

Active Investor Social Update

First Quarter, 2019

Water is a Human Right



By Constantina Bichta

Access to clean, safe water is a given for most people in first world nations, but billions of people live without the security of sufficient, acceptable water to meet their most basic needs to survive. When water is scarce and unsanitary, the impacts of climate

change and conflict are intensified and can cause disastrous effects—often to women, children, refugees, and indigenous communities. The human right to water was this year’s [theme](#) for World Water Day, and it calls upon all of us to work toward Sustainable Development Goal 6: Clean Water and Sanitation, to ensure that we ‘leave no one behind’ in the global fight for the right to safe water.¹

With the privilege of [water security](#), comes the responsibility to use water wisely and treat it respectfully. It is vital that people and [businesses use water responsibly](#), both for the health of society and for their own financial well-being. It takes about 2,000 gallons of water to make one pair of jeans, and at least 13,000 gallons in the production cycle of an automobile, for example.² If we continue at current consumption rates, by 2025—just 6 years from now—two-thirds of the world’s population may suffer from water shortages, putting companies in competition with people and farming.³ Companies that fail to manage water consumption efficiently and protect access to water for local communities risk impeding their ability to operate and damaging value.

What Can Investors Do?

Investors can use their influence as shareholders and engage with companies on sustainable water use in three key ways:

- ▶ Encouraging water disclosure: ask companies to measure current practices by responding to [CDP Water](#)
- ▶ Improving behavior: urge companies to “manage what they measure”
- ▶ Allocating capital: invest in companies that provide solutions

Boston Common engages in long-term dialogue with our portfolio companies on [Water Stewardship](#) and encourages them to set ambitious, public goals for reducing water use as one facet of our [Eco-Efficiency](#) initiative. We urge them to think beyond reducing consumption and consider water stewardship in the context of the Circular Economy. Companies that adopt Circular Economy concepts exemplify their leadership by finding ways to recycle waste water, for example, instead of disposing of it. We aim to help embed this concept at a management and corporate governance level, so that doing more with less is a consideration for every business decision.

2019 SUSTAINABILITY TRENDS FOR BOARDS

By Lauren Compere

From climate risk to support of the UN’s Sustainable Development Goals (SDGs), here are five things Boards should look out for this year:

1. Bringing expertise, resources, policies, and mechanisms for effective Board oversight

Boards must address the gaps found by a recent [survey](#) with only one in five boards having a committee or non-executive with dedicated responsibility for sustainability, and only one-third of the responders agreeing that sustainability measures are integral to determining the performance and compensation of executive directors.

2. Investors calling for a climate scenario analysis

Corporate leaders should consider undertaking a climate scenario analysis, one of the key recommendations of the Task Force on Climate-related Financial Disclosure (TCFD), supported by banks and investors managing over \$86.2 trillion. This was a key ask in our [Banking on a Low Carbon Future 2018](#) report, as the TCFD asks companies to stress test their long-term business resilience in the scenario of a 2°C global temperature rise.

3. Growth in SDG reporting

Expect to see more companies producing reports aligned with the SDGs in 2019. For example, Goal 3: Good Health and Well-being: the Access to Nutrition Index found that the 10 largest U.S. food and beverage manufacturers still lack the policies and actions needed to tackle the high levels of obesity and diet-related diseases in the US.

(continued, pg. 3)

¹ http://www.worldwaterday.org/wp-content/uploads/2019/02/WWD2019_factsheet_EN_vs4_29Jan2019.pdf

² <https://www.watercalculator.org/water-use/the-hidden-water-in-everyday-products/>

³ <https://www.worldwildlife.org/threats/water-scarcity>

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Active Ownership Updates

FOR GENDER BALANCE: ACTION, ALLIANCE!

By Lisa Hayles

Action: Women achievers join our Ownership team

This International Women's Day asked us to "Balance For Better," and we celebrate gender balance at Boston Common by recognizing our newest Principals: Constantina Bichta, Lei Ge, and Lisa Hayles—alongside Liz Su, an existing member who added to her ownership stake.

With these appointments, we continue our commitment to recognizing, supporting and rewarding women achievers, and broadening ownership to a growing number of employees. Women comprise over half of our employee-owners, 60% of our Board of Directors, and Senior Management, and 55% of our integrated investment team and total staff.¹ **Diverse, women-led, and majority-employee-owned**, we bring experience, intentionality, integrity, and judgment to our work, seeking financial returns and social change.

Alliance: Partners Bolster "Equality Ecosystem"

We work in collaboration with leading organizations to advance our Gender Equality initiative. Metrics and data bolster the "Equality Ecosystem," and help corporations and investors make informed decisions, thus catalyzing change. Recently, two leading groups have released important, transformative work toward a more equal workforce:

- ▶ The [World Benchmarking Alliance](#) released its first [scoping report](#) on an exciting new Gender Equality & Empowerment Benchmark (GEEB). The benchmark will measure companies' progress on SDG 5 (Gender Equality) and recognize key overlaps with other SDGs, integrate a holistic approach that covers the full value chain, and identify a Call to Action for companies to drive change.
- ▶ [Equileap](#), an international organization focused on accelerating progress towards gender equality in the workplace, released a special report, [Gender Equality in the US](#). The report was commissioned by the Tara Health Foundation and supported by The Educational Foundation of America and The Grove Foundation, and it assesses S&P 100 companies on workplace equality.

