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US Large-Cap Core Strategy Update

Third Quarter, 2018

US MARKET & PORTFOLIO REVIEW

The S&P 500 Index (the "Index") rose +7.7%, reaching new all-time highs during the third quarter, even as Hurricane Florence came ashore and headlines continued to focus on escalating trade relations and the heightened partisanship of US politics. In September, the Federal Reserve raised interest rates by 25 basis points, the third such hike this year. The 2-year Treasury ended the quarter with a yield of 2.8%, a significant increase from last December's 1.9%. The 10-year Treasury advanced at a slower rate to end the quarter at 3.1%, causing the yield curve to flatten further. US markets, as measured by the S&P 500, were the sole bright spot in the otherwise downbeat global investment markets.

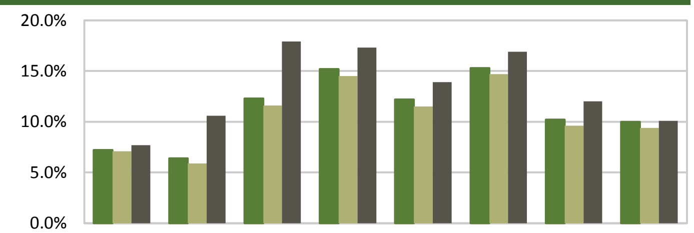
Healthcare (+14.5%) was the strongest sector, reflecting perceptions that rhetoric regarding pricing has diminished as a political issue area. Ongoing confidence in the US economy supported strong returns from the Industrials (+10.0%), Information Technology (+9.1%), and Consumer Discretionary (+8.3%) sectors. The more defensive and interest-rate sensitive sectors lagged, while the commodity-oriented Energy (+0.6%) and Materials (+0.4%) sectors were the weakest.

Boston Common's Tax-Exempt US Core Equity account composite delivered strong absolute returns of 7.2% this quarter, slightly lagging the Index on a relative basis, gross of fees. Over the past few quarters relative performance has been negatively impacted by outsized gains in a few mega-cap stocks we did not own, such as Amazon and Pfizer (both with ESG and business model concerns) and Netflix (valuation concerns). This quarter, the impact was less noticeable, though still present.

Strong absolute performance continues to be dominated by Technology holdings. Secular trends towards all things internet support growth prospects for Apple and Microsoft, ESG leaders and the portfolio's best relative performers. Visa continues to benefit from strong consumer spending and the move to a cashless society, while Universal Display, a recent purchase, dominates technological applications for next-generation LED screens.

Other top performing holdings this quarter were cruise operator Royal Caribbean, auto parts retailer Advanced Auto, and airline operator Southwest Airlines. Buoyed by investor confidence in US consumption growth, these equities rose after earlier declines. Biogen, Merck, and Johnson & Johnson were also top performers, reflecting the strong rebound in Healthcare stocks. After a period of lackluster returns, concerns regarding industry-wide regulation and pricing have receded, and the markets shared our confidence in the attractive valuations and cash flow growth prospects of this sector.

PERFORMANCE



	QTD	YTD	1Yr	3Yr	5Yr	7Yr	10Yr	Since Inception*
Gross	7.2%	6.4%	12.3%	15.2%	12.2%	15.3%	10.2%	10.0%
Net	7.1%	5.9%	11.6%	14.5%	11.5%	14.7%	9.6%	9.4%
S&P 500	7.7%	10.6%	17.9%	17.3%	13.9%	16.9%	12.0%	10.1%

CONTRIBUTORS & DETRACTORS

TOP 10	% OF CAPITAL	RETURN	RELATIVE CONTRIB.	SECTOR
APPLE INC	6.3%	22.4%	0.84%	Technology
MICROSOFT CORP	5.2%	16.4%	0.40%	Technology
ROYAL CARIBBEAN CRUISES	1.3%	26.1%	0.22%	Consumer Discretionary
BIOGEN INC	1.6%	21.7%	0.19%	Healthcare
MERCK & CO INC	2.0%	17.7%	0.18%	Healthcare
ADVANCE AUTO PARTS INC	1.1%	24.1%	0.16%	Consumer Discretionary
VISA INC	2.9%	13.5%	0.15%	Technology
SOUTHWEST AIRLS CO	1.0%	23.1%	0.14%	Industrials
JOHNSON & JOHNSON	2.1%	14.6%	0.13%	Healthcare
UNIVERSAL DISPLAY COR	0.5%	37.2%	0.12%	Technology
			2.53%	

