Active Investor Impact Update

First Quarter, 2022

Boston Common Asset Management

The Other Energy Solution

Geeta Aiyer

The energy crisis of the 1970s precipitated a transformation in the auto industry: large gas guzzlers were replaced by small, efficient cars. Fuel efficiency in miles per gallon rose sharply, reducing demand for expensive gasoline, thereby lowering dependence on imported oil. Yet as oil prices rise the discussion today has focused primarily on how to solve the supply problem in energy, i.e., how to produce MORE oil, natural gas, coal, and even renewables.

No talk yet about how to use LESS, how to cut energy waste, increase efficiency, redesign for energy productivity, and embrace demand reduction - the other energy solution critical to energy independence.

The statistics on energy waste are staggering. In 2015, I spoke on Energy Day at COP21 in Paris, quoting from Professor Mara Prentiss's new book, The Energy Revolution: Of the 100 quadrillion BTUs of energy we use in the US, we waste 61 quadrillion, meaning less than 50% of energy consumed performs useful work! In a gasoline-powered car driven in the city, only 16% of energy consumption actually goes toward moving the wheels.[1] Of every six gallons of gasoline burned, only one gallon moves the car. Highway-use only modestly improves this number to one in four.

This is waste by design rather than wasteful behavior. Since we rely on burning fuel to create mechanical energy, using heat engines like fossil-fuel burning electric power plants and gasoline powered cars wastes heat energy. And this colossal waste has only worsened – 2019 data shows only 32% of energy is used and 68% wasted.

But solutions are at hand. Electric cars, for example, ensure that most of the energy drawn upon is used for motion even after transmission losses. Replacing gas boilers with heat pumps is another plus. Amory Lovins addressed the question in his Fall 2018 piece, How big is the energy efficiency resource? Answer – it's huge. Integrated design has potential for dramatic energy savings from industry, transport, and buildings. Many other benefits would follow. Almost 50% of our transition to a low-carbon future can come from reduced waste and better models for a shared and circular economy. Renewable energy can more easily power our total needs if demand becomes half of what it is today.

Sustainable investors can finance a post-Ukraine economy by providing patient capital paired with an impatient voice for change. Hundreds of net-zero carbon commitments, big and small, have been made, but those plans often have multi-decade timelines. Recent events have once again shown that depending on countries with repressive regimes lacking internal accountability poses a high risk to investors and citizens alike. There is now a geopolitically driven urgency to pivot immediately -- to cut energy demand in pursuit of energy independence.

Demand reduction, the other energy solution, will disrupt current practices, unleashing design, technology, and organizational creativity. The leaders who emerge will be the "small cars" of this era, gaining market share, consumer loyalty, and global first-mover advantages.

Read more here

What Critics Get Wrong—and Right—About ESG Investing

Leah Turino,
Head of ESG Integration

The number of investors pursuing ESG continues to grow, with ESG assets under management expected to comprise a third of all global assets—$50 trillion—in less than three years' time.[1] And even as established, traditional asset managers scramble to roll out their ESG offerings to attract clients, there are some, including individuals inside these very same firms, who are critical of the entire approach.

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[1] Prentiss, Mara. Energy Revolution: The Physics and the Promise of Efficient Technology. The Belknap Press of Harvard University Press, 2015.

What Critics Get Wrong—and Right—About ESG Investing

ESG investing has long had skeptics who have doubted whether it's possible to invest for both financial returns and social impact. Our firm has been hearing this brand of criticism since we were founded in 2003. The argument then was that ESG investing would, by nature, underperform financially, that nonfinancial considerations would compromise profits. But with the path to financial returns increasingly run through social change, thus leading ESG performance to rival benchmark indices, skeptics now argue that ESG isn't effective at achieving environmental or social change.

