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

www.bostoncommonasset.com
invest@bostoncommonasset.com

U.S. Large-Cap Core Strategy Update

Fourth Quarter, 2019

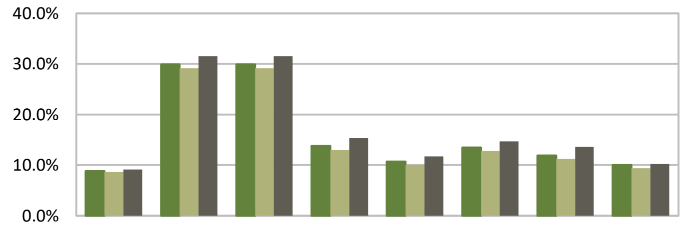
MARKET REVIEW

The S&P 500 Index (the "Index") rose +9.1% for the fourth quarter and, for 2019, the Index finished +31.5%, the best annual return since 2013. A year ago, investors were facing a tightening Fed policy, and distressing trade and tariff talk, all leading to fears that the economic expansion would end. Today, there is an easing of Sino-US trade tensions, employment remains robust and interest rates are lower after the Federal Reserve cut rates for a third time this year in October. The 10-year Treasury yield ended the year at 1.9%, significantly lower compared to December 2018's yield of 2.7%. As the year progressed, the yield curve briefly inverted but has now steepened; the spread between the 2-year and 10-year Treasury yields now stands at its widest point in the last 14 months. The market continues to look through ongoing geopolitical turmoil and closed out the year at record highs.

For the quarter, Technology (+14.4%) was the best-performing sector, buoyed by mega-cap technology leaders like Apple and Microsoft. Healthcare (+14.4%) and Financials (+10.4%) also posted double-digit gains. Communication Services (+9.0%) continues to see strong media & internet-related returns. Cyclical sectors were strong but still lagged the Index: Materials (+6.4%), Industrials (+5.5%), Energy (+5.5%), and Consumer Discretionary (+4.5%). Real Estate (-0.5%) was the worst-performing sector and the only one to post a negative return, while defensive Utilities (+0.8%) and Consumer Staples (+3.5%) also lagged.

Drivers of full-year performance were more concentrated as Technology (+50.3%) outperformed disproportionally and only Financials (+32.1%) and Communication Services (+32.7%) were able to match the Index performance. Every other sector increased in the +20% to +29% range except for Energy (+11.8%), which lagged on investor skepticism of US shale profitability and long-term hydrocarbon reserve value.

PERFORMANCE



	QTD	YTD	1Yr	3Yr	5Yr	7Yr	10Yr	Since Inception*
Gross	8.8%	29.9%	29.9%	13.8%	10.7%	13.5%	11.9%	10.0%
Net	8.6%	29.1%	29.1%	13.0%	10.0%	12.8%	11.2%	9.4%
S&P 500	9.1%	31.5%	31.5%	15.3%	11.7%	14.7%	13.6%	10.2%

CONTRIBUTORS & DETRACTORS

TOP 10	% OF CAPITAL	RETURN	RELATIVE CONTRIB.	SECTOR
APPLE INC	4.5%	31.3%	0.88%	Technology
UNITEDHEALTH GROUP INC	1.7%	35.7%	0.38%	Healthcare
REGENERON PHARMACEUTICALS	1.4%	35.4%	0.30%	Healthcare
MICROSOFT CORP	6.5%	13.9%	0.29%	Technology
BIOGEN INC	1.8%	27.7%	0.28%	Healthcare
AMGEN INC	1.3%	25.5%	0.19%	Healthcare
MORGAN STANLEY	1.7%	20.6%	0.17%	Financials
ROYAL CARIBBEAN CRUISES LTD	1.2%	24.0%	0.17%	Consumer Discretionary
ADOBE INC	1.7%	19.4%	0.16%	Technology
APPLIED MATLS INC	1.2%	22.8%	0.14%	Technology
			2.98%	

