Calvert INVESTMENTS

4550 Montgomery Avenue, Bethesda, MD 20814
301.951.4800 / www.calvert.com

# UNITED NATIONS GLOBAL COMPACT
# 2012 Communication on Progress
# Calvert Investments, Inc.
# Submitted on December 30, 2012

Contact: Reed Montague
Title: Sustainability Analyst
Company: Calvert Investments, Inc.

## CEO STATEMENT OF CONTINUED SUPPORT:

As times remain challenging for global markets and investors, sustainable and responsible investing has become increasingly important. Companies are increasingly focusing on environmental, social and governance (ESG) concerns and disclosing more information on company materiality and the impacts on their business. Today, more than 3,000 companies now report such information worldwide, with over two thirds of the Fortune 500 issuing sustainability reports.[1] Investor interest in this area also continues to grow as evidenced by the growth of membership in the UN Principles for Responsible Investment (UN PRI), of which we are a founding member. There are currently over 1,000 signatories with a combined total of $30 trillion in assets under management that incorporate sustainability implications into their investment decision making and ownership practices as a way to contribute to the development of a more sustainable global financial system.[2] Most recently, the Governance & Accountability Institute announced that this year, 53% of the S&P 500 and 57% of the Fortune 500 companies report on their ESG impacts, with the majority using the Global Reporting Initiative (GRI) framework.[3]

As the investment advisor to one of the leading sustainable and responsible mutual fund families in the U.S., Calvert has over $12 billion in assets under management and over 400,000 shareholders among 44 different funds in every major asset category. Although Calvert bond funds have historically avoided investing in certain types of companies involved in the tobacco industry, this year our taxable bond funds adopted a formal “no tobacco” investment policy, increasing the total number of sustainable and responsible funds to 29.

[1] EY.com, December 12, 2012
[2] Unpri.org, December 17, 2012
[3] Governance and Accountability Institute Press Release, December 17, 2012

We are pleased to support the UN Global Compact and the Ten Principles as a valuable part of our business. Having been a supporter now for over a decade, we find that its work closely aligns with our own as a provider of sustainable and responsible investment strategies. The principles in the areas of human rights, labor, environment and corruption cover issues that we consider through our own investment criteria, and connect directly to our shareholder advocacy with corporations and public policy positions. As part of Calvert's core mission, we continue to not only engage with businesses to encourage them to incorporate these elements into their own policies, programs and performance but also to promote broader corporate responsibility and global sustainability.

**Highlights**

Through the platform of our funds, we are able to have a much more significant impact on corporate responsibility and sustainability beyond our own internal footprint as a small investment complex. As a result, this annual communication on progress will focus on the larger impacts we are able to make through our investments. Some of these highlights include:

- Participating in the Rio+20 Summit this past summer, where I spoke at several events in my capacity as both co-chair of the United Nations Environment Programme Finance Initiative (UNEP FI) and Calvert's CEO.

- Participating in the first Annual UN Forum on Business and Human Rights in Geneva, where Calvert's Senior Vice President—Sustainability Research and Policy, Bennett Freeman, spoke on the Financial Sector panel.

- Active involvement with other UN entities such as the UN CEO Water Mandate; the UN Women's Empowerment Principles, which are based on the Calvert Women's Principles; and the UN PRI.

- Active participation in the Global Network Initiative and its assessment process of company performance in the information and technology sector related to freedom of expression and the right to privacy on the Internet.

- Demonstrating leadership among investors in supporting extractive revenue transparency and full disclosure of material information related to oil, gas and mining in certain countries.

**CEO Water Mandate**

This annual Communication on Progress also serves as our annual report for the CEO Water Mandate, as we have chosen to combine both communications for the first time. Calvert was the first investment company to endorse the CEO Water Mandate and continues to support its goal to contribute promising solutions to the emerging global water crisis.

**Calvert's SRI Strategies**

Calvert offers three SRI strategies in recognition that investors want choice in how they meet their financial goals and impact corporate responsibility and sustainability practices. The investment criteria for each strategy, in effect, are policies we have adopted to drive sustainability in our mutual fund business.

**<u>Calvert Signature® Strategies</u>**—Calvert's original approach comprising two distinct research frameworks: a rigorous review of financial performance, and a thorough assessment of environmental, social and governance performance.

**<u>Calvert Solution® Strategies</u>**—A thematic approach to solving some of today's most pressing environmental and sustainability challenges.

**<u>Calvert SAGE™ Strategies</u>**—An "enhanced engagement" approach emphasizing strategic engagement to advance environmental, social and governance performance in companies that may not meet certain standards today, but have the potential to improve.

**Calvert Signature Strategies**

In our Calvert Signature Strategies, we examine corporate performance across seven broad areas of concern including governance and ethics, environment, workplace, product safety and impact, international operations and human rights, Indigenous Peoples' rights and community relations.

Investors have a right and a responsibility to engage with companies on ESG-related issues where shareholder value is at stake and improved performance is within reach. Calvert uses shareholder advocacy and public policy initiatives to encourage positive change in companies in virtually every industry, both to establish certain commitments and to encourage concrete progress on issues of demonstrated or potential material importance to our funds and shareholders. For our Signature Strategies, Calvert's advocacy focuses on environment and climate change, human rights, labor rights, Indigenous Peoples' rights, diversity and women, and governance and disclosure.

**Calvert Solution Strategies**

In our Calvert Solution Strategies, we selectively invest in companies that offer products and services geared toward solving some of today's most pressing environmental and sustainability challenges.

The Calvert Global Alternative Energy Fund seeks to achieve its investment objective by investing, under normal circumstances, at least 80 percent of its net assets in equity securities of U.S. and non-U.S. companies whose main business is alternative energy or that are significantly involved in the alternative energy sector.

Our advocacy agenda for another Solution Strategy offering, the Calvert Global Water Fund, emphasizes disclosure and transparency, equitable and affordable access to water and sanitation, the relationship between climate risk and water risk and stakeholder engagement. Our advocacy work related to the fund has included influencing some companies to begin producing sustainability reports which disclose ESG risks. Through the CEO Water Mandate, we are also addressing the requirements for companies to recognize and make operational the human right to water and we are regularly exploring how well a company understands its climate and water related risks.

