

Emerging Markets Strategy Update

Second Quarter, 2019

EMERGING MARKET REVIEW

The MSCI Emerging Market Index (“the Index”) posted a slight gain (+0.6%) after a volatile second quarter. Resurfacing of US-China trade tensions in May caused an abrupt market sell-off. However, risk aversion eased in June, as both parties agreed to restart negotiations and it appeared that no new tariffs would be imposed by the US. Renewed signals from the US Federal Reserve for easier monetary policy ahead also helped lift investor sentiment. EM Asia, which is more exposed to global trade, declined -1.3%, lagging EMEA (+7.2%) and Latin America (+4.4%).

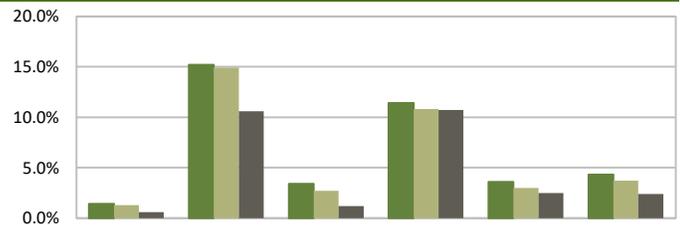
In Latin America, the new Index entrant Argentina was the best performing country this quarter, surging +31.7% supported by favorable political developments. Brazil (+7.2%) also outperformed, as investors welcomed the progress in pushing through the critical social security reform bill. Mexico (+1.1%) rebounded after reaching a temporary truce with the US to contain the flow of immigrants in exchange for no escalation in tariffs. In the EMEA region, Russia rallied +16.9%, supported by a firmer Ruble (+3.6%) and an interest rate cut from the central bank. South Africa rose +6.6% thanks to favorable election results as well as the Rand’s (+2.3%) sensitivity to rising gold prices. Southeast Asian countries led the performance in Asia; Thailand (+9.3%), Philippines (+4.4%), and Indonesia (+3.2%) all fared well. China (-4.0%) and Korea (-1.0%) underperformed, as global trade uncertainty has negatively impacted exports in both countries. India (+0.5%) ended the quarter flat, following sluggish economic activity data.

Financials (+4.0%) was the best performing sector, supported by signs of easing monetary policies by several Central Banks. Consumer Staples (+3.3%) and Utilities (+2.9%) also outperformed due to their defensive nature. Healthcare (-6.6%) was the worst performing sector, dragged down by weakness in the Indian pharmaceutical industry. Communication Services (-2.4%) and Information Technology (-0.1%) lagged, weighed down by concerns over supply chain disruptions from increased global trade tensions.

PORTFOLIO REVIEW

The Boston Common Sustainable Emerging Markets Equity strategy returned +1.4% during the quarter, before fees, outperforming the Index. For 2019 year-to-date, the strategy is up +15.2%, significantly outperforming the benchmark’s +10.6% rise. For the quarter, stock selection in the Communication Services sector was the largest positive contributor. Thai telecom operator Advanced Information Services rallied on favorable spectrum auction results. Russian Internet search portal Yandex outperformed on strong earnings.

PERFORMANCE



	QTD	YTD	1Yr	3Yr	5Yr	Since Inception*
Gross	1.4%	15.2%	3.4%	11.4%	3.6%	4.3%
Net	1.3%	14.9%	2.7%	10.8%	3.0%	3.7%
MSCI EM	0.6%	10.6%	1.2%	10.7%	2.5%	2.4%

CONTRIBUTORS & DETRACTORS

TOP 10	% OF CAPITAL RETURN	RELATIVE CONTRIB.	SECTOR	
PAGSEGURO DIGITAL LTD	1.1%	46.9%	0.64%	Technology
ADVANCED INFO SERVICE PCL FO	1.8%	22.4%	0.39%	Communication Services
SBERBANK RUSSIA	2.0%	22.3%	0.39%	Financials
HDFC BANK LIMITED	2.9%	12.6%	0.35%	Financials
RAIA DROGASIL SA	1.6%	18.6%	0.29%	Consumer Staples
HYPERA SA	1.6%	18.7%	0.27%	Healthcare
GRUPO FINANCIERO BANORTE	1.9%	12.2%	0.20%	Financials
NASPERS	4.3%	5.0%	0.20%	Consumer Discretionary
PING AN INSURANCE GROUP CO	3.1%	8.5%	0.20%	Financials
YANDEX N V SHS	2.0%	10.7%	0.19%	Communication Services
		3.13%		

