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International Strategy Update

Fourth Quarter, 2018

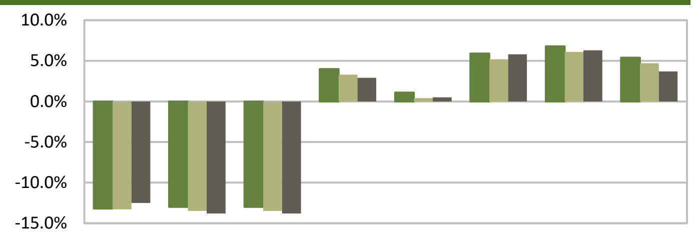
INTERNATIONAL MARKET REVIEW

The MSCI EAFE Index (the "Index") declined -12.5% in the fourth quarter. A combination of slowing global growth, geopolitical uncertainty, and trade tensions dragged down international markets. In local currency terms the Index declined by -12.2%, as a strengthening US Dollar subtracted -0.3% from US investor returns. The Yen (+3.5%) appreciated relative to the Dollar, reflecting Japan's status as a safe haven, but the Euro (-1.6%) and the UK Pound (-2.3%) depreciated due to political concerns.

The *yellow vest* protests in France, Italian budget negotiations, Theresa May's tenuous support and unpopular Brexit deal, and new auto emissions standards disrupted European economic activity. In the Eurozone, the forward-looking Purchasing Managers' Index (PMI) declined to its lowest level in more than four years, while Gross Domestic Product (GDP) growth decelerated from 2.4% in 2017 to an estimated 1.9% in 2018. Japan's 2018 GDP growth forecasts contracted from 1.5% to 0.9%, primarily due to natural disasters. China's leading indicators also deteriorated, and its trade dispute with the US was only briefly interrupted by a December truce. Downbeat demand forecasts and supply increases related to US waivers on Iranian sanctions caused oil prices to decline by 35%.

Utilities (+0.0%) was the best-performing sector in the Index, thanks to its defensive characteristics. Real Estate (-5.3%) benefited from declining global bond yields and Communication Services (-9.7%) also outperformed the Index. Energy (-17.4%) suffered from the drop in oil prices and was the worst-performing sector. Rising risk aversion pressured cyclical sectors: Technology (-16.5%), Materials (-15.9%), and Industrials (-14.6%). The best-performing countries were Hong Kong (-4.5%) and Singapore (-6.7%), bolstered by real estate stocks. Switzerland (-8.9%) and the UK (-11.8%) were buoyed by large stable constituents. The relatively narrow markets of Austria (-20.7%) and Belgium (-18.5%) were the worst performers. Norway (-18.1%) declined with its energy stocks.

PERFORMANCE



	QTD	YTD	1Yr	3Yr	5Yr	7Yr	10Yr	Since Inception*
Gross	-13.2%	-13.0%	-13.0%	4.0%	1.1%	5.9%	6.8%	5.4%
Net	-13.3%	-13.5%	-13.5%	3.3%	0.4%	5.2%	6.1%	4.7%
MSCI EAFE	-12.5%	-13.8%	-13.8%	2.9%	0.5%	5.8%	6.3%	3.7%

CONTRIBUTORS & DETRACTORS

TOP 10	% OF CAPITAL	RETURN	RELATIVE CONTRIB.	SECTOR
BANK RAKYAT	1.7%	20.3%	0.52%	Financials
ROCHE HLDGS	3.7%	1.4%	0.51%	Healthcare
NOVARTIS	3.1%	-1.2%	0.35%	Healthcare
HOYA CORP	2.5%	1.6%	0.33%	Healthcare
UNILEVER	2.8%	-1.6%	0.31%	Consumer Staples
DEUTSCHE TELEKOM	1.8%	5.1%	0.30%	Communication Services
SMITH & NEPHEW	1.5%	2.9%	0.24%	Healthcare
NOVO NORDISK A/S	2.1%	-3.0%	0.22%	Healthcare
ORSTED	1.6%	-1.8%	0.18%	Utilities
STANDARD CHARTERED	1.8%	-6.5%	0.13%	Financials
			3.07%	

