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Active Investor Social Update

Fourth Quarter, 2018

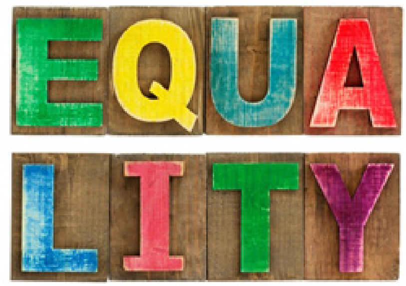
Racial Justice - What's investing got to do with it?

By Lisa Hayles

In our view, there are at least four interconnected dimensions of Racial Justice investing: Practices, People, Products, and Policies. In this piece, we explore the first dimension: Practices.

As responsible investors and citizens we have long been concerned with how financial markets may exacerbate inequality and deepen injustices experienced by communities of color. By 2044, America will likely be a majority-people-of-color nation. Unfortunately, people of color continue to lag in access to education, experience higher unemployment and accumulate far less wealth than their white peers. "The growth in diversity among the populace coupled with the persistent exclusion of historically disadvantaged groups from full participation in the economic and civic life of the country form a core challenge that companies must address to remain competitive."[1]

The investor case is clear: creating diverse and inclusive organizations is challenging, but the results warrant that pursuit. A 2017 McKinsey study showed that companies with the most ethnically diverse executive teams—not only in absolute representation, but also a variety or mix of ethnicities—are 33% more likely to outperform their peers on profitability.



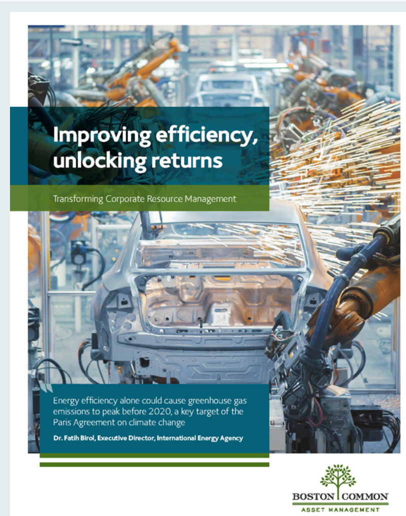
Globally, diverse and inclusive workplaces attract and retain top talent, improve customer orientation, decision-making, employee satisfaction, and secure the organization's license to operate.[2]

As active, responsible investors we believe the lack of diversity and inclusion is a risk to financial success of portfolio companies. As a result, we avoid investing in laggard companies and seek leader companies that respect Indigenous Peoples' rights and support diverse representation at all levels. Boston Common has avoided investing in companies that have a history of discriminatory behavior towards women or minorities. Read our spotlight on Kroger, for an example of a company that has, over time, improved its diversity policies and practices and now meets our Comprehensive ESG criteria. Through Sustained Dialogue, we seek improvements from companies we hold and engage them to create inclusive cultures.

Read our Perspective on Racial Justice Investing

NEW REPORT: *Improving Efficiency, Unlocking Returns: Transforming Corporate Resource Management*

We are excited to share our first progress report on our ambitious initiative to engage companies on Eco-Efficiency, our call to action to corporations to increase their resource productivity and cut resource use--namely energy, emissions, water, and waste. We wanted to challenge and inspire companies to re-imagine products, re-conceptualize strategy, and redesign processes. We began this multi-year initiative with companies in 2015, supported by an investor coalition of $1 trillion in assets under management. We detail in the report our active, sustained dialogue with companies, industries, and investors—as we work to identify and refine the questions and key areas where companies can improve. We aim to create a narrative around Eco-Efficiency within companies that helps embed the concept of Eco-Efficiency at a management and corporate governance level, so that doing more with less is a consideration for every business decision.



Download the Report

[1] https://www.fsg.org/publications/competitive-advantage-racial-equity

[2] https://www.mckinsey.com/business-functions/organization/our-insights/delivering-through-diversity

Active Investor Social Update

Fourth Quarter, 2018

ESG in Action: China

By Liz Su, CFA

With China's increasing importance in the global economy, the country is at an inflection point in its broad adoption of ESG principles and stewardship activities. We returned to China for the second time in 2018 to attend the Asian Corporate Governance Association (ACGA) annual conference. Through meetings with portfolio companies, regulators and stock exchanges, and local institutional investors, we gauged key driving forces behind the recent ESG momentum in China, identified challenges, and where active investors could help further develop the ESG ecosystem.

Momentum in Corporate Governance and ESG Disclosure

ESG adoption in China is still mostly driven by regulations and consumer demands, less so by investors. As more people become aware of environmental issues, environmental risk can easily damage companies' brand image and competitive positioning.

First significant updates to Corporate Governance (CG) Code in sixteen years.