BOTTOM 10				
NOKIA CORP	1.1%	-26.7%	-0.52%	Technology
HOME DEPOT INC	2.2%	-5.3%	-0.33%	Consumer Discretionary
KIMBERLY CLARK CORP	1.8%	-2.6%	-0.23%	Consumer Staples
VERIZON COMMUNICATIONS INC	3.0%	2.7%	-0.18%	Communication Services
PORTLAND GEN ELEC CO	1.7%	-0.5%	-0.17%	Utilities
AVANGRID INC	1.3%	-1.4%	-0.15%	Utilities
INTUIT	1.5%	-1.4%	-0.15%	Technology
MONDELEZ INTL INC	1.6%	0.1%	-0.14%	Consumer Staples
COLGATE PALMOLIVE CO	0.9%	-5.8%	-0.14%	Consumer Staples
ADVANCE AUTO PARTS INC	1.1%	-3.2%	-0.14%	Consumer Discretionary
			-2.16%	

PORTFOLIO REVIEW

Boston Common's Tax-Exempt US Large-Cap Core account composite produced strong absolute returns, almost matching the Index for the quarter. For the year, the composite lagged slightly, an outcome consistent with our quality-oriented approach given the very strong market. Consistent with our active management approach, stock selection was a positive contributor to performance this quarter.

Marquee technology names continue to outperform, including Apple, Microsoft, Adobe, and Applied Materials. In Healthcare, major contributors included healthcare insurance services firm UnitedHealth Group and biotech firms Regeneron, Biogen, and Amgen. Industrials was the strongest-performing sector on a relative basis, as increased confidence in the continued global expansion helped broad-based industrial holdings like Emerson Electric.

*Since Inception: December 31, 2002

U.S. Large-Cap Core Strategy Update

Fourth Quarter, 2019

An emphasis on capital market players, like Morgan Stanley, supported stock selection in Financials and, even though Real Estate was a poorly performing sector for the Index, infrastructure financier Hannon Armstrong and wood products and forest manager Weyerhaeuser experienced double-digit returns.

Many of the poorly performing holdings this quarter were defensive equities, as investors favored economically sensitive opportunities. Holdings like telecom provider Verizon, utility Portland General, and confectioner Mondelēz detracted from relative returns. We also missed some opportunities in the Tech sector as the portfolio was underweight the rebounding semiconductor industry.

For the year, portfolio performance was strong in absolute terms, as global markets rallied after the swoon at the end of 2018. Banks, strong global consumer branded companies, and solutions companies like specialty chemical supplier Ecolab focused on clean technology applications, were leading contributors.

