

# Global Impact Equity Strategy Update

## Second Quarter, 2022



### Portfolio Activity

We used the market sell-off to add new positions with promising, long-term growth and impact revenue prospects at significantly lower prices. The first, Infineon Technologies, is a German semiconductor manufacturer focused on structural trends like renewable energy adoption and e-mobility infrastructure, including EV-charging. Its order book is strong, while its EV/EBITDA valuation multiple has come down from 14x last year to below 8x, creating an attractive entry point. Next, we opened a position in Sociedad Quimica y Minera de Chile (SQM), a miner and major lithium producer. Currently benefiting from strong lithium prices, the stock trades at a mere 3x EV/EBITDA. By the end of this decade, the world is likely to need five to ten times more lithium to enable the clean energy transition and prevent the worst outcomes of climate change. Lastly, we added US-based LKQ, a global leader in the auto recycling industry within our Recycling and Efficiency impact theme. Cars are the most recycled product on the planet, and 95% of car materials can be repurposed (steel, copper, and aluminum). The auto recycling industry reclaims more than 750 million tons of scrap each month from wrecked or abandoned vehicles, and LKQ has been a consolidator in this highly fragmented market. LKQ gathers an average of 140 recycled and refurbished high-quality parts from each salvaged or total loss vehicle. The company has repaired its balance sheet, which should allow for significant share buybacks.

We added to recent purchases in the Information Technology sector such as Salesforce and PayPal. To fund these purchases, we sold paper & packaging company DS Smith, whose investment thesis appears challenged due to decelerating economic growth. We trimmed several European chemical names such as Croda and Umicore. The latter announced a fundamental shift in management strategy over the next decade, including a large capex program to transform the company longer term but with added risks. We reduced our cyclical industrial exposure by trimming positions in Westinghouse Air Brakes, Carrier, and Ciena Corp.

### Portfolio Review

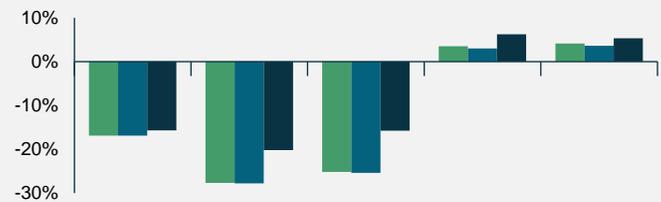
A composite of Boston Common's Global Impact portfolios declined -16.9% before fees, underperforming the MSCI ACWI Index ("the Index"). The Industrials sector was the largest detractor, as European holdings Schneider Electric, Tomra Systems, and Spirax-Sarco declined with concerns around slowing economic activity, while wind turbine maker Vestas was hurt by rising steel and freight costs. In the US, Azek, a leading manufacturer of recycled deck materials, declined amid concerns of a residential housing investment slowdown. Stock selection in Consumer Staples weighed on performance as McCormick, Sprouts, and Kerry all lagged. Our lack of exposure to conventional Energy was a drag. From a regional perspective, European holdings detracted the most, including German property owner Vonovia and specialty chemicals manufacturer Croda. Digital payment enablers Paypal and PagSeguro, genomic sequencing leader Illumina, and Japanese bike components-maker Shimano all detracted from performance.

Stock selection in the Consumer Discretionary sector was the primary contributor to relative performance. Chinese electric vehicle manufacturer BYD delivered strong growth with help from further policy subsidies. Leading US housing suppliers Mohawk Industries and TopBuild also outperformed sector peers. Financials also added value this quarter, led by Chinese insurance group Ping An, Indian lender HDFC, and Japanese conglomerate Orix. Regionally, Emerging Markets

### Annual Returns

	2022	2021	2020	2019	2018
<b>Gross</b>	-27.7%	12.9%	25.8%	27.8%	-11.3%
<b>Net</b>	-27.8%	12.4%	25.0%	27.1%	-11.4%
<b>MSCI ACWI</b>	-20.2%	18.5%	16.3%	26.6%	-12.8%

