

# International Equity Strategy Update

Second Quarter, 2020



## International Portfolio Review

A composite of Boston Common's International portfolios returned +17.6% before fees, outperforming the Index. Strong stock selection in the Industrials sector was the largest driver of relative performance. Expectations for a green recovery in capital spending aided producers of energy-efficient equipment: Schneider, Daikin, and Atlas Copco. German electric forklift manufacturer Kion and British building products distributor Ferguson also had strong returns. Technology was a key contributor, driven by our overweight of semiconductors stocks, especially Infineon and ASML. Ongoing demand from remote work, ecommerce, and the reopening of key industrial segments helped semiconductor names as well as Japanese electronic component supplier TDK and machine vision company Keyence. Stock selection in the Financial Services sector also helped performance. Our holdings, especially Australian asset manager Macquarie and Dutch bank ING, bounced back from first quarter lows. The UK was the top regional contributor, due to both our underweight positioning and good stock picks. British winners include natural ingredient producer Croda, steam specialist Spirax-Sarco, and cardboard recycler DS Smith. Bike parts supplier Shimano and human resources technology provider Recruit helped drive strong stock selection in Japan, the second-best region for relative performance. Additional top contributors include Deutsche Telekom and Belgian electric vehicle component supplier Umicore.

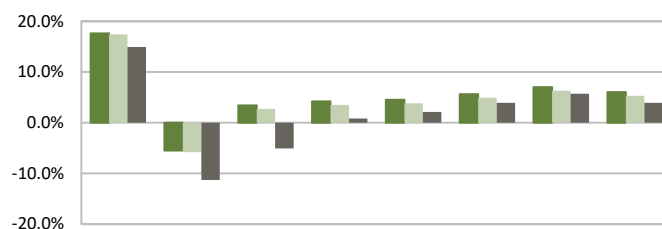
Poor stock selection and our overweight positioning made Consumer Staples the largest detractor from performance. Household and personal care producers Kao and Essity and Japanese drugstore company Sundrug were relatively flat. Healthcare was also a drag on performance. European pharmaceutical companies Novartis, Roche, and Novo Nordisk delivered decent returns but did not keep up with their peers or the market. Our underweight of the Materials sector was a small detractor. Our underweight and stock selection made Asia Pacific the only regional detractor. Singapore Telecommunications reported disappointing earnings and Hong Kong-based AIA was affected by concerns about the city-state's future. Additional detractors included Japanese financial services provider Orix and Nippon Telegraph & Telephone.

## Portfolio Activity

Among our transactions this quarter, we purchased Barratt Developments, one of the largest housing developers in the UK with a best-in-class balance between green building and affordability. The company has net cash on its balance sheet and valuation looks compelling at 11x earnings and 1.1x book value. We also purchased Yamaha, a global leader in musical instruments and education programs. The company is the world's largest piano manufacturer, offering models for professionals and beginners alike, enabling broad artistic expression. Yamaha's digital products appeal to the modern marketplace and are helping improve profitability. Taking advantage of historically low valuations, we started a position in HDFC Bank, a leading Indian bank with an impressive record of risk management and profitable growth.

The bank is focused on retail and small business lending, including its microfinance initiatives that provide important access to credit and typically empower women entrepreneurs. During the quarter we sold BMW due to our concern about the effects of a structural shift to electric vehicles, in which the company has demonstrated less leadership than expected. Reckitt Benckiser benefited from pandemic purchases of its hygiene products and was trading at a three-year high valuation, but we are mindful of its pre-COVID challenges and sold the stock.

## Performance



	QTD	YTD	1Yr	3Yr	5Yr	7Yr	10Yr	Since Inception*
Gross	17.6%	-5.5%	3.4%	4.2%	4.5%	5.6%	7.0%	6.0%
Net	17.4%	-5.8%	2.7%	3.5%	3.8%	4.9%	6.3%	5.3%
MSCI EAFE	14.9%	-11.3%	-5.1%	0.8%	2.1%	3.9%	5.7%	3.9%

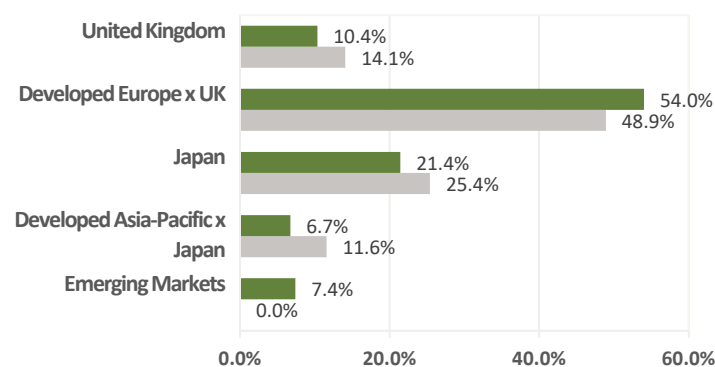
## Portfolio Characteristics

	Boston Common	MSCI EAFE
# Holdings	58	902
<b>Valuation</b>		
Price/EPS (NTM)	20.0	18.1
Enterprise Value/EBITDA (NTM)	12.4x	10.5x
Price/Book	2.3	1.7
Price/Sales	1.8	1.2
Dividend Yield	2.4%	3.0%
<b>Growth</b>		
3yr EPS Consensus Growth	5.2%	1.3%
3yr Sales Growth	2.2%	0.7%
<b>Quality</b>		
Beta**	0.97	1.00
LT Debt to Cap	29.2%	31.3%
Net Debt to EBITDA	1.0x	1.5x
Return on Equity	12.3%	10.6%
Earnings Stability***	15.9%	22.3%
Free Cash Flow Yield	4.2%	5.0%

