

Active Investor Social Update

First Quarter, 2014

“Konnichiwa”¹

As a global investor, Boston Common is always working to better understand what’s happening on the ground in the places where we invest. **This year, Lauren Compere spent the first half of March in Japan, while Steven Heim traveled to Canada.**

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Taking Stock: Reflecting on the Quarter

	<i>What we have done</i>	<i>What we are working towards</i>
<i>Environmental Risk Management</i>	We urged ORIX and MUFG to develop lending and financing guidelines for high impact sectors.	Consideration by financial services companies of the sustainability impacts of their lending and financing decisions.
	We conducted a major investor briefing with Apache to discuss fracking operations.	Increased disclosure and best practices adoption by fracking companies globally.
<i>Global Health</i>	Boston Common endorsed ICCR’s Global Health Principles and Recommended Practices, advocating for a more sustainable business model for global pharmaceutical companies.	Adoption by companies of these recommended practices including appropriate marketing and sales compensation incentives in emerging markets.
<i>Disclosure and Transparency</i>	We encouraged Japanese companies to increase disclosure, particularly around climate and water.	Increased disclosure in English and responsiveness to investor questionnaires by Japanese companies.
<i>Human Rights</i>	We encouraged Unicharm and J Front to develop proactive and transparent approaches to human rights in their supply chains.	Increased attention by companies to the rights and treatment of contract workers in Japan.
	ConocoPhillips held in-depth discussion with investors about Indigenous Peoples’ rights.	Adoption of best practices by oil, gas, and mining companies working on or near Indigenous lands.

¹Japanese: Hello

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Spotlight on Japan

In Japan, Boston Common met with six of our portfolio companies, formally representing over a dozen of our clients in those meetings. Lauren Compere also met with key local partners, including the Asian Corporate Governance Association (ACGA), CSR Asia, EIRIS, and groups working to promote gender diversity and the advancement of women in the workplace. She also spoke at the third annual RI Asia Conference and attended the International Corporate Governance Network (ICGN) Conference.

Key themes discussed during all company meetings were labor and employment issues, such as programs to support the advancement of women in the workplace, work/life balance, and working conditions for temporary workers. We asked all companies about their programs to address climate change within their own operations, with their customers, and throughout their supply chains. We addressed board diversity, board independence on key committees, and anti-bribery and corruption policies.

We met with the following companies in Tokyo:

J Front Retailing primarily operates department stores and shopping centers in Japan.



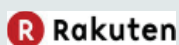
ORIX is a diversified financial services company involved in private equity, investment banking, real estate, commercial banking, insurance businesses, and environment/energy services.



Unicharm is a manufacturer of feminine care, incontinence, and baby products. It also produces pet food and pet toiletries.



Rakuten is an e-commerce company that operates a wide variety of Internet services and associated financial businesses.



Mitsubishi UFJ Financial Group (MUFG) is a diversified Japanese financial services company involved in commercial and trust banking, international finance, and asset management services.



Hoya Group is a medical technology company focused on manufacturing optical products.



Lauren Compere (center right) with Unicharm executives in Tokyo.

ENVIRONMENTAL RISK MANAGEMENT

In the wake of the Fukushima disaster, Japanese companies have responded to the call to promote energy independence by reducing their own consumption, increasing the use of renewable sources, and developing products and services to promote conservation. In our conversation with ORIX, we asked the company to develop specific guidelines for high-impact sectors like oil and gas extraction, energy, mining, and forestry. We commended ORIX's effort to increase alternative energy resources, through, for example, the Eco-Service portfolio of large-scale solar power plants (mega-solar) that it is constructing at 17 sites across Japan; which will produce a combined maximum output of 81.6 MW. ORIX now sells or leases solar rooftop power generation systems to businesses, and is investing in other sources of alternative energy, such as wind power, biomass, and geothermal.

We encouraged both ORIX and MUFG to strategically address climate change and water scarcity in their lending and financing decisions, suggesting that they look to the global banks that have adopted sector-specific guidance on these issues: Deutsche Bank, HSBC Holdings, and Standard Chartered.

We encouraged J Front to follow its peers in providing carbon footprint labeling for its private-label shirts.

