

# Emerging Markets Strategy Update

Third Quarter, 2020



## Portfolio Review

The Boston Common Sustainable Emerging Market model portfolio gained +12.9% during the quarter, before fees, comfortably outperforming the Index. Stock selection in Information Technology was the largest contributor to relative outperformance. Rising demand from digitalization and remote work supported the strong performance of chip giant Taiwan Semiconductor. Power management company Delta Electronics in Taiwan benefited from rebounding industrial automation orders. Xinyi Solar, China's largest solar glass manufacturer, was boosted by favorable government policies and improving solar demand. IT service companies Infosys in India and Chinasoft in China rallied on promising fundamental prospects. Stock selection, as well as an overweight to the Consumer Discretionary sector, also contributed to positive relative results. A strong recovery in electric vehicle (EV) demand in China aided BYD, China's largest EV manufacturer. Internet giant Alibaba continues to benefit from rising e-commerce penetration. The Materials sector was another area of strength, in which Korean specialty chemical company LG Chem outperformed on a strong EV battery outlook. From a country perspective, stock selection in China, Taiwan, and Korea was the primary contributor.

Stock selection in Financials was the primary detractor from returns. Continued credit risk concerns weighed on Bank of Communications and Ping An Insurance in China. Also, Kasikornbank in Thailand and Itau Unibanco in Brazil came under pressure due to economic challenges. Stock selection in Healthcare also detracted from relative performance. China's TCM suffered on concerns of rising competition, while Brazilian pharmaceutical company Hypera declined on disappointing financial results. India and South Africa were the key detractors from a country perspective. Indian telecom operator Bharti Airtel and South African Internet company Naspers were a drag on results.

## Portfolio Activity

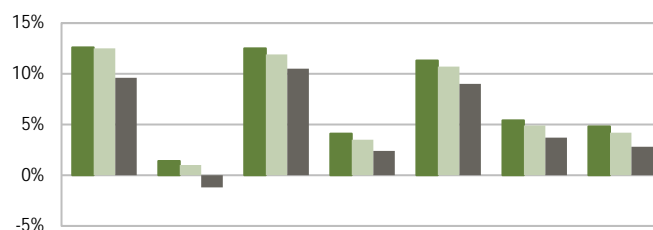
Among our portfolio actions this quarter, we added to Weichai, China's largest diesel engine manufacturer with broad technology leadership in engines that comply with China's next-generation emission standards as well as hydrogen fuel cell technologies. In March 2020, it launched a 20,000 hydrogen fuel cell engine plant, one of the largest globally. We believe Weichai is well positioned to benefit from the secular tailwinds of emissions upgrades as well as through its investments in new growth areas such as hydrogen and warehouse automation. Its current valuation of 10x forward earnings looks particularly attractive.

We have also added to several high-quality consumer discretionary companies that came under pressure due to near-term headwinds created by the pandemic. PT ACE hardware, a leading home improvement company in Indonesia, continues to deliver resilient sales amid pandemic lockdowns

Shenzhou, the world's largest textile supplier to global leading sportswear brands such as Nike, Adidas, and Anta, plans to ramp up capacity in anticipation of a better demand outlook. In our view, both companies will gain market share and come out of the current crisis stronger.

We sold Standard Bank in South Africa during the quarter, given the lower earnings visibility within its challenging macro environment. We also exited Indian online travel company MakeMyTrip. We believe leisure travel will continue to be under pressure in India. Proceeds from these sales were redirected to other cyclical exposures with a more favorable fundamental outlook.

## Performance



	OTD	YTD	1Yr	3Yr	5Yr	7Yr	Since Inception*
Gross	12.6%	1.4%	12.5%	4.1%	11.3%	5.4%	4.8%
Net	12.5%	1.0%	11.9%	3.5%	10.7%	4.9%	4.2%
MSCI EM	9.6%	-1.2%	10.5%	2.4%	9.0%	3.7%	2.8%

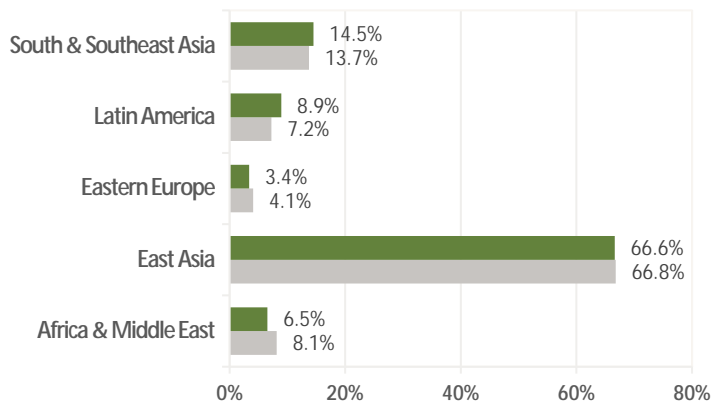
## Portfolio Characteristics

	Boston Common	MSCI EM
# Holdings	52	1,386
<b>Valuation</b>		
Price/EPS (NTM)	17.0	16.1
Enterprise Value/EBITDA (NTM)	10.0x	8.8x
Price/Book	2.6	2.1
Price/Sales	2.3	1.6
Dividend Yield	1.5%	2.1%
<b>Growth</b>		
3yr EPS Consensus Growth	12.7%	9.5%
3yr Sales consensus Growth	9.5%	6.2%
<b>Quality</b>		
Beta**	1.01	1.00
LT Debt to Cap.	22.1%	19.6%
Net Debt to EBITDA	0.3x	-0.1x
Return on Equity	10.8%	11.6%
Earnings Stability***	26.9%	27.9%
Free Cash Flow Yield	1.8%	4.2%

