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Emerging Markets Strategy Update

Third Quarter, 2019

EMERGING MARKET REVIEW

The MSCI Emerging Market Index ("the Index") declined -4.3% in the third quarter, continuing its underperformance versus Developed Markets. In local currency, the Index returned -2.1% as a stronger US Dollar detracted from returns. Investor sentiment continues to reflect the mood of Sino-US trade tensions, with global equities selling off sharply in August as President Trump imposed additional tariffs on China, but gaining back some ground in September on the announcement of resumed trade talks. The Fed and European Central Bank (ECB) both announced easing monetary policy measures to offset signs of weaker global growth. A drone strike on Saudi oil production plants caused oil prices to jump 14% in one day, but the rally was short lived as supply was quickly restored. Oil prices finished the quarter down -8.9%.

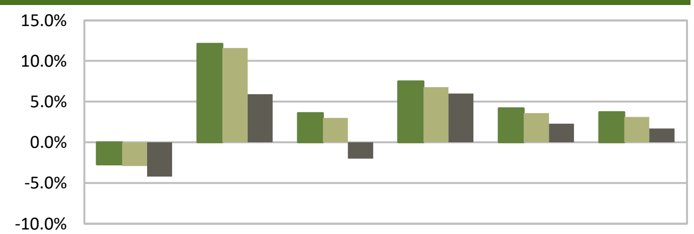
EM Asia (-3.4%) fared better than Latin America (-5.6%) and EMEA (-7.0%) this quarter. Taiwan advanced +5.2% on an improving export outlook. China (-4.7%) marginally underperformed, as data continue to signal softening economic growth momentum. Southeast Asian countries, including Thailand (-6.0%), Indonesia (-5.2%), and India (-5.2%) lagged due to global growth concerns. In EMEA, Turkey (+11.7%) was the best-performing country this quarter; the country's inflation outlook improved and political risks took a back seat. Russia (-1.4%) also outperformed, as its Central Bank delivered a third rate-cut for the year. South Africa (-12.6%) was dragged down by a weaker Rand (-7%) despite a stronger-than-expected rebound in the country's Q2 GDP report. Argentina (-46.8%) was the worst-performing country this quarter due to escalating political risks. Elsewhere in Latin America, Mexico (-1.7%) outperformed, while Brazil's (-4.6%) return was impacted by a weaker Brazilian Real (-8%), one of the worst performing currencies in Q3.

Information Technology (+5.7%) was the best-performing sector, buoyed by signs of a recovery in memory pricing. Domestically-oriented sectors, including Consumer Staples (-0.8%), Consumer Discretionary (-3.0%), and Utilities (-3.5%), all fared better. Materials (-10.7%) was the worst-performing sector. Interest rate-sensitive sectors such as Financials (-8.0%) and Real Estate (-8.8%) also lagged.

PORTFOLIO REVIEW

The Boston Common Sustainable Emerging Market Equity strategy declined -2.7% during the quarter, before fees, comfortably outperforming the Index by losing less and expanding its lead over the benchmark for the year-to-date period.

PERFORMANCE



	QTD	YTD	1Yr	3Yr	5Yr	Since Inception*
Gross	-2.7%	12.1%	3.6%	7.5%	4.2%	3.7%
Net	-2.9%	11.6%	3.0%	6.8%	3.6%	3.1%
MSCI EM	-4.2%	5.9%	-2.0%	6.0%	2.3%	1.7%

