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# Global Catholic Positive Equity Strategy Update

*Second Quarter, 2019*

## GLOBAL MARKET REVIEW

The MSCI ACWI Index (the "Index") rose +3.6% in the second quarter. In local currency terms, the Index rose +3.2%, as the Yen (+2.7%) and the Euro (+1.4%) strengthened on expectations for easier US monetary policy. The UK Pound (-2.3%) declined on continued Brexit uncertainty while a basket of Emerging Market currencies appreciated slightly (+0.4%) relative to the US Dollar. ACWI Europe (+4.7%) again outperformed the Asia Pacific (+0.8%) region, while MSCI US rose +4.1%.

President Trump and President Xi met at the G20 summit in Japan and agreed to a temporary truce in the US-China trade war. The European Central Bank and the Bank of Japan promised additional stimulus if their economies remain stagnant. According to surveys, the Eurozone's factory output is contracting at a deteriorating rate, while service activity is expanding at a faster pace. In the UK, the ruling Conservative party started its process to select the successor to Prime Minister Theresa May. Financials (+5.8%) and Technology (+5.2%) benefited from improving risk appetite. Energy (-1.1%) underperformed with flat oil prices, and Real Estate (+0.4%) lagged.

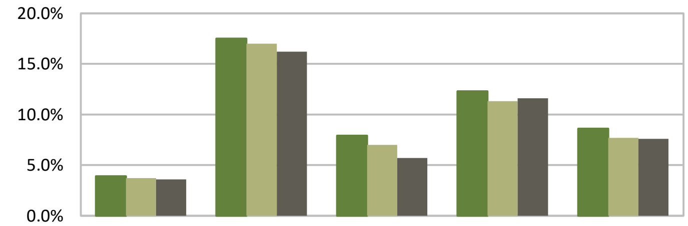
Switzerland (+8.4%) was the best performing developed country in the Index, while Australia (+7.3%) rallied after a surprise election victory for the pro-business governing coalition. Europe's two largest economies, Germany (+7.1%) and France (6.5%), advanced with global sentiment. The UK (+0.9%) was the worst performing major country, driven by its depreciating currency. Japan (+1.0%) also lagged, but for the opposite reason; the strong Yen is viewed as a headwind for Japan's export-oriented market.

The MSCI Emerging Market ("EM") Index rose +0.6%. EM Asia, which is more exposed to global trade, declined -1.3%, lagging EMEA (+7.2%) and Latin America (+4.4%). Within EMEA, Russia rallied strongly (+16.9%), supported by a firmer Ruble (+3.6%). China (-4.0%) and Korea (-1.0%) underperformed, as global trade uncertainty has hurt exports in both countries.

## PORTFOLIO REVIEW

The Boston Common Global Catholic Positive Equity strategy rose +3.9% before fees, slightly above the Index. For the quarter, stock selection in the Financials and Technology sectors was the largest contributor to relative performance. Within Financials, US bank holdings JPMorgan, PNC, Fifth Third Bank, and Citigroup performed strongly with regulatory clearance for higher capital returns. Within Technology, our mega-cap software and services holdings, Microsoft, SAP, and Visa, nicely outperformed. Japan and the UK were the leading regional contributors. Japanese lens manufacturer Hoya and British energy-efficient heating systems firm Spirax-Sarco led the way.

## PERFORMANCE




| | QTD | YTD | 1Yr | 3Yr | Since Inception* |
|---|---|---|---|---|---|
| Gross | 3.9% | 17.5% | 7.9% | 12.3% | 8.6% |
| Net | 3.7% | 17.0% | 7.0% | 11.3% | 7.7% |
| MSCI ACWI | 3.6% | 16.2% | 5.7% | 11.6% | 7.6% |

## CONTRIBUTORS & DETRACTORS

| TOP 10 | % OF CAPITAL | RETURN | RELATIVE CONTRIB. | SECTOR |
|---|---|---|---|---|
| MICROSOFT CORP | 3.8% | 14.0% | 0.36% | Technology |
| DISNEY WALT CO | 1.8% | 25.6% | 0.30% | Communication Services |
| SPIRAX-SARCO ENG | 1.3% | 25.8% | 0.27% | Industrials |
| SAP SE | 1.6% | 19.6% | 0.23% | Technology |
| HOYA CORP | 2.1% | 15.9% | 0.23% | Healthcare |
| VISA INC | 2.5% | 11.3% | 0.19% | Technology |
| JPMORGAN CHASE & CO | 2.5% | 11.3% | 0.17% | Financials |
| ADVANCED INFO SERVICE PCL F | 0.8% | 22.4% | 0.15% | Communication Services |
| ORSTED | 1.4% | 14.2% | 0.15% | Utilities |
| APTARGROUP INC | 1.1% | 17.3% | 0.14% | Materials |
| | | | **2.18%** | |

