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Emerging Markets Strategy Update

Third Quarter, 2018

EMERGING MARKET REVIEW

The MSCI Emerging Market Index ("the Index") declined -1.1% in the third quarter, continuing its underperformance versus Developed Markets. In local currency terms, the Index was flat. Year to date, the US Dollar has strengthened 5% against the basket of EM currencies, accounting for a majority of the EM Index (-7.7%) decline. September has brought a hint of stabilization, with some of the most hard-hit currencies posting gains (Turkish Lira +10.2%, South African Rand +3.5%). Global growth remains healthy overall, but escalating trade tensions, rising US interest rates, and country-specific political risks have fueled volatility in Emerging Markets. In the quarter, Latin America (+4.8%) fared better than EM Asia (-1.8%) and EMEA (-1.6%).

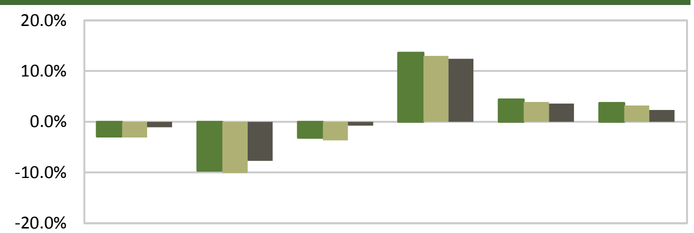
China underperformed (-7.5%), as recent macroeconomic data indicated decelerating growth momentum and the Trump administration levied tariffs on an additional $200 billion worth of Chinese goods. China retaliated with counter measures, and a resolution looks unlikely in the near term. India also came under pressure (-2.3%), as the Indian Rupee weakened amid concerns of rising inflation and a widening trade deficit given stronger oil prices. Thailand was the best performing country this quarter (+13.6%), despite its close integration in the Asian supply chain. Mexico (+6.9%) led performance in Latin America, as political risks took a back seat after the presidential election in July and an agreement with the US on NAFTA negotiations. Turkey (-20.5%) was the weakest performer, driven by ongoing concerns over the independence of the country's central bank and widening macroeconomic imbalances. Elsewhere in the EMEA region, Poland staged a strong rally (+10.6%) and Russia (+6.2%) outperformed, supported by a strong earnings outlook.

Brent crude oil prices posted strong gains (+4.4%) on supply concerns, as the US started to re-impose sanctions on Iran. As a result, Energy (+14.3%) and Materials (+4.1%) were the best performing sectors. Cyclical sectors such as Industrials (+3.1%) and Financials (+1.3%) also outperformed. Domestically oriented Consumer Discretionary (-10.5%) and Healthcare (-7.2%) were the worst performing sectors this quarter.

PORTFOLIO REVIEW

The Boston Common Sustainable Emerging Market Equity strategy declined -2.9% during the quarter, before fees, lagging the Index. Our underweight in Energy, a reflection of ongoing ESG concerns, especially in the area of human rights and environmental impact, was the primary drag on relative performance. Stock selection in Industrials and Consumer Discretionary also weighed on relative returns. Taiwan automation manufacturer Airtac (-29.8%) struggled, as investors became wary of capex investment uncertainties due to trade tensions. VIPS (-42.5%), China's largest online flash-sale retailer, sold off sharply after the company announced slower-than-expected progress in leveraging its newly formed strategic partnerships. Our internet and ecommerce holdings -- Ctrip (-22.0%), Naspers (-15.0%), Alibaba (-11.3%) -- all underperformed despite solid earnings outlooks.

