BOSTON COMMON ASSET MANAGEMENT

BOSTON
200 State Street, 7th Floor
Boston, MA 02109
CONTACT: Brian Chiappinelli
tel (617) 934-0932
bchiappinelli@bostoncommonasset.com

SAN FRANCISCO
111 Pine Street, Suite 1420
San Francisco, CA 94111
CONTACT: Ashley Lyon
tel (415) 813-1500
alyon@bostoncommonasset.com

Emerging Markets Strategy Update

Second Quarter, 2017

EMERGING MARKETS REVIEW

The MSCI Emerging Market Index ("the Index") advanced +6.3% in the second quarter, continuing its outperformance relative to the MSCI World Index, which returned +4.3%. EM Asia (+8.6%) was the best performing region, faring better than EMEA (+2.1%) and Latin America (-1.7%). In local currency terms, the Index gained +6.6%. EM currencies remained resilient even as the Federal Reserve delivered its third rate hike in six months. The price of Brent crude oil fell -9.0%, and commodity currencies in general lagged (Columbian Peso -5.3%, Russian Rubble -4.1%). Central European currencies (Czech Koruna +10.4%, Polish Zlotty +6.8%) were the best performing currencies.

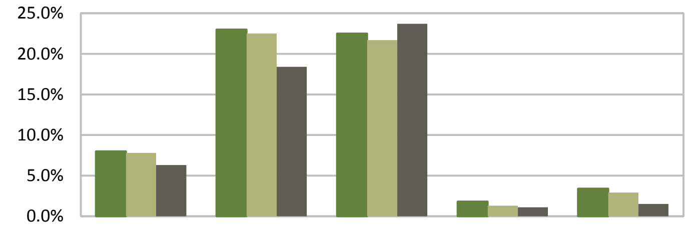
Strong corporate earnings and generally positive economic data supported Emerging Markets outperformance. China (+10.6%) led the performance in Asia as economic indicators broadly signaled stable growth and investors' concerns over its currency eased. India lagged (+2.9%) on concerns around potential disruptions from the upcoming Goods and Service Tax. In the EMEA region, Turkey (+19.4%) and Hungary (+19.4%) rebounded along with rising earnings expectations. In contrast, Russia was one of the weakest performing markets (-10.0%) as oil prices declined. The indictment of President Michel Temer on corruption charges, coupled with weak commodity prices, weighed on Brazil's (-6.7%) performance.

Information Technology (+15.5%) and Consumer Discretionary (+8.4%) were the best performing sectors, continuing their leadership from the first quarter. Falling commodity prices caused the Energy (-4.9%) and Materials (-0.5%) sectors to lag the Index. Utilities (-1.8%) and Telecommunications (+2.0%) also underperformed the market due to their less cyclical nature.

PORTFOLIO REVIEW

The Boston Common Sustainable Emerging Markets Equity strategy returned +8.0% during the quarter, before fees, outperforming the Index. Stock selection in Financials was the primary driver of relative results. Chinese insurance company Ping An (+17.8%), Indian Bank HDFC (+15.9%), and Indonesia Bank Rakyat (+16.1%) all benefited from robust earnings. Stock selection in the Consumer Staples sector also added value. LG Household & Health Care (+17.1%), a leading personal care company in Korea, rebounded strongly as investor sentiment improved and political uncertainties with China dissipated. Our underweight in Energy and Materials also helped performance. From a country standpoint, stock selection in Russia, Brazil, and South Africa led positive relative results. Naspers (+12.4%), which owns 34% of Chinese Internet company Tencent, and Russian search company Yandex (+20.4%) continued their strong performance. Additional key contributors include China Internet company Alibaba Group (+30.1%), technology company Mediatek (+20.5%), and Samsung Electronics (+12.8%).

