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Emerging Markets Strategy Update

Fourth Quarter, 2016

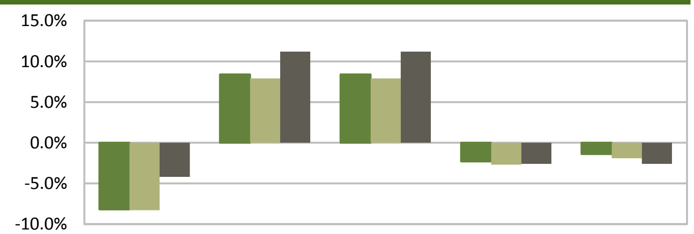
EMERGING MARKETS REVIEW

The MSCI Emerging Markets Index ("Index") declined -4.2% in the fourth quarter, lagging the MSCI World Index (+1.9%). In local currency terms, the Index declined -1.4% but weaker EM currencies detracted -2.8% from returns. The surprise election of Donald Trump as the next US President resulted in investor optimism for a cyclical rebound, helping to send the US Dollar and interest rates higher. The price of oil rose 13% in the quarter following OPEC's agreement on production cuts. Emerging Asia (-6.1%) underperformed EMEA (+1.8%) and Latin America (-0.9%). Currencies that are perceived as most sensitive to a strong Dollar, posted the steepest decline, including the Turkish Lira (-14.7%), Malaysian Ringgit (-7.8%), and Polish Zloty (-8.3%). For the full year 2016, however, emerging markets produced a return of +11.2%, outperforming the developed markets (+7.5%), in contrast to the prior year's underperformance of -14%.

Russia (+18.6%) was the best performing country in the fourth quarter boosted by the recovery in oil prices and an improving domestic economy. Turkey registered the biggest decline (-13.7%) driven by heightened political uncertainties. Expectations for higher fiscal stimulus in the US and an improving Chinese economy triggered a strong rally in industrial metals such as iron-ore and copper. This benefited countries in Latin America with Peru (+2.5%), Chile (+2.2%), and Brazil (+2.1%) all outperforming. In contrast, Mexico (-7.9%) was negatively impacted by the prospects of anti-trade and anti-immigration policies. Thailand (-1.8%) fared best within Asia while the Philippines fell -12.8% due to increasing concerns about President Duterte's governance style. China (-7.1%) lagged despite signs of economic stabilization as concerns intensified over trade friction with the US and continued weakening of its currency. India finished down (-8.0%) due to the expected negative economic impact from an abrupt government demonetization effort.

Commodity-related sectors led the Index in the fourth quarter as Energy and Materials rallied +8.0% and +4.2%, respectively. Financials slightly declined (-0.7%) but outperformed the Index. By contrast, defensive sectors, such as Consumer Staples (-10.5%) and Healthcare (-9.6%), were the worst performing sectors.

PERFORMANCE



	QTD	YTD	1Yr	3Yr	Since Inception*
Gross	-8.2%	8.4%	8.4%	-2.3%	-1.4%
Net	-8.3%	7.9%	7.9%	-2.7%	-1.9%
MSCI EM	-4.2%	11.2%	11.2%	-2.6%	-2.6%

CONTRIBUTORS & DETRACTORS

TOP 10	% OF CAPITAL	RETURN	RELATIVE CONTRIB.	SECTOR
SBERBANK RUSSIA	1.8%	23.1%	0.45%	Financials
SAMSUNG ELECTRONICS CO	5.2%	4.0%	0.44%	Technology
ITAU UNIBANCO HLDG SA	2.5%	4.8%	0.24%	Financials
SHINHAN FINANCIAL GROUP	1.8%	5.4%	0.16%	Financials
STANDARD BK GR LTD	1.4%	8.2%	0.14%	Financials
PTT GLOBAL CHEMICAL PCL-NVDR	1.6%	3.8%	0.13%	Materials
POL GORN NAFT I GA	1.5%	2.2%	0.11%	Energy
HYUNDAI MOTOR CO	1.3%	-0.6%	0.05%	Consumer Discretionary
BEIJING ENTERPRISES WATER GR	1.9%	-1.5%	0.04%	Utilities
DR REDDYS LABS	2.2%	-2.5%	0.03%	Healthcare
			1.79%	