BOTTOM 10				
FACEBOOK INC	2.1%	-15.4%	-0.52%	Technology
MOHAWK INDS INC	1.6%	-18.2%	-0.43%	Consumer Discretionary
CIMAREX ENERGY CO	1.6%	-8.5%	-0.29%	Energy
APPLIED MATLS INC	1.1%	-15.8%	-0.28%	Technology
WEYERHAEUSER CO	1.3%	-10.6%	-0.25%	Real Estate
AVANGRID INC	1.3%	-8.6%	-0.21%	Utilities
ANALOG DEVICES INC	1.7%	-3.1%	-0.18%	Technology
BOOKING HOLDINGS INC	1.7%	-2.1%	-0.17%	Consumer Discretionary
NORTHERN TR CORP	1.6%	-0.2%	-0.12%	Financials
EOG RES INC	2.4%	2.7%	-0.12%	Energy
			-2.57%	

Our relative performance was hurt most by stock selection, especially in the Consumer Discretionary and Healthcare sectors, in which good absolute performance was overshadowed by outsized gains in several large stocks the portfolio did not hold. One exception was flooring company Mohawk, whose leading recycling processes we had profiled in our last quarterly memo. The company reported that near-term cost pressures and its own ambitious expansion plans could hold back earnings more than expected. We were disappointed to see that this guidance set off a sharp decline in the stock price, hurting our relative performance this quarter.

*Since Inception: December 31, 2002

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Interest rate-sensitive sectors such as Real Estate, Financials, and Utilities struggled. Utility holding Avangrid, the country's #2 producer of wind power, and REIT holding Weyerhaeuser, the country's largest steward of timberland, declined this quarter. Company-specific issues were exacerbated by market worries that their respective sectors could lag when interest rates rise. Within Energy, infrastructure bottlenecks created near-term concerns regarding US shale oil and gas production and especially hurt Cimarex, a pure play in the Permian region of Texas and New Mexico.

Several technology holdings, including semiconductor equipment manufacturer Applied Materials and integrated circuits company Analog Devices declined this quarter. Facebook was the worst performing holding, as the company continues to struggle with data and privacy concerns. However, its unique and dominant position within social media is reflected in its ability to maintain user loyalty.

