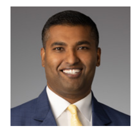
Calvert

Why Calvert Prioritizes Data Quality in ESG Reporting

BRIEF | CALVERT RESEARCH AND MANAGEMENT | July 2024

AUTHOR



SUJEESH KURUP
Vice President,
Senior ESG Impact
Management Analyst

"Garbage in garbage out" is an adage that dates back to the early days of computing and serves as the antithesis to the foundation of sound data science. Poor-quality input and erroneous data will always result in flawed output. It is imperative that reliable and timely data is used when reporting Environmental, Social, and Governance (ESG) metrics.

Calvert believes companies that successfully manage financially material ESG risks and opportunities are better positioned for long-term outperformance. We believe investment strategies that focus on these companies are more likely to provide opportunities for long-term value creation as well as positive global ESG outcomes. Portfolio-level ESG metrics seek to provide investors with the greatest possible transparency of the real-world impact of their investment portfolios. Calvert's ESG metric reports are made available to all interested parties, including investors, regulators, members of the public and the media. This is why Calvert has long placed a high priority on the accuracy and quality of ESG data.

Reliability and quality of ESG data used for ESG reporting depend on three factors:

1. **CORRECT ESG DISCLOSURE BY COMPANIES.** Calvert prefers using audited company ESG data that is financially material as a primary source based on the belief that companies know their operations best and can provide the most accurate ESG data.

2. **ACCURATE ESG DATA COLLECTION AND HANDLING BY THIRD-PARTY DATA VENDORS.** Data vendors provide underlying ESG data used to measure financially material ESG aspects of a company's operation. Examples of this data are carbon emissions, percentage of female board members and water used for a company's operations.[1]

[1] ESG data vendors used by Calvert include, but are not limited to: FactSet, ISS, MSCI, Refinitiv, S&P Trucost.

3. **ESTIMATED DATA POINTS THAT ARE LOGICALLY AND SCIENTIFICALLY DEVELOPED WHEN COMPANY DISCLOSURES ARE NOT AVAILABLE.** Estimation models are used by ESG data vendors in the absence of company-disclosed data. Estimates can be based on historical data disclosed by the company itself or comparable companies, or industry-specific numbers. Carbon emissions data is one of the most established ESG metrics; however, not all public corporations disclose it. Similarly, Calvert's research indicates that fewer than half of all public corporations disclose their water use and landfill waste data.[2]

After analyzing ESG data vendors for ESG reporting, Calvert identified areas that need improvement: namely, poor ESG data sourcing methods that result in inconsistencies between company reports and vendor reports (see *Displays 1* and *2*), dynamic categorization of companies into estimation methodologies (see *Display 3*), and minimal emphasis placed on the ESG data vendor's own data quality assurance and quality control (QAQC) process and procedures.

DISPLAY 1

Analyzing Data Vendors

An instance where Company A's KPI M, collected by ESG Vendor, misaligns with the company's reported data.[3]

	REPORTED YEAR	COMPANY REPORTED DATA – KPI M	ESG VENDOR S MINED DATA – KPI M
Company A	2020	8,290,377	29,250,819,200

DISPLAY 2

Analyzing Data Vendors

An example where Company B's reported KPI N, collected by ESG Vendor, is off by a factor of one million.[2]

	REPORTED YEAR	COMPANY REPORTED DATA – KPI N	ESG VENDOR U MINED DATA – KPI N
Company B	2022	769	769,200,000

DISPLAY 3

Analyzing Data Vendors

An example where ESG Vendor estimated KPI P and Company C later reported their KPI P, and the methodology of ESG Vendor's estimation model was called into doubt.[2]

	REPORTED YEAR	COMPANY REPORTED DATA – KPI P	ESG VENDOR W ESTIMATED DATA – KPI P
Company C	2022	9,090	7,160,000

ESG metric performance could be impacted by the volatility of poor-quality data. This could result in misleading ESG performance and undermine the intent of ESG reporting. For example, many vendor estimation models are based on sector classification. When a company's sector classification is changed by third-party providers, there is considerable potential to generate a much larger or smaller estimated value due to the change in classification alone, and not through any action or change in behavior by the company (see *Display 4*). This is a persistent issue for sector-based estimation models, many of which use the Global Industry Classification Standard (GICS) classification, which divides companies into a four-tiered, hierarchical classification system: Sectors, Industry Groups, Industries and Sub-Industries. There are frequent classification changes within GICS throughout the year that can be driven by index construction factors rather than company-level changes. For this reason, Calvert carefully reviews the data quality of all underlying ESG data included in our latest ESG metric reports for external audiences.