PERFORMANCE



	QTD	YTD	1Yr	3Yr	5Yr	Since Inception*
Gross	-2.9%	-9.7%	-3.2%	13.6%	4.4%	3.7%
Net	-3.1%	-10.1%	-3.7%	13.0%	3.9%	3.2%
MSCI EM	-1.1%	-7.7%	-0.8%	12.4%	3.6%	2.3%

CONTRIBUTORS & DETRACTORS

TOP 10	% OF CAPITAL	RETURN	RELATIVE CONTRIB.	SECTOR
TAIWAN SEMICONDUCTOR MFG	5.4%	20.7%	1.02%	Technology
PING AN INSURANCE GROUP CO	4.2%	11.2%	0.50%	Financials
SK TELECOM LTD	2.1%	19.8%	0.40%	Telecommunications
POLSKIE GORNICTWO NAFTOWE I	2.2%	15.1%	0.34%	Energy
PTT GLOBAL CHEMICAL PCL	2.2%	16.2%	0.34%	Materials
GRUPO FINANCIERO BANORTE	1.7%	21.6%	0.33%	Financials
KASIKORNBANK	2.0%	14.3%	0.29%	Financials
BYD CO LTD	1.4%	18.5%	0.27%	Consumer Discretionary
ITAU UNIBANCO HLDG SA	2.6%	7.6%	0.21%	Financials
DELTA ELECTRONICS INC	0.8%	23.9%	0.19%	Technology
			3.89%	

BOTTOM 10				
SUNNY OPTICAL TECH	1.9%	-38.7%	-0.83%	Technology
NASPERS	5.3%	-15.0%	-0.77%	Consumer Discretionary
ALIBABA GROUP HOLDINGS	5.5%	-11.3%	-0.58%	Technology
VIPSHOP HLDGS LTD	0.9%	-42.5%	-0.48%	Consumer Discretionary
AIRTAC INTERNATIONAL GROUP	1.5%	-29.7%	-0.47%	Industrials
TENCENT HOLDINGS LTD	2.3%	-17.7%	-0.43%	Technology
CTRIP COM INTL	1.6%	-22.0%	-0.38%	Consumer Discretionary
HDFC BANK	2.9%	-10.4%	-0.29%	Financials
NEW ORIENTAL ED & TECH GRP I	1.2%	-20.1%	-0.26%	Consumer Discretionary
GROWTHPOINT PROPERTIES LTD	1.9%	-12.5%	-0.23%	Real Estate
			-4.72%	

*Since Inception: December 31, 2012

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Other notable detractors included Chinese optical manufacturer Sunny Optical (-38.8%), South African REIT Growthpoint Properties (-12.5%), and Indian bank HDFC (-10.4%).

Stock selection in Financials was the largest positive contributor to relative results. Chinese insurance company Ping An (+11.2%) and Thai bank Kasikornbank (+14.3%) saw strong gains as they delivered solid earnings results. Mexican bank Grupo Financiero Banorte (+21.6%) and Brazilian bank Itau Unibanco (+7.6%) rebounded, as investor sentiment improved and currencies stabilized. Stock selection in the Telecommunications and Information Technology sectors was also a source of strength. Taiwan Semiconductor Manufacturing Co. (+20.7%) posted solid gains, as the company continues to win market share thanks to its strong technological leadership. South Korean telecommunications operator SK Telecom (+19.8%) benefited from receding regulation risks and steady earnings. Other notable contributors include Polish oil & gas company Polskie Gornictwo Naftowe (+15.1%), Thai petrochemical company PTT Global chemical (+16.2%), and Chinese electric vehicle and battery manufacturer BYD (+18.5%).

