

All Country International Strategy Update

First Quarter, 2018

INTERNATIONAL MARKET REVIEW

The MSCI ACWIxUS Index (the "Index") fell -1.2% in US Dollar terms. In local currency terms, the Index fell -3.1% as the weaker US Dollar added +1.9% to US investor returns. The Yen (+5.9%) strengthened thanks in part to its attractiveness as a safe-haven currency relative to the broadly weakening Dollar during rising risk aversion. The UK Pound (+3.7%) also appreciated versus the Dollar on optimism over Brexit talks and expectations for an upcoming interest rate hike. The Euro (+2.4%) benefited from solid economic data. Japan's currency strength helped ACWI Asia Pacific (-0.0%) outperform the European (-1.8%) region.

After a strong start to the year, a report of higher US inflation in February sparked a sharp increase in global interest rates and equity markets corrected from record highs. In March, the Trump administration imposed a set of tariffs that raised the threat of a trade war and dampened investor sentiment. Investors are concerned that escalating protectionist actions will disrupt supply chains and reduce global economic growth. Eurozone business confidence declined modestly after reaching its highest level in more than 30 years in December, while Japanese manufacturers also became less optimistic. The strong Yen and Euro are likely weighing on these countries' exporters.

Technology (+1.8%) was the best performing sector in the Index, driven by strong earnings growth. The Utilities (+1.3%) sector was boosted by acquisition activity. Higher rates hurt Telecommunications (-4.1%), the worst performing sector in the Index. The Materials (-2.9%) sector also lagged.

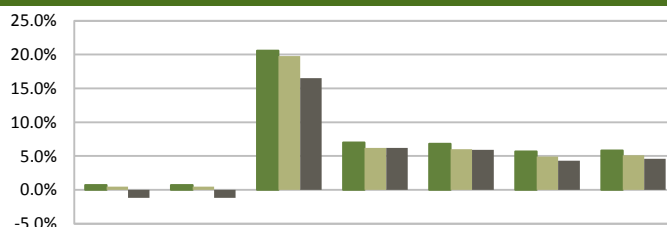
Amongst the developed countries, Finland (+8.2%) was the best performer, buoyed by Nokia. Italy (+5.4%) also outperformed after the country's nascent recovery withstood inconclusive elections. The worst performers were Canada (-7.4%) and Australia (-6.2%), as their cyclically sensitive currencies depreciated.

The MSCI Emerging Markets Index rose +1.4%, including a +0.7% foreign exchange gain, as the US Dollar weakened against Emerging Market currencies in aggregate. Brazil (+12.4%) was the best performing Emerging Market this quarter as the economy continues to recover from a deep recession. Philippines was the worst performer (-11.6%) mostly driven by inflation concerns and a worsening current account balance.

PORTFOLIO REVIEW

A composite of accounts invested in the Boston Common All Country International Equity strategy returned +0.7% before fees, outperforming the Index. During the quarter, the Technology and Consumer Staples sectors were the largest positive contributors to relative results. Semiconductor stocks Sunny Optical (+42.2%) and Taiwan Semiconductor (+10.4%) in Asia and ASML (+13.0%) in Europe outperformed on strong results. Russian Internet search firm Yandex (+20.5%) and Japanese sensor maker Keyence (+10.9%) also were top contributors. Within

PERFORMANCE



	QTD	YTD	1Yr	3Yr	5Yr	7Yr	Since Inception*
Gross	0.7%	0.7%	20.6%	7.0%	6.8%	5.7%	5.8%
Net	0.5%	0.5%	19.8%	6.2%	6.0%	4.9%	5.1%
MSCI ACWIxUS	-1.2%	-1.2%	16.5%	6.2%	5.9%	4.3%	4.6%

CONTRIBUTORS & DETRACTORS

TOP 10	% OF CAPITAL	RETURN	RELATIVE CONTRIB.	SECTOR
SUNNY OPTICAL TECH	1.4%	42.2%	0.55%	Technology
SHISEIDO CO LTD	1.7%	32.5%	0.52%	Consumer Staples
ITAU UNIBANCO HLDG SA	1.6%	25.1%	0.36%	Financials
ORSTED	1.4%	20.5%	0.28%	Utilities
ASTELLAS PHARMA INC	1.4%	20.3%	0.27%	Healthcare
YANDEX N V	1.4%	20.5%	0.26%	Technology
UMICORE	1.8%	11.5%	0.23%	Materials
KEYENCE CORP	1.7%	10.9%	0.19%	Technology
TAIWAN SEMICONDUCTOR MFG LTD	1.7%	10.4%	0.18%	Technology
ASML HOLDING	1.3%	13.0%	0.17%	Technology
			3.01%	