As ESG investors, we welcome this scrutiny. After all, there should be a demonstrable positive impact in addition to financial returns. That is why efforts like the EU Taxonomy[2] (the European Union's classification system for sustainable activities), the Sustainable Finance Disclosure Regulation[3] ("SFDR") (a set of EU rules that make it easier for investors to understand and compare the sustainability profile of investment funds), and proposed rules at the U.S. Securities and Exchange Commission to enhance ESG disclosure are so important.[4]

But the goal of ESG investing isn't to solve climate change or end human rights abuses by itself. Rather, it's about reorienting our financial system so that capital flows from companies externalizing the environmental and social costs of their product offerings to those that are finding ways to profit from taking action. In this era of Stakeholder Capitalism, investors see value in companies prioritizing and managing ESG, as well as assessing and managing the real-world impacts of the products and services that they offer.

That's not to say all ESG managers are created equal. Considering the increasing interest in exploring this rapidly growing space, it's no surprise that some products and managers aren't up to the task. Red flags include misaligned proxy votes, such as voting against environmental and social shareholder proposals and voting overwhelmingly in support of excessive CEO pay.

By contrast, the firms "doing ESG right" are making firm-level commitments, backing up what they say with what they do. They're integrating research with the investment process. They're voting their proxies and partnering with diverse stakeholders to uncover the potential of advocacy. They're signing on to existing coalitions and reporting standards, as well as embedding ESG practices throughout their organizations.

And increasingly they are stepping up—and out—on policy engagement.

While ESG critics argue that profits will always be a higher priority than the planet—and that investing is no substitute for policy—authentic ESG managers understand that the planet, profits, and policy are inseparable and that capital and disclosure play a role in driving policy and impact.

All of which is to say: While there may always be some skeptics, ESG investing is here to stay. Investors expect a financial return, but they also want a better understanding of what they're investing in and to align their investments to their values. Increasingly, ESG investors are making that happen.

Read the full article here

Energy Efficiency

Engagement Strategy

Launched in 2015, our Eco-Efficiency initiative prioritizes demand reduction through:

- Improving productivity & efficiency to reduce energy demand
- Reducing water use
- Using circular economy principles to eliminate waste

Our 2019 report details best practices and framework for removing internal barriers to efficiency investments - the key to changing corporate behavior.

Investment Strategy

Since 2007, we have invested in companies selling industrial, commercial, and residential energy efficiency solutions.

Read more here

[1]Bloomberg Intelligence ESG 2021 Midyear Outlook. London and New York, July 20, 2021 – Environmental, Social and Governance (ESG) assets are on track to exceed $50 trillion by 2025, representing more than a third of the projected $140.5 trillion in total global assets under management, according to Bloomberg Intelligence's (BI) latest ESG 2021 Midyear Outlook report.

[2]EU Taxonomy for Sustainable Activites

[3]Sustainable Finance Disclosure Regulation

[3] SEC Wants to Shed Light on Funds' ESG Claims With New Disclosure

Our Net Zero Asset Managers Commitment

As part of our commitment under the Net Zero Asset Managers (NZAM) initiative, We:

- Completed a firm-level baseline assessment of our financed emissions (Scope 1 & 2)
- Set an objective to further align portfolio emissions with 2050 Net Zero and 1.5°C targets
- Adopted an Investor Climate Action Plan (ICAP) supporting integration across investing, stewardship, and engagement activities.

Our baseline assessment on absolute GHG emissions and relative carbon intensity (tCO2e/invested) exceeds the IPCC recommendations. We will need to realize most of the required reductions by 2030.

An expectation of the NZAM commitment is to engage key holdings and improve portfolio financed emissions over time. We are prioritizing engaging portfolio companies that have not established targets and may also engage those with insufficient targets that are not aligned with Net Zero or a 1.5°C by 2050 trajectory.

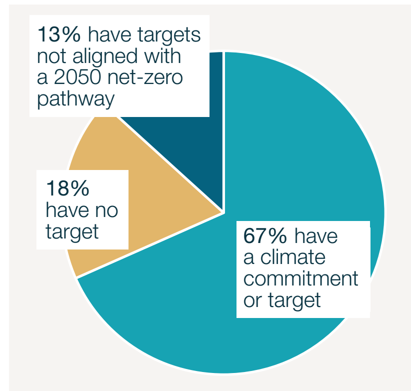
In order to achieve the most impact, we will prioritize engagement with the 10 highest absolute GHG emitters at the firm level, which represents nearly 60% of our financed emissions (Scope 3).

