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US Large-Cap Core Strategy Update

Second Quarter, 2018

US MARKET & PORTFOLIO REVIEW

The S&P 500 Index (the "Index") rose +3.4% during the second quarter, resuming the trend of positive quarterly returns after posting a small decline last quarter. Broad macroeconomic indicators remain largely upbeat for the US economy. As we exited the quarter, volatility was on the rise with rhetoric around the terms of global trade, rising oil prices, and a flattening yield curve appearing to impact market sentiment. In June, the Federal Reserve (Fed) raised short-term interest rates by 25 basis points for the second time this year. The 10-year Treasury has not followed suit, however, rising just slightly to end at 2.85% on June 30th.

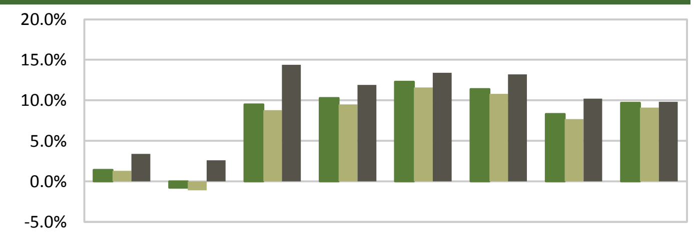
This quarter, the Energy (+13.5%) sector was the best performer, as oil prices moved above $70 a barrel. The Consumer Discretionary (+8.2%) and Information Technology (+7.1%) sectors benefited from secular trends based on all things Internet, from online shopping to cloud-based software. The Real Estate (+6.2%) and Utilities (3.8%) sectors were beneficiaries of a flattening yield curve. In Healthcare (+3.1%), the sector experienced strength in the more economically sensitive equipment companies as well as healthcare providers. Changing investor sentiment with growing concerns around trade tariffs and the strong Dollar impacted the more globally-focused sectors like Materials (+2.6%), Consumer Staples (-1.5%), and Industrials (-3.2%). The Financials (-3.1%) sector struggled even as the results from the Federal Reserve's most recent stress test suggest opportunity for future increases in dividend payouts. This quarter, Boston Common's Tax-Exempt US Large-Cap Core account composite lagged the Index. Relative performance was affected by a few developments.

Strong absolute performance from two names that we did not own: Amazon increased +17.4% and Netflix jumped +32.5%. These two stocks are large components of the S&P 500 and were such "high flyers" that we could not keep up, even though other portfolio holdings in the Consumer space, such as Home Depot and Costco Wholesale, had double-digit returns!

Significant underweight to this quarter's top performing sector: Our long-term underweight to Energy detracted from results. However, many of our holdings kept pace with sector returns helped by Houston-based EOG Resources, a top performer.

Specific stock setbacks, influenced in part by larger macro factors including rising oil prices, growing concerns regarding a "trade war," and a stronger Dollar, impacted portfolio performance. For example, as oil prices rose, domestic air carrier Southwest and cruise operator Royal Caribbean performed poorly. However, we believe that improvements in their respective business models will enable them to weather these higher costs.

PERFORMANCE



	QTD	YTD	1Yr	3Yr	5Yr	7Yr	10Yr	Since Inception*
Gross	1.4%	-0.8%	9.5%	10.3%	12.3%	11.4%	8.3%	9.7%
Net	1.3%	-1.1%	8.8%	9.5%	11.6%	10.8%	7.7%	9.1%
S&P 500	3.4%	2.6%	14.4%	11.9%	13.4%	13.2%	10.2%	9.8%

CONTRIBUTORS & DETRACTORS

TOP 10	% OF CAPITAL	RETURN	RELATIVE CONTRIB.	SECTOR
APPLE INC	6.2%	10.7%	0.46%	Technology
FACEBOOK INC	2.2%	21.6%	0.36%	Technology
EOG RES INC	2.4%	18.4%	0.32%	Energy
MICROSOFT CORP	4.9%	8.5%	0.23%	Technology
ALPHABET INC CAP	4.7%	8.1%	0.21%	Technology
VISA INC	2.8%	10.9%	0.19%	Technology
MERCK & CO INC	1.9%	12.3%	0.15%	Healthcare
HOME DEPOT INC	2.4%	10.1%	0.15%	Consumer Discretionary
UNITEDHEALTH GROUP INC	1.4%	15.1%	0.15%	Healthcare
COSTCO WHSL CORP	1.5%	11.2%	0.11%	Consumer Staples
			2.33%	

