

THE CEO WATER MANDATE Communications on Progress

Statement of Continued Support

As a sustainable and socially responsible investment (SRI) firm, Calvert is committed to both the CEO Water Mandate elements and the UN Global Compact principles. Calvert was the first investment company to endorse the CEO Water Mandate and we are a founding member of the United Nations Global Compact. We are committed to achieving progress as we implement programs that help advance CEO Water Mandate elements. We fully support the mission of the CEO Water Mandate and its goal to contribute promising solutions to the emerging global water crisis.

As a financial services company that leases office space, our direct ecological footprint is relatively small. Our greatest impact may be traced to the collection of companies we own in over 50 mutual fund portfolios. If we are to affect significant change, we must focus our efforts on influencing the policies and practices of our company holdings to improve their overall performance and accountability. This is our core challenge and the focus of our CEO Water Mandate work program. Accordingly, this report highlights the steps we have taken and plan to take, and progress we have made in influencing other companies to make positive changes with regard to their water use and distribution as well as their water governance, disclosure and transparency.

In order to meet our commitment to report on progress to our stakeholders, we have prepared this Communications on Progress. In it we offer brief descriptions of our CEO Water Mandate-related initiatives and expected outcomes. In some cases we report on progress to date, in others we offer a description of our goals for the future. For subsequent Communications on Progress, we will strive to produce a discrete set of indicators that can be used both internally and by our external stakeholders, to track performance over time. We will also strive to align our Communications of Progress for the CEO Water Mandate with our reporting for the UN Global Compact and the Calvert Sustainability Report. We welcome input from our shareholders and stakeholders in this evolving process.

Policies and Practical Actions and Measurement of Outcomes:

Calvert adopts policies in the form of sustainability criteria while our programs and practical actions reflect the tools available to us as a financial services company – research, investment and shareholder advocacy.

Direct Operations

As an office-based financial services company that leases office space, we do have a water footprint that we seek to manage. We continue to look for opportunities to improve our water- and energy-related office performance and our associates' commuting, residential and office practices. For example, in the course of negotiating our new ten-year lease for our office space, we obtained a commitment by the building owner to make a number of environmental improvements including water use reductions in the bathrooms, improved lighting and energy performance and expanded bike facilities. Our water footprint, however, is minor compared to our influence as sustainable and responsible investors.

Calvert now 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.

- **Calvert Signature™ Strategies**—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.
- **Calvert Solution™ Strategies**—A thematic approach to solving some of today's most pressing environmental and sustainability challenges.
- **Calvert SAGE™ Strategies**—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 the environment. Within our environmental screening protocol, we positively value companies that address environmental issues including their water impacts. For example, we prefer companies that:

- Disclose sources of environmental risk and liability and take actions to minimize exposure to future risk,
- Implement natural resource conservation and efficiency programs as well as strong pollution prevention programs, and demonstrate a strategy toward sustainable development,

Investors have a right and a responsibility to engage with companies on environment, social, and governance (ESG)-related issues where shareholder value is at stake and improved performance is within reach. Calvert uses strategic engagement and shareholder advocacy to encourage positive change in companies in virtually every industry, both to establish certain commitments and to encourage concrete progress. For our Signature Strategies, Calvert's advocacy focuses on environment and climate change; human rights, labor rights and Indigenous Peoples' rights, diversity and women; and governance and disclosure.

We have taken a keen interest in a number of beverage companies and in this past year we engaged in dialogues with The Coca-Cola Company and PepsiCo Inc., to learn more about company policies, water use in operations and plans to address long term water supply and community access. These advocacy initiatives with the beverage industry will continue and expand in the coming months as we explore further the intersection of climate change and water supply risk in food and beverage companies.¹

Calvert SAGE Strategies

¹ As of 9/30/2009, PepsiCo comprised .83% of CSIF Balanced Portfolio, .75% of Calvert Social Balanced, and 1.46% of Calvert Social Index Fund. Securities of Coca Cola Company are not held in any Calvert sustainable and responsible equity fund. Calvert may or may not still invest in, and is not recommending any action on, companies listed. For the most recently available information on individual holdings in each Calvert sustainable and responsible equity fund, visit www.calvert.com. Current and future portfolio holdings are subject to market risk.