BOTTOM 10	% OF CAPITAL	RETURN	RELATIVE CONTRIB.	SECTOR
SOCIEDAD QUIMICA MINERA DE C	1.8%	-17.2%	-0.30%	Materials
BEIJING ENTERPRISES WATER GR	0.9%	-27.9%	-0.28%	Utilities
NASPERS	2.5%	-12.5%	-0.26%	Consumer Discretionary
ING GROEP	2.2%	-8.4%	-0.16%	Financials
AXA	1.6%	-10.6%	-0.15%	Financials
ORIGIN ENERGY	1.4%	-9.4%	-0.13%	Energy
KUBOTA CORP	1.3%	-10.8%	-0.13%	Industrials
BYD CO	1.1%	-10.5%	-0.13%	Consumer Discretionary
PT KALBE FARMA	1.0%	-12.5%	-0.12%	Healthcare
KASIKORN BANK PLC FOREIGN	1.7%	-7.6%	-0.11%	Financials
			-1.77%	

Staples, Japanese cosmetics firm Shiseido (+32.5%) rallied on strong earnings reports. The UK was the largest regional contributor to performance. Our British industrial and materials holdings gained on solid fundamental data: Ferguson (+4.2%), Spirax-Sarco (+6.2%), and Croda (+7.1%). Japan also helped returns with diverse leaders including Astellas Pharma (+20.3%) and Orix Financial (+6.3%). Additional top contributors included Brazilian bank Itau (+25.1%), Danish wind farm developer Orsted (+20.5%), and Belgian materials technology company Umicore (+11.5%).

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Stock selection in the Consumer Discretionary and Utilities sectors was the primary detractor from relative results. South African media holding Naspers (-12.5%) was affected by disappointing results, as was Chinese utility Beijing Water Enterprises (-27.9%). Our Emerging Markets holdings modestly detracted from relative returns. Chilean lithium processor Sociedad Quimica (-17.2%) declined on a mixture of profit taking and rising supply assumptions. Chinese electric vehicle manufacturer BYD (-10.5%) and Indonesian pharma firm PT Kalbe (-12.5%) performed poorly as they missed estimates. Additional key detractors included Japanese industrial companies Kubota (-10.8%) and Daikin (-6.7%) and European financial services providers AXA (-10.6%) and ING Groep (-8.4%).

PORTFOLIO ACTIVITY

During the quarter we sold German media producer ProSiebenSat.1 because the company's broadcast TV business looks likely to decline faster than expected, and its digital business development has been disappointing. We also exited wind farm developer EDP Renováveis ("EDPR"), a position we had begun to sell down in the prior quarter. The controlling shareholder, Energias de Portugal, has tried to privatize EDPR at a price below private market value.

We did not start any new positions this quarter. Instead, we redeployed the proceeds opportunistically into some of our smaller positions: Sunny Optical and BYD in China as well as Melia Hotels in Spain.

