

U.S. Large-Cap Value Strategy Update

Fourth Quarter, 2016

US MARKET & PORTFOLIO REVIEW

In the fourth quarter, the Russell 1000 Value Index (the "Index") rose +6.7% closing out the year near record highs. After a weak start in October (-1.5%) the Value Index rallied following the Presidential election with strong returns in November (+5.7%) and December (+2.5%). Investors celebrated the surprise outcome of the election that put both the Executive and Legislative branches of government with the same party, creating the potential for action without gridlock on a broad agenda that includes fiscal spending, lower taxes, and regulatory reform.

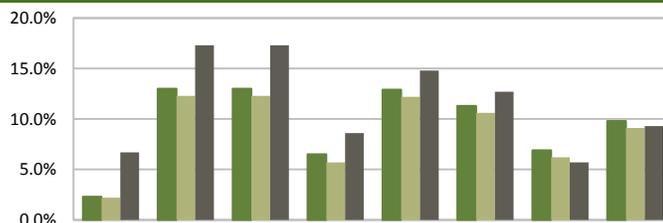
The Financials sector had the biggest move, rising more than 22% as prospects for reduced regulation and higher interest rates improved the outlook for bank profits. Materials (+9.5%) and Industrials (+8.7%) benefited from renewed enthusiasm for cyclical stocks. Energy (+7.4%) was strong helped by news that Saudi Arabia planned to cut oil production. Telecom (+5.3%) and Consumer Discretionary (+4.7%) produced solid results but on a relative basis underperformed the Index. Healthcare (-5.0%) underperformed as investors remain concerned about pricing pressure in the pharmaceutical industry. The higher-yielding sectors of Real Estate (-3.6%), Consumer Staples (-2.9%), and Utilities (+0.2%) lagged, as investors sold these "bond-like" equities amid expectations of higher interest rates. The Information Technology (+0.6%) sector also lagged.

For the year 2016, the Index produced strong results, with a total return of 17.3%. The first quarter saw a significant sell-off, with the Russell 1000 Value Index down more than 10% at one point, as investor concerns about global recession dramatically raised market volatility. As the year unfolded, international conditions improved, and the US economy continued to demonstrate momentum. Steady growth, rising employment and positive consumer sentiment in the US enabled the current equity market rally, one of the three longest post-war bull markets, to continue. With the unemployment rate below 5% and higher inflation expectations, the Federal Reserve finally made its move to raise interest rates in December. At year-end, the 10-year Treasury yield was at 2.4%, after rising dramatically from last quarter's 1.6% level.

Many different trends were at work this year. The Materials (+31.3%) and Industrials (+23.7%) sectors rose sharply off their February trough, continuing with a strong finish to the year on expectations of infrastructure investments following the election. The Energy (+26.4%) sector rallied as the price of oil rose from below \$30 back in February to almost \$55 a barrel at year end. Financials (+24.3%), another strong sector, saw most of its gain over the last six months.

The more defensive sectors like Telecom (+24.4%) and Utilities (+17.1%) were also strong, reflecting investor preference for yield and stability earlier in the year.

PERFORMANCE



	QTD	YTD	1Yr	3Yr	5Yr	7Yr	10Yr	Since Inception*
Gross	2.3%	13.0%	13.0%	6.5%	12.9%	11.3%	6.9%	9.8%
Net	2.2%	12.3%	12.3%	5.7%	12.2%	10.6%	6.2%	9.1%
Russell 1000	6.7%	17.3%	17.3%	8.6%	14.8%	12.7%	5.7%	9.3%

CONTRIBUTORS & DETRACTORS

TOP 10	% OF CAPITAL	RETURN	RELATIVE CONTRIB.	SECTOR
JPMORGAN CHASE & CO	4.2%	30.5%	0.86%	Financials
PNC FINL SVCS GROUP INC	2.3%	30.6%	0.47%	Financials
MORGAN STANLEY	2.0%	32.6%	0.44%	Financials
US BANCORP DEL	3.0%	20.4%	0.36%	Financials
BAKER HUGHES INC	1.7%	29.1%	0.32%	Energy
NORTHERN TR CORP	1.5%	30.7%	0.31%	Financials
FIFTH THIRD BANCORP	1.5%	31.8%	0.26%	Financials
METLIFE INC	1.8%	22.3%	0.24%	Financials
FIRST REP BK SAN FRANCISCO C	1.3%	19.7%	0.16%	Financials
TIME WARNER INC	0.4%	10.2%	0.11%	Consumer Discretionary
			3.53%	

