

SHAREHOLDER ADVOCACY

THE SRI DIFFERENCE

Sustainable and Responsible Investing (SRI) is an investment strategy that includes environmental, social, and governance (ESG) criteria along with financial criteria in evaluating companies for investment. SRI strategies frequently include various forms of shareholder advocacy, such as filing shareholder resolutions and proxy voting.

Increasingly, SRI is seen not only as a way to identify companies with better management and lower risk, but also as an opportunity to influence corporate conduct.

A LOOK AT PROXY VOTING

Calvert believes that proxy voting is one of the most direct means by which investors can influence corporate behavior. Beginning in 2003, the Securities and Exchange Commission (SEC) required all mutual funds to publicly disclose how they vote their proxies for corporate shareholder resolutions. A leader in this area, Calvert disclosed its proxy voting decisions well ahead of this ruling.

Calvert votes its shareholder proxies according to the guidelines available on our website. In a typical proxy season, Calvert votes on more than 40,000 individual proxy ballot resolutions.

Tools of Change

Under a range of strategies, shareholder advocacy provides investors with powerful ways to directly influence corporate behavior and policies

What We Mean by Shareholder Advocacy

Every year it seems the world is confronted by potentially avoidable, catastrophic events. Whether it is oil spills in our oceans, mine explosions endangering life, or the ongoing global debt crisis—these events underscore how companies' sustainability and corporate governance practices can have dramatic implications for shareholder value—as well as on industries, economies, and lives around the world. Shareholder advocacy aims to head off such devastating events by making companies aware of serious environmental, social, and governance (ESG) issues—and encouraging corporate action to address these issues.

Shareholder advocacy encompasses a wide range of activities investors can use to influence corporate behavior in areas such as board diversity, executive compensation, the environment, and human rights. The most visible forms of shareholder advocacy are filing or co-filing shareholder resolutions and proxy voting.

How Shareholder Resolutions and Proxy Voting Work

Anyone 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 you invest in a mutual fund that holds stock, you convey this important responsibility to your mutual fund manager, along with the right to vote your shares on corporate resolutions—a process called proxy voting. Accordingly, it's important to know if your fund managers

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ADVOCACY: A MULTI-PRONGED APPROACH

Shareholder advocacy is an umbrella term that covers many forms of action investors can use to encourage positive change in companies.

- Dialogue with company executives
- File shareholder resolutions
- Vote proxies
- Publish research reports or industry analyses
- Participate in public policy initiatives
- Work in coalitions with other investors and non-governmental organizations (NGOs)
- Conduct letter-writing and e-mail campaigns
- Work with government regulatory agencies, such as the EPA and SEC
- Testify and report on environmental, social, and governance issues to Congress
- Participate in multi-stakeholder dialogues and coalitions
- Attend and speak at annual shareholder meetings



exercise their shareholder rights by engaging companies through the resolution process and how they vote their proxies.

Urging Companies to Change

Shareholder resolutions can be powerful agents of change. If not challenged by the company¹ or withdrawn, the resolution comes to a vote of all shareholders at the company's annual meeting. While most shareholder resolutions are non-binding, a vote of 15% to 25% support is an important signal to corporate leadership and can often influence companies to make a change. In recent years, resolutions filed on environmental and social issues have earned upward of 40% support, demonstrating increased investor understanding of the value of corporate sustainability. In some cases, companies will adjust their behavior or policies once a resolution is simply filed, because they prefer the resolution not come to a vote and draw investors' attention. When the filer and company agree to specific terms before the resolution is put to a vote, Calvert considers a resolution successfully withdrawn.

Calvert: At the Forefront of Advocacy

Shareholder advocacy has been at the heart of Calvert's SRI strategy for nearly a quarter century. In addition, Calvert's Sustainability Research Department is one of the largest and most respected research teams 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.
- Calvert's sustainability research analysts specialize by issue and sector, participate in key U.S. and international working groups, and serve on boards of organizations working to advance critical sustainability issues.
- Calvert conducts shareholder advocacy across its Signature® and Solution® Strategies.
- Calvert offers an investment strategy focused on advocacy: Calvert SAGE™ (Sustainability Achieved through Greater Engagement) Strategy.

For the most up-to-date information on Calvert's proxy voting guidelines, visit www.calvert.com/sri-proxy-voting.html. To view Calvert's shareholder resolutions, go to: www.calvert.com/sri-engagement.html.