### Performance



### Portfolio Characteristics

	Boston Common	MSCI ACWI
<b># Holdings</b>	57	2,895
<b>Valuation</b>		
Price/EPS (NTM)	16.1	14.4
Enterprise Value/EBITDA (NTM)	9.9	9.3
Price/Book	2.5	2.7
Price/Sales	2.0	1.9
Dividend Yield	1.5%	2.0%
<b>Growth</b>		
3yr EPS Consensus Growth	8.3%	4.7%
3yr Sales Growth	7.4%	5.6%
<b>Quality</b>		
Beta**	0.96	1.00
LT Debt to Cap.	32.3%	34.5%
Net Debt to EBITDA	1.7	1.2
Return on Equity	14.1%	16.4%
Earnings Variability***	22.0%	22.8%
Free Cash Flow Yield	2.9%	4.5%

### Strategy Vehicle Options

Separate Account, Commingled Fund, Model/ADR, Mutual Fund\*\*

\*\*Subadvised by Boston Common

Source: APX Advent Portfolio Exchange. Past performance does not guarantee future results. All investments involve risk, including the risk of losing principal  
 \*Since Inception: September 30, 2018 \*\*The Beta calculation is based on the trailing five-year performance of a representative account within a portfolio's strategy, \*\*\*Variability is calculated as the mean absolute difference between actual earnings per share and a five-year historical growth trendline, expressed as a percentage of trendline.

was the primary contributor, buoyed by financial holdings as well as leading manufacturer of traditional Chinese medicines China TCM. Additional contributors included US healthcare holdings Waters and Gilead, water infrastructure specialists Xylem and Kurita, and Enphase Energy, a leading manufacturer of power inverters for solar systems.

## Outlook and Positioning

Several crosscurrents have made global financial market conditions volatile. Rising costs from the commodity supply shock and pandemic disruptions along with higher interest rates will likely weigh on spending and investment. However, mitigating considerations include robust labor markets with low unemployment and rising wages, a pro-growth policy shift in China, and pent-up demand for many products and services. This year's equity markets decline, and relatively low valuations at least partially reflect the macro challenges.

Greater curtailment of Russian natural gas delivery to Europe looms as a key industrial and societal threat, especially this winter. Vigorous policy response, led by Germany, could foster a deeper and faster transition to electrification, renewable power, and efficiency that will enhance both national security and environmental resilience. The drive towards efficiency remains well supported. We see opportunity for existing companies to explore circular economy solutions – recycling and reusing inputs on the path to netzero. We seek visionary managements that find opportunity in the growing circular and shared economy, particularly through product development. Commentary from company managements globally remains sanguine, making upcoming earnings crucial for a read on the second half of 2022.

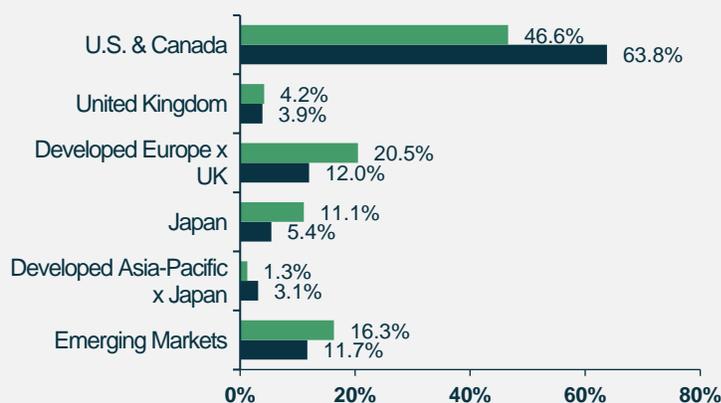
The portfolio continues to focus on product solution companies linked to our nine impact investment themes; this includes well-positioned providers of eco-efficiency, renewable energy, sustainable transportation, and recycling solutions. Mindful of economic uncertainties, we have increased exposure to the access to health, organic/healthy food, and community investing impact themes. Expectations for higher interest rates support select sustainable & inclusive financiers.