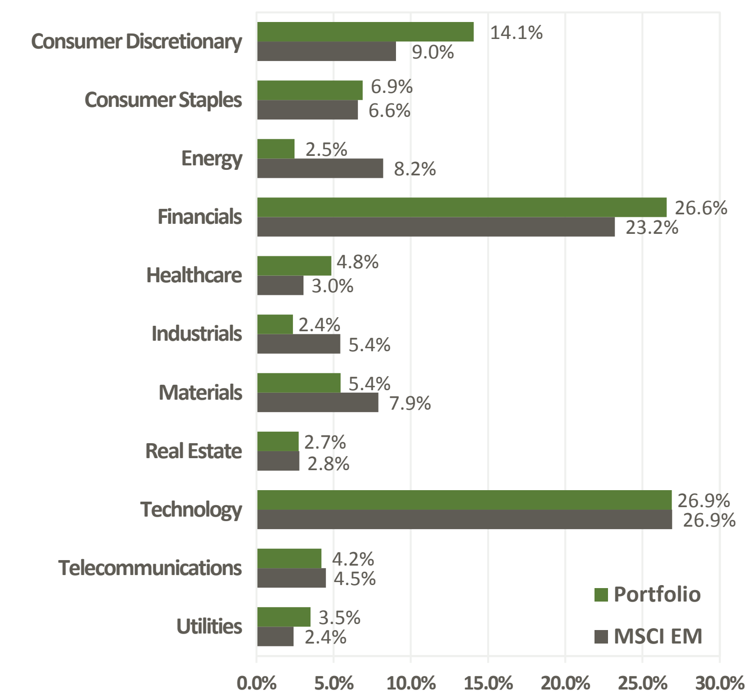
PORTFOLIO ACTIVITY

Among our portfolio actions this quarter, we purchased MakeMyTrip, India's largest online travel agency. Globally, hotel and travel bookings are shifting from offline to online. India is still early in the adoption curve but is progressing rapidly thanks to a growing population of tech-savvy young consumers. With over 60% of market share in online hotel and air ticket bookings, MakeMyTrip is well positioned to benefit from the secular growth of India's domestic travel demands. Combined with a solid balance sheet and strong management, we believe MakeMyTrip offers a very favorable balance between growth potential and below-peer-average valuation.

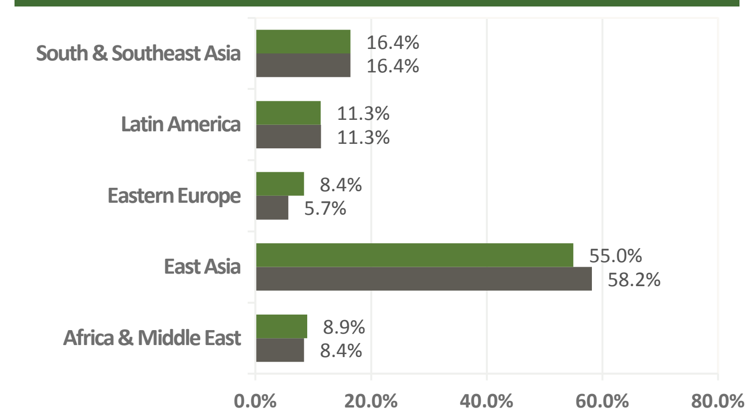
This quarter we also bought Bimbo, a leading global bakery and snack company headquartered in Mexico. In our view, Bimbo is well positioned to benefit from the Mexican recovery and continued category penetration in Emerging Markets, thanks to its scale advantage and strong distribution network. In addition, Bimbo has exhibited upward ESG momentum and ranks in the top quartile of the industry for improving access to nutrition. Bimbo has invested heavily to improve the nutritional profile of its products (e.g. reduce sodium, sugar, saturated fats, and fortifying flour). Valuation is particularly compelling with the company now trading at 8x EV/EBITDA, almost a 30% discount to its peers.

During the quarter, we initiated a position in Huaneng Renewables Corp, one of China's largest wind power generators. We believe the Chinese government's recent policy initiatives on Renewable Portfolio Standard will help push the grid companies to use more renewable power. The heavy infrastructure investment over the past years in ultra-high-voltage lines, which help with long distance power transmission, should boost utilization for Huaneng. After the recent market sell-off, we see an attractive buying opportunity for this higher-quality wind

SECTOR ALLOCATION



SUB-REGIONAL ALLOCATION



PORTFOLIO CHARACTERISTICS

	BOSTON COMMON	MSCI EM
# HOLDINGS	51	1,151
Valuation		
Next 12m Price to Earnings	13.5	11.0
Price to Book Value	2.3	1.6
Price to Sales	2.1	1.3
Dividend Yield	2.3%	2.5%
Growth		
5yr Sales Growth	6.6%	5.5%
5yr EPS Growth	12.5%	9.4%
Risk		
Wtd Avg Mkt Cap	90,550	88,221
LT Debt/Cap	19.7%	20.5%
Beta	1.08	1.00

operator. At the same time, we exited Chinese solar polysilicon manufacturer GCL-Poly. We became more cautious about industry over-supply and pricing power. Instead, we view wind farm operators as offering more attractive business fundamentals.

