

Active Investor Social Update

Second Quarter, 2014

Dear Reader,
This quarter, Boston Common continued its global engagement efforts, traveling to Bangladesh to assess the status of worker safety one year after the Rana Plaza factory collapse; reaching out to companies to encourage enhanced disclosure of water risk management in sectors ranging from Energy to Information Technology; and urging banks such as PNC Financial to integrate climate change into their core business model.



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Taking Stock: Reflecting on the Quarter

	<i>What we have done</i>	<i>What we are working towards</i>
<i>Environmental Risk Management</i>	Urged Statoil to withdraw from oil sands operations in Canada	Statoil's withdrawal from oil sands operations in Canada
	Provided feedback to JPMorgan Chase on its updated environmental policies	
<i>Global Health</i>	Commended Mondelez for its adoption of stronger global nutritional goals	Increased disclosure and improved policies for marketing to children at Mondelez
<i>Disclosure and Transparency</i>	Commended Microsoft for its transparency around conflict minerals sourcing and issuance of its first report on government requests for customer data	More meaningful supply chain disclosure from Disney
<i>Human Rights</i>	Traveled to Bangladesh to assess improvements in working conditions	Meaningful shifts in apparel sourcing practices
		ConocoPhillips's incorporation of Free, Prior, and Informed Consent (FPIC) in its Indigenous rights policy

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SPOTLIGHT ON BANGLADESH

April 24th marked the first anniversary of the collapse of the Rana Plaza factory in Bangladesh, which killed over 1,100 garment workers and injured more than 2,500. Since May 2013, Boston Common has helped co-lead a global investor coalition, coordinated by the Interfaith Center on Corporate Responsibility (ICCR), to encourage companies to address systemic problems in Bangladesh's apparel supply chain. An April 23, 2014 statement, signed by over 134 institutional investors with a total of \$4.1 trillion in assets under management, called on companies to donate to the Rana Plaza Donors Trust Fund, which provides for the injured and for those who lost family members in the collapse. It also outlined what still needs to be done to create a garment sector in Bangladesh that minimizes risk to workers and companies. As of June 2014, only \$17 million of the estimated \$40 million needed by victims has been raised. Following the tragedy, two multi-stakeholder initiatives, the Accord and the Alliance, have arisen to improve fire and building safety in factories in Bangladesh. The Accord on Fire and Building Safety in Bangladesh is an independent, legally binding agreement that has been signed by over 160, primarily European, companies to promote factory safety in Bangladesh. The Alliance for Worker Safety, supported by 26, primarily U.S.-based companies, similarly aims to improve worker safety in Bangladesh's apparel industry.

The pursuit of low-cost manufacturing comes at high social and economic costs and presents material risks for investors, companies, suppliers, and garment workers. About 5% of global apparel production comes from Bangladesh according to the World Trade Organization (WTO). Apparel manufacture accounts for about 80% of Bangladesh's exports. While production costs in Bangladesh have risen 5.6% since 2009, the country remains one of the cheapest places to produce garments. This contrasts sharply with China, where costs have risen 136% and where over one-third of global garment production still resides.¹

In mid-May, Lauren Compere was one of seven global investors to participate in a fact-finding trip to Bangladesh, organized by Alliance Trust and Morgan Stanley. The group met with key stakeholders in Bangladesh to assess what progress has been made, what more needs to be done, and how investors can support efforts for systemic change in corporate supply chains. Necessary changes include more robust due diligence, supply chain oversight, long-term strategic relationships with suppliers, and living wage policies. Boston Common organized meetings with local teams of the Accord on Building and Fire Safety, the Alliance for Worker Safety, the ILO Bangladesh office, and Gap's fire and building safety team. Lauren also met with the Awaj Foundation, which supports women's leadership, financial literacy, and health



programs, and Impactt, which conducts trainings for factory management and labor and garment worker organizations.

