BOSTON COMMON
ASSET MANAGEMENT

BOSTON
200 State Street, 7th Floor
Boston, MA 02109
tel (617) 720-5557
fax (617) 720-5665

SAN FRANCISCO
225 Bush Street, Suite 1825
San Francisco, CA 94104
tel (415) 757-5760
fax (415) 233-4871

International Strategy Update

Second Quarter, 2019

INTERNATIONAL MARKET REVIEW

The MSCI EAFE Index ("the Index") returned +3.7% in US Dollar terms during the second quarter. Easing central bank policy and progress in the trade war helped lift investor sentiment. In local currency terms, the Index increased +2.8% as a weakening Dollar added +0.9% to investors returns. The Federal Reserve's looser monetary policy stance boosted the Yen (+2.7%) and the Euro (+1.4%), while the UK Pound (-2.3%) declined on continued Brexit uncertainty.

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. President Trump and President Xi met at the G20 summit in Japan and agreed to a temporary truce in the US-China trade war.

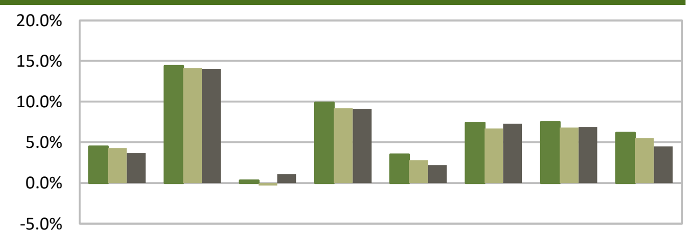
Technology (+6.6%) was the best performing sector thanks to progress towards a trade settlement. Consumer Discretionary (+5.9%) and Industrials (+5.9%) benefited from improving risk appetite. Real Estate (-2.2%) was the worst-performing sector, and defensive sectors lagged: Consumer Staples (+1.9%) and Utilities (+1.5%). Oil prices were flat, and Energy (+0.4%) underperformed.

Switzerland (+8.4%) was the best performing 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, though for the opposite reason: the strong Yen is viewed as a headwind for Japan's export-oriented market.

PORTFOLIO REVIEW

A composite of Boston Common's International portfolios returned +4.3% before fees, outperforming the Index. Stock selection in the Industrials sector was the primary contributor to relative performance. Solid financial results led to double-digit returns for our European Industrial holdings. Manufacturers of energy-efficient heating systems and power components Spirax-Sarco (UK) and Schneider Electric (France) led the way. German warehouse equipment producer Kion Group and UK plumbing distributor Ferguson also helped our Industrial performance. Stock selection in the Communication Services sector was another source of outperformance. Japanese entertainment company Nintendo benefited from burgeoning opportunities from cloud computing and from entering China.

PERFORMANCE



	QTD	YTD	1Yr	3Yr	5Yr	7Yr	10Yr	Since Inception*
Gross	4.5%	14.4%	0.3%	9.9%	3.5%	7.4%	7.5%	6.2%
Net	4.3%	14.1%	-0.3%	9.2%	2.8%	6.7%	6.8%	5.5%
MSCI EAFE	3.7%	14.0%	1.1%	9.1%	2.2%	7.3%	6.9%	4.5%

CONTRIBUTORS & DETRACTORS

TOP 10	% OF CAPITAL	RETURN	RELATIVE CONTRIB.	SECTOR
NINTENDO COMPANY LTD	1.4%	28.9%	0.30%	Communication Services
SAP	1.9%	20.1%	0.29%	Technology
SPIRAX-SARCO ENG	1.4%	25.7%	0.29%	Industrials
SCHNEIDER ELECTRIC SE	1.9%	18.8%	0.27%	Industrials
STANDARD CHARTERED	2.0%	17.9%	0.25%	Financials
FERGUSON	2.8%	13.0%	0.24%	Industrials
HOYA CORP	2.2%	15.9%	0.24%	Healthcare
KION GROUP	1.5%	22.4%	0.20%	Industrials
ORSTED	1.8%	14.2%	0.19%	Utilities
ALCON INC	0.5%	68.4%	0.18%	Healthcare
			2.44%	

