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International Strategy Update

Second Quarter, 2018

INTERNATIONAL MARKET REVIEW

The MSCI EAFE Index (the "Index") declined -1.2% in the second quarter. In local currency terms the Index gained +3.5%, but a strengthening US Dollar subtracted 4.7% from US investors' returns. Political uncertainty in Europe, trade disputes, and expectations for tighter monetary policy in the US caused a depreciation of the UK Pound (-5.9%), Euro (-5.0%), and Yen (-4.0%) compared to the US Dollar.

Economic indicators for the Eurozone suggest healthy growth, albeit decelerating from its historically fast pace of recent quarters. Business strength in Germany and France helped Eurozone services activity increase in June, even while Italy's new populist government caused investor anxiety. Perhaps feeling the effects of Brexit disruption, the UK economy expanded during the first quarter of 2018 at its slowest rate since 2012. In contrast with the US, the European Central Bank and Bank of Japan both pushed back expectations for higher interest rates in recent announcements. As of July 6th, China faces new 25% tariffs on $34 billion worth of goods: mostly mechanical and electronic parts, machinery, and transport equipment. As expected, China responded in kind with its own tariffs on US goods.

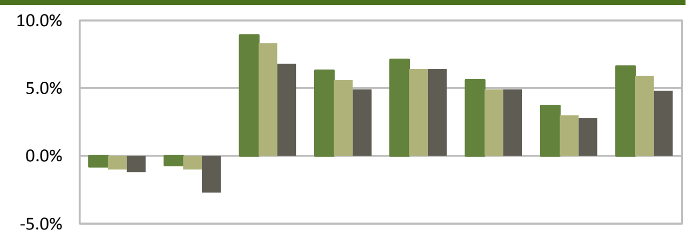
Energy (+11.2%) led all sectors, as oil prices increased about 10% on tighter supply estimates. Healthcare (+1.9%) was the second best performer, buoyed by healthcare equipment suppliers. Utilities (+0.5%) also outperformed the Index. Trade tensions and slower global growth prospects struck the Financials (-6.2%) sector, the worst performing in the Index. Telecommunications (-4.8%) underperformed due to pricing pressure.

Australia (+5.2%) and Norway (+2.4%) were among the best performing countries in the Index thanks to commodity strength. Export-oriented sectors boosted the UK market (+3.0%). Austria (-10.6%) was the worst performing country in the Index due to corporate connections to Russian sanctions. Singapore (-7.5%) and Japan (-2.8%) were seen as vulnerable to collateral damage from tariffs on China. Italy (-7.3%) fell on fears its new populist leadership could bring radical economic policies.

PORTFOLIO REVIEW

A composite of Boston Common's International portfolios declined approximately -1.1% before fees, in line with the Index. Stock selection in the Industrials sector was the largest positive contributor to our relative performance. Strong financial results boosted Japanese air-conditioning manufacturer Daikin (+8.6%) as well as plumbing distributor Ferguson (+8.7%) and energy-efficient systems provider Spirax-Sarco (+7.8%), both based in the UK. The Materials sector was also a key positive contributor, driven by Belgian battery technology and recycling leader Umicore's (+9.3%) continued expansion.

PERFORMANCE



	QTD	YTD	1Yr	3Yr	5Yr	7Yr	10Yr	Since Inception*
Gross	-0.8%	-0.7%	8.9%	6.3%	7.1%	5.6%	3.7%	6.6%
Net	-1.0%	-1.0%	8.3%	5.6%	6.4%	4.9%	3.0%	5.9%
MSCI EAFE	-1.2%	-2.7%	6.8%	4.9%	6.4%	4.9%	2.8%	4.8%

CONTRIBUTORS & DETRACTORS

TOP 10	% OF CAPITAL	RETURN	RELATIVE CONTRIB.	SECTOR
HOYA CORP	2.8%	14.1%	0.38%	Healthcare
SHISEIDO CO LTD	1.6%	24.2%	0.37%	Consumer Staples
MACQUARIE GROUP LTD	2.0%	19.7%	0.37%	Financials
FERGUSON	2.7%	8.7%	0.26%	Industrials
DAIKIN INDUSTRIES LTD	2.8%	8.6%	0.26%	Industrials
SAP	1.9%	11.7%	0.23%	Technology
KONINKLIJKE PHILIPS	1.4%	13.1%	0.18%	Healthcare
ORIGIN ENERGY	1.5%	11.1%	0.17%	Energy
UMICORE	1.7%	9.3%	0.17%	Materials
REPSOL SA	1.2%	13.6%	0.17%	Energy
			2.56%	