BOTTOM 10	% OF CAPITAL	RETURN	RELATIVE CONTRIB.	SECTOR
NASPERS	5.0%	-14.9%	-0.63%	Consumer Discretionary
ALIBABA GROUP HOLDINGS	4.5%	-17.0%	-0.61%	Technology
NAVER CORP	2.2%	-19.9%	-0.38%	Technology
KIMBERLY-CLARK DE MEXICO	1.8%	-18.5%	-0.29%	Consumer Staples
BYD CO	1.6%	-19.1%	-0.25%	Consumer Discretionary
LG HOUSEHOLD & HEALTH CARE	1.7%	-17.9%	-0.25%	Consumer Staples
HDFC BANK	2.0%	-15.4%	-0.22%	Financials
ENN ENERGY HOLDINGS	1.8%	-15.5%	-0.21%	Utilities
AKBANK T.A.S.	1.4%	-17.0%	-0.20%	Financials
CTRIP COM INTL	2.0%	-14.1%	-0.19%	Consumer Discretionary
			-3.23%	

PORTFOLIO REVIEW

The Boston Common Sustainable Emerging Markets Equity strategy returned -8.2% for the quarter, before fees, underperforming the Index. In aggregate, the strategy was hurt by the sharp turn in the market in November that pressured high-quality growth stocks and boosted low-quality value stocks. In our view, financial leverage, earnings variability, and end-market growth are important indicators of quality. The US election result boosted the cyclical outlook, particularly helping low-quality commodity producers that had been depressed.

More specifically, we have less exposure to the Energy and Materials sectors—a key drag on relative performance this quarter. Stock selection in the Consumer Discretionary sector also detracted from results, as South African internet company Naspers (-14.9%) and Chinese online travel company Ctrip (-14.1%) declined. China's largest electric vehicle and battery manufacturer BYD (-19.1%) was hurt by lowered government subsidies, but its long-term growth prospects remain intact thanks to scale advantages and continued cost control. Performance in the Information Technology sector trailed the benchmark as well. Our historically-strong e-Commerce holdings, Naver (-19.9%) and Alibaba (-17%), retreated as investor sentiment towards secular growth stocks weakened. Expectations for a tougher trade environment and a stronger US Dollar weighed on our Mexican and Turkish holdings, with Kimberly Clark Mexico (-18.5%) and Akbank (-17.0%) among the largest detractors from portfolio returns.

*Since Inception: December 31, 2012

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Stock selection in Poland and Thailand contributed positively to relative performance. PTT Global Chemical (+3.8%) and Polish Oil & Gas (+2.2%) rallied on expectations of earnings recoveries. Stock selection in Korea also contributed to results. Samsung Electronics (+4.0%) announced favorable shareholder return policies and strong semiconductor earnings. Banks accounted for four of our top ten contributors including Sberbank (+23.1%), Itau Unibanco (+4.8%), Standard Bank (+8.2%), and Shinhan Financial (+5.4%). Other notable contributors to relative performance included Chinese waste water utility company Beijing Enterprises Water (-1.5%) and Hyundai Motor (-0.6%).

PORTFOLIO ACTIVITY

Among our portfolio actions this quarter, we purchased Vipshop, a leading online flash-sales retailer in China. The discount retail market in China should continue to post double-digit growth driven by further penetration of online shopping. As the market leader, Vipshop has significant scale advantage when it comes to securing inventory, merchandizing and logistic distribution. Vipshop shop has grown its active users to 53 million, a compounded growth rate of 90% over the past four years. We expect this growth rate will normalize and the company can sustain double digit earnings growth over the next several years. The stock is trading at 17x P/E, which looks compelling considering its strong earnings growth potential.

We also purchased Chinese Internet company Tencent, a leading provider of social media and Internet service in China. Tencent's share price corrected during the quarter as investors rotated to deep cyclical stocks, which provided an attractive opportunity to gain exposure to a high-quality company with sustainable, long-term growth.

During the quarter, we sold Indian auto manufacturer Tata Motors. The company has delivered strong earnings thanks to successful new model launches, but with valuation approaching five-year highs, we believe this was discounted in the share price. In addition, we have become more cautious about the corporate governance of the Tata group and have deployed the proceeds into more attractively valued consumer exposure.

