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U.S. Large-Cap Core Strategy Update

Third Quarter, 2019

market review

The S&P 500 Index (the “Index”) rose +1.7% during the third quarter. The index has returned over +20% year-to-date but is only marginally higher than it was a year ago. Having broken through 3,000 for the first time ever in July, the Index traded down in August and up in September. The trajectory was mostly driven by increased or diminished fears around trade, tariffs, and the economic consequences to global growth. The Federal Reserve, responding to weakening global industrial economic data, reduced interest rates twice during the quarter, each time by 25 basis points, contributing to a significant decline in yields. The 10-year Treasury yield ended September at 1.68%, down almost a full percentage point from the beginning of the year.

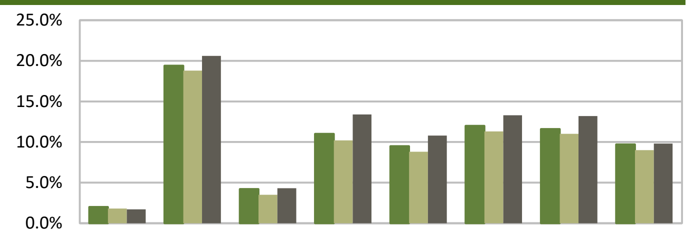
As interest rates declined and concerns over global growth mounted, the higher-yielding, defensive sectors did well. Utilities (+9.3%), Real Estate (+7.7%), and Consumer Staples (+6.1%) significantly outperformed. Communication Services (+2.2%) was buoyed by the higher dividend-paying telecommunication companies. On the other hand, the cyclical Materials (-0.1%), Consumer Discretionary (+0.5%), and Industrials (+1.0%) sectors lagged. Information Technology (+3.3%) outperformed, with many of the larger companies like Apple and Microsoft providing strong returns, while Financials (+2.0%) also rallied. Energy (-6.3%) and Healthcare (-2.3%) were the worst-performing sectors. The former was weighed down by slowing economic activity while the latter by potential drug pricing legislation.

portfolio review

Boston Common’s Tax-Exempt US Large-Cap Core account composite was in line with the S&P 500 this quarter, gross of fees. Franchise technology names, Apple, Alphabet, and Microsoft were among the top relative performers this quarter, reflecting investor preference for large, stable-growth companies. Big-box retailer Costco continues to produce impressive same store sales growth, while falling interest rates helped home improvement retailer Home Depot. From a sector perspective, relative performance was supported by our underweight to Healthcare.

Financials benefited from an overweight to capital markets, including Futures marketplace CME Group, which is helped during times of increased market volatility. Communication Services was the largest contributor to relative returns, aided by high dividend-payer Verizon. Other strong performers this quarter included prestige cosmetic retailer Estee Lauder, semi-equipment manufacturer Applied Materials, and railroad Kansas City Southern.

performance



	QTD	YTD	1Yr	3Yr	5Yr	7Yr	10Yr	Since Inception*
Gross	2.0%	19.4%	4.2%	11.0%	9.5%	12.0%	11.6%	9.7%
Net	1.8%	18.8%	3.5%	10.2%	8.8%	11.3%	11.0%	9.0%
S&P 500	1.7%	20.6%	4.3%	13.4%	10.8%	13.3%	13.2%	9.8%

contributors & detractors

top 10	% of capital	return	relative contrib.	sector
APPLE INC	4.7%	13.6%	0.53%	Technology
ALPHABET INC	4.7%	12.8%	0.47%	Communication Services
HOME DEPOT INC	2.3%	12.2%	0.23%	Consumer Discretionary
VERIZON COMMUNICATIONS INC	3.0%	6.8%	0.15%	Communication Services
MICROSOFT CORP	6.4%	4.1%	0.15%	Technology
COSTCO WHSL CORP	1.6%	9.2%	0.13%	Consumer Staples
CME GROUP INC	1.2%	9.3%	0.11%	Financials
LAUDER ESTEE COS INC	1.4%	8.9%	0.10%	Consumer Staples
APPLIED MATLS INC	1.0%	11.6%	0.10%	Technology
KANSAS CITY SOUTHERN	1.2%	9.5%	0.09%	Industrials
			2.07%	

bottom 10	% of capital	return	relative contrib.	sector
EOG RES INC	1.1%	-20.1%	-0.29%	Energy
MOHAWK INDS INC	1.3%	-15.9%	-0.26%	Consumer Discretionary
UNITEDHEALTH GROUP INC	1.7%	-10.5%	-0.21%	Healthcare
DISNEY WALT CO	2.3%	-6.1%	-0.18%	Communication Services
REGENERON PHARMACEUTICALS	1.3%	-11.4%	-0.18%	Healthcare
ROYAL CARIBBEAN CRUISES LTD	1.2%	-10.0%	-0.16%	Consumer Discretionary
CIMAREX ENERGY CO	0.5%	-21.3%	-0.15%	Energy
ADOBE INC	1.8%	-6.2%	-0.14%	Technology
PVH CORP	1.1%	-6.7%	-0.10%	Consumer Discretionary
3M CO	1.4%	-4.8%	-0.09%	Industrials
			-1.76%	