DISCLOSURE & TRANSPARENCY

Japanese companies continue to provide much greater detail in the Japanese versions of their sustainability reports and websites than they do in the English-language versions. During our meetings, we emphasized the need for companies to increase transparency on ESG issues by providing more robust disclosure on policy implementation, presenting more data, setting goals, and reporting on progress.

We encouraged the companies to be more responsive to ESG research provider questionnaires, including the annual CDP survey that tracks how companies are managing their exposure to climate

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change. ORIX, MUFG, and Unicharm have responded to the CDP Carbon Questionnaire, while J Front and Rakuten have not. We encouraged J Front and Rakuten to make this a priority in 2014. More than 500 Japanese companies now participate in the annual CDP survey process.

Water stewardship is still an emerging issue with most Japanese companies, and we encouraged all those we met with to respond to the CDP Water Questionnaire. We particularly emphasized water stewardship in our conversation with Unicharm, whose supply chain and product footprint expose it to significant water risks.

As of 2014, only 1.6% of all Japanese companies have adopted the Anglo-American “3C company model,” which requires that there be a majority of outside directors on each major board committee (nominating, auditing, and remuneration). Hoya, ORIX, and Rakuten are already among this small minority of Japanese companies. Hoya has even gone a step further, quickly moving from bringing on its first independent director in 1995 to having only one inside but six outside directors in 2013. All members of Hoya’s auditing, nominating, and remuneration committees are outside directors.

WORKPLACE & HUMAN RIGHTS

Most of the companies with which we met, including J Front Retailing, ORIX, Rakuten, and Unicharm, provide comprehensive data on women in the workplace, including percentages of women in the overall workforce and at management level. They also document efforts to offer flexible hours and other work/life balance options. We commended ORIX for its progress on issues of workplace opportunity for women: almost 13.2% of its management, and 40% of its total workforce is female. The company has created a flexible culture that can adapt to working mothers, and one out of every four women employed now has children at home—a seven-fold increase since 2003.

Supply chain management and producer responsibility were key topics in our conversations with Unicharm and J Front Retailing. In our discussions, we emphasized the need to adopt a comprehensive approach to human rights risks, by creating policies that explicitly address child labor, forced labor, and slave labor, and by conducting human rights due diligence procedures. We also encouraged both companies to move beyond a compliance-based approach to chemical safety, and to begin to address such issues proactively. Given increasing consumer demand for product labeling, and the growth potential apparent in natural and organic lines, such a strategy promises rewards in the future. We were pleased to commend Unicharm for its robust CSR Procurement Guidelines, which include specific language on labor standards and human rights, along with a description of how the company has provided training on these policies to suppliers in China, Thailand, Indonesia, Taiwan, and South Korea.

We also commended J Front’s efforts to move to a more concise reporting format based on the internationally-recognized ISO 26000



Lauren Compere (center left) with other panelists at the third annual RI Asia Conference in Tokyo. Photo courtesy of: RI Asia

standard. We discussed its establishment of a Human Rights Awareness Promotion Committee, as well as the company’s measures to address human rights issues throughout the supply chain. We encouraged J Front to provide more specific language in its Supplier Code of Conduct.

Financial companies MUFG and ORIX and Internet service provider Rakuten do not consider contract or temporary employment a critical challenge for their businesses, given the number of highly skilled workers they employ. They argue that the use of contract workers is more prevalent in manufacturing and retail industries. While J Front did acknowledge that contract employment is a challenge for the company, it also noted that it works to minimize the pay differential between permanent and non-regular employees in order to minimize the risks associated with having two classes of employees. J Front also argues that a significant proportion of its non-regular workers are over the age of 65; it sees this as a clear benefit for the employees and the company.

SPEAKING UP

Lauren spoke at the third annual RI Asia Conference, which was hosted by the Japan Exchange Group at the Tokyo Stock Exchange. As part of the “ESG in Emerging Markets” panel, she drew on Boston Common’s long experience investing in Asia to highlight the lessons she has learned as a co-chair of the Emerging Markets Disclosure Project (EMDP). For four years, from 2009 to 2012, she worked with local partners in South Korea, engaging with 15 companies there to improve sustainability performance and disclosure. Lauren described her work with these local partners, how she had targeted the ESG issues at the core of a company’s business model, and used peer/sector comparison to strengthen her case for change. She also emphasized the critical role that foreign investors play in raising the profile of issues, like human rights and women’s advancement in the workplace, for which many domestic investors find it difficult to advocate. In Tokyo, Lauren also participated in the International Corporate Governance Network (ICGN) Conference, which spotlighted new corporate governance developments in Asia.

