Separate Account Managers in Sustainable and Responsible Investing

Strategy Profile:
Calvert Balanced Strategy

About This Strategy

Assets Under Management (AUM): $644.53M (in US$ millions)

Required Minimum: 20,000,000

Benchmark used: Russell 1000

Strategy type: Balanced Strategy

Strategy description: The Calvert Balanced Strategy is a portfolio of both equity and fixed-income securities that is managed to provide broad diversification. The portfolio's managers invest in securities issued by companies that meet both rigorous financial standards and Calvert's sustainability criteria. Typically, approximately 60% of the portfolio's assets are invested in stocks and 40% in bonds and other fixed-income securities.

Strategy web link: External Link

About The Company

Institution Name:
Calvert Research and Management

Approach to Sustainable & Responsible Investment: Calvert’s Sustainable Research Department (CSRD) researches and analyzes corporate social responsibility practices. For industries that are problematic, CSRD has developed a three-part methodology. It includes a “bottom up” analysis of each company, a “top down” approach to the industry, and a comprehensive examination of broader themes and emerging issues. In general, the “bottom up” analysis includes research on each company’s social record, such as environmental compliance, waste management etc. The “top down” analysis involves a series of biases that identify and weigh broader social issues relevant to specific industry practices. This analysis identifies industry themes and trends from a technology, policy, or structural perspective. And lastly, the comprehensive issue research integrates emerging and changing issues into the ESG research process.

Company Research: The company research is conducted by Calvert’s internal ESG Research Department, and operates in tandem with the investment research of the portfolio managers. Calvert receives from each portfolio manager a list of companies that constitute the manager’s buy universe, conducts the social research on each company, and provides the manager with a list of companies that meet our social and environmental criteria. These lists are updated daily, and are accessible to each manager through a password-protected extranet accessible only by Calvert and by the manager. The company research is kept updated as well; we reevaluate each company within the Calvert Social Index universe and the Russell 1000, 2000, and EAFE Index each year, and refresh the research more often when events warrant greater frequency.

Industry Research: Companies’ social performance, like financial performance, is evaluated in the context of their industries. Many industries raise unique social issues, and CSRD occasionally writes industry briefs to serve as background and guidance to company analysis. Issue Research: ESG research is conducted in an environment of constant change. New technologies and new issues arise frequently. Sometimes, these new issues can be easily incorporated into our existing social analysis framework; on occasion, new issues raise questions about social analysis that must be addressed in a broader, cross-cutting fashion. In the past two years, for example, CSRD has written issue briefs dealing with new issues in the information industry (antitrust, electronic privacy, patenting and intellectual property protection, and electronic commerce) the biotechnology industry (genetic patenting, genetic discrimination, ethical treatment of research subjects, commercialization of genetic property, biodiversity prospecting, and genetic modification of plants and animals), and corporate transparency and disclosure. Value Added: Calvert strives to assure that social and environmental research are conducted in ways that facilitate well-managed portfolios, and that social/environmental analysis remains compatible with construction of mutual funds with strong financial performance.
Over the past two years in particular, there has been some convergence between social and financial analysis, particularly in the area of corporate governance. Governance has traditionally been interpreted to include information on board structures and performance, takeover provisions, executive and board compensation, independence, and auditing. Now, in the wake of the corporate governance scandals, there is greater interest among fund managers in broader definitions of governance, including any and all variables that reflect on the exercise of good judgment, ethical principles, and responsible management.

Research conducted: Internally

Researcher name: We have a team of 14 individuals which is comprised of 11 in-house analysts.

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Specific Screening Information by Category

Environment

- **Climate / Clean Technology: Combination of Positive and Restricted/Exclusionary Strategies** - Over the past decade, Calvert has made moving the needle on the issue of climate change a business priority in terms of our investment products, advocacy efforts, and our own corporate public policies and carbon footprint. Calvert works actively with a number of organizations, including the Carbon Disclosure Project (CDP), and the Investor Network on Climate Risk (INCR), to advance climate change solutions. To adapt to climate change, we believe governments, businesses, and investors need to focus sharply on developing alternative energy, energy efficiency, and the broadest array of energy options.