BOTTOM 10				
UMICORE	1.4%	-27.0%	-0.53%	Materials
SOCIEDAD QUIMICA MINERA DE CHILE	1.0%	-18.1%	-0.23%	Materials
NOKIA OYJ	1.3%	-12.3%	-0.21%	Technology
SHIMANO INC	1.8%	-8.1%	-0.21%	Consumer Discretionary
EQUINOR ASA	1.4%	-8.9%	-0.18%	Energy
SVENSKA HANDELSBANKEN	1.5%	-7.1%	-0.17%	Financials
VONOVIA SE	1.8%	-5.1%	-0.16%	Real Estate
ALIBABA GROUP HOLDINGS	1.7%	-7.0%	-0.15%	Consumer Discretionary
NOVO NORDISK A/S	2.4%	-2.6%	-0.15%	Healthcare
ING GROEP	2.9%	-1.0%	-0.13%	Financials
			-2.11%	

The UK was the largest regional contributor, as we were underweight the lagging market, yet our British holdings, particularly the previously mentioned Industrials, outperformed the Index. In addition, British bank Standard Chartered started to show some positive results from its restructuring efforts. Our allocation and selection in Japan also helped results. Additional individual contributors included Japanese lens manufacturer Hoya and Danish wind farm developer Orsted. The Materials sector was the largest detractor from performance. Suppliers to electric vehicles Umicore (Belgium) and Sociedad Quimica & Minera (Chile) were struck by deteriorating supply and demand dynamics.

*Since Inception: December 31, 2004

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The Consumer Discretionary sector was also a drag on results, weighed down by Japanese bike parts producer Shimano and Chinese ecommerce giant Alibaba. Stock selection in Europe ex. UK was the largest geographic detractor. Disappointing earnings reports pressured Finnish telecom equipment provider Nokia, Norwegian energy company Equinor, and Swedish bank Svenska Handelsbanken. Other key detractors included German residential real estate company Vonovia, Danish pharmaceutical producer Novo Nordisk, and Dutch bank ING Groep.

PORTFOLIO ACTIVITY

Among our transactions this quarter we purchased bioMerieux. The company's diagnostic tests play a leading role in combatting anti-microbial resistance, a significant global health problem driven in part by the over-prescription of antibiotics. The French company is a pioneer in simultaneous testing of multiple pathogens, which leads to faster diagnoses of infectious diseases. bioMerieux focuses on respiratory infections, which account for about 40% of antibiotic prescriptions in the US. Clinical sales are primarily made up of steady, high-margin consumables, with equipment accounting for only 10% of sales.

Trading at 15x EBITDA, we find bioMerieux compelling considering its solution to the dangers of anti-microbial resistance and its high-single-digit underlying revenue growth. We also purchased Alcon, the Swiss eye care company that recently spun out of Novartis. The company is launching a new lens for cataract surgeries and is working to expand margins, which could buoy double-digit earnings growth. Valuation is at a discount to its peer group on an enterprise value-to-sales basis, and Alcon is well positioned to serve the growing contingent of people suffering from eye disease.