| BOTTOM 10 | | | | |
|---|---|---|---|---|
| UMICORE | 1.3% | -27.2% | -0.48% | Materials |
| REGENERON PHARMACEUTICALS | 1.2% | -23.7% | -0.36% | Healthcare |
| ALPHABET INC | 2.6% | -7.9% | -0.31% | Communication Services |
| 3M CO | 1.3% | -15.7% | -0.31% | Industrials |
| SOCIEDAD QUIMICA MINERA DE CHILE | 1.2% | -18.2% | -0.30% | Materials |
| WATERS CORP | 1.3% | -14.5% | -0.27% | Healthcare |
| CTRIP COM INTL | 0.7% | -22.8% | -0.21% | Consumer Discretionary |
| ALIBABA GROUP HOLDINGS | 2.2% | -7.4% | -0.21% | Consumer Discretionary |
| ZIMMER BIOMET HLDGS INC | 1.3% | -7.6% | -0.15% | Healthcare |
| ADVANCE AUTO PARTS INC | 1.1% | -9.6% | -0.15% | Consumer Discretionary |
| | | | **-2.75%** | |

Additional individual contributors included US media giant Disney and Thai telecom firm Advanced Info Services.

Stock selection in the Materials and Consumer Discretionary sectors was the primary drag on relative performance. Suppliers to electric vehicles Umicore (Belgium) and Sociedad Quimica & Minera (Chile) were struck by deteriorating supply and demand dynamics. Also, our Chinese ecommerce stocks, Alibaba and Ctrip, underperformed. From a regional perspective, stock selection in Europe ex-UK was a negative.

*Since Inception: June 30, 2015

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*Second Quarter, 2019*

Disappointing earnings reports pressured Finnish telecom equipment provider Nokia and Norwegian energy company Equinor. Additional individual detractors included several US holdings: bio-tech firm Regeneron, internet search leader Alphabet, and industrial firm 3M.

## PORTFOLIO ACTIVITY

No new positions were initiated during the second quarter. We used opportunities in market volatility to add to high-quality, stable businesses such as Japanese financial services company Orix. We also added to European technology names Nokia and Infineon that were trading at depressed multiples. We sold Chinese online travel agency Ctrip. We consolidated the proceeds into other Greater China holdings like Alibaba and Hang Lung properties.

## ECONOMIC & MARKET OUTLOOK

Plentiful jobs and rising wages should support healthy consumer demand. The trade war and geopolitical uncertainty have disrupted global supply chains and delayed corporate investment decisions, resulting in a depressed manufacturing sector. We believe the mutual dependence of the global economy will lead to at least a partial US-China trade settlement in the months ahead. Central banks and governments are easing financial conditions and providing stimulus to support the industrial economy.

In our view, modest growth and low interest rates is the most likely future economic scenario. Our portfolios are constructed for this base case, emphasizing environmental solutions companies and high-quality ESG leaders with secular growth opportunities. In contrast, value stocks, including some of our financial holdings, would likely lead the market in a period of faster growth and higher inflation expectations. If there is a significant downturn, our exposure to defensive stocks with relatively high dividend yields would be one of the few areas of stability in the market. If our probability assumptions shift from our base case to the other scenarios, we would reposition our portfolios accordingly.

*US & Canada*

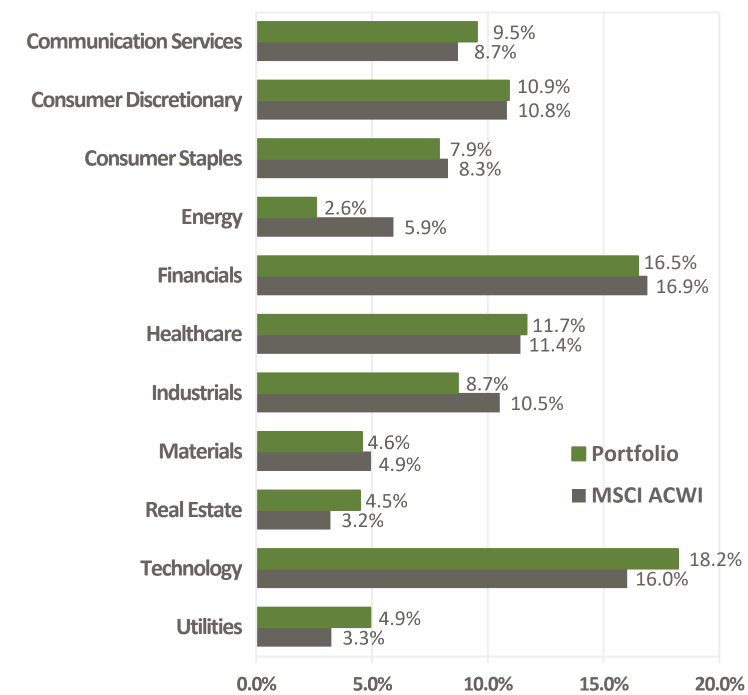
In the US, wage growth is finally taking hold. Though still low by historical standards this late into an expansion, wages have increased more than 3% year-over-year in every month since last October. With Consumer Confidence remaining strong, even in the face of tariff threats and trade tweets, there is not much change to our baseline assumption that the US economy will not tip into a recession in the near term, though economic growth will moderate as the year progresses.