\*Since Inception: December 31, 2012, \*\*The Beta calculation is based on the trailing five-year performance of a representative account within a portfolio's strategy,

\*\*\*Stability is calculated as the mean absolute difference between actual earnings per share and a five-year historical growth trendline, expressed as a percentage of trendline

## Regional Allocation



## Portfolio Activity

Closed	Sector	% of Port.
MAKEMYTRIP LIMITED MAURITIUS SHS	Consumer Discretionary	0.8%
STANDARD BK GR LTD	Financials	0.7%
<b>Total Closed</b>		<b>1.5%</b>

New	Sector	% of Port.
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## Contributors & Detractors

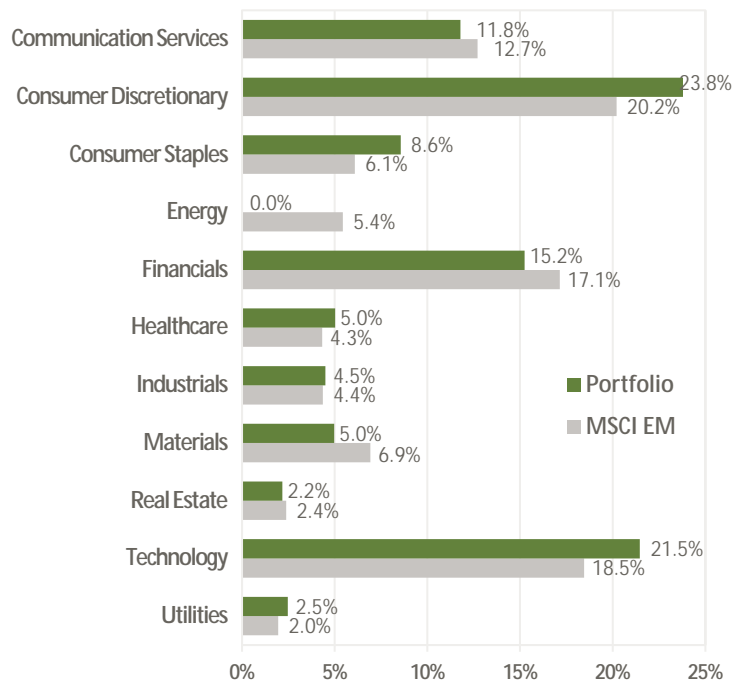
Top 10	% of Capital	Return	Relative Contrib.	Sector
ALIBABA GROUP HLDG LTD	8.6%	36.3%	1.97%	Consumer Discretionary
TAIWAN SEMICONDUCTOR MFG	6.5%	43.0%	1.70%	Technology
BYD COMPANY LTD	2.3%	101.3%	1.54%	Consumer Discretionary
XINYI SOLAR HOLDINGS LTD	2.0%	67.5%	0.91%	Technology
LG CHEMICAL	3.5%	36.2%	0.78%	Materials
YANDEX	2.5%	30.8%	0.47%	Communication Services
SHENZHOU INTERNATIONAL GROUP	1.5%	40.4%	0.40%	Consumer Discretionary
INFOSYS LTD	0.9%	43.1%	0.32%	Technology
CHINASOFT INTL LTD	1.2%	30.9%	0.26%	Technology
DELTA ELECTRONIC	3.5%	17.3%	0.24%	Technology
			<b>8.60%</b>	

### Bottom 10

BANK OF COMMUNICAT	1.7%	-18.4%	-0.50%	Financials
BHARTI AIRTEL LTD	1.3%	-23.2%	-0.47%	Communication Services
TENCENT HLDGS LTD	5.3%	1.6%	-0.39%	Communication Services
ITAU UNIBANCO HLDG SA	1.4%	-16.2%	-0.37%	Financials
NASPERS	2.9%	-3.3%	-0.37%	Consumer Discretionary
CHINA TRAD CHINESE	1.5%	-13.0%	-0.34%	Healthcare
SK HYNIX INC	4.0%	1.1%	-0.33%	Technology
KASIKORN BANK PCL	1.0%	-19.6%	-0.32%	Financials
PING AN INSURANCE	3.1%	2.4%	-0.29%	Financials
HYPERA SA	1.2%	-13.6%	-0.28%	Healthcare
			<b>-3.67%</b>	

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## Sector Allocation



## Shareowner Engagement Highlights

We sent letters to nine companies on **addressing racial equity across the value chain**, including board and executive accountability, corporate culture, and reporting. We have already received positive responses from Kroger, Novartis, GSK, and TJX.

Bank Rakyat responded to our Banks and Climate Change survey with updates in key areas, including **green bonds and their improving risk management practices with high carbon sector clients like palm oil producers**. Citigroup and Morgan Stanley joined the Partnership for Carbon Accounting Financials (PCAF).

**Boston Common contributed to the development of PCAF's global standards for six assets classes**, including listed equities. PCAF is supported by more than 70 financial institutions with close to \$10 trillion in assets.

**Taiwan Semiconductor joined RE100**, a global initiative that brings together companies committed to 100% renewable electricity.