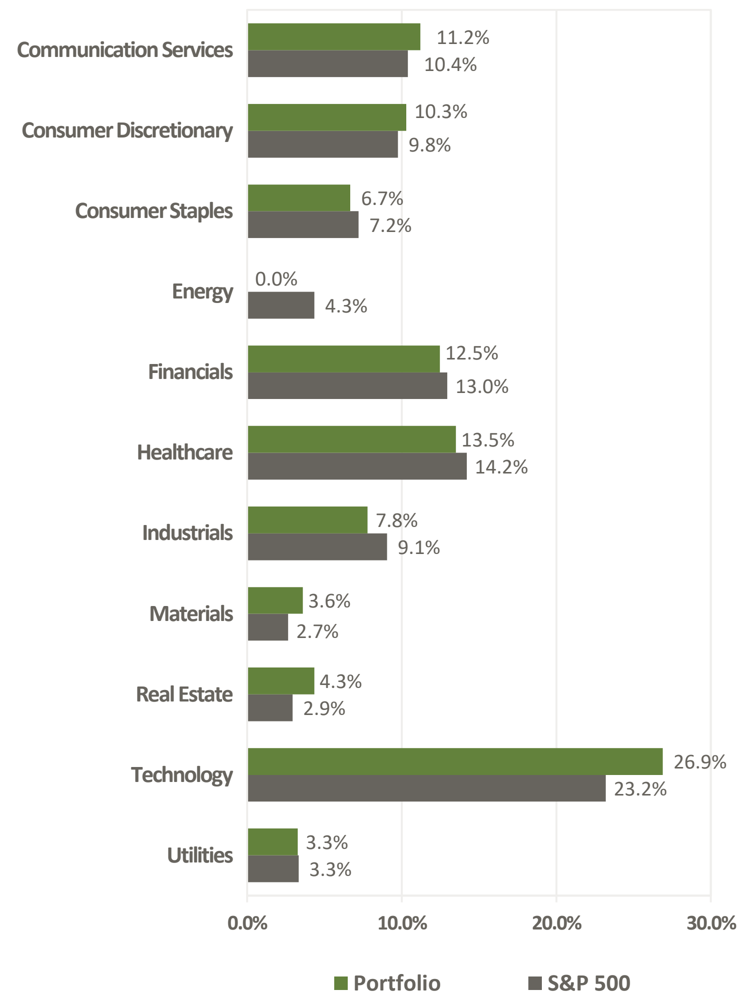
PORTFOLIO ACTIVITY

We are mindful of geopolitical risks such as a recurrence of a military conflict in the Middle East, trade tensions with American partners, and potential political instability in Europe. However, the US economy remains on a steady course for growth and low inflation that frames our positive view of equities. We continue to focus our portfolios to Environmental, Social and Governance (ESG) leaders and maintain a preference for companies that benefit from secular growth areas including sustainable consumption, electrification, and renewable energy.

This quarter, three themes were reflected within the portfolio: valuation, ESG momentum, and reducing exposure to hydrocarbon energy companies. We see both an investment and sustainability rationale to selling our small energy allocation this quarter. Norway-based Equinor, a global integrated oil and gas company, has an aggressive capital expenditure plan in place to increase renewables, mainly wind, using its extensive experience in operating in offshore environments. However, as macro trends in energy efficiency accelerate, and the world's populace endeavors to meet reductions necessary for a world with a 2 degree warmer threshold, the focus on stranded assets grows as a very real, long-term investment concern. We continue to see long-term pressure on crude and natural gas pricing, especially as production in the Permian Basin has allowed the US to become nearly self-sufficient. Looking forward, we anticipate investment dollars will have much better growth potential in technologies that will facilitate a sustainable, low-carbon future. Other changes this quarter focus on ESG momentum within portfolio holdings.

After long-term engagements with JPMorgan's management on a variety of issues, from pay disparity to financing of coal-fired power plants, we saw diminished likelihood of further improvements. We sold the banking conglomerate and used the opportunity to increase our exposure to Citigroup, which has a more attractive valuation and whose ESG momentum is on the rise.

SECTOR ALLOCATION



PORTFOLIO CHARACTERISTICS

	BOSTON COMMON	S&P 500
# HOLDINGS	62	505
Valuation		
Next 12m Price to Earnings	18.3	18.6
Price to Book Value	3.3	3.5
Price to Sales	3.0	2.5
Dividend Yield	1.6%	1.7%
Growth		
3yr EPS Consensus Growth	7.2%	6.5%
3yr Sales consensus Growth	4.2%	4.0%
Risk		
Wtd Avg Mkt Cap	270,971	291,826
LT Debt/Cap	39.0%	42.6%
Beta*	0.93	1.00

U.S. Large-Cap Core Strategy Update
Fourth Quarter, 2019

The bank has integrated ESG factors into its lending criteria, including sector-specific standards for high-impact industries such as forestry and palm oil. During Climate Week this past September, Citigroup became the only US bank to join global peers to step up on climate action by signing on to the *Principles for Responsible Banking*.

