

UN Global Compact/CEO Water Mandate

2020 Annual Communication on Progress

CEO Statement of Continued Support

Dear Stakeholders:

Calvert Research and Management is pleased to share its 2020 annual Communications on Progress for the United Nations Global Compact (UNGC) that discusses our commitments and progress over the past year as it relates to the Ten Principles in addressing Human Rights, Labor, Environment and Anti-Corruption. We believe we have made significant progress on the Principles, which is highlighted in this document. We are also choosing to disclose our activities and progress as it relates to the CEO Water Mandate over the previous twelve months.

In addition to furthering the Ten Principles through our work, as responsible investors, we also seek to help strengthen various other global norms, which we support through the United Nations Sustainable Development Goals (SDGs), the Principles for Responsible Investment (PRI) and the Paris Climate Accord, all of which provide a framework for investors and businesses to create a more just and sustainable world. Critical to these efforts is a robust program for engaging corporations on material environment, social and governance issues (ESG) issues, which is more essential now than ever before.

We are grateful for the continued support of our investors, employees, financial advisors, clients and other allies as we seek to provide positive momentum on the improvement of many fronts. Much has changed in the past year in a myriad of ways, far beyond what many of us would have ever anticipated. From societal changes related to racial justice and equity, to the COVID-19 pandemic affecting our personal and work lives, to the markets, 2020 has been a significant year. We discuss some of these trends, highlights and impacts below.

The Pandemic

Through most of 2020, COVID-19 has been a major force impacting our lives, how and where we work, where we can go and requirements to stay at home. While the nature of our work remains constant and, in fact, is more important now than ever, where it is being conducted has changed as many of us have learned how to work from our respective living spaces, served on the front lines as essential workers, collaborated virtually with others and maintained business continuity as we have all strived collectively for stronger success. Despite the pandemic, Calvert has continued to thrive and grow as investors remain eager to work with a company where our proprietary approach to responsible investing combining ESG issues with financial materiality has made us a strong performer in the present markets.

Morgan Stanley Acquisition

Since December 30, 2016, Calvert Research and Management was a subsidiary of Eaton Vance Corp. (EVC). On March 1, 2021, Morgan Stanley acquired EVC and Calvert became an indirect, wholly-owned subsidiary of Morgan Stanley. While the integration work between Morgan Stanley Investment Management (MSIM) and Calvert is ongoing, we believe being part of a significantly larger enterprise will give us access to broader distribution worldwide and provide the opportunity for Calvert to thrive and increase our impact as we move forward while continuing to deliver value to clients and society. We look forward to continuing to grow our business and our impact in the areas of the UNGC Ten Principles as part of this larger corporate entity. We are reviewing how we can collaborate and connect more closely to address and increase Calvert's impact on ESG and society across MSIM.

Responsible Investment Growth

This past year, we saw a significant rise in the growth of responsible investment and ESG around the globe as more and more institutions incorporate this approach in their investments. Furthermore, many countries, regions and organizations are considering how to best address this area of focus and either have developed, are in the process of developing or have begun considering meaningful investment requirements. In such a landscape, Calvert continues its history of innovation, remaining ahead of the curve, and continually seeking to influence the capital markets and societies worldwide to make life better, fairer and more inclusive for all as we seek to address the leading global challenges of our time. In addition, we are honored in spite of the challenges we all faced this year to have had 2020 be one of our strongest net inflow years.

Engagement

Our engagement program, which covered 132 engagements over the past year, continues our long history of working with companies to address critical issues, which included dialogues on public disclosure of the Employment Information Report (EEO-1 Report¹) and/or EEO-1 data, improving board/employee diversity, setting greenhouse gas (GHG) emissions targets, workplace rights and the ability to manage through a global energy transition, among many other important issues. In addition, our engagement efforts monitored company action and encouraged progress on issues related to the COVID-19 pandemic, such as protecting employees in at-risk industries. We also advocated for shareholder rights in communications with the U.S. Securities and Exchange Commission (SEC) and the Department of Labor. More details are highlighted in the remainder of this document.

Racial Justice, Diversity and Inclusion

With significant social unrest related to police brutality, the murder of George Floyd and the subsequent civil actions across the United States and around the globe, a seismic shift occurred, with many companies finally saying enough is enough and committing to take actions toward creating better equality for African-Americans, including hiring and promotions, with numerous corporations also making pledges to improve quality of life for all minorities. We continue to address how we can be

¹ The Employment Information Report (EEO-1), also known as Standard Form 100, is a mandatory annual filing by companies with 100 or more employees and Federal contractors with 50 or more employers to the U.S. Equal Employment Opportunity Commission (EEOC)'s EEO-1 Joint Reporting Committee that provides a demographic breakdown of the employer's work force by race and gender.

more mindful and increase our influence in this area as we offer support for all. Some companies have also chosen to expand their actions and commitments to address a range of issues impacting multiple minority groups.

- **EEO-1 Disclosure Initiative**

As a way to support racial justice, Calvert reviewed its largest portfolio holdings to determine which companies provide full EEO-1 disclosure. We learned only a limited number were already doing so, leading us to develop an engagement initiative designed to boost this important and valuable type of disclosure across the remaining corporations. While more details can be found below, we have been able to increase significantly the commitment of many firms to disclose, both working on our own and in collaboration with other investors and stakeholders.

- **Racial Equity Investor Day**

Calvert held a virtual internal investor day focused on racial equity earlier this year. The purpose was to consider how to incorporate more effectively a racial equity lens in our investment and research processes and foster racial equality and equity for African-Americans in the financial services industry. Topics included internal research, product, engagement and impact management efforts, as well as innovative initiatives to address racial equity outside the firm.

As an outgrowth of that event, Calvert has been exploring ways to positively address race issues through our investment process across asset classes. One development has been to apply a racial equity lens while engaging with issuers in the municipal market on environmental issues. We remain committed to this effort and have commissioned research in this area through the Calvert Institute for Responsible Investing to further explore opportunities in this area.