BOTTOM 10	% OF CAPITAL	RETURN	RELATIVE CONTRIB.	SECTOR
FIRST SOLAR INC	0.6%	-25.8%	-0.38%	Technology
CVS HEALTH CORP	1.5%	-10.9%	-0.35%	Consumer Staples
SIMON PROPERTY GROUP INC	1.4%	-13.4%	-0.34%	Real Estate
PROCTER & GAMBLE CO	2.5%	-5.6%	-0.34%	Consumer Staples
ZIMMER BIOMET HLDGS INC	1.2%	-20.6%	-0.33%	Healthcare
UNILEVER N V N	1.4%	-10.3%	-0.29%	Consumer Staples
MEDTRONIC	0.8%	-16.9%	-0.27%	Healthcare
MERCK & CO INC	2.3%	-4.9%	-0.27%	Healthcare
SOUTHWESTERN ENERGY CO	0.8%	-21.8%	-0.27%	Energy
INTL FLAVORS & FRAGRANCES	1.0%	-17.1%	-0.27%	Materials
			-3.11%	

Technology (+18.1%) kept pace with the Index. Consumer Discretionary (+8.8%) and Staples (+8.5%) lagged as did Healthcare (+3.4%).

Boston Common's Tax-Exempt US Large-Cap Value account composite did not keep up with the Russell 1000 Value Index this quarter as October and November proved to be challenging months. October's performance was hurt by disappointing earnings reports and forward guidance from a few portfolio companies. In November, and especially after the elections, our portfolios did not keep up with the sharp rise in certain sectors and industry groups. By December, these divergences were moderating and our portfolios were close to keeping pace as the US markets continued to rise.

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For the full year, portfolios experienced strong absolute returns but lagged in relative terms against the market's strong positive returns. The solid relative performance for the first 9 months was impacted by fourth quarter results.

In November, equity markets experienced a sharp directional change as investors quickly placed a positive spin on US election results. Broadly, lower-quality value stocks outperformed higher-quality names, and small-cap stocks fared dramatically better than large-cap names. Our portfolios were not positioned to benefit as investor preference shifted in style and industry terms. In many cases, much of the lag in relative performance during the quarter can be attributed to what we did not own rather than what we did own.

For the quarter, stock selection in Financials was a positive contributor to performance with eight of the top ten best performing holdings coming from this sector including regional bank holdings like US Bancorp and Fifth Third Bancorp. JPMorgan Chase was the best performing financial holding for both the quarter and all of 2016. We did increase exposure to Financials during this period but owning more of these names would have helped relative returns. Portfolios benefited from the rise in Time Warner on news of a potential merger with AT&T. The oil service and equipment company Baker Hughes was another top performer in the quarter.

The Industrial and Materials sectors were large detractors to portfolio results. To date, our focus has been on less cyclically oriented companies, such as professional service companies with more stable end markets, steering away from the deeper cyclical stocks. However, this quarter, equities within the construction machinery, metals & mining and commodity chemicals sub-sectors experienced a very strong rebound from low levels.

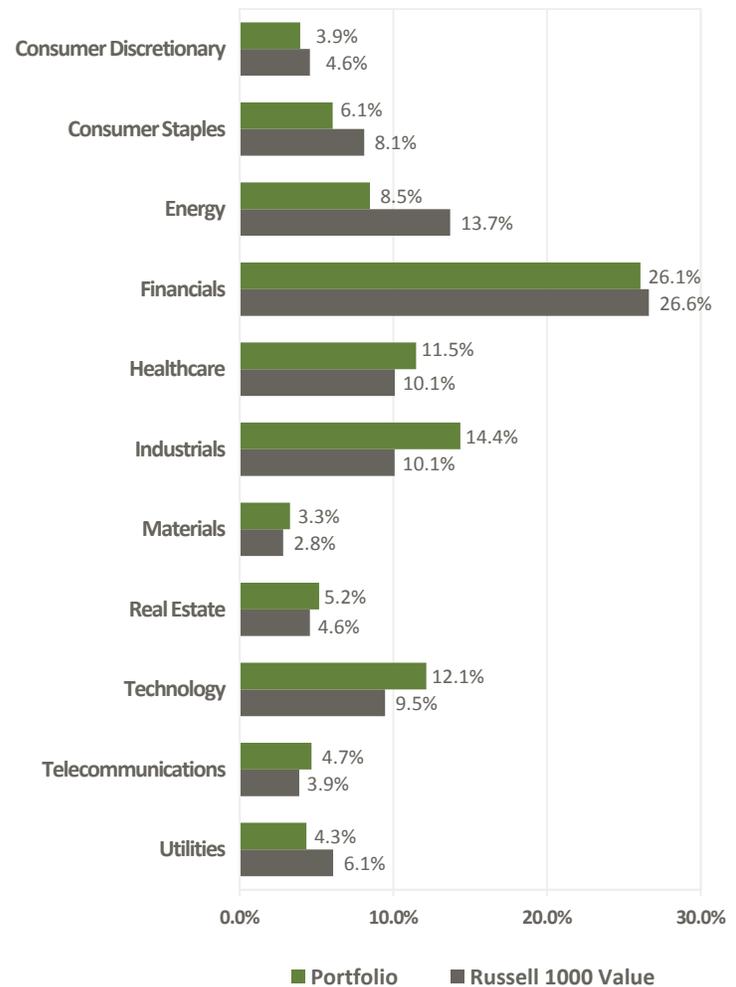
Our longer-term underweight to the Energy sector was a drag on relative performance this quarter reversing some of the outperformance seen during previous quarters. Several holdings with exposure to Renewable Energy in different sectors from Utilities to Technology to Real Estate were overly impacted as investors sold in anticipation of changes to US environmental policy. First Solar, included in the Technology sector, was the poorest performing holding for both the quarter and the year, hurt not only by negative investor perception but by reduced near-term outlook.

In the more defensive, higher-yielding sectors, stock selection was a drag on relative performance. We reduced our exposure by eliminating several holdings including Kimco Realty and trimming several others. We held several companies that reported disappointing earnings hampering portfolio returns. Medical device company Zimmer Biomet, was among the worst performing holdings this quarter. We added to this name as we believe longer-term fundamentals have not deteriorated.

PORTFOLIO STRATEGY

The market euphoria of the past few months, especially in the US, appears to reflect a very positive outlook for near-term growth prospects. Our task as investors will be to assess whether these initial dramatic moves were justified. Investor optimism could be tempered by some of the negative risks that we observe. The anticipated pickup in growth can be muted by the potential for trade policy disruption or geopolitical flare-ups.

SECTOR ALLOCATION



PORTFOLIO CHARACTERISTICS

	BOSTON COMMON	RUSSELL 1000 VALUE
# HOLDINGS	65	696
Valuation		
Next 12m Price to Earnings	17.4	16.3
Price to Book Value	2.4	1.9
Price to Sales	2.4	1.8
Dividend Yield	2.1%	2.5%
Growth		
5yr Sales Growth	2.5%	-1.2%
5yr EPS Growth	6.0%	2.7%
Risk		
Wtd Avg Mkt Cap	106,337	119,589
LT Debt/Cap	36.5%	43.5%
Beta	1.03	1.00

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We expect this to be a period when active investors can add value through judgment and patience. At current valuation levels, we anticipate a range-bound market with lots of volatility, as market participants attempt to sift through seemingly contradictory signals. The range of potential outcomes is wide and the list of issues being tackled long.

Within this outlook, we have opted to keep our portfolios relatively unchanged, with emphasis on companies with strong cash flows and earnings stability. Our investment approach leads us to well-managed sustainable companies that are attractively valued. In the current environment, we favor a "barbell" approach to portfolio construction. We are overweight companies where secular growth is underappreciated or industry fundamentals are improving, or companies with restructuring potential. However, we also maintain exposure to domestically based, higher-yielding companies in real estate, telecom, and utilities. While interest rates have moved higher, we believe rates could remain within a narrow range; this will keep investors interested in such yield-oriented names. In balanced portfolios we remain overweight equity, while favoring higher-quality names in bond portfolios and keeping a relatively shorter duration.

During the quarter we added new positions in companies that have long-term growth and profitability drivers such as Southwest Airlines, T. Rowe Price, Emerson Electric, and Wabtec. Southwest is a US carrier with a strong balance sheet, strong employee relations, low cost structure, and mainly domestic routes. T. Rowe Price is a high-quality asset manager selling at an attractive valuation. Emerson Electric is a diversified industrial company that has many drivers for growth including exposure to the energy sector. Wabtec, or Westinghouse Air Brakes Technologies Corp, serves the freight rail and passenger transit markets with improving prospects after its combination with competitor Faiveley.

ECONOMIC & MARKET OUTLOOK

In the future, we may look back at 2016 as the year several longer-term trends turned in different directions. Trade ceased to be the engine of global growth, Millennials overtook Baby Boomers as the largest cohort in the US population, and global carbon levels surpassed 400 parts per million, to name just a few. In addition, within the economic and financial space, inflation and interest rates may have bottomed in the US, leading to a new equilibrium in capital market pricing.

Policy initiatives proposed by the incoming Administration are leaning into many of the above trends. Steps are being contemplated to diminish the role of trade, repeal regulations on carbon, and embark on deficit spending to enhance growth. As January's transition unfolds, we may start to see proposals for policy change become inevitably subjected to political horse-trading.

On some issues, such as long overdue infrastructure investments, we welcome the potential for action. On others, like trade, changes in corporate taxation and international relations, we remain vigilant in our assessment of the complex impacts of policy changes at home and responses abroad.

The US economy continues to grow at a 2% real rate, with unemployment at 4.7% and positive signs of wage growth and rising participation among Millennials.