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 new opportunities to make an impact with companies, some of which were never held in our longstanding sustainable and responsible funds until the launch of our SAGE Strategy Large Cap Value Fund in December 2008.

Currently, we have enhanced engagement campaigns with 16 of the companies in our SAGE Strategies Large Cap Value Fund. Our 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 and also including proxy voting and shareholder resolutions. One example of a SAGE advocacy campaign is our dialogue with General Electric Corporation (GE).² We are following GE's responsibility for the clean up of several old industrial waste sites. One of our objectives is to encourage GE to improve its accountability to shareholders and stakeholders for the clean up of historic contamination on the Hudson River. In October 2009, Calvert sent a senior sustainability analyst to the clean up site to look first hand at the remediation effort and to inquire about the company's plans for carrying out a full clean up. The face to face nature of our SAGE dialogues allows for powerful communication from investor to company about priority subjects such as water quality, stakeholder engagement and corporate responsibility.

We are actively working to develop meaningful and replicable measures to report regularly on progress in each dialogue. For now, our progress is reported in the 2009 SAGE Engagement Report, available on the Calvert website at <http://www.calvert.com/Documents/BR10038.pdf>.

Please note that investment in mutual funds involves risk, including possible loss of principal invested. You could lose money on your investment in the Calvert Large Cap Value Fund or the Fund could underperform because of the following risks: the market prices of stocks or bonds may decline; the individual stocks or bonds in the Fund may not perform as well as expected; and/or the Fund's portfolio management practices may not work to achieve their desired result.

The market may not recognize a security's intrinsic value for a long time or a stock judged to be undervalued by the Fund's portfolio manager may actually be appropriately priced.

In addition, large-cap companies, like those held in the Fund, may be unable to respond quickly to new competitive challenges, such as changes in technology, and also may not be able to attain the high growth rate of successful smaller companies, especially during periods of economic expansion.

Calvert Solutions Strategies

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

Our Global Alternative Energy Fund seeks to achieve its investment objective by investing, under normal circumstances, at least 80% 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. Within this fund, we examine closely the impacts to water associated with the type of energy, product and service offerings of eligible investments and holdings. Many of the

² As of 9/30/2009, GE comprised 1.84% of the Calvert Large Cap Value Fund.

companies in this fund deliver dual benefits of energy and water conservation. Examples of such companies can be found at <http://calvert.com/water/>

In September 2008, we began to focus more specifically on water with the launch of the Calvert Global Water Fund. The Fund invests primarily in companies within the water sector or in those companies that are significantly involved in water-related services or technologies. Investments in the water-related resource sectors and companies may include water treatment, engineering, filtration, environmental controls, water-related equipment, water and wastewater services, and water utilities. We aim to invest directly in companies that produce or market water-related products, services and technologies that enhance access to and affordability of water, public health, and quality of life.

Our advocacy agenda for the Global Water Fund emphasizes:

- Disclosure and transparency
- Equitable and affordable access to water and sanitation
- Relationship between climate risk and water risk
- Stakeholder engagement

We have had some early results with our advocacy work in the Global Water Fund including influencing some companies to begin producing sustainability reports. We have begun to explore what is required 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 the future, we will work to develop meaningful measures of the effect of our advocacy work. Examples of companies that we have engaged can be found at <http://calvert.com/water/>

Please note that the Calvert Global Alternative Energy Fund is subject to the risk that stocks that comprise the energy sector may decline in value, and the risk that prices of energy (including traditional sources such as oil, gas or electricity) or alternative energy may decline. The Fund is non-diversified and may invest more of its assets in a smaller number of companies; therefore, gains or losses on a single stock can have greater impact on the Fund. The stock markets in which the Fund invests may also experience periods of volatility and instability. In addition, shares of the companies involved in the energy industry have been more volatile than shares of companies operating in other, more established industries. Consequently, the Fund may tend to be more volatile than other mutual funds. Lastly, the Fund's foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations.