US corporate profitability continues to tick higher; in 2019, the flagship S&P 500 is expected to see low-to-mid single-digit earnings per share growth. With the expectation for lower interest rates and modest earnings growth supplemented by ongoing share repurchases, valuations appear reasonable. Our underweight in US & Canada is primarily driven by lower ownership in the Energy sector followed by Financials.

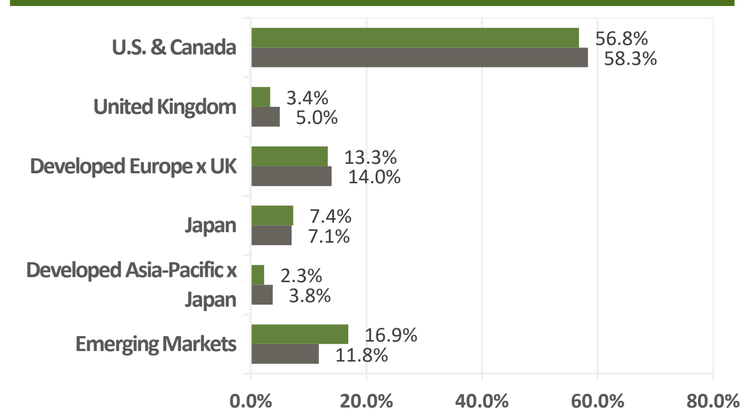
*Europe*

The Eurozone economy is growing a little over 1.0%, supported by a solid labor market.

## SECTOR ALLOCATION




## REGIONAL ALLOCATION




## PORTFOLIO CHARACTERISTICS

| | BOSTON COMMON | MSCI ACWI |
|---|---|---|
| # HOLDINGS | 77 | 2,849 |
| ***Valuation*** | | |
| Next 12m Price to Earnings | 16.9 | 15.2 |
| Price to Book Value | 2.9 | 2.2 |
| Price to Sales | 2.7 | 1.6 |
| Dividend Yield | 1.8% | 2.3% |
| ***Growth*** | | |
| 5yr Sales Growth | 4.8% | 3.4% |
| 5yr EPS Growth | 10.5% | 7.1% |
| ***Risk*** | | |
| Wtd Avg Mkt Cap | 174,418 | 158,878 |
| LT Debt/Cap | 32.4% | 35.7% |
| Beta | 1.02 | 1.00 |

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Germany's jobless rate has fallen to 3.1%, the lowest rate since 1980, and Eurozone wage growth of 2.5% is near a 10-year high. However, consumer price inflation remains subdued at 1.1%. In response, the European Central Bank has shifted its focus again to expansionary policies. Credit conditions have eased with lower long-term interest rates, and loan growth recently reached 3.3%, the fastest pace in nearly ten years. Eurozone manufacturers' surveys indicate the sector is contracting, with business conditions near three-year lows. The auto and smartphone industries and their broad network of suppliers are a source of particular weakness. Germany's export-oriented economy has considerable linkages to those industries and has slowed, growing less than 1% this year. Fortunately, the country has ample fiscal resources to offset some of the external pressure. Germany's budget surplus is forecast to decline this year after increasing in each of the past five years.

Geopolitical instability is a key risk factor for Europe, but we are encouraged by some recent developments. The European Union (EU) defused tensions with Italy over its Populist government's budget proposal. Eurosceptic political parties failed to achieve great success in the EU parliamentary elections. In fact, the Green Parties were deemed the big winners, increasing their EU seats by 40%. The Greens' strong showing could herald more assertive environmental policies that would benefit our European holdings. The UK continues to appear in a quagmire, as its likely new leader campaigns in favor of leaving the EU on October 31st with or without a deal. Brexit uncertainty leaves us cautious and underweight the UK. Within Europe ex-UK our portfolio emphasizes leaders in energy efficiency, green chemicals, or sustainable business practices, though we are slightly underweight in aggregate.