BOTTOM 10				
BANK RAKYAT	1.5%	-22.2%	-0.35%	Financials
ING GROEP	2.8%	-12.4%	-0.34%	Financials
ORIX CORPORATION	2.7%	-10.3%	-0.25%	Financials
AMS	0.5%	-22.5%	-0.22%	Technology
ATLAS COPCO NPV	1.4%	-14.5%	-0.20%	Industrials
TAIWAN SEMICONDUCTOR MFG	1.5%	-14.1%	-0.20%	Technology
BMW BAYERISCHE MOTOREN WO	1.6%	-13.7%	-0.20%	Consumer Discretionary
BARCLAYS	1.4%	-13.9%	-0.19%	Financials
KUBOTA CORP	1.7%	-9.4%	-0.15%	Industrials
SUNDRUG CO LTD	1.1%	-12.3%	-0.14%	Consumer Staples
			-2.24%	

From a regional perspective, stock selection in Japan helped performance. Key contributors included cosmetics company Shiseido (+24.2%) and lens manufacturer Hoya (+14.1%). German software developer SAP (+11.7%) and Dutch healthcare company Philips (+13.1%) helped support strong relative performance in Europe ex. UK. Other key contributors included Australian financial services provider Macquarie (+19.7%) and energy companies Repsol (+13.6%) and Origin (+11.1%). Our underweight of the outperforming Energy sector was the largest detractor from relative performance. Stock selection in the Technology sector also detracted from results.

*Since Inception: December 31, 2004

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Semiconductor holdings declined with global slowdown concerns: AMS (-22.5%), Taiwan Semiconductor (-14.1%), and Infineon (-4.7%). The UK market was the largest regional detractor. We were underweight the strong market and our portfolio holdings underperformed benchmark holdings, especially energy stocks. British bank holdings Barclays (-13.9%) and Standard Chartered (-8.6%) were among key detractors. Our exposure to Emerging Markets was also a drag on performance. Bank Rakyat (-22.2%), based in Indonesia, was affected by risk aversion for Emerging Asia. Other key detractors included Dutch bank ING (-12.4%) and Japanese financial services provider Orix (-10.3%).

PORTFOLIO ACTIVITY

Among our portfolio actions this quarter, we purchased Vonovia, the largest residential real estate company in Germany, focused on providing accessible, affordable, and inclusive housing. The company has delivered consistent earnings growth, operating in a real estate market characterized by a structural shortage of supply and stable demand driven by a robust labor market. Vonovia is refurbishing its buildings to improve energy efficiency and has an above-average corporate governance profile. Trading at 1.3x book value with a 3.2% dividend yield, we find Vonovia a compelling defensive investment. We also purchased Covestro, a German chemical company with a leading position in the consolidated polyurethane and polycarbonate markets. Many of the company's advanced materials are used in clean technology applications, including wind and solar energy and energy-efficient autos and buildings. The company has also set a target to use mainly bio-based feedstock materials by 2025. In our view, Covestro's inexpensive valuation (12% Free Cash Flow yield) overly discounts a potential cyclical softening.