CONTRIBUTORS & DETRACTORS

TOP 10	% OF CAPITAL	RETURN	RELATIVE CONTRIB.	SECTOR
TAIWAN SEMICONDUCTOR MFG LTD	4.7%	19.4%	1.03%	Technology
SUNNY OPTICAL TECH	1.5%	42.6%	0.61%	Technology
PAGSEGURO DIGITAL LTD	2.0%	18.8%	0.40%	Technology
RAIA DROGASIL	2.0%	16.0%	0.37%	Consumer Staples
HUANENG RENEWABLES	1.3%	25.6%	0.37%	Utilities
KALBE FARMA	1.6%	14.2%	0.29%	Healthcare
SAMSUNG ELECTRONIC	4.7%	1.4%	0.27%	Technology
NEW ORIENTAL ED & TECH GRP I	1.4%	14.7%	0.26%	Consumer Discretionary
AKBANK	1.0%	22.3%	0.24%	Financials
INFOSYS LTD	1.7%	6.3%	0.18%	Technology
			4.01%	

BOTTOM 10				
NOAH HLDGS LTD	1.1%	-31.4%	-0.41%	Financials
BANK OF COMMUNICAT	2.5%	-14.5%	-0.29%	Financials
HDFC BANK LTD	2.8%	-13.1%	-0.25%	Financials
DELTA ELECTRONIC	2.0%	-13.7%	-0.23%	Technology
PTT GLOBAL CHEMICA	1.9%	-14.4%	-0.22%	Materials
LG CHEMICAL	1.3%	-18.4%	-0.21%	Materials
BYD COMPANY LTD	1.3%	-17.7%	-0.21%	Consumer Discretionary
KASIKORNBANK PCL	1.4%	-16.7%	-0.19%	Financials
STANDARD BK GR LTD	1.3%	-15.7%	-0.17%	Financials
CTRIP COM INTL LTD	0.8%	-20.6%	-0.15%	Consumer Discretionary
			-2.32%	

Stock selection in Information Technology was the largest contributor to relative outperformance. An improving semiconductor outlook supported the strong performance of Taiwan Semiconductor. Chinese optical manufacturer Sunny Optical rallied on strong earnings despite the negative impact on the Tech supply chain from trade tensions. Brazilian payment-processing company PagSeguro rallied on continued market share gain in the fast-growing digital payment segment.

*Since Inception: December 31, 2012

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Stock selection in Healthcare also contributed to relative results. Indonesian pharmaceutical company PT Kalbe Farma gained as regulatory policies appear to be more favorable. Another source of strength was stock selection in the Utilities sector. China wind farm operator Huaneng spiked on a potential privatization bid from its parent company, Huaneng Group. Brazil was a key contributor from a country perspective. Drugstore operator Raia Drogasil performed strongly on improving competitive dynamics and a recovery in sales growth.

Stock selection in Financials was the primary detractor to relative performance. Chinese wealth management company Noah declined on credit risk concerns. Kasikornbank in Thailand, Standard Bank in South Africa, and HDFC bank in India all came under pressure due to pessimistic investor sentiment. Stock selection in Consumer Discretionary also detracted from the relative results. Chinese Electric Vehicle manufacturer BYD declined as changing subsidies disrupted consumer purchases. Online travel agency Ctrip suffered on concerns that a trade war would dampen outbound travel demand. Russia and Thailand were the key detractors from a country perspective. Thai chemical company PTT Global Chemical suffered from weakening commodity demand.