In September 2018, China released amendments to its CG codes, the first since 2002. Key changes include strengthening the protection of retail investors, encouraging responsible investment and participation by institutional investors, and emphasizing the role of independent board members and a new mandatory audit committee.

ESG Disclosure is still voluntary in mainland China, but environmental disclosure will be required by 2020 for all listed companies.

In mainland China, CSR reports are still voluntary and mainly focus on environmental information. CSR company reports increased from 69 in 2008 to 845 in 2016 but plateaued in recent years. Regulators committed to make environmental disclosure mandatory for all listed firms by the end of 2020

There is a lack of strategic integration of ESG issues at C-Suite level management discussions, and ESG efforts are primarily compliance-driven.

Most companies do not have the awareness and process to include ESG issues at C-Suite level management discussions. Regulators see current CG rules and enforcement as sufficient to prevent companies to 'do no evil', yet find it difficult to provide incentives for companies to 'do good'.

ESG data is exponentially expanding, but quality is mixed; independent judgement is key.

There has been exponential growth in the volume of ESG data, thanks to surging demands and proliferation of third-party data providers. There is dissatisfaction with the quality and comparability though. Boston Common uses raw ESG data from multiple data vendors and triangulate them through our own data sources.

Party Committees, required under the new CG Code, raise concerns about companies' decision-making processes and their Boards of Directors.

One controversial area of the new CG code is the requirement for State-Owned-Enterprises (SOEs) to incorporate Party Committees (PC) into their Articles of Association. Boston Common has not invested in companies that are majority-owned by the State due to corporate governance and human rights concerns.

The new CG code has established PC's role in the collective decision process for SOEs but does not specify the relationship between PCs and the Board of Directors, nor require disclosure of PCs activities.

Active investors need to engage with regulators and companies to share best practices to further build out the ESG ecosystem in China.

For example, one of our portfolio companies, Beijing Water Enterprises, recently reached out to us to provide feedback on how they can take the next step in their ESG reporting. Boston Common believes such dialogues will lead to better understanding by companies of materiality issues and global investors' expectations.

Read our Perspective on ESG in Action: China

"Decommercializing Justice"

The Corrections Accountability Project, of which Boston Common is a member, works to "eliminate the influence of commercial interests on our criminal justice system and the exploitation of those it touches." To reaffirm our long standing position of "uninvestment" in private prisons, Boston Common added a position statement on private prisons and prison labor to our website:

http://news.bostoncommonasset.com/private-prisons-and-prison-labor/

Active Investor Social Update

Fourth Quarter, 2018

Healthier Returns

By Lauren Compere

For investors hungry to get a piece of the pie in the food and beverage sector it's clear that health and nutrition will be among the most important drivers of growth. Food companies who anticipate and respond to these factors will be best-positioned to deliver more sustainable financial performance. They will also help achieve the second and third UN Sustainable Development Goals — to end hunger, and to improve health and wellbeing through better nutrition over time.

That is why we should be concerned that the first-ever U.S. Access to Nutrition Index released on November 15th reveals that the 10 largest US food and beverage manufacturers — which generate an estimated $160 billion in domestic sales — lack the policies and action needed to tackle the high levels of obesity and diet-related diseases in the United States. This was supported by the most compelling finding under the new Product Profile that only 30% of products assessed are healthy, contributing to less than a quarter of 2016 sales across the companies.

Based on their total US sales in 2016, the 10 companies included in the Index are Coca-Cola, ConAgra, Dr. Pepper Snapple, General Mills, Kellogg, Kraft Heinz, Mars, Nestlé, PepsiCo and Unilever.

The Index's ranking of the 10 companies has Nestlé at the top of the table in the Corporate Profile with a score of 5.3 out of 10. Nestlé earned its top ranking for being the most transparent about its progress to help consumers eat healthier through commitments focused on making its product portfolio healthier, better informing consumers and using more responsible marketing approaches. Unilever came in second place and PepsiCo in third. Meanwhile, ConAgra had the highest relative score under the Product Profile with a score of 5.8 out of 10 for carrying the healthiest product portfolio, followed by Kraft Heinz in second place and General Mills in third.

One of the key findings from the U.S. Index is that practices to improve consumers' health and nutrition are more widely adopted globally than in the United States. Specifically, companies are not doing enough to improve the nutritional quality, pricing and distribution of their products nor to improve their practices related to responsible and transparent product marketing and labeling. For example, if you compare the results of this year's U.S. Spotlight Index and the Global version, it shows that the nine food and beverage companies included in both Indexes are less transparent about their efforts in the US than globally.