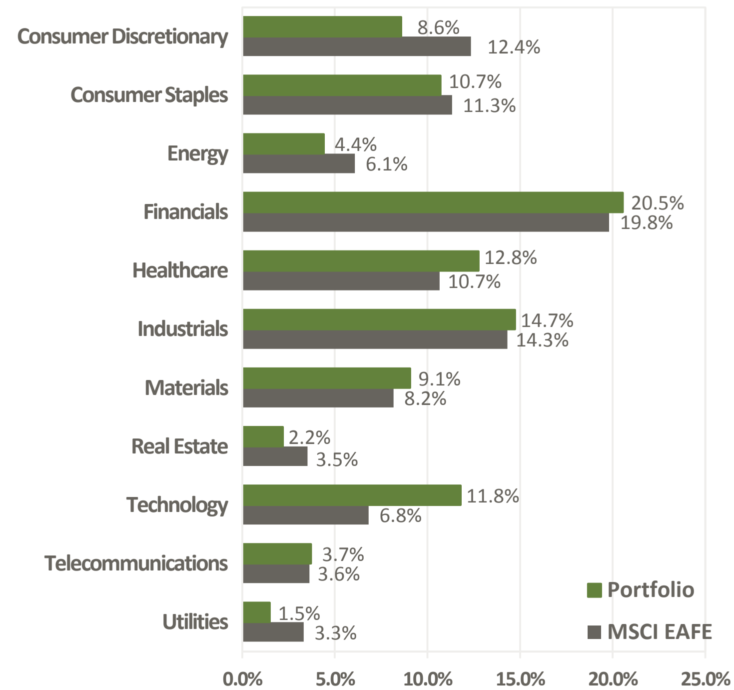
During the quarter, we sold Israeli cyber security company Check Point Software. In our opinion, persistent market share losses diminish Check Point's long-term growth prospects. We also sold Japanese pharmaceutical company Astellas based on increasing generic and branded competition for its most important product. Patent expirations will pressure some of Astellas' other key drugs and the company's pipeline appears insufficient to offset top-line headwinds.

ECONOMIC & MARKET OUTLOOK

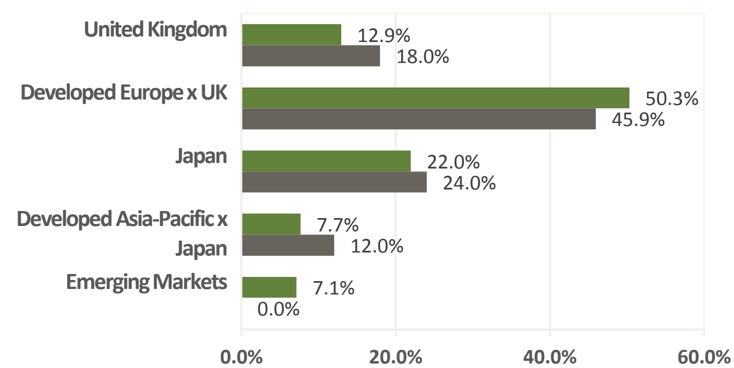
Europe and Japan are projected to average low- to mid-single-digit economic growth over the next two years. A broadening trade dispute is a rising risk to the market, but we believe material trade-related damage is still an unlikely scenario. We expect global supply chains will deter policymakers from excessive tariffs, since taxing foreign intermediate goods may ultimately hurt domestic producers. Asia Pacific and Emerging Markets face short-term challenges from higher US short-term interest rates and a stronger Dollar but offer appealing long-term growth opportunities. The Japanese market has positive idiosyncratic attributes, including a stable and supportive policy framework, improving corporate governance, and beneficial leverage to a depreciating Yen.

International equities appear attractive based on our view of fundamentals and valuation. The MSCI EAFE is trading at 13.6x forward earnings (projected to grow over 7%), a nearly 10% discount to its 20-year average. Our portfolios have higher growth prospects and trade at slightly higher multiples. We favor the industrial cyclical sectors compared to the Index, especially semiconductors, energy efficient industrial equipment, and green chemicals.

SECTOR ALLOCATION



REGIONAL ALLOCATION



PORTFOLIO CHARACTERISTICS

	BOSTON COMMON	MSCI EAFE
# HOLDINGS	60	926
Valuation		
Next 12m Price to Earnings	15.1	13.6
Price to Book Value	2.3	1.7
Price to Sales	1.8	1.2
Dividend Yield	2.3%	3.2%
Growth		
5yr Sales Growth	2.7%	0.6%
5yr EPS Growth	9.2%	7.6%
Risk		
Wtd Avg Mkt Cap	59,301	61,071
LT Debt/Cap	26.7%	34.5%
Beta	1.01	1.00

In contrast, we are underweight the Energy and Consumer Discretionary sectors, wary of long-term disruption from electric vehicles and ecommerce. Our focus on high-quality financial and ESG leaders should balance our pro-cyclical positioning, but we are prepared to implement changes if we perceive deteriorating investment conditions.