BOTTOM 10				
TDK CORP	1.5%	-36.1%	-0.43%	Technology
COVESTRO ASG	1.1%	-39.2%	-0.38%	Materials
AMS	0.5%	-57.4%	-0.35%	Technology
JULIUS BAER GROUP LTD	1.8%	-29.4%	-0.35%	Financials
FERGUSON	2.5%	-23.2%	-0.32%	Industrials
UMICORE	1.5%	-28.7%	-0.30%	Materials
DAIKIN INDUSTRIES LTD	2.4%	-19.9%	-0.24%	Industrials
NINTENDO COMPANY LTD.	1.3%	-27.3%	-0.22%	Communication Services
EQUINOR ASA	1.4%	-24.1%	-0.19%	Energy
ORIGIN ENERGY	1.2%	-23.8%	-0.17%	Energy
			-2.94%	

PORTFOLIO REVIEW

A composite of Boston Common's International portfolios declined -12.9% gross of fees in the fourth quarter, slightly worse than the Index. The strategy's 2018 calendar year return was also -12.9%, outperforming the Index's annual return of -13.8%. Strong stock selection in Healthcare, Consumer Staples, and Industrials, as well as in Japan and the UK, was the leading contributor to annual performance. European holdings in the Consumer Discretionary and Technology sectors were the largest negative factors for calendar year returns.

For the quarter, negative performance was primarily driven by our economically sensitive holdings in Europe and Japan. Our overweight and our stock selection in the Technology sector was the largest detractor from performance. Austrian smartphone sensor manufacturer ams AG (-57.5%), Japanese electronic component provider TDK (-36.1%), and Nintendo (-27.3%) suffered from deteriorating expectations for consumer electronics demand. Stock selection in the Industrials and Materials sectors also detracted from results.

*Since Inception: December 31, 2004

British plumbing distributor Ferguson (-23.2%) was impacted by concerns about weakness in the US housing market, while German chemical company Covestro (-39.2%) and Belgian metal recycler Umicore (-28.7%) were dragged down by European cyclical softness.

Other notable detractors included Swiss private bank Julius Baer (-29.4%), Norwegian energy company Equinor (-24.1%), and Japanese air conditioning manufacturer Daikin (-19.9%). Australian holding Origin Energy (-23.8%) made Asia Pacific ex. Japan the largest regional drag on relative returns.

Healthcare was the largest positive for returns, as the sector accounted for five of our top eight individual contributors. Medical equipment companies Smith & Nephew (+2.9%) in the UK and Hoya (+1.6%) in Japan, as well as European pharmaceutical companies Roche (+1.4%), Novartis (-1.2%), and Novo Nordisk (-3.0%) were all relatively flat, reflecting the more stable aspects of their business. The Financials sector also helped, as Indonesian Bank Rakyat (+20.3%) was our best performing holding after it rebounded from macro pressure earlier in the year. As a result, Emerging Markets was our strongest regional performer. Other emerging Asian financial services companies Standard Chartered (-6.5%) and AIA Group (-7.3%) lost less than peers. German telecom provider Deutsche Telekom (+5.1%) and Danish wind farm developer Orsted (-1.8%) were also among our top contributors.