BOTTOM 10				
CUMMINS INC	1.6%	-17.4%	-0.35%	Industrials
JPMORGAN CHASE & CO	3.7%	-4.8%	-0.30%	Financials
3M CO	1.6%	-9.9%	-0.22%	Industrials
ROYAL CARIBBEAN CRUISES LTD	1.3%	-11.5%	-0.22%	Consumer Discretionary
APPLIED MATLS INC	1.0%	-14.9%	-0.21%	Technology
BRISTOL MYERS SQUIBB CO	1.1%	-11.9%	-0.19%	Healthcare
SOUTHWEST AIRLS CO	1.1%	-10.9%	-0.19%	Industrials
JOHNSON & JOHNSON	2.3%	-4.6%	-0.19%	Healthcare
COLGATE PALMOLIVE CO	1.1%	-9.1%	-0.18%	Consumer Staples
MORGAN STANLEY	1.1%	-11.6%	-0.18%	Financials
			-2.23%	

Portfolio returns were helped by our long-term overweight to Technology. Facebook rebounded as privacy concerns continued to be addressed and users did not flee their connections to the variety of social media platforms. Other top performers included Apple, Microsoft, and Alphabet. Visa continues to benefit from the move towards a cashless society. Operating efficiencies driven by scale are helping to support increased earnings expectations for UnitedHealth Group. Strong clinical data results were a positive for Merck, a top ten performer, while the same data drew concerns for top ten detractor Bristol Myers' competing drug. Stock selection was a positive for relative results in the more defensive sectors of Telecommunications, Consumer Staples, and Utilities.

*Since Inception: December 31, 2002

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PORTFOLIO ACTIVITY

Portfolio diversification and risk management seem prudent in the current environment of high political uncertainty, despite moderate economic risk. We expect greater volatility as market participants try to assess the risks to individual sectors and companies from several different sources, including aggressive monetary policy and unexpected political risks to growth from trade-related confrontations. There could also be positive surprises, such as slower monetary action from the Federal Reserve in response to global worries. Such inflection points favor stock selection as a large driver of portfolio returns.

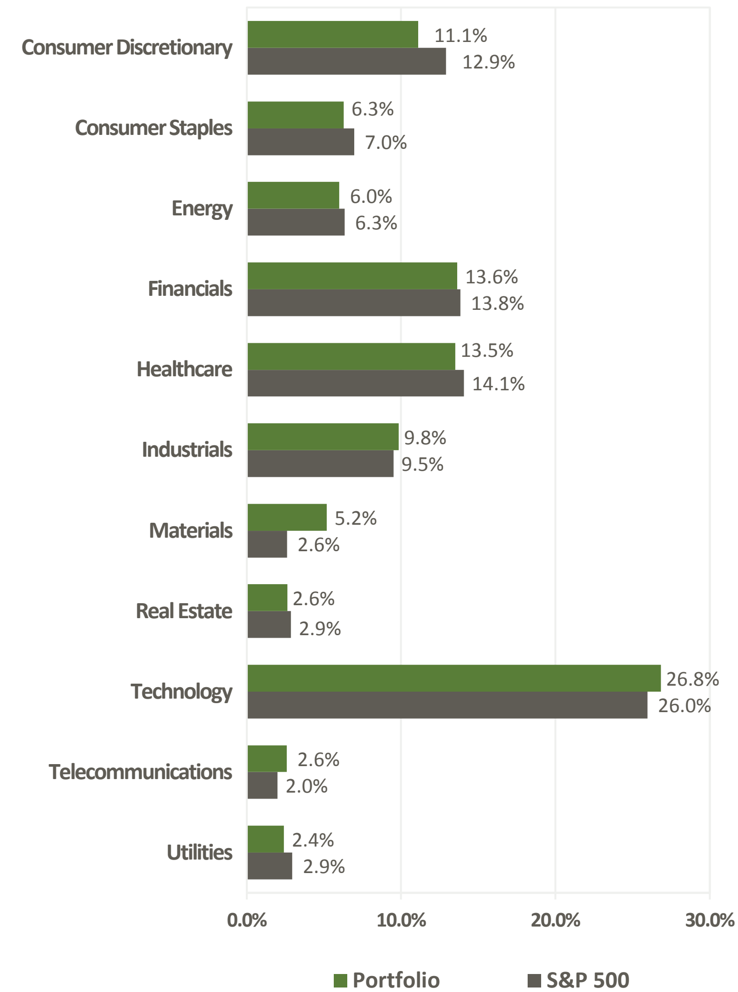
Earnings continue to rise, keeping valuations within a reasonable level. At 16x next-12-months earnings, the S&P 500 remains at levels in line with the past few years, reflecting the sense that we are later in the economic cycle. We have also seen a narrowing in market leadership, with appreciation coming from a small group of large-cap, technology-driven names; this is unlikely to continue. We retain a bi-modal portfolio, balanced between cyclical exposure and defensive sectors, ready for pessimistic as well as optimistic outcomes in the current volatile market environment.