In addition, with a more normal yield curve, we added additional exposure to the Financials sector with new positions in financial services company American Express and regional bank KeyCorp, both with solid ESG profiles. Amex offers a targeted suite of products and support for SMEs. KeyCorp has strongly embedded diversity initiatives within its corporate culture under the leadership of a highly regarded CEO, who remains the only woman CEO among the top 20 US banks. Brick and mortar retailers face stiff competition from the internet but Target has invested successfully in its online initiatives while gaining ESG momentum. A new position, general goods retailer Target, was a first mover within the retail sector to adopt a “living wage” for employees, pledging $15/hour this coming year.

After strong stock appreciation, valuations more than fully discounted the future outlook for medical devices company Baxter International and big box, membership retailer Costco, and we sold these long-term holdings. Funds from these sales and other trims were distributed to several new portfolio holdings where valuations were more attractive, including medical & life science tools manufacturer Agilent and rail equipment provider Wabtec. We increased exposure to the Technology sector with the addition of Ciena and Micron Technology. Ciena is a leading optical systems networking company that is expected to benefit from continued strong wireless data growth and 5G network deployment. Micron, on the other hand, provides opportunistic exposure to a rebound in semiconductor memory pricing.

Current valuations in the US keep us mindful that looking forward, return expectations for the following year will most likely be positive but muted. On balance we remain positive towards equities relative to fixed income and maintain a tilt in this direction for balanced accounts.

ECONOMIC & MARKET OUTLOOK

This year, the current economic cycle became the longest expansion in US history and we continue to forecast a continuation of moderate growth at a 1.5% to 2.0% rate. The consumer balance sheet is healthy as the labor market remains resilient, with the latest unemployment reading remaining at a 50-year low. Although wage growth has been modest, it has begun to gain momentum, helping to support the current virtuous growth cycle as core inflation remains muted. Globally, industrial activity stalled in 2019, hurt by trade tensions, uncertainty over Brexit, and an economic slowdown of emerging Asian countries, including China. Inflation expectations are the major factor driving supportive global central bank policy.

NEW & CLOSED POSITIONS

CLOSED	SECTOR	% OF PORT.
BAXTER INTL INC COM	Healthcare	1.1%
COSTCO WHSL CORP NEW COM	Consumer Staples	1.5%
EOG RES INC COM	Energy	1.0%
EQUINOR ASA SPONSORED ADR	Energy	1.0%
HD SUPPLY HLDGS INC COM	Industrials	0.8%
JPMORGAN CHASE & CO COM	Financials	1.1%
TOTAL CLOSED		6.6%

NEW	SECTOR	% OF PORT.
AGILENT TECHNOLOGIES INC COM	Healthcare	1.0%
AMERICAN EXPRESS CO COM	Financials	1.0%
CIENA CORP COM NEW	Technology	0.9%
KEYCORP NEW COM	Financials	1.0%
MICRON TECHNOLOGY INC COM	Technology	1.5%
TARGET CORP COM	Consumer Discretionary	0.6%
WABTEC CORP COM	Industrials	1.1%
TOTAL NEW		7.1%

COMPANY SPOTLIGHT: APPLIED MATERIALS

Company Profile

Founded in 1967, Applied Materials makes the equipment necessary for the production of computer chips, flat-screen TVs, and renewable solar technology. AMAT’s environmental management system is established to best-in-class ISO 14001 standards. Onsite renewable energy production and green energy purchases have allowed the company’s overall energy use to remain flat, despite significant operational expansion. AMAT is a member of the Responsible Business Alliance and has adopted its Code of Conduct.

Investment Thesis

As a leading equipment company in a concentrated sector, AMAT benefits from the growing digitalization of modern life. Increasingly, big data aggregation shapes commercial decisions, powered by a massive increase in data generation and storage. With core expertise in deposition and etching, Applied Materials enjoys leading market share in a crucial step in wafer fabrication, the building blocks that power this data wave. Increasingly, AMAT is leveraging its impressive installed base to provide additional services such as production optimization. Clean technology opportunities are also woven throughout the company’s products, including in solar energy systems and eco-efficiency through automation. While the semiconductor industry remains cyclical, diversification of end demand, including into next generation data-driven applications such as Virtual Reality and Artificial Intelligence, has muted the cycle relative to its history. In addition, growing adoption of OLED displays, in which Applied Materials expects to take equipment share from incumbents, should serve to steady earnings growth. Given its leadership in a consolidated niche market, we find current valuations reasonable. Risks: semiconductor cyclicality, relatively high concentration of customers.