In November, we launched the Calvert Emerging Markets Equity Fund, a fund that focuses on corporate actions to address global sustainability challenges in emerging markets including employment and income generation; poverty and health; environment and climate change; and rights and governance.

**Calvert SAGE Strategies**

In our Calvert SAGE Strategies (SAGE stands for Sustainability Achieved through Greater Engagement), we engage with companies as shareholders to advocate for specific changes with well-defined advocacy objectives. Our SAGE Strategies offer investors opportunities to make an impact with companies not eligible for investment in our Signature Strategies funds.

**Shareholder Advocacy**

In addition to the shareholder advocacy we perform across all of our SRI strategies, we currently have enhanced engagement campaigns with 13 companies held in the SAGE Strategies funds. These dialogues focus on the most salient risks and opportunities for those companies in their industry contexts. We use the full combination of our engagement and shareholder advocacy tools, emphasizing direct company and multi-stakeholder dialogues in addition to proxy voting and shareholder resolutions.

Calvert also filed 24 shareholder resolutions to keep sustainability and social issues in front of corporate management. For example, one resolution on board diversity at Urban Outfitters received 39% support (up from 22% last year). Despite owning popular retail brands Anthropologie and Free People, the company does not have any women or minorities on its board of directors. We withdrew sixteen of our proposals after the companies agreed to take steps to address our key elements of concern. Areas of focus include board diversity; board oversight of environmental and social risks; sustainability disclosure; climate change-related risks; and bank loan servicing to lower income borrowers. Calvert continues to engage many companies in dialogue outside of the shareholder resolution process, both directly and through multi-stakeholder initiatives. To date, Calvert has filed another 16 shareholder resolutions for the 2013 season.

Once again, Calvert is proud to be a long-time supporter of the UN Global Compact and its Ten Principles, the CEO Water Mandate and other UN initiatives. We believe these efforts aid us in accomplishing our work but also in seeking to build a fairer and more just world.

Sincerely,

Barbara J. Krumsiek
President and CEO
Calvert Investments, Inc.
December 21, 2012

## ANNUAL PROGRESS

This section highlights Calvert's 2012 progress towards the UNGC and Ten Principles in each of the four issue areas: human rights, labor, environment, and anti-corruption. In each area, we discuss the actions we have taken, the progress made and the relevant outcomes.

### Human Rights Principles

**Principle 1: Business should support and respect the protection of internationally proclaimed human rights; and**

**Principle 2: Business should make sure that they are not complicit in human rights abuses.**

**Investor Risks and Opportunities in Burma**

Calvert has played a leading role in an investor coalition coordinated by the Conflict Risk Network to ensure that renewed U.S. investment in Burma reinforces democratic reform and respect for human rights. The coalition wrote to President Obama in May expressing concern about the risks posed by a broad relaxation of U.S. sanctions given the continuing domination of the Burmese economy by the military amidst the continuing armed conflicts in resource-rich ethnic regions of Burma, and identified specific policy steps to mitigate those risks.

In support of that effort, Calvert engaged the new U.S. Ambassador to Burma Derek Mitchell and other State Department officials, together with representatives of two dozen human rights NGOs, in critiquing the draft investment reporting requirements for U.S. companies entering Burma released earlier that month. We urged that reporting of the most relevant human rights standards relevant to Burma be prescribed more specifically. Calvert is seeking inclusion of the forthcoming extractive revenue disclosure requirements per Dodd-Frank section 1502; the due diligence framework, including the use of human rights impact assessments, contained within the UN Guiding Principles on Business and Human Rights; the Voluntary Principles on Security and Human Rights; the ILO core labor standards, including with respect to forced labor which has been a severe problem in Burma; and the UN Declaration on the Rights of Indigenous Peoples as a basis for possible revisions in the final reporting requirements for U.S. companies. In September, Calvert contributed to and coordinated our signing on to a joint investor comment regarding the U.S. State Department's "Reporting Requirements on Responsible Investment in Burma." The statement highlighted the need for the reporting requirements to include those international human rights standards most relevant to Burma.

**Internet Freedom of Expression and Right to Privacy**

Calvert understands the risks as well as opportunities that investment in companies in the information and communication technology (ICT) sector presents, especially when a company undermines the freedom of expression or right to privacy of its users as a condition of operating in certain markets.

Since its beginning in 2006, the Global Network Initiative (GNI) has developed a set of principles, implementation guidelines and a governance charter establishing an assessment process conducted by independent third parties. Calvert has representation on the GNI board and an influential voice within GNI and beyond by addressing the challenges and opportunities facing companies as they attempt to navigate the expectations of Internet users and the demands of governments at the same time. This past year, Calvert shared this message at high profile events such as the Stockholm Internet Forum on Internet Freedom for Global Development, U.S. SIF's The Forum for Sustainable and Responsible Investment conference in Washington, D.C., and the Council on Foreign Relations in New York.

The GNI's ability to become a fully global standard rests on its ability to demonstrate the credible implementation of its principles by a growing number of companies. Its credibility was enhanced in early 2012 when the first three GNI companies—Yahoo!, Google, and Microsoft—completed the second phase of the assessment process. The GNI Board, which includes other sustainable and responsible investment firms, non-governmental organizations and academic experts, reached a consensus that significant progress had been made by each in putting in place specific policies and procedures to implement the GNI principles. These three original GNI companies have now been joined by two other members—Websense and Evoca—and discussions continue (many including Calvert) with a number of telecom and hardware sector as well as Internet content companies such as Facebook, which became a GNI observer for a one year period.