- **Pollution / Toxics: Combination of Positive and Restricted/Exclusionary Strategies** - We favor companies that find opportunities to mitigate their environmental footprint, have better-than-average environmental records relative to their industry peers, and are responsive to stakeholders. Calvert seeks to invest in companies that: demonstrate leadership in addressing climate change through appropriate policies and strategies, energy efficient operations, and the development of renewable energy and other alternative environmental technologies; disclose sources of environmental risk and liability and take actions to minimize exposure to future risk; implement natural resource conservation and efficiency programs as well as strong pollution prevention programs, and demonstrate a strategy toward sustainable development; and integrate environmental sustainability and responsiveness at management and board levels, and have programs to engage stakeholders for environmental improvement.

- **Other Environmental: Combination of Positive and Restricted/Exclusionary Strategies** - We assess corporate compliance with federal, state, and local environmental regulations, as well as beyond-compliance commitments such as design for environment and energy efficiency programs. We favor companies that have solid environmental records relative to their industry peers. We also search for companies that are outstanding in their environmental practices. From a sustainability perspective, Calvert evaluates energy options and the companies involved in energy development in the dual contexts of addressing both climate change and the world’s escalating energy demands. In weighing energy options, governments, investors, businesses, and the public face tough policy and investment choices in working to secure a sustainable future. Overall, Calvert favors companies in the energy sector that are developing leading sustainable technologies and alternative energy options that reduce carbon emissions and that meet strict environmental and public safety standards. Since water supports all life, Calvert regards access to clean, affordable water and adequate sanitation as a basic human right. Accordingly, we believe every company whose products or services entail water usage has a corporate responsibility to enforce sustainable practices across its supply chain. At its most fundamental level, water supply is a local issue, affecting communities, work opportunities, agriculture, families, and a region’s social welfare. While water issues cut across all industries, the industries presenting the greatest sustainability risks are those that require a high volume of water, a supply of clean water, or face risk from intensifying water competition. Companies that rely directly on water for their products, such as those in the beverage and agricultural industries, pose the highest risks. In addition, clothing manufacturers, food and drug companies, hotels and resorts, and chemical companies are greatly dependent on water for the production of their goods or services and are closely scrutinized by Calvert. The oil and gas industries, where water is a critical process ingredient to almost all areas of exploration and production, are also closely monitored.
Social

- **Community Development:** *Positive Investment* - We include and invest in companies that have built solid relationships with the local communities in which they operate. We examine philanthropy, employee volunteerism, and support of women- and minority-owned businesses. We look for companies to invest in that: â€¢ Demonstrate a solid commitment to the communities in which they operate; â€¢ Develop programs that target neglected communities, including low-income and minority populations; and â€¢ Build strong working relationships with local and community development organizations.

- **Diversity & Equal Employment Opportunity:** *Combination of Positive and Restricted/Exclusionary Strategies* - Calvert seeks disclosure of policies, programs, and performance metrics in three areas: diversity, labor relations, and employee health safety. Evaluations focus on quality of policies and programs, compliance with national laws and regulations, and proactive management initiatives. Calvert invests in companies that demonstrate inclusive diversity policies, fair treatment of all employees, robust diversity programs and training, and disclosure of workforce diversity data.

- **Human Rights:** *Combination of Positive and Restricted/Exclusionary Strategies* - For many years, Calvert has led initiatives pressuring companies and entire industries to respect human rightsâ€”from improving factory labor practices, curtailing human trafficking in global supply chains, and divesting from Sudanâ€”to promoting freedom of expression and the right to privacy on the Internet. Calvert believes it is critical for companies to adopt core human rights standards throughout their operations and proactively manage human rights-related risks. Calvert evaluates corporate policies and actions in many areas. We work directly with companies and with coalitions of investors, human rights groups, and industry leaders to establish global standards and effect change from the top-down. For example, we participated in the SEC rule-making process of the Dodd-Frank Act provisions that require companies to disclose their efforts to source and remove conflict minerals from their supply chains. Calvert has also pressed companies to endorse the UN Declaration on the Rights of Indigenous Peoples and to accept the principle of Free, Prior, and Informed Consent (FPIC) as the standard for operating in proximity to indigenous lands and communities. In the area of the Internet, Calvert joined the multi-stakeholder Global Network Initiative (GNI) to establish international, baseline human rights standards for technology companies and governments with regard to free expression and privacy issues. In our view, companies that directly and aggressively address human rights issues can reduce these business risks and costs, facilitate overseas expansion, protect and extend their brand reputation, and generate valuable goodwill among consumers, investors, and the community.