Please note that the Calvert Global Water Fund is subject to the risk that stocks that comprise the water-related sector may decline in value. The water industry can be significantly affected by common economic trends, such as the availability of water, the level of rainfall and consumption, and other climatic events, in addition to environmental considerations, taxation, and government regulation (including the cost of compliance). The Fund is non-diversified and may invest more of its assets in a smaller number of companies; therefore, gains or losses on a single stock can have greater impact on the Fund. The stock markets in which the Fund invests may also experience periods of volatility and instability, and shares of companies involved in the water sector have been more volatile than shares of companies operating in other more established industries. Consequently, the Fund may tend to be more volatile than other mutual funds. Lastly, the Fund's foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations..

Measurement Tools

As we have discussed under Direct Operations , most important to the assessment of our water footprint is developing an understanding of our portfolios' and our holdings' water impacts. To date, investment companies have not reported on portfolio-wide impacts of water. It will take time to develop an appropriate model and methodology, to collect good data, and to conduct such a portfolio assessment. We aim to begin developing a portfolio water risk model in the near future and have set this as a long-term goal. In the meantime, we have begun a similar type of project, which also will have implications for water. Specifically, we are in the process of calculating and reporting on both portfolio-wide climate risk as well as the integration of climate change and water risks and opportunities. We will seek to report on progress regarding the development of these measures in our next reporting cycle.

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 to encourage them to understand their supply impacts and to improve their watershed management. In advance of the next COP Water, we will reach out to other investment companies that have endorsed the CEO Water Mandate to determine a meaningful way to report on progress for this indicator.

Collective Action

The SRI community has a long tradition of working collectively to achieve common goals. Our work on water sustainability is no different. During the past year:

- Calvert has taken a leadership role among our peers (including other SRI firms, investors and like-minded NGOs) to create momentum around our collective work as it pertains to water sustainability. We began the SRI Water Working Group as a way to exchange information about our respective engagements on water, establish a more formal network for enhanced communication, and lay the groundwork for collaboration among SRI firms on key campaigns such as improving water disclosure, the human right to water, water footprinting, and water risk in the supply chain. Although this group is still in its early stages, we have begun to meet and are striving to establish goals for collective action among our colleagues in the SRI community.
- Calvert participated in a small group of Principles for Responsible Investment (PRI) signatories, coordinated by the CEO Water Mandate, in writing to over 100 multinational companies on the importance of water corporate responsibility and engagement. As of June 2009, ten of these companies had joined the CEO Water Mandate. In October 2009, Calvert served as a presenter on a webinar to large international companies that were also UN Global Compact members and described the CEO Water Mandate and encouraged the companies to consider joining.

Public Policy

Calvert is committed to engaging responsibly in various parts of the public policy process. We have joined the Public Policy Working Group of the CEO Water Mandate to provide input during the development of the Mandate's Guide to Public Policy Engagement.

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 have also joined the CEO Water Mandate's Human Rights Working Group. To date, we have capitalized on many opportunities to provide input and make statements and our position has remained consistent: We strongly encourage:

- Firms to improve disclosure and transparency around water-related impacts and opportunities;
- The CEO Water Mandate to provide leadership and serve as a platform to encourage CEO Water Mandate endorsers to improve disclosure and transparency;
- The CEO Water Mandate to attach a strong and urgent priority to developing a common understanding of the risks and opportunities related to human rights and water. We believe that the CEO Water Mandate should develop a position around these risks and the broad responsibilities that companies should acknowledge and address.
- The CEO Water Mandate to produce documents and guidance that are valuable for industry, emphasizing the practical application of important principles.
- Discussion about actual or perceived policy capture - the belief that the corporate world is misusing its power or unduly influencing governmental decisions around water.