*Since Inception: December 31, 2002

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Disappointing company-specific news impacted several of the worst performing holdings this quarter. Flooring-company Mohawk continues to struggle with higher input costs, while Disney reported unexpectedly high restructuring costs for its merger with Fox. Weak overseas demand, a result of trade-tariff uncertainty, continues to impact broad-based industrial company 3M, while apparel manufacturer PVH Corp was impacted in China by weakened demand for American brands. Industry-related concerns impacted several Sectors.

Healthcare providers and pharmaceutical companies, including Unitedhealth Group and biotech Regeneron, sold off as political debate, including a single-payer system, ramps up into the election cycle.

portfolio activity

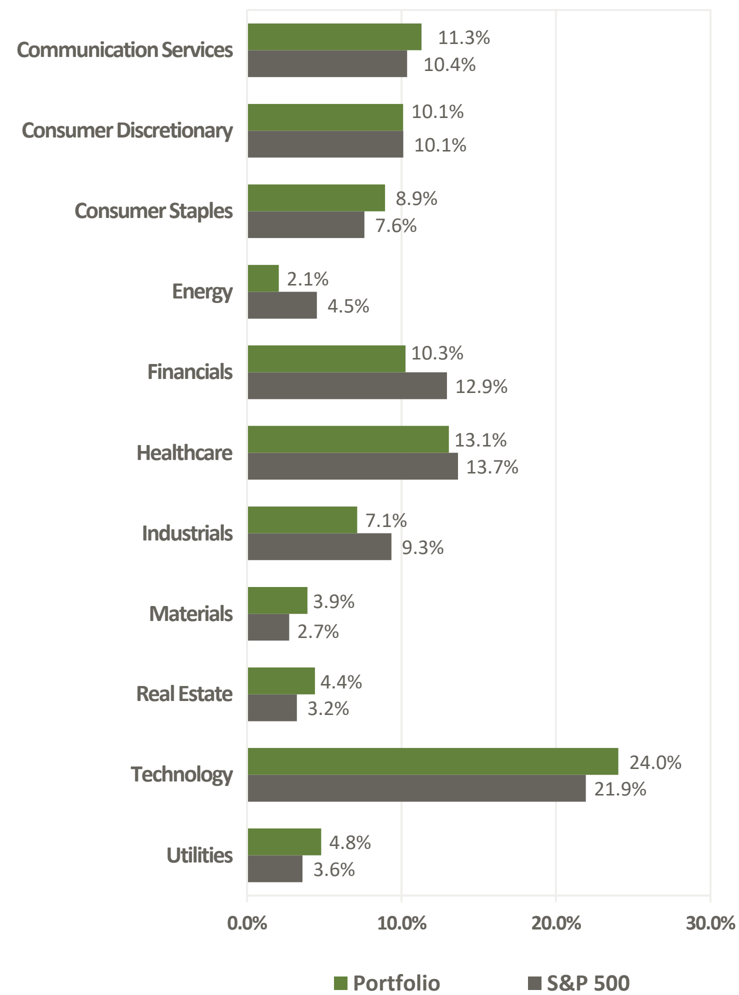
Faced with conflicting economic signals, we remain focused on building diversified portfolios of quality companies. A number of companies with products that are solutions to society's challenges represent sound investment opportunities.

Our proprietary Environmental, Social, and Governance research at the company level complements our financial analysis, helping us identify companies with ESG and solutions leadership.

This quarter, we added First Solar back to portfolios. A leading manufacturer of utility-scale solar power systems, the company is poised to benefit from the next generation of its solar systems as its technology advancements continue to bring down costs to levels competitive with conventional power sources. As utilities like Portland General, another portfolio holding, look to replace hydrocarbons with renewables, including solar, the company should continue to see advances in orders and backlog.