ECONOMIC & MARKET OUTLOOK

A strong US Dollar is historically a headwind for EM, particularly for those countries with large external financing needs. Near term, the Dollar's appreciation is driven both by the fiscal stimulus of the recent US tax cut and the US Federal Reserve's tightening of monetary policy. In our view a widening twin deficit (fiscal deficit and current account deficit) in the US will ultimately cap the long-term strength of the Dollar. Despite currency fluctuations and EM contagion fears, earnings growth in Emerging Markets appears to be resilient, projected to grow by double-digits over the next two years. While the EM asset class is impacted by capital flows and geopolitical uncertainties in the short term, higher long-term economic growth should ultimately drive prices higher. Trade protectionism remains a key risk to global growth, but so far only the Emerging Markets have borne the brunt of trade-war fears. Considering the faster long-term growth potential, valuation now appears to offer ample margin of safety for investors. At 11.2x forward earnings, Emerging Markets is now trading at a 30% discount relative to Developed Markets, a lower level than seen during the 2008 financial crisis.

The US has agreed to new trade deals with Mexico, Canada, and Korea that mostly retain the status quo. However, the negotiations with China have floundered, increasing the possibility that the conflict could become deeper and more prolonged. Taking a different approach to the Trump administration's increased use of tariffs, China announced tariff reductions on imports from the majority of its trading partners, in an effort to stimulate domestic demand. For years, China has been on a determined path to reduce its reliance on exports to drive economic growth. Indeed, exports as a percentage of Chinese GDP have declined to 18.5% in 2017, down from 35% a decade ago. China is investing heavily in technology; R&D spending is rising faster than in the US. These developments, along with a large population benefiting from rising incomes, make China far less dependent on international trade. The Chinese economy has been slowing as the government works to deleverage the financial system by clamping down on 'shadow banking'. Exacerbated by trade tensions, China could slow further, though with its increased emphasis on domestic demand, does have the financial resources and tools to stimulate its economy.

We closed out the underweight in Latin America, as we believe political risks have lessened. The long-term impact of trade disruptions on global supply chains is far from settled, but Mexico, with NAFTA risks subsiding, may emerge as a beneficiary to any ongoing obstacles experienced by Chinese companies in the US

NEW & CLOSED POSITIONS

CLOSED	SECTOR	% OF PORT.
GCL-POLY ENERGY HOLDINGS LTD	Technology	0.5%
TOTAL CLOSED		**0.5%**

NEW	SECTOR	% OF PORT.
GRUPO BIMBO SAB- SERIES A	Consumer Staples	1.5%
HUANENG RENEWABLES	Utilities	1.0%
MAKEMYTRIP LIMITED MAURITIUS SHS	Consumer Discretionary	1.0%
TOTAL NEW		**3.4%**

COMPANY SPOTLIGHT: LG CHEM

Company Profile

LG Chem is a South Korean chemical company engaged in the manufacturing of basic materials & chemicals (67% of 2017 revenues), batteries (18%), and Information & Electronics components (11%). Geographically, company sales are derived primarily from the Asia Pacific region (85% of sales), with South Korea and China accounting for a significant majority (67%). LG Chem has focused on expanding its clean tech offerings, including lithium-ion batteries and OLED lighting materials, which are expected to account for over 20% of sales by 2020. The company is also quite advanced relative to peers in terms of sustainability, having produced a sustainability report since 2006 and taking on a leadership role in addressing conflict minerals disclosure.

Investment Thesis

LG Chem is a quality chemical company developing strong leadership in electric vehicle (EV) battery technology. The company has utilized the stable cash flow from its specialty petrochemical business to invest heavily in energy solutions technology, such as lithium-ion batteries, energy storage systems, and OLED lighting. With 12% share of the EV battery market and a diversified customer base, the company is strategically positioned to benefit from growing EV demand.