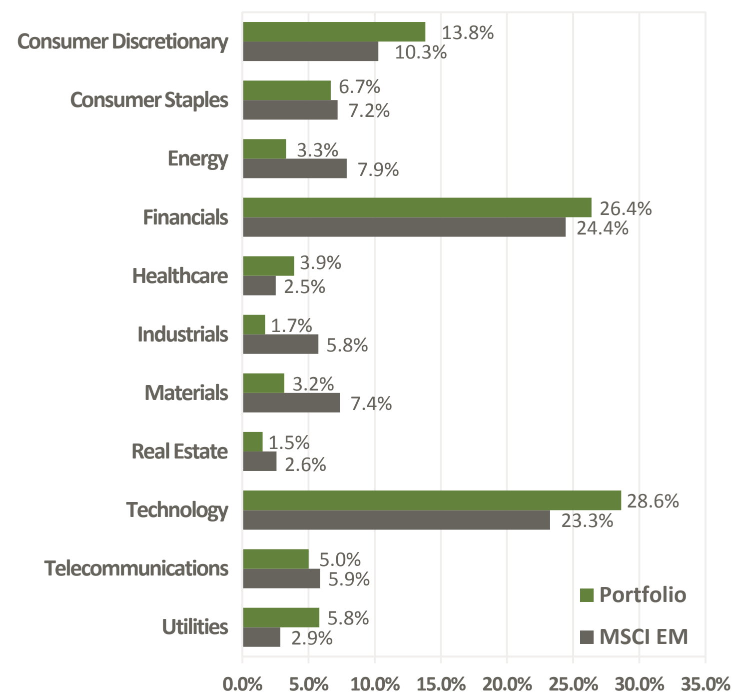
ECONOMIC & MARKET OUTLOOK

The outcome of the US Presidential election has initially been interpreted by investors as a negative for emerging markets. Uncertainties about US trade policy and a stronger US Dollar are potential headwinds. At the same time, an improving US economy can have positive implications for EM growth and boost investors' appetite for riskier assets. In our view, the divergence in perception between the cyclical optimism towards developed markets and the risk-averse pessimism towards emerging markets creates opportunities for long-term investors. Macroeconomic fundamentals are improving in emerging market economies and corporate earnings are likely recovering. Many countries, particularly those in Asia, have adjusted to external shocks through currency flexibility and structural reforms. They are in a better position than they were during the 2013 "Taper Tantrum" with improving current account balances and foreign reserves. As we are mindful of the risks related to rising global protectionism, our portfolio is positioned towards domestic demand in EM, which should be less impacted by potential disruptions in trade.

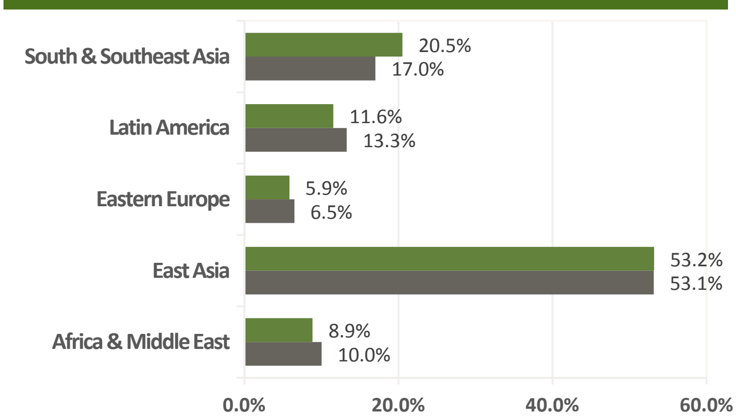
Asia

China has been a key target of President-elect Trump's anti-trade rhetoric with campaign threats of tariffs up to 45% on Chinese imports, tagging the country as a currency manipulator, and by flouting the one-China policy with direct communication with Taiwan's president. Deterioration of Sino-US relations is a key risk as friction between the two largest economies would

SECTOR ALLOCATION



SUB-REGIONAL ALLOCATION



PORTFOLIO CHARACTERISTICS

	BOSTON COMMON	MSCI EM
# HOLDINGS	51	832
Valuation		
Next 12m Price to Earnings	13.6	11.7
Price to Book Value	2.0	1.5
Price to Sales	1.6	1.2
Dividend Yield	2.0%	2.7%
Growth		
5yr Sales Growth	6.2%	5.2%
5yr EPS Growth	5.9%	4.5%
Risk		
Wtd Avg Mkt Cap	50,164	55,505
LT Debt/Cap	26.9%	26.0%
Beta	1.10	1.00

likely have global repercussions. Additionally, China's foreign exchange reserves have declined nearly one trillion Dollars from its 2014 high at nearly $4 trillion as it works to prevent its currency, the Yuan, from depreciating further. In fact, the US Dollar has strengthened 25% during this period against major world currencies but only 13% versus the Yuan. Given the expectation of a rising Dollar, we expect the Yuan will drift lower against the Dollar but remain largely stable on a trade-weighted basis, consistent with the People's Bank of China's policy since August 2015.