\*Since Inception: December 31, 2004, \*\*The Beta calculation is based on the trailing five-year performance of a representative account within a portfolio's strategy,

\*\*\*Stability is calculated as the mean absolute difference between actual earnings per share and a five-year historical growth trendline, expressed as a percentage of trendline

## Regional Allocation



## Portfolio Activity

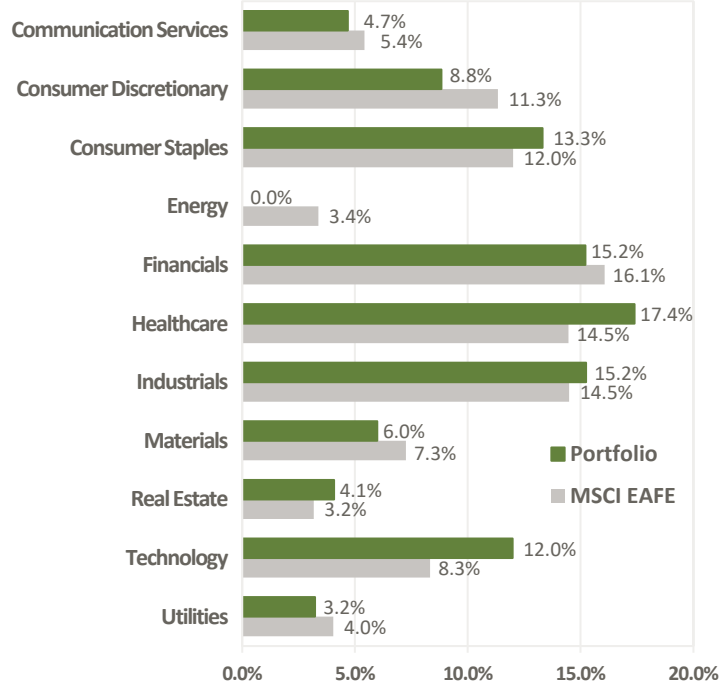
closed	sector	% of port.
BAYER MOTOREN WERK	Consumer Discretionary	0.9%
RECKITT BENCK GRP	Consumer Staples	1.7%
STANDARD CHART PLC	Financials	1.2%
<b>total closed</b>		<b>3.8%</b>
new	sector	% of port.
BARRATT DEVEL	Consumer Discretionary	1.0%
HDFC BANK LTD	Financials	1.1%
WORLDLINE SA	Technology	0.9%
YAMAHA CORP	Consumer Discretionary	1.2%
<b>total new</b>		<b>4.2%</b>

## Contributors & Detractors

top 10	% of capital	return	relative contrib.	sector
INFINEON TECHNOLOGY	1.6%	59.1%	0.55%	Technology
MACQUARIE GP LTD	1.3%	58.8%	0.44%	Financials
DAIKIN INDUSTRIES	2.4%	31.7%	0.36%	Industrials
SCHNEIDER ELECTRIC	2.2%	32.3%	0.35%	Industrials
DEUTSCHE TELEKOM	1.9%	35.2%	0.35%	Communication Services
ING GROEP	2.0%	32.7%	0.33%	Financials
ASML HOLDING	1.3%	38.6%	0.28%	Technology
KION GROUP	1.1%	42.2%	0.27%	Industrials
UMICORE	1.5%	34.7%	0.26%	Materials
FERGUSON	1.9%	28.8%	0.25%	Industrials
			<b>3.44%</b>	

bottom 10	% of capital	return	relative contrib.	sector
KAO CORP	2.7%	-2.4%	-0.47%	Consumer Staples
SINGAPORE TELECOMM	1.9%	-1.4%	-0.30%	Communication Services
ORIX CORP	1.8%	1.9%	-0.28%	Financials
ROCHE HLDGS	3.6%	6.8%	-0.26%	Healthcare
ESSITY AB	2.3%	4.2%	-0.24%	Consumer Staples
NOVARTIS	2.6%	5.4%	-0.23%	Healthcare
AIA GROUP LTD	2.0%	4.5%	-0.22%	Financials
STANDARD CHART	0.5%	-9.6%	-0.21%	Financials
NIPPON TEL&TEL CP	1.1%	-2.4%	-0.20%	Communication Services
SUNDRUG CO LTD	1.7%	3.1%	-0.19%	Consumer Staples
			<b>-2.62%</b>	

## Sector Allocation\*



## Shareowner Engagement Highlights

**We jumped into action this quarter with sector-specific asks to address both immediate and long term COVID impacts on business models**, including with pharmaceuticals, food and beverage companies, retailers, personal care products, and apparel. We have had robust responses or dialogue with Novartis, GlaxoSmithKline, Mondelez, PepsiCo, Unilever, Kroger, Target, PVH, Essity and Colgate-Palmolive.

**Google AGM, June 2020:** Boston Common co-filed a shareholder resolution encouraging the establishment of a board level human rights risk oversight committee to mitigate the evolving risks that Google's technology poses to the company, consumers, shareholders, and society at large.

**ConocoPhillips AGM, May 2020:** We supported the advancement and ambition of the company's climate goals. We commend the steps ConocoPhillips has taken to protect its employees and other stakeholders during the COVID-19 pandemic.

Boston Common was a part of the investor group, which holds more than 1.9 trillion in assets, that **called on drug makers to set aside rivalries and short-term interests and cooperate on finding solutions to the coronavirus**. As part of this effort we are leading engagements with Novartis and GlaxoSmithKline.

*\*As a % of Equities. 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 MSCI (Net) EAFE Index is a free-float adjusted market capitalization index that is designed to measure developed market equity performance in developed markets as determined by MSCI, excluding the U.S. and Canada. The Index's performance results are presented net of estimated foreign withholding taxes on dividends, interest and capital gains. 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 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.*