- **Labor Relations:** *Combination of Positive and Restricted/Exclusionary Strategies* - Calvert believes that safety, freedom, and dignity in the workplace environment are fundamental rights, regardless of an employeeâ€™s country of origin, gender, race, or socioeconomic status. To that end, we urge companies to establish robust codes of conduct, with strong labor and safety provisions, and to take active steps to enforce them across their global operations. Fostering safe work environments and high labor standards is not only the right thing to do for the health and well-being of employeesâ€”it also yields multiple benefits for the community, the environment and, ultimately, the company itself.

- **Conflict Risk:** *No Investment* - Our stand on Sudan is entirely appropriate for Calvert, consistent with our commitment to human rights since our pioneering decision in 1982 not to invest in companies doing business in South Africa's then- apartheid regime. That was the first such commitment made by any US socially responsible investment firm, or by any mutual fund.

Governance

- **Board Issues:** *Combination of Positive and Restricted/Exclusionary Strategies* - For over two decades, Calvert has regarded board diversity as a critical governance goal. A companyâ€™s board membership should broadly reflect its customer base and employees. The array of viewpoints, skills, background, and experience provided by boards whose members have diverse backgrounds gives the company a broader foundation to draw upon for strategic decision-making especially in todayâ€™s highly competitive, global marketplace. We believe that to be marketplace leaders, companies must actively seek women and minority candidates for their boardrooms.

- **Executive Pay:** *Combination of Positive and Restricted/Exclusionary Strategies* - Doling out excessive payments to executives at the expense of other employees is in direct contrast to shareholdersâ€™ interests and often increases employee turnover. We have found that excessive executive compensation during a period of lackluster business performance may be an early indication of bigger trouble at a company. Poorly designed compensation programs that encourage executives to manage for short-term performanceâ€”at the expense of long-term profitabilityâ€”are another concern, potentially compromising the governance goals of a corporation. We strongly believe it is in the best interests of a firm to align senior managementâ€™s risks and rewards with those of employees, shareholders, and the long-term performance of the corporation. â€œPay-for-performanceâ€ compensation plans, for example, typically link executive compensation to clearly defined and rigorous criteria.

Products
Alcohol: Combination of Positive and Restricted/Exclusionary Strategies

Defense/Weapons: Combination of Positive and Restricted/Exclusionary Strategies - Warfare and the devastation it entails are deplorable. The far-ranging, destructive impact of war on populations, local and Indigenous cultures, the environment, and regional economies, is self-evident. Yet, Calvert believes that under certain circumstances— including in response to threats to national security, terrorism, and humanitarian crises—military intervention may be necessary when diplomacy has failed. Moral ambiguities arise, however, when defensive or humanitarian missions employ the same types of weapons and force that are used in conventional warfare. In view of these complexities, governments and people may question, in any given conflict, whether armed force and the types of weaponry used are necessary or justified. Sustainable and responsible (SRI) investors and others who wish to avoid supporting certain aspects of war may find it difficult to consider investing in companies involved in weapons-related businesses, such as weapons production, weapons technology, chemicals, or the production of other materials used in conflicts. This difficulty is compounded when these products also have commercial or scientific applications that generally advance society. International Treaties Offer Guidelines That’s why, at Calvert, we evaluate companies according to several objective, internationally accepted standards, including international humanitarian law (IHL).* We also follow the guidelines under the Treaty on Conventional Armed Forces in Europe (CFE) and the UN Register on Conventional Arms that relate to inherently offensive weapons. Also known as the law of war, IHL issues from the Geneva and Hague Conventions and is adhered to by the 192 member states of the United Nations. IHL seeks to protect civilians, property, medical personnel, and others not directly involved in fighting and discourages or bans outright certain methods of warfare such as land mines, cluster bombs, blinding laser weapons, and weapons of mass destruction. IHL states that the use of these weapons causes injury or suffering beyond what is necessary to achieve a legitimate military objective. Inherently Offensive Weapons In terms of inherently offensive weapons, Calvert has determined that both the CFE and the UN Register are the appropriate international standards upon which to base our analysis of different forms of weaponry. The CFE has the force of law because it has been ratified by the US government and dozens of European countries. The UN Register fills the gaps in the CFE and also carries with it the imprimatur of the United Nations. Together, they provide Calvert with criteria grounded in law and foreign policy custom. From both a sustainability and investment perspective, the issues surrounding global conflict are clearly complex and this complexity will grow with the increasing use of drones, robots, and other new technologies. Calvert believes the international laws of war provide a valuable framework for helping investors sort through the difficult issues surrounding modern-day weaponry and warfare and for evaluating companies involved in these areas. *It is important to note that IHL is distinct from, but complementary to, international human rights law. While human rights law protects individuals at all times, IHL only applies in situations of armed conflict. An important note on firearms and nuclear weapons: Calvert believes that civilian firearms, including hand guns, are a separate issue from weapons of warfare and fall under the umbrella of Calvert’s product safety criteria. Nuclear weapons are not covered under IHL since they can distinguish between military and civilian targets. Calvert has determined that nuclear weapons violate the spirit of IHL and therefore does not invest in companies that produce, manufacture, or distribute them.