PERFORMANCE



	QTD	YTD	1Yr	3Yr	Since Inception*
Gross	8.0%	23.0%	22.5%	1.8%	3.4%
Net	7.8%	22.5%	21.7%	1.3%	2.9%
MSCI EM	6.3%	18.4%	23.7%	1.1%	1.5%

CONTRIBUTORS & DETRACTORS

TOP 10	% OF CAPITAL	RETURN	RELATIVE CONTRIB.	SECTOR
ALIBABA GROUP HOLDINGS	4.9%	30.1%	1.06%	Technology
PING AN INSURANCE GROUP CO	3.3%	17.8%	0.35%	Financials
SAMSUNG ELECTRONICS CO LTD	5.8%	12.8%	0.35%	Technology
HDFC BANK	3.3%	15.9%	0.31%	Financials
BANK RAKYAT	3.0%	16.1%	0.29%	Financials
NASPERS	5.0%	12.4%	0.28%	Consumer Discretionary
TENCENT HOLDINGS LTD	1.6%	25.6%	0.27%	Technology
MEDIATEK INC	1.6%	20.5%	0.24%	Technology
YANDEX N V	2.1%	20.4%	0.22%	Technology
LG HOUSEHOLD & HEALTH CARE	2.1%	17.1%	0.22%	Consumer Staples
			3.59%	

BOTTOM 10				
ITAU UNIBANCO HLDG SA	2.8%	-8.8%	-0.42%	Financials
VIPSHOP HLDGS LTD	1.0%	-20.2%	-0.33%	Consumer Discretionary
SBERBANK RUSSIA	1.6%	-11.9%	-0.31%	Financials
GCL-POLY ENERGY HOLDINGS LTD	1.0%	-17.4%	-0.27%	Technology
BANK OF COMMUNICATIONS CO	2.3%	-3.9%	-0.24%	Financials
NAVER CORP	2.0%	-4.8%	-0.23%	Technology
PTT GLOBAL CHEMICAL PCL	1.7%	-5.8%	-0.21%	Materials
INFOSYS LTD	1.6%	-3.8%	-0.18%	Technology
SOCIEDAD QUIMICA MINERA DE C	1.7%	-2.3%	-0.17%	Materials
PERUSAHAAN GAS	0.7%	-9.1%	-0.11%	Utilities
			-2.47%	

Stock selection in Information Technology was the primary detractor from relative performance. Chinese solar materials company GCL-Poly Energy (-17.4%) suffered from declining pricing due to industry over supply. Weaker-than-expected earnings weighed on Indian IT service company Infosys (-3.8%) and Korean Internet company Naver (-4.8%). Stock selection in Consumer Discretionary also detracted, with Chinese online flash sale company VIP Shop declining -20.2% on margin pressures as the company continues to invest to drive top line growth. Other notable detractors include Brazilian bank Itau (-8.8%), Indonesia gas utility company Perusahaan Gas (-9.1%), and Thailand petrochemical company PTT Global Chemical (-5.8%).

*Since Inception: December 31, 2012

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PORTFOLIO ACTIVITY

Among our portfolio actions this quarter, we purchased IHH Healthcare Bhd, a leading healthcare service provider based in Malaysia. IHH, with 50 hospitals currently, has built the largest private network across Asia, Eastern Europe, and the Middle East. The company has a strong track record of building operations in markets where there is unmet demand for healthcare. With a strong brand, superior pricing power and a premium market positioning, IHH is well placed to capture consumers' growing demand for quality healthcare services. The company faces some near-term headwinds due to the startup costs from a new hospital in Hong Kong. In our view, this provides an attractive opportunity to gain exposure to a high-quality business with ample long-term growth drivers.

At the same time, we exited our Malaysian Telecom holding, Axiata Group, as we see an increasingly challenging earnings outlook given intensified competition and soft domestic demand. We also sold Taiwanese bike manufacturer Giant as we lost confidence in the company's ability to maintain market share in China as competition heated up from local, low-cost manufacturers.