Another new holding with solid ESG momentum, the New York Times, is managing to transition from yesteryear’s print delivery to today’s digital media landscape. The significantly more efficient cost structure of online subscriptions and advertising compensate healthily for declines in the dwindling print business. We view The New York Times as a solutions company, providing access to objective information and freedom of expression, which are fundamental for a well-functioning democracy. In the opposite side, declining ESG momentum can provide the signal to sell. Long-term holding Johnson & Johnson was eliminated from portfolios, as continued concerns regarding oversight of product safety led to the conclusion that reputational risk for the company outweighed the strength exhibited in access to healthcare.

sector allocation



portfolio characteristics

	boston common	s&p 500
# holdings	61	505
Valuation		
Next 12m Price to Earnings	17.2	17.2
Price to Book Value	3.2	3.2
Price to Sales	2.7	2.3
Dividend Yield	1.7%	1.8%
Growth		
3yr Sales Consensus Growth	4.2%	4.0%
3yr EPS Consensus Growth	6.9%	6.3%
Risk		
Wtd Avg Mkt Cap	244,793	250,180
LT Debt/Cap	38.7%	42.6%
Beta*	0.93	1.00

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From a sector perspective, we took steps this quarter to become slightly more defensive, with increased exposure to Utilities and Consumer Staples. In the latter, we added tissue and diaper company Kimberly Clark.

Trading at an attractive valuation and anticipating an improving cost structure, we viewed it as attractive at current levels. We have long been underweight conventional energy, and this quarter, we closed out our holding in Cimarex, amid concerns about oversupply in the natural gas market. And, as the Federal Reserve moves to lower rates, we continued to decrease our exposure to Financials, selling asset manager Northern Trust.

economic & market outlook

As we enter the last quarter of this year, the US economy is slowing but unlikely to head into recession. Supported by monetary ease, economic growth is more dependent on the consumer than ever before. Manufacturing remains weak, and capital spending has been hobbled further by low capacity utilization and prolonged uncertainty over trade negotiations. Consumer spending, on the other hand, is buoyed by low unemployment, modest wage increases, and low interest rates. Consumers have been reluctant to borrow, preferring to shore up household balance sheets and pay down debt.

Both actual and expected inflation continue to shift lower, giving central banks around the globe the latitude to ease further. The strength of the US Dollar has kept prices of imports and commodities lower than they might otherwise have been. Another interest rate cut is widely expected this year, as the Federal Reserve joins other major central banks in providing monetary stimulus.

The US treasury yield curve (2-year to 10-year) inverted for the first time since 2007, setting off recession fears based on historical precedent. Global capital flows have driven US rates to be negative in real terms, but still very attractive compared to the negative absolute rates that prevail in major European markets. The Fed's interest rate cuts and improving economic conditions elsewhere in the world can remove this support to bond yields, leading to a lower but more positively sloped yield curve in the US.

While S&P 500 earnings growth has flattened, most of this year's stock market gains have come from multiple expansion, as buying support came in following last December's sharp market declines.

new & closed positions

closed	sector	% of port.
CIMAREX ENERGY CO COM	Energy	1.0%
COGNIZANT TECHNOLOGY SOLUTIONS	Technology	0.6%
JOHNSON & JOHNSON COM	Healthcare	0.8%
NORTHERN TR CORP COM	Financials	1.3%
SOUTHWEST AIRLS CO COM	Industrials	1.2%
total closed		**4.9%**
new	**sector**	**% of port.**
AMGEN INC COM	Healthcare	1.2%
FIRST SOLAR INC COM	Technology	0.8%
KIMBERLY CLARK CORP COM	Consumer Staples	2.0%
NEW YORK TIMES CO CL A	Communication Services	1.0%
total new		**4.9%**

company spotlight: tjx companies inc.

Company Spotlight

The TJX Companies, Inc. is an off-price clothing and home fashion retailer and the largest apparel seller in the US. The company sells family apparel, footwear, and accessories and home basics, such as accent furniture and giftware. Located in the United States and abroad, the company operates ~3,300 stores, which include familiar names like T.J. Maxx, Marshalls, and HomeGoods. TJX Companies, Inc. was founded in 1956 and is headquartered in Framingham, Massachusetts.

ESG Integrated Investment Thesis

TJX's off-price business model is proving resilient to the challenge of ecommerce. Offering prices on average ~30% cheaper than peers, its store format appeals as a "bargain hunting" destination for shoppers. Competitors have largely been unable to match the scale and efficiency of TJX's supply chain. The company's opportunistic purchasing model redirects manufacturers' excess inventory, supported by its 1,100 global purchasing agents that source from over 21,000 vendors across 100+ countries. As a last-stop market for merchandise, TJX plays an important role that facilitates the overall sell-through of apparel and home goods to the end consumer, lowering overall waste & scrappage within the industry. As a discount retailer, the company helps stretch low- and middle-income purchasing power. As such, TJX is a potential beneficiary during an economic downturn, as consumers become increasingly price conscious. This defensiveness relative to retail peers can lead to more consistent, less volatile growth through an economic cycle. TJX offers a compelling investment profile, with expectations for consistent low- to mid-single-digit sales growth, margin improvement, and share buybacks. Its operational advantages and niche positioning within the retail space justify the stock's modest valuation premium. *Risks: rising trade barriers, fast fashion*

ESG Engagement Opportunities

TJX has made encouraging efforts to reduce its carbon footprint and is currently establishing science-based emission reduction targets according to best practice. The company is a leader in promoting gender equality, as women represent 46 % of the board of directors and 41% of senior management. However, the company is still exposed to labor risks given its large workforce of 270,000 employees. There are opportunities to encourage the company to adopt better employee engagement practices and living wage commitments, particularly at the store associate level, to ensure retention.