Our 2022 engagement priorities go beyond engaging highest emitters to ensuring financial holdings are Paris-aligned in their own financing and investments. This adds on to our longstanding leadership in engaging the banking sector and our efforts to address the "S" in the Green Recovery, ensuring the renewable energy sector supports a just and sustainable transition throughout production and sourcing.

Read more about Boston Common's Climate Action Plan

% of Holdings with Climate Commitments:

as of our 12/31/2021 Baseline Assessment



2022 Proxy Season Update

Shareholder Resolutions Filed

Issue	Company	Status
Adopt GHG Goals	TJX*	Withdrawn
Net Zero	Citigroup	2022 AGM Vote
Digital Human Rights	Microsoft	Withdrawn
Lobbying	Walt Disney	2022 AGM Vote
	Ecolab*	Withdrawn
	Biogen*	Withdrawn
	Netflix*	2022 AGM Vote
	Alphabet*	2022 AGM Vote
	Salesforce*	Withdrawn
Paid Sick Leave	Home Depot	Withdrawn
Political Spending	Analog Devices*	Withdrawn
	CME Group*	Withdrawn
	Advanced Auto Parts*	Withdrawn
	Waters*	Withdrawn
Racial Equity Audit	Verizon	Withdrawn

Salesforce improved its disclosure on lobbying oversight and contributions to trade associations.

Biogen committed to expand its disclosure on lobbying activities outside the US including the EU.

Home Depot agreed to put policies in place to offer paid sick leave and has committed to make this publicly accessible.

Verizon agreed to conduct a third-party racial equity audit, publicly release its findings, and provide updates on its progress.

*Lead Filer

Shareowner Engagement Highlights

Portfolio Company Progress

- Alibaba is developing a company-wide human rights policy, recently established a board-level sustainability committee, and announced new climate targets.
- Unilever will measure its product sales against major government-endorsed Nutrient Profile Models and report on this data annually, a longstanding ask of Boston Common through the Access to Nutrition Index.
- Lloyds integrated sustainability objectives into its core business planning and is linking sustainability to variable compensation for leadership.
- Yamaha is on track to meet its sustainable timber sourcing goal this year and plans to set more ambitious targets next year. Yamaha recently joined the 30% Club of Japan and signed the Women's Empowerment Principles.
- Bookings released its first Climate Action Plan - a key step for a global online travel company - which includes a near-zero emissions target for its operations by 2030 and net zero by 2040.
- Shimano has taken positive steps in ESG disclosure, supply chain oversight, and board governance reforms. We recently engaged Shimano on prioritizing its focus on gender diversity after we voted against the board in 2021 on this issue.
- Boston Common contributed to Biocon's recent materiality assessment to provide guidance on its sustainability approach and disclosure. Biocon, a leader in generics and biosimilars, has health equity as a core focus.

Engagement Highlights

Public Policy

SEC announces new climate disclosure requirements

The SEC's Enhancement and Standardization of Climate-Related Disclosure includes Scope 3, which is where material climate risk resides for many companies and investors. Boston Common recommended the inclusion of Scope 3 and assurance in its written submission to the SEC and in its meeting with Chairman Gensler last fall.

Boston Common joins Achmea & more than 65 leading investors calling on COVID-19 vaccine manufacturers to increase global availability. We expanded our health equity engagement to biotech including BioNTech, Biocon, & Biogen.

From the Commons

- Boston Common adopted an Investor Climate Action Plan (ICAP) supporting integration across investing, stewardship, and engagement activities.
- Boston Common announced our partnership with Conservation Law Foundation ("CLF"), a nonprofit, New England-based organization committed to long-term solutions to environmental and community challenges, helping them align their investments and their values.
- Founder and President, Geeta Aiyer was named to Greenbiz's list of inspirational women shaping climate action.
- Boston Common Portfolio Manager Corné Biemans discusses the Global Impact Strategy and the solutions-oriented companies that the strategy invests in.

Boston Common Asset Management

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