ECONOMIC & MARKET OUTLOOK

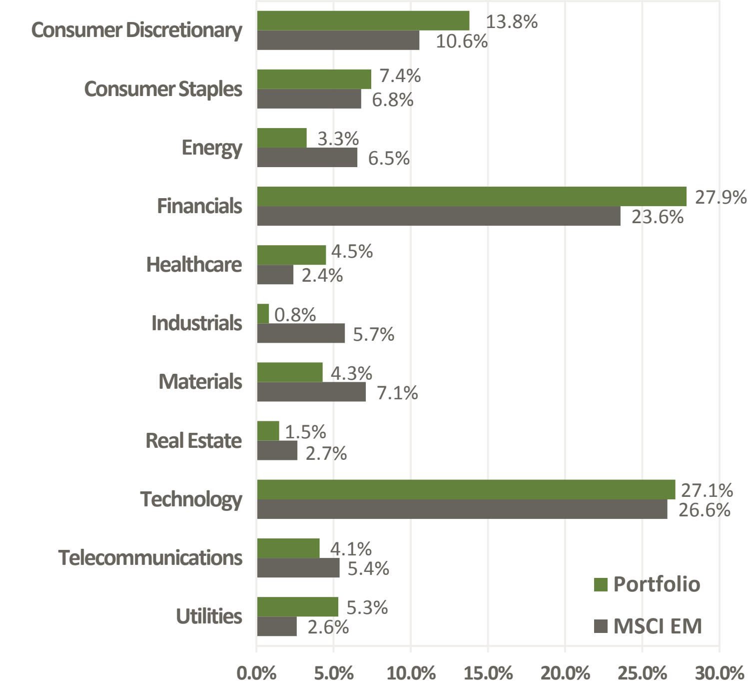
Since early 2016, Emerging Market equities have outperformed Developed Market equities by 17%. Several broad macroeconomic trends supported this outperformance: rebounding commodity prices, recovery in global trade, an uptick in global economic activity particularly in the Euro Zone, and resilient EM consumers, especially in Asia. We see some moderation of the commodity-driven reflation, but expect global economic strength to remain broadly intact. Long-term fundamentals supporting EM consumption remain solid. Corporate earnings have been strong, and estimates for 2017 have been revised up by 24%. In fact, this is the first time since 2011 that earnings have seen upward revisions from the beginning of the year.

The impact of the major central banks' attempts to normalize monetary policy remains a key risk on investors' minds. In our view, inflationary pressures remain largely muted globally, especially as the base effects from stabilized oil prices fade. While we are mindful of potential volatility in the second half of the year, on balance, we think global liquidity conditions seem unlikely to threaten EM as a whole. We are wary of other risks including geopolitical tensions in East Asia and protectionist policies in the US. However, we believe risks are largely discounted in current valuations. Emerging Markets are trading at 1.5x forward Price to Book versus 2.1x in Developed Markets, a 30% discount. Our portfolio remains cyclically positioned with a bias towards sectors that should benefit from strong domestic demand, with an overweight in Financials and Consumer Discretionary. Our portfolios include environmental, social, and governance (ESG) leaders in every sector, which reflects our belief that ESG is an integral factor defining investment quality.

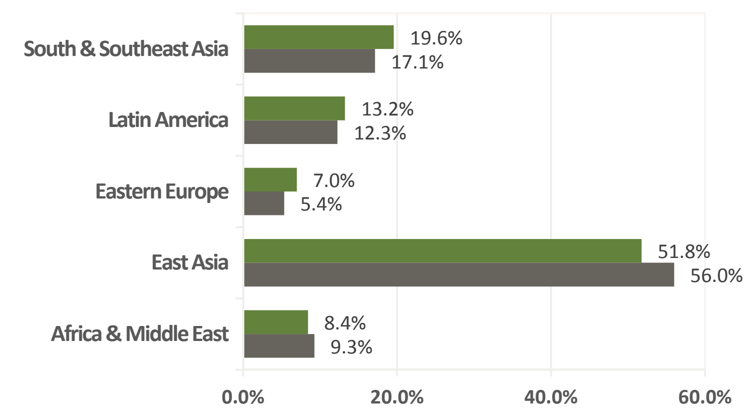
Asia

Emerging Markets, which used to rely heavily on commodity-oriented export growth, have shrugged off the most recent oil price weakness. The decoupling of commodities and Emerging Markets reflects the growing influence of Asia as well as the Technology sector. Asia now accounts for 72% of the MSCI EM Index, compared to 29% in 1997.

SECTOR ALLOCATION



SUB-REGIONAL ALLOCATION



PORTFOLIO CHARACTERISTICS

	BOSTON COMMON	MSCI EM
# HOLDINGS	52	845
Valuation		
Next 12m Price to Earnings	14.9	12.3
Price to Book Value	2.4	1.7
Price to Sales	1.9	1.3
Dividend Yield	2.0%	2.1%
Growth		
5yr Sales Growth	7.2%	3.0%
5yr EPS Growth	9.2%	3.9%
Risk		
Wtd Avg Mkt Cap	73,958	76,021
LT Debt/Cap	25.6%	25.3%
Beta	1.08	1.00

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The Technology sector currently accounts for 25% of the Index, almost all in Asia, relative to just 6% twenty years ago. In our view, the leapfrogging in Internet adoption and ecommerce development, coupled with a rapidly growing middle class, should support a favorable structural outlook for the Technology sector. We continue to overweight Asia and are optimistic about its growth outlook because of the dynamic domestic demand, as well as the tailwinds of global trade recovery.

