International Market Review

The MSCI EAFE Index declined by 19.0% in the third quarter. In local currency terms, the EAFE fell by 15.7%, while a strengthening Dollar subtracted an additional 3.3% from U.S. investors' returns. Sovereign debt concerns weighed heavily on European markets, resulting in Europe (-22.6%) underperforming the Pacific region (-11.7%). Emerging Markets fell 22.6% on rising risk aversion. The U.S. dollar appreciated by 7.5% relative to the Euro and depreciated by 4.5% versus the Yen, as investors fled to perceived safe haven currencies and assets. The dismal quarter for global stock markets swamped the modest gains made through the first half of this year.

We attribute the market correction to increased fears that the developed world may be sliding back into a recession as well as ongoing uncertainty related to the future of the Eurozone. Sharp declines in equities had negative repercussions for confidence and deteriorating consumer and business surveys weighed on economic growth forecasts. Emerging markets saw a sharp reversal in the foreign exchange markets and some central banks intervened to support their currencies after lamenting their strength in previous months.

As macroeconomic fears caused investors to flee from more economically sensitive stocks, Materials (-27.9%), Financials (-24.2%), and Industrials (-22.2%) lagged the market. Consumer Staples (-8.7%), Health Care (-9.8%), and Telecommunications (-11.4%) benefitted from a flight to safety, as investors expect these sectors to deliver more stable earnings.

Japan (-6.4%) was the best performing region for the quarter, thanks both to a domestic economy recovering from the impact of the March tsunami and a strengthening Yen. Given its more defensive market composition, the UK (-10.7%) also did relatively well. Europe ex. UK (-26.0%) is at the center of the sovereign debt crisis and was the worst performing region in the EAFE.

Portfolio Review

A composite of accounts invested in the Boston Common International Equity strategy fell 18.2% for the quarter before fees, modestly outperforming the MSCI EAFE Index.[i] We believe the most significant driver of relative performance was our caution on European banks.

At the composite level, the strategy benefited from its overweight in Healthcare, as companies with more stable demand were rewarded with relatively strong performance. In the other typically defensive sector, Consumer Staples, we have found relatively few companies where valuation justifies our long-term fundamental outlook; the strategy's underweight detracted from relative performance. From a regional perspective, the composite was helped by its underweight of Asia Pacific ex. Japan, where correlations with Emerging Markets caused pressure. Our underweight of Japan, the best performing region in the EAFE, hurt relative performance.

Strong stock selection in the Financials and Healthcare sectors boosted relative performance, partly offset by poor stock selection in Energy and Consumer Staples. Top contributors included a Japanese hospital supply manufacturer and a Swiss pharmaceutical company, thanks to the rising appeal of companies selling essential products. An Anglo-Dutch household products and food supplier also held up fairly well.

Among the strategy's poor performers, a French life insurer was pressured by concerns about its sovereign debt exposure. A Luxembourg-based steel pipe manufacturer and an Australian scrap steel recycler were stung by the weakening supply and demand dynamics for commodities.

Europe

Over the coming months, Eurozone policy actions are likely to dominate investors' attention. Policymakers' current, incremental approach to solving the issues may disappoint investors and cause continued market volatility. As capital markets increasingly demand decisive actions, the complex European political process will need to move forward on questions of fiscal integration. We believe Eurozone officials, particularly German politicians, will ultimately take the necessary steps to keep the union together. These steps will include providing sufficient funds to stem the tide of sovereign bond market contagion, assisting in the timely recapitalization of weaker banks, and gradually moving towards more effective fiscal coordination.

With greater clarity on the Eurozone's future, economic growth in Germany, France, and the Nordic region is likely to resume its modest pace. Countries in the European periphery continue to face structural challenges and present a difficult investing environment. In Europe, our portfolios remain underweight Financials and Consumer Discretionary stocks, because we remain wary of balance sheet strength among financial companies and household spending prospects in the region. We are overweight the European Consumer Staples and Healthcare sectors where we see favorable long-term demand dynamics and diverse geographic end-markets.

Japan

Although the Japanese Yen continues to enjoy "safe haven" status, we continue to underweight the country because of headwinds from long-term demographic trends. In our opinion, the shrinking Japanese labor force is likely to dampen domestic growth opportunities. Even though investors are willing to buy Japanese government bonds at a yield of less than 1%, the country's feeble fiscal health may cause problems over time. Over half of our relatively modest Japanese holdings are in the industrial sector, geared to global growth, and in the healthcare sector, where we think demand will rise as a function of local demographics.