The process of onboarding an ESG data vendor at Calvert includes a comprehensive examination of quality, estimation consistency, completeness, timing and methodological transparency for each ESG key performance indicator (KPI) of interest. Once an ESG data vendor is onboarded, in situations where their KPIs are used within ESG metric reporting, data is checked for period-over-period variances where large value swings breaking predetermined thresholds are flagged. Data is also checked to verify that any values provided are within the vendor's defined possible range, where applicable, and values that fall outside of the defined range are flagged. Before Calvert considers using any flagged data for ESG reporting, ESG data vendors must provide written a rationale explaining the value change that exceeded the threshold, and Calvert must deem that rationale as being reasonable.

Where feasible Calvert has also requested that ESG vendors implement a similar procedure where period-over-period threshold evaluations are included in their QAQC process as a long-term goal to enhance the overall quality of the incoming ESG data for ESG reporting. Calvert is committed to conducting periodic discussions with ESG data vendors to ensure that our collaboration is enhancing the general quality of the incoming ESG data, which benefits the

[2] Source: Calvert as of December 31, 2023.

[3] Source: Calvert. ESG Data Samples are as of December 31, 2023 and represent three (3) unique data vendors and are provided for illustrative purposes only. Areas of improvement were identified by Calvert's data quality due diligence process. Calvert's Impact team and support staff engaged with the ESG data vendors to rectify the error and/or investigate.

DISPLAY 4

An example of how the GICS reclassification of a specific corporation negatively affects its Scope 1 and 2 Carbon Emissions estimated value

	PREVIOUS GICS CLASSIFICATION	FY2020	DATE OF GICS CHANGE	CURRENT GICS CLASSIFICATION	FY2021
Corporation					
Estimated Carbon Emissions - Scope 1 (metric tonnes)	Information Technology	6	31 May 2021	Communication Services	27 (350% increase in emissions)
Estimated Carbon Emissions - Scope 2 (metric tonnes)		185			729 (294% increase in emissions)

Source: Calvert. Provided for illustrative purposes only.

overall market. ***This ESG data vendor engagement reflects Calvert's long history of advancing transparency across market players to benefit the investment community.***

BOTTOM LINE: Our investment research process and decision-making are guided by The Calvert Principles for Responsible Investment (Calvert Principles). Our ESG metric reports provide the opportunity to demonstrate the real-world impact of portfolios that reflect both the Calvert Principles and the investment strategy in a transparent manner. The underlying ESG data utilized in the ESG metric reports is based on ESG vendor data, which requires constant monitoring for data cleanliness. As a result, Calvert conducts its own data QAQC on incoming vendor ESG data to ensure that our latest impact reports contain data that is as clean as possible. We believe Calvert's level of due diligence and vendor engagement gives our stakeholders a distinct value proposition by ensuring that the underlying ESG data used in our ESG reports is as reliable as possible.

Developed in collaboration with Matt Smith, Floyd Barbetti and data science firm Sociovestix Labs (Andreas Hoepner and Marcus Nilsson). Sociovestix Labs is not an affiliate of Morgan Stanley Investment Management or Calvert Research and Management.

Risk Considerations

Investing involves risk including the risk of loss. There is no guarantee that any investment strategy, including those with an ESG focus, will work under all market conditions. Investors should evaluate their ability to invest for the long-term, especially during periods of downturn in the market. There is no guarantee that any investment strategy will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market.

circumstances and purpose. The Firm shall not be liable for, and accepts no liability for, the use or misuse of this material by any such financial intermediary.