New Indices

While 2020 was a year of research and testing, by January 2021, Calvert launched three global diversity indexes, which focus on companies leading and improving their diversity, equity and inclusion practices. One such index addresses companies exclusively within the United States, one concentrates on developed Europe and Asia companies and the third covers global equities, including emerging markets. The indexes are unique in the marketplace as they approach many aspects of diversity beyond gender and include the consideration of ethnicity and race, age, and skill sets, as well as how supportive the workplace culture is in promoting diversity, equity and inclusion across all levels of the workplace. Companies included must demonstrate leadership or show signs of meaningful improvement in having a diverse workforce and leaders, including strong gender and racial equity at the board level and/or corporate executive, managerial and employee levels, where data is available.

Calvert Institute

In 2020, Calvert launched the Calvert Institute for Responsible Investing (Institute), which serves as a consortium of experts in the field of responsible investing, providing ESG research and thought leadership for investors, corporations, and policy makers. Through the publication of world-class research and the bringing together of various stakeholders, the Institute promotes responsible investing and seeks to create positive global impact. We have built relationships with certain leading universities and collectives, and expect such research already has and will ultimately continue to benefit the entire industry and beyond.

ESG Research and Custom Key Performance Indicators

Having been focused on responsible investment since our founding, we believe we must continue to innovate and offer new and productive ways to improve our business. As such, we believe we regularly need to look inward and examine our present research approach, while reviewing and assessing how we can do things better and more effectively. This past year, we chose to explore the nuances in ESG data based on financial materiality, which vary by industry.

In collaboration with data science firm Sociovestix Labs, Calvert developed a process to evaluate the relationship between ESG key performance indicators (KPIs) and equity returns in order to embed further financial materiality in our assessment of issuers. The analysis of KPI materiality showed some ESG themes have a large number of indicators with materiality signals across a broad range of industries, while other themes have fewer material indicators. As a result of this ongoing analysis, we created composite indicators with which to assess issuers' ESG performance that aggregate data across various third-party data vendors and weight toward constituents most highly associated with equity upside. This approach enables the combination of differing coverage universes between third-party vendors, resulting in greater scoring coverage, while ensuring alignment with financial materiality in the measurement of performance on ESG themes. To date, many of these materiality-weighted custom KPIs have been incorporated into Calvert's proprietary research process.

In presenting our annual progress on these initiatives, I would like to reiterate Calvert's ongoing support for and commitment to the UNGC and the Ten Principles, which are closely aligned with the Calvert Principles for Responsible Investment (Calvert Principles). The Ten Principles are a guide for all corporations to follow and we use them as we advocate for corporate responsibility. I would also like to stress our ongoing support for the UN CEO Water Mandate and its Six Core Elements. We highlight our progress and how we are addressing the Six Core Elements later in this document.

Sincerely,

John Streur
President and CEO
Calvert Research and Management

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Annual Progress and Outcomes

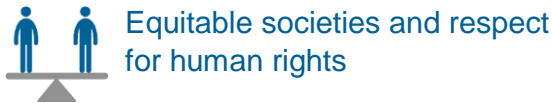
HUMAN RIGHTS

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: Make sure that they are not complicit in human rights abuses.

Assessment and Policy

Calvert supports the global norm that human rights are inherent to all human beings, no matter the country, location, or background. Companies of all sizes and domiciles must address and effectively manage human rights risks and impacts within their operations and supply chains. Calvert seeks to engage with companies on these topics, as we discuss below. The two UNGC principles focused on human rights align with the Calvert Principles; specifically:



- Respect human rights, respect culture and tradition in local communities and economies, and respect Indigenous Peoples' Rights.
- Respect the health and well-being of consumers and other users of products and services by promoting product safety.
- Respect consumers by marketing products and services in a fair and ethical manner, maintaining integrity in customer relations and ensuring the security of sensitive consumer data.

Implementation and Measurement of Outcomes

Access to Medicines

Calvert signed a letter regarding the issue of access to medicines to a U.S. pharmaceutical company led by members of the Interfaith Center on Corporate Responsibility (ICCR). The letter recognized the unique opportunity in which the COVID-19 pandemic placed the company, since it was working to identify and extract relevant compounds and assets for the rapid development of COVID-19 vaccines. We asked the company to ensure there would be universal, equitable, and rapid global access to the intellectual property to ensure mass distribution of health technologies at prices low enough to ensure access for all. We also asked about the transparency of profits derived from public investments to ensure they are further reinvested in the critical scientific agenda as opposed to increasing funds distributed to shareholders, a use that does not help achieve the public health goals for which public investments are intended. Finally, we urged the company to consider the reputation and regulatory risks of utilizing tax havens to evade tax payments while simultaneously accepting public funds for research and development efforts sourced from these taxes. Calvert is monitoring the company's progress.

Proxy Results

Calvert votes proxies in accordance with its Global Proxy Voting Guidelines, which describe the general principles applied in determining the manner in which proxy proposals submitted to Calvert will be voted.

Proxy Votes on Human Rights:

Global corporations often do business in countries lacking adequate legal or regulatory structures protecting workers, consumers, communities and the environment, or where lax enforcement renders existing laws ineffective. Such activity is not always exploitative, but it can be. The adverse publicity associated with allegations of sweatshop practices or other human rights abuses can also pose substantial brand or reputational risks for companies. Calvert voted:

- In favor of 11 shareholder proposals to require companies to conduct a human rights assessment (100% against management).
- In favor of seven shareholder proposals requesting a company to improve its human rights standards or policies (100% against management).
- Calvert additionally supported a shareholder proposal requesting a company create a committee to report on the community impacts of the closing of manufacturing facilities and alternatives that can be developed to help mitigate impacts in the future (100% against management).

LABOR

Principle 3: Businesses should uphold freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: The elimination of all forms of forced and compulsory labor;

Principle 5: The effective abolition of child labor; and

Principle 6: The elimination of discrimination in respect of employment and occupation.