The expected revenue and earnings growth of our portfolio companies remains a couple of percentage points higher than the Index. The aggregate price-to-next 12-months earnings ratio has declined to 16x, the lowest level since the strategy's inception.

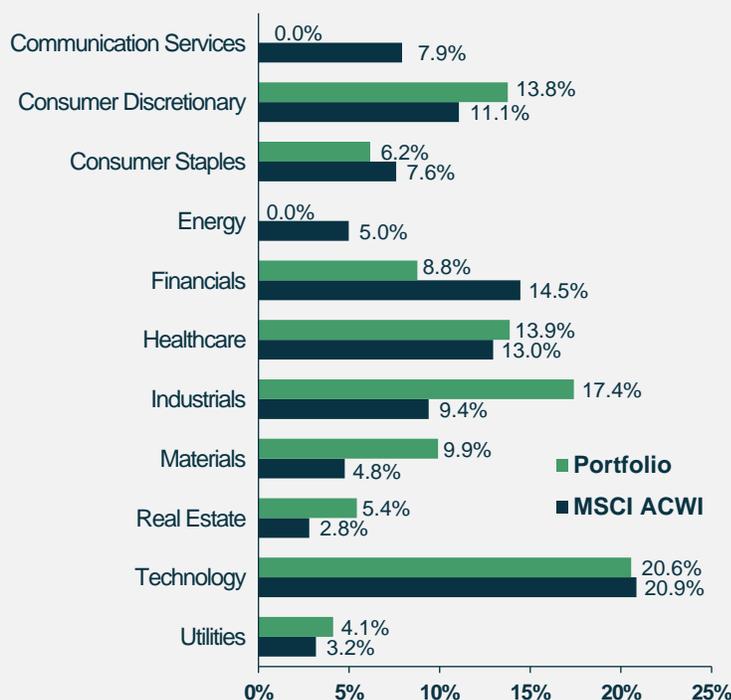
## Contributors & Detractors

Top 10	% of Capital	Return	Relative Contrib.	Sector
BYD COMPANY LTD	2.0%	39.7%	0.95%	Consumer Discretionary
CHINA TRAD CHINESE	1.6%	18.1%	0.56%	Healthcare
WATERS CORP	1.7%	6.6%	0.36%	Healthcare
GILEAD SCIENCES INC	1.7%	4.0%	0.34%	Healthcare
ENPHASE ENERGY INC	2.1%	-3.2%	0.30%	Technology
XYLEM INC	2.5%	-7.6%	0.20%	Industrials
MOHAWK INDS INC	0.3%	19.9%	0.19%	Consumer Discretionary
KURITA WATER INDUSTRIES	1.7%	-4.3%	0.19%	Industrials
PING AN INSURANCE	1.5%	-4.0%	0.18%	Financials
BIOGEN INC	1.4%	-3.2%	0.18%	Healthcare
			<b>3.46%</b>	

## Regional Allocation



## Sector Allocation



Bottom 10	% of Capital	Return	Relative Contrib.	Sector
PAYPAL HLDGS INC	1.6%	-39.3%	-0.53%	Technology
ILLUMINA INC	1.2%	-47.1%	-0.50%	Healthcare
PAGSEGURO DIGITAL LTD	1.0%	-48.8%	-0.47%	Technology
SCHNEIDER ELECTRIC	2.2%	-31.0%	-0.40%	Industrials
TOMRA SYS A / S	1.9%	-28.5%	-0.34%	Industrials
SHIMANO INC	2.2%	-27.0%	-0.32%	Consumer Discretionary
APPLIED MATLS INC	1.7%	-30.8%	-0.31%	Technology
VONOVIA SE	1.3%	-33.7%	-0.29%	Real Estate
AZEK CO INC	1.3%	-32.6%	-0.26%	Industrials
VESTAS WIND SYSTEM	1.3%	-29.4%	-0.21%	Industrials
			<b>-3.63%</b>	

**Source: APX Advent Portfolio Exchange. Past performance does not guarantee future results. All investments involve risk, including the risk of losing principal.**

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