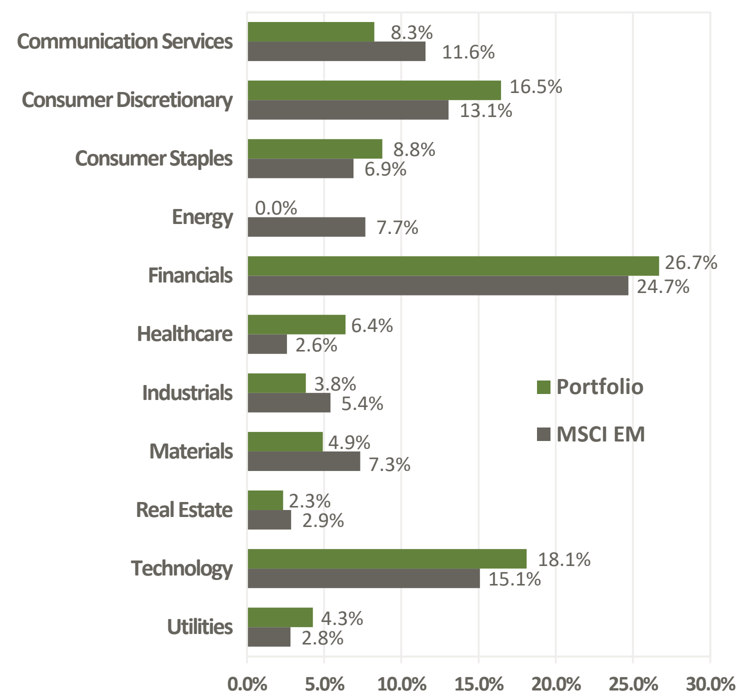
PORTFOLIO ACTIVITY

Among our portfolio actions this quarter, we purchased Axis Bank, India's third largest private-sector bank. Axis bank, along with its private-bank peers, has been gaining market share from state-owned financial institutions. Axis bank has a well-diversified portfolio, with retail now accounting for nearly half of its overall loan book, reflecting Axis' improving "Access to Finance" momentum. The Bank's Small and Medium Enterprise (SME) business grew nearly 20% last year, and it has now opened over 60 SME centers across India. Additionally, the bank is a leader in promoting mobile banking and hosts the second largest Point-of-Sale network. Valuation has become very attractive as heightening concerns over India's credit cycle have weighed on the stock, even as the bank looks well positioned to handle any potential volatility. To fund the purchase of Axis Bank, we sold South Korean financial conglomerate Shinhan Financial Group, as profitability and earnings growth have been slower than expected.

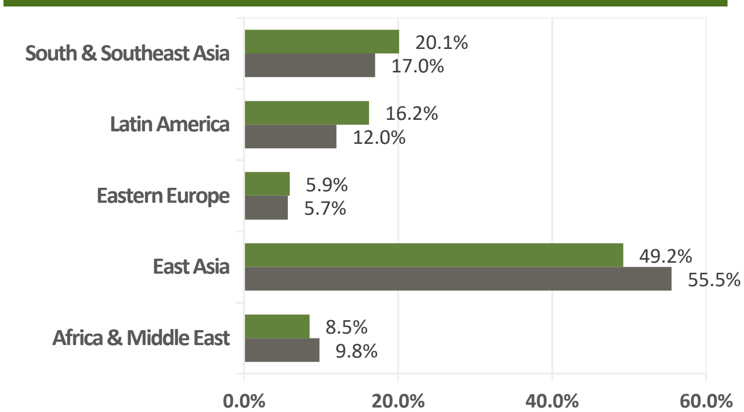
We also purchased Voltas India, a leading air conditioning manufacturer, which is set to benefit from the continued penetration of AC units and the expanding electrification of rural areas. The company is also involved in engineering work, including electrical power projects, pollution control, and wastewater treatment projects. The stock is trading at a reasonable relative valuation given the prospects of solid secular growth.

During the quarter, Naspers spun off 26% of its newly formed subsidiary, Prosus, whose primary asset is a 31%-stake in China Internet giant Tencent. Upon flotation on the Amsterdam exchange, Prosus shares rallied, and the valuation gap relative to Tencent narrowed. We took this opportunity to sell Prosus and redirect proceeds to more attractively valued companies.