Assessment and Policy

Companies' treatment of their workers can have a pervasive effect on the performance of the enterprise, as well as on the communities and societies where such companies operate. Calvert believes that well-governed, responsible corporations treat workers fairly in all locations and avoid exploitation of poor or marginalized people. We leverage the International Labour Organization's core labor standards as we consider engagements on labor topics. Shareholder resolutions may ask companies to develop codes of conduct that address labor relations issues, including use of child labor, forced labor, safe working conditions, fair wages, the right to freedom of association, and collective bargaining. The UNGC labor principles are also represented in the Calvert Principles; specifically:



Advance women and minorities at board and management levels.

- Promote diversity and gender equity across workplaces, marketplaces, and communities.
- Demonstrate a commitment to employees by promoting development, communication, appropriate economic opportunity, and decent workplace standards.

Companies play a vital role in determining the equality of opportunity in the United States through their achievement of diversity and fairness at every level of the organization and protection of their employees. At Calvert, we engage with companies on issues like diversity at the board and management levels, offering a living wage and executive compensation criteria.

By engaging with corporations and focusing on improving diversity and equality, investors can help to take the critical steps needed to bring all people together, realize the potential of our society, and strengthen companies' business interests over the long term.

Implementation and Outcomes

Board and Executive Leadership Diversity

Commencing in 2019, Calvert engaged with 37 companies lacking diversity in board and executive leadership. We filed resolutions during the 2020 proxy voting season with six of the companies that did not respond to our original outreach. Of these six shareholder resolutions on diversity, four companies were in the financial services industry, one was in the tech industry, and another in the insurance industry. All resolutions were subsequently withdrawn as each company made commitments to improve its board and internal diversity.

- All six companies embedded diversity in their governance documents, agreed to disclose their director diversity between 2020 and 2021, increase their diversity disclosure, and continue to engage with us on diversity and inclusion.
- Four new diverse board members were added.
- Three companies committed to disclose diversity metric statistics and three agreed to strengthen their talent pipelines by hiring and/or promoting diverse candidates.
- Engagement with each of these companies continues, including making a diversity presentation to the leadership committee at one bank.

For example, our engagement with one of such company led to the addition of specific language strengthening its commitment to board and executive diversity in multiple governance documents, including in succession planning. It added two new diverse board members, disclosed diversity information about its board, and produced its first corporate diversity report. The company is currently taking steps to build and expand workforce diversity at all levels of the firm and expects to launch a diversity council in the near future. It also added an ESG section to its website and board level oversight for environmental and key social issues.

Racial Inequality

Calvert believes investors and companies have important roles to play in ending racial inequality and these matters are important to long term shareholder value. Companies capable of understanding their roles in taking effective action to end inequality will benefit operationally and reputationally; those that refuse to acknowledge their exposure to this massive problem or are incapable of swift and effective action will struggle to maintain their competitive positions as employers and with consumers, finding themselves at a competitive disadvantage. Furthermore, companies that address this issue forcefully and directly will benefit in the form of improved recruiting, bigger customer bases, and better relationships with regulators and enhanced reputations.

Workforce Diversity Transparency

Following the murder of George Floyd, the subsequent civil rights actions across the United States and around the world, many companies issued statements in support of racial equity. Public surveys indicate a majority of the public now considers racism a problem in the U.S. Over the last several years, a growing body of research has demonstrated diverse teams and companies outperform homogenous teams. An increasing consensus among investors and companies holds diversity has become an important part of human capital management, which itself is recognized as a key driver of financial performance. In addition, studies indicate talented workers are more likely to prefer to work for a company valuing diversity and inclusion.

Most public companies now promote their diversity initiatives, which are meant to attract and retain talent and to improve operational productivity and innovation. Nevertheless, U.S. corporations remain less diverse than the population at large, especially in senior ranks. Moreover, a lack of transparency around workforce demographics limits the ability of investors to assess the effectiveness of a company's diversity and inclusion efforts. While many companies provide some workforce diversity information, these reports lack consistency, completeness and comparability. In the current environment, Calvert saw an opportunity to advance its long-standing goals related to workforce diversity.

Since 1968, companies have been required to report the demographics of their U.S. workforces to the Equal Employment Opportunity Commission using the EEO-1 Report, which provides the most detailed perspective on the diversity of a company's workforce, but individual company reports are not generally available to the public unless the company chooses to disclose them voluntarily. At the outset of our initiative, only 4% of Russell 3000 companies disclosed this report, though among the largest companies in our Calvert Large Cap Core Responsible Index, approximately 15% disclosed it as of 2019.

In our engagements with companies, we note most public disclosure requirements, including financial reporting, are not tailored to individual company circumstances. Companies address this problem by providing additional context and data to help inform investors. We have asked companies to take this approach with EEO-1 reporting as well as by releasing the report and providing additional demographic information they believe will help shareholders identify the strengths and weaknesses of the company's diversity efforts.

We contacted the top 100 holdings in the Calvert Large Cap Core Responsible Index Fund to encourage the publication of EEO-1 data. We wrote to the 18 companies that already publish this report, thanking them and asking them to continue doing so and engaged the remaining companies to address their concerns and encourage continued disclosure. Following various forms of engagement, including

letters, emails, phone calls, and the filing of shareholder proposals as appropriate, 40 more companies agreed to disclose their EEO-1 Reports. As part of this effort, we also collaborated with multiple investors who also cared deeply about this same issue to further our impact. Of the top 100 companies, more than half will now be issuing a full EEO-1 Report and many other companies will be improving the quality of their diversity reporting. We will continue to engage with the remainder.

Furthermore on this topic, Calvert identified several proposals, identified at the end of this section, as relevant to issues of inequality, and we voted our proxies in support of each of these proposals, against management. Sadly, not very many other shareholders voted with us.