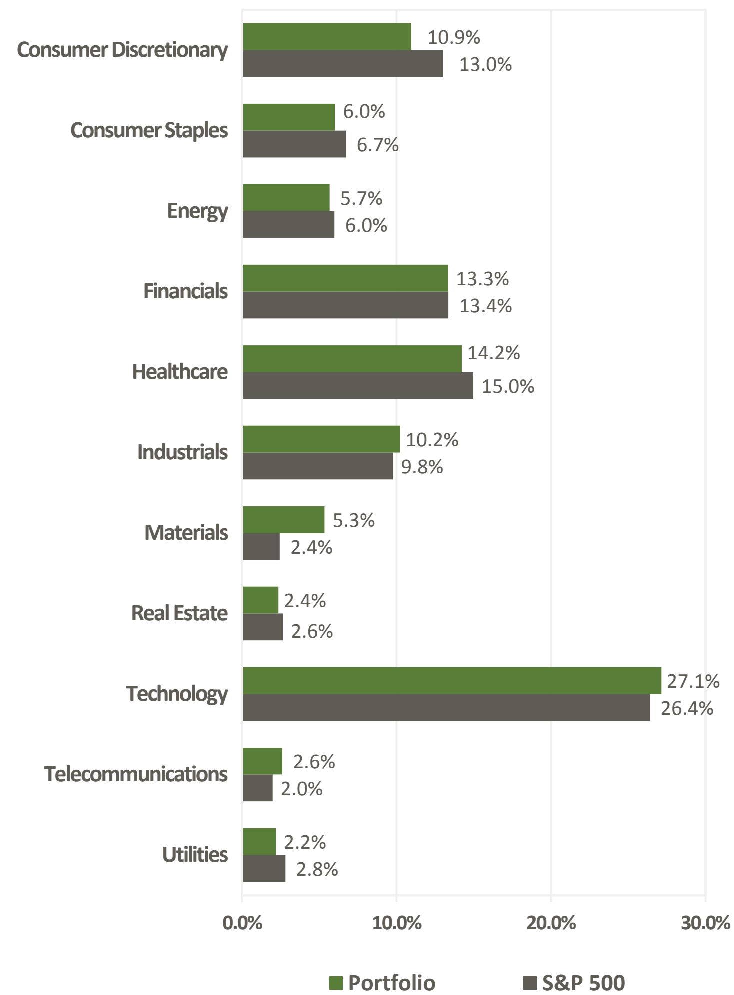
PORTFOLIO ACTIVITY

Eco-Efficiency is one of the overarching themes within the portfolio. We continue to invest in companies that are thinking “circular” with a focus on reducing costs via efficiency, eliminating wastes, and recycling throughout their business model and back through their customers and supply chains. Savings on resources employed, from energy to water and landfill have the potential to boost sustainability and profitability, thereby creating shareholder value. We look for companies like 3M, which recently doubled the energy productivity of some of its US facilities after beta testing the US Department of Energy's 50001 Ready energy management system; or companies that employ large data centers like Verizon, which focus on smart girds or renewable energy to reduce overall greenhouse gas emissions. Supporting companies in their quest for efficiency can provide business opportunities as well: infrastructure financier Hannon Armstrong supports projects targeting energy efficiency, while building materials provider Carlisle expands energy efficiency into roofing technology, and Snap-On enables auto technicians to help their customers reduce vehicle emissions, improve fuel efficiency, and recover and recycle powerful GHG refrigerants.

We remain underweight the Consumer Staples sector, which is struggling with anemic growth and an inability to successfully push through price increases, a key source of past growth. However, during the quarter, we added to our holding in Mondelez. A global confectionary company and one of the few companies in this sector that could experience accelerating top-line growth, Mondelez continues to expand its market presence in Europe and developing markets. Recent earnings reports demonstrate to us that current valuation remains attractive. We trimmed our holding in Estee Lauder. The company benefits from consumer preference for ‘affordable’ luxury, but with ongoing uncertainties around trade tariffs, Chinese consumers' fondness for American brands could be challenged.

The semiconductor industry is undergoing a major transformation. Long regarded as a deeply cyclical member of the capital goods segments of our economy and markets, this industry is now critical to almost every economic sector. Rising technology content in everyday consumer goods, as the Internet and cloud computing permeate all aspects of manufacturing and business, is helping to broaden and deepen demand for semiconductors while also moderating the industry's cyclicality.

SECTOR ALLOCATION



PORTFOLIO CHARACTERISTICS

	BOSTON COMMON	S&P 500
# HOLDINGS	62	500
Valuation		
Next 12m Price to Earnings	16.9	17.0
Price to Book Value	3.6	3.5
Price to Sales	3.0	2.3
Dividend Yield	1.5%	1.9%
Growth		
5yr Sales Growth	4.1%	4.6%
5yr EPS Growth	11.0%	9.4%
Risk		
Wtd Avg Mkt Cap	254,937	247,641
LT Debt/Cap	35.2%	44.1%
Beta	1.01	1.00

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We increased portfolio exposure to semiconductors by adding to our holding in Applied Materials, the manufacturer of equipment for the semiconductor companies. Funds for this came from trimming our position in Apple, slightly reducing our largest holding, and in Oracle, where recent management changes have introduced more uncertainty.

ECONOMIC & MARKET OUTLOOK

In recent quarters, market strength was supported by investor expectations that base line US economic growth would rise, fueled by fiscal stimulus, deregulation, consumption, and global corporate profit growth. Positive sentiment, capital flows, and low interest rates have supported the market's multiples, and volatility has remained subdued despite political risks and rhetoric. With 3Q 2018 GDP expected to touch 4%, some of these components now appear to be less certain. Tariff threats and retaliations could jeopardize economic growth and create uncertainty in business decision-making, thereby changing the trajectory of corporate profits and global growth. At the same time, wage increases and rising energy costs could challenge earnings, while rising interest rates could stifle economic activity.