NEW & CLOSED POSITIONS

CLOSED	SECTOR	% OF PORT.
AMERICAN EXPRESS CO COM	Financials	0.4%
AMERIPRISE FINL INC COM	Financials	1.1%
AMGEN INC COM	Healthcare	0.7%
APTARGROUP INC COM	Materials	1.0%
FIRST SOLAR INC COM	Technology	1.0%
KANSAS CITY SOUTHERN	Industrials	0.9%
KIMCO REALTY CORP	Real Estate	1.0%
MEDTRONIC PLC	Healthcare	1.3%
NATIONAL GRID PLC SPON ADR NEW	Utilities	0.9%
NIELSEN HLDGS PLC SHS EUR	Industrials	1.0%
TIME WARNER INC NEW	Consumer Discretionary	1.2%
TOTAL CLOSED		10.6%
NEW	SECTOR	% OF PORT.
AMERICAN WTR WKS CO INC NEW COM	Utilities	0.9%
AXA SA SPONSORED ADR	Financials	0.7%
EMERSON ELEC CO COM	Industrials	1.4%
KONINKLIJKE PHILIPS N V NY REG SH NEW	Industrials	1.3%
NEW JERSEY RES COM	Utilities	1.0%
PRICE T ROWE GROUP INC COM	Financials	1.5%
SOUTHWEST AIRLS CO COM	Industrials	2.0%
UNITEDHEALTH GROUP INC COM	Healthcare	1.0%
WABTEC CORP COM	Industrials	1.0%
TOTAL NEW		10.8%

COMPANY SPOTLIGHT: FIFTH THIRD BANCORP

Integrated Investment Thesis

Fifth Third Bancorp (FITB) is a regional bank operating primarily in the Midwest and Southeast. Revenues are split between Commercial (42%) and Branch (37%) Banking with small Consumer Lending (11%) and Investment Advisory (9%) businesses. Fifth Third's footprint encompasses many regions that are underserved by financial institutions. The Bank has programs in place to address financial literacy to help its customer base and to support Small & Medium Business Enterprises (SMEs), in line with industry best practices. Fifth Third Bancorp was founded in 1862 and is headquartered in Cincinnati, Ohio. In 2016, Fifth Third launched project North Star, a long-term plan designed to improve its profitability by consolidating branches, optimizing its balance sheet and developing programs to increase fee income. The drastic decline in oil prices in early 2016 impacted margins as loan losses accelerated, but these have now stabilized. Due to Fifth Third's strong balance sheet and proceeds from equity, the Bank has been able to make large capital returns to shareholders in the form of special dividends and stock buy backs. Under-banked individuals and SMEs represent a significant long-term opportunity for banks. In 2015, Fifth Third Bancorp announced a \$27.5 bn, five-year community commitment, including \$10 bn in mortgage credit access, \$10 bn in small business loans and \$1 bn in investments to support affordable housing, revitalization and historic preservation.

ESG Highlights

Boston Common has engaged Fifth Third Bank since 2015 through the Banks and Climate Change initiative asking them to establish more robust environmental risk due diligence procedures, adopt board level oversight of climate risk, and increase investments in energy efficiency and renewable energy as appropriate. We met with senior management during the 4th quarter of 2016 to discuss the steps they have taken to date and encouraged them to take further action.

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At the aggregate level, households have seen rising net worth with a falling debt burden and lower debt service costs. Home purchases have been strong, as have auto sales, and there are positive signs of resurgence in the manufacturing sector. Now, with additional fiscal stimulus in the form of tax cuts, proposed spending on US defense and infrastructure, and economic recovery expanding in the rest of the world, the current expansion appears set to continue a while longer. We expect growth in the US to rise this year and next.

The 35-year experience of falling interest rates may be drawing to a close. In the US, interest rates have touched bottom and have moved higher. Since the Great Recession, stimulative monetary policy around the world has helped to stem deflationary trends and kept interest rates at unusually low levels. Now, with inflation and growth on a firm footing, US interest rates are set to rise. However, yields in other developed markets are still well below levels in the US and will act as a moderating influence.

Global capital continues to flow to the US in search of better yields, keeping US interest rates lower and pushing the dollar higher.

The plans for stimulative fiscal action by the new Administration will be balanced by the Fed's need to reverse the easy monetary policy of the past decade. We expect the Federal Reserve to raise rates a few times this year following on the most recent increase this past December. However, even as the US moves to tighten, European and Japanese Central banks are continuing with their stimulative policies.

After many years of expanding corporate profit margins, we may see earnings pressure from rising wages and a strong US dollar. Most of the rise in stock prices over the last few years has come from multiple expansion rather than earnings growth. However, proposed tax cuts and regulatory changes may help support earnings expectations. Analysts continue to expect further increases of profits in the next two years.

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, Mondelez, 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**.

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