Gender Equality in the Workplace

In addition to our thematic efforts around board and executive management diversity, including gender diversity, and diversity transparency and disclosure, we also engage with companies on other issues related to gender equality and women's empowerment.

Our engagements with several companies involve working to strengthen their commitments to gender equality beyond initial goals they have already set. For companies that have taken steps towards improving diversity but have room for improvement, we encourage them to set public goals to disclose diversity commitments. In 2020, we recommended to several companies they consider making a public pledge or sign public commitments, such as the CEO Action for Diversity & Inclusion or the Bloomberg Gender Equality Index, as a way to demonstrate their commitment to addressing gender equality in their workforce.

We also work with companies to identify other ways to improve gender equality such as encouraging them to start an executive mentoring program targeting both gender and racial inequality. The gender pay gap is another issue that Calvert addresses in its engagement, and, as with diversity improvements, for many companies disclosure is the first step. Our engagement with one bank after filing a shareholder resolution asking it to make diversity commitments related to race, gender and ethnicity, ultimately led to it being withdrawn after dialogue. Since then the company has created positive changes leading to the expansion of employee resource groups, improvements in mentoring programs, development of diversity and inclusion priorities, and has begun working on a human capital scorecard. We continue to engage with companies to identify and achieve other objectives to empower women and underrepresented members of their workforces.

Impacts from Transitioning from an Extractive Economy to a Regenerative Economy

This past year, Calvert engaged multiple companies in the utilities sector over their planned transitions away from extractives to renewable sources of energy under a more commonly-known framework called "Just Transition" which places a great emphasis on securing workers' rights and livelihoods. As a result of this transition, it is expected that there will be significant disruptions to the labor market of each company's legacy operations.

- Calvert conducted ongoing engagements with a U.S. public utilities company regarding its strategy to exit coal operations, which will require a transitional effort in its workforce, as a significant portion have skillsets relevant to coal-related operations.

- Calvert also engaged a U.S. electric and natural gas utility company through a Climate Action 100+ engagement to discuss the steps the company took to date to provide advance notice of plant closures, training, relocation of laid-off employees, and re-investment in local impacted communities. Climate Action 100+ is a collaborative, global, investor-led initiative that aims to engage with the world's largest corporate greenhouse gas emitters to curb emissions across the value chain, strengthen climate-related financial disclosures and improve governance of climate-related risks that may affect companies. As a signatory, Calvert is responsible for direct engagements with focus companies.

Calvert sought to understand the governance processes developed and implemented by the company to engage impacted workers and communities in order to assess their potential concerns and perspectives. We also sought to learn whether the company has a formal policy to retrain employees and address community concerns over lost jobs. The company has taken important steps to retrain or relocate employees, reinvest in local impacted communities, and provide advance notice of plant closures. However, it has room to improve disclosure and governance processes, so we plan to continue dialogue with the company to learn more about its Just Transition actions and encourage the development of formal policies.

Worker Safety and COVID-19

Last year, Calvert engaged with a U.S. meat and food processing company on the issue of worker safety, with particular emphasis on COVID-19. The company shared it had identified worker safety as a top priority and had taken steps to provide personal protective equipment to workers and made modifications on where and how people work. The company was tracing outbreaks, monitoring worker's health, and providing translation services in various languages to ensure workers understood how to best protect themselves. It was collaborating with local health authorities to follow guidance shared by local plants. From a management oversight perspective, the company created a company-wide task force on COVID-19 that met daily to share best practices and discuss next steps. Calvert encouraged the company to increase disclosure and transparency on its measures around worker safety as practices evolve with COVID-19.

Prison Labor

Calvert engaged with a U.S. food and facilities services company on the issue of prison labor. The company provides food service in correctional facilities and was facing reputational risk due to its use of inmate labor. In our dialogue, we raised concerns about the company's involvement in the corrections business and noted the importance of policies and procedures to ensure working conditions are safe and fair for inmates. The company needs to be able to demonstrate how inmates benefit from the work they are doing. We have not seen a specific outcome from this engagement yet but will continue to monitor and engage as necessary to gauge progress.

Proxy Results

Proxy Votes on Diversity and Equal Employment Opportunity (EEO):

Because women and minorities are still significantly underrepresented in the ranks of senior corporate management and other high-income positions and overrepresented in the more poorly paid categories, it is critical to measure company progress and encourage laggards to push forward. Calvert voted:

- In favor of eight shareholder proposals preparing or adopting a policy to annually disclose EEO-1 data (100% of votes against management).
- In favor of 13 shareholder proposals relating to the gender pay gap (100% of votes against management).
- In favor of three shareholder proposals to report on pay disparity (100% of votes against management).
- In favor of one shareholder proposal related to adopting a responsible employment policy while ensuring employees a living wage (100% against management).

ENVIRONMENT

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: Undertake initiatives to promote greater environmental responsibility; and

Principle 9: Encourage the development and diffusion of environmentally friendly technologies.

Assessment and Policy

Calvert believes that all corporations have an impact on the environment. Through engagements on clean energy, energy productivity, climate change and reduced air pollution, we seek to support investment opportunities in environmental sustainability and help companies to strengthen their values and environmental protection practices. We seek to promote and support corporate leaders that focus on the advancement of environmental sustainability and resource efficiency. The UNGC environmental principles are also represented in the Calvert Principles; specifically:



Environmental sustainability and resource efficiency

- Reduce the negative impact of operations and practices on the environment.
- Manage water scarcity and ensure efficient and equitable access to clean sources.
- Mitigate impact on all types of natural capital.
- Diminish climate-related risks and reduce carbon emissions.
- Drive sustainability innovation and resource efficiency through business operations or other activities, products, and services.

Implementation and Outcomes

Climate Change

Climate change is a central theme across all Calvert investment strategies including both equities and fixed income. We address climate change in our research as well as through the prioritization of dialogue and outreach efforts undertaken by our engagement team.