1. Shareholder resolutions are regulated by the Securities and Exchange Commission. The SEC allows companies to omit shareholder proposals for a variety of reasons. For example, a company can omit a proposal that addresses the ordinary business operations of the company

ANNUAL SHAREHOLDER RESOLUTION TIMELINE

Most companies hold their annual meetings—where shareholder resolutions are presented and voted on—in May and June. Accordingly, investors typically begin filing or co-filing corporate shareholder resolutions the previous fall. Calvert, for example, files the majority of its shareholder resolutions from November through January. The interim period—after a resolution has been filed and before the company's annual meeting—is typically a period of negotiation between the filer and company over the terms and outcomes of the resolution.

SUMMER

- Conduct industry research and benchmarking consistent with Calvert advocacy priorities
- Identify companies for engagement

FALL

- Write letters to companies describing the issues
- Begin dialogues with companies on the issues
- Consider group resolutions for key issues
- Dialogue with receptive companies
- Continue outreach to companies not in dialogue
- Start to file resolutions

WINTER

- Evaluate a company's commitment to addressing an issue
- If commitment is not firm, file a resolution
- For companies that won't dialogue, file a resolution
- Companies contact Calvert about the resolutions
- Ongoing negotiation and dialogue with companies
- Legal challenges to resolutions under SEC rules
- Calvert defends its resolutions
- Draft agreements with companies go back and forth
- Successful withdrawals of resolutions may be negotiated

SPRING

- Work to build support for Calvert's resolutions at upcoming annual meetings
- Attend annual meetings where our resolutions are going to a vote and make presentations in support of our resolutions
- The company speaks to our issue at the meeting
- A vote of 20% or higher is considered a success and will usually elicit dialogue or action from the company

In the following season, Calvert may re-file with some of the same companies if needed.

2011 Shareholder Advocacy Report

Calvert engages companies, policymakers, and others on critical governance and sustainability challenges.

2011 SHAREHOLDER ADVOCACY REPORT

In the recent proxy season (fall 2010—summer 2011), Calvert's shareholder resolutions achieved some significant outcomes.

ADVOCACY AREA	NUMBER OF RESOLUTIONS FILED	SIGNIFICANT OUTCOMES
Environment and Climate Change	13	Two companies agreed to join business coalitions to address climate change in public policy. Two food companies investigated the risks to their supply chains from climate change.
Sustainability Disclosure	9	Seven companies agreed to begin reporting on ESG factors or to improve their existing disclosure.
Governance and Political Spending	8	Three companies adopted majority voting in director elections. Three companies tightened their internal oversight and public disclosure of their political spending.
Board Diversity	5	Three companies changed their Board of Director selection criteria to include race and gender diversity.
Human Rights	2	Research In Motion (maker of Blackberry) committed to more transparent disclosure of its privacy and human rights policies and issues.
LGBT Diversity	1	One company changed its EEO policy to include provisions regarding sexual orientation and gender identity and expression.
Animal Welfare	1	The Food and Drug Administration approved a new procedure that does not use animals for testing Botox® products.
Loan Servicing	1	A JP Morgan Chase proposal calling for consistent loan modification methods for mortgages held and serviced by the firm earned a 7% vote.

Four Areas of Strategic Focus

Beyond shareholder resolutions, Calvert utilizes a range of advocacy tools in working with companies and policymakers to effect change. Highlights from our four areas of strategic priority in 2011 include:

1. Environment and Climate Change

Environmental protection is a top priority for Calvert. We believe climate change has the potential to severely disrupt business, agriculture, and commerce worldwide. In 2011, Calvert engaged with companies and policymakers on two fronts: climate change mitigation and climate change adaptation. In addition to reducing their carbon footprints (mitigation), we believe companies must also plan strategically for the economic and business impacts of climate change (adaptation). Shifting and severe weather patterns, for example, can pose a significant threat to companies' operations and supply chains. Conversely, climate change can also create business opportunities as the demand for certain products and services increases. Calvert is a founding member of the Partnership for Resilience and Environmental Preparedness (PREP), a coalition formed to address potential climate change impacts on businesses and communities. PREP's diverse membership includes **Entergy, Limited Brands, Starbucks,** and Oxfam America.