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Lower interest rates have also helped. Markets are currently hovering around their 5-year average level in terms of 12-month forward price-to-earnings but are trading at elevated levels on a very long-term perspective. As interest rates have moved lower, real discount rates are very low as well. We believe the period of unusually correlated stock-level returns, supported further by record low interest rates and the historic growth of indexation, may dissipate. This creates opportunity to add value through active management, stock selection, and sector emphasis.

As we go to press, trade discussions have dominated news flow, but global risks remain important as well, most notably, Brexit, tensions in the Middle East, and the crisis of leadership in many major economies. The freedoms and democratic institutions that brought inclusive prosperity and well-being are suffering challenges. The end of September brought Climate Week to New York and around the world. The interconnected and current risks to our planet and people were brought into focus. For investors everywhere, there is risk to sitting on the sidelines, but also opportunity to deploy capital and voice to address these challenges.

Shareholder Engagement Highlights

Milestones	**Lobbying Disclosure:** We have withdrawn our lobbying disclosure resolution with **Oracle** given their substantive implementation of the resolution ask! This was our third resolution with Oracle requesting greater disclosure of direct and indirect lobbying expenses, calling for transparency and accountability in the spending of shareholder resources.
	Private Prison Labor: In a win for investors, activists, and the immigrant community, which have collectively put pressure on banks to stop financing the private prison industry, nine major banks have publicly committed to cut lending activity to private prisons!
Work in Progress	**Indigenous Peoples' Rights:** Boston Common is leading a coalition of investors representing $2.9 trillion, calling for the **Equator Principles** to be strengthened to respect the rights of Indigenous Peoples. 13 of the 17 banks that financed the Dakota Access Pipeline project were signatories to the Equator Principles.
	Advancing Sustainability in Japan: Boston Common met with **Hoya, Kao, Orix, NTT, NTT DoCoMo, Panasonic, and Shiseido** on improving ESG performance. Recently, our engagements have shifted from developing ESG awareness and policies to establishing ESG metrics and assessing the impact of companies' policies on people and planet.
	Methane: Led by ICCR, Boston Common asked 7 oil and gas companies to support stricter regulation on methane emissions – supported by 130 investors representing $5.5 AUM. **Equinor** publically issued positive support for this.
	Global Health: Along with ICCR, Boston Common expanded engagement with 11 food and beverage companies, including **Mondelez, PepsiCo**, and **Unilever** to promote positive public policy on health and wellness through lobbying activities. The three companies have provided robust examples of how they are engaging globally.
	Racial Equity & Gender Equality: Founder & President Geeta Aiyer moderated a Confluence Philanthropy webinar, "It's About Time: A Call to Advance Racial Equity in the Investment Industry" based on their recent report.
Industry Leadership	**Climate Week in NYC:** Geeta Aiyer, Steven Heim, and Lauren Compere represented Boston Common at Climate Week and attended various investor and multi-stakeholder events throughout the week.

**The Beta calculation is based on the trailing five-year performance of a representative account within a portfolio's strategy. Source: Bloomberg & Factset. Past performance does not guarantee future results. All investments involve risk, including the risk of losing principal. The information in this document should not be considered a recommendation to buy or sell any security. There is no assurance that any securities we discuss will remain in a strategy at the time you receive this document. The securities discussed do not represent a strategy's entire portfolio and may represent only a small portion of a strategy's holdings. It should not be assumed that any securities transactions we discuss were or will prove to be profitable. A different company is selected each quarter to be featured in our Company Spotlight. The company is chosen based on any potential updates to our investment thesis and/or ESG case. Composite returns are presented in U.S. dollars, net of transaction costs, management fees and withholding taxes, with interest and dividends accrued. Returns for periods greater than one year are annualized. This product invests in foreign securities, which are subject to special currency, political and economic risks. The S&P 500 Index (the "Index") is a broad market index of the 500 largest U.S. large cap companies. The index is unmanaged and does not incur management fees, transaction costs, or other expenses associated with separately managed accounts. The composition of our composite is different from the composition of these indices because of differences in sector and industry exposure, risk, volatility and holdings. Boston Common claims compliance with Global Investment Performance Standards (GIPS®). For a full listing of Boston Common's composites and to request a GIPS® Compliant presentation, please call the Compliance department at 617-720-5557.*