Calvert believes there is tremendous opportunity to invest in the global energy transformation as governments and companies transition away from the reliance on fossil fuels to a system based on renewable sources of energy. Calvert considers the impact of this energy transition as well as the role and actions companies are taking in its research across asset classes.

Calvert Global Energy Research Index

Calvert maintains the Calvert Global Energy Research Index (Index), which consists of companies along the sustainable energy value chain with a focus on renewable energy producers and wholesalers, energy efficiency, energy technology, and solution providers. With the Index's focus on proving solutions to global energy challenges, the Index also identifies companies in energy-intensive industries leading the way in the transition away from fossil fuels to more sustainable sources, as well as in their energy efficiency practices.

Corporations can play a critical role in ensuring access to affordable, reliable and sustainable energy by implementing science-based targets for reducing emissions, and publicizing these targets as noted above. Pursuing energy efficiency and renewable energy can both reduce demand for energy and lower costs. The Index consists of companies managing energy use in a sustainable manner or are actively engaged in facilitating the transition to a more sustainable economy through the reduction of greenhouse gas emissions and the expanded use of renewable energy sources. Here are two examples:

- **Sunrun Inc.**

Sunrun Inc. engages in the design, development, installation, sale, ownership and maintenance of residential solar energy systems. It sells solar service offerings and installs solar energy systems for homeowners through its direct-to-consumer channel. We believe solar is an integral part of the energy transition.

- **Rockwell Automation**

Rockwell Automation, Inc. engages in the provision of industrial automation focused on intelligent motor control and industrial control products. Automation across industrial processes is an important component of energy efficiency and future cost savings for companies. It also addresses the issue of growing energy consumption across the globe.

Climate Change and Energy

In 2020, we added to our efforts to address climate change, emphasizing the utilities and banking sectors, two sectors that face particular exposure to climate-related risk. Part of our engagement was under the auspices of Climate Action 100+.

Climate Change and Utilities

Calvert engaged with several electric utility companies to improve their de-carbonization strategies and climate risk management. If electrical utilities fail to begin the transition to carbon free sources now, they may be unable to meet market or regulatory demands in the future. We have asked several utilities to adopt both “net zero” greenhouse gas targets and develop strategies and governance practices consistent with achieving these goals.

While the entire utilities sector is exposed to energy transition risk, one company raised particular concerns, because of its reliance on oil as its fuel source, which is expensive and polluting, and because its home state had been more aggressive than others in pursuing climate mitigation and renewable energy targets. We filed a resolution on climate change with the company, which was withdrawn after further dialogue. Calvert’s engagement with this company resulted in the addition of board members and linking executive compensation to the achievement of renewable energy investment objectives. The company also produced its first Sustainability Standards Accounting Board (SASB) aligned report in 2020 and plans to produce a Taskforce for Climate-related Financial Disclosures (TCFD) aligned report in 2021. We continue to meet with the company to monitor implementation of its climate strategy.

We also engaged a different utility company that adopted a zero carbon target for its generation business but has not adopted a corporate wide carbon mitigation plan. In particular, the company has been unclear about its strategy to manage climate risk exposure in its natural gas subsidiary. We are encouraging the company to articulate a clear corporate-wide business strategy centered around de-carbonization and articulate how its governance and management systems will help execute this strategy. We are concerned the company’s continued exposure to natural gas may become a risk as strengthening climate regulations reduces demand for this form of energy.

Calvert is the leader of a longstanding engagement through Climate Action 100+ with yet another electric utility. Since the initiation of this engagement in 2018, the company has established a “net zero” target for greenhouse gas emissions and issued a TCFD report, publicly available on its website. Our discussions with the company this year have focused on creating the governance policies, business strategies and disclosures consistent with meeting their de-carbonization target.

With an additional electric utility company, Calvert is collaborating with two partner organizations on an engagement aimed at improving the company’s climate lobbying activities by increasing disclosure and improving policies, which remains in process. Conversations with the company in 2020 asked for additional information on whether and how the company is aligning its lobbying activities with the goals of the Paris Agreement and global efforts to transition toward net zero greenhouse gas emissions. The company added additional language to its website around its political engagement and contributions; though helpful, this additional disclosure still does not enable investors to understand how these activities align with the Paris goals. We continue to work on this engagement to encourage more meaningful disclosure.

Climate Change and Banking

Calvert believes climate change will have significant macroeconomic effects on bank lending and investing, including weather effects on local economies globally, thus, increasing demand for technologies to address climate adaptation needs. As a result, we are currently engaging with four banks to integrate these expectations into their due diligence processes.

It is difficult for Calvert to assess sustainability-related risks without sufficient company disclosure. At one bank in particular, the company is still developing its approach to sustainability and has not disclosed the information we need to evaluate the climate risks it faces. Calvert has engaged with this bank regarding disclosure of its assessment and management of climate risk, as well as opportunities in managing energy transition risk. Our objective is for the company to integrate climate risk into lending and investing practices to protect asset values, improve resilience and contribute to climate change mitigation and adaptation. Separately, we have begun to raise concerns about racial equity in hiring and lending. Calvert has similar engagements underway with other large banks as we also ask them to integrate these expectations into their due diligence processes.

Other Sectors Facing Energy Transition Risk

Over the long term, we believe the energy transition will eventually require all electricity to be produced from carbon-free sources. In addition to our work with utility and banking companies, Calvert engages with other sectors to help companies anticipate, evaluate, and adapt to risk and opportunities driven by energy transition trends.

Our engagement with a truck manufacturer, which Calvert leads as part of Climate Action 100+, began in 2015 with a successful effort to ask the company to submit a report to the Carbon Disclosure Project, now CDP. Since then, the company has increasingly integrated energy transition risk into its business strategy and reduced its emissions from operations and products. We continue to engage with the company as we believe truck manufacturers will be exposed to a transition from customers as they evolve from trucks powered on gasoline to those drawn from clean energy sources such as electricity and hydrogen. The company's commitments in this area will help prevent its products from becoming obsolete.