Credit rating agency Moody's recently downgraded Chinese sovereign debt based on concerns about the country's debt buildup. At the same time, index provider MSCI announced it will include Shanghai-traded (A shares) Chinese stocks in its influential Emerging Markets index for the first time. Hong Kong and US-listed Chinese stocks currently account for over 25% of the EM index. While the A shares initially added will be weighted less than 1%, the allocation is expected to rise such that China could eventually account for almost 40% of the EM index. This reflects a key debate for global investors: whether China can manage the balancing act between ensuring financial stability and maintaining growth. After stabilizing the economy through government stimulus, Chinese authorities have recently introduced measures to tighten off-balance sheet lending activities and restrict real estate purchases. These measures are likely to create cyclical headwinds, but are healthy and necessary steps to reduce financial risks. In the meantime, it is encouraging to see a recovery in private investment which is the more profitable segment in the economy. After a very strong start to the year, we expect China's economic growth momentum to moderate in the second half.

Korea's growth outlook appears to be strengthening, boosted by rising global trade alongside improving consumer sentiment and business confidence post the recent Presidential election. The arrival of President Moon raised hopes for the much awaited corporate governance reform given his anti-chaebol agenda. Recent research by Asia Corporate Governance Association showed that Korea's Corporate Governance ranking has demonstrated the strongest improvement among Asian countries. Investors remain skeptical, as reflected in Korea's discounted valuation of 9x forward P/E. While the intricate geopolitical relationship with North Korea, China, and the US remains a key risk, we hold a more constructive view on Korea and see further progress on corporate governance and shareholder value as a potential catalyst for upside.

Latin America

Growth in Latin America continues to lag other EM regions, although this year's forecast of 1.2% would be an improvement from the economic contraction witnessed in 2016. In May, a corruption scandal in Brazil directly implicated President Temer, throwing Latin America's largest country into political turmoil just as it was emerging from its worst recession in history. Both the currency and equity markets tumbled, declining 19% in USD terms in one day. Although President Temer has held onto power so far, the structural reform agenda, which had propelled the strong rally in Brazil, will likely slow. We had been more skeptical about the reform progress than the market reflecting our underweight to the country, but we see certain Brazilian companies that offer good values after this sharp correction.

NEW & CLOSED POSITIONS

CLOSED	SECTOR	% OF PORT.
AXIATA GROUP BHD	Telecommunications	0.8%
GIANT MANUFACTURING	Consumer Discretionary	0.9%
TOTAL CLOSED		**1.7%**

NEW	SECTOR	% OF PORT.
IHH HEALTHCARE BHD	Healthcare	1.0%
TOTAL NEW		**1.0%**

COMPANY SPOTLIGHT: BANK RAKYAT

Description

PT Bank Rakyat Indonesia is Indonesia's oldest bank with roots dating back to 1895. It provides general banking services to more than 50 million customers. Bank Rakyat is a leader in micro-finance and has been used by the World Bank as a role model in emerging countries. Thirty-three percent of its total loan book is generated from micro-finance, 23% from Small-and-Medium-Enterprises, and 16% from consumers, with corporate loans accounting for the remaining 28%. The bank is headquartered in Jakarta.

Integrated Investment Thesis

Bank Rakyat is one of the world's most profitable and rapidly growing banks. Indonesia has low banking penetration and, as the fourth most populous country, provides a fertile ground for longer-term, sustainable high rates of loan growth. The country's GDP per capita ($4,000) is reaching a level typically associated with rising financial service utilization. For its micro-enterprise program, Bank Rakyat raises funds from the same communities to which it lends. This has allowed the program to achieve a notably low non-performing loan ratio of 2% over the past ten years. The bank has also invested in mobile and online banking distribution channels, distinguishing itself from Indonesian peers.

Bank Rakyat continues to achieve a very high return on assets and we expect this to improve further as credit costs move lower. Its strong capital generation and solid balance sheet should enable the bank to sustain or raise its dividend payout. Given the solid company fundamentals, the country's strong nominal GDP growth, and long-term growth prospects, we find the valuation attractive relative to other banks.

