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SHAREHOLDER ADVOCACY:

Tools of Change

SHAREHOLDER ADVOCACY: A MULTI-PRONGED APPROACH

- Direct dialogue with executives
- Shareholder resolutions
- Proxy voting
- Research and analysis
- Public-policy initiatives
- Letter-writing/e-mail campaigns
- Congressional testimony
- Annual shareholder meetings
- Multi-stakeholder initiatives

Filing shareholder resolutions is one of the most visible—and powerful—forms of shareholder advocacy.

The largest 500 corporations in the world employ more than 43 million people and influence hundreds of millions of workers in their supply chains. Collectively, they sell products and services worth over \$22 trillion and control assets valued at over \$100 trillion.¹ Influencing the corporate sustainability policies of these companies can have far-reaching, global impact on the environment and society.

The extent of corporate influence on society is increasingly recognized, along with the connection between a firm's environmental, social, and governance (ESG) practices and its financial success. A vigorous shareholder engagement program, such as the one Calvert pursues, is a key tool investors can use to improve corporate behaviors, while enhancing investment value and contributing to a more sustainable and equitable world.

DIRECT DIALOGUE: THE FOUNDATION OF ENGAGEMENT

One of the most important advocacy tools at Calvert's disposal is respectful and constructive direct dialogue with senior management, built on a foundation of trust and an understanding of shared goals. Calvert engages directly with companies both on its own, and as part of investor or broader stakeholder coalitions.

SHAREHOLDER RESOLUTIONS AND PROXY VOTING

The most visible forms of shareholder advocacy are filing shareholder resolutions (alone or as a co-filer) and proxy voting. Any shareholder with at least \$2,000 in stock in a public company, held for at least one year, can file a resolution calling for the company to take a specific action. When investing in a mutual fund that holds stock, this conveys important responsibility to the mutual fund manager, along with the right to vote shares on corporate resolutions—a process called proxy voting. Accordingly, it is important to understand whether the fund manager fully exercises its shareholder rights through direct dialogue with companies and resolutions, and how proxies are voted.

URGING COMPANIES TO CHANGE

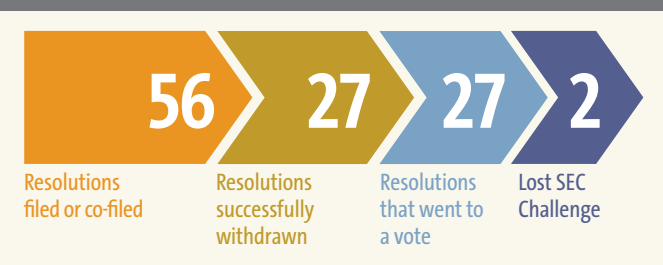
Shareholder resolutions can be powerful agents of change. In recent years, some resolutions filed on ESG issues have earned upwards of 40% support (with some winning a majority vote), demonstrating increased investor understanding of the value of corporate sustainability. Although most shareholder resolutions are non-

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binding, a vote of above 20% is an important signal to corporate leadership.

Often the filing of a resolution alone is sufficient to influence corporate behavior to avoid publicity. The filer can then elect to withdraw their resolution. In other cases, a resolution may be disallowed by the Securities and Exchange Commission (SEC) after a challenge¹ by the company.

CALVERT 2015 RESOLUTION SCORECARD



Of the 56 resolutions filed or co-filed, 27 were withdrawn, 27 went to a vote, and 2 lost an SEC challenge.

CALVERT: AT THE FOREFRONT OF SHAREHOLDER ADVOCACY

Shareholder advocacy has been at the heart of Calvert’s responsible investing strategy for nearly a quarter-century, while Calvert’s sustainability research department is one of the largest and most respected in the industry.

- In 1986, Calvert was the first investment firm to sponsor a shareholder resolution tied to a social issue—namely, labor-management relations.
- Each of Calvert’s sustainability research analysts specialize by issue and sector, participate in key U.S. and international working groups, and play vital roles at organizations working to advance critical sustainability issues.
- During 2015, Calvert filed its 70th shareholder resolution on board diversity.
- Calvert conducts shareholder advocacy across both large and small companies, including those in controversial but critical industries.

2015 RESOLUTIONS AND OUTCOMES

During the 2015 proxy season (fall 2014 to summer 2015) Calvert shareholder resolutions resulted in some significant outcomes.