**Bill to Eliminate Human Rights Risks Within Corporate Supply Chains**

In January, the Interfaith Center on Corporate Responsibility (ICCR) and the Forum for Sustainable and Responsible Investment submitted a joint letter—on behalf of 80 signatories representing $42 billion in assets under management—to Rep. John Boehner, Speaker of the House of Representatives, and Rep. Eric Cantor, House Majority Leader, in support of the Business Transparency on Trafficking and Slavery Act (H.R. 2759). As a signatory, Calvert called on the House Leadership to bring the bill before a full House vote. H.R. 2759 would require all companies to publicly report existing policies and management systems designed to address human trafficking, slavery and other forms of human rights abuses within their supply chains to the Securities and Exchange Commission. This would build upon the recently enacted California Transparency in Supply Chain Act (SB 657), which now requires manufacturers and retailers doing business in California to disclose on their corporate websites their efforts to eliminate slavery and human trafficking from their direct supply chains. Companies were urged to utilize Effective Supply Chain Accountability: Investor Guidance on Implementation of The California Transparency in Supply Chains Law and Beyond, a corporate guide co-authored by Calvert last year.

**Investor Guide to the UN Guiding Principles on Business and Human Rights** Calvert, the Interfaith Center on Corporate Responsibility and the Institute for Human Rights and Business authored an Investor Guide that outlines how investors can apply the UN Guiding Principles on Business and Human Rights as a due diligence and risk assessment framework to assess companies within their portfolios. The Guide addresses the broader and evolving landscape of business and human rights, such as other standards, regulations, and initiatives, and is aimed at mainstream investors as well as SRIs across all asset classes. The Guide was completed in November with launch events planned for New York and London early in 2013. We will continue to support the UN Guiding Principles on Business and Human Rights and keep encouraging investors to incorporate them into their risk assessment frameworks.

Calvert Senior Vice President for Sustainability Research and Policy Bennett Freeman spoke at the UN Annual Forum on Business & Human Rights in Geneva in December. He emphasized the growing recognition of human rights-related risks to investors, underlined the utility of the UN Guiding Principles on Business and Human Rights for assessing that risk, and highlighted examples of cooperation among investors, NGOs, and major companies to address issues ranging from forced labor in Uzbekistan to conflict minerals in the Democratic Republic of Congo.

**Protecting Indigenous Peoples' Rights**
Calvert continued its efforts to support Indigenous Peoples rights through various projects. We wrote to and met with Joachim von Amsberg, World Bank Vice President and Head of Network Operations Policy and Country Services, to register Calvert's support for stronger protections for Indigenous Peoples in World Bank policies and procedures in the context of the current safeguard policy update process, expressing our opinion that the Indigenous Peoples policy should remain a stand-alone policy. Assurances were provided at the meeting and subsequently in a further letter from von Amsberg that the interests of Indigenous Peoples would be protected as the safeguard review process moves forward even without a stand-alone policy focusing on Indigenous Peoples.

Calvert also contributed to Oxfam America's (OA) report "Community Consent Index Oil, Gas and Mining Company Public Positions on Free, Prior, and Informed Consent (FPIC)" and participated on the panel at the September launch event in Washington, D.C. The report is an update of a 2009 compilation of public positions of 28 oil, gas and mining companies relating to community consent and social license to operate. Calvert wrote a short statement included in the report on the materiality of the issues related to FPIC and the importance of public disclosure of the policies, programs and performance metrics that indicate its full implementation. During the panel discussion, Calvert emphasized the importance of disclosure to investors and pointed out the legal and regulatory importance of the identification of native communities as Indigenous Peoples. Calvert plans to do advocacy based on the report with lagging companies and encourage them to develop FPIC policies in 2013.

**Dodd-Frank Section 1502/Conflict Minerals**
Calvert continued to be a leader among investors on “conflict minerals” through a coalition of several companies and human rights groups that supported disclosure requirements to certify that certain minerals used in cell phones and other consumer electronic components are not illegally mined to fuel the continuing bloody conflict in the Democratic Republic of Congo. Such requirements were enacted as Section 1502 of the Dodd-Frank Wall Street Report and Consumer Protection Act of 2010.

Calvert initiated and drafted a February 2012 letter to SEC commissioners and staff signed by several other investor allies clarifying views on several issues that emerged as the most critical in the final stages of the rule-making process, including phase-in periods for reporting requirements, reporting on minerals of indeterminate origin and “filed” versus “furnished” reports. Calvert joined other representatives of the multi-stakeholder group in raising these concerns in an intensive set of separate meetings with SEC Commissioners Walter and Gallagher and Chairman Shapiro and their staffs in February, as well as with SEC Chairman Mary Schapiro and Commissioner Luis Aguilar in May.

The SEC voted in August on the final rule regarding disclosure and reporting obligations to implement the requirements of Section 1502. Calvert helped to draft statements commenting on the rule for both the multi-stakeholder and investor groups of which we are part. The statements reflected the consensus view that while the phase-in for reporting is unnecessarily long—especially given that the rule was only released two years after the enactment of the law, its other key provisions are sufficient to ensure the kind of information necessary for investors to assess due diligence efforts on the part of affected companies.

Calvert joined key companies and NGOs in the multi-stakeholder group to forge a common statement to urge implementation of the law along the lines outlined by the rule, regardless of the lawsuit filed by the U.S. Chamber of Commerce to halt implementation of the rule. The statement called on the SEC to vigorously defend the law and rulemaking process and reinforced investor support for materiality of supply chain disclosure.

## LABOR

**Principle 3: Businesses should uphold freedom of association and the effective recognition of the right to collective bargaining;**

**Principle 4: The elimination of all forms of forced and compulsory labour;**

**Principle 5: The effective abolition of child labour; and**

**Principle 6: The elimination of discrimination in respect of employment and occupation.**

**Calvert Women's Principles**
The Calvert Women's Principles (CWP) continue to be adapted and implemented in companies worldwide through two distinct initiatives. First, the Women's Empowerment Principles (WEP), adapted from the Calvert Women's Principles by UN Women and the UN Global Compact, have now reached over 500 signatories to the CEO Statement of Support, demonstrating the growing global reach of the CWP. The United Nations Gender Equality for Sustainable Business Event in March marked the two year anniversary of the Women's Empowerment Principles, which emphasize the business case for promoting gender equality and women's empowerment in the workplace. Calvert also joined the newly formed WEP leadership group to expand implementation of the Principles. Calvert also continued to serve in an advisory capacity to the San Francisco Gender Equality Principles Initiative in partnership with the SF Department on the Status of Women and Verité. The focus of this effort, now in its fifth year, is to engage Bay Area companies to develop gender equitable workplaces. Calvert has also been involved with the New York Women's Agenda, which plans to launch the New York Women's Principles next year. This New York initiative will follow the same format and application as the San Francisco Gender Equality Principles, which Calvert helped develop in 2008 and are also based on the CWP.

