

# Tools of Change

2024 Calvert Engagement Report



Calvert Research and Management  
A Global Leader in Responsible Investing



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# Engagement Philosophy

Calvert Research and Management has a long history of supporting the health and sustainability of global markets and working to improve investment returns through its active engagement with corporations.

As a responsible investor, we seek to understand the challenges facing the world today, ascertain how companies are positioned to respond to those challenges and allocate capital in a manner that drives positive change and strengthens the companies in which we invest. As a complement to our research, structured engagement in pursuit of improving environmental and social outcomes—as well as long-term shareholder value—is a core component of our investment approach. Calvert maintains a dedicated team of engagement professionals who use our research to uncover financially material opportunities where a change in a company’s environmental, social and governance (ESG) approach could help mitigate risk or take advantage of opportunities more effectively.

Our engagement program over the past year continued our decades-long history of working with companies to address critical issues. In 2023, these issues included improving board/employee diversity, climate change, workplace rights and the ability to manage through a global energy transition, including ensuring a “just transition” that addresses the impact of the energy transition on vulnerable workers and other affected communities, among many other important issues. Responsible investors work within and help strengthen a set of global norms. These global norms, expressed in agreements such as the United Nations Sustainable Development Goals, United Nations Principles for Responsible Investment (UN PRI) and the Paris Climate Accord, 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 ESG issues, which is more essential now than ever before.

We believe that as investors, we have a responsibility to engage in oversight of companies to ensure management is acting in our long-term interests. Leveraging our rigorous research process, we believe we can make a valuable contribution to corporate governance, improve long-term financial and market outcomes, and bring about social and environmental benefits.

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# Calvert's Engagement Approach

## Company Engagement

Corporations exert substantial influence across all aspects of global societies. Engaging with corporations allows Calvert to help address critical sustainability issues that matter to these companies, our shareholders and society as a whole. As the connection between a company's ESG practices and its financial success becomes clearer, engagement aimed at improving corporate ESG performance increasingly aligns with the creation of shareholder value.

As a responsible investor, Calvert considers opportunities to improve our position as a shareholder in our portfolio companies and which tools are best suited for driving the positive change we hope to see. We believe active ownership is essential for improving one's position as a shareowner and, therefore, have made it an integral part of Calvert's approach to Responsible Investing.

## Our engagement philosophy encompasses the following characteristics:

- **INFORMED:** We leverage Calvert's extensive investment research to select targets with the potential for positive change, and to contribute meaningful ideas for the improvement of company financial and sustainability performance.
- **OUTCOME-ORIENTED:** Our engagements are rooted in the unique ESG risks and opportunities associated with each company. We set differentiated objectives for transparency, policy and performance for each target company to ensure that our engagement catalyzes tangible performance improvements.
- **LONG-TERM:** We intend to build a long-term constructive relationship with the company to bring about lasting change and continual improvement.
- **THOUGHT-LEADING:** We promote ESG innovations developed by internal and external partners, such as new methods to measure corporate impact, to contribute to ongoing progress in the ESG field and in corporate best practices, generally.
- **COLLABORATION AND ESCALATION:** While our goal is to work collaboratively with companies, we will escalate our engagement where necessary with reluctant companies, including filing shareholder proposals (also referred to as shareholder resolutions), alerting other investors to our concerns and speaking out in the media.

Rigorous corporate engagement can improve corporate behaviors, contributing to a more sustainable and equitable world, and potentially contribute to an investment's business prospects.

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### Company Selection

Calvert's engagement team has specific expertise advocating for change in corporations on matters of importance to shareholders. Working closely with our dedicated ESG research team and investment professionals, we leverage our company and industry knowledge to identify opportunities to improve a company's overall approach to ESG, its response to controversies, or its management of ESG-related risks and opportunities.

### **Our goal is to select companies for engagement where we have the opportunity to create meaningful progress that can improve our clients' portfolio performance.**

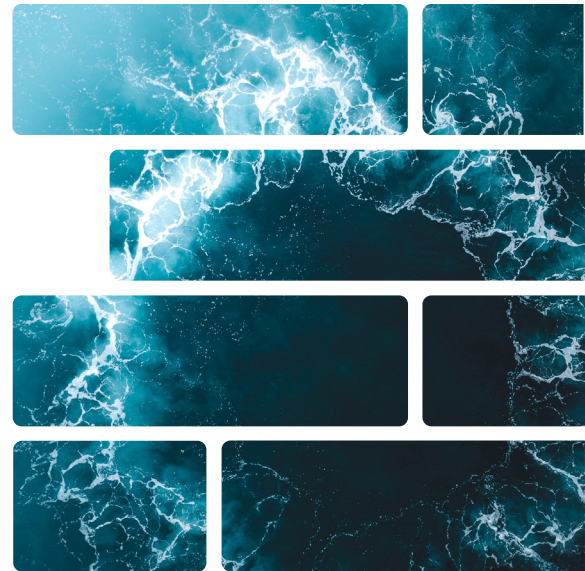
Every Calvert engagement is required to be consistent with our responsibilities as a fiduciary, and as a result must meet the following criteria:

- **MATERIALITY:** Based on our internal research, we look for concerns about the company's ESG performance that may have a material impact on our position as an investor, or an emerging issue that may raise concerns in the future.
- **FEASIBILITY OF CHANGE:** The objectives of our engagement are within the capabilities and capacity of the company.
- **ACCOUNTABILITY TO SHAREHOLDERS (GOVERNANCE):** Company governance lacks formal barriers to shareholder engagement.
- **CALVERT EXPERTISE:** Based on Calvert insight, research, and data, Calvert would be able to make a differentiated contribution.

In addition, engagements are prioritized based on the following rationales:

- **SYSTEMATIC RISK AND IMPACT:** Is there a systemic risk, societal inflection point, industrial cluster or value chain, or a key Calvert stakeholder group that meets Calvert's mission as a long-term responsible investor?
- **HOLDINGS:** Is this a top holding, a holding held across portfolios, or does it represent a potential increase in our investible universe?
- **CLIENT PRIORITIES:** Do our clients have strong active conviction or interest? Is there a potential asset owner collaboration?

The optimal engagement is one that is applicable to all three rationales



# Tools of Change

There are a variety of tools available to drive positive change. Calvert typically focuses on direct dialogue and proxy voting, using shareholder resolutions as a last resort.

## Direct dialogue

Calvert engages directly with companies both on its own and as part of investor or broader stakeholder coalitions, as noted earlier. When Calvert's research team uncovers an opportunity to potentially enhance shareholder value and improve company performance by taking advantage of an opportunity or mitigating a risk, we engage directly with management through periodic phone calls, letters and meetings to raise concerns and identify opportunities, operating on our commitment to encourage concrete progress across sectors of the economy.

Prior to initiating engagement, Calvert establishes objectives regarding our engagement with each company. These objectives may include improved disclosure, governance policies designed to address the issue and performance metrics. Positive outcomes may include a company establishing or strengthening a policy, adding members to the board, developing risk management approaches, or committing to specific performance improvements. Over time, where appropriate, we measure the change in key performance metrics for the relevant issues. When an engagement is completed, we typically maintain contact with the company to track progress.

More broadly, our engagement activities seek to develop constructive relationships with companies we hold in our portfolios, raise awareness among investors broadly, and contribute to the development and widespread adoption of industry-best practices.

## Proxy voting

Proxy voting is one of the most direct means to influence corporate behavior. Calvert's proxy voting guidelines outline our approach to voting on critical ESG issues facing corporations. Our voting promotes the alignment of corporate policies with the long-term interests of shareholders, including:

- **LONG-TERM VALUE.** Calvert seeks to support governance structures and policies that keep the focus of company management on long-term corporate health and financial, social and environmental performance. A focus on long-term value creation increases the relevance of companies' environmental management, treatment of workers and communities, and other sustainability and social responsibility factors.
- **ACCOUNTABILITY.** Accountable governance structures emphasize transparency, alignment of interests and inclusiveness: independent boards that represent a wide variety of interests and perspectives; full disclosure of company performance on financial, environmental and social metrics; charters, bylaws, and policies and procedures to effectively communicate with management; and compensation structures that work to align the interests and time frames of management and shareholders.
- **SUSTAINABILITY.** Well-governed companies are financially, socially and environmentally sustainable. Sustainability requires fair treatment of shareholders and other stakeholders in order to position the company for continued viability and growth over time. Effective corporate governance cannot indefinitely ignore or exploit certain groups or interests to the benefit of others without incurring material risks for the corporation.

**NOTE: Every resolution that falls into an ESG category does not represent an automatic vote in favor from Calvert. For example, the Social and Human Rights votes that Calvert did not support were attributable to micromanagement of the company or issues that did not meet the Calvert Principles, like a vote to repeal non-discrimination policies. Similarly, the votes that Calvert did not support in Environmental and Health were attributable to micromanagement of the company or issues that Calvert does not support, such as requiring the company to eliminate all use of nuclear power.**

Corporate governance laws and best-practice codes are continuously evolving. We have constructed our guidelines to be both general enough and sufficiently flexible to adapt to such changes, and we periodically update them to reflect evolving norms.

This past proxy season, we saw a marked increase in shareholder proposals among Russell 3000 companies — 52% over the 2021 total.