This material may be translated into other languages. Where such a translation is made this English version remains definitive. If there are any discrepancies between the English version and any version of this material in another language, the English version shall prevail.

The whole or any part of this material may not be directly or indirectly reproduced, copied, modified, used to create a derivative work, performed, displayed, published, posted, licensed, framed, distributed or transmitted or any of its contents disclosed to third parties without the Firm's express written consent. This material may not be linked to unless such hyperlink is for personal and non-commercial use. All information contained herein is proprietary and is protected under copyright and other applicable law.

Calvert is part of Morgan Stanley Investment Management. Morgan Stanley Investment Management is the asset management division of Morgan Stanley.

DISTRIBUTION

This material is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations.

MSIM, the asset management division of Morgan Stanley (NYSE: MS), and its affiliates have arrangements in place to market each other's products and services. Each MSIM affiliate is regulated as appropriate in the jurisdiction it operates. MSIM's affiliates are: Eaton Vance Management (International) Limited, Eaton Vance Advisers International Ltd, Calvert Research and Management, Eaton Vance Management, Parametric Portfolio Associates LLC, and Atlanta Capital Management LLC.

This material has been issued by any one or more of the following entities:

EMEA:

This material is for Professional Clients/Accredited Investors only.

In the EU, MSIM and Eaton Vance materials are issued by MSIM Fund Management (Ireland) Limited ("FMIL"). FMIL is regulated by the Central Bank of Ireland and is incorporated in Ireland as a private company limited by shares with company registration number 616661 and has its registered address at 24-26 City Quay, Dublin 2, DO2 NY19, Ireland.

Outside the EU, MSIM materials are issued by Morgan Stanley Investment Management Limited (MSIM Ltd) is authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA.

In **Switzerland**, MSIM materials are issued by Morgan Stanley & Co. International plc, London (Zurich Branch) Authorised and regulated by the Eidgenössische Finanzmarktaufsicht ("FINMA"). Registered Office: Beethovenstrasse 33, 8002 Zurich, Switzerland.

Outside the US and EU, Eaton Vance materials are issued by Eaton Vance Management (International) Limited ("EVMI") 125 Old Broad Street, London, EC2N 1AR, UK, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority.

Italy: MSIM F MIL (Milan B ranch), (Sede S econdaria d i M ilano) P alazzo Serbelloni Corso Venezia, 16 20121 Milano, Italy. The **Netherlands**: MSIM FMIL (Amsterdam Branch), Rembrandt Tower, 11th Floor Amstelplein 1 1096HA, Netherlands. **France**: MSIM FMIL (Paris Branch), 61 rue de Monceau 75008 Paris, France. **Spain**: MSIM FMIL (Madrid Branch), Calle Serrano 55, 28006, Madrid, Spain. **Germany**: MSIM FMIL Frankfurt Branch, Große Gallusstraße 18, 60312 Frankfurt am Main, Germany (Gattung: Zweigniederlassung (FDI) gem. § 53b KWG). **Denmark**: MSIM FMIL (Copenhagen Branch), Gorrissen Federspiel, Axel Towers, Axeltorv2, 1609 Copenhagen V, Denmark.

MIDDLE EAST

Dubai: MSIM Ltd (Representative Office, Unit Precinct 3-7th Floor-Unit 701 and 702, Level 7, Gate Precinct Building 3, Dubai International Financial Centre, Dubai, 506501, United Arab Emirates. Telephone: +97 (0)14 709 7158). This document is distributed in the Dubai International Financial Centre by Morgan Stanley Investment Management Limited (Representative Office), an entity regulated by the Dubai Financial Services Authority ("DFSA"). It is intended for use by professional clients and market counterparties only. This document is not intended for distribution to retail clients, and retail clients should not act upon the information contained in this document.

This document relates to a financial product which is not subject to any form of regulation or approval by the DFSA. The DFSA has no responsibility for reviewing or verifying any documents in connection with this financial product. Accordingly, the DFSA has not approved this document or any other associated documents nor taken any steps to verify the information set out in this document, and has no responsibility for it. The financial product to which this document relates may be illiquid and/or subject to restrictions on its resale or transfer. Prospective purchasers should conduct their own due diligence on the financial product. If you do not understand the contents of this document, you should consult an authorised financial adviser.