Lauren witnessed improvements in Bangladesh's ready-made garments (RMG) industry during visits to supplier factories of Debenhams, H&M, and Marks & Spencer, who have invested in automation and on-site amenities such as water treatment, free or subsidized lunch, and child care. She heard from various stakeholders that progress has been made on the ground. The Accord and Alliance are conducting inspections. The government is hiring factory inspectors, removing import tariffs, streamlining the labor union registration process, and raising the minimum wage.

Nevertheless, real challenges remain. Many factories still need to be inspected, remediation plans need to be established and implemented, and fire and safety equipment needs to be imported and installed by skilled laborers. Despite the increase in minimum wage, executed in December, workers in Bangladesh still cannot cover basic living expenses. Owners are closing factories when they cannot afford or control building remediation. Investors must continue to encourage systemic change in the apparel industry. We must push for companies and brands to build long-term, strategic relationships with their suppliers, to adopt fair and sustainable living wage frameworks, to support the rights of workers, and to disclose where, and from whom, they are sourcing.

ENVIRONMENTAL RISK MANAGEMENT

Energy

In May, Boston Common led an investor meeting with **Statoil** in Houston focused on its hydraulic fracturing operations in the U.S. Key investor concerns were water use, community engagement, and methane emissions. For the second year, Boston Common submitted to Statoil's board of directors a letter signed by 35 investors urging the company to withdraw from its Canadian oil sands operations. The investor letter was in support of a shareholder resolution filed with the company by Greenpeace Norway and WWF Norway. During a June investor meeting organized by Boston Common, Statoil said Canadian oil sands

¹Morgan Stanley & Co. International plc, "Bangladesh RMG: Moving towards Sustainability," May 22, 2014.

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projects will compete with projects around the world for capital investment.

Also in May, Boston Common met with **EOG Resources** in Houston to lay out our 2014 - 2015 engagement priorities with the company. We discussed how Boston Common would like EOG Resources to improve its environmental and sustainability practices in the coming year. The company shared that its board now has a female director, the former CFO of Marathon Oil. We planned a fall meeting to discuss EOG Resources's 2015 sustainability reporting.

For the 9th consecutive year, Steven Heim spoke in Houston at the **ConocoPhillips** annual meeting regarding Indigenous Peoples' Rights. He asked the company to adopt an explicit Free, Prior, and Informed Consent (FPIC) policy.

Driving Forward

In May, Steven participated in a day-long ICCR meeting with **Ford Motor** at its offices in Dearborn, Michigan. We covered several ESG challenges for Ford: vehicle energy efficiency, climate change, water stewardship, supply chain social responsibility, and conflict minerals reporting. We asked how Ford assesses and manages supply chain risk. We encouraged Ford to continue its industry leadership on human rights via the Automotive Industry Action Group. We also asked the company to support state-level policies that encourage renewable energy use and, operationally, consider adopting standards for more responsible procurement of solar power generating equipment.

Bank Financing and Climate Change

PNC Financial's CEO, Bill Demchak, joined a May investor conference call that Boston Common organized to discuss the bank's approach to climate change. We were pleased to learn that the company is considering climate impacts across its lending portfolio, particularly in the areas of agriculture and real estate, and is attentive to expected shifts in the energy mix. A late July meeting has been scheduled at the company's headquarters in Pittsburgh to continue the conversation about ways in which PNC might meaningfully embed climate risk and opportunity throughout its business model.

Camilla Seth, Executive Director, Sustainable Finance, and Granville Martin, Executive Director, Environmental Affairs at **JPMorgan Chase** visited Boston Common's offices in May, meeting with Meredith Benton, Lauren Compere, and Corné Biemans. The group discussed JPMorgan Chase's "Environmental and Social Policy Framework," released in April. The Framework articulates JPMorgan Chase's approach to key sustainability issues such as climate change, forests and biodiversity, and human rights.

DISCLOSURE AND TRANSPARENCY

As part of the ICCR annual meeting in June, Boston Common organized an investor meeting with Steve Lippman, **Microsoft's** Director of Corporate Citizenship, and T.J. DiCaprio, its Senior Director of Environmental Sustainability. We discussed Microsoft's management of risks related to privacy and freedom of expression on the internet. Microsoft also shared its progress in improving transparency and traceability of conflict minerals in its supply chain, with 84% of its suppliers providing information on the 3Ts (tin, tungsten, and tantalum) and gold from components. Microsoft has also instituted a company-wide carbon fee, integrating the cost of carbon pollution into business decisions. This goes well beyond traditional cap and trade schemes by making environmental impact a line item in a business group's budget. The carbon fee incorporates not only energy usage but also the price paid for carbon emissions offsets.

