Active Investor Impact Update

Third Quarter, 2021

Boston Common
Asset Management

As women's rights and voting rights come under attack in the US, we remain vigilant against policies that threaten the diverse, inclusive society we seek. Growth, resilience, and innovation are fostered by broad-based economic, social, and political participation. Focusing on racial and gender diversity at the corporate level, we are holding the companies in which we invest accountable for fostering a culture of equity and inclusion, reflecting this in their business strategy and Value chain and for supporting policies aligned with these goals in greater society.

Encouraged by the positive results we've seen from our Racial Diversity on Boards engagement initiative over the past two years, we have expanded this proactive work to advocate for racial and gender equity alongside Climate Action across sectors and regions. Our engagement and thought leadership efforts during the third quarter of 2021 demonstrate the opportunity in the hands of investors to activate and support positive changes across the globe by seeking impactful companies, prioritizing values alignment, and encouraging better practices.

Making Gender Visible

Geeta Aiyer, CFA

Exclusion and harm on the basis of gender are so pervasive as to be invisible, normalized, and ignored. Like racial exploitation, gender-based inequity, violence, and harassment are woven into commerce, economics, and social systems. Human trafficking - modern-day slavery for supply chains, personal servitude, and sexual exploitation - is largely gender driven. Women are universally underpaid for equivalent work and lack equal access to capital, land, water, and opportunities to build wealth. Intersections of class, race, and ethnicity exacerbate the harm.

Taxed by society's expectations, women and girls carry the burden of unpaid care and sustenance for the young, old, and infirm, for food and water. This burden often leaves them penalized in the "paid" economy, relegated to inferior or precarious work, their opportunities curtailed, their work devalued. Power imbalances and enabling cultures further objectify them, condoning threats to their freedom and safety.

Why should investors care?

Because corporate choices on exploitative supply chains, damaging marketing practices, toxic company cultures, and unsafe workplaces are justified on their behalf. These unpriced externalities along with broader concerns about the well-being of employees, customers, and community have risen to the top with the pandemic. By some estimates, a decade of progress on women's economic participation has been erased by the pandemic as women bore the brunt of "essential work", care-giving, and lost service-sector jobs.

Disappointingly, gender is largely absent from conversations on global investor action despite its adverse impacts pervading most sectors and geographies. Palpably gender-driven harms are often subsumed under broader "worker" or "human" rights frameworks, or the "S" in ESG, or Human Capital in research and standard-setting. Boston Common wants to increase the visibility of gender concerns, naming them in order to prioritize, monitor, and address them.

Data on corporations is improving but the full impact of gender-related issues can be hard to uncover. Companies may distance themselves from Gender-Based Violence and Harassment (GBVH) in their supply chains, sub-contracted, or franchised operations. They may bind women employees to forgo access to courts in favor of mandatory arbitration. As investors, we see both gender-related risks and opportunities for well-managed, gender-inclusive, and gender-supportive corporations to benefit from innovation, talent retention, resilience, and societal well-being.

Gender has long underpinned our work, as women are hardest hit by the interconnected crises of climate change, rising inequality, and human well-being. Our pathbreaking work has led to changes on uncomfortable issues like child sex tourism in the hotel industry. **Now, as part of our ambitious corporate engagement efforts on equity and inclusion, we are building a Gender-Priority approach across sectors, regions, and the corporate value-chain on products, processes, and policies. We are ready to pull back the curtains and let Gender take center-stage.**