HEADING TO OUR NEIGHBOR UP NORTH

In March, Steven Heim participated in the International Energy Agency’s (IEA) second Global Unconventional Gas Forum in Calgary,

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Canada. Boston Common was the only investment firm at the conference, invited by the IEA to represent Principles for Responsible Investment (PRI) signatories who are working to engage companies on responsible fracking practices. Over one hundred people attended from around the world, discussing topics like new policy developments in India, China, and Mexico; water usage and hazards; and industry and regulatory perspectives. We urged industry representatives to provide greater disclosure on their use of best practices, arguing that investors need this information and that it will help to increase public acceptance of hydraulic fracturing. He also talked with IEA staff and others about our investment strategy and approach to shareholder engagement.

Steven also visited shale gas production operations in Canada's Montney Basin, estimated to have one of the world's largest reserves of natural gas. There, he toured an Encana horizontal multi-well development pad and hydraulic fracturing operation. He also visited an operating natural gas well site and a centralized water recycling and management facility built by Shell. This facility helps supply water to Shell's operations in the area via pipeline, eliminating the need for water transport by truck.

BACK IN THE UNITED STATES

Boston Common convened a major investor briefing with Apache Corporation in February to discuss its shale energy and hydraulic fracturing operations in western Oklahoma and the Texas Panhandle. More than 60 investors participated in the three-hour event, which was chaired by Steven Heim of Boston Common and Rich Liroff of the Investor Environmental Health Network (IEHN) and hosted by the Interfaith Center on Corporate Responsibility (ICCR). Rob Johnston, EVP & Central Region Vice President, led the discussion, and Chairman and CEO Steve Farris was on hand to answer questions. In order to encourage frank discussion, the meeting was held under the Chatham House Rule; it covered key topics of concern to investors, from water and chemicals use, to air emissions and methane, to transportation and community impact.

In March, the PRI launched a new global investor initiative with 56 publically listed companies to call for improved practices and better disclosure regarding hydraulic fracturing operations for oil and gas wells. A PRI study found most do not provide a clear picture of the risks and impacts of their fracking activities. Boston Common is the only U.S. investor serving on the initiative's steering committee and is leading or co-leading engagements with five companies.



Steven Heim by drill rig tower at Encana horizontal multi-well development pad and hydraulic fracturing operation near Dawson Creek, British Columbia. Field trip underwritten by Natural Resources Canada, a Canadian government agency.

In February, Boston Common and the Church of the Brethren Benefit Trust led a dialogue meeting on Indigenous Peoples' Rights with ConocoPhillips and about 30 investors. We discussed the implementation of the company's human rights policy in relation to indigenous peoples, and ConocoPhillips sought feedback on its evolving approach to engagement with the topic. We also organized a presentation to ICCR members by First Peoples Worldwide (FPW) on FPW's recently released Indigenous Rights Risk Report. The report analyzes the risk exposure of 52 U.S.-based oil and gas and mining companies that are located on or near Indigenous lands (<http://www.firstpeoples.org/indigenous-rights-risk-report>). Boston Common also helped organize two investor webinars to help FPW share its new report with investors worldwide.

We also led an ongoing ICCR-supported dialogue with ConocoPhillips on hydraulic fracturing. The company discussed its efforts to reduce or eliminate methane emissions from its oil and gas operations, including conventional production; it also shared its water management practices, which are designed to protect fresh water sources from contamination, and to reduce their use in hydraulic fracturing.

As part of our leadership focus on global health, Boston Common helped to draft and endorsed ICCR's new Principles and Recommended Corporate Practices to Promote Global Health. Released in February, the principles promote new business models and incentive structures designed to enhance innovation and to open access to new markets while promoting the human right to health. We also attended the GlaxoSmithKline (GSK) Board Governance Meeting in Boston to discuss current and emerging board governance issues facing the company. The discussion was led by GSK's Chairman, Sir Christopher Gent (with whom Boston Common has met in the past); Judy Lewent, Chair of the Audit & Risk Committee; and Sir Deryck Maughan, Senior Independent Non-Executive Director.

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