

An Engagement History: Addressing Conflict Minerals in Our Portfolios

Thought Piece
March, 2012

Conflict minerals are metals mined in areas of violent unrest, where revenue generated by the metals trade can be used to fund the activities of paramilitary groups.



In particular, the eastern region of the Democratic Republic of Congo (DRC) in Central Africa has seen continual violence since 1998. With casualties reaching over 5.4 million, the civil war in the DRC is the deadliest conflict since WWII.

Tin, Tantalum, Tungsten and Gold, metals in high demand by international companies, are found in abundance in the DRC. Fifty percent of the mines extracting these minerals in the DRC region are reportedly linked to armed groups, and operate under conditions of severe human rights abuses, including forced labor, child labor, rape as a weapon, a complete disregard for health and safety resulting in regular fatalities, and a prevalence of violence. The Eastern Congo is now embroiled in what can be described as a "Military-Mineral Complex." Minerals are sold to fund weapons purchases. The weapons are used to obtain land and labor. The land and the labor are exploited to mine more minerals, to fund more weapons purchases, to secure more land and more labor, and so on.

As investors, we believe that clear knowledge about sourcing practices at all levels of the supply chain is essential in forming an assessment of a company's exposure to financial and reputational risks.

In Brief

- ▶ Minerals mined in conflict areas are often extracted under conditions of severe human rights abuses, and can be used to fund the activities of paramilitary groups.
- ▶ We view transparent sourcing practices as a key part of the assessment of a company's exposure to financial and reputational risk, and an indicator of responsible supply chain management.
- ▶ We have been advocating at the company, industry, and public policy levels in an effort to eliminate conflict minerals from consumer products and company supply chains.

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At Boston Common, we feel that it is imperative to ensure that we are not inadvertently complicit in the human rights abuses committed in the Congo via our investments.

While Tin, Tantalum, Tungsten and Gold are used most notably in electronics such as mobile phones and personal computers, they are a reality in the supply chains of companies in sectors as diverse as jewelry and aerospace, making it impossible to isolate the risk of exposure in a diversified portfolio on a simple sector basis.

Conflict minerals have been a priority on our advocacy agenda since 2009. We have been advocating at the company, industry, and public policy levels to advance methods to reduce or eliminate conflict minerals from the products and supply chains of publicly traded companies.

At the company level, we have assisted companies in our portfolios address their exposure to minerals sourced from the DRC since 2009.

We have taken a leadership role in working with Asian companies, with direct engagements with Hyundai Motors and Samsung in Korea; and Toyota, Sony, Canon, and other major corporations in Japan. In late 2009, we joined an initiative targeting the Information and Communications Technology (ICT) sector organized under the United Nations Principles for Responsible Investment (UNPRI).



As part of this initiative, we led the engagements with Canon, Sony, and Microsoft. Additionally, we have engaged Ford Motors, Nokia, Vodafone, Philips, HP, and Disney on conflict minerals disclosure. Canon announced that it would address conflict minerals in its 2012 Sustainability Report.

At the industry level, we have taken the discussion on conflict minerals beyond ICT.

As co-coordinator of investor engagement under the Interfaith Center on Corporate Responsibility (ICCR), we co-authored an investor statement on Conflict Minerals in the DRC in 2010, which was signed by nearly 60 faith-based and institutional investors. The statement encouraged companies to take a systematic approach to tracing and eliminating conflict minerals in their supply chains. In April 2010, the statement was sent to more than 100 companies worldwide, in sectors that included aerospace, auto, and medical devices.

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From 2010 - 2012, we focused on engaging the Securities and Exchange Commission (SEC) on the Conflict Minerals Law, taking our engagement into the public policy realm.

Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, also known as the Conflict Minerals Law, has been established to require companies to report on the presence of conflict minerals in their products. Implicated companies will be required to prove that controversial minerals do not fund armed activity in the regions where they are sourced. We are one of the lead investors under Responsible Sourcing Network, and as such we helped coordinate investor recommendations to the SEC on the form the Conflict Minerals Disclosure rules should take.