At Boston Common, we are proud to work toward Gender Balance, both in our workforce and in our portfolios. Each of Boston Common's investment strategies prioritizes gender equity as part of our Comprehensive ESG assessment.

Our vision for a truly sustainable planet and inclusive growth calls for equality for women and all minorities. There is much work to be done toward this goal, of course. We celebrate how far we have come and look forward to the long road ahead. We are up to the challenge!

Engagement Case Study:

Water Risk Resilience at VF Corp

Challenge: Under the UN PRI water working group, we led an engagement with apparel manufacturer, VF Corporation, whose supply chain, if left unmanaged can bear significant impacts on local water resources.

Action: Our dialogue with VF Corp began in 2013 with a focus on supply chain mapping, understanding exposure to local water risks, measuring and managing water usage in their supply chain, and collaborating with local partners and industry organizations to deliver water efficiencies. Boston Common filed a shareholder proposal in 2013.

Results: We withdrew our shareholder resolution following substantive dialogue and commitments from VF Corp. We continued to engage them over the course of the next 6 years with demonstrated impact:

- ▶ Responded for the first time to CDP Water in 2015, reaching a milestone in publicly reporting its approach to assessing exposure to water risks through its supply chain.
- ▶ Conducted a company-wide water risk assessment with the World Resource Institute (WRI) and Deloitte to identify water-related risks in the supply chain. As the water risk assessment covered approximately 75% of the company operations, VF Corp. has set a new target to cover 100% of operations in the next water risk assessment review.
- ▶ Partnered with WWF to develop a water strategy that addresses opportunities in VF-owned manufacturing and supply chain operations for improving water use and impact.

In 2018, our sustained dialogue with VF Corp concentrated on water risk assessment in the supply chain, the work it does with growers to reduce water usage and reliance on cotton, as well as efforts to further reduce the company's water footprint through consumer outreach. PRI featured our engagement with VF Corp in its 2018 water report, ["Growing Water Risk Resilience, an Investor Guide on Agricultural Supply Chains."](#)

¹ <http://news.bostoncommonasset.com/for-gender-balance-action-alliance/>

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Active Ownership Updates

Successful Shareholder Resolutions - Withdrawn!

With the 2019 proxy season underway, we are delighted to announce three recent [Shareholder Proposal successes](#). We have successfully withdrawn shareholder proposals with each of the companies below!



- ▶ **Verizon (Lobbying Disclosure)** We have withdrawn our proposal on Lobbying Disclosure with Verizon after the company increased its disclosure in its recent [Political Engagement Report January-December 2018](#), including: management decision-making and board level oversight (annual review), and disclosure of significant trade association memberships. **Verizon also made a significant move in late 2018 by leaving American Legislative Exchange Council (ALEC) as hundreds of other companies have done over the last five years.** Verizon has also agreed to continue the dialogue and discuss potential next steps in 2019.
- ▶ **The Home Depot (Carbon Emissions)** We have withdrawn our resolution on GHG emission reductions after The Home Depot committed to a Science Based Target for Scope 1 and Scope 2 GHG emissions with reduction goals for its own operations. The company is aiming for a 40% reduction in carbon emissions by 2030 and a 50% reduction by 2035. It has made significant investments in wind and solar for 2019 to source 135 megawatts of energy from alternative sources by the end of 2020. In addition, The Home Depot is now included in [CDP's new Climate Change "A" list](#).
- ▶ **Mohawk Industries (Board Diversity)** Mohawk Industries publicly augmented its Board Diversity search criteria, and as a result Boston Common also withdrew our board diversity resolution with Mohawk. The company agreed to include additional language in its board diversity search criteria and share it publicly on its website.

2019 SUSTAINABILITY TRENDS FOR BOARDS

4. Low-carbon investment

Businesses are increasingly doing their part by ramping up low-carbon investment and striving for greater energy efficiency. While most companies report GHG emissions as well as water use and waste metrics, fewer are reporting on energy use.

We expect growth in companies adopting Science Based Targets (SBTs) and support for initiatives such as EP100, which calls for 100 companies to double their energy productivity by 2030.

5. Embedding diversity and human rights

This year could see more companies asked to link CEO pay with the achievement targets for gender and racial diversity among senior managers. The [Thirty Percent Coalition](#), along with other groups and initiatives, has helped push the percentage of women directors in the S&P 500 up to 24%. Top performing companies, such as Unilever, are also integrating respect for human rights into their business models, aligned with the UN Guiding Principles for Business and Human Rights and hope this trend will help create a 'race to the top' among companies.