In June, Lauren attended a meeting with **Disney** executives, including CFO Jay Rasulo, to discuss Disney's new framework for integrating corporate citizenship into its core business model. Boston Common voiced its support for Disney's efforts to provide 100% transparency regarding its supply chain, but also encouraged the company to report on its vertically integrated supply chain and its licensees separately, as Disney has more influence with factories from which it directly sources. We also discussed its new Permitted Sourcing Country policy, which eliminates sourcing from Bangladesh and Pakistan. We encouraged Disney to consider any factory, regardless of location, if it participates in the ILO Better Work Program, which is being rolled out in Bangladesh. We are pleased to report progress being made in the area of chemical safety with Disney's hiring of a Green Chemistry Director. We will continue to work with Disney on implementing a robust approach to chemical safety.

Water Disclosure

At the beginning of the quarter, Boston Common launched an initiative focused on companies that had not responded to or declined to participate in the 2013 CDP Water Survey. CDP Water annually requests that companies report on corporate water impacts at operational and supply chain levels. The CDP Water questionnaire is the most comprehensive reporting tool for corporate management of water risks and opportunities. Boston Common wrote letters to 20 companies across a range of sectors, including **ABB, Adidas, Costco, and Home Depot**, to encourage their participation in the CDP Water Survey. Boston Common believes the level of disclosure requested by the survey is critical in order for an investor to assess a company's exposure to and preparedness for material water risks.

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Summary on Bangladesh: Progress & Challenges

	<i>Progress</i>	<i>Ongoing Challenges</i>
<i>Government of Bangladesh</i>	National Tripartite Plan of Action on Fire Safety and Structural Integrity established	Import tariffs for fire and building safety materials
	400 Labor inspectors to be hired and trained	Accord and Alliance in place for only five years
	Minimum wage raised to 5,800 Taka (\$68) per month	Limited government infrastructure and resources for capacity- building
	Labor union registration streamlined	
<i>Factory Owners</i>	Common inspection standards established in the Accord and Alliance	Company sourcing policies focus on lowest cost and do not establish long-term relationships
	Accord companies committed to the same volume of sourcing for the next two years	All fire and safety equipment must be imported
		Lack of skilled labor to install fire & safety equipment
<i>Garment Workers</i>	Minimum wage increased	Minimum wage still does not cover basic living costs; High cost for low-quality housing and food
	Other benefits (food and medical subsidies, child care, and alternative production schedules) adopted by some factory owners	Enhanced worker rights and capacity-building needed to facilitate meaningful participation in worker health and safety committees
<i>International Labour Organization (ILO)</i>	ILO's Better Work Program, launched in May 2014, to move beyond fire and safety focus to improve labor standards	ILO's multiple roles could impede effectiveness and capacity on the ground
<i>Accord on Building and Fire Safety</i>	Supported by 160 global brands and retailers	Alliance/Accord coordination needed to perform 300 factory inspections and harmonize remediation plans
	About 800 factory inspections completed	1500 factories need to be inspected by October
	Increased disclosure of inspections remediation plans	
<i>Alliance for Worker Safety</i>	Worker Survey conducted to inform worker training	Workers' voices absent from formal Alliance governance structure
	New fire safety training materials adopted	Suppliers not utilizing the low interest rate remediation fund
	Over 300 factory inspections completed to date and on track to complete 700 by July	Lack of public transparency around inspections and remediation plans
<i>Labor Unions</i>	150 labor unions established in the last 12 months	Concerns that labor unions will focus on disruptive tactics (e.g. strikes) versus collaborative efforts to improve worker well-being
	Labor unions included in Alliance and Accord factory inspections and remediation efforts	Capacity-building and training needed

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