### *Japan*

Improvements in corporate governance are an appealing aspect of the Japanese market, as renewed enthusiasm for best practice standards should lead to better risk control. While Japanese corporate scandals continue to make headlines, the news may reflect greater disclosure that seeks to address conflicts of interest and management malfeasance. Modernizing capital allocation decisions should also benefit minority shareholders through higher profitability and larger dividends or share buybacks.

Japan continues to struggle towards its 2%+ inflation goal as a means to boost nominal growth. The Bank of Japan leads global central banks with innovative easing measures and the fiscal budget has been in deficit consistently over the past ten years. Yet Japan's aging and shrinking population has been a powerful disinflationary force. Policymakers have recognized the demographic headwind and gradually opened its restrictive visa rules such that net immigration has increased to a record high. Overall, we are about equal weight Japan.

### *Asia Pacific and Emerging Markets*

Asia Pacific and Emerging Markets tend to be subject to volatile capital flows and their prospects are closely tied to trade tensions, China's economic outlook, and the US Dollar. A Sino-US trade deal seems likely as the dispute has had negative consequences for an increasingly broad group of businesses.

## NEW & CLOSED POSITIONS

| CLOSED | SECTOR | % OF PORT. |
|---|---|---|
| CTRIP COM INTL LTD AMERICAN DEP SHS | Consumer Discretionary | 1.2% |
| TOTAL CLOSED | | **1.2%** |

## COMPANY SPOTLIGHT: AIR LIQUIDE

### *Company Profile*

Air Liquide, inventor of the original scuba diving equipment, pioneered the industrial gas business in the early 1900s and today is a leading supplier across a multitude of industries. With 66,000 employees in over 80 countries, Air Liquide provides industrial gas and energy solutions through a network of plants and pipelines to large industrial and commodity operators. It also supplies high-pressure gas cylinders to diverse businesses in the automotive, food, and pharmaceutical industries, among others.

### *Investment Thesis*

As one of the largest industrial gas suppliers in the world, Air Liquide is well positioned to benefit from growing demand for its products as businesses seek to maximize the Eco-Efficiency of their operations. From heavy manufacturing to electronics and healthcare, Air Liquide's gases help customers to make their own processes less resource-intensive, cleaner, and more efficient. In 2017, the company's Oxygen helped steel manufacturers reduce costs while avoiding 11.5 million tons of GHG emissions. Air Liquide's hydrogen is used to remove sulfur from hydrocarbons, which prevents acid rain. Air Liquide has a leading position in the development of hydrogen as a source of emissions-free energy for both commercial (forklifts) and consumer (automobile) uses. The industrial gas industry is relatively concentrated, with pricing power and long-term contracts guaranteeing stable base volume growth. Expectations of continued improvements to profitability metrics, relative insulation from short-term cyclical pressures, and a positive environmental profile make for a compelling investment. Risks: weaker capital spending could weigh on project pipeline, delays in hydrogen opportunity.

### *ESG Engagement Opportunities*

While Air Liquide has one of the highest total GHG emissions among portfolio holdings, its products help others reduce emissions and pollution. We began engaging the company in 2016 to improve its Eco-Efficiency practices and reduce its carbon footprint. By 2018, the company had committed to developing new energy efficiency targets and to conducting a global water risk assessment. Air Liquide also announced the goal of reducing carbon intensity by 30% (between 2015-2025), the most ambitious climate goals for its industry.

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Chinese policymakers are pursuing easier monetary policy as well as tax cuts to boost its domestic economy and by extension many non-US markets and currencies. Australia is the latest country to experience a surprise election outcome. In May, the incumbent coalition government, led by Prime Minister Scott Morrison, won a third three-year term against the Labor opposition that had been leading in the polls. Investors cheered the result because they expect expansionary fiscal policy and lighter touch regulation, especially for the scandal-prone banking industry, as well as support for a large controversial coal mining project.

However, we are concerned that the short-term economic boost from some of these policies will be dwarfed by potential damage to Australia's sustainable development. The country has already suffered from severe droughts, and its commodity exports will likely see flagging demand as the Chinese economic engine shifts from industrial production and infrastructure construction to consumption and services. Our portfolios are positioned to benefit from China's transition with an overweight of emerging Asian consumer and financial stocks and an underweight of Australia.

## Shareholder Engagement Highlights

| | |
|---|---|
| *Milestones* | **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**). |
| *Work in Progress* | **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. |
| *New Initiatives* | **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. |