BOTTOM 10

ALIBABA GROUP HOLDINGS	4.6%	-7.4%	-0.40%	Consumer Discretionary
SOCIEDAD QUIMICA MINERA DE CHILE	1.8%	-18.6%	-0.38%	Materials
SUNNY OPTICAL TECH	1.7%	-12.7%	-0.27%	Technology
WOONGJIN COWAY CO LTD	1.2%	-18.4%	-0.25%	Consumer Discretionary
HENGAN INTL GROUP CO LTD	1.3%	-13.6%	-0.20%	Consumer Staples
AIRTAC INTERNATIONAL GROUP	1.2%	-13.6%	-0.19%	Industrials
CTRIIP COM INTL LTD	1.0%	-15.5%	-0.18%	Consumer Discretionary
OTP BANK	2.1%	-7.6%	-0.17%	Financials
LG HOUSEHOLD & HEALTH CARE	1.7%	-9.4%	-0.17%	Consumer Staples
NOAH HOLDINGS	1.4%	-12.2%	-0.17%	Financials
			-2.36%	

The Financials sector was another source of strength, as Sberbank in Russia, HDFC Bank in India, Grupo Banorte in Mexico, and Ping An in China were all positive. Stock selection in the Information Technology sector also contributed to relative returns. Brazilian payment company PagSeguro advanced after delivering above-consensus earnings. From a country perspective, stock selection in Brazil helped performance. Drug store operator Raia Drogasil and pharmaceutical company Hypera benefited from solid business fundamentals.

Emerging Markets Strategy Update

Second Quarter, 2019

Stock selection in Materials was a significant detractor this quarter. Our exposure to the electric vehicle supply chain hurt, with Chilean lithium producer SQM and Korean battery manufacturer LG Chem underperforming relative to the Metals and Mining industry, to which we do not have exposure. Stock selection in Consumer Discretionary also detracted from relative results. Chinese eCommerce giant Alibaba and online travel company Ctrip declined as trade tensions intensified. Despite its stable business outlook, Korean health appliance manufacturer Coway sold off on potential corporate ownership changes. From a country perspective, stock selection in Taiwan hurt performance. Industrial automation company Airtac was caught by the negative sentiment as trade uncertainty clouded its growth outlook. Other notable detractors included personal care companies Hengan and LG Household & Health Care, Chinese wealth management company Noah, and Hungarian bank OTP. Sunny Optical, a supplier to Huawei, also struggled after Huawei was blacklisted by the Trump administration.

