

# International Strategy Update

## Fourth Quarter, 2020



### Portfolio Review

A composite of Boston Common's International portfolios returned +16.0%, before fees, in line with the MSCI EAFE Index ("the Index"). The strategy's 2020 calendar year return was +19.4%, significantly outperforming the Index's annual return of +7.8%. Strong stock selection in Industrials, Technology, and Healthcare, as well as in Europe and Emerging Markets, were the leading contributors to annual performance. The Communication Services and Materials sectors detracted from calendar year relative returns.

For the quarter, stock selection in the Technology sector was the largest positive contributor to performance. Xinyi Solar benefited from strong demand and higher prices for its solar glass. An expansion of orders for smartphone and PC batteries boosted Japanese electronic component supplier TDK. German power semiconductor company Infineon advanced with a recovery in auto production, especially electric vehicles. The Utilities sector also helped performance, as our one holding, Danish offshore wind farm developer Orsted, gained on higher forecasts for global wind power installations. Public and private attention to climate change mitigation efforts also drove the exceptional return for Vestas Wind Systems. The Financials sector also helped performance with large gains from relatively low levels for European holdings ING Groep and AXA. Indonesian Bank Rakyat and Indian HDFC Bank helped make Emerging Markets a key regional contributor. Japan was the other top regional contributor, with 20%+ returns from holdings NTT, Yamaha, Orix, Hoya, Daikin, Shiseido, and Keyence. British home builder Barratt Developments was an additional top contributor.

Poor stock selection in Consumer Discretionary was the largest detractor from relative performance. Alibaba was hurt by China's regulatory pressure on its founder Jack Ma and its affiliate Ant Financial. Our underweight of the auto and apparel industries reduced results, as those stocks benefited from anticipation of economic re-opening. In addition, commodity price rallies caused our underweight of oil and metal stocks to detract from performance. From a regional perspective, Europe ex-UK was the largest detractor. German software company SAP disappointed investors with lower profit estimates as it transitions customers to cloud services. Swedish personal care company Essity was held back by weakness in its professional hygiene business, which caters to hotels, restaurants, and offices. Consumer Staples and Healthcare holdings accounted for seven of the bottom ten contributors: Unilever, Roche, Novo Nordisk, GlaxoSmithKline, BioMerieux, and Kao.

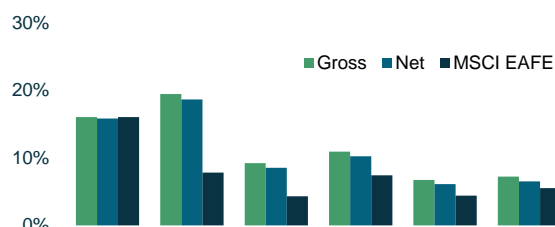
### Portfolio Activity

Among our transactions this quarter, we purchased Prysmian, a leading manufacturer of power transmission distribution and telecom cables. Demand for the company's products and services should be driven by the transition to sustainable infrastructure. Prysmian's cables link offshore wind turbines to terrestrial infrastructure. The company is also a key supplier of interconnected grids that enable countries to trade power, particularly important for managing intermittent renewable energy. Trading at 11x this year's EBITDA, Prysmian's valuation looks attractive considering our outlook for profit growth driven by high-margin energy projects. We also bought Xinyi Solar, the world's largest producer of solar glass. Solar energy has reached cost parity with fossil fuels in many locations, yet it only contributed about 1% of global energy in 2019. Given its cost competitiveness and rising regulatory mandates, we expect solar capacity will grow well over 10% annually for the next decade.

While the solar panel industry is fragmented with many small competitors, the top two glass producers account for approximately 50% of the global solar glass market. Xinyi's valuation (25.7x next year's earnings) looks compelling based on its scale advantage and the solar glass industry's attractive supply and demand dynamics. During the quarter we also added to inexpensive financial holdings in Europe (AXA, ING, and Sampo) and in Japan (Orix).