2. Governance, Disclosure, and Ethics

The accountability of management and boards of directors to shareholders is a critical element of strong corporate governance. Today, some corporate board candidates can still win a seat with a single vote. During the recent proxy season, Calvert worked toward making corporate governance less of a closed oligarchy and more of an open democracy, filing four shareholder proposals that called for majority voting. Three companies, **Plains Exploration and Production Company, Global Payments,** and **Agco** agreed to the requested changes, so we withdrew those resolutions. While Calvert's resolution at **Hansen Natural** spurred the company to improve their director election process, Calvert viewed the changes as insufficient. We kept the resolution on the ballot and 48% of shareholders voted for it.

3. Diversity and Women in the Workplace

Calvert believes that employee and board diversity are critical to long-term corporate success. Our resolutions ask companies to expand gender equity and diversity policies and alter board nomination policies, where necessary. While progress has been made in these areas, much more is needed. We filed five shareholder proposals with companies, including **Urban**

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UN GUIDING PRINCIPLES ADVANCE HUMAN RIGHTS

In 2011, the United Nations (UN) Human Rights Council unanimously endorsed the Guiding Principles for Business and Human Rights (the Principles), stating that virtually every industry faces human rights-related risks and responsibilities. While not law, the Principles are likely to influence national laws and policies globally.

Calvert worked with the UN Principles for Responsible Investment (PRI) and the Interfaith Center for Corporate Responsibility (ICCR) to mobilize investors worldwide to call on companies to use the Principles to assess their human rights-related challenges and business risks. The Principles' future success will depend on whether companies—as well as human rights groups and governments around the world—commit to them as part of their core values and business operations.

Outfitters and **American Financial Group**, asking them to commit to a diverse and inclusive boardroom. Read more about all of Calvert's work on gender equity, including the Calvert Women's Principles,[®] at www.calvert.com/women.

4. Human and Labor Rights

Calvert's advocacy in this area focuses on strengthening human rights standards and performance across key

industries and their global supply chains. An emerging issue is modern-day slavery and human trafficking in the global supply chains of a number of industries, ranging from footwear and apparel, to electronics, to food and agriculture. To address this issue, California passed the *California Transparency in Supply Chains Act*. The Act requires companies doing business in the state (about 3,000 worldwide) to disclose their efforts to eliminate slavery and human trafficking from their direct supply chains on their websites.

To help companies comply with the Act, Calvert joined with the Interfaith Center on Corporate Responsibility (ICCR) and Christian Brothers Investment Services (CBIS) in writing a guide titled, *Effective Supply Chain Accountability: Investor Guidance on Implementation of The California Transparency in Supply Chains Act and Beyond*.[™] The three co-authors have placed the guide on their websites and distributed it to industry associations, NGOs, and regulators. Calvert will use the guide in our dialogues with companies in 2012. ■

CALVERT 2011 RESOLUTION SCORECARD



*Of the 40 resolutions filed, 28 were withdrawn because of successful outcomes with the companies and nine went to a vote. In response to SEC challenges, one resolution was withdrawn and two were defeated.

To view our latest SRI news and advocacy efforts, go to www.calvert.com.

Company holdings represented the following percentages of assets under management in the following Calvert funds as of December 31, 2011: JP Morgan Chase 0.63% of Calvert Balanced Portfolio; Starbucks 2.51% of Calvert Equity Portfolio and 0.46% of Calvert Social Index Fund; Limited Brands 0.14% of Calvert Social Index Fund; Plains Exploration and Production Company 0.52% of Calvert Balanced Portfolio and 0.07% of Calvert Social Index Fund; Global Payments 2.66% of Calvert Capital Accumulation Fund and 0.07% of Calvert Social Index Fund; Agco 0.06% of Calvert Social Index Fund; Hansen Natural 0.09% of Calvert Social Index Fund, and American Financial Group 2.33% of Calvert Enhanced Equity Portfolio and 0.04% of Calvert Social Index Fund. Research in Motion, Entergy, and Urban Outfitters were not held in any Calvert fund.

Calvert may or may not still invest in, and is not recommending any action on, any companies listed. For the most recently available information on holdings in each Calvert fund, visit www.calvert.com. Current and future portfolio holdings are subject to market risk.

For more information on any Calvert fund, please contact Calvert at **800.368.2748** for a free summary prospectus and/or prospectus. An institutional investor should call **800.327.2109**. 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.

Calvert funds are available at NAV for RIAs and Wrap Programs. Not all funds available at all firms.

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