ADVOCACY AREA	NUMBER OF RESOLUTIONS FILED	SIGNIFICANT OUTCOMES
Climate change	18	Four companies made commitments to limit their greenhouse gas emissions.
Big data and civil rights	7	Three companies agreed to review and revise their privacy policies to address civil rights; two companies gave their boards oversight of civil rights’ risks related to big data analytics.
Board diversity	6	Five companies revised their board-nominating language to strengthen the importance of diversity in director searches. Two of the five announced the appointment of a woman to its Board of Directors.
Hydraulic fracturing	2	One company agreed to disclose key metrics related to environmental and social programs and impacts of hydraulic fracturing.
Supply chain and human rights	1	A proposal to disclose a company’s efforts to improve labor and human rights conditions in its supply chain earned 25% support at its annual meeting.
Sustainability Reporting	7	Three companies agreed to publish sustainability reports.
Sustainable agriculture	4	One company agreed to strengthen disclosure of water risk in the supply chain and another company agreed to establish a supplier code of conduct for agricultural commodities producers.

To view all of Calvert’s current shareholder resolutions, go to: <http://www.calvert.com/resources/shareholder-advocacy-resolutions/most-recent-shareholder-resolutions-filed>.

FIVE AREAS OF STRATEGIC FOCUS IN 2015

1. Climate Change and Energy

The world's energy use is changing amid the increasing costs and risks associated with fossil fuels, growing concerns about climate change and pollution, and progress toward cost-effective energy alternatives. Calvert has very little exposure to companies with direct ownership of fossil-fuel assets and our advocacy around these areas is a key priority: In 2015, Calvert filed or co-filed 18 shareholder proposals related to climate change and energy concerns.

For example, the electric utility industry is one of the largest sources of greenhouse gas (GHG) emissions in the country. The industry is exposed to significant risk as state and federal climate change regulations move forward and as advances in renewable energy threaten to disrupt the traditional utility business model. Calvert submitted resolutions for shareholder votes at six electric utilities, including **Southern Company**, one of the largest electricity providers in the country, challenging them to adopt time-bound goals for reducing GHG emissions. Engagement with the sector remains a priority for 2016.

Calvert, working both individually and as part of investor coalitions, used dialogue and shareholder resolutions to address climate and energy issues with **Bank of America**, **Costco**, **HB Fuller**, and **JB Hunt**. Bank of America, the focus of environmental activist pressure and investor engagement, announced it would reduce its loans to coal-mining operations. The bank's policy acknowledges a shared responsibility to help mitigate climate change and accelerate the transition from a high-carbon to a low-carbon society.

HB Fuller agreed to publish a comprehensive corporate social responsibility report that includes metrics, baselines, and quantitative goals for waste and emissions reductions, which is now available on their website.

Calvert also engaged **Sensient Technologies**, which committed to develop key sustainability metrics in 2015 and forward-looking goals in 2016 related to energy consumption, water consumption, and waste generation. Sensient also agreed to publish a sustainability report, which is now on its website and will do so annually going forward.

Calvert worked with Trillium, Boston Common, and Walden to engage **Costco** on climate and energy issues. The company agreed to participate in the **2015 Carbon Disclosure Project** (CDP) and report on its carbon footprint. Costco's 2015 sustainability report also discusses its approach to energy use within the context of guidelines from the Intergovernmental Panel on Climate Change and the Copenhagen Accord's goal of limiting global warming to 2 degrees Celsius, an important acknowledgement of the scientific consensus on climate change.

Hydraulic fracking is a contentious area that garnered a lot of coverage in 2015. Calvert made some headway with **SM Energy**, which agreed to increase disclosure of its hydraulic fracturing policies in relation to 12 core goals identified by the Investor Environmental Health Network. The core goals target areas such as water use, wastewater, GHG emissions, and community relations.

2. Sustainable 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. Companies like **Wendy's** that rely on agricultural inputs need to ensure that growers in their supply chains are using sustainable practices that protect the environment as well as farm and food-processing workers.

Wendy's committed to strengthen its supplier code of conduct by addressing major components of its supply chain, including proteins (beef, pork and poultry), produce, beverages and packaging, as well as social responsibility issues. Wendy's will incorporate evaluation standards and accountability measures for suppliers and establish a timeline for implementation of the revised code or supplier agreement.

Calvert also engaged **Kroger**, **Dean Foods**, **International Flavors and Fragrances** and **Treehouse Foods** on social and/or environmental issues in their supply chains. Dean Foods is participating in an industry initiative called the U.S. Dairy Center for Innovation, focused on specific water risk-management tools designed for agriculture and will provide an updated report on sustainability issues by the end of 2015.