Climate change-related proposals made up the largest percentage of all environmental and social proposals. Their main focus was on reducing carbon emissions in line with the 1.5-degrees Celsius target established in the 2015 Paris Agreement to limit global warming. Other notable issues included reproductive rights, anti-ESG resolutions, and officer exculpation, which would extend the protections against litigation afforded to a company’s board of directors to company officers. Governance proposals largely addressed executive compensation — specifically, golden parachutes and independent chairs.

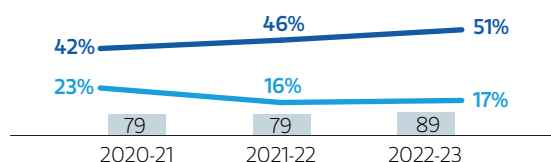
Calvert voted against 23 companies’ Chair or Lead Independent Director due to our assessment that the companies were responding inadequately to climate change-related risks. We changed these votes at three companies from Against to For after engagement revealed that these companies had recently taken the requested actions or committed to completing them in the short-term

**EXHIBIT 1  
ESG shareholder proposals support levels**

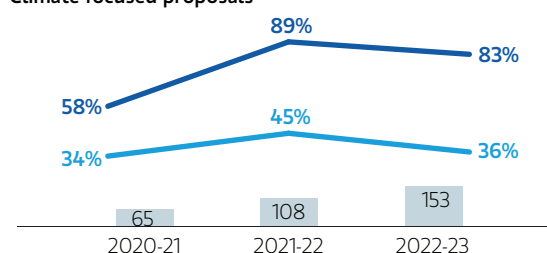
Calvert support for governance proposals has been declining due to an increasing number of Board Chair and CEO separation proposals which we mostly vote against

**Environment focused proposals\***

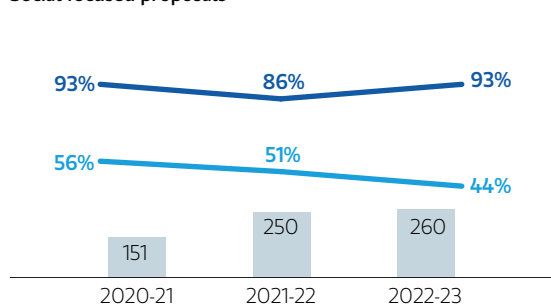
Includes proposals seeking ban on nuclear power, a position Calvert does not support



**Climate focused proposals**

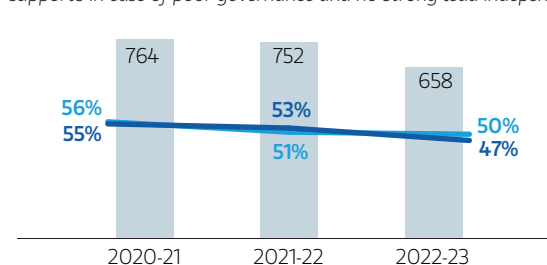


**Social focused proposals**



**Governance focused proposals†**

Includes proposals on Board Chair Independence which Calvert only supports in case of poor governance and no strong lead independent director



— Calvert Supported — ISS Supported ■ Number of proposals voted by Calvert

Source: Calvert '20 – '23 Voting Records, Institutional Shareholder Services (ISS), a proxy advisory firm.

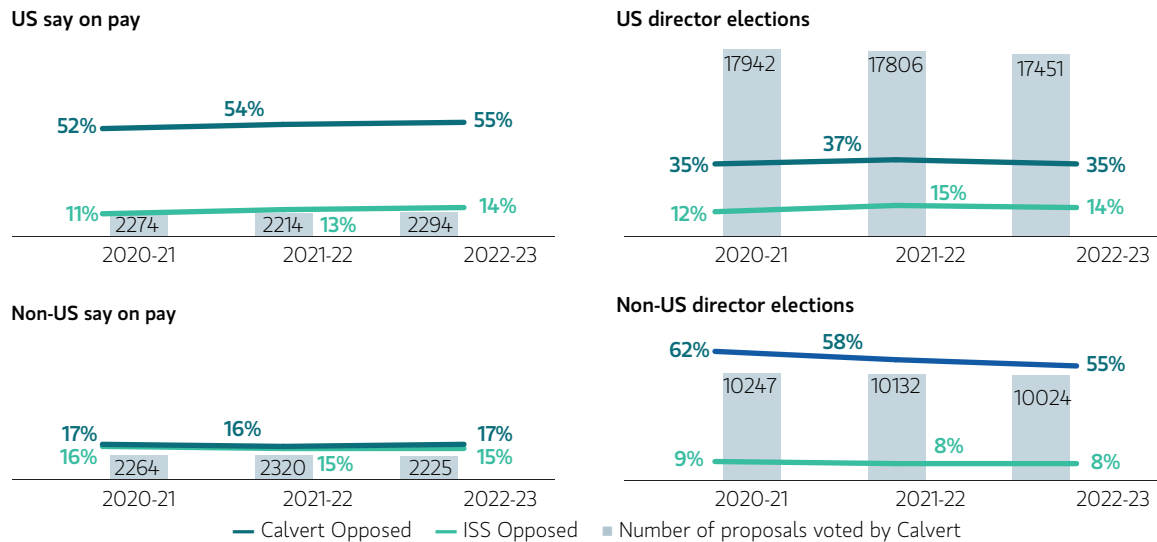
\* Includes proposals seeking ban on nuclear power, a position Calvert does not support. † Includes proposals on Board Chair Independence which Calvert only supports in case of poor governance and no strong lead independent director.