ESG in Emerging Markets:
Unlocking Sustainable Growth

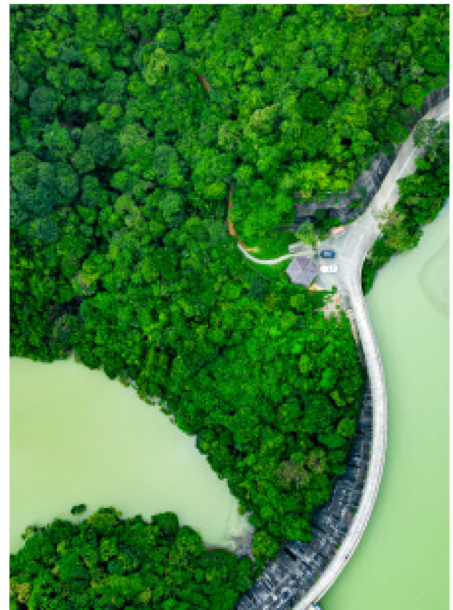
We are excited to share our latest insights on why many Emerging Markets (EM) companies are among the leading sustainability adopters on the global ESG stage: "ESG in Emerging Markets: Unlocking Sustainable Growth."

This new report follows the recent launch of a new mutual fund vehicle for our EM strategy — a strategy with an almost decade-long track record that focused on providing the opportunity to invest in a diversified portfolio of EM companies with sound governance and sustainable business models.

Key themes include:

- ESG investing in Emerging Markets ("EM") is evolving from traditional risk mitigation to alpha generation.
- Emerging Markets companies are among the leading sustainability adopters on the global ESG stage.
- Boston Common's long history of engagement leadership has helped raise the ESG bar across the board—at the company, regulatory, and exchange levels.

EM is arguably where ESG research + engagement can make the biggest difference as there has been increasing evidence that ESG improvement can be a key source of stock outperformance.



"The growth opportunities in Emerging Markets—where there is a rapidly growing middle class—are shifting from commodity and export-driven companies to those focused on services, technology, and innovation," said Liz Su, CFA, portfolio manager. "Along with these economic trends, many Emerging Markets companies are among the lead sustainability adopters on the global ESG stage, which we believe offers investors opportunities for alpha generation in addition to traditional risk mitigation."

Aligning Active Ownership Strategies in Impact Investing

Liz Su, CFA and Kevin Hart, CIMA®

Responsible investors have long believed that investing with embedded consideration of environmental, social, and governance factors is a compelling approach to identify investment opportunities: well-run, thoughtfully managed companies built for the long term, ready to foster societal transition and dynamically adapt to our rapidly changing world. This belief is simple enough to justify: identification, application, and integration of ESG risks and opportunities can provide investors with additional, independently derived insight into a company's management quality, strategic positioning, operational efficiency, and potential risk exposure.

The broader investment community has caught on. In 2020, ESG funds saw greater inflows than in any year prior, a nearly 140% increase over 2019 and nearly ten times greater than in 2018. Corporations have responded to this shift, with a record number of companies appointing their first Chief Sustainability Officer (CSO) in 2020, a year that saw more CSOs recruited than in the previous three years combined.

The transformative potential in the hands of ESG investors has grown by orders of magnitude. This exponential growth has brought an increasingly crowded field with a variety of approaches to ESG, creating ambiguity in the marketplace over what it means to be intentional as an impact investor. **An authentic, intentional, and holistic approach relies on aligning active ownership strategies** (e.g., shareholder resolutions, public policy participation, voting proxies) with stated investment goals, an ESG-led research process, and impact-oriented themes and targets.

Read more

Global Impact Strategy Impact Report

Our first Impact Report for the strategy focuses on the cumulative impact generated by the Solutions Leaders that the Global Impact strategy invests in. It also encompasses our broader engagement impacts from 2020 into the first half of 2021, highlighting and updating the scope of our initiatives and projects featured in our firm-wide impact report released earlier this year.

The Solutions Leaders we invest in demonstrate strong sustainability characteristics, yet opportunities for improved ESG/sustainability management remain.

Download the report

2020 Global Impact Strategy
Engagement Outcomes

60%
of holdings engaged

We engaged 41 out of 68 total companies held for some portion of 2020.

Proportion of holdings engaged across issue area

Environmental	Social	Governance
37%	41%	22%

Shareowner Engagement Spotlight
Refrigerants

Why refrigerants?

