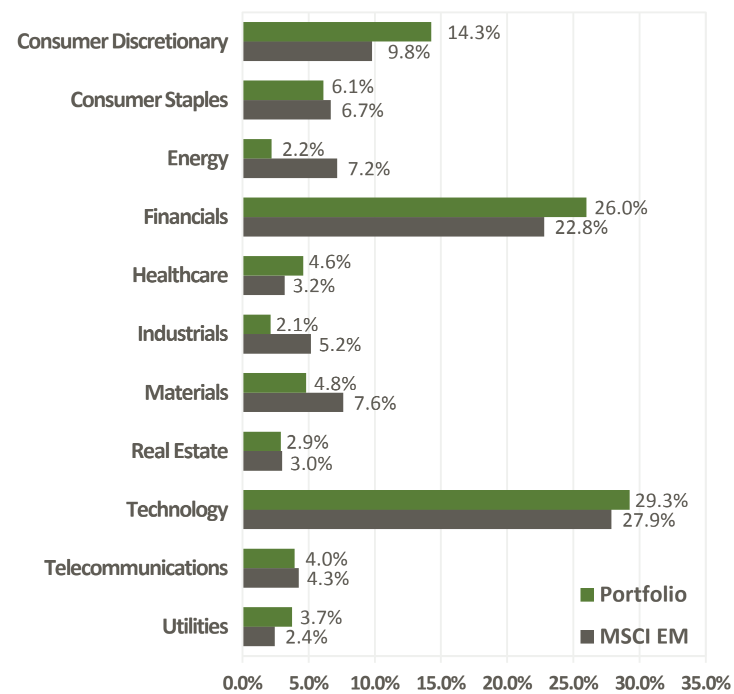
Among our portfolio actions this quarter, we purchased New Oriental Education & Technology Group (EDU), the largest private education service provider in China, with exposure to K-12 tutoring, test preparation, language training, and online education. We see strong structural growth in the Chinese private education market driven by favorable demographics and a growing middle class willing to invest in their children's education. As one of the industry leaders, EDU should benefit from this structural growth. After accelerated capacity expansion over the past two years, we expect the company to deliver strong earnings growth thanks to improving utilization rates. Investor sentiment deteriorated after recent regulation tightening, which offered an attractive buying opportunity. In addition, we added to Airtac, an industrial automation solutions provider based in Taiwan. We have a favorable outlook on the secular demand for factory automation across various industries. The stock is trading at 15x forward earnings, which looks compelling considering its scope for double-digit growth over the next three years. We sold Turkish bank Akbank this quarter after becoming less confident about its earnings outlook given a weaker lira and rising external financing costs. We reinvested most of the proceeds into Southeast Asian banks that we feel have stronger franchises and better long-term growth prospects. We also sold Brazilian energy company Ultrapar, as we became increasingly concerned about competitive pressures and its weak margin outlook. We used the proceeds to add to several domestically oriented consumer health companies with better business fundamentals and valuations.

ECONOMIC & MARKET OUTLOOK

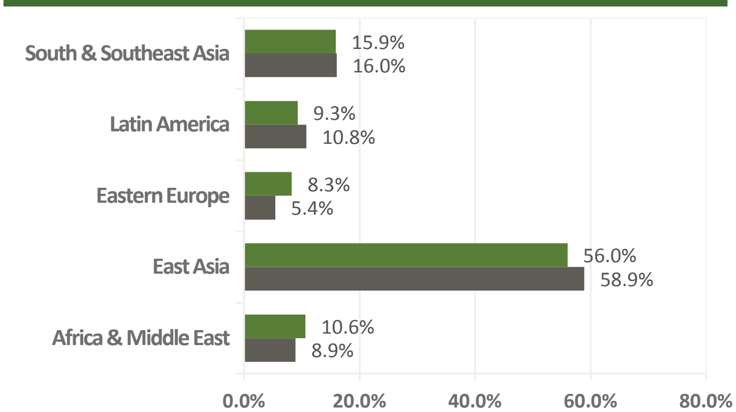
After a very strong recovery in 2017, growth momentum in EM economies has eased modestly but still remains healthy. As a group, EM is projected to grow twice as fast as the developed markets in 2018 and 2019, at 4.5% and 4.7% (vs 2.2% and 2.0%), respectively. A broadening trade dispute is a rising risk to the market, but we believe material trade-related damage is still an unlikely scenario. Expectations for higher short-term interest rates and a stronger US Dollar historically present headwinds for Emerging Markets, particularly for those EM economies with high reliance on external financing and elevated macro imbalances.