During the quarter, we sold French diagnostic company BioMerieux, as the vaccine rollout should reduce demand for its testing kit and the stock's valuation looked elevated. We also sold Kasikornbank since the Thai banking outlook appears challenging with a weak economy, political unrest, and poor underlying operating trends pre-COVID. We also trimmed holdings including Vestas Wind, Orsted, and Keyence where valuation is starting to move ahead of near-term fundamentals.

### Performance



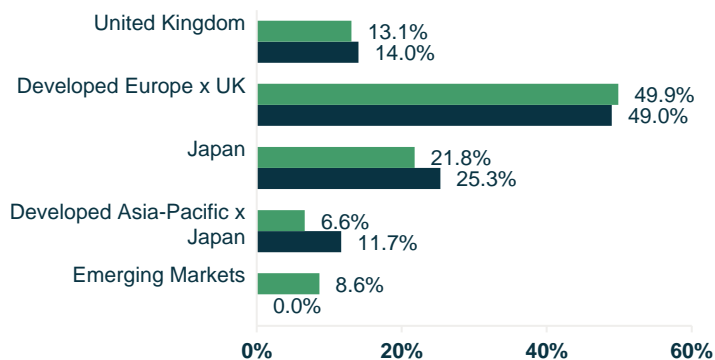
	QTD	1Yr	3Yr	5Yr	7Yr	10Yr	Since Inception*
Gross	16.0%	19.4%	9.2%	10.9%	6.7%	7.2%	7.3%
Net	15.8%	18.6%	8.5%	10.2%	6.1%	6.5%	6.7%
MSCI EAFE	16.0%	7.8%	4.3%	7.4%	4.4%	5.5%	5.0%

### Portfolio Characteristics

	Boston Common	MSCI EAFE
<b># Holdings</b>	58	876
<b>Valuation</b>		
Price/EPS (NTM)	20.3	18.3
Enterprise Value/EBITDA (NTM)	12.9	11.1
Price/Book	2.5	1.9
Price/Sales	2.0	1.5
Dividend Yield	1.8%	2.4%
<b>Growth</b>		
3yr EPS Consensus Growth	6.4%	3.9%
3yr Sales Growth	2.9%	0.4%
<b>Risk</b>		
Beta**	0.93	1.00
LT Debt to Cap	31.8%	33.5%
Net Debt to EBITDA	1.1	1.5
Return on Equity	11.3%	10.6%
Earnings Variability***	18.8%	24.7%
Free Cash Flow Yield	4.1%	5.0%

\*Since Inception: December 31, 2004 \*\*The Beta calculation is based on the trailing five-year performance of a representative account within a portfolio's strategy, \*\*\*Variability 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