Separately, Calvert has engaged a steel company since 2017 on climate risk, disclosure, and goal-setting to reduce emissions. Developing a climate strategy is a competitive issue for steel companies. Demand for steel is dominated by the building and transportation sectors, both of which are looking to reduce supply chain emissions and obtain materials well suited to a new generation of low carbon products, such as electric vehicles and green buildings. The company has established a governance system specifically for climate change and invested in renewable energy facilities in at least one of its production facilities. The company announced in its latest sustainability report that it plans to adopt quantitative, company-wide goals for emissions reductions in 2021, along with an evaluation of climate risk and an evaluation of setting goals consistent with climate science.

Proxy Results

Proxy Votes on Climate Change:

In 2020, Calvert voted various shareholder proposals on proxy ballots related to climate change. During the reporting period, on shareholder proposals related to climate change, Calvert voted:

- In favor of 20 shareholder proposals to require companies to create a report on climate change (95% against management).
- In favor of five shareholder proposals regarding GHG emissions (72% against management).

- In favor of 12 shareholder proposals related to negative environmental impacts on communities (100% against management).

ANTI-CORRUPTION

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Assessment and Policy

Corruption can be insidious and an obstacle to economic and social development around the world. It can pose significant legal and reputational risks. Corruption can also cause inequality and increase poverty, particularly in certain countries. When companies follow good governance practices, they are less likely to face corruption issues. Therefore, Calvert recognizes the importance of anti-corruption issues along with broader governance issues. This year, in addressing disclosure, we have been particularly engaged with improving disclosure of financially material ESG matters. The UNGC anti-corruption principles are also represented in the Calvert Principles, specifically:



Accountable governance
and transparent operations

- Provide responsible stewardship of capital in the best interests of shareholders and debtholders.
- Exhibit accountable governance and develop effective boards or other governing bodies that reflect expertise and diversity of perspective, and provide oversight of sustainability risk and opportunity.
- Include environmental and social risks, impacts, and performance in material financial disclosures to inform shareholders and debtholders, benefit stakeholders, and contribute to strategy.
- Lift ethical standards in all operations, including in dealings with customers, regulators and business partners.
- Demonstrate transparency and accountability in addressing adverse events and controversies while minimizing risks and building trust.

Implementation and Outcomes

Advocating for Shareholder Rights

Calvert continues to speak out on behalf of shareholder rights. In 2020, we wrote three letters in support of shareholder rights to the SEC and the Department of Labor.

- **ERISA Fiduciary Duties Regarding Proxy Voting and Shareholder Rights:** When the Department of Labor proposed a rule to require ERISA plan fiduciaries to justify on economic grounds the decision to vote at a company's annual meeting, Calvert submitted a comment letter opposing the proposal, which would have created an undue burden for fiduciaries exercising judgment about the value of proxy voting. The final rule softened the most concerning provisions of the

rule but retained the requirement that plan fiduciaries act in a manner consistent with the economic interests of plans and plan participants when voting proxies.

- **Financial Factors in Selecting Plan Investments Proposed Regulation:** The Department of Labor adopted a rule strengthening requirements that ERISA plan assets be invested with the purpose of maximizing financial returns, as opposed to social criteria. Calvert did not believe this proposal would impact our ability to invest according to financially material ESG criteria but we raised concerns in our letter about potential burdens related to compliance with the rule. The final rule adopted addressed many of our concerns about regulatory burden.
- **SEC Adopts Amendments to Modernize Shareholder Proposal Rule:** The SEC adopted a rule weakening the ability of shareholders to file proposals, by increasing ownership thresholds and raising resubmission requirements. In our comment letter, Calvert opposed these changes because they restrict issuer accountability to shareholders. Nevertheless, we do not believe that Calvert's ability to file proposals will be substantially impacted.

Governance and Accountability

Proper governance is foundational to corporate success; some governance structures by their very nature weaken accountability, while others are better suited to create accountability of management to the board and of the board to shareholders. For example, in our ESG review of companies, we have strengthened our review of racial diversity on boards in our governance pillar by incorporating consumer data into the research process and using survey data to better understand cultural nuances across organizations.

Calvert's Global Proxy Voting Guidelines support governance structures and policies that keep the focus of company management on long-term corporate health and sustainable financial, social and environmental performance. We also believe in the importance of disclosure and transparency and, as such, post all votes to our website within 72 hours of being cast and, in almost all cases, in advance of the meeting so our clients and the general public can easily see how we voted. Calvert uses proxy voting to influence corporate behavior and push for accountable governance structures and financial, social, and environmental sustainability.

- **Say-on-Pay:** "Say-on-Pay" is a non-binding management proposal by public companies in the U.S. and certain other markets allowing shareholders to vote on the overall compensation plan for the CEO and other top executives. Calvert supports pay packages that are long term, performance-oriented, equitable and consistent with peers. We look for companies aligning pay with long-term shareholder value relative to standards for equity. In each of the past five years, we have voted against over half of all say-on-pay proposals in the United States, doing so 55% of the time in the most recent proxy season.
- **Board Diversity:** Our longstanding commitment to diversity has been strengthened by recent Calvert research demonstrating companies with at least two women board members, and who also meet our standards for ethnic diversity, perform better financially than less diverse companies. We also found the financial performance benefit increases with increasing representation of women and people of color. In 2020, for U.S. companies, we opposed the nominating committees of Boards of Directors that were not at least 30% diverse or had at least

one woman or person of color on the board. We also voted against or withheld from 30% of director seats in the U.S. Outside the U.S., we supported fewer than half of director candidates. For 2021, we have increased the percentage of boards that we will support to have at least 40% diversity with at least two women and people of color.

- **Board Independence:** Many proxy votes relate to the composition of a company's board of directors. One key topic is independence. In our view, a majority of the board should be composed of independent directors. In addition, key committees — including the audit, compensation, and nominating and/or governance committees — should be composed exclusively of independent directors. These directors should not have a material financial or personal relationship with the company or any of its managers that could compromise the objectivity and fiduciary responsibility to shareholders.