PORTFOLIO ACTIVITY

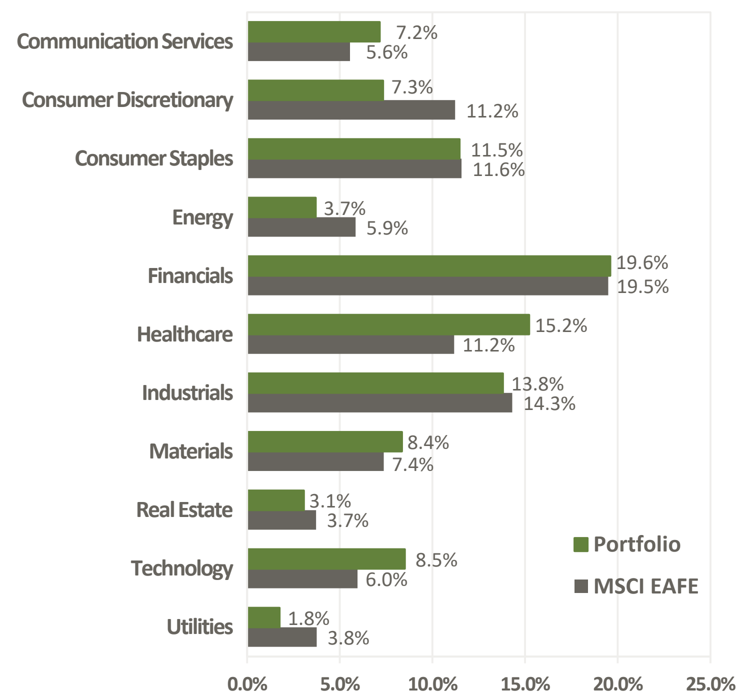
During the quarter, we purchased Kion Group, a German leader in forklifts and warehouse equipment. Over 80% of Kion's forklifts and trucks are powered by electric motors, as the company has invested heavily in clean technology products. Demand for its warehouse automation solutions should expand alongside structural increases in ecommerce penetration, and the stock's 10.4x price-to-earnings multiple looks inexpensive. We also purchased Wessanen, a Dutch food producer with an exceptionally strong ESG profile. Organic food accounts for over 76% of Wessanen's revenues, and 96% of its products are vegetarian. The company is a leader in Europe's attractive organic food market with strong brands, innovative product development, and an established platform. While competition in France has depressed Wessanen's recent financial results, we believe its current valuation is compelling, trading at enterprise value-to-EBITDA and sales ratios of 11.2x and 1.1x, respectively.

During the quarter, we reduced several cyclical holdings that had performed relatively well such that valuations may not have reflected rising global growth risks. In Europe, we reduced Schneider Electric, Spirax-Sarco, Croda, and SAP. In Japan, we trimmed holdings that could be affected by pressures on Asian technology and industrial spending: Hoya, Daikin, Kubota, and Keyence.

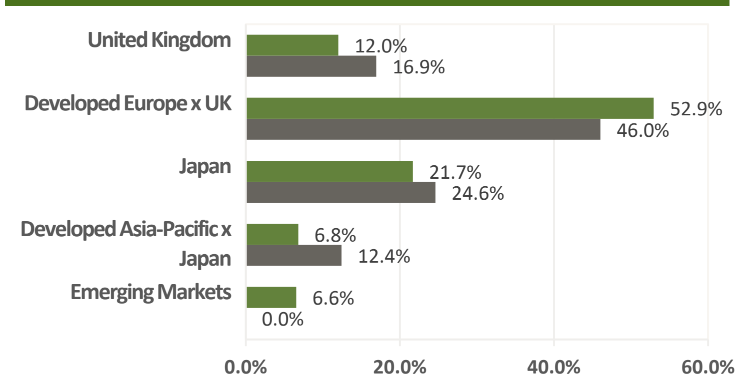
ECONOMIC & MARKET OUTLOOK

Our portfolios are positioned for a stable-to-improving fundamental backdrop, reflecting our base case view. However, we are mindful of the low but rising probability of a downturn, and we are overweight the defensive sectors, especially Healthcare. European economic growth is likely to improve as abnormal headwinds dissipate. China will likely stimulate its economy, which should have positive spillover effects for the rest of the world.

SECTOR ALLOCATION



REGIONAL ALLOCATION



PORTFOLIO CHARACTERISTICS

	BOSTON COMMON	MSCI EAFE
# HOLDINGS	60	920
Valuation		
Next 12m Price to Earnings	13.2	12.0
Price to Book Value	2.0	1.5
Price to Sales	1.5	1.1
Dividend Yield	2.9%	3.5%
Growth		
5yr Sales Growth	3.3%	0.3%
5yr EPS Growth	9.9%	6.6%
Risk		
Wtd Avg Mkt Cap	57,586	57,640
LT Debt/Cap	28.8%	31.5%
Beta	1.02	1.00

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Fewer prospective US interest rate hikes should help alleviate currency pressures and capital outflows from international markets. Geopolitical instability remains a key risk, but we expect that the Sino-US trade war and Brexit uncertainty will have reasonable resolutions over the intermediate term. Valuations appear to incorporate substantial downside, with the MSCI EAFE trading at 11.9x forward earnings, nearly 1 standard deviation below its 15-year average. We continue to emphasize high-quality companies with sustainable growth drivers, including environmentally beneficial products for consumer and industrial applications.