However, in our view, EM as an asset class includes a diverse set of countries that should allow for more differentiation among countries than assumed blanket pessimism. On balance, we believe EM economies are in a better position than they were during the 2013 'Taper Tantrum'. Meanwhile, bottom-up earnings growth expectations are holding steady at 18%. Absent a full-blown trade war, emerging market equities appear to offer a favorable balance between fundamentals and valuation. The Index is now trading at 1.5x price-to-trailing book, a 33% discount to the Developed Markets Index, while both offer similar return-on-equity of 12%.

SECTOR ALLOCATION



SUB-REGIONAL ALLOCATION



PORTFOLIO CHARACTERISTICS

	BOSTON COMMON	MSCI EM
# HOLDINGS	49	1,138
Valuation		
Next 12m Price to Earnings	13.6	11.2
Price to Book Value	2.3	1.7
Price to Sales	2.0	1.3
Dividend Yield	2.1%	2.4%
Growth		
5yr Sales Growth	6.1%	6.4%
5yr EPS Growth	11.4%	10.4%
Risk		
Wtd Avg Mkt Cap	94,352	95,699
LT Debt/Cap	23.7%	20.9%
Beta	1.07	1.00

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Our portfolio remains cyclically positioned with a bias towards sectors that should benefit from strong domestic demand and an overweight in Financials and Consumer Discretionary. 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.

Asia

Growth momentum in China has moderated in recent months, a direct result of the Chinese government's self-inflicted deleveraging efforts to slow down shadow financing and reduce excess industrial capacity. We are seeing some early but encouraging progress: corporate debt levels have started to stabilize, which should help alleviate a major source of risk for China. In addition, the government is expected to finalize an income tax cut plan in the fall, continuing its efforts to boost consumption and reduce inequality.

China's shift away from debt-financed investment growth towards consumption and services is timely, since it has the added benefit of reducing its dependence on exports. Indeed, its service economy is now the largest contributor to GDP, supported by high-single-digit income growth over the past decade. As of July 6th, China faces a new 25% tariff on $34 billion worth of goods: mostly mechanical and electronic parts, machinery, and transport equipment. The majority of these exports are manufactured by foreign-invested firms operating in China. We expect integrated global supply chains will deter policymakers from excessive tariffs, since taxing foreign intermediate goods may ultimately hurt home-country producers. The range of outcomes of the tariff dispute is wide, largely dependent on the Trump administration's strategic goals and China's policy responses. In our view, China is capable of navigating the trade negotiations given its $3 trillion of foreign exchange reserves and its vast economic controls.

The fear of a 2013 Taper Tantrum-type episode – rising US interest rates, a stronger dollar, and worsening current account balances – as well as trade-war concerns have led to an indiscriminate sell-off of Southeast Asian currencies and equities. Those countries with high levels of foreign asset ownership, such as Indonesia, are especially sensitive to foreign capital outflows. Some of the region's central banks have responded by pre-emptively raising their own interest rates, likely creating downward pressure on growth. At the same time, countries such as Indonesia and Thailand have significantly strengthened their economic position compared to 2013, with improving current account balances and higher Foreign Exchange reserves. In our view, the region's long-term growth potential remains intact, supported by favorable demographics and stable political outlook. Our portfolio has an overweight in the region. We have added to companies that have strong fundamental profiles but were caught up in the currency volatility.