In June 2009 Calvert held a water-specific "visioning" session with the Calvert Social Investment Fund Board of Directors. The session, "Water—Investment Opportunity, Sustainability Challenges," explored the investment opportunity in both the domestic U.S. and global contexts with an emphasis on ways that the U.S. stimulus package and other elements of the proposed federal budget may create additional opportunities for development of water-related infrastructure. Guest speakers included experts from McKinsey & Company, WaterAid America and the Pacific Institute.

Calvert will work to incorporate water policy into our current work with the Investor Network on Climate Risk, Carbon Disclosure Project, and UN Environment Programme Finance Initiative (UNEPFI). We will explore policy work with other investor organizations with whom we are actively engaged including the UN Principles for Responsible Investment, Global Warming Shareholder Coalition, Investor Environmental Health Network, Interfaith Center on Corporate Responsibility and the newly launched, SRI Water Working Group. We will use this outreach to set broad water-related policy goals around such topics as access/affordability/pricing, political lobbying, information sharing, ownership, water efficiency, and water quality and enforcement.

Community Engagement

Calvert values community engagement and considers it an important issue in each of our investment strategies. We have stated publicly that equitable access to water is a fundamental human right. We urge human rights policies and implementation programs to address the need for equitable and affordable access to water. See: <http://calvert.com/newsarticle.html?article=15090>

In our Global Water Fund, we promote best practices designed to involve local stakeholders and communities. We seek to involve investors and civil society organizations to strengthen accountability for this sector.

In our SAGE Funds, as we spend more time in the field, we aim to engage directly with national and local stakeholder organizations. When our senior analyst was meeting with GE representatives on

the Hudson River, she also met directly with representatives of local and national organizations to learn about their perspective on the company's community engagement process.

We also strive to be involved locally in our own community. As an active member of the Sustainable Business Network of Washington (SBNOW), Calvert helped SBNOW develop its Green certification for local businesses, which sets standards on energy and water use, pollution prevention and more.

Going forward, we will continue to look for appropriate measures to track the effect of our community engagement work over time.

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 and "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.

When we launched our Global Water Fund, we simultaneously committed to a shareholder advocacy plan that focuses on four priority values, one of which is disclosure and transparency. Our transparency and disclosure objective is to urge ESG disclosure. We prefer for companies to have clear and consistent ESG policies. We also urge transparency around measures that affect access to, and affordability of, safe drinking water and sanitation.

Shortly after the launch of our Global Water Fund, we sent a letter to each of the 60 companies in the Fund, asking for information about their sustainability disclosure. Based on the responses and our assessment of urgency and opportunity to have an impact, we selected four companies with whom to further engage through dialogue and ultimately decided to file shareholder resolutions asking these companies to publish a sustainability report by the end of 2009. The outcome of these four resolutions can be found in: <http://calvert.com/newsarticle.html?article=14399>

We will strive to identify consistent, measurable, and where possible, quantifiable water metrics that allow Calvert and our stakeholders to track progress over time toward the achievement of transparency goals.

Other Links of Interest:

[Calvert Alternative Energy White Paper](http://www.calvert.com/ae/pdf/AltEnergyWhitepaper.pdf)

<http://www.calvert.com/ae/pdf/AltEnergyWhitepaper.pdf>

[Calvert White Paper on Water](http://www.calvert.com/NRC/literature/documents/8219.pdf?litID=8219)

<http://www.calvert.com/NRC/literature/documents/8219.pdf?litID=8219>

[Enhanced Engagement Report](http://www.calvertgroup.com/Documents/BR10038.pdf)

<http://www.calvertgroup.com/Documents/BR10038.pdf>

[Shareholder Resolutions for 2008](http://www.calvert.com/sri-resolutions.html)

<http://www.calvert.com/sri-resolutions.html>

[Greener Pastures for America's Homebuilders?](#)

<http://www.calvertgroup.com/NRC/Literature/Documents/7776.pdf>

[Sustainability Reports](#)

<http://www.calvertgroup.com/about-csr-reports.html>

[UN Global Compact Report](#)

http://www.calvert.com/NRC/Literature/Documents/global_compact_2009.pdf

[The Way We Run Our Company](#)

<http://www.calvertgroup.com/climate-calvert.html>

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