In addition to providing environmental solutions, LG Chem has significantly improved the sustainability of its operations. The IT-based greenhouse gas emission management system allows development of company-level mitigation strategies, a rare step within the industry. After a period of increased investment spending, profitability metrics should improve as rising capacity utilization strengthens the battery business. Given its high free-cash-flow yield and low net debt, coupled with significant earnings potential, LG Chem appears attractively valued. Risks include slower economic growth, lower than expected EV penetration, especially in Europe, and supply chain sourcing.

market. While policy uncertainty remains for the incoming AMLO administration, we see a more favorable outlook in Mexico, especially in domestic consumption, and have increased our exposure. We remain cautious about the secular outlook for commodities but see reasons to expect a tighter supply-demand balance in the near term. We further increased our exposure to the Chilean lithium industry, as higher oil prices should serve as a tailwind for faster electric vehicle penetration.

We remain optimistic about the long-term growth potential in Emerging Markets, and our portfolios have higher exposure to domestic cyclical sectors compared to the Index. This quarter, we further increased our exposure in the Consumer Discretionary sector. In our view, domestic consumer-related companies continue to exhibit dynamic fundamentals, and this recent market sell-off now provides many attractive opportunities for long-term investors. We are mindful of trade protectionist risks and geopolitical uncertainties, and we balance our cyclical exposure with high-quality companies in defensive sectors, such as Consumer Staples and Healthcare.

Shareholder Engagement Highlights

Milestones	**Achieving Impact in Global Equities:** We published our second annual Engagement Impact report, **Achieving Impact in Global Equities**, which details **60 measurable impacts** and improvements in corporate policies, processes, or products in our global engagement efforts in 2017. We also shine a spotlight on our **alignment with the UN Sustainable Development Goals**.
	Lobbying Disclosure: We commended **Verizon Communications** for leaving the **American Legislative Exchange Council (ALEC),** a powerful lobbying group and will now urge Verizon to advance its transparency and accountability by adopting **comprehensive lobbying disclosure**. We called on Verizon to report its direct spending of shareholder resources on lobbying, including its indirect funding and support for ALEC. **Our resolution** at Verizon's May 2018 annual meeting received **strong support from shareholders (36.3% in favor).**
	Climate Change: Standard Chartered published a revised **Position Statement on Power Generation** and acknowledged Boston Common's input and review, which helped inform the company's position.
Work in Progress	**Tax Transparency:** A recent Oxfam America report, "Prescription for Poverty", concluded that some US pharma companies could be using tax havens to avoid paying up to $100 million in taxes every year to numerous Emerging Market countries. Our collaborative engagement focused on responsible tax management and transparency seeks to shine light on this topic. In our role as lead investor, we sent letters to Dr. Reddy's and Johnson & Johnson and will also engage Biogen, GlaxoSmithKline, Microsoft, and Novartis on this issue.
	Advancing Engagement in Emerging Markets: We urged **HDFC**, a bank in India, to recommit to responding to the **CDP** questionnaire in 2018, which aligns with the **Taskforce on Climate-related Financial Disclosures (TCFD**). We are leading an engagement with **Grupo Bimbo** on performance gaps identified in its **Access to Nutrition** policies and practices as part of the **2018 ATNI Global Index**. We met with the managements of South Korean companies to discuss material sustainability issues: With **Coway**, we discussed product safety protocols after nickel was found in its water purification products. With **SK Telecom** we engaged on the rights of users and data security.
New Initiatives	**Banks & Human Rights Due Diligence:** We initiated another layer of dialogue with global banks, intentionally integrating human rights due diligence into our meetings with **Barclays, ING, Morgan Stanley, PNC Financial, Standard Chartered,** and **TD Bank**. We are urging banks to: **address gun violence** and **Indigenous peoples' rights** with fossil fuel projects in the US, apply the **Equator Principles** beyond developing countries, and **respect human rights by adhering to the UN Guiding Principles**. We engage standard setting bodies (e.g. OECD) with the **aim of ensuring the integration of human rights into corporate lending and project finance oversight**. **ING** has one of the most advanced human rights policies supported by formal oversight with a Steering Committee across business lines and a transparent human rights policy.