Europe, the Middle East and Africa ("EMEA")

We expect strong oil prices to provide cyclical tailwinds for Russia's earnings growth. The Ruble plummeted over -10% following the imposition of new US sanctions on Russian individuals in early April. However, the impact on both growth and inflation outlooks appears to be rather muted.

NEW & CLOSED POSITIONS

CLOSED	SECTOR	% OF PORT.
AKBANK T.A.S.	Financials	1.0%
ULTRAPAR PARTICPAC-SPON ADR	Energy	1.1%
TOTAL CLOSED		**2.1%**

NEW	SECTOR	% OF PORT.
NEW ORIENTAL ED & TECH GRP INC SPON ADR	Consumer Discretionary	1.1%
TOTAL NEW		**1.1%**

COMPANY SPOTLIGHT: HDFC BANK

Company Profile

With almost Rs7.9 trillion in deposits and a customer base of over 43 million, HDFC is one of the largest private banks in India, providing a wide range of financial services to retail and corporate clients. With a market capitalization of over USD 81 billion, the bank ranks among the 20 largest global financial institutions by market cap. HDFC has focused on serving traditionally underbanked populations, especially through the innovative application of technologies such as improved mobile banking. Additionally, the bank's Sustainable Livelihood Initiative fosters community development through initiatives such as financial literacy programs, which have reached almost 60 million participants.

ESG Integrated Investment Thesis

HDFC Bank is one of India's best managed private banks, which in aggregate have been gaining market share from state-owned financial institutions. Within India's rapidly developing banking industry, HDFC stands out for its dominant exposure in the retail space, accounting for ~20% of personal loans and over 50% of all credit card lending. This tilt towards the higher-yielding consumer loans is a driving force behind the bank's strong profitability. HDFC Bank has been improving capital availability for rural communities, which are more likely to be excluded from traditional financial institutions. Through its rural and semi-urban outlets (which represent over half of all physical locations), the bank offers customized loan products to rural consumers and entrepreneurs. Moreover, the company's focus on technology guarantees wide accessibility of banking services through digital platforms. In fact, internet and mobile devices now account for 85% of all HDFC retail transactions, up from a mere 3% 10 years ago. HDFC has been one of the fastest growing global banks in recent years. Revenues in FY2018 grew by nearly 28% while net income grew by over 26%. At the same time, operating efficiencies have continually increased core profitability. Credit quality metrics, such as the non-performing loan ratio, remain healthy due to strong emphasis on analytics, allowing the bank to continue attracting funds at lower rates relative to peers. We find current valuations justified given the bank's leading exposure to the Indian consumer market, recent expansion within the corporate lending space, and overall long-term growth prospects.

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While we are mindful of the structural growth constraints, we view Russia as a market with relatively low economic vulnerability, given its rising current account surplus and prudent central bank policy. In contrast, we remain cautious on Turkey despite the recent correction. Rising dollar-denominated debt and a deteriorating current account deficit make the Turkish economy particularly vulnerable to higher interest rates. In our view, the increasingly autocratic regime may threaten the monetary and economic stability of the country.

Latin America

The economic recovery in Brazil remains lackluster. The recent truck drivers' strike highlighted the government's challenges in pushing through much-needed fiscal reforms.

We expect political uncertainty to continue to intensify as we approach the October election. In Mexico, Andres Manuel Lopez Obrador (AMLO) ushers in a new era for Mexico with a landslide election victory on July 1st. AMLO is a populist candidate with a progressive leftist platform. Near term, we see some assurances that he will avoid excessive encroachment on private-sector activities and adhere to promises of fiscal discipline. While we are mindful of the potential disruption from NAFTA negotiations and medium-term policy uncertainty, we believe that current valuation levels reflected excessive pessimism and therefore added to Mexico prior to the election.

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**.