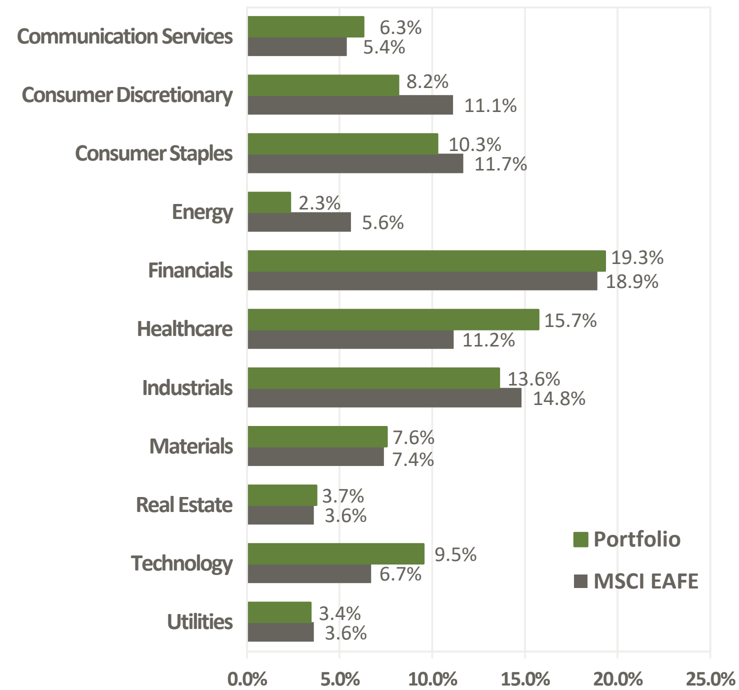
During the quarter, we sold Japanese tractor manufacturer Kubota based on a troubling outlook for profitability and a deteriorating US agricultural end market. We also reduced Japanese holdings Shimano, Shiseido, and Hoya, which had outperformed yet are exposed to cyclical demand.

ECONOMIC & MARKET OUTLOOK

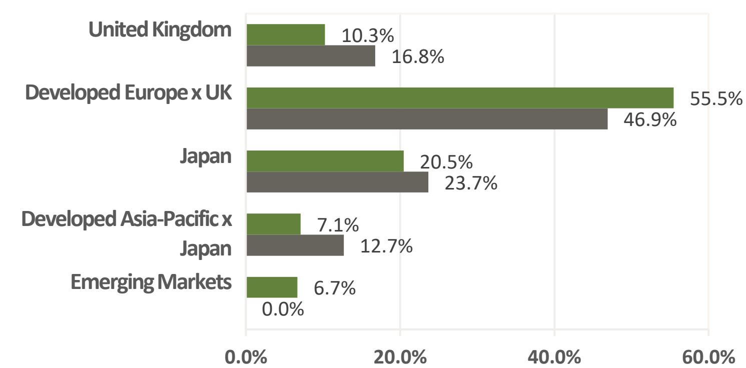
Plentiful jobs and rising wages should support healthy consumer demand. The trade war and geopolitical uncertainty have disrupted global supply chains and delayed corporate investment decisions, resulting in a depressed manufacturing sector. We believe the mutual dependence of the global economy will 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. The Index is trading at reasonable valuations, at or below historical averages, and we think the long-term outlook for international equities is attractive on balance.

SECTOR ALLOCATION



REGIONAL ALLOCATION



PORTFOLIO CHARACTERISTICS

	BOSTON COMMON	MSCI EAFE
# HOLDINGS	60	923
Valuation		
Next 12m Price to Earnings	15.2	13.6
Price to Book Value	2.0	1.6
Price to Sales	1.8	1.2
Dividend Yield	2.7%	3.2%
Growth		
5yr Sales Growth	3.0%	1.5%
5yr EPS Growth	8.5%	8.5%
Risk		
Wtd Avg Mkt Cap	65,398	66,854
LT Debt/Cap	28.8%	32.0%
Beta	1.02	1.00

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Europe

The Eurozone economy is growing a little over 1.0%, supported by a solid labor market. 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. Our expectations for normalizing growth and expansionary policies support our overweight of Europe ex. UK with an emphasis on leaders in energy efficiency, green chemicals, or sustainable business practices.

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. Despite our favorable view of improving corporate governance, we are underweight the Japanese market, as we have found relatively few domestic stocks with attractive growth profiles relative to valuation.

NEW & CLOSED POSITIONS

CLOSED	SECTOR	% OF PORT.
KUBOTA CORP	Industrials	1.0%
TOTAL CLOSED		**1.0%**

NEW	SECTOR	% OF PORT.
ALCON INC	Healthcare	0.9%
BIOMERIEUX	Healthcare	1.0%
TOTAL NEW		**1.9%**

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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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. 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.

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