Calvert also testified before the U.S. Senate Democratic Steering and Outreach Committee in March on the importance of gender equity in economic empowerment and job creation, highlighting research showing the inclusion of women in corporate management correlates with higher shareholder value and better operating results.

**Board Diversity Report/Shareholder Resolutions**
Calvert is completing work on an update report to Calvert's 2010 publication "Examining the Cracks in the Ceiling" on diversity implementation in S&P100 companies, slated for release in early in 2013. We use this data to support advocacy and encourage companies to increase gender and minority representation on corporate boards, often via shareholder resolutions. During the 2012 proxy resolution season, Calvert filed six shareholder resolutions on

board diversity and another four thus far for the 2013 season, bringing the cumulative number of resolutions filed on board diversity up to a total of 64, with 30 women and/or minority directors added to company boards as a result.

**Forced Child Labor in the Uzbek Cotton Industry**

Calvert has continued to be among the leaders of an international multi-stakeholder initiative with major global apparel brands, other SRI firms and U.S. and European-based NGOs to address forced child labor in Uzbekistan's cotton fields every fall harvest (including in September-October 2012), the largest instance in the world of a government directly mobilizing child labor on such a massive annual scale. Among the brands participating in the coalition are Gap, Inc., Levi Strauss, Disney, and Wal-Mart, which have pledged to curtail their sourcing of cotton from Uzbekistan until the government has made a credible commitment and taken concrete steps to end the practice. For the fifth year in a row in 2012, the Government of Uzbekistan declined to accept the recommendation of the International Labor Organization (ILO) to accept a monitoring and assessment mission as a prelude to long-term technical assistance to curtail this practice.

In late April, Calvert signed a letter addressed to Secretary of State Hillary Clinton calling for the U.S. government to take immediate steps to end the use of forced child labor in Uzbekistan. We also signed a June letter to Secretary Clinton expressing disappointment that the U.S. Government had failed to downgrade Uzbekistan in its annual Trafficking in Persons (TIP) Report for its continued systematic use of child and forced labor. In mid-September, Calvert targeted several companies that had yet to join the coalition and sign the pledge to end the use of cotton from Uzbekistan. To date, at least one additional company agreed to join the coalition and endorse the pledge.

**Executive Compensation**

Last year, the Calvert Funds Boards approved changes to Calvert's proxy voting policy on executive compensation. Since the passage of Dodd-Frank, publicly traded companies in the United States are required to give shareholders a "Say on Pay," meaning shareholders have an opportunity to vote on the compensation report for the previous year and let corporate boards and management know whether they believe that the compensation awarded was justified. Calvert believes too many companies are awarding excessive compensation to senior executives, not aligning such compensation with the long term performance of the company, and/or not explaining their approach to compensation adequately. Calvert voted against more than 30 percent of company compensation reports since implementing our revised approach and is writing to many of the companies to explain our votes against management. In addition to a strict set of voting guidelines on executive compensation, Calvert is writing to key companies to communicate our reasons for voting against their Say on Pay proposals.

**ENVIRONMENT**

**Principle 7: businesses should support a precautionary approach to environmental challenges;**

**Principle 8: undertake initiatives to promote greater environmental responsibility; and**

**Principle 9: Encourage the development and diffusion of environmentally-friendly technologies.**

**Rio+20 Summit**
This past summer Calvert President and CEO Barbara Krumsiek spoke at several events at the Rio+20 Summit on board oversight of sustainability, social enterprise and impact investing, the role of business in promoting gender equality, the business case of the green economy and establishing value for natural capital, both as CEO of Calvert and in her capacity as co-Chair of the United Nations of the United Nations Environment Programme Finance Initiative (UNEP FI).

The first Earth Summit in Rio de Janeiro 20 years ago created climate and biodiversity
conventions and set the stage for frameworks to address global environmental degradation, climate change, and poverty. However, global economic uncertainty weighed heavily on the Rio+20 Summit. While negotiations continued to advance toward 2015, we were disappointed by the lack of concrete commitments needed for substantial progress on critical sustainability issues.

Nonetheless, the side events sponsored by private-sector and non-governmental organizations sparked many innovative initiatives and positive outcomes. A number of major companies made significant commitments on water, energy, renewable materials, and deforestation. Corporate and investor disclosure of environmental, social, and governance impacts took a real step forward as well.

Some of the most promising gains made at Rio were related to improved reporting and disclosure. Most notably, the Corporate Sustainability Reporting Coalition, to which Calvert is a signatory, worked hard to keep language in the outcome document that promotes "report or explain" disclosure and integrated financial and sustainability reporting of major companies. In support of this effort, the governments of Brazil, Denmark, France and South Africa announced they will launch a platform for developing international sustainability reporting, working with the Global Reporting Initiative and the United Nations Environment Programme. The Sustainable Stock Exchange Initiative aims to improve disclosure and performance of corporations held in key stock exchanges. A number of stock exchanges—such as those in China and Brazil—already require corporate sustainability reporting. Other exchanges—including NASDAQ—

agreed at Rio to encourage their listed companies to report on environmental, governance and social issues, or explain why they do not do so.

Forty-five CEO members of the UN CEO Water Mandate, to which Calvert is a signatory, committed their companies to make water use efficiency and wastewater goals for their own operations. Companies will also lobby governments to include more input from civil society, improve water infrastructure and pricing, and increase efficiency.

Private investors committed to invest over $50 billion, and more than 50 governments pledged to adopt clean energy goals as part of the "Sustainable Energy for All" initiative. The Sustainable Energy for All program aims to provide access to electricity services to everyone on earth by 2030, and to double energy efficiency and alternative energy production. Other corporate commitments focused on improving company operations and products.