ECONOMIC & MARKET OUTLOOK

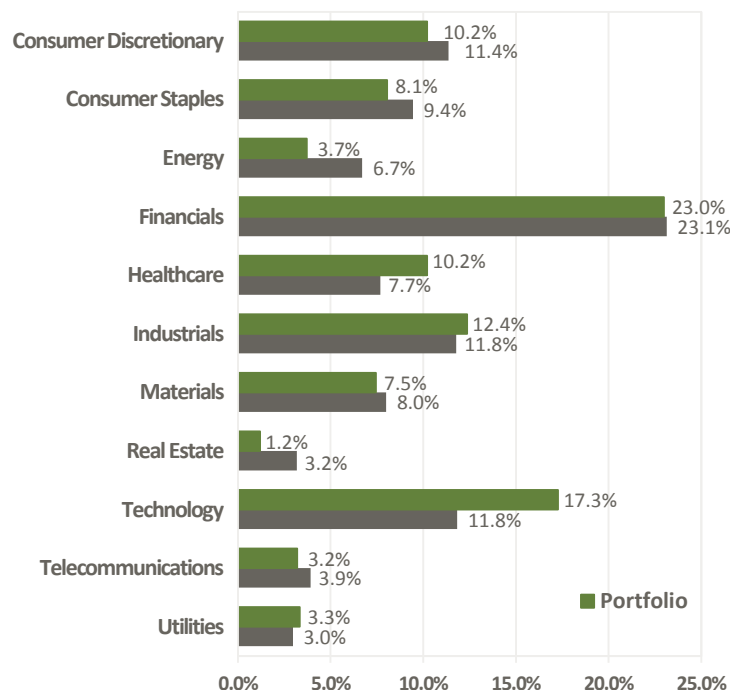
Healthy global growth is likely to support a favorable trajectory for international equities, but we are monitoring clouds on the horizon in the form of rising global trade tensions. The economies of Europe and Japan are expanding at above-average paces, while inflation expectations remain subdued. This improving backdrop has led to forecasts of interest rate increases next year and fostered strengthening currencies. Asia Pacific and Emerging Markets are more dynamic economies and include attractive secular trends, such as urbanization, financial deepening, and a burgeoning middle class. Rising barriers to trade represent a key risk to this constructive market outlook, because they would depress global growth and deter cross-border investment. In our view, recently proposed tariffs in the US and China are opening moves that will lead to diplomatic negotiations and likely end in a compromise. Trading at less than 14x earnings with a 3% dividend yield, the MSCI ACWIxUS appears attractively valued for projected earnings growth of over 8%.

Our portfolios have more exposure to industrial cyclical sectors compared to the Index based on our net positive scenario analysis. Within these areas we continue to favor semiconductors, energy efficient industrial equipment, and green chemicals. We balance the portfolio with an overweight of the defensive sectors, especially Healthcare. We are underweight Energy, Consumer Discretionary, and Real Estate.

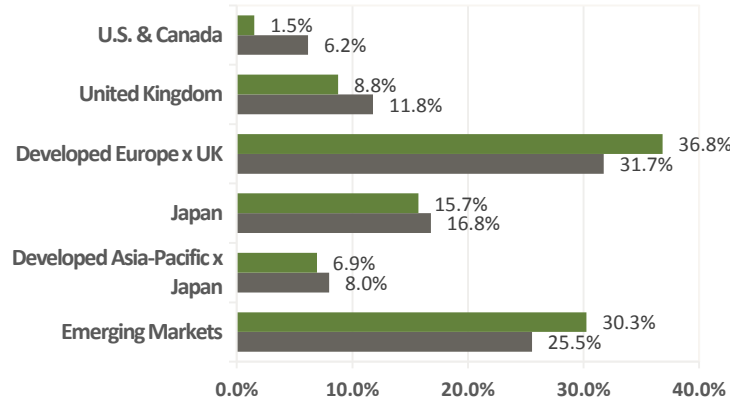
Europe

Economic data broadly paint a sunny picture of Europe. Over the past six months Eurozone GDP growth forecasts have steadily increased to over 2% for 2018 and 2019. Germany's unemployment rate recently fell to 5.3%, the lowest jobless rate since reunification in 1990. In France, stronger growth has brought its budget deficit below 3% of GDP (the Eurozone's stated limit) for the first time in a decade. Despite greater economic activity, core inflation is expected to remain close to 1%. As a result, the European Central Bank can take a measured approach to normalizing monetary policy, and short-term interest rates are thus expected to remain below zero all year.

