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From: The Portfolio Management Team

Performance Review

The MSCI EAFE Index gained 19.5% in the third quarter. In local currency terms, the EAFE rose 14.8%, and a weakening Dollar added another 4.7% to U.S. investors' returns. After record-breaking results in the second quarter, global markets continued to rally on greater conviction that we are recovering from a severe recession. Earnings surpassed expectations and strength in emerging Asia helped improve sentiment. The Euro and Yen appreciated by about 4% and 7% relative to the U.S. dollar, while the Pound fell by 3%, reflecting the weaker economic outlook in the U.K. Europe (+22.9%) significantly outperformed the Pacific region (+13.2%).

Boston Common's International Equity portfolios performed in-line with the MSCI EAFE in the third quarter. Stock selection in the Consumer Staples and Healthcare sectors helped our performance, while our underweight in Financials and stock selection in Industrials hurt. Our underweight in Japan was the largest regional contributor and our holdings in Europe excluding the U.K. detracted from our relative return.

Economic Outlook

Global economic prospects improved in the third quarter with strong economic data, continued stimulus on the part of policymakers, and rising expectations for an earnings recovery. Corporate earnings are likely to gather steam in 2010 based on substantial cost cutting programs and the benefit of starting from a depressed base.

Europe excluding the U.K.

After four consecutive quarters of declining Gross Domestic Product (GDP), the 16-nation Eurozone's two largest economies, Germany and France, each reported annualized growth of about 1.3% in the second quarter. The recovery is most likely a function of aggressive policy actions. In the banking sector, nearly bottomless liquidity support, direct equity injections, and blanket deposit and bond guarantees have boosted confidence, such that bank borrowing costs have fallen to pre-crisis levels. Credit quality expectations have also improved, as near-zero interest rates and fiscal stimulus have contributed to an upgraded economic outlook.

Market Index Returns

	3 rd Qtr. 2009	YTD 2009	Year 2008
MSCI EAFE	19.5%	29.0%	-43.4%
MSCI Europe ex. UK	25.0%	30.5%	-45.5%
MSCI United Kingdom	18.5%	34.0%	-48.3%
MSCI Japan	6.5%	9.3%	-29.2%
MSCI Pacific ex. Japan	27.4%	64.3%	-50.5%
MSCI Emerging Markets	20.9%	64.4%	-53.3%

The labor market is a notable laggard, with wide dispersion among countries. In Germany, the government pays a portion of lost wages when employees agree to work fewer hours. The program has helped keep Germany's 8.2% unemployment rate below the Eurozone as a whole. Ireland and Spain were more dependent on the now collapsed real estate construction industry, and unemployment rates in those countries are nearly 15% and 20% respectively. High and rising unemployment rates reflect challenging times for the world's workforce. Excess capacity of labor and goods is likely to limit inflation pressures, enabling policymakers to continue working to support growth. In Europe, we are focused on healthcare and cyclical stocks with leading positions in growing, global end markets.

United Kingdom

The Bank of England's continuing commitment to quantitative easing helped local equities, but caused a sell-off in the Pound. Although patience with respect to policy support is currently a virtue, it is inevitable that policy will shift in a counter-cyclical manner. The U.K.'s fiscal deficits are expected to reach over 12% of GDP in 2010. As a result of persistent deficits, the U.K. government is expected to increase its debt from 69% to 100% of GDP within the next five years. Some combination of spending cuts and increases in tax receipts needs to be proposed to move the budget closer to balance and avoid stifling debt burdens. In the UK, our exposure is geared to multinational companies with experience and strength in emerging markets.



Japan

Over 50 years of nearly uninterrupted rule by the Liberal Democratic Party (LDP) came to an end as the Democratic Party of Japan (DPJ) took power in August. The DPJ appears to be more inclined to support small businesses over the large export-oriented sector. Subsequently, the new finance minister said he opposes currency intervention contributing to the Yen's strengthening to a seven-month high compared to the dollar. Judging by purchasing power parity, such as the price of a Starbucks grande latte, the Yen currently appears overvalued by about 20% relative to the dollar. We are underweight Japan and our holdings reflect our preference for companies developing sustainable export strategies.

Asia Pacific excluding Japan

Developing Asian economic growth, now forecast to be 5% in 2009, stands in stark contrast to the nearly 4% and 6% declines expected in the Eurozone and Japan. The region's export and manufacturing companies rebounded from the declines inflicted by massive inventory reductions in the second half of 2008. To counteract the contraction in trade, Asian governments implemented aggressive fiscal, monetary, and financial stimulus plans. We are encouraged by policymakers' emphasis on infrastructure projects that will help improve energy efficiency and ease environmental burdens.

Partially as a result of its proximity to and its trade links with developing Asia, Australia has fared better than most developed economies. After recent news of rising property prices, mortgage lending, and retail sales, Australia recently reported a surprising increase in jobs. The Reserve Bank of Australia, incorporating these positive trends, raised its short-term interest rate to 3.25%, marking the first increase by a developed country's central bank in fourteen months. Although the 0.25% increase was modest, its level is far higher than most other developed nations and has helped the Australian dollar reach a new high for the year. We are overweight Asia-Pacific and have been adding to our exposure to Consumer Discretionary and Financial sectors.

Investment Outlook & Strategy

We believe that valuations, at near 20% discounts to fifteen-year averages, appear fairly attractive given an environment of low inflation, accelerating growth, and accommodating fiscal and monetary policy. The primary risk for the economy and the market is likely to come from the inevitable removal of policy stimulus.

We have been adding cyclical exposure as our three-year outlook has improved. Within that time frame, we expect to see a peak in loan losses as well as tougher regulatory requirements for Financial stocks. During the quarter we purchased Hang Seng Bank and the National Bank of Greece, because they are both likely to recover with the credit cycle and deliver sustainable growth without excessive leverage. We also purchased a German rail engine and rail infrastructure manufacturer, Vossloh AG. In our view, building and upgrading transport systems is likely to be a lasting source of capital spending.

Company Spotlight

Henkel AG

Description

Henkel manufactures consumer & industrial goods including bonding and personal care products. Brands include Loctite adhesives and Dial soap. Revenues are split among adhesives (40%), laundry/home care (30%), and cosmetics/toiletries (22%). Geographically, revenue is generated in Europe/Africa/Middle East (63%), North America (20%), Asia (11%), & Latin America (6%).

Investment Thesis

In our view, Henkel is a stable, high-quality company with a strong track record for execution. The company recently acquired the U.S. glue company, National Starch, which increased its leading market share in adhesives and strengthened its Asian and consumer segments. We expect Henkel's sustainable cleaning products will continue to gain share in the consumer market. The firm's organic growth rate of 3-4% is in line with peers and its stock appears attractively valued, in part because of its greater exposure to cyclical end markets.

Social Profile

Henkel has launched a brand of household cleaners, Terra Activ, with 85% of ingredients based on renewable, raw materials. Palm kernel oil used in the product is purchased from certified sustainable cultivation palm oil plantations. The company also developed a wastewater-free process for Volkswagen, which included a readily biodegradable, solvent-free, surfactant-based cleaner. Henkel has initiated programs to reduce carbon emissions across its global factory base by modernizing plants, optimizing production processes, and converting heating systems from oil to gas. From 2004-2008, the company reduced waste by 30%, energy use by 6%, water use by 35%, and occupational accidents by 63%.

Company examples are drawn from model portfolios using Boston Common's comprehensive social screens. Holdings may vary by portfolio due to customized account features. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that the securities discussed herein will remain in the account's portfolio at the time you receive this report or that securities sold have not been repurchased. It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable.