Boston Common
Asset Management

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Investor Climate Action Plan

Boston Common Asset Management
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Introduction

The Amazon is now emitting more carbon dioxide than it can absorb. The IPCC 2021 report finds immediate, rapid, and large-scale action is needed if emissions are to peak by 2025 and warming is to be limited to 1.5°C. Ending deforestation and investing in natural climate solutions could provide a third of the solution to meeting the Paris climate target while supporting the global goal for nature to halt and reverse biodiversity loss by 2030. In 2019 Boston Common eliminated its investment in fossil fuels globally and since its inception has prioritized investment in climate solutions, supported by robust stewardship and engagement efforts --- but we can do more.

In 2021 Boston Common made three significant firm level commitments to align its investing, stewardship, and engagement approach with a Net Zero by 2050 and Paris Agreement 1.5°C pathway. This included joining the Net Zero Asset Managers initiative, committing with just 30 other investors ahead of COP26 to Deforestation-Free Forest-Risk Agricultural Commodities by 2025 (palm oil, soy, cattle and leather, paper and pulp), and joining 84 other investors across 18 countries in the Finance for Biodiversity Pledge. Given the systemic risk biodiversity loss and ecological destruction from deforestation pose to our ability to achieve a sustainable and inclusive future, we believe it is critical to step up our efforts with an approach that integrates our climate strategy with biodiversity and nature-related risks and opportunities.

These commitments provide additional guidance and clarity to our firm's commitment and supports Boston Common's approach since its inception to avoid investing in egregious corporate players, prioritize investment in solutions, step up as a climate and sustainability leader, and systematically create impact through our stewardship and engagement work.

This Investor Climate Action Plan (ICAP) reflects a long term integrated approach to addressing climate change including a history of investing in companies that are accelerating the transition to a low carbon economy, companies that focus on renewable energy, climate mitigation and adaption, more efficient processes, and circular economies.

In early 2020, Boston Common became the first US asset manager to join the Platform for Carbon Accounting Financials (PCAF). As part of the PCAF Core team, we helped develop global carbon accounting standards launched in November covering six asset classes.

Our engagement initiatives have focused on addressing the systemic risks and impacts of the climate emergency. Under our five-year flagship initiative, "Banking on a Low Carbon Future", we engaged nearly 60 global banks on climate risks and opportunities, highlighting the need for the financial sector to step up on climate. In 2019, we issued our first benchmarking report, "Improving Efficiency, Unlocking Returns" built on five years of engagement with nearly 50 companies. The report sets a baseline for Eco-Efficiency practices for energy, water, and waste. We engage companies on deforestation risk in multiple sectors including Financials, and we have started to explore incorporating biodiversity into our approach. The time for incremental change to address the climate emergency is over. We must transform the financial system, and all actors including asset managers, must play their part.

Climate Governance

Boston Common's Board and senior leadership play a critical role in informing and overseeing our climate strategy. For example, our Board reviewed and endorsed our commitment as a signatory to the Montreal Carbon pledge and now our firm's commitment to the Net Zero Asset Managers Initiative which we have adopted as a formal commitment to measure, disclose and reduce our own operational carbon footprint and that of our portfolios. Our CEO, President, and CIO of International Strategies assist in designing our ESG approach and sit on the firm's Board of Directors. Annually, the Board receives a complete review of our strategies, covering financial and ESG aspects, carbon footprint, and engagement outcomes. In addition, our own firm level initiatives undertaken to offset our carbon footprint and to select and support carbon offsets are included in firm-level budgets which is approved by the Board. The Head of Stewardship & Engagement and the Head of ESG Integration, with support from other members of the ESG Research & Engagement Team oversee the implementation of the firm's climate strategy related to ESG Research, Stewardship & Engagement, and Reporting & Disclosure and when appropriate represent the firm in external leadership roles related to our climate strategy.

Boston Common's Investment & ESG Approach

As a starting point, we seek to activate capital and shareowner voice to facilitate the transition to a more sustainable and inclusive economy. We view our four focus areas— (1) Earth Renewal and Climate Change; (2) Health, Wellness, and Community Wellbeing; (3) Human Rights, Equity, and Social Mobility; and (4) Good Governance and Corporate Culture—as guiding principles for corporations and investors. We see the coming decade as a time of great change and identify key drivers or influencers of this disruption:

consumer preferences, regulatory action, scientific and technological advances, and company innovation. As investors, we are seeking to proactively address these opportunities and challenges and, in so doing, invest for an inclusive, sustainable future.

Our seek and avoid criteria guide our investment-seeking and analysis; however, our guidelines are not prescriptive to the point of prohibiting additional information from consideration. We research environmental, social, and governance (ESG) issues and themes as they emerge and incorporate them into our research process. We aim to align our investments—and stewardship and engagement approach—with globally adopted standards and goals. Our guidelines reference key principles drawn from the International Labour Organization (ILO) core conventions, the United Nations (UN) Guiding Principles on Business and Human Rights, the UN Declaration on the Rights of Indigenous Peoples, the Paris Agreement, and the UN Sustainable Development Goals (SDGs).

In addition to exiting fossil fuels in 2019, we believe future economic growth, social stability, and life on Earth itself depend on averting catastrophic climate change and ensuring the protection and renewal of biodiversity, watersheds and rivers, soil health, and air quality and the urgent transition to net-zero and absolute-zero carbon emissions as soon as possible. We seek through our investments—and our stewardship and engagement—to address direct and indirect physical and transition risks.

Under each of the four focus areas we have crafted "seek" criteria guiding investment in Products and Services, Policies, and Processes, as well as "avoid" criteria guiding investment away from Products and Practices that detract from the transition to a sustainable economy.

- We believe that a company's Products and Services (i.e., what a company makes), Processes (i.e., how they make it), and Policies (i.e., how they run the business) are all meaningful dimensions of long-term sustainability.
- Through application of our seek criteria, we aim to invest in ESG leaders, solutions providers, and companies demonstrating positive ESG momentum.
- Through application of our avoid criteria, we choose to not invest in companies that depend on harmful Products or Practices or exhibit egregious behavior.
- Considerations in our decision-making process include peer-relative performance, history and pattern of practices and incident response, degree of positive and negative impacts, market leadership, and products or practices to be uniquely avoided.

Under our Earth Renewal and Climate Change Pillar:

Seek
We seek to invest in companies innovating Products and Services, Policies, and Processes that contribute significantly to Earth renewal and the prevention or mitigation of catastrophic global climate change. We seek to invest in companies that are future-prepared. We look for companies that are acting with urgency to support a just energy transition, to address the direct and indirect physical and transition risks associated with climate change, and to prepare for Inevitable Policy Response, an abrupt and forceful response by governments to climate change.

Avoid

We avoid investment in companies whose Products and Services, Policies, and Processes significantly contribute to catastrophic global climate change or hinder Earth renewal. Additionally, we seek to avoid companies whose principal products, business strategy, or lack of planning present significant risks related to the energy transition or poorly position the company for Inevitable Policy Response to climate change by national, state, and local governments.

Boston Common's Fossil Fuel Exclusion Policy

We exclude companies significantly engaged in fossil fuel production, transportation, or distribution.

- Significant revenues (>5%) from the exploration, extraction, production, manufacture, or refining of fossil fuels
- Significant revenues (>30%) from the transportation, transmission, distribution, or retail sale of fossil fuels
- Significant revenues from the generation of coal-based electric power (>10%) or combined fossil fuel-based electric power (>30%)
- Significant revenues (>50%) from the production or provision of dedicated equipment or services for fossil fuel production or transportation
- Mining of thermal coal

Not applicable to the use of fossil fuel-based energy or feedstock as an input within company operations, including to produce petrochemical feedstocks.

Net Zero Approach & Our Commitment

What is Nero Zero and the Race to Net Zero?

Under the Paris Agreement, countries agreed to limit warming well below 2 degrees C and ideally to 1.5 degrees C. Latest science (from the Intergovernmental Panel on Climate Change, IPCC) suggests that in order to reach these temperature goals, net-zero emissions will be required by mid-century (2050). If the world reaches net zero by 2040, the chance of limiting warming to 1.5 degrees C is considerably higher.

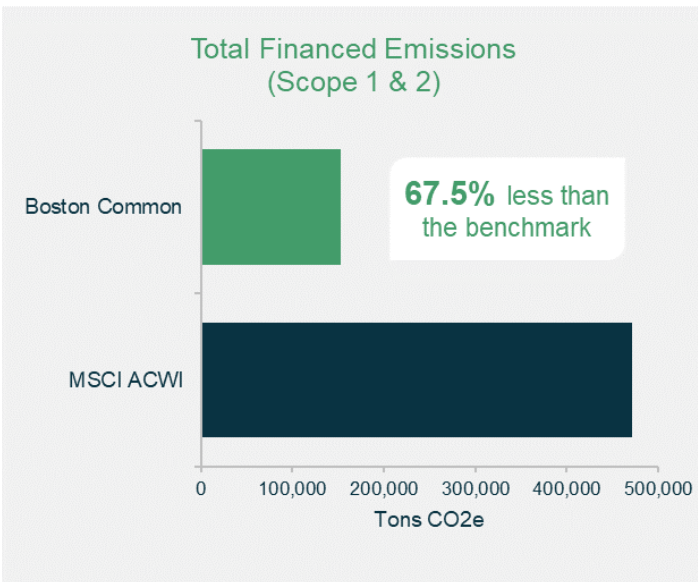
The United Nations established a "Race to Zero" campaign calling on countries, regions, cities, companies, investors, and civil society/non-governmental organizations to submit plans to reach net-zero emissions by 2050. Ahead of COP 26 in Glasgow in November 2021, numerous net zero commitments were made across the globe - 120 countries, 708 cities, 24 regions, 2,360 businesses, 163 investors and 624 higher education institutions. One of these net zero commitments was the Net Zero Asset Managers (NZAM) initiative which Boston Common joined in March 2021.

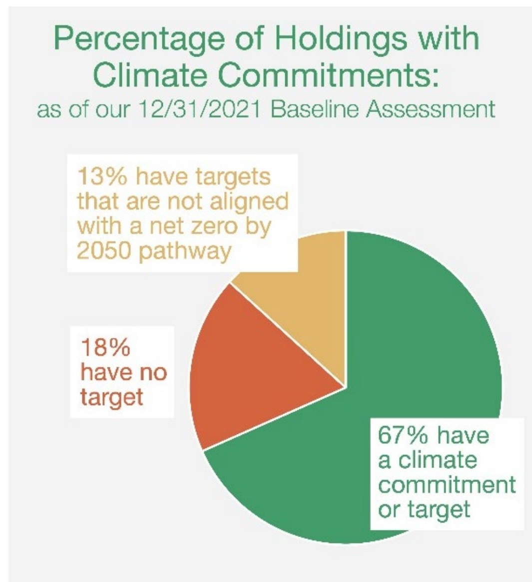
Boston Common NZAM Commitment

In early 2022 as part of our firm's commitment under the Net Zero Asset Managers (NZAM) initiative, we completed a firm level baseline assessment of our firm's financed emissions (Scope 1 & 2 only) and set a target to further align our portfolio emissions with a Net Zero emissions, and 1.5 degrees Celsius scenario by 2050.

Our baseline assessment as of December 31, 2021 (which represents $5.6 billion in AUM or 93% in overall AUM) on both absolute GHG emissions and relative carbon intensity (tCO2e/invested) already exceeds the IPCC recommendations, so our firm is already in a position to demonstrate a fair share of the required reduction efforts by 2030 (50% reduction).

Our firm's total* financed emissions (Scope 1 &2 only) are 153,197 tons versus 471,956 for the MSCI ACWI benchmark or 67.5% less its relevant benchmark. Our analysis further reflects that 67% of our holdings have a climate commitment or target (35% of which are approved SBTs, and 32% of which are either committed SBTs or considered an ambitious target) while 18% of our holdings do not have any target. The remaining 13% have some sort of target but they are aligned with net zero decarbonization pathway by 2050.





NZAM Target

We have established the following SBTi NZAM Target Commitment.

By 2025 we will have engaged the 31% of portfolio holdings* (in covered AUM) that either have no target or have an insufficient target to move to either a Science-Based Targets initiative (SBTi) or equivalent and to increase the % of portfolio from 67% to 90%.

*The actual engagement target list is subject to change. For example, if we discover they have already adopted a target or if the holding is sold out, we would deprioritize engagement.

At this time, we decided to not include fixed income and several subadvised strategies. In future years, we will consider adding Scope 3 into assessment and target-setting under NZAM as data quality and company disclosure expands on Scope 3. One of our key engagement focus areas is for companies we invest in to expand their GHG emissions disclosure to include Scope 3.

While we did not set a temperature alignment goal under NZAM, our assessment at the firm and portfolio strategy level does monitor and compare the scenario alignment for current and future portfolio greenhouse gas emissions with the carbon budgets for the IEA Sustainable Development Scenario (SDS), Stated Policies Scenario (STEPS), and the Current Policies Scenario (CPS).

On a quarterly basis we provide information our engagement priorities and significant engagement milestones whether corporate or public policy related. On an annual basis we produce an impact report which provides case studies and more details on our overall stewardship and engagement activities and outcomes. We will plan to include an update on our NZAM engagement strategy and any progress as part of our 2022 (published in 2023) impact report and will continue to provide at least annual updates. As our interim goal is for 2025, we will re-assess progress made and set a new five-year interim goal at that time.

Earth Renewal & Climate Change Stewardship & Engagement Approach

Our engagement and stewardship is intended to support long-term thinking by corporate managements. We believe that long-term oriented decision-making will improve the fundamentals of the companies we invest in, eventually becoming reflected in the value of its shares. These improvements may take the form of lower risk premia, higher earnings, cost savings, product and process innovation, policy changes, etc. As shareowners, we seek transparency and accountability from companies, but also empower steps towards better environmental, social, and governance performance. We have several tools at our disposal to encourage companies to address sustainability risks and opportunities, but our most common approach is sustained dialogue with companies over the short, medium, and long-term either through individual or collaborative engagement. To prioritize our focus and impact we have established a three-year engagement framework with two to three key initiatives across our sustainability pillars.

Our Stewardship & Engagement approach includes:

- Sustained Dialogue – Our most common form of engagement is through sustained dialogue with companies over many years on how ESG and sustainability issues are integrated into core business practices. Our first focus is to better understand how the governance of sustainability is approached by companies including board level oversight and links to performance goals and compensation. Our dialogues tend to focus on robust overarching sustainability policies, alignment with international norms, response and remedy to controversies, setting ambitious and long-term sustainability goals and targets, and robust and business relevant disclosure on implementation. Given our global peer approach, we frequently provide feedback in our dialogues on what we consider key sustainability priorities, share best practices relative to peers, and guidance to resources or policy development. Our sustained dialogue starts when we first initiate an investment by reaching out to share our ESG thesis but also identify areas for engagement or improvement.

- Benchmarking companies on a particular issue and then engaging to learn from and praise leaders and demand improvements from the laggards;
- Working with standard-setting bodies to develop better ESG metrics or key performance indicators;
- Using investor letters and statements, (often collaboratively);
- Proxy Voting;
- Public Policy Engagement - Public policy testimony and rule-making processes

High Carbon Emitters Engagement Initiative

Net Zero Asset Managers (NZAM) Initiative and our High Carbon Emitters Engagement Initiative

Engaging key holdings and addressing financed emissions is a key expectation of the NZAM commitment:

- Magna International agreed to set science-based targets and is mapping Scope 3 emissions. As a result of our dialogue, Magna posted its CDP report to allow for greater transparency on its approach to climate change.
- Mohawk hired a head of sustainability and is considering forming an executive ESG committee.
- Steel Dynamics has set goals to reduce carbon emissions and increase renewable energy use for its steel mills.
- Borreegrard will raise renewable energy targets and produce a standalone TCFD report.
- Orix established an ESG committee at the board level and disclosed four environmental goals including greenhouse gas (GHG) emissions reductions goal.
- DS Smith adopted Net Zero and science-based targets by 2030. In 2022, DS Smith will link executive bonuses to ESG metrics.
- Xinyi Solar took a variety of steps to track and report key ESG metrics and increase resource efficiency. Xinyi promotes use of renewables, green procurement principles, and has engaged stakeholders through materiality processes.

One of the key expectations of the Net Zero Asset Managers (NZAM) commitment it to engage key holdings and improve our portfolio financed emissions over time. To support our NZAM Target Commitment, over the current engagement cycle (2021-2024) or by 2025 Boston Common will engage those companies with no climate targets or commitments across our strategies and will further consider engaging those with insufficient targets aligned with Net Zero or 1.5 degrees Celsius by 2050. At the portfolio strategy level, we will prioritize engagement with the top carbon emitters in strategies not currently aligned with 1.5 degrees Celsius. Overall, we plan to start with engaging the top 10 highest absolute GHG emissions at the firm level which represents close to 60% of our overall financed emissions (Scope 3).

In 2021 a number of these holdings were engaged under our High Emitters Engagement Initiative – a data driven and full value chain engagement framework with a focus on **Governance of Sustainability, Climate Risk Assessment and Transition Plans, Interim Targets and Metrics (2025 or 2030), Energy Mix, Supplier Engagement, and Climate and Paris-Aligned Political Participation & Lobbying**.

Engagement Beyond High Carbon Sectors

Our current engagement priorities go beyond engaging our highest emitters to ensuring our financial holdings are Paris-aligned in their own financing and investments which builds on our longstanding leadership engaging the banking sector, and to continue to build out our “S in the Green Recovery” efforts to ensure the renewable energy sector and its buyers support a just and sustainable transition through production, sourcing and procurement practices**.** This has included responsible sourcing of conflict minerals, cobalt, and lithium. We will continue to engage with key players in the renewable energy sector as well as encourage companies to set their own renewable energy targets and align with RE100. This has been a long-term ask of Boston Common’s going back to our Eco-Efficiency engagement in 2015. In some cases, we prioritize specific high-impact interventions such as more addressing more sustainable approaches to refrigerants.

Shareowner Engagement Spotlight
Refrigerants

Why refrigerants?

Refrigerants (as a category of gasses) have about **1000x to 4000x the potential to warm our atmosphere** in comparison to CO2. Due to refrigerants’ elevated global warming potentional (GWP) and shifting policy landscape we challenged our holdings to proactively address climate risk and shift to low GWP products. As climate change is already upon us, refrigeration and cooling technology is no longer a luxury; these products and services are vital to human health and safety, food security, and access to medicine. We grapple with the role of refrigerants as climate adaptation versus climate mitigation. Companies with exposure to the refrigerant value chain have an incredible opportunity to reduce the total emissions associated with these products.

Over the summer, Boston Common engaged holdings that manufacture refrigeration and air conditioning appliances—Daikin, Voltas and Carrier. Our first round of dialogue focused on:

GWP product disclosure

We are seeking detailed information on the amount of revenue credited to positive products and services.

Transition to low GWP refrigerants

There is significant opportunity for our holdings to align their stakeholder engagement and political activity to promote the adoption of safe, low GWP refrigerants.

Circularity

A large portion of refrigerant related emissions are associated with improper maintenance or lack of recycling at end of life.

Emissions reductions targets & collaborative platforms

We are encouraging our holdings to explore collaborative or industry groups and consider opportunities to reduce their customer’s emissions through low GWP refrigerants and circularity programs.

Next Steps

We plan to follow up with the companies in 2022 to share our findings. We are exploring opportunities to engage other sectors and recently discussed plans to reduce refrigerant-related emissions with portfolio holding Kroger.

During this current engagement cycle (2021-2024), we continue to prioritize engagement on deforestation through individual and collaborative engagement platforms like Ceres, PRI and FAIRR and have begun to explore how to address biodiversity risks in our engagement and assessment approaches.

Responsible & Aligned Climate Lobbying Practices

In addition to our own direct public policy engagement, we engage companies on climate lobbying practices, both direct and indirect (via trade associations). For over a decade, this has been both a stand-alone dialogue focus and an integrated component of our engagement with global banks on climate and financed emissions, and with companies on Eco-Efficiency. It is essential to consider a company's consistency in approach on climate through increased transparency on risk management and due diligence procedures, alignment of climate lobbying with stated actions, and escalation strategies with trade associations if there is material misalignment. We support frameworks like the Responsible Lobbying Framework, ICCR's Climate-Aligned Lobbying approach and the newly released Global Standard on Responsible Climate Lobbying (March 2022).

The Power of the Proxy (Management Proposals, Shareholder Proposals Voting Approach, & Filing Shareholder Proposals)

Boston Common's proxy voting guidelines are designed to promote best global corporate governance practices and to encourage long-term thinking of corporate managements. Our guidelines ensure we vote to support shareholder proposals which focus on respect for human rights, gender and racial equality, a pro-active approach to climate risk, and environmental stewardship. Our guidelines related to management proposals advocate for ethical, transparent, and accountable corporate cultures. Boston Common pays particular attention to nominations for boards of directors with four broad principles which apply when determining director nominees including Board Accountability, Board Responsiveness, Director Independence, and Director Diversity & Competence. Our guidelines also include a key focus on problematic compensation practices, environmental, social, and governance (ESG failures).

Boston Common has evolved its approach on the way we vote to address climate risk. Since our inception, we have supported shareholder proposals focused on environmental or social risk and disclosure including climate risk, filed climate-related shareholder proposals, but have more recently adopted an escalated proxy voting policy where we may vote against directors due to a failure to adequately address climate-related risks, realize climate-related opportunities, and improve climate-related performance.

Climate Change Risk Mitigation and Performance Failures

In 2021 we added a specific reference for management proposals where we will vote against or withhold from directors individually, relevant responsible committee members, or company reports or statements, due to a failure to adequately address climate-related risks, realize climate-related opportunities, and improve climate-related performance. The scope of this voting policy covers companies on major blue-chip indexes, such as the FTSE 100, ASX100, CAC 40, DAX30 and S&P 500. ISS coverage is at 98-100% for all of these.

Climate Shareholder Proposals

We routinely vote in favor of ESG shareholder proposals through our proxy voting approach across the markets we invest in including those focused on climate. We file shareholder proposals each year with a select group of US companies. We generally file resolutions when a company dialogue has stalled or when a company is not willing to engage. The most common issues we file on include board gender or racial diversity, climate change (adopting GHG emission reduction targets), human rights, political and lobbying disclosure, and certain sector-specific issues like US drug pricing strategy or COVID response with pharmaceutical sector. In the past five years, we have filed shareholder proposals on adopting GHG emission reduction targets or Net Zero strategies with **Advanced Auto Parts**, **Booking Holdings, Citigroup, Gilead, Home Depot, HD Supply, and TJX**. We routinely file lobbying-related proposals that include a focus on alignment with a company's public policies position including climate.

Climate Focused Public Policy Engagement

While our priority as responsible stewards of capital is to engage directly with the companies we invest in, Boston Common also employs a robust public policy engagement strategy. We focus on existing or proposed policy that: (1) directly or indirectly erodes shareholder rights; (2) enhances access to standardized and enhanced corporate ESG disclosure supporting investment decision-making including climate; (3) presents opportunities to fundamentally improve ESG or sustainability management; (4) addresses systemic risks such as climate.

Our Investor Climate Action Plan further builds on our longstanding robust climate-related public policy engagement, to implement a full-value chain approach with other key financial players including regulators, proxy agents, and ESG research providers. Under the previous US Administration, four years of potential progress in mitigating climate impacts was lost. While investors and businesses continued addressing climate, advances were blunted by lack of appropriate government intervention. This motivated Boston Common to sign onto the new Global Investor Statement on Climate Change supported by 456 investors with over $41 trillion in assets. We have supported previous versions and encourage others to sign onto the latest statement, highlighting the critical need to back comprehensive action steps for governments ahead of COP26; this includes stepping up ambition related to NDC (Nationally Determined Contributions) targets, adopting mid-century net-zero goals (2050 or sooner), and supporting mandatory climate disclosure. These actions must be combined with addressing just transition of workers and communities with a focus on resilience.

Prioritizing Mandatory Climate Disclosure

Boston Common prioritizes individual engagement on public policy when warranted, such as recent consultation on mandatory climate disclosure by the US Securities & Exchange Commission (SEC), reinforcing the 2021 G7 announcement supporting mandatory disclosure. Our call for mandatory disclosure is further qualified by a new study that found mandatory ESG reporting enhanced the quality and increased the accuracy of reporting while reducing dispersion among analysts' earnings forecasts.[1] Please read Boston Common Asset Management's letter in response to an invitation for comment on climate change disclosures by SEC Acting Chair Allison Herren Lee.

Disclosures to CDP in 2019 showed 215 of the largest global companies reported nearly US$1 trillion at risk from climate impacts, with many of those impacts likely to hit within the next 5 years. Meanwhile, companies also reported US$2.1 trillion in cumulative gains from realizing business opportunities related to climate change.[2] We believe focusing on innovation and climate resilience supported by robust climate policies will create opportunities for investors, companies, and governments. A strong and coordinated investor voice backing progressive climate policies is essential to making this happen.

Industry Collaboration on Climate Public Policy

We use collaborative platforms to carry out much of our public policy engagement: the PRI, Ceres, US SIF, Shareholder Rights Group, the International Corporate Governance Network (ICGN), and the Asian Corporate Governance Association (ACGA). Since the Paris Agreement, we have focused on the need for new and innovative ways of collaborating, such as the Climate Safe Lending Network (CSLN), which Boston Common helped found and evolve. A recent CSLN paper, Financial Stability in a Planetary Emergency, outlines the essential role of bank regulators with 10 climate finance proposals including a framework for Paris alignment and net-zero targets, adjusting capital instrument requirements, climate stress tests, and a focus on community reinvestment to support resilience and climate action. In early 2022 in our capacity as a member of the Climate Safe Lending Network Design Team, CLSN's recent letter to the Basel Committee for Banking Supervision (BCBS) is a critical intervention addressing the systemic nature of climate risk in the financial system.

Industry Collaboration

We cannot tackle the current climate emergency alone so Boston Common has prioritized collaborating with others in the financial sector to activate and accelerate collective action. We are members and in many cases lead investors in these initiatives: CDP, ClimateAction 100+ (Lead Investor), Ceres Food Emissions 50, FAIRR, ICCR Banking Working Group (leadership team), ICCR Climate Lobbying Working Group (leadership team), Climate Safe Lending Network (Design Team), IEHN Investors for Sustainable Solar (Lead Investor), International Corporate Governance Network Natural Capital Committee (Co-Chair), Finance for Biodiversity Pledge, and the Partnership for Carbon Accounting Financials (PCAF formerly part of Core Team).

Boston Common is committed to continuing collaboration with other investors across the globe to:

- support robust public policy engagement including strong corporate climate disclosure in the markets we invest,
- raise up our engagement ambitions to ensure our issuers' business strategies are Paris-aligned through individual and collective engagement,
- escalate our active ownership through proxy voting, filing climate-related shareholder proposals when they are not, and impact-driven engagement.