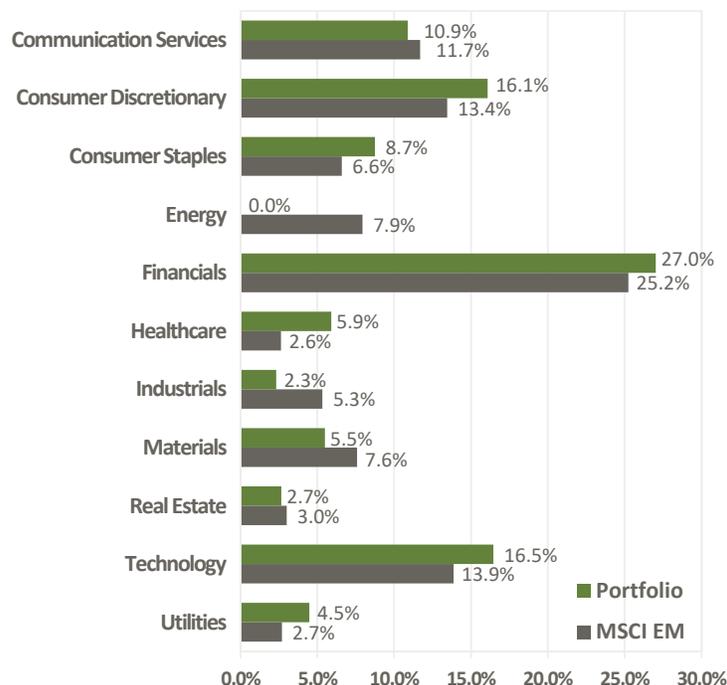
PORTFOLIO ACTIVITY

Among our portfolio actions this quarter, we purchased PagSeguro, a leading payment processing company in Brazil focusing on the often underserved micro-merchants and SMEs segment. It offers multiple digital payment solutions, pre-paid card issuance, and financing services, which allow micro-merchants to access affordable end-to-end digital solutions that help them better manage their business. Because of its diversified product offerings, R&D capabilities, and extensive Internet reach, PagSeguro has been gaining market share from local incumbents. Digital payment penetration is still low in Brazil, and regulations to open up the market and foster faster adoption favor a disruptive player such as PagSeguro.

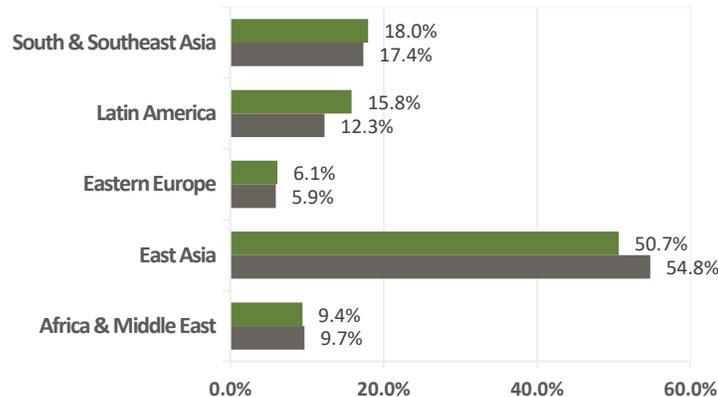
Another purchase this quarter is Indonesia's largest home improvement retailer PT ACE Hardware ("ACES"). The home improvement industry has been growing at a double-digit rate in Indonesia, driven by urbanization and a growing middle class. ACES is a key beneficiary of the secular shift from mom and pop stores to modern retail, thanks to its strong product procurement and logistics capabilities. We are optimistic about consumption recovery in Indonesia and view ACES as attractively valued given the strong earnings potential.

In addition, we purchased two high-quality businesses in the consumer health space. Clicks Group, South Africa's leading drug store operator, has been able to consistently deliver solid same-store-growth amidst a challenging macro environment. Clicks Group performs well relative to its peers on key ESG metrics, with strong labor practices and corporate governance. In our view, Clicks is well positioned to benefit from the secular demand for better access to health. China TCM, China's leading manufacturer of Traditional Chinese Medicine (TCM), is also a solutions company using herbs and natural ingredients as an alternative to Western medicine. It has a dominant position in granules, the fastest-growing segment of TCM. It has strong processes in place for quality control and supply chain management. As a result, it has been instrumental in establishing national quality standards and stands to benefit from increasing regulatory efforts in support of the industry.

SECTOR ALLOCATION



SUB-REGIONAL ALLOCATION



PORTFOLIO CHARACTERISTICS

	BOSTON COMMON	MSCI EM
# HOLDINGS	53	1,194
Valuation		
Next 12m Price to Earnings	15.6	12.4
Price to Book Value	2.3	1.7
Price to Sales	2.0	1.3
Dividend Yield	2.4%	2.5%
Growth		
5yr Sales Growth	6.5%	6.6%
5yr EPS Growth	11.5%	9.7%
Risk		
Wtd Avg Mkt Cap	85,002	91,219
LT Debt/Cap	24.9%	25.2%
Beta	0.94	1.00

Emerging Markets Strategy Update

Second Quarter, 2019

This quarter we exited Naver, Korea's leading Internet search portal company. Despite its stable search business in Korea, we became more cautious about the profitability outlook of its Japanese subsidiary. We also sold IHH, a leading private hospital operator in Asia. In our view, its premium valuation does not fully reflect the potential execution risks from a recent acquisition. We redeployed the proceeds into other healthcare companies with more attractive valuation profiles.