A coalition of over 400 companies in the Consumer Goods Forum reaffirmed a 2010 pledge to reach zero net deforestation within their supply chains by 2020. The difference in the Rio pledge is that it is in partnership with USAID, which will provide funding for key program work. The program was widely praised by business leaders and many NGOs, such as World Wildlife Fund, which will help to implement the program. Several grassroots organizations, however, expressed concern that the program might harm forest communities.

Even if further global agreements among governments remain elusive, tangible commitments were made by major companies, along with the promise of continued negotiations. Progress on disclosure of environmental, social and governance impacts by companies and investors is a real step forward. Concrete pledges in the areas of water and energy are also encouraging. However, commitments by companies and investors are no substitute for broad agreements by governments on climate change and political leadership. Calvert expects that companies and investors are likely to remain the main drivers of progress over the next several years. While they are to be encouraged and commended, their efforts cannot substitute for binding governmental commitments.

**Ceres/Environmental Defense Fund Report on SEC Oil/Gas Risk Disclosure**
Calvert contributed to a report by Ceres and the Environmental Defense Fund, released in August that analyzes SEC reporting disclosure of major oil and gas companies on climate risk and deepwater drilling risks including those related to regulatory risks, spill response, drilling safety and environmental management, greenhouse gas emissions, and corporate governance of climate change. We expect the baseline to be used by the industry to compare and improve disclosure among lagging companies.

**PREP/Oxfam America Partnership**
Calvert was a founding member of a new partnership initiative on climate change adaptation called Partnership for Resilience and Environmental Preparedness (PREP) along with Oxfam America (OA), Swiss Re, Levis Strauss, and Limited Brands. PREP highlights innovative, job-creating opportunities for U.S. companies in adapting to climate change and building resiliency for affected communities and regional economies. PREP was publicly launched last October as a one-year pilot partnership via a press release responding to a White House report on adaptation. Members include Entergy, Green Mountain Coffee Roasters, Levi Strauss and Company, Limited Brands, Starbucks, and Swiss Re as well as Calvert. Business for Social Responsibility (BSR) and Ceres are partners; OA serves as PREP's secretariat.

Along with Ceres and Oxfam America, Calvert released "Physical Risks from Climate Change: A guide for companies and investors on disclosure and management of climate impacts" in May. The report featured industry-based risk disclosure recommendations, plus current best practice examples and a checklist for strategic management of physical climate risks.

In July, Calvert and other leading companies from PREP released a first guide for businesses to assess and prepare for the risks and opportunities posed by climate change, entitled "Value Chain Climate Resilience: A guide to managing climate impacts in companies and communities". This report was designed as a tool for corporate leaders and sustainable investors to complement the earlier disclosure guidance report. Value Chain Climate Resilience aims to help company executives and senior managers gain a better understanding of climate-related risks throughout their value chains, identify where emerging market opportunities exist, take into account community needs, and develop plans that are integrated throughout the enterprise with the support of communities and civil society. The guide will also help the financial services and insurance sectors understand how to engage with the companies they invest in or insure to manage risk, maximize returns, and minimize future losses. Calvert has been referencing the report in our engagement and dialogues with companies, where it has been a useful tool since it has increased our understanding of and expertise on the physical impacts facing of companies facing climate change today.

**Support for EPA Rules Related to Electric Utilities**
Calvert coordinated an investor letter calling on U.S. Senators to uphold a recently established Environmental Protection Agency (EPA) Clean Air Act Rule. The June letter, signed by 34 investors with over $200 billion in assets under management, urged the Senate to oppose Senator James Inhofe's (R-OK) effort to prevent the EPA from implementing the Mercury and Air Toxics Standards for power plants. The rule requires significant reductions in power plant emissions, mostly by upgrading and retrofitting the older facilities that had been

grandfathered by the original Clean Air Act. The Senate voted to uphold the rule in June, a major victory for our position.

The investor letter made the case that the Mercury and Air Toxics rule will not only improve health and protect the environment, but will also create jobs. Experts estimate that the capital investments required to comply with these two Clean Air Act rules will add nearly 1.5 million jobs, or nearly 300,000 jobs per year on average over the next five years. Investment in air pollution control projects will create construction and manufacturing jobs with an impact across an industry supply chain with over 175 companies in 37 states.

Calvert also submitted comments to the EPA in June supporting the Carbon Pollution Standard to help reduce U.S. greenhouse gas emissions, and in turn Calvert argued that the proposed standard will spur innovation and investment in low and no-carbon technologies as well as new energy infrastructure and energy efficiency. Our comments pointed out that while investors and business increasingly understand the risks of climate change, there are significant opportunities to invest in cleaner technologies and more efficient resources – investments that can create jobs and economic opportunities.

**Challenging Companies to Address Misalignment with Trade Associations**
Calvert and Walden Asset Management coordinated an open letter to 43 major companies on the Board of the National Association of Manufacturers (NAM) from 23 investors and investment organizations, representing over $200 billion in assets under management, asking NAM to explain the misalignment between their own company's climate policies and its position seeking to strip the EPA of its ability to curtail greenhouse gases. The EPA rules were upheld and our letters were part of a broader effort to support the Clean Air Act Rules in Congress and with the EPA, which continues to retain the authority to regulate such rules.

**CAFE Standards**
Calvert advocated in public testimony for the newly finalized corporate average fuel economy (CAFÉ) standards, which require cars to reach a 54 mpg standards by 2025. The White House's announcement of finalized CAFE standards represents historic progress on vehicle efficiency will have clear benefits to the environment, energy security, and consumers' pocketbooks. The new efficiency standards for cars and light-duty vehicles are estimated to reduce oil consumption by 12 billion barrels and represent about $1.7 trillion in consumer savings. The new standards are supported by the major automakers, which have already begun to shift their vehicle strategies to provide the American consumer with more innovative, fuel-efficient, and cleaner cars and trucks.

Calvert has been a long-time supporter of increased fuel economy standards, which until 2010 had remained unchanged for decades. Calvert has been a leading investor voice calling for increased standards that we believe will continue to help make American automakers more competitive, while representing a major step in U.S. policy efforts to mitigate climate change. Calvert has made the case in public testimony in September to the EPA (most recently in support of California's Advanced Clean Cars Program), in meetings with Obama Administration officials, in dialogue with the auto industry, and through the media. We will continue to support greater vehicle efficiency, in addition to the move towards lower-carbon fuels and other environmental objectives, in our on-going engagements with leading automakers and in public policy settings.