On balance, we believe economic growth will moderate but continue at a more sustainable 2% level. The relative strength of consumer spending, the driver of two thirds of the US economy, has both positives and negatives. With rates of unemployment now at levels last seen in 1969, wages have finally begun to pick up, particularly at the bottom of the pyramid. High energy and health care costs have taken a toll, however, and higher mortgage rates could dampen housing and related discretionary spending.

Tax changes have incentivized capital spending by effectively creating full deduction of capital purchases in the first year through bonus depreciation. In addition, the cost of borrowing still remains very attractive even after the recent increases in interest rates. Rising wages, labor shortages, and skill mismatches exacerbated by low immigration will propel the trend towards automation and technological use across all sectors, including services. In the medium term, this could keep capital spending high, avoiding the capacity constraints that normally characterize the end of business cycles. In the long run, this may lead to a higher level of productivity and prolonged potential for growth without accelerating inflation.

The Federal Reserve will likely continue to steadily reverse the extreme monetary stance of the post-Crisis era. The Fed's actions have provoked anxiety among investors – each gesture is scrutinized and debated. We believe normalizing monetary policy will give the Fed a more sustainable set of policy options for future action, if needed. However, this transition will inevitably cause stress in several sectors of the economy. At the same time, long-term rates are also rising. This could be viewed as a sign of healing, particularly as the yield curve has not inverted. We expect 10-year bond yields to remain above the psychologically important 3% level, but be range bound, given global capital flows and moderate inflation.

Although the long-term direction of the US Dollar should be lower, anchored by the trade and fiscal deficits, current monetary policy and economic growth could continue to support the currency. Given trade uncertainties, monetary authorities around the world are likely to

NEW & CLOSED POSITIONS

There were no new or closed positions this quarter.

COMPANY SPOTLIGHT: MICROSOFT CORP.

ESG Integrated Investment Thesis

Microsoft Corporation, known for its ubiquitous Windows and Office products, continues to balance its core software business while accessing new avenues for growth. Its cloud business, Azure, has become the number two provider. Leveraging the Windows operating system, Azure can communicate easily with a company's existing infrastructure. Though datacenters are energy intensive, they offer important environmental benefits. Their centralized nature significantly reduces overall energy requirements compared with self-hosted solutions, especially as Microsoft increasingly relies on renewable energy sources.

Microsoft is harnessing its massive customer base to transition to a more profitable Software as a Service (SaaS) model. Additionally, the company is complementing its core products with a suite of business management offerings such as SQL Database, Customer Relations Management, and LinkedIn. With revenue growth accelerating into the mid-teens and earnings growing at a mid-20% annualized rate, the stock appears attractively priced at 15x next-twelve-months EV/EBITDA. Risks include slower cloud services adoption and supply chain sourcing.

Company Profile

A household name, Microsoft Corporation develops and supports software, services, devices, and solutions, with products ranging from operating systems to server applications to personal electronics. The company generated $110 billion in revenues for its fiscal year ending June 2018 within the following segments: More Personal Computing (38% of sales), Productivity and Business Processes (33%), and Intelligent Cloud (29%). Microsoft is pursuing significant energy and emissions reductions throughout its operations, from carbon neutrality since 2012 to 50% renewable energy sourcing by 2018. Externally, Microsoft offers energy efficiency solutions that underpin "smart grid" technology. This allows electric utilities to upgrade outdated systems and support renewable power distribution as well as generate significant energy savings through efficient delivery.

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remain steadily stimulative for some time. The Dollar's rise has been a disinflationary force in the US, keeping energy and import costs lower than they might otherwise be.

We anticipate market volatility, as investors revise downward their expectations of economic growth and corporate earnings. However, we do not expect either recession or runaway inflation or interest rates in the coming year. Barring political risks, the economy should be moderately positive, impressive for a recovery in its tenth year!

We are continually assessing our portfolio holdings, and any unpredictability arising from the market's concerns affords us a chance to make portfolios changes, adding to high-quality companies operating sustainably in growing end markets. We retain a neutral to modestly positive equity position within balanced accounts. We have revisited the shorter-duration, high-quality stance we have held for some time in fixed income portfolios and are holding some cash as we redirect our portfolios.

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.

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