U.S. Large-Cap Core Strategy Update

Fourth Quarter, 2019

The three interest rate cuts by the US Federal Reserve, along with the resolution of trade tensions, are expected to reinvigorate capital spending and thus provide another leg to the current economic expansion. As economic activity picks up, capital flows that have strengthened the US Dollar and helped depress US long-term interest rates may start to unwind. The strength of the US economy reflects its diverse labor force, ample natural resources, and strong legal and financial framework. With these building blocks in place, the US economy has been able to thrive despite a variety of headwinds during the last ten years: recession in the oil patch, financial uncertainty in the European Union, and two periods of economic slowdown in China's economy. During this time, growing geopolitical uncertainties have driven countries towards more nationalist tones that, for some, even eschew global interdependency.

Rising inequality has become a major challenge. Focus on building an inclusive and diverse work force and flexibility of staffing will become a necessity if the US is to avoid the same fate as Japan. The transition to a service-based economy and an increased use of automation means educating the workforce of tomorrow differently. This is one example of how long-term thinking by both the investors and managements can work towards creating an environment that allows for solutions. Equity markets, including in the US, have rebounded anticipating (and discounting!) future growth. The S&P Index ended the year enthusiastically and, at 18x 2020 earnings, trades at the higher end of its long-term valuation range. Extremely low long term interest rates largely support this multiple expansion, but looking forward investors should be focused on earnings.

Shareholder Engagement Highlights

Milestones	**Board Diversity:** We successfully withdrew our resolution with **Carlisle Companies** on its approach to diversity at the board level! As part of our dialogue, the company agreed to amend its Corporate Governance Guidelines to acknowledge the relevance of gender & racial diversity as one of the factors to consider in board appointments.
	Climate Change: Released our fifth annual study, **Banking on a Low-Carbon Future: Finance in a Time of Climate Crisis**, of how global banks are managing climate risks and opportunities. We shared the findings and call to action with all 58 banks including holdings **Bank Rakyat, Citi, ING, JPMorgan Chase, Fifth Third, Morgan Stanley, Standard Chartered, and US Bank**.
Work in Progress	**Eco-Efficiency:** This fall, we launched another phase of our flagship Eco-Efficiency engagement with a special focus on waste management including plastics. We sent letters to 15 companies, and we have received robust written responses or held initial discussions with **Portland General Electric, PTT Global Chemical, Taiwan Semiconductor, and Verizon Communications**.
	Responsible Mineral Sourcing for Renewable Energy: As 2019 ended we re-engaged with **Microsoft** and **Panasonic** on responsible cobalt sourcing practices including expanding supplier traceability and addressing child labor. We reached out to lithium producers **SQM** and **Albemarle,** and since then Albemarle has to stepped up their water monitoring activities and enhanced disclosure on indigenous community engagement.
New Initiatives	**Board Diversity:** In a new phase of our diversity engagement, we will use company responses from our 2019 engagement to inform our 2020 voting process. We reached out to nearly 120 companies explaining why we have voted against their boards in 2019 given they did not meet our gender and ethnic diversity criteria. Our diversity threshold in the US and Europe is 30% women and at least one ethnic or racial minority. In Asia, we vote 'against' if there are no women on the board.
	Workplace Equality: In 2020, building on our long history of engaging companies on board gender and racial diversity, we will expand our focus to workplace practices and diversity and inclusion measures for women, racial and ethnic minorities, and LGBTQ+ employees.