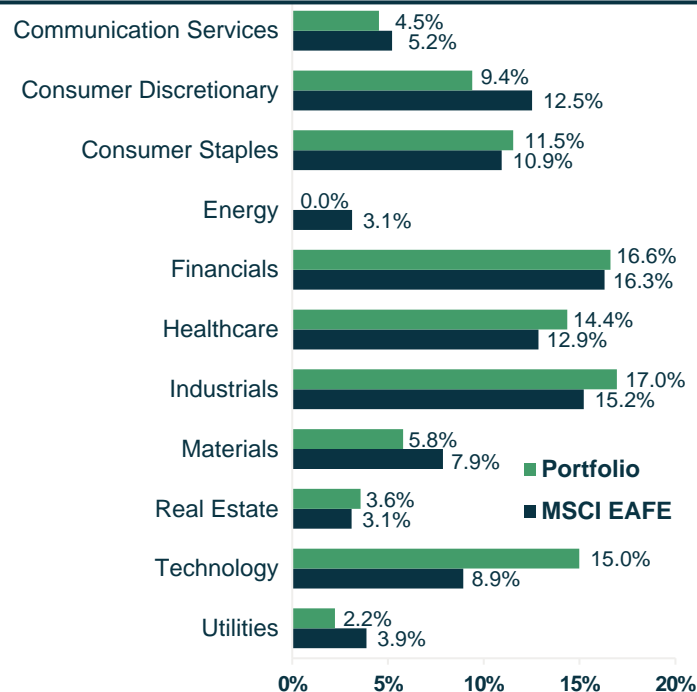
## Portfolio Activity

Closed	Sector	% of Port.
BIOMERIEUX	Healthcare	1.2%
KASIKORNBANK PCL	Financials	0.9%
KION GROUP AG RIGHT EUR	Industrials	0.0%
<b>Total Closed</b>		<b>2.1%</b>
New	Sector	% of Port.
KION GROUP AG RIGHT EUR	Industrials	0.0%
PRYSMIAN SPA SHS	Industrials	1.1%
XINYI SOLAR HOLDINGS LTD	Technology	1.7%
<b>Total New</b>		<b>2.8%</b>

## Contributors & Detractors

Top 10	% of		Relative Contrib.	Sector
	Capital	Return		
VESTAS WIND SYSTEM	2.3%	45.9%	0.57%	Industrials
ORSTED A/S	2.1%	48.2%	0.57%	Utilities
XINYI SOLAR HOLDINGS LTD	0.7%	45.7%	0.53%	Technology
TDK CORP	2.4%	38.9%	0.45%	Technology
BARRATT DEVEL	1.4%	48.9%	0.36%	Consumer Discretionary
INFINEON TECHNOLOG	2.2%	35.8%	0.36%	Technology
BK RAKYAT	1.4%	45.3%	0.31%	Financials
HDFC BANK LTD	1.3%	44.6%	0.30%	Financials
ING GROEP N.V.	2.4%	31.6%	0.28%	Financials
AXA	2.1%	29.0%	0.26%	Financials
			<b>4.00%</b>	
Bottom 10				
SAP SE	1.6%	-15.7%	-0.63%	Technology
ALIBABA GROUP HLDG LTD	1.6%	-20.8%	-0.61%	Consumer Discretionary
ESSITY AB	2.2%	-3.0%	-0.43%	Consumer Staples
UNILEVER	2.9%	1.3%	-0.42%	Consumer Staples
ROCHE HLDGS	2.8%	1.9%	-0.39%	Healthcare
NOVO NORDISK A/S	2.1%	1.4%	-0.30%	Healthcare
GLAXOSMITHKLINE PLC	1.5%	-1.0%	-0.25%	Healthcare
BIOMERIEUX	0.8%	-9.6%	-0.24%	Healthcare
KAO CORP	2.0%	4.2%	-0.24%	Consumer Staples
KION GROUP	1.5%	1.5%	-0.22%	Industrials
			<b>-3.73%</b>	

## Sector Allocation



## Shareowner Engagement Highlights

### Ensuring COVID-19 Vaccines and Therapies are Affordable and Widely Accessible

Boston Common is part of a [group of investors](#) raising the pressure on drug makers to ensure COVID-19 vaccines and therapies are affordable and widely accessible. Shareholder resolutions were filed at pharma Companies\* seeking to prioritize access and affordability over profits for COVID medicine developed using public funds.

\*Eli Lilly, Gilead, J&J, Merck, Pfizer, & Regeneron

### Addressing Racial Disparities in the Food and Beverage Industry

Boston Common is among the [investors that sent letters](#) to major food and beverage companies calling on them to examine how their business models, operations, and value chains may directly or indirectly contribute to racial inequities.

### Maturing Approach to ESG Oversight and Disclosure in Emerging Markets and Asia

In the second half of 2020, we actively engaged our EM and Asian holdings\* on advancing ESG oversight, management, and disclosure. This includes guidance related to future ESG disclosure, assessing and setting metrics and targets, and establishing clear oversight on ESG/Sustainability strategy. One clear priority is climate with net zero carbon goals being set in countries like China and Japan. We continued our multi-year dialogue with Bank Rakyat (BRI) on how they are addressing deforestation risk related to lending to commodities producers including palm oil.

\*Beijing Enterprises Water Group, CTCM, LG Chem, NTT, Sundrug, Sunny Optical, Taiwan Semiconductor, and Xinyi Solar

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