ESG Profile

Bank Rakyat offers solutions to provide 'Access to Finance' through the community banking model, which leverages the strong personal relationships and social capital within rural communities. Through a partnership with the Indonesian government, the bank offers two micro loan products (Kupedes and KUR Micro) and a savings product (Simpedes) that help in financing and mentoring micro and small businesses, including cooperatives. Bank Rakyat's employee turnover ratio was 1.2% in 2015, down from 1.9% in 2013, which illustrates the bank management's improvements in recruiting talent and retaining personnel.

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At the same time, the Mexican peso has returned 15% year-to-date, one of the best performing EM currencies, thanks to receding concerns over its trade relationship with the US. We see a more balanced risk-reward from Mexico and expect potential volatility as NAFTA renegotiations pick up and the market gains more visibility into the 2018 presidential election. We remain underweight in Latin America overall but have added some high-quality companies in Brazil post the market sell-off.

Europe, the Middle East, and Africa ("EMEA")

We have recently increased exposure to the Central European region given our favorable outlook of European recovery. Growth in Emerging Europe has been boosted by the Euro Zone's strong economic recovery. We expect momentum to continue, as we see Europe is still in the early stages of an upswing in the business cycle. Inflation is likely to remain subdued across much of the region, allowing central banks to maintain relatively accommodative monetary conditions. Given our cautious view on the commodity supply dynamic, our holdings in the region are mostly geared towards companies that will benefit from strong domestic demand.

Shareholder Engagement Highlights

Milestones	**Chemical Safety –** In April, **CVS Health** announced its intention to **remove all parabens, phthalates and the most prevalent formaldehyde donors across nearly 600 beauty and personal care products** from store brand CVS Health, Beauty 360, Essence of Beauty, and Blade product lines by the end of 2019. The company is also publishing a full list of chemicals restricted from use in current store brands by product category. We are encouraging CVS to expand this effort beyond its private brands.
	Corporate Governance & Shareholder Rights - Alphabet (Google) class A shareholders receive only one vote per share owned, while class B holders (typically insiders) outweigh "outsiders" with 10 times the voting rights. Boston Common co-filed an **equal voting rights shareholder proposal** at Alphabet, which received an overall "for" vote of 28.9% when counting both voting classes (A and B) together. **Almost 99% of class A shareholders supported the proposal.**
Work in Progress	**Global Health -** We are leading an investor engagement on improving the nutritional practices of 13 leading Food & Beverage companies benchmarked by the **Access to Nutrition Index (ATNI)**, including **Mondelēz** and **Unilever.** As of 2016, 35% of Unilever's portfolio by volume met the highest nutritional standards (based on globally recognized dietary guidelines), and the company is on track to achieve its 60% goal by 2020. We encouraged Unilever to add more positive nutrients under its product reformulation efforts. With Mondelēz, we discussed nutritional performance in the context of promoting health of consumers and links to a more sustainable food system.
	Eco-Efficiency – We met with the CEO of electric and gas utilities **Origin Energy** and **National Grid** staff to discuss **GHG emissions and Eco-Efficiency**. Origin plans to retire coal-fired power plants and replace them with wind and solar power. National Grid plans to replace leaky gas pipes in New York and expand regional transmission lines to carry renewable power. We are continuing to encourage **BMW** to join the EP100.
	Supply Chain Management & Workplace Safety – Four years following the collapse of Rana Plaza, we continue to support the **Bangladesh Accord on Fire and Building Safety** in a coalition of global investors representing over U.S. $4.3 trillion, which issued a recent statement on its success. We are also engaging **VF Corp (Timberland)** on a new aspect of Bangladesh where **egregious labor and environmental practices were discovered in the $1 billion-per-year tannery industry including widespread child labor and no water effluent treatment** for 150 tanneries in Hazaribag.
New Initiatives	**Gender Equality –** We launched our **Gender Equality initiative** this quarter and evaluated 8 portfolio companies held in both our US Core and Value strategies, including **CME Group, Mohawk Industries** and **Oracle**. We became a signatory to the Women's Empowerment Principles in 2015 and are urging companies to: **improve disclosure on board level oversight of diversity initiatives, provide internal research on the gender pay gap, and develop metrics to measure progress on how equal opportunities are upheld**. We have written to each company, highlighting examples of good management practices on gender equality, wherever possible.