Europe

Last year, centrist Emmanuel Macron's election in France was a key catalyst for the European market's strong recovery. This spring, political uncertainty has again disturbed economic and market sentiment. In Italy, the coalition of left (Five Star Movement) and right (Lega) populist parties filled cabinet posts with Eurosceptics, politicians who distrust Europe's collective institutions, including the monetary union. In our view, broad popular support for the Euro is the most important basis for the continent's integrated future, and recent polls show that two-thirds of Italians want the country to remain in the Eurozone. Despite political distractions, the Eurozone labor market continues to heal, with hourly wage growth reaching a five-year high in the first quarter. In France and Germany, average real wages are over 10% above 2007 levels, approximately twice the raise the average US worker has experienced. The UK, on the other hand, has seen a 2.6% contraction of average real wages over the past 10 years, slightly worse than Italy's 2.0% decline. Stagnant living standards for the middle class and rising inequality seem to prime a population for anti-establishment, populist rhetoric.

In the UK, domestic debate has delayed constructive progress towards an exit from the European Union, demonstrating the challenges and costs of economic separation. We are concerned that the UK faces more friction ahead and consequently we remain underweight that market. We are overweight Europe ex. UK, especially the Healthcare, Materials, and Technology sectors, based on favorable earnings prospects and our view that political risks are overly discounted in attractive valuations.

Japan

Over the past few years, we have increased our allocation to Japan as its stable leadership implements creative pro-growth policies and the corporate profit outlook improves. Extraordinary monetary stimulus is targeting 2.0% core inflation, which has stubbornly persisted below 1.0%. The Bank of Japan's stance is likely to stand out as other central banks end bond purchases and raise interest rates. The monetary policy differential should weaken the Yen, helping Japan's export-oriented market.

While Japan's shrinking population limits its productive capacity, policymakers have been pushing to utilize existing resources more effectively. Female labor force participation has expanded dramatically, and now the country is softening its immigration requirements. The government recently announced new five-year permits for guest workers to ease labor shortages; the unemployment rate is currently 2.2%.

Policy initiatives have been complemented by improvements in corporate profitability and governance: operating efficiencies, more shareholder-friendly capital allocation, more independent members on Boards, and unwinding conflicts of interest.

NEW & CLOSED POSITIONS

CLOSED	SECTOR	% OF PORT.
ASTELLAS PHARMA INC	Healthcare	1.3%
CHECK POINT SOFTWARE TECH LTD ORD	Technology	1.2%
TOTAL CLOSED		**2.5%**

NEW	SECTOR	% OF PORT.
AMS AG	Technology	1.0%
COVESTRO ASG	Materials	1.5%
VONOVIA SE	Real Estate	1.0%
TOTAL NEW		**3.4%**

COMPANY SPOTLIGHT: HOYA

Company Profile

Based in Tokyo, Hoya's Technology division (33% of sales, 55% of profits) includes the production of hard disk drive glass substrates, camera lenses, and semiconductor masks & blanks. The Life Care division (66% of sales, 45% of profits) involves manufacturing eyeglass lenses and endoscopes as well as operating contact lens stores in Japan. Geographically, revenues are split among Asia/Pacific (52%), Americas (21%), Europe (20%), and Africa/Middle East (7%).

Hoya has partnered with the non-profit organization OneDollarGlasses to offer glasses to children and adults in the developing world living on less than $1 per day. In addition to the positive social aspects of the majority of its products, Hoya has been investing to improve the environmental efficiency of its operations. Actions include promoting industrial waste recycling and establishing a 5% carbon emissions reduction goal by 2020 based on a 2014 benchmark.

ESG Integrated Investment Thesis

Hoya has been a historically well-managed company with varied end markets offering stable sales and profitability (Technology) as well as attractive growth opportunities (Life Care). The company is the second largest producer of eyeglass lenses in the world, a consolidated industry with strong underlying demand and clear social benefits - improving the quality of life of an aging population. While the eyeglass lens pricing environment may come under pressure, Hoya has been able to improve profitability by expanding its presence in the Americas and by shifting its focus towards more profitable specialty lenses. Within Hoya's technology business, a key driver has been the sale of photomasks and blanks, which are integral to the R&D and mass production of semiconductor chips. Among Japanese peers, the company's management stands out for its diversity, its disciplined acquisitions and divestitures, and its relatively high dividends and share buybacks. Hoya's valuation appears attractive given our favorable fundamental outlook for the business.\

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Based on these appealing trends, as well as inexpensive valuations compared to history and global peers, we have a historically high allocation to Japan. Over half of our Japanese exposure is in the Industrials, Consumer Staples, and Technology sectors.