U.S.

NOT FDIC INSURED | OFFER NO BANK GUARANTEE | MAY LOSE VALUE | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY | NOT A DEPOSIT

LATIN AMERICA (BRAZIL, CHILE COLOMBIA, MEXICO, PERU, AND URUGUAY)

This material is for use with an institutional investor or a qualified investor only. All information contained herein is confidential and is for the exclusive use and review of the intended addressee, and may not be passed on to any third party. This material is provided for informational purposes only and does not constitute a public offering, solicitation or recommendation to buy or sell for any product, service, security and/or strategy. A decision to invest should only be made after reading the strategy documentation and conducting in-depth and independent due diligence.

ASIA PACIFIC

Hong Kong: This material is disseminated by Morgan Stanley Asia Limited for use in Hong Kong and shall only be made available to "professional investors" as defined under the Securities and Futures Ordinance of Hong Kong (Cap 571). The contents of this material have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this material shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong. Singapore: This material is disseminated by Morgan Stanley Investment Management Company and may not be circulated or distributed, whether directly or indirectly, to persons in Singapore other than to (i) an accredited investor (ii) an expert investor or (iii) an institutional investor as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore ("SFA"); or (iv) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. This publication has not been reviewed by the Monetary Authority of Singapore. Australia: This material is provided by Morgan Stanley Investment Management (Australia) Pty Ltd ABN 22122040037, AFSL No. 314182 and its affiliates and does not constitute an offer of interests. Morgan Stanley Investment Management (Australia) Pty Limited arranges for MSIM affiliates to provide financial services to Australian wholesale clients. Interests will only be offer in circumstances under which no disclosure is required under the Corporations Act 2001 (Cth) (the "Corporations Act"). Any offer of interests will not purport to be an offer of interests in circumstances under which disclosure is required under the Corporations Act and will only be made to persons who qualify as a "wholesale client" (as defined in the Corporations Act). This material will not be lodged with the Australian Securities and Investments Commission.

JAPAN:

For professional investors, this material is circulated or distributed for informational purposes only. For those who are not professional investors, this material is provided in relation to Morgan Stanley Investment Management (Japan) Co., Ltd. ("MSIMJ")'s business with respect to discretionary investment management agreements ("IMA") and investment advisory agreements ("IAA"). This is not for the purpose of a recommendation or solicitation of transactions or offers any particular financial instruments. Under an IMA, with respect to management of assets of a client, the client prescribes basic management policies in advance and commissions MSIMJ to make all investment decisions based on an analysis of the value, etc. of the securities, and MSIMJ accepts such commission. The client shall delegate to MSIMJ the authorities necessary for making investment. MSIMJ exercises the delegated authorities based on investment decisions of MSIMJ, and the client shall not make individual instructions. All investment profits and losses belong to the clients; principal is not guaranteed. Please consider the investment objectives and nature of risks before investing. As an investment advisory fee for an IAA or an IMA, the amount of assets subject to the contract multiplied by a certain rate (the upper limit is 2.20% per annum (including tax)) shall be incurred in proportion to the contract period. For some strategies, a contingency fee may be incurred in addition to the fee mentioned above. Indirect charges also may be incurred, such as brokerage commissions for incorporated securities. Since these charges and expenses are different depending on a contract and other factors, MSIMJ cannot present the rates, upper limits, etc. in advance. All clients should read the Documents Provided Prior to the Conclusion of a Contract carefully before executing an agreement. This material is disseminated in Japan by MSIMJ, Registered No. 410 (Director of Kanto Local Finance Bureau (Financial Instruments Firms)), Membership: the Japan Securities Dealers Association, The Investment Trusts Association, Japan, the Japan Investment Advisers Association and the Type II Financial Instruments Firms Association

morganstanley.com/im

RO 3658818 Exp. 07/31/2025 24Q30048_KC_0624 LTR