China has not experienced a hard-landing that many feared at the beginning of 2016. The services sector has been resilient and retail sales have continued to show double-digit growth. Meanwhile, the industrial sector has stabilized as the Chinese government adopted expansionary fiscal policies. China's Producer-Price-Index ("PPI"), a measurement of pricing power for the manufacturers, has accelerated, recently reaching 5.5% and should be supportive for corporate cash flow and profitability. Looking ahead, we view the recently lowered growth target by the Chinese leaders as a welcome signal that the government is aware of the risk of rising leverage. We expect that the government's proactive fiscal policy will continue to serve as the major stabilizer of domestic demand. A continued commitment to the painful but necessary structural reform is key for China's future outlook. State-owned-enterprises reforms, reduction of excess capacity, and lower leverage could provide a boost to investor sentiment in 2017.

India will likely be the fastest-growing large economy in 2017 with forecasts for over 7% GDP growth. However, Prime Minister Narendra Modi has recently ushered in a radical economic experiment. In November, the government announced an overnight ban on the use of 500 and 1,000 Rupee notes (equivalent to approximately $7 and $14) that together accounted for 86% of India's cash in circulation. The move is intended to bring to light "black money" sourced from illegal activities, but the whole country has been plunged into upheaval trying to comply with the change. We expect the severe economic disruption will be short-lived, but near-term growth could be clipped and Prime Minister Modi's popularity will likely suffer over time. Global investors are typically patient with Emerging Markets' governments when they are implementing bold structural reform.

Latin America

In a divergence from historical trends, commodity prices rallied this past quarter even as the Dollar strengthened. A strong Dollar is typically correlated with weaker commodity prices since non-US production costs decline in Dollar terms. This anomaly leads us to retain a cautious underweight position in Latin America. Our portfolio holdings in the region are focused on consumer and financial companies that benefit from secular growth opportunities with reasonable valuations.

The Mexican Peso has fallen 15% since the US election as investors reacted negatively to the prospects of anti-Mexico policies. There is no clarity to how these policies would transpire, but the uncertainties over Mexico's future relationship with its largest trading partner could reduce foreign direct investments and hurt consumer confidence. While the new Administration could eliminate NAFTA entirely, inhibiting open trade would hurt both the US and Mexico growth because for every Dollar of Mexico export to the US, 40 cents is imported back from the US. In our view, Mexico should have enough flexibility to adjust to any US policy changes via exchange rate and fiscal policy tools. Thanks to a weaker peso, Mexico unexpectedly registered a trade surplus in December as exports surged by 11%. Despite the potential risks ahead, we believe Mexico should be able to maintain a decent rate of growth as its government continues to push through structural reforms in energy, telecom, and education.

NEW & CLOSED POSITIONS

CLOSED	SECTOR	% OF PORT.
FAR EASTONE TELECO GDR	Telecommunications	1.0%
TATA MTRS LTD SPONSORED ADR	Consumer Discretionary	1.9%
TOTAL CLOSED		**2.9%**

NEW	SECTOR	% OF PORT.
FAR EASTONE TELECOMM CO LTD	Telecommunications	1.5%
TENCENT HOLDINGS LTD	Technology	1.4%
VIPSHOP HLDGS LTD SPONSORED ADR	Consumer Discretionary	0.9%
TOTAL NEW		**3.8%**

CO. SPOTLIGHT: TAIWAN SEMICONDUCTOR

Description

Taiwan Semiconductor is the leading provider of outsourced semiconductor manufacturing ("foundry") services. TSM provides process design services and manufactures thousands of different semiconductor products in small to large batches across several manufacturing process technologies. The company derived 61% of revenues from smartphones and communications equipment, 23% from industrial/standard products, and 8% each from computer and consumer applications. The customer base is concentrated with the top two (Qualcomm and Apple) and the ten largest representing 32% and 68% of sales, respectively.

Integrated Investment Thesis

TSM is levered to the outsourcing trend in semiconductor manufacturing, with revenue growing faster than the industry and operating margins approaching 40%. The company has established technology leadership within the foundry segment, which has high barriers to entry given the complexity and cost of supporting multiple customers, production processes, and semiconductor technologies. TSM also benefits from its independence, as their strongest competitors, Intel and Samsung, also manufacture products that compete with some foundry customers. The company is a key player in the trend of increasing electronic content in automobiles and industrial applications to improve energy efficiency and safety. TSM has a solid management team, strong balance sheet, and generates significant cash flow with high returns on invested capital. Valuation looks compelling, as the stock trades at 13x forward earnings with a 2.8% dividend yield.

ESG Profile

Taiwan Semiconductor has implemented leading environmental practices throughout its manufacturing operations, supply chains, and product lines. Even with increasingly complex production processes, TSM has decreased its water use intensity and increased its water recycling rate. The company also commits to maintaining a "green supply chain" by requiring and assisting suppliers to adhere to the same level of chemical safety and environmental standards. TSM has developed clean tech products including lower-power-consumption chips for mobile devices, high-efficiency LED driver chips for flat panel displays and LED lighting, and Energy Star-certified low standby AC-DC adaptor chips.

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Europe, the Middle East, and Africa (EMEA)

After two years in recession, the Russian economy is expected to recover modestly in 2017. The Russian Central Bank successfully maintained policy independence and adopted a flexible exchange rate policy, allowing the Ruble to depreciate almost 50% since 2014. Currently, economic activity is picking up, helped by stabilizing oil prices, but investments remain fragile and are constrained by fiscal tightening. With the election of Donald Trump, chances for a relaxation of sanctions have increased although tensions with the West are likely to remain. With no political or structural reforms in sight, we see few signs of improvement to those impediments that hinder private sector growth. We remain underweight Russia but have selectively increased exposure to companies that will benefit from recovering domestic demand.

In Turkey, rising domestic political tensions since the attempted coup and numerous terrorist attacks have taken a toll on the economy. The Current Account deficit has been improving, from -15.4% of GDP in 2011 to -4.3% in 2016, but rising oil prices may pressure this trend as Turkey is largely an oil importer. President Erdogan has discouraged the Central Bank of Turkey (CBT) from raising rates, which is needed to halt the ongoing depreciation of the country's currency. In our view, the recent surprise rate hike in November by the CBT was an encouraging development, and further decisive rate hikes could help regain investor confidence about the central bank's independence. From a bottom-up perspective, Turkey has a strong banking sector that is profitable, prudent, and well capitalized; banks account for a large portion of our Turkish holdings.

Shareholder Engagement Highlights

Milestones	**Dakota Access Pipeline and Banks:** Boston Common met with **all four of the major lenders to the Dakota Access Pipeline. TD Bank** and **Citibank** have issued statements in response expressing concern for the manner in which Energy Transfer Partners has handled the project. Lauren traveled to Japan to meet with **Mitsubishi UFJ Financial Group**; they have yet to comment publicly, but we urged them to issue a statement. **Mizuho** responded that Mizuho Americas has issued a public statement about their steps to perform enhanced human rights due diligence on this project. Read our DAPL statement and join us in engaging banks.
	Eco-Efficiency: Statoil sold off its oil sands operations in Canada, following engagement by Norwegian investors, Boston Common and others.
Work in Progress	**2016 Access to Nutrition Index (ATNI):** We are co-leading an international collaborative engagement using the Access to Nutrition Index (ATNI) 2016 Index findings to the **engage thirteen food & beverage companies on their nutrition practices,** including how the company has incorporated the Index recommendations to inform their nutrition strategies and at what level were the Index findings shared in the company. Boston Common is leading or co-leading dialogues with **Ajinomoto**, **Mondelēz**, **PepsiCo**, and **Unilever**.
	Sustainability in Japan: Lauren Compere traveled to Japan and met with six of our portfolio holdings (**Astellas Pharma, Kao, MUFG, Orix, Panasonic and Shiseido)** on material ESG/CSR issues linked to each company's core business model. Issues covered including board governance on sustainability issues and diversity, CSR management, eco-efficiency, responsible sourcing practices, supply chain oversight, and women's advancement in the workplace.
New Initiatives	**Drug Pricing Transparency**: This 2017 ICCR Shareholder Initiative includes investor **engagement with 21 leading pharmaceutical companies**, all of which have the potential to demonstrate leadership by agreeing to **expand disclosure around their drug pricing strategies** in the US. Boston Common is leading engagements with **GlaxoSmithKline** and **Novartis** and co-filed resolutions with **Biogen**, **Bristol Meyers Squibb**, **Gilead**, **Johnson & Johnson**, **Merck,** and **Regeneron**.