Asia Pacific & Emerging Markets
Emerging Market currencies and equities have been pressured by interrelated factors. Higher US interest rates have sparked capital outflows and resulted in an appreciating Dollar. Some central banks are responding to foreign exchange market pressures by raising their own interest rates, but that can have a negative effect on growth. Risk aversion related to US trade disputes with China and Mexico has exacerbated cyclical headwinds.

China's shift away from debt-financed property development towards consumption and services is timely, since it has the added benefit of reducing its exposure to global trade. In our view, China is capable of navigating trade negotiations given its $3 trillion of foreign exchange reserves and its vast economic controls. Asia Pacific and Emerging Markets include a diverse set of countries with different near-term risks and opportunities. We mostly find attractive sustainable growth companies clustered in the Asia Pacific consumer and financial segments, and our portfolios are thus overweight the region.

Shareholder Engagement Highlights

Milestones	**Lobbying Disclosure & Climate Change:** Boston Common's resolutions on Lobbying Disclosure at **American Water Works (40.3% in favor)** and **Verizon Communications (36.3% in favor)** received strong support from shareholders at their respective Annual meetings in May. **The UN Principles for Responsible Investment (PRI)** launched a new publication, "Converging on Climate Lobbying: Aligning Corporate Practice" with Investor Expectations, which features Boston Common's case study on Lobbying in the banking sector.
	Climate Change: ConocoPhillips became one of the **first major US energy companies to publicly support** many of the recommendations of the **Task Force on Climate Related Financial Disclosure**. Boston Common is leading the investor initiative with ConocoPhillips in the **Climate Action 100+** global collaborative engagement.
Work in Progress	**Conflict Minerals & Child Labor:** Boston Common led an investor call with **Microsoft** on **cobalt sourcing and child labor in the Congo**. The company is mapping participants in its cobalt supply chain (smelters, traders, mine sites, and battery suppliers). As a result of Microsoft's on-the-ground work with Pact, a nonprofit, on the **Children out of Mining program** in the Katanga region of the DRC, Pact has seen a reduction in the use of child labor between 77% to 97% since 2015. Microsoft committed to expand the program to a new region with a further three year financial commitment to Pact.
	Banks & Climate Change: In our Banking on a Low-Carbon Future initiative, we engaged **JPMorgan Chase**, **Morgan Stanley**, **PNC Financial** and **TD Bank** this quarter. TD is using the UN Environment Programme Finance Initiative **Taskforce on Climate-related Financial Disclosures** (TCFD) to inform its own approach to climate risk, as well as with its high-emissions clients. **PNC Financial** provided further insights into its **integrated governance approach to environmental and social risk** due diligence across its lending activities. PNC expanded analysis of key emerging threats and opportunities to include adoption of **electric vehicles, emergence of alternative energy, and stranded assets**.
	Human Rights of Indigenous People: We sent an investor letter to the **Equator Principles Association** advocating for the **rights of Indigenous Peoples** and asking the Association to consult with Indigenous Peoples in the revision of the Equator Principles. Last October, the **Association of over 90 banks globally committed to revise its policies on Indigenous Peoples in response to the Dakota Access Pipeline controversy and a Boston Common-led global investor engagement.**
New Initiatives	**Gun Violence:** Boston Common joined a coalition of 44 investors to engage 20 banks that recently **provided direct financing to firearms manufacturers or are involved in credit merchant processing**. We are urging banks to **prohibit lending or the use of credit cards/payment systems to gun manufacturers that sell, produce, or design specific weapons or ammunition** -as well as those that do not support federal universal background checks and/or endorse the Sandy Hook Principles. Boston Common is leading the outreach with **PNC Financial** and **JPMorgan Chase** and participated in dialogues with **Morgan Stanley** and **Visa**. Other portfolio companies include **Barclays**, **TD Bank**, and **US Bank**.