**Renewable Energy Report**

Despite climate and energy policy inching forward in Congress and at UN climate change negotiations, a new report from Calvert, Ceres and World Wildlife Fund released this December, shows that most of the world's largest companies aren't waiting on governments to embrace renewable energy and lower emissions. The report, "Power Forward: Why the World's Largest Companies are Investing in Renewable Energy," shows that a majority of Fortune 100 companies have set a renewable energy commitment, a greenhouse gas (GHG) emissions reduction commitment, or both. The trend is even stronger internationally, as more than two-thirds of Fortune's Global 100 have set the same commitments.

The report demonstrates that large corporations are increasingly turning to renewable energy to power their operations. Companies are investing in renewable energy because it makes good business sense: renewable energy helps reduce long-term operating costs, diversify energy supply and hedge against market volatility in traditional fuel markets. It also enables companies to achieve GHG emissions reduction goals and demonstrate leadership on broader corporate sustainability and climate commitments. We distributed the report on Capitol Hill, held a briefing to educate House and Senate staff and plan to use the report as a tool for dialogue. We have already begun referencing the report in shareholder resolutions and as a tool to support public policy towards renewable energy.

**Pebble Mine**

Calvert continued its engagement with the EPA on Pebble Mine, which poses significant risks to the local ecosystem. Pebble Mine is a proposed copper, gold and molybdenum mine that would be situated at the headwaters of the Bristol Bay Fishery Reserve by the Pebble Partnership, made up of U.K.-based Anglo-American and Northern Dynasty Minerals Ltd. of Canada and would impact Alaska's Bristol Bay watershed, which produces roughly half of the world's commercial supply of wild sockeye salmon. By May, the EPA released for public comment a draft scientific study of the Bristol Bay watershed and its natural resources. The EPA's draft assessment found that an open pit mine would likely cause significant negative impacts. The assessment sets the stage for EPA to move forward with a process to restrict the impacts of mining activity in the Bristol Bay watershed.

Calvert raised concerns about Pebble directly with Anglo-American CEO Cynthia Carroll in May. She acknowledged the significant environmental issues surrounding the project and indicated that the company would not move ahead without the confidence it can address them satisfactorily, even without the full support of local communities. In June, company representatives, including the Chief Operating Officer, met with met with Calvert and Trillium Asset Management and detailed their concerns with the EPA process and sought to provide assurances that the company would move forward with the proposed mine in a way that would protect the environment, local communities and the salmon fishery. Calvert and Trillium in turn explained our concerns about the risks an open pit sulfite mine would present to the pristine ecosystem and salmon fishery.  Calvert subsequently met with Anglo-American Board director Peter Woicke (ex-CEO of the International Finance Corporation arm of the World Bank) in July to discuss the issues surrounding the project in light of Woicke's recent tour of the site and meetings with local communities and other interested parties.

Calvert and Trillium sent a July letter on behalf of 30 investors with $61 billion in assets under management to the EPA commenting on the draft assessment, and circulated it to other investors for endorsement. The letter called upon the EPA to move forward with its review of mining activity in the Bristol Bay region in accordance with the Clean Water Act. As a result of such a review, the EPA may prohibit or restrict the disposal of mine waste if it determines that it will have an "unacceptable adverse effect" on water supplies, fishery areas, wildlife, or recreational areas.  Calvert will continue to call on the EPA to restrict the impacts of mining activity in Bristol Bay.

**Palm Oil Sustainability**

More and more, consumer packaged goods companies are making commitments to source sustainable palm oil for use in their products.  The industry uses palm oil and its derivatives—from the fruit of the oil palm tree—in food, lotions, soaps, shampoo and other items.  Although there are sustainability advantages to using oil palm trees, which produce a great deal of oil with less land, water, and pesticides than many other crops, there are also significant problems with the way oil palm trees are typically grown in some countries.  Palm oil plantations may be responsible for significant greenhouse gas emissions, displacement of local and Indigenous Peoples, and decimation of endangered species, such as the orangutan. The urgency of multi-stakeholder efforts to improve palm oil production were just recently brought home, as scientists with the Sumatran Orangutan Conservation Program said in late March that hundreds of the critically endangered Sumatran Orangutan had been killed in fires deliberately set by palm oil companies.

In 2011, Calvert was the lead filer in a shareholder resolution co-filed with six other investors, asking the Colgate-Palmolive Company ("Colgate") to adopt and implement a comprehensive palm oil sourcing policy including a target date for sourcing 100% certified sustainable palm oil.  We also asked the company to report to the Roundtable on Sustainable Palm Oil (RSPO), an international certification scheme for sustainable palm oil production. Following a constructive dialogue with Colgate, including a review of its comprehensive strategy regarding palm oil and palm kernel oil, Calvert and its co-sponsors withdrew the proposal in 2012. By 2015, Colgate's goal is to purchase only certified sustainable palm oil and derivatives from Roundtable on Sustainable Palm Oil member companies. Colgate agreed to address this important issue in its supply chain and by reporting to the RSPO.

**EquiTABLE Food Initiative**

Calvert participated in a new multilateral stakeholder initiative on ethically-produced food in the United States and serves on the Steering Committee of the EquiTABLE Food Initiative, a certification program designed to improve farmworker welfare, environmental performance and product safety of domestically grown fruits and vegetable crops, which is supported by Oxfam America, along with Calvert, major farmworker unions, Costco, Bon Appétit Management Co, Compass Group, A&W Growers, and environmental and consumer safety NGOs. The program has completed pilot testing of draft standards at two California strawberry farms and is hiring trainers to ramp up the project. Its aims include decreasing pesticide use and supporting and improving farmworker welfare and the safety of domestically grown fruits and vegetables.