Gambling: Restricted/Exclusionary Investment - Calvert generally avoids investing in companies in the alcohol, tobacco, and gambling industries due to their inherently harmful effects. Many of our portfolios entirely exclude companies that manufacture cigarettes, cigars, loose tobacco, and chewing tobacco, although we recognize the cultural and religious importance of tobacco to many Indigenous Peoples. We also generally avoid investing in companies with direct involvement in the gambling industry, such as casinos, equipment providers, and gaming establishments, including cruise ships. However, Calvert also recognizes that many Native American groups rely on gambling as a source of tribal income, and that this revenue may be used to finance schools, roads, or other community projects. Accordingly, at times we may invest in debt projects offered by tribal gambling businesses that appear socially beneficial. In the area of alcohol, we may also consider for investment companies, including restaurants and retailers, that derive only a small portion of their revenues from alcohol sales, as long as the company is otherwise attractive from both a financial and sustainability perspective.

Tobacco: Restricted/Exclusionary Investment - Calvert generally avoids investing in companies in the alcohol, tobacco, and gambling industries due to their inherently harmful effects. Many of our portfolios entirely exclude companies that manufacture cigarettes, cigars, loose tobacco, and chewing tobacco, although we recognize the cultural and religious importance of tobacco to many Indigenous Peoples.

Other

Other/Qualitative: Shareholder resolutions Any shareholder with $2,000 of company stock, held for one year, can file a resolution calling on a company to take a particular action, such as changing a company policy or asking the company to report to its shareholders on a particular issue of concern. If not settled favorably and withdrawn beforehand, these resolutions may come to a vote in front of all shareholders at the company’s annual meeting. Calvert routinely files or co-files up to three dozen resolutions each year with a wide range of companies on our priority objectives. Working in coalitions Calvert believes there is power in numbers; we often partner with other major investors and NGOs representing a wide range of voices and interests to advance common
objectives. Calvert can be a co-filer of a shareholder resolution or participate in multi-stakeholder dialogue around industries or particular companies, conduct joint research, and play an active role in broad-based public policy platforms. Dialogue with company executives Before investing, Calvert regularly initiates conversations with company management as part of our sustainable research process and corporate engagement. Through periodic calls, letters, and in-person meetings, Calvert continues its dialogue with management of companies in which we invest. These interactions provide Calvert with a sharper sense of the company's commitment to, and performance on, ESG issues, enabling us to press for improvement in specific areas of concern. Multi-stakeholder dialogues Calvert works with other investors, corporations, and members of civil society to formulate standards and principles for new and challenging corporate responsibility issues. Such exercises present efficient and effective ways to raise standards across an entire industry.

- **Shareholder Engagement - Shareholder Resolutions**: Filed or co-filed with companies on environmental, social or governance issues
- **Shareholder Engagement - Private Dialogue**: Conducted with companies on environmental, social or governance issues
- **Proxy Voting**: Actively voted by my institution for this investment strategy in support of environmental, social or governance issues in accordance with formal guidelines