As one of the lead investors under Responsible Sourcing Network, we helped coordinate investor input, via a series of letters to the SEC, on which companies should file the Conflict Minerals Reports, and how those companies should file. We also participated in a multi-stakeholder coalition of Fortune 500 companies, investors, and human rights organizations on the ground in the DRC that submitted four joint letters to the SEC recommending transparency and accountability in mineral supply chains. In October 2011, we participated in a follow up letter to the October 18th SEC Conflict Minerals Roundtable, at which Lauren Compere (Director of Shareholder Advocacy at Boston Common) was invited to speak. In February 2012, Lauren Compere met with SEC Commissioner Elise Walter to discuss the Conflict Minerals Law, and to reinforce the need to issue the rules sooner rather than later so as to allow companies the time to adapt to its stipulations.



Post Script

Developments in 2012:

While originally scheduled for release in June 2011, the final rules of the Conflict Mineral Law were issued in August 2012. Adoption of the rules was narrowly passed by a 3-2 vote of SEC commissioners. In a public press release, we commended the SEC for passing a version of the rule that requires both domestic and foreign issuers of all sizes to exercise the same rigor in supply chain due diligence. We were disappointed however, that mining companies are excluded from the reporting requirements.

The release was delayed in part due to repeated challenges by various business groups, most notably the U.S. Chamber of Commerce, who opposed the rule's requirements. During that time, we maintained ongoing dialogue with the companies in our portfolios most directly affected by the pending regulation. On a call with Microsoft in June 2012, for instance, we commended the company for its commitment to ethical sourcing and for publicly stating its opposition to the position adopted by the Chamber of Commerce.

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Developments in 2012

(Continued)

As part of our efforts to build cross-regional transparency via the Emerging Markets Disclosure Project, in 2012 we engaged Korean companies in dialogue on conflict minerals using the pending legislation in the US as a platform for discussion. Companies like LG and Samsung lead their industry peers in South Korea in addressing conflict minerals, having joined EICC-GeSI (Electronic Industry Citizenship Coalition - Global e-Sustainability Initiative) and committing to ethical sourcing policies. We encouraged these companies to expand their leadership by joining the Public-Private Alliance for Responsible Minerals Trade. We were pleased that semiconductor manufacturer Hynix (recently acquired by SK Telecom) responded to customer pressure by creating a supplier audit mechanism to reduce exposure to conflict minerals. We encouraged Hynix to join the EICC-GeSI working group, and asked Hyundai Motors and SK Telecom to also assess their exposure.

Currently, the U.S. Chamber of Commerce and other business groups are challenging the Conflict Minerals Law in a lawsuit against the SEC that argues the commission failed to weigh the economic impacts of the disclosure rules on business. We feel that the two to four year allowance provided by the SEC will allow companies to phase implementation of the new rule into their operations.



We strongly believe that any stay in legislation would create a disincentive for involved stakeholders on the ground in the DRC to move away from mining activities related to the ongoing regional violence.

In November 2012, members of the multi-stakeholder group - including companies like Microsoft, HP, and Dell - issued a statement voicing opposition to the lawsuit and urging stakeholders to continue providing weight to the movement toward greater transparency in company supply chains. Following this, we helped draft an investor letter, ultimately featuring nearly fifty signatories, which was sent to the SEC commissioners and chairman urging them to reject any delay in implementing the new legislation.

The issuance of the final conflict minerals rules provides a launching pad for renewed engagement with select portfolio companies. We plan to continue to spearhead engagements with companies based in Asia, and to involve companies across sectors in the dialogue.

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Boston Common Asset Management

is an investment manager and a leader in global sustainability initiatives. We specialize in long-only equity and balanced strategies and pursue long-term capital appreciation by seeking to invest in diversified portfolios of high quality, socially responsible stocks. Through rigorous analysis of financial, environmental, social, and governance (ESG) factors we identify what we believe are attractively valued companies for investment. As shareholders, we urge portfolio companies to improve transparency, accountability, and attention to ESG issues. Our focus is global; we manage U.S. and international portfolios to meet the needs of institutional and individual investors. We are independent, employee-owned, and field a seasoned, close-knit team of professionals.