**Water Sustainability/CEO Water Mandate**

Calvert strongly supports the principle that universal access to fresh water is a fundamental human right and is at the forefront of investing sustainably and also in using our voice to change corporate behavior and promote positive public-private water initiatives. Calvert remains an active leader in four policy and advocacy related campaigns: 1) the ICCR Food and Water working group; 2) the Ceres Water working group; 3) the CEO Water Mandate; and, 4) the Principle for Responsible Investment (PRI) work related to water. Calvert recently posted a PRI Clearinghouse announcement, sent to all PRI signatories, that recognized and commended the recently released draft CEO Water Mandate's Disclosure Guidance document – a joint report by both the CEO Water Mandate and PRI with guidelines on the disclosure of water related activities that will be piloted for a year. Calvert is in dialogue with the CEO Water Mandate secretariat to explore ways in which we can promote the Disclosure Guidance document and encourage select holdings to pilot the approach contained in the disclosure guidelines. We remain active in the CEO Water Mandate's working groups on human rights as well as transparency and disclosure working groups.

Calvert also supports water security through its shareholder advocacy efforts and policymaking initiatives and will continue to do so. Calvert was the first investment company to endorse the UN's CEO Water Mandate. Launched in 2007, this seminal, private-public initiative helps corporations develop, implement, and disclose their water sustainability practices and policies in six critical areas: direction operations, supply chain and watershed management, collective engagement, public policy, community engagement and transparency. As of March, there were over 85 endorsing members.

**Earth Day 2012**

Calvert had a visible presence at the annual Earth Day celebration on the National Mall in Washington, D.C. in April. Visitors to Calvert's booth were able to learn about sustainable and responsible investing through short talks by several Calvert associates on topics related to Calvert's engagement with companies and environmental issues. Calvert showed a brief clip on a jumbotron from its upcoming short film on water and renewable energy. Calvert presented on sustainable and responsible investing from the main stage and also organized and moderated two back stage roundtables with VIP speakers on water and climate change.

**CEO Water Mandate**
**Communication on Progress**

The following brief summary outlines our actions and outcomes in each of the six CEO Water Mandate work elements.

1. **Direct operations:**

**Investment criteria.** As a sustainable and responsible investment company, the application of sustainability investment criteria to Calvert mutual funds is our most powerful and direct tool for reducing water-related risks and capitalizing on water-related sustainability opportunities. As of December, of the 44 mutual funds managed by Calvert Investment Management, Inc., 23 apply sustainability criteria representing approximately $4 billion in assets under management. The rigorous application of sustainability criteria helps to identify companies that are well positioned to enhance long term value through sound environmental, social and governance management.

Calvert's Global Water Fund was launched in October 2008 as part of a Solutions Strategies Investment portfolio which seeks to invest in companies that produce products and services designed to solve some of today's most pressing environmental and sustainability challenges. The Fund seeks growth of capital through investment in equity securities of companies active in the water-related resource sector.

**Shareholder Advocacy.** Shareholder Advocacy provides investors with powerful ways to directly influence corporate behavior and policies. Calvert's advocacy focuses on environment and climate change; human rights, labor rights and Indigenous Peoples' rights, diversity and women; and governance and disclosure.

In 2011, we identified water risk in the supply chain as a priority for shareholder engagement and filed two shareholder resolutions asking companies to conduct water risk mapping exercises and disclose complete information about water-related supply chain risks. The resolution with Fossil Inc. went to a vote and we received 31% in favor of our proposal. The company's failure to respond, engage and improve caused us to file again in 2012.

The second company, Hanesbrands Inc., offered more productive engagement. The company agreed to conduct many improvements including employing a water risk mapping tool, improving disclosure of water indicators, updating the public sustainability website and reaching out to nongovernmental organizations and others to explore working partnerships.

Additionally in 2012, we filed five resolutions on environment and climate change, critical issues linked to both water availability and water quality. We engaged in numerous dialogues on water management, human rights, supply chain and disclosure.

**2. Supply Chain and Watershed Management:**

As an asset management company, we do not have specific supply chain and watershed management initiatives and outcomes to report. Our leverage comes in the form of asserting investor influence on companies we own in our investment portfolios to encourage them to understand their supply impacts and to improve their watershed management (discussed above).

**3. Collective Action:**

The SRI community has a long tradition of working collectively to achieve common goals. This is also true of our work on water sustainability.

Calvert continues to exercise leadership in various multi-stakeholder forums to help define, advance, educate and communicate about water risk and opportunity. Among the groups with whom we collaborate are the United Nations Principles for Responsible Investment, CEO Water Mandate, Ceres, Interfaith Center for Corporate Responsibility, U.S. SIF, Investor Environmental Health Network, Business for Social Responsibility, the Global Reporting Initiative, and the Carbon Disclosure Project.

**4. Public Policy:**

Calvert is committed to engaging responsibly in various parts of the public policy process. We participated in the Public Policy Working Group of the CEO Water Mandate, which published its final guide in November 2010.

We have also taken a strong position on the issue of human rights and water. Calvert recognizes that access to water is a human right and we are eager to see this important policy issue at the fore of our discussions in the CEO Water Mandate. Accordingly, we also participate in the CEO Water Mandate's Human Rights Working Group.

We have worked diligently to integrate water issues in our work with the Investor Network on Climate Risk, Carbon Disclosure Project, and UNEP FI and we explicitly incorporated water risk into the 2012 Special Report, "Physical Risks from Climate Change: A guide for companies and investors on disclosure and management of climate impacts", which we co-authored with Ceres and Oxfam America.

We will explore policy work with other investor organizations with whom we are actively engaged including the UN Principles for Responsible Investment, Investor Environmental Health Network and the Interfaith Center on Corporate Responsibility.

**5. Community Engagement:**

Calvert continues to use its ownership position to help strengthen community engagement processes. Notable in this effort is our work with Dow Chemical, a company we hold in our SAGE funds. With these companies, we use strategic engagement to advance environmental, social, and governance (ESG) performance on the part of companies that may not meet all of Calvert's Signature ESG criteria today but have the potential to improve. We have encouraged Dow Chemical through a series of face to face meetings to strengthen and disclose its stakeholder engagement process with community leaders, government officials and other key stakeholders who are concerned about legacy pollution problems. In 2012, the company committed to strengthening its community process and to disclosing information about corporate efforts to implement a full dioxin cleanup in Midland, MI and throughout the Tittabawassee river region. The company now maintains a website to deliver timely information to community members. The company is steadily making progress with both the cleanup and communication.