SECTOR ALLOCATION



SUB-REGIONAL ALLOCATION



PORTFOLIO CHARACTERISTICS

	BOSTON COMMON	MSCI EM
# HOLDINGS	54	1,202
Valuation		
Next 12m Price to Earnings	15.1	11.9
Price to Book Value	2.2	1.6
Price to Sales	1.9	1.2
Dividend Yield	2.7%	2.8%
Growth		
3yr Sales Consensus Growth	7.1%	5.2%
3yr EPS Consensus Growth	7.2%	5.6%
Risk		
Wtd Avg Mkt Cap	80,543	88,728
LT Debt/Cap	22.5%	22.8%
Beta*	1.00	1.00

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ECONOMIC & MARKET OUTLOOK

Global growth outlook has deteriorated amid the high uncertainties caused by the US-China trade tensions. While the effectiveness of monetary policy in key Developed Markets may be waning, Emerging Markets economies have more room to maneuver. Real interest rates are positive in most Emerging Markets and inflation is relatively low, setting the stage for more expansionary policies. Among the larger EM economies, China, India, Korea, South Africa, and Brazil all have recently moved to ease credit conditions and lower borrowing costs, providing a more supportive backdrop for growth. In addition, structural reforms are being pushed through in parts of the Emerging Markets, helping boost long-term growth potential. EM equity valuation, trading at 12x forward earnings and 3.2% dividend yield, now looks attractive, especially relative to the US. Given the mixed fundamental outlook, our portfolio, in aggregate, maintains a defensive tilt, overweighting sectors such as Consumer Staples and Healthcare. We have selectively added companies in the cyclical sectors where fundamentals are supported by sustainable growth drivers, such as energy efficiency and sustainable transportation.

Of late, progress on the US-China trade negotiation front seems to have stalled, but a partial deal between the two nations in the coming months could help to relieve tensions. Economic growth in China is slowing down, due to both trade tension headwinds and structural rebalancing. However, bottom-up earnings still remain resilient; the MSCI China Index is set to deliver 17% earnings growth in 2019 and 18% in 2020. To date, the Chinese government has avoided full-fledged investment-driven stimulus but still has plenty of room in its policy tool kit to support the economy if trade tensions were to further escalate.

The Indian economy is experiencing a slowdown, as GDP growth dropped to 5% in the second quarter, owing to the lagged effects of tighter financial conditions and weaker external demand. The Indian government has responded with various supporting measures, including interest rate cuts, plans to recapitalize public-sector banks to address non-performing-loan issues, and most importantly, a dramatic corporate tax cut from approximately 30% to 22% with taxes on new manufacturing investment cut to 15%. These measures provide both near-term stimulus as well as a medium-term structural boost to the investment cycle. India is now more on par with many Southeast Asian countries, improving its attractiveness as global supply chains shift due to US-China trade tensions. While economic recovery over the next few quarters is likely to be gradual, India appears to have ample growth prospects given structural reform initiatives, favorable demographics, and improving business efficiency. We have increased the portfolio's exposure to the country, focusing on high-quality companies in the financial and industrial sectors that can benefit from the potential uptick in the investment cycle.

NEW & CLOSED POSITIONS

CLOSED	SECTOR	% OF PORT.
PROSUS N.V.	Consumer Discretionary	1.7%
SHINHAN FINANCIAL GROUP LTD	Financials	0.9%
TOTAL CLOSED		**2.7%**

NEW	SECTOR	% OF PORT.
AXIS BANK	Financials	1.4%
PROSUS N.V.	Consumer Discretionary	1.9%
VOLTAS LTD	Industrials	1.1%
TOTAL NEW		**4.4%**

COMPANY SPOTLIGHT: HUANENG RENEWABLES

Company Profile

Huaneng Renewables is a leading Chinese wind farm operator. The company has 12 GW of renewable energy capacity (92% is wind, 8% is solar) with expectations of 1-2 GW of expansion per annum over the next few years. Huaneng's installed capacity and power generation have risen at a 13% and 18% CAGR over the past five years, respectively. The company derives all of its revenues from renewable power generation and plays an important role in the low-carbon transition of the world's largest emitter.