SECTOR ALLOCATION



REGIONAL ALLOCATION



PORTFOLIO CHARACTERISTICS

	BOSTON COMMON	MSCI ACWIxUS
# HOLDINGS	70	1,864
Valuation		
Next 12m Price to Earnings	16.0	13.3
Price to Book Value	2.5	1.7
Price to Sales	1.9	1.2
Dividend Yield	2.0%	3.0%
Growth		
5yr Sales Growth	2.9%	0.4%
5yr EPS Growth	9.8%	6.0%
Risk		
Wtd Avg Mkt Cap	66,917	70,593
LT Debt/Cap	25.1%	31.5%
Beta	1.03	1.00

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Improving political stability is an important psychological factor driving increasing consumer spending and business investment in Europe. Nearly six months after a national election, Germany's two main political parties formed a coalition government leaving Angela Merkel as Chancellor, a position she has held since 2005. Italy's election in March also resulted in a hung parliament. Anti-establishment parties did best but did not win a majority and are now struggling to form a coalition government. This should have little impact, however, as Italians are likely desensitized to persistent political uncertainty. Importantly, the newly empowered populist parties have refrained from calling for some of the more radical economic policies. Overall, we are encouraged by the policy backdrop and by the prospects for earnings growth in Europe and are overweight the market. Britain has made progress in setting terms for its exit from the European Union, but we remain underweight the UK due to concerns over the ensuing disruption.

Japan

The Japanese economy is in the midst of its longest expansion since 1989, with eight consecutive quarters of growth. While 0.5% underlying inflation remains well below the 2% target, the tight labor market (2.5% unemployment rate) is showing signs of lifting wages. After the annual spring labor negotiations, Toyota agreed to 3.3% wage increases for its workforce, and small employers are reportedly boosting salaries at a greater rate than last year.

The Bank of Japan is likely to maintain its quantitative easing, most notably a 0% target yield for its 10-year bond, while other central banks are normalizing policy and raising short-term interest rates. Relative monetary policy suggests a weaker Yen, which would boost Japanese profits and inflation. However, the Yen is one of the least expensive currencies in the world on a real effective exchange rate basis (inflation-adjusted weighted average of a basket of currencies compared to the Yen). In our view, the Japanese market is appealing based on policymakers' commitments to foster growth and improve corporate governance as well as inexpensive valuations. We are modestly underweight Japan.

Asia Pacific & Emerging Markets

In our view, emerging Asia is home to the most dynamic global economies and we remain optimistic on fundamental prospects for the region. However, Asia Pacific and Emerging Markets include many open economies that could be particularly vulnerable if rising global trade tensions extend beyond what we believe are symbolic opening moves. Singapore and Hong Kong are two of the world's most trade-oriented economies; as key Asian hubs, total trade accounts for over 300% of GDP of the respective city-states. In contrast, China's massive domestic market dilutes the importance of trade for its economy (only 37% of its GDP).

Anti-trade policies are rising in popularity in parallel with political gains made by populist parties in many countries. This shift is partly driven by the failure of governments to adequately redistribute some of the gains from globalization to displaced workers. After blaming Mexico for trade imbalances and threatening to back out of NAFTA, the US enacted and proposed tariffs singling out China. Not surprisingly, China has retaliated with tariffs on targeted US goods.

NEW & CLOSED POSITIONS

CLOSED	SECTOR	% OF PORT.
EDP RENOVAVEIS SA	Utilities	0.2%
PROSIEBENSAT 1 MEDIA AG	Consumer Discretionary	0.7%
TOTAL CLOSED		0.9%

NEW	SECTOR	% OF PORT.
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COMPANY SPOTLIGHT: MELIA HOTELS

ESG Integrated Investment Thesis

Based in Spain, Melia is a high-quality hotel company with a compelling fundamental outlook. The Spanish economic recovery, coupled with strong tourist demand in key Caribbean locations, should support mid-single-digit growth of revenue per available room. Additionally, Melia has adopted a more capital-efficient, higher-margin business model by prioritizing the management of hotels and de-emphasizing the ownership of the physical infrastructure. The company's genuine commitment to responsible and sustainable tourism underlies its solid brand recognition. Among its many sustainable tourism accolades, Melia received a UNESCO-supported certification for its dedication to socio-cultural, economic, and environmental development. Nearly 40% of Melia's existing hotels have achieved some form of environmental management certification and the company has established sustainability criteria for all new hotels. In our view, positive business momentum and a strong balance sheet make Melia's current valuation attractive; the stock is trading at 9.4x EV/EBITDA and at a significant discount to the net asset value of its owned hotels.

Company Profile

Melia Hotels, the third largest hotel group in Europe, operates 375 hotels through its seven brands: Melia, Gran Melia, ME, Paradisus, Ininside, Tryo, and Sol. Primarily catering to middle and upscale markets, the company's 2017 operating earnings were split among Spain (41%), the Americas [largely Dominican Republic and Mexico] (40%), Europe & Middle East (15%), and Africa/Asia (4%). Resorts contribute 70% of earnings, while urban locations generate 30%. The company distinguishes itself through its efforts to reduce the environmental footprint of its operations. MEL provides thorough reporting of its greenhouse gas emissions and water usage to the CDP. In addition, since 2014 the company has powered its Spanish hotels and offices, which account for almost half of all operations, from 100% renewable energy sources.

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Conventional economic wisdom rejects protectionism because rising trade barriers tend to spread and cause collateral damage. The most notorious example of the negative consequences would be the beggar-thy-neighbor tariffs in the 1930s, which exacerbated the Great Depression. The world is now even more interconnected with global supply chains and rapid cross-border flows of information, capital, and technology. For example, a significant portion of many countries'

exports are assembled from imported intermediate goods. We expect these deep mutual dependencies will ultimately lead to a negotiated agreement and avert a full-scale trade war, but nevertheless are monitoring the situation closely. In light of the structural appeal of the region's economies, we remain overweight emerging Asia with an emphasis on consumer and financial companies.

Shareholder Engagement Highlights

Milestones

Banks & Climate Change: We published a new report, [Banking on a Low-Carbon Future](#), which examines **climate management by 59 of the world's largest banks; urgent shortcomings threaten to undermine efforts to support the transition to a low-carbon economy.** The report, the latest in our [series of analyses undertaken since 2014](#), finds that: **Only 54%** of banks support the **Taskforce on Climate-related Financial Disclosures (TCFD)**. **Less than half (49%)** of banks are implementing climate risk assessments or **2°C scenario analysis**. **A majority of banks (61%) have failed to restrict the financing of coal** – the most carbon intensive energy source. However, as a result of this collaborative engagement led by Boston Common, **95% of Banks** have now **adopted some degree of governance for climate issues and provide some disclosure** on low-carbon products and services.

Eco-Efficiency: We negotiated successfully two agreements related to **Eco-Efficiency and climate change:** In March, **Lowe's Companies** announced its commitment to explore **expanding its renewable energy use in 2018** for its US and Canadian operations to further its **goal of reducing total carbon emissions by 20% from its stores by 2020**. In February, **Kansas City Southern** committed to **expand its reporting in 2018** on its efforts to **improve energy efficiency and reduce GHG emissions of its freight rail operations** in US and Mexico, following withdrawal of a shareholder proposal by Calvert and Boston Common.

Work in Progress

Gender Diversity: In 2018, we updated [our proxy voting guidelines on Gender Diversity](#) in accordance with the [30% Coalition](#) to vote against company boards in Australia, Canada, Europe, and the US **unless women comprise at least 30% of the Board after the election**. Women hold only 21% of board seats among the largest listed companies in the US as of 2017. We hosted a conference call with **Northern Trust** as part of our ongoing engagement on Gender Equality with key portfolio holdings. Among Northern Trust's top executives, women make up 38%, a level significantly higher than the [27%](#) observed among S&P 500 companies. At the board level however, women represent only 14% of directors. The company is a founding member of the [CEO Action for Diversity and Inclusion initiative](#), the largest CEO-driven business commitment to advance diversity and inclusion in the workplace.

Shareholder resolutions: Given the ongoing **threat to the shareholder resolution process** under the current Administration, companies have been emboldened to submit a record number of no-action letters to the SEC to ask that shareholder resolutions be omitted from their proxies. Our resolutions with **Gilead Sciences** (renewable energy targets) where we are the lead filer and with **Johnson & Johnson** (separation of chair and CEO), which we co-filed met this fate. However, co-filed resolutions with **Bristol Meyers Squibb** and **Biogen** on drug pricing transparency will be on the ballot (after the SEC would not allow them to be omitted) and thus far, **our lead filer resolutions on lobbying disclosure with American Water Works and Verizon Communications will come to a vote.**

New Initiatives

Climate Change: As part of the [Climate Action 100+](#) that was launched in December, Boston Common has committed to actively engage **ConocoPhillips, Cummins, Daikin Industries, Ford, Panasonic, PepsiCo, Phillips, Repsol and Statoil** with other investors.

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