3. Governance, Disclosure, and Ethics

Calvert is part of a coalition of international investors representing \$1.7 trillion in assets under management (coordinated by the UN Principles for Responsible Investment), which is engaging 23 international companies on their Board of Directors' nomination processes. The processes for identifying board nominees and electing directors are critical prerequisites to building a well-functioning board. Calvert is leading the engagement with **Bank of New York Mellon** and **American Express**. Our dialogues with senior management focus on accountability, effectiveness, and transparency in the director nomination, election, and board-evaluation processes.

Calling for Increased ESG Disclosure

Calvert is a key player in the Sustainable Stock Exchanges (SSE) Working Group, an initiative calling upon global exchanges to promote transparency and sustainability in the capital markets by developing environmental, social, and governance (ESG) standards for listing companies. In September 2015, the SSE Working Group published a guidance document

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describing the types of ESG information most relevant for investors. While contributing to this guidance, Calvert also broadly engaged global stock exchanges on the importance of ESG listing standards and supported them in taking steps to advance sustainability in their markets. This effort is aimed at improving the availability and consistency of ESG information and draw global attention to the materiality of ESG factors. Calvert engaged 55 exchanges, focusing on regions where we believed our advocacy could be most influential.

Calvert also engaged with individual companies in its portfolios on ESG disclosure. In the healthcare sector, Calvert filed a shareholder resolution for the second year in a row with **AmSurg**, which agreed to produce its first sustainability report in 2015. **Community Health Systems** also agreed to produce a new report. In the homebuilding sector, Calvert was co-filer on a resolution with **Pulte Homes**, which agreed to publish annual sustainability reports, continue dialogue around ESG issues highlighted in the reports, and share its reports with investors.

Ensuring that Data Analytics Don't Contribute to Discrimination

In the digital age, data is critical to business success. Companies across sectors collect and analyze vast data sets, interpreted through computer algorithms, to develop and market products and services. Because companies' data sourcing and analytics often involve personal data that indicates consumers' ethnicity, health, or socioeconomic status, data analytics also may present significant civil rights risk. Working closely with the Open Media and Information Companies Initiative (Open MIC), Calvert filed proposals with seven companies and engaged them in detailed conversations on key policies and practices.

Calvert withdrew six of the seven proposals on this issue after the companies agreed to take action to address the issue. **AIG**, **MasterCard**, and **MetLife** committed to revise operative privacy policies to address non-discrimination. **Equifax** and **Axciom** (a large consumer data analytics company) amended the charters of their board audit committees to include oversight of civil rights risks related to data analytics. Lastly,

Wells Fargo agreed to update its corporate responsibility website to address big data and civil rights. Calvert intends to engage further with these companies as the understanding unfolds of how data analytics can adversely affect communities and how companies can limit these impacts.

4. Diversity and Women in the Workplace

In 2015, Calvert released the results of its 2014 Calvert Diversity Report, which ranked S&P 100 companies according to their performance on Calvert's ten diversity indicators. Calvert's engagement on board diversity produced agreements with **Comtech Telecommunications**, **Garmin**, and **Monster Beverage** to include reference to gender, race, ethnicity or national origin in their respective proxies. **Ubiquiti Networks** agreed to include language on gender and race diversity in its proxy. Lastly, **SBA Communications** agreed to modify governance and committee charters to build greater diversity of race, gender, geography, backgrounds, skills, and expertise on its Board of Directors. Both Monster and SBA Communications also added a woman to their Boards of Directors.

5. Human and Labor Rights

For the second year in a row, Calvert filed a proposal asking **Urban Outfitters** to identify and analyze potential and actual human rights risks within the company's operations and supply chain through a human rights risk assessment. Calvert also filed labor and human rights resolutions with other companies, with an emphasis on the sugar supply chain, where human rights violations, including instances of child and forced labor, are unfortunately common. We filed with and engaged **Dr Pepper**, **Snapple**, and **Tootsie Roll**, presenting our shareholder proposals at the company annual meetings.

Seeking to address these issues on a broader scale, Calvert has actively supported legislation to curb human trafficking and forced labor. Calvert was part of a coalition representing 300 investors with over \$100 billion in assets under management that released a press statement applauding the introduction in the House of Representatives of *The Business Supply Chain Transparency on Trafficking and Slavery Act of 2015*.

To view our latest engagement, advocacy, and public policy initiatives, go to www.calvert.com/resources/shareholder-advocacy.

1. Source: *The Role of the Corporation in Society: Implications for Investors*, The Calvert-Serafeim Series, September 2015.

Investment in mutual funds involves risk, including possible loss of principal invested.

For more information on any Calvert fund, please contact Calvert at 800.368.2750 for a free summary prospectus and/or prospectus. An investor should consider the investment objectives, risks, charges, and expenses of an investment carefully before investing. The summary prospectus and prospectus contain this and other information. Read them carefully before you invest or send money.

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