ESG Integrated Investment Thesis

In China, wind power has become cost-competitive with conventional, fossil fuel-based power generation thanks to technological advances and greater grid interconnectedness, among other factors. Government subsidies have also been instrumental to early wind farm development, even as the lag in subsidy disbursement has weighed on investor sentiment. With ~6% of installed wind-power capacity nation-wide, Huaneng Renewables is a well-established player with the necessary scale to endure the forthcoming transition from a subsidy regime to a system of competitive bidding and green certificate trading, a more sustainable paradigm. Huaneng has shifted to new project areas in regions with better grid access and so operates in areas with relatively low curtailment risk, allowing for higher utilization hours relative to peers. While cash flow will become depressed as the company builds out capacities ahead of the subsidy regime change, its cost controls have led to industry-leading operating profitability, strengthening longer-term prospects. Huaneng Renewables' parent company recently stated its intention to acquire the remaining 47% share of the company. Comparable transactions suggest the potential for an offer price that represents an attractive optionality to the fundamental thesis. *Risks: deterioration of subsidy funding status, delays in expansion of high voltage power lines*

ESG Engagement Opportunities

Huaneng Renewables is a pure solutions company. It performs Environmental and Social Impact Assessments as part of the planning phase of major projects but does not provide the outcome of these consultations as best practice would imply. By encouraging Huaneng to improve its disclosure regarding its stakeholder consultation process, investors can stay abreast of the environmental and human rights risks associated with its long-term projects.

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From our on-the-ground research in Brazil this quarter, we found that business confidence is rather resilient, despite a slow-grinding economic recovery. A pension reform bill is now likely to pass the Senate, and there have been ongoing efforts to push through a privatization plan as well as proposals of tax reforms. While the implementation is likely to be bumpy, we view the privatization of inefficient SOEs as a positive for Brazil's structural outlook. The country's poor fiscal condition leaves little room for tax cuts, but progress to simplify its over-complicated tax system will be positive. In spite of a weaker currency, inflation remains well behaved, allowing the central bank to keep monetary policy accommodative. We are mindful of political risks, but expect Brazil's economy to trend positively and have selectively increased portfolio exposure in the country.

Shareholder Engagement Highlights

Milestones	**Lobbying Disclosure:** We have withdrawn our lobbying disclosure resolution with **Oracle** given their substantive implementation of the resolution ask! This was our third resolution with Oracle requesting greater disclosure of direct and indirect lobbying expenses, calling for transparency and accountability in the spending of shareholder resources.
	Private Prison Labor: In a win for investors, activists, and the immigrant community, which have collectively put pressure on banks to stop financing the private prison industry, nine major banks have publicly committed to cut lending activity to private prisons!
Work in Progress	**Indigenous Peoples' Rights:** Boston Common is leading a coalition of investors representing $2.9 trillion, calling for the **Equator Principles** to be strengthened to respect the rights of Indigenous Peoples. 13 of the 17 banks that financed the Dakota Access Pipeline project were signatories to the Equator Principles.
	Advancing Sustainability in Japan: Boston Common met with **Hoya, Kao, Orix, NTT, NTT DoCoMo, Panasonic, and Shiseido** on improving ESG performance. Recently, our engagements have shifted from developing ESG awareness and policies to establishing ESG metrics and assessing the impact of companies' policies on people and planet.
	Methane: Led by ICCR, Boston Common asked 7 oil and gas companies to support stricter regulation on methane emissions – supported by 130 investors representing $5.5 AUM. **Equinor** publically issued positive support for this.
	Global Health: Along with ICCR, Boston Common expanded engagement with 11 food and beverage companies, including **Mondelez, PepsiCo**, and **Unilever** to promote positive public policy on health and wellness through lobbying activities. The three companies have provided robust examples of how they are engaging globally.
	Racial Equity & Gender Equality: Founder & President Geeta Aiyer moderated a Confluence Philanthropy webinar, "It's About Time: A Call to Advance Racial Equity in the Investment Industry" based on their recent report.
Industry Leadership	**Climate Week in NYC:** Geeta Aiyer, Steven Heim, and Lauren Compere represented Boston Common at Climate Week and attended various investor and multi-stakeholder events throughout the week.