Asia Pacific ex. Japan and Emerging Markets

Although economic growth in many Emerging Markets still looks robust, their financial markets have faced selling pressure related to capital flows, overheating, and the effects of developed world weakness. Despite superior macroeconomic fundamentals, Emerging Market currencies depreciated as much as the Euro in the third quarter as investors fled what they perceived to be riskier assets. Rising consumer and asset prices, including concerns about a Chinese real estate bubble, have prompted monetary tightening. Trade-dependent emerging economies are unlikely to be immune from weak U.S. and European demand, even if growing intra-regional trade has diluted their dependence on the developed world. However, recent commodity price declines may help alleviate inflationary pressures and some Emerging Markets authorities have started easing monetary policy.

In our view, long-term fundamentals look relatively strong in many emerging nations. As valuations become more attractive, we expect to find more opportunities to add exposure to the region. Our overweight of Asia Pacific and the Emerging Markets is focused on domestic beneficiaries of secular growth; our holdings cluster in the Financials and Consumer sectors.

Portfolio Activity

During the quarter, we purchased South African media company Naspers.[i] The company has strategic stakes in several global Internet companies, especially Chinese leader Tencent. We believe these are compelling, long-term assets. Also, Naspers' South African satellite TV business appears to have a strong competitive position and we believe the company's valuation is attractive. At the same time, we sold Sohu, a smaller Chinese Internet company with a more narrow business mix relative to Naspers.

We also sold Australia and New Zealand Banking Group because we were concerned about rising credit losses as well as a potentially misguided acquisition strategy. Keeping our exposure to Australia steady, we started a position in electric utility and power company Origin Energy. The company is a leading provider in the stable electricity distribution business and is developing a large natural gas project for its power hungry Asian neighbors. We also think Origin is a sustainability leader with its commitment to energy efficiency and renewable power. In our opinion, Origin Energy trades at an attractive multiple of its earnings and offers an appealing dividend yield of 3.5%.

Company Spotlight

ASML NV

Description
ASML is the leading global manufacturer of lithography systems for the semiconductor industry. Headquartered in the Netherlands, ASML's advanced systems are used by major chipmakers to imprint ever smaller designs onto wafers reducing the chip size and increasing the functionality of electronic equipment.

Investment Thesis
We think ASML operates in an attractive market and has sustainable competitive advantages. Since lithography is the first and most important step in the semiconductor manufacture process and ASML commands about 75% of this market segment, the company appears to be one of the highest quality businesses in technology. We believe ASML will be the primary enabler of the continued trend toward smaller, more capable and power efficient electronics and will benefit from structurally rising capital intensity in semiconductor manufacturing. In our opinion, current macro and cyclical pressures have created an opportunity to own an excellent franchise at a significant discount to its long term intrinsic value.

ESG Profile
ASML has an exceptional environmental policy and management system, in our view. The company monitors and has external audits of its emissions and energy and water use. ASML works closely with global suppliers to improve their sustainability practices and carries out risks assessments on its supply chain. ASML has adopted the Electronics Industry Citizenship Coalition Code of Conduct, which promotes improvements in working and environmental conditions as well as in efficiency. All of ASML's worldwide facilities are certified to the ISO 14001 environmental management standard.

Market Index Returns

	3[rd] Qtr. 2011	YTD 2011	Year 2010
MSCI EAFE	-12.0%	-15.0%	7.8%
MSCI Europe ex. UK	-26.0%	-18.0%	1.6%
MSCI United Kingdom	-15.4%	-10.7%	8.8%
MSCI Japan	-6.4%	-10.9%	15.4%
MSCI Pacific ex. Japan	-19.7%	-17.7%	16.9%
MSCI Emerging Markets	-22.6%	-21.9%	18.9%

[i] *The Boston Common International Equity Composite consists of all fully discretionary, fee-paying accounts managed in-house by Boston Common that invest primarily in equities of companies domiciled outside the U.S. that bear explicit commission costs. This composite was created in March 2005. Boston Common claims compliance with Global Investment Performance Standards (GIPS®). Composite returns are presented in U.S. dollars, net of transaction costs, management fees and withholding taxes, with interest and dividends accrued. Returns for periods greater than one year are annualized. This product invests in foreign securities, which are subject to special currency, political and economic risks. The MSCI EAFE Index is a free-float adjusted market capitalization index that is designed to measure developed market equity performance of securities in approximately 22 countries, excluding the US and Canada. The Index's performance results are presented net of estimated foreign withholding taxes on dividends, interest and capital gains. The withholding tax rates are applicable to Luxembourg holding companies. The Index is unmanaged and does not incur management fees, transaction costs, or other expenses associated with separately managed accounts.*

[ii] *The information in this document should not be considered a recommendation to buy or sell any security. There is no assurance that any securities we discuss will remain in an account's portfolio at the time you receive this document. The securities discussed do not represent an account's entire portfolio and may represent only a small portion of an account's holdings. It should not be assumed that any securities transactions we discuss were or will prove to be profitable. Past performance does not guarantee future results. All investments involve risk, including the risk of losing principal.*