During the quarter we added to both the Energy and Industrials sectors. We reduced our underweight in Energy with the purchase of Equinor. We expect crude prices to remain at elevated levels, as supply appears constrained over the near term. Previously named Statoil, Equinor remains a dominant force in the North Sea gas production. They are a leader among peers in well efficiency and should benefit as a new major field comes on line in the next few years. Longer term, they are diligently expanding their offshore exposure to wind as they look towards 2030.

We added to our weight in Industrials, as the sector sold off on concerns about trade tariffs creating attractive entry points for new positons in HD Supply and Emerson. Emerson has undergone a rebirth from an old-line, broad-based, electrical equipment company to a process and automation solutions company. They have significant exposure to the US energy markets and should benefit from growth in US shale oil and gas. HD Supply is a pure play on infrastructure spending across commercial, residential, and manufacturing. The company has been disciplined in deleveraging the balance sheet after several acquisitions. We see the opportunity for margin expansion to bring the company more in line with peers.

In addition, we continue to make portfolio adjustments in response to opportunities created by attractive valuation or improving fundamentals. In Healthcare, we sold Gilead and redirected funds to Waters, a specialty measurement company with more than half its sales coming from biotech/pharma companies. Waters is significantly levered to the positive trends of drug development & medical research and the growing overall demand for quality medications and food. We took profits in Estee Lauder and exited International Flavors & Fragrances (IFF), whose end markets are dominated by global consumer products companies, disappointed with a recent acquisition for which we felt they paid too high a price.

SECTOR ALLOCATION



PORTFOLIO CHARACTERISTICS

	BOSTON COMMON	S&P 500
# HOLDINGS	62	500
Valuation		
Next 12m Price to Earnings	16.4	16.3
Price to Book Value	3.4	3.3
Price to Sales	3.0	2.2
Dividend Yield	1.6%	2.0%
Growth		
5yr Sales Growth	3.4%	4.2%
5yr EPS Growth	8.8%	8.4%
Risk		
Wtd Avg Mkt Cap	223,383	217,302
LT Debt/Cap	34.4%	44.0%
Beta	1.02	1.00

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ECONOMIC & MARKET OUTLOOK

The US economy is in its second longest expansion in post-1945 history. Consumer spending is steady, and capital expenditures are growing. The large tax cut stimulus package, put in place at the end of last year, is enabling above-trend late-cycle growth. Corporate profits have been supported by synchronized global growth and modest cost pressures, including weak wage growth, and now by lower tax rates. All this reinforces near-term real GDP growth expectations at rates above 3%; and with inflation at 2%, nominal growth will register over 5%.

These positive economic trends are likely to continue for another year, before risks of a slowdown and recession appear. Market participants are therefore charged with assessing when the inflection point in the economy is likely to occur, and more importantly, when asset values might reflect those worries. As things stand today, the year ahead looks relatively positive for the economy; however, a few different factors, including interest rates and the US Dollar, employment and inflation, and the recent ramping up of trade tariff talks, may alter this view.

The Fed continues with its stated policy to raise short-term interest rates, but bond yields at longer maturities have not risen in concert. The gap between the 2-year and 10-year US Treasury bond rates is at a very low level, a point where the flattening yield curve, many analysts worry, could be signaling low demand for credit, slowing economic activity, and an impending recession. We believe the yield curve is a less reliable indicator of domestic economic cycles today than it was in earlier periods when monetary stimulus and global capital flows played a smaller role. Low global yields and stimulative monetary policy have kept US bond yields and real interest rates low for some time now, and the recent rate increases from extremely low levels have not yet kept pace with inflation levels.

The US Dollar has strengthened in recent months, reversing its earlier decline, in part due to political uncertainty in Europe, trade disputes, and expectations for tighter US monetary policy. In the long run, the Dollar's value is vulnerable to the large and growing deficits in the US budget and current account balance. However, its near-term level could be determined by competing pressures, e.g. support from rising short-term interest rates and its role as a "safe haven" currency in turbulent times.

Declining unemployment has not yet led to significant wage increases, although there are early signs that labor shortages and worker mobility may change this. Inflation has risen to the 2% level targeted by the Federal Reserve, though volatile energy costs have played a big part in driving personal consumption expenditures higher. We expect continued economic strength without exceptionally high inflation.

Under this Administration, discussions about tariffs and trade barriers have added uncertainty to the planning process for global corporations. In the recent decades of relatively free trade, global supply chains have become complex and intertwined. Balancing the various new considerations created by recent tariffs could create a wait-and-see attitude, postponing plans for capital spending and hiring.

NEW & CLOSED POSITIONS

CLOSED	SECTOR	% OF PORT.
CHECK POINT SOFTWARE TECH LTD ORD	Technology	1.0%
GILEAD SCIENCES INC COM	Healthcare	1.3%
INTERNATIONAL FLAVORS&FRAGRANC COM	Materials	0.9%
TOTAL CLOSED		**3.3%**

NEW	SECTOR	% OF PORT.
EMERSON ELEC CO COM	Industrials	1.0%
EQUINOR ASA SPONSORED ADR	Energy	1.5%
HD SUPPLY HLDGS INC COM	Industrials	1.0%
UNIVERSAL DISPLAY CORP COM	Technology	0.4%
WATERS CORP COM	Healthcare	1.0%
TOTAL NEW		**4.9%**

COMPANY SPOTLIGHT

ESG Integrated Investment Thesis

Mohawk is a leading manufacturer and distributor of flooring materials, from carpet to tiles to laminates. The company represents a third of the $25 billion US floor covering market, garnering significant market share through organic growth, product innovation, and well-executed M&A. Expanding home sizes and a rebound in home ownership have contributed to industry growth during the extended US economic recovery. The company invests heavily in product innovation and premium features, such as slip-resistant ceramic tile and hardwood-like vinyl. Such innovation has enabled Mohawk to offset the pricing pressure created by growing competition and the rising prominence of home centers.

We consider Mohawk's materials sourcing "best-in-class" from an ESG perspective. Over 50% of the company's finished goods are derived from recycled materials, such as plastic bottles, tires, PVC pipes, and glass. Some products are made from 100% post-consumer recycled PET plastic soda bottles. In fact, the company utilizes 20% of all recycled bottles in the US. Mohawk has a large global operation and is poised to see sales growth from accelerating worldwide demand for its products. Margins can grow through the company's focus on higher-value products, helping to drive low-double-digit earnings growth over the next few years. At 13x next-twelve-months earnings, the company looks attractively valued based on its history and relative to industry peers.

Company Profile

Mohawk Industries, Inc. is the world's largest flooring manufacturer for both residential and commercial end markets. Headquartered in Georgia, the company generated $9.5 bn in sales in 2017 in three segments: Global Ceramic [36% of sales], Flooring North America [42%], and Flooring Rest of World [22%]. The US is the company's largest single market, accounting for 63% of 2017 revenues. Mohawk has made 13 acquisitions over the past five years, including four in 2017.

Mohawk has gradually enhanced the sustainability of its global operations. From 2010 to 2014, a period of significant corporate growth, Mohawk achieved a range of environmental efficiency gains through reductions in energy intensity [11%], water intensity [16%], and waste-to-landfill intensity [13%]. Underscoring this growing commitment was the appointment of a Chief Sustainability Officer in 2014. As a member of the US Department of Energy's Better Plants Program, Mohawk aims for a further 25% reduction of these same metrics by 2020.

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Should tariff talks deteriorate into a trade "war", global corporations could see a more lasting downshift in their earnings potential and uncertainty around their cash flows. This could, in turn, potentially lower the valuation premium attached to multinational companies overall. Longer term, the trend towards isolation and government policy driven solely by internal economic and political considerations could create a potentially unfavorable environment for innovation and global growth. Markets have been relatively sanguine about the timing and magnitude of the trade tensions, yet have reacted quickly to create "winners" and "losers" among individual companies viewed as being in the cross-hairs of the trade war, primarily in metals, agriculture, and global machinery related sub-sectors. The more significant impact longer term would be on the global corporations that make up the major market indices. Some 30% of S&P 500 revenues are globally derived, and global corporations make up a significant share of US market capitalization. We continue to monitor developments.

Looking ahead, we expect market returns to be analogous to economic growth following on the heels of some years in which market growth outpaced economic growth. Much of the good news appears to be reflected in the market value of risk assets, limiting the potential for upside from higher valuations of steady earnings. With the tapering of extraordinary monetary stimulus globally, we expect the high correlation among risk assets to continue to decline.

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**.