Read more about our perspective on the US Access to Nutrition Index Spotlight

Shareholder Resolutions Spotlight: 2018-2019 Resolutions Filed

Shareholder resolutions are one of the key tools we use in the US market to achieve impact in public equities. These engagements may be shorter-term in nature and tend to focus on a specific "ask" of companies. Boston Common filed a number of shareholder resolutions in the 2018-2019 season across a diverse range of issue areas. This fall, US policy makers including the Securities & Exchange Commission met to consider changing the rules which would restrict shareholders' ability to submit and vote on proposals. That is why we urged the SEC to protect the rights of shareholders by maintaining its current rules by supporting the submissions of the Shareholder Rights Group and ICCR prior to the November 15th Roundtable on the Proxy Process.

Issue	Company
Board Diversity	Mohawk Industries*
Lobbying Disclosure	American Water Works*, Ford, JP Morgan Chase*, Morgan Stanley* Oracle*, Verizon Communications*
Racial Board Diversity	Alphabet Inc. (Google)
Climate Change: Setting GHG Emission Reduction Targets	Home Depot*
US Drug Pricing Transparency	Biogen, Johnson & Johnson, Merck

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Taking Stock: Reflecting on the Quarter

Sustainable Development Goals	*Milestones*
Goal 17: Partnership for the Goals **Goal 16: Peace, Justice and Strong Institutions**	**Quantifying ESG Impact:** Boston Common has been recognized by **Real Impact Tracker** and the **Real Leaders 100** for our ESG Impact. Third party certifications help keep investors informed and prevent "greenwashing" in the investment industry. Listen to a recording of the Real Impact Tracker webinar, featuring Lauren Compere, Director of Shareowner Engagement. **Strong Show of Support:** Our **Lobbying Disclosure proposal received a 28.2% vote in favor** at **Oracle** Corp.'s annual shareholder meeting. We called on Oracle to increase its transparency and accountability in the spending of shareholder resources.

Sustainable Development Goals	*Work in Progress*
Goal 6: Clean Water and Sanitation **Goal 12: Responsible Consumption and Production**	Our inquiries to **Albemarle** and **Sociedad Química y Minera**, lithium producers, on their water stewardship practices in Chile led to robust dialogues with senior representatives at both companies about their management of water usage, discharges, and site level assessments. We encouraged both to begin to respond to CDP Water to enhance their internal management systems and to adopt a global approach to managing water risks. We joined 60 investors with $6 trillion in assets asking companies to respond to CDP with Boston Common leading with Apache, ConocoPhillips, and Cimarex.
Goal 13: Climate Action	As an extension of our **Banking on a Low-Carbon Future** work with large global banks, Boston Common joined forces with ICCR and its members to launch an engagement focused on 20 small cap and mid-cap US banks with letters sent in December. Boston Common is leading dialogues with **Associated Banc-Corp, First Horizon National Corporation, First Midwest Bancorp Inc., Fulton Financial Corporation, Moelis & Co., UMB Financial Corp, Union Bankshares Corp., Washington Federal, & Zions Bancorp**.
Goal 16: Peace, Justice and Strong Institutions **Goal 6: Clean Water and Sanitation**	**Advancing Engagement in Asia:** As part of our robust engagement program in Asia, we engaged senior representatives of **Beijing Enterprises Water** on its approach to sustainability disclosure and encouraged the company to take the next step and respond to CDP Water. We advised **Beijing Water** to include oversight and management of material ESG risks and begin reporting on objectives and targets related to water, energy, and waste reductions. As part of an investor inquiry to 22 ICT companies on digital human rights, we reached out to **Samsung Electronics** and **Tencent Holdings** after their evaluation by the Ranking Digital Rights 2018 Corporate Accountability Index on their disclosed commitments and policies affecting freedom of expression and privacy.

Sustainable Development Goals	*New Initiatives*
Goal 3: Good Health and Well-being **Goal 14: Life Below Water**	Boston Common is a signatory of the **New Plastics Economy Global Commitment** – which envisions a circular economy for plastic, where plastics never become waste. The commitment aims "to create 'a new normal' for plastic packaging. They will review targets every 18 months, and become increasingly ambitious over the coming years. Businesses that sign the commitment will publish annual data on their progress to help drive momentum and ensure transparency."
Goal 8: Decent Work and Economic Growth **Goal 10: Reduced Inequalities**	**Ethical Recruitment:** Forced labor in manufacturing is a material risk for the Information and Communications Technology (ICT) sector. Risks include: the potential use of migrant workers paying high recruitment fees, the retention of identification documents, and the use of forced or child labor. We joined ICCR in backing the findings of the KnowTheChain's 2018 Benchmarking Report on Forced Labor in the ICT sector which rated 40 ICT companies on each company's approach to reducing exploitation and protecting the rights of workers in their supply chain. Boston Common led inquiries with **Analog Devices, Hoya, Infineon, Keyence, Nintendo, & TE Connectivity.**