Europe

Europe's populists have disrupted its nascent economic recovery, but their objectives are geared towards fiscal stimulus that could eventually boost short-term growth. Italy's government and the *yellow vests* protesters have sought lower taxes and higher spending to help disenfranchised citizens. This policy tool looks appropriate in depressed areas, but the movement's broader vision for change is sorely lacking, in our opinion. In contrast, we are encouraged by the overwhelming support for the common currency within the Eurozone as well as the incremental efforts to address structural obstacles. Specifically, France and Germany recently announced a plan for a common Eurozone budget to fund sustainable growth investments and provide stabilizers for national recessions.

The ongoing Brexit saga exemplifies the challenging reality of economic separation. We expect the UK will avoid a crash exit from the EU, but remain cautious on domestic British stocks, as the uncertainty discourages business and consumer spending. While Eurozone business surveys have deteriorated, some indicators look healthy. In the latest data releases, Eurozone wages increased 2.6% and loan growth to households and non-financial corporations accelerated to 3.3% and 4.0% respectively, near ten-year highs for all three indicators. Our portfolios are overweight Europe ex. UK, where we expect macro improvements and find inexpensive companies with leading environmental, social, and governance profiles.

Japan

As active participants in efforts to improve corporate governance in Japan, we are optimistic about the country's progress to date. For example, companies with more than one third independent board directors increased from about 5% in 2014 to 27% in 2017. The rise of impartial boards has coincided with increased public scandals. We view these as healthy markers of improved disclosure that bode well for future behavior.

Many Japanese industries have weak profitability due to excessive competitors operating at suboptimal scale. Excess firm capacity holds down prices and inflates labor demand but suppresses productivity. In an encouraging development towards consolidation, Japanese mergers & acquisitions reached a record high in 2018. More transparency and expanding profit margins should translate into higher equity valuations. While we are encouraged by domestic developments in Japan, we are mindful of softer demand in the cyclical segments of the market, where our portfolios are underweight.

NEW & CLOSED POSITIONS

NEW	SECTOR	% OF PORT.
KION GROUP AG	Industrials	0.9%
WESSANEN NV KONINKLIJKE	Consumer Staples	0.3%
TOTAL NEW		**1.2%**

COMPANY SPOTLIGHT: SVENSKA HANDELSBANKEN

Company Profile

Handelsbanken is a Swedish bank that provides universal banking services such as corporate transactions and investment banking, as well as consumer banking and life insurance. One of the major Nordic banks, Handelsbanken has also successfully exported its customer-centric model across Europe, especially in the UK. The bank has set long-term environmental strategies to reduce the most impactful aspects of its operations, energy and waste, such as purchasing green electricity and fostering climate change awareness. SHB purchases 92% green electricity for its Nordic operations as a whole, and 99% within Sweden. The bank has also set ambitious gender equality goals.

Investment Thesis

Svenska Handelsbanken is one of the strongest and best managed full-service banks in Europe. Operating primarily within Scandinavia's solid macro backdrop, Handelsbanken seeks superior profitability compared with peers by focusing on cost efficiencies, risk management, and customer satisfaction. Handelsbanken's solid employment practices range from strict non-discrimination hiring and internal training to generous home and family services. Instead of bonuses based on short-term metrics, employees receive an equal share of profits through the bank's unique profit-sharing model, Oktogonen. This compensation structure helps create a path to sustainable success by aligning employee and corporate interests with customer satisfaction, the long-term driver of profitability. Given the stability of its earnings, potential savings through digitalization, high dividend yield, and ESG leadership, we believe the stock presents a compelling investment profile. Risks include a downturn in the Swedish housing market and asset quality issues in newer growth markets.

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Asia Pacific and Emerging Markets

China is responding to its economic deceleration with lower reserve requirements for its banks, measured infrastructure spending, and tax cuts. If these efforts fail to halt the slide, China will likely expand its stimulus efforts. The antagonistic relationship between the US and China may be a fixture for the future, but in the near term both parties appear to be moving towards a compromise. A partial resolution could go a long way in unwinding economic and investor stress in China and beyond.