Calvert will support resolutions seeking to separate the positions of Chair of the Board and CEO as well as resolutions asking for the Chair to be an independent director unless the company has an effective counterbalancing governance structure to a combined Chair/CEO, including a robust lead director role, and there are no other significant governance concerns. In 2020, Calvert voted in favor of shareholder proposals requiring an independent board chair on 60% of the resolutions it voted.

- **Political Action Committees and Political Partisanship:** Calvert believes shareholders have the right to know how corporate assets are being spent in furtherance of political campaigns, social causes or government lobbying activities. Companies are required to make such disclosures pursuant to federal and state law but this information is often not readily available to investors and shareholders. Moreover, corporate lobbying activities and political spending may at times be inconsistent with or actually undermine shareholder and stakeholder interests that companies are otherwise responsible to protect. In 2020, Calvert voted in favor of 60 out of 62 shareholder resolutions requesting that companies disclose political contributions.
- **Sustainability Reporting:** As companies strive to translate the concept of sustainability into practice and measure their performance, the result has been a growing demand for broadly accepted sustainability performance indicators and reporting guidelines. Calvert ordinarily supports proposals asking companies to prepare sustainability reports and will ordinarily support proposals requesting that companies conduct social and/or environmental audits of their performance. Calvert voted in favor of 12 shareholder proposals to request companies to provide a report on sustainability in 2020, which were all against management.

In addition, Calvert engages with companies specifically around sustainability risk assessment and reporting. As part of our engagement with the banking sector, we are working with two companies to improve their climate risk assessment, reporting, and incorporation of sustainability-related risks and risk management into decision-making.

Proxy Results

Proxy Votes on Governance Issues:

In 2020, Calvert voted various proposals on proxy ballots pertaining to governance issues. During the reporting period, on say-on-pay, governance shareholder proposals, and director-related shareholder proposals, Calvert voted:

- Against 1,446 say-on-pay proposals, raising concerns about the executive compensation package (46% of votes against management).
- In favor of 13 shareholder proposals seeking to reduce a supermajority voting requirement or adopt a simple majority voting requirement (93% against management).
- In favor of 44 shareholder proposals related to some aspect of executive compensation (79% of votes against management).

CEO WATER MANDATE

Calvert supports water sustainability and the Six Core Elements of the UN CEO Water Mandate through our corporate engagement efforts, research and investment criteria. We highlight our most significant impacts across the Six Core Elements – direct operations, supply chain and watershed management, collective action, public policy, community engagement, and transparency in this section.

DIRECT OPERATIONS

Investment Criteria and Research

Calvert Principles for Responsible Investment

The Calvert Principles provide a framework for considering ESG factors that may affect investment performance. Within the Calvert Principles, we include effective management of water resources and access to clean water sources. We seek to invest in companies that are well-positioned not only to enhance long-term value for shareholders, but are also effectively managing their own operational risks as well as those in the local ecosystems they operate, particularly as climate change continues to threaten freshwater supply.

ESG Research

As part of our proprietary research, Calvert develops specific models for each industry based on the Calvert Principles that incorporate the most financially material ESG information. How a company addresses water is one of several considerations that indicate effective management of ESG risks and opportunities. Several of these models include larger water weightings where the risk is higher in certain sectors, such as water utilities and the semi-conductor industries. For example, in the semiconductor industry, the manufacture of semiconductors is a water intensive process and requires large amounts of

ultrapure water to avoid the contamination of electronic devices. A typical semi-conductor manufacturing facility uses millions of gallons of ultra-pure water a day. Since water is a scarce resource in certain parts of the world, water scarcity can result in the inability to manufacture products, reputational damage or have operations ceased from local governments. Companies monitoring this area of operations and investing in finding alternative locations or decrease their water usage can help mitigate this risk. A company that uses water efficient processes, water recycling and alternative water sources is likely to better manage its water risks.

Calvert Global Water Research Index

Calvert believes there is an opportunity for investing in water, as spending globally in technologies and infrastructure to clean and deliver potable water are increasing worldwide. The need to rehabilitate aging infrastructure throughout developed nations and to create new infrastructure, particularly in developing countries, is on the rise. Corporations are also actively working to mitigate their water risks by investing in and upgrading their processes to ensure that their water supply is sustainable and water quality meets standards. This further presents opportunities for technologies and products that create water efficiencies for consumers and businesses. The recent extreme weather globally only reinforces this need for investment in adaptation and resilience of water infrastructure and water technologies.

The Calvert Global Water Research Index (Index) consists of companies along the water value chain. Representing more diversification relative to other water indexes, this Index consists of companies that address both supply and demand sides of the system, recognizing there are many firms outside the traditional water sector actively addressing global water challenges. Through its construction methodology, the Index highlights leadership in water efficiency in the most water-intensive sectors; identifies premier water utilities, infrastructure, and technology providers; and companies dedicated to improving water quality, protecting water ecosystems, implementing integrated resource management, and achieving access to clean drinking water and sanitation services. We believe water-related investments should benefit from the global need to update the world's aging infrastructure as well as expand access to water through new infrastructure, particularly in areas of water treatment, waste management, and technology development. Here are two examples of water companies included in the Index:

- **Badger Meter, Inc.**

Badger Meter, Inc. engages in the provision of flow measurement, control products, and communications solutions that serves water utilities, municipalities, and commercial and industrial customers worldwide. Its products are classified into two categories: Municipal Water and Flow Instrumentation. Municipal water products comprises of water meters and related technologies to municipal water utilities. Flow Instrumentation products includes meters and valves sold worldwide to various industries for water and other fluids. Metering technology is important in creating more efficient water use and leak detection.