<sup>1</sup> Does not include climate focused proposals. <sup>2</sup> Does not include proposals by Anti-ESG proponents.

**EXHIBIT 2**

**Vote alignment with management on key issues**

*Our board diversity & independence thresholds are typically higher than average global norms leading to an outsized number of votes against Non-US directors*



Source: Calvert '20 – '23 Voting Records, ISS

**Anti-ESG proposals increase, but have little impact**

Support for ESG proposals in the United States is down nearly 10% over the past two years. Companies have made considerable progress in areas like board diversity and disclosures, but the decline is still worth noting. Some reasons for this may include:

- **QUALITY OF PROPOSALS:** Many shareholder proposals were poorly written with vague asks, or were perceived as too prescriptive by Calvert and other investors.
- **POLITICAL ENVIRONMENT:** Some leading investors have changed their stance on ESG issues to a more neutral outlook.
- **UPCOMING REGULATION:** Some companies waited for SEC's climate and human capital management disclosure rules to provide guidance before acting.
- **PROXY ADVISOR IMPACT:** Recommendations from ISS and other proxy advisors were more in line with management in comparison to the data from two years ago.

Anti-ESG proponents were more active in filing resolutions during the 2022-2023 proxy season. The vast majority—95%—of proposals from anti-ESG proponents were filed in the United States. However, these proposals received just 2.4% support, on average. Support levels this low mean the same resolution can't be refiled with the same company again the following year.



## Shareholder Resolutions

Escalation is a tactical decision to increase pressure on a company that we believe isn't adequately addressing material ESG issues. Shareholder proposals are the most common escalation tactic.

Shareholder resolutions are a way for investors to get issues that are important to them onto the proxy ballot. These often call for the company to take specific action, and even though the results of the vote are generally nonbinding, they can serve as an important signal to companies about investor interest in specific issues that may not otherwise be a priority for them.

Escalation strategies are appropriate when:

- A company ignores or refuses our invitation to engage.
- Takes no action, or no meaningful action, to address concerns about financially material ESG risk.
- The analyst—possibly in consensus with investor partners—concludes that additional discussions are unlikely to move the discussion forward.

After filing, we seek to negotiate an agreement to withdraw the proposal on terms that advance our objectives with the company and lead to a more collaborative dialogue. Calvert will proceed to a vote if the terms for withdrawal offered by the company are not sufficient to meet our expectations for progress.

In 2023, Calvert filed one shareholder resolution, at PACCAR Inc.

## Engagement in Action: PACCAR Inc.

In late 2022, Calvert met with PACCAR's new Director of Sustainability to discuss the company's lobbying activities. The company is largely silent on policy, particularly climate policy, despite being involved in trade associations that serve the truck manufacturing industry. We feel this approach may put PACCAR and its climate transition plan at a disadvantage and expose the company to regulatory scrutiny.

Our objectives were to work with the company to provide a more complete story of how PACCAR intends to lead the energy transition in the transportation sector and evaluate how its indirect lobbying activities support the company's climate goals. However, management remained adamant in its position that it does not engage in lobbying, despite clear evidence that the company belongs to trade associations that seek to influence climate policy.

As a result, Calvert filed a shareholder proposal with PACCAR calling for a "Report on climate lobbying in line with the Paris Agreement" in late 2022. At the company's annual meeting, the lobbying proposal submitted by Calvert received 47% support.

Engagement will continue with the company on the need for public policy transparency and disclosure. Calvert will work with PACCAR to understand how the company might use its influence, along with its ongoing research & development efforts, to shape policy that supports system-wide electrification. We believe this will result in better financial, social and environmental outcomes over time. We will continue to engage the Board on aligning direct and indirect lobbying strategy with the company's stated ambition to grow the market for low-carbon products and will monitor the company's reporting to see if there are any changes to targets or governance structures.

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ESG Strategies that incorporate impact investing and/or Environmental, Social and Governance (ESG) factors could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. As a result, there is no assurance ESG strategies could result in more favorable investment performance.

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