Australia's economy continues to surpass most other developed nations in terms of growth, duration without a recession, and fiscal balance. The country has benefited from Chinese demand for its natural resources as well as favorable demographics driven by immigration. A booming housing market has also helped, but home prices have been declining over the past three quarters. Yet, it remains one of the most expensive markets in the world, with prices over seven times average income. Australia has also been struggling to address local climate change-related problems, including drought, coral death in the Great Barrier Reef, and coal dependence. Despite the enviable economic record, in aggregate we find these domestic issues concerning. They have led to political turbulence and prevented any of the six prime ministers from completing a full term over the past 10 years. We remain underweight the Australian market based on our caution regarding the outlook for global commodities and domestic retail banks. We balance our underweight of developed Asia Pacific with our exposure to emerging Asian markets, where we find more attractive long-term growth opportunities.

Shareholder Engagement Highlights

Milestones	**Quantifying ESG Impact:** Boston Common has been recognized by Real Impact Tracker and the Real Leaders 100 for our ESG Impact. Third party certifications help keep investors informed and prevent "greenwashing" in the investment industry. Listen to a recording of the Real Impact Tracker webinar, featuring Lauren Compere, Director of Shareowner Engagement.
	Strong Show of Support: Our Lobbying Disclosure proposal **received a 28.2% vote in favor** at **Oracle** Corp.'s annual shareholder meeting. We called on Oracle to increase its transparency and accountability in the spending of shareholder resources.
Work in Progress	Our inquiries to **Albemarle** and **Sociedad Química y Minera**, lithium producers, on their water stewardship practices in Chile led to robust dialogues with senior representatives at both companies about their management of water usage, discharges, and site level assessments. We encouraged both to begin to respond to CDP Water to enhance their internal management systems and to adopt a global approach to managing water risks. We joined 60 investors with $6 trillion in assets asking companies to respond to CDP with Boston Common leading with Apache, ConocoPhillips, and Cimarex.
	As an extension of our **Banking on a Low-Carbon Future** work with large global banks, Boston Common joined forces with ICCR and its members to launch an engagement focused on 20 small cap and mid-cap US banks with letters sent in December. Boston Common is leading dialogues with **Associated Banc-Corp, First Horizon National Corporation, First Midwest Bancorp Inc., Fulton Financial Corporation, Moelis & Co., UMB Financial Corp, Union Bankshares Corp., Washington Federal, & Zions Bancorp**.
	Advancing Engagement in Asia: As part of our robust engagement program in Asia, we engaged senior representatives of **Beijing Enterprises Water** on its approach to sustainability disclosure and encouraged the company to take the next step and respond to CDP Water. We advised **Beijing Water** to include oversight and management of material ESG risks and begin reporting on objectives and targets related to water, energy, and waste reductions. As part of an investor inquiry to 22 ICT companies on digital human rights, we reached out to **Samsung Electronics** and **Tencent Holdings** after their evaluation by the Ranking Digital Rights 2018 Corporate Accountability Index on their disclosed commitments and policies affecting freedom of expression and privacy.
New Initiatives	**Plastics:** Boston Common is a signatory of the New Plastics Economy Global Commitment – which envisions a circular economy for plastic, where plastics never become waste. The commitment aims "to create 'a new normal' for plastic packaging. They will review targets every 18 months, and become increasingly ambitious over the coming years. Businesses that sign the commitment will publish annual data on their progress to help drive momentum and ensure transparency."
	Ethical Recruitment: Forced labor in manufacturing is a material risk for the Information and Communications Technology (ICT) sector. Risks include: the potential use of migrant workers paying high recruitment fees, the retention of identification documents, and the use of forced or child labor. We joined ICCR in backing the findings of the KnowTheChain's 2018 Benchmarking Report on Forced Labor in the ICT sector which rated 40 ICT companies on each company's approach to reducing exploitation and protecting the rights of workers in their supply chain. Boston Common led inquiries with **Analog Devices, Hoya, Infineon, Keyence, Nintendo, & TE Connectivity.**