We continue to push for more meaningful stakeholder processes that allow for stakeholder involvement early in a planning or reporting process. Too often corporations solicit stakeholder input at the 11th hour, when a report is on its way to the printing press or a plant is about to be sited. Calvert insists that because water sustainability is fundamentally a local issue, local experts and local stakeholders have a valuable role in the front end of water management, be it risk identification or hydrologic modeling.

**6. Transparency:**

Calvert, as a sustainable and responsible investment company, has always pushed for better disclosure of ESG-related risks and performance data across the board. We explicitly incorporate into our analysis a range of environmental liabilities including water pollution and energy use as well as "intangible" assets such as environmental management, performance and investment. We believe that failure to account for and fully disclose these risks and liabilities could lead to inaccurate market valuation of a company.

During the 2012 proxy season, we filed our 65th shareholder resolution asking for enhanced sustainability disclosure. Water use and water quality are typically included in the suite of performance indicators we ask high impact companies to track and disclose.

In the last year, we have focused on the link between climate impacts and water risk recognizing the climate change may complicate and exacerbate water scarcity, flooding, competition for water resources, water pricing, insurance costs and other issues of that affect small and large companies alike.

In 2012, we worked closely with the Carbon Disclosure Project (CDP) and Carbon Disclosure Project – Water. To encourage better reporting, we sent letter to non-responders. We attended the CDP Investor Event and Launch in New York City. We also shared the podium with CDP at an EPA-sponsored symposium on the Economic Importance of Water, presenting the investor case for enhanced disclosure of water risk and opportunity.

We will continue to actively encourage the material significance of water use through our economy, society and culture. We will also use all the tools and venues available to us as investors, including ongoing participation in the CEO Water Mandate workstream on disclosure and transparency to promote better understanding, measurement, management, collaboration and disclosure of water impacts, water risks and opportunities.

## CORRUPTION

**Principle 10: business should work against corruption in all its forms, including extortion and bribery.**

**Dodd-Frank Section 1504: Extractives Revenue Transparency**

Calvert has continued to demonstrate leadership among investors in supporting extractive revenue transparency and full disclosure of material information related to oil, gas and mining in certain countries where gross corruption and poor governance has contributed to the "resource curse" of distorted development. (Calvert's focus on this issue is directly connected to significant oil, gas and mining holdings in its SAGE Strategies funds.) Calvert wrote a widely circulated and cited paper in April 2010 that helped to shape and build support for the final version of the legislation as enacted in Section 1504 of the Dodd–Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). Calvert was widely credited for its leadership role among investors and has remained actively engaged in the Securities and Exchange Commission (SEC) rule-making process pertaining to Section 1504.

The SEC issued the final rules for the implementation of the Section 1504 provision of Dodd-Frank in August. The content of the final rules were broadly consistent with the position advocated by Calvert, representing a remarkable victory. Calvert's previous written comments to the SEC were cited and quoted extensively in notes to the rules, especially with respect to the materiality of particular factors to which we drew attention. Specifically, the rules acknowledged the materiality of the disclosures required by Section 1504 and indicated that they be filed as part of an annual submission to the Commission. We are also encouraged by the Commission's decision not to exempt any covered issuer from the disclosure requirements, as recommended by others, in order to provide investors with as comprehensive data as possible. Moreover, while the SEC's statements did not specify a definition for the term "project" in the final rules, we look forward to encouraging covered companies to apply the Commission's additional guidance in this area in ways that best meets the needs of investors. Calvert met with SEC Commissioner Luis Aguilar and his staff in October.

In November, Calvert submitted a sworn statement to the Secretary of the SEC Elizabeth Murphy, regarding our concerns about the API/Chamber challenge to Section 1504 and the problems Calvert would face if the law were delayed or revoked. Consistent with Calvert's comments regarding the rulemaking for Section 1504 sent to the SEC in November 2010 and March 2011, the statement emphasized the materiality of the disclosures required by the law and why current accounting requirements and disclosures made pursuant to the EITI yield information that is insufficient to identify and analyze the risks and opportunities that Section 1504 disclosures would reveal. Statements opposing the API/Chamber motion for a stay of Section 1504 have also been sent by Senators Cardin, Leahy, Levin, and Lugar plus Oxfam America. Calvert is working on a draft investor sign on letter that will indicate support for SEC rulemaking and plans to vigorously defend rulemaking and the underlying law in the legal challenge brought by API, the Chamber and others. Calvert is also pursuing other avenues to support the SEC in the legislation where appropriate.

Beyond the SEC process, we have been a resource to investors and regulators in jurisdictions such as the EU, Canada and Australia where complementary laws are in development or under consideration. We hope the result of these efforts will be a global standard of transparency and good governance in the oil, gas and mining industries.

**SEC/DOJ Foreign Corrupt Practices Act**

Calvert, along with U.S. SIF and Domini met to discuss forthcoming guidance to strengthen implementation of the Foreign Corrupt Practices Act (FCPA) with SEC and Department of Justice (DOJ) officials including Kara Brockmeyer, Chief, Foreign Corrupt Practices Act Unit, SEC; and Charles Duross, Deputy Chief, Foreign Corrupt Practices Act Unit, DOJ in May. The investor group expressed its strong support for the FCPA and SEC/DOJ's vigorous enforcement actions and also shared how bribery allegations are considered when evaluating companies. Both the SEC and the DOJ asked to see any studies indicating the benefits for business and investors on compliance and the risks of bribery. The meeting also addressed the Chamber of Commerce's concerns about successor liability, parent-sub, and establishing a de-minimus exception. Calvert, Domini and U.S. SIF then drafted an investor statement for the group detailing their strong support for rigorous enforcement of the FPCA, which was released in August. In November, the SEC and DOJ issued guidance on their policies and practices on civil and criminal prosecutions under the FCPA for companies. The investor group, which included Calvert, then issued public support welcoming and reacting to the publication of the SEC and DOJ guidance.