Refrigerants (as a category of gasses) have about **1000x to 4000x the potential to warm our atmosphere** in comparison to CO2. Due to refrigerants' elevated global warming potential (GWP) and shifting policy landscape we challenged our holdings to proactively address climate risk and shift to low GWP products. As climate change is already upon us, refrigeration and cooling technology is no longer a luxury; these products and services are vital to human health and safety, food security, and access to medicine. We grapple with the role of refrigerants as climate adaptation versus climate mitigation. Companies with exposure to the refrigerant value chain have an incredible opportunity to reduce the total emissions associated with these products.

Over the summer, Boston Common engaged holdings that manufacture refrigeration and air conditioning appliances—Daikin, Voltas and Carrier. Our first round of dialogue focused on:

GWP product disclosure

We are seeking detailed information on the amount of revenue credited to positive products and services.

Transition to low GWP refrigerants

There is significant opportunity for our holdings to align their stakeholder engagement and political activity to promote the adoption of safe, low GWP refrigerants.

Circularity

A large portion of refrigerant related emissions are associated with improper maintenance or lack of recycling at end of life.

Emissions reductions targets & collaborative platforms

We are encouraging our holdings to explore collaborative or industry groups and consider opportunities to reduce their customer's emissions through low GWP refrigerants and circularity programs.

Next Steps

We plan to follow up with the companies in 2022 to share our findings. We are exploring opportunities to engage other sectors and recently discussed plans to reduce refrigerant-related emissions with portfolio holding Kroger.

Shareowner Engagement Highlights

Climate change & inclusive finance with banks

- PNC joined the Partnership for Carbon Accounting Financials (PCAF), committing to measure and disclose financed emissions and manage climate risk - a key focus of our shareowner engagement efforts
- PNC issued their first TCFD report and committed to $20 billion lending to renewable energy and clean transport.
- Morgan Stanley joined the Net Zero Banking Alliance.
- PNC recently issued a new 4-year $88 billion Inclusive Finance commitment which will support community development programs, low-income lenders, and minority small business development groups.
- We expanded our focus on climate risk, engaging insurers Axa and Ping An on integrating climate risk in underwriting and investment portfolios.

Board Diversity Engagement

Boston Common has reached out to the boards we voted against to share our rationale, suggest improved practices, and open a conversation on board diversity. We believe diverse leadership is a key indicator of good corporate governance and management.

Portfolio Company Progress

Ameriprise Financial, has a Diversity, Equity, & Inclusion (DEI) Steering Committee comprised of senior company leaders. In our dialogue, we encouraged formal DEI performance and compensation goals.

Kroger made significant commitments to limit its impact on climate change through better refrigerant management. Specifically, Kroger agreed to expanded, time-bound and rigorous efforts to manage and report on leaks, fugitive emissions, baseline emission reductions, and continued portfolio reduction goals for global warming potential (GWP) refrigerants.

We are actively engaging our Japanese holdings through in-person dialogue, letter-writing, and active engagement with regulators in Japan via ACGA, The Asian Corporate Governance Association. Shimano is showing positive ESG momentum and has enhanced their ESG disclosure, supply chain oversight, and board governance reforms.

Company Milestones

- ✔ Boston Common announced the launch of a new mutual fund vehicle for our EM strategy, the Boston Common ESG Impact Emerging Markets Fund, providing investors access to a diversified portfolio of Emerging Market companies with sound governance and sustainable business models.
- ✔ As part of our ongoing efforts to grow and strengthen our team to support our clients and integrated ESG investment efforts, Joana Arthur, CFA, joined us as Investment Director, bringing 25 years of experience in emerging markets and international equities.
- ✔ Out of over 4,000 Certified B Corporations worldwide, Boston Common was named Best for the World 2021, placing us among the top 5% of B Corps in one of the five impact areas assessed. This is the fourth time we have received the Best for the World honor.
- ✔ We released our first Impact Report for our Global Impact Strategy. The report focuses on the outcomes of our shareowner engagement activity and the cumulative impact generated by the solutions leaders that the Global Impact strategy invests in.

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Boston Women's Workforce Council · 100% Talent Signer · City of Boston

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