ECONOMIC & MARKET OUTLOOK

The uncertainty from global trade tensions will likely put further downward pressure on business confidence. The US-China ceasefire from the recent G20 meeting was a positive step, although we expect a bumpy negotiation path ahead. As a result, global growth momentum is likely to moderate. Meanwhile, economic fundamentals appear largely stable in emerging markets. The outlook for inflation remains benign, and a more dovish US Fed should allow for accommodative monetary policies by EM central banks, which provides a supportive backdrop. Indeed, the majority of the 26 EM countries now have inflation forecasts below their central banks' target and seven of the top ten EM countries are expected to move forward with cuts to their policy rates. The downward trend to earnings revisions appears to have stabilized, with the MSCI EM Index projected to deliver 12.9% earnings growth in 2020.

In our view, moderate growth and lower interest rates is the most likely economic scenario over the medium term. To reflect this base case, our portfolio emphasizes environmental solutions companies and high-quality ESG leaders with secular growth opportunities. Our portfolio is overweight interest rate-sensitive sectors such as Financials, which should benefit from the easing monetary policy cycle. We have offset this cyclicality with increased exposure to the defensive sectors, including Healthcare and Consumer Staples. With the Index trading at 12.3x forward earnings and providing a 3.1% dividend yield, we think the long-term outlook remains attractive for EM equities on balance.

China's policy responses to the trade tensions will be key to regional and global growth outlooks. So far, the Chinese government has avoided aggressive investment-driven stimulus, and instead is pursuing targeted easing policies and tax cuts to support the domestic economy. The tariff increase from 10% to 25% on \$200 billion worth of Chinese exports as announced before the G20 meeting will likely create near-term headwinds for exports; however, the overall impact on the economy should be manageable. Indeed, while manufacturing investment growth moderated in 2019, domestic consumption remains healthy. In our view, China has a large tool kit at its disposal, ranging from infrastructure investment, which has been effective historically, to structural reform initiatives such as further relaxation of household registration, which can further support urban consumption. Elsewhere in Asia, we are cautious on the near-term outlook for South Korea, given its economy's reliance on trade and external demand, and have reduced portfolio exposure.

NEW & CLOSED POSITIONS

CLOSED	SECTOR	% OF PORT.
IHH HEALTHCARE BHD	Healthcare	0.8%
NAVER CORP	Communication Services	1.0%
TOTAL CLOSED		1.8%

NEW	SECTOR	% OF PORT.
ACE HARDWARE INDONESIA	Consumer Discretionary	1.1%
CHINA TRADITIONAL CHINESE MEDICINE HOLDINGS CO. LTD	Healthcare	1.1%
CLICKS GROUP LTD	Consumer Staples	1.0%
PAGSEGURO DIGITAL LTD COM CL A	Technology	1.6%
TOTAL NEW		4.8%

COMPANY SPOTLIGHT: LG H&H

Company Profile

LG Household & Health Care (LG H&H) is a leading South Korean consumer goods company that operates in three business segments: household products, cosmetics, and beverages. The company offers a range of products, from premium skin care to personal care items such as soaps and body cleansers to juices, teas, and other beverages. Relative to peers in the Household & Personal Care industry, the company shows strong ESG performance and disclosure. LG H&H has also implemented a thorough analysis of its processes to identify opportunities for carbon and water reduction during R&D and at each stage of production and distribution.

Investment Thesis

Rising discretionary incomes in Emerging Markets create increased demand for health and beauty products. LG H&H has been a key beneficiary of this secular trend, as its high-quality, premium brands continue to gain market share. The company uses targeted, locally informed marketing strategies to improve its positioning in key markets, such as China. The company's leadership in product lifecycle assessment, chemical safety, and sustainable packaging should amplify its products' appeal among ecologically minded consumers and ultimately decrease its carbon footprint across the value chain. LG H&H's Beauty sales have been its main source of growth, while a recovering Household division and a stable Beverage segment should provide stability to the overall business profile. This changing revenue mix has helped improve operating profitability, warranting the stock's modest valuation premium. The market's overreaction to regulatory tightening may continue to create buying opportunities for long-term investors while having limited impact on the company's fundamentals. Risks: slowing consumption in Asia.