- **Trimble Inc.**

Trimble offers precision irrigation solutions that allow the precise application of the right amount of water, fertigation, chemigation, or effluent while minimizing nutrient and chemical runoff. It provides individual nozzle control for targeted irrigation, fertigation, chemigation, and effluent application, real-time monitoring of pivot information and status. It also offers

precipitation monitoring solution, which provides vital rainfall data for better irrigation planning, vehicle deployment, and timing of material application for nutrient and pest management. Trimble offers a host of products that improve and enhance efficiency in farm management, including a Connected Farm solution which collects real-time data, providing more information for better decisions. Given agriculture is a heavy user of water, this type of technology is important in minimizing any excessive use of water and creating efficiencies for farms, while minimizing effluence which pollutes local watersheds.

Education

Calvert's commitment to the principles of the UNGC is evident in our continued pursuit to educate and advocate for responsible investing within the industry. We publish periodic articles on our website and elsewhere to generate public awareness on water and related issues, and develop industry insights and best practices for investing in water-related companies. Additionally, we share the impacts of our engagement. This past year, three Calvert blogs featured water. The first was on global water stress and the remainder was a two part article on risks in the U.S. water utility space including microplastics, lead and the security of the water supply.

SUPPLY CHAIN AND WATERSHED MANAGEMENT

As a responsible investor, we encourage the companies we invest in to understand their entire supply chain impacts and to improve watershed management. Supply chain water management practices can play an instrumental role in promoting water efficiency and mitigating risks of water scarcity, especially in water-intensive industries such as agriculture. As populations increase and climate change and drought negatively affect crop yields, food insecurity persists. As a result, sustainable agricultural supply chains are becoming more important to business and society. Proper water risk-management policies are the first step to ensure sustainable agriculture.

In 2020, Calvert engaged with several companies specifically around resource use and raw material sourcing. One company, a food retailer, is focused on sustainability and is working on improving disclosure, developing an enterprise-wide climate goal, and addressing raw materials across its divisions and brands. While the company is engaging with suppliers, tracking is focused on tier 1 suppliers. Calvert is engaging with the company around the importance of going deeper into the supply chain to track and report on raw material sourcing and resource use, including water.

We are also engaging with a dairy company that, while it has a good governance approach to sustainability, does not do a formal risk assessment of climate or water issues and has room for improvement on water management. Calvert, in engaging with the company, has made recommendations for the company to conduct a formal water risk assessment to investigate how water scarcity or pollution may affect the company and its stakeholders. We are also encouraging the company to disclose the results of the assessment and to strengthen reporting of supplier performance.

A third engagement, with a packaged foods company, focuses on sustainable sourcing protocols for agricultural commodities. The company is working on integrating sustainability deeper into its risk management framework. As a result of our discussions around supply chain and responsible sourcing, the company has agreed to look at context-based goals for water based on watershed assessments.

All of these engagements are ongoing and Calvert will continue to work directly with the companies going forward.

COLLECTIVE ACTION

Calvert has a long tradition of working collectively to achieve common goals, be it by initiating collaborative shareholder engagements with other ESG firms or by advocating for public policy on behalf of nonprofit organizations or other relevant stakeholders.

In 2020, Calvert participated in a collaborative stakeholder dialogue with a financial services company that sought to provide the company with input on its climate risk management and disclosure and discuss stakeholder expectations for how the financial sector should address climate risk. As part of the discussion, stakeholders urged the company to adopt a risk management approach that focuses on improvement within sectors and encouraged them to consider concentrating on specific issues, such as water, in its due diligence, rather than broad ESG screenings.

PUBLIC POLICY

In 2020, Calvert signed on to a letter led by US SIF: The Forum for Sustainable and Responsible Investment addressed to the incoming Biden Administration. This letter identified recommendations and priorities from sustainable investors that, if implemented by the new Administration, would help advance a more just and sustainable economy and provide a framework through which the private sector can contribute alongside government. Among specific actions included in this letter were recommendations to reverse regulatory changes to environmental laws and to reverse changes to the SEC's Rule 14a-8 that made it more difficult to submit shareholder resolutions to public companies in the U.S.

The environmental laws identified in the letter, including the Clean Air Act, the Clean Water Act, and the National Environmental Policy Act, help limit greenhouse gas emissions, mitigate climate change by restricting drilling, fracking, and coal leases on public lands and waters, assess the environmental impact of major federal actions, and ensure clean and healthy waterways. Restoring these regulations by reversing regulatory changes made under the previous administration would help work towards the mitigation of and adaptation to climate change and the health of our natural resources, including clean and healthy waters.

The changes to Rule 14a-18 make it more difficult for shareholders to submit shareholder resolutions for consideration at a company's annual shareholder meeting by dramatically increasing the thresholds to file proposals and to resubmit them, among other changes. In the past, shareholder proposals filed through Rule 14a-8 have been an essential tool for driving meaningful change at public companies, including adoption of sustainability reporting and enhanced water policies. Reversing the changes would protect shareholders' ability to file proposals on important and material issues, including on environmental and sustainability matters.

COMMUNITY ENGAGEMENT

While Calvert considers community engagement an important lever, we did not address any community engagement issues related to water in 2020.

TRANSPARENCY

Calvert's research often sheds light on areas where companies can improve their ESG commitments. We encourage the companies we invest in to make positive change and tangible progress in the way they do business. Our engagements seek to achieve bottom-line impact, with many companies reporting an increase in operating efficiencies. Our engagements related to water for 2020 are highlighted above.

We continue to develop strategies to increase our transparency and disclosure moving forward and we expect to have some additional progress to report on this area in our next report.

Proxy Results

Proxy Votes on Water Issues:

Calvert will generally support proposals seeking the preparation of a report on a company's risks linked to water use or impacts to water and proposals seeking the adoption of programs and policies that enhance equitable access to affordable safe drinking water and sanitation. Calvert voted:

- In favor of one proposal focused on reporting on the reduction of water pollution (100% of votes against management).
- In favor of one proposal focused on reporting on the water resource risks at a poultry producer (100% of votes against management).

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