Read more in our [Spotlight on Sustainable Development for 2019](#)

INDUSTRY LEADERSHIP

We leverage our voice as active shareowners at the sector and industry levels by bringing together companies, shareholders, NGO groups, and other stakeholders to create ESG momentum over time. In our experience, these convenings can inspire positive change within an industry, such as the wider adoption of best practices.

▶ **Financials & Human Rights** – Lauren Compere contributed to 3 financial sector consultations this quarter: the OECD Responsible Business Conduct for Banks consultation focused on establishing robust human rights due diligence for lending and underwriting. The Liechtenstein Initiative addressed human trafficking and modern day slavery, and a roundtable on legal Readiness for Climate Finance focused on supporting the low-carbon transition.

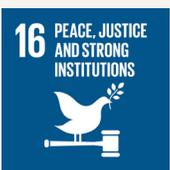
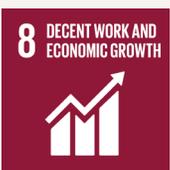
▶ **Technology & Gender Diversity** - In March, Lisa Hayles spoke at the UN Global Compact EQUALS leadership roundtable to make the case for a more gender-equitable tech sector. EQUALS advocates for gender equality in the digital age through a committed partnership of corporate leaders, governments, non-profit organizations, communities, and individuals around the world working together to bridge the digital gender divide.

▶ **Energy & Eco-Efficiency** - In March, Steven Heim organized and led investor roundtable meetings at ICCR with over 100 participants and 22 energy companies on methane, climate, and water, including **ConocoPhillips, EOG, and Apache**. The roundtables explored reducing methane emissions through voluntary programs and improved water risk management. Steven also lead a **Climate Action 100+** dialogue with ConocoPhillips.

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Taking Stock: Reflecting on the Quarter

Sustainable Development Goals	Milestones
 	<p>Successful Shareholder Resolutions - We have successfully withdrawn shareholder proposals with portfolio companies Verizon Communications, Inc. (on lobbying disclosure), The Home Depot, Inc. (on science-based targets for GHG emissions reductions), and Mohawk Industries (on board diversity)!</p> <p>Private Prisons - After a year-long collaborative engagement with management, JPMorgan Chase has discontinued its relationship with the private-prison industry given the business risks and the need for enhanced human rights due diligence. Our joint investor group withdrew the lobbying disclosure resolution after JPMorgan agreed to improve its disclosure. Read Geeta Aiyer's recent Op-Ed in the Boston Business Journal: Viewpoint: Boston must divest from prisons, reinvest in its values.</p>
 	<p>Disclosing the Facts - Oil & Gas companies have greatly improved their practices and reporting on hydraulic fracturing operations in the US and Canada in the last several years, following our Disclosing the Facts investor engagement and annual scorecard in collaboration with As You Sow, and the Investor Environmental Health Network. From 2013 to 2016 the scorecard graded 24 to 30 companies annually on their public disclosure on chemicals, water, air emissions, community impacts, and risk management and found 167% improvement by the top 10 companies: from an average of 24.1% possible points in 2013 to 64.5% by 2016. The 2019 scorecard will be released in April and focuses on Water and Chemicals.</p>
Sustainable Development Goals	Work in Progress
	<p>Gender Diversity – We engaged CME under our Women Empowerment Principles Initiative. The company expanded its board, added one woman in 2017, and has adopted a ‘Rooney rule’ regarding including women and diverse candidates in every board director search. CME is in the process of creating a Diversity and Inclusion Council; senior leadership aims to align all activities across the organization and identify gaps.</p>
 	<p>Banking on a Low Carbon Future –We provided feedback to Citigroup and Standard Chartered on their TCFD reports. Both companies put Governance structures in place in 2018 to address TCFD and climate risk. Standard Chartered created a group level Climate Change Working Group chaired by the Global Head of Enterprise Risk Management and a Sustainable Finance team focused on creating a Bank-wide strategy. Citigroup established an Environmental and Social Advisory Council that has senior level oversight for Citi's Sustainable Progress Strategy. Both banks also implemented new coal financing restrictions with Standard Chartered ending direct financing of new coal-fired power plants while Citigroup has established a new sector restriction on coal and coal-fired power plant financing. We will ask both banks to consider signing the Principles for Responsible Banking following the leadership of 28 other banks including Barclays, ING, and Standard Bank.</p>
 	<p>Human Rights – We provided substantive input into sustainability reporting for Spanish hotel chain Melia. We commended Melia to be the first hotel chain to sign an agreement with the IUF, an international union, on preventing workplace sexual harassment. Melia adopted a comprehensive human rights policy and explicitly mentions the UN Guiding Principles for Business and Human Rights. We suggested that Melia prioritize action in high-risk countries in Asia as it expands, consider adopting the UNGP Reporting Framework, and adopt an Ethical Recruitment policy as Marriott has done.</p>

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