ESG Engagement Opportunities

As the sale of cosmetics and household products account for a growing share of overall revenues, the business will become increasingly dependent on palm oil as a raw ingredient. LG H&H lags behind its peers in sustainable sourcing practices, and we see an important engagement opportunity. Given its dependence on plastic packaging for beverages and other products, LG H&H is also a strong candidate for joining the Ellen MacArthur Foundation's New Plastics Economy Global Commitment, a key ask under our ongoing plastics engagement initiative.

Emerging Markets Strategy Update

Second Quarter, 2019

We remain optimistic about Indonesia and have further increased our overweight to the country, as we expect policy continuity, gradual pick-up in reform momentum, and accommodative central bank policy to provide tailwinds for corporate earnings

GDP growth in South Africa contracted -3.2% in the first quarter. The decline was partially driven by the severe power blackouts as a result of years of corruption and mismanagement at the state-owned power company Eskom. The recent re-election of Cyril Ramaphosa as President, with his party winning almost 60% of the vote, should provide him a stronger mandate. He has assembled a reform-minded Cabinet, 50% of which are women (a first for South

Africa), and has set the government in motion to root out corruption and implement much-needed structural reforms to boost economic growth. The Government is providing financial support to Eskom and aims to break up the company to promote more competition. Electricity availability has improved, and manufacturing production (+4.6%) and retail sales (+2.4%) have shown early signs of stabilization. In our view, valuations in South Africa reflect ample pessimism, and we find bottom-up opportunities in well-managed companies that can benefit as reform actions progress.

Shareholder Engagement Highlights

<i>Milestones</i>	Engagement Impact – We published our 3rd annual Engagement Impact Report, Igniting Impact in Global Public Equities!
	Lobbying transparency - For the second year, our shareholder resolution at American Water Works on Lobbying disclosure received strong investor support (39.6% in favor) .
<i>Work in Progress</i>	Access to Nutrition (ATNI) – We engaged Grupo Bimbo, PepsiCo, and Unilever on adopting the 2018 ATNI Global and US Index recommendations , which include improving access to healthier products for low-income and communities of color. Unilever improved compliance with its Highest Nutritional Standards: 48% of the volume sold in tons was compliant in 2018, compared with only 9% in 2017.
	Banks and Climate Change – We issued a new survey to assess and benchmark 59 global banks progress against 2018 metrics . We focused on TCFD governance, client engagement, and adoption of a climate scenario analysis —with new questions on Just Transition, deforestation, and human rights . We engaged Bank Rakyat on lending to palm oil producers; palm oil represents over 5% of its lending portfolio. The company encourages clients to adopt Roundtable on Sustainable Palm Oil (RSPO) best practices, though many still adopt only the minimum legal requirement (ISPO).
	Eco-Efficiency - 3M and BMW made progress under our Eco-Efficiency initiative since 2016: 3M committed to 100% renewable energy for all facilities globally by 2050. One core ask for 3M: join the EP100 as it works toward doubling energy productivity. BMW adopted factory-level targets for energy efficiency and benchmarked performance globally to share best practices. One core ask for BMW: adopt the US Department of Energy's 50001 Ready program for US factories.
<i>New Initiatives</i>	Wholesale Dialogues with Retailers - We engaged retailers Costco, Kroger, and Target on a range of issues: health and well-being/nutrition and marketing, food waste, and improving sustainability practices. Kroger's Zero Hunger, Zero Waste initiative seeks to eliminate waste in stores by 2025. Toward that goal, the company assessed its food waste footprint and engaged supplier vendors. We used Target's public nutrition profiling system as a model for Kroger to guide consumers.
	Protecting Shareholder Rights - Ahead of another attempt to limit the rights of shareholders' access to the US shareholder proposal process, we urged the SEC not to change the current process, which would make it harder for investors to engage with companies on ESG and sustainability issues
	Plastic Waste – We commended several portfolio companies for joining the New Plastic Economy Global Commitment , asking for progress updates—a positive approach that helps advance our dialogues. Companies included: Apple, Colgate-Palmolive, Danone, PepsiCo, Henkel, Johnson & Johnson, Target, Unilever, Veolia, and Schneider Electric . Joining the Plastics commitment will be a core ask for our Eco-Efficiency initiative.

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