ESG Investing Update

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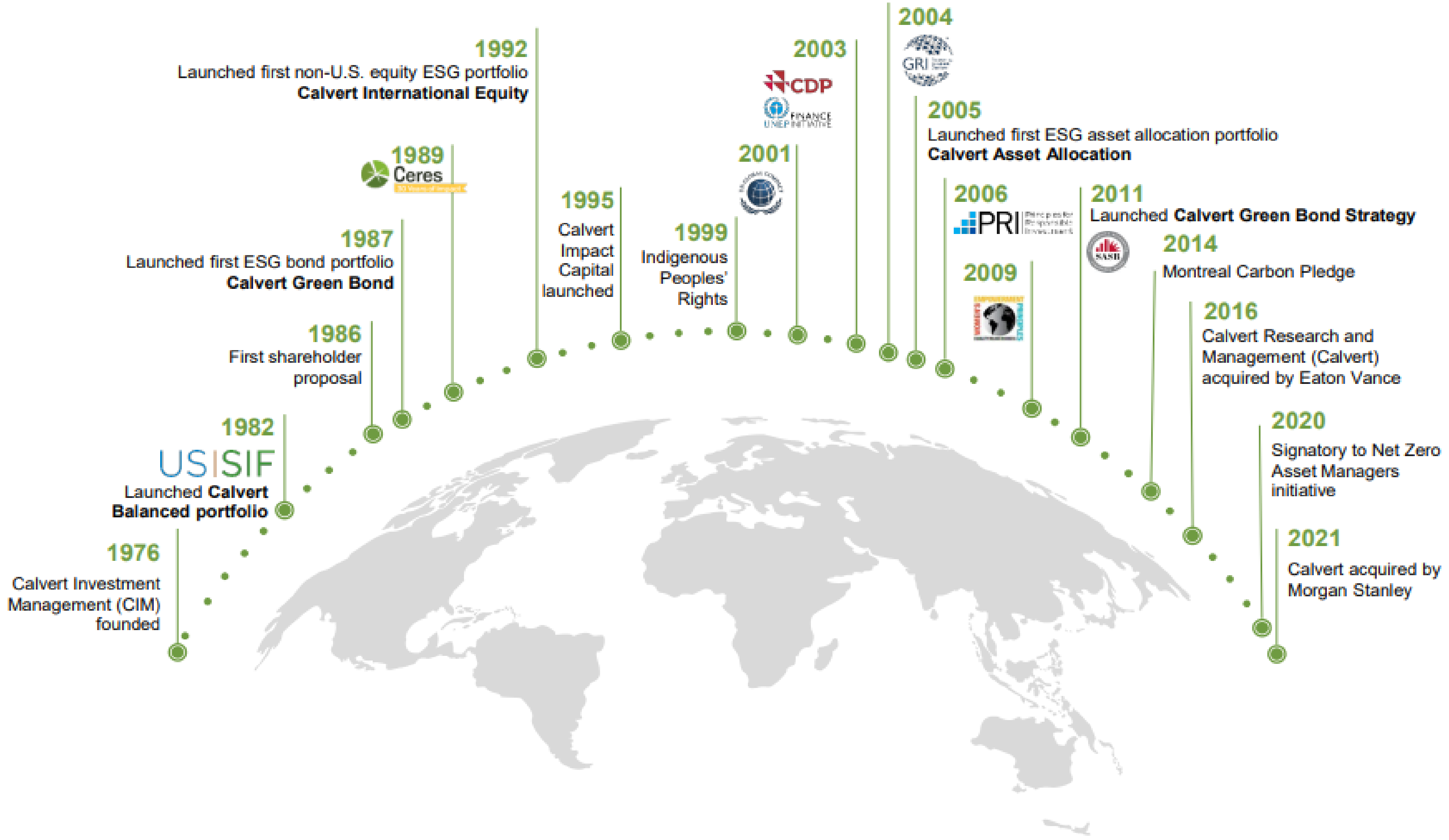
A Leader in Responsible Investing for 40 years, Calvert was an early initiator of developments in the space and is a signatory to key global accords.



SEC ESG Risk Alert

On April 9, 2021, SEC's Division of Examinations issued a Risk Alert highlighting observations from recent examinations of investment advisers, registered investment companies, and private funds offering ESG products and services

SEC Observations

Deficiencies

- **Inconsistencies between portfolio management practices and disclosures about ESG approaches** in disclosures, e.g., lack of adherence to global ESG frameworks where claimed
- **Inadequate controls to maintain monitor, and update clients' ESG-related investing directives**, resulting in prohibited securities being included in client portfolios or, alternatively, client preferences not being effectuated
- **Unsubstantiated or otherwise potentially misleading claims regarding ESG approaches**, e.g., overstating risk, return
- **Inconsistencies between public ESG-related proxy voting claims and internal proxy voting policies and practices**, finding that public claims were not supported by practice
- **Inadequate controls to ensure consistency between ESG-related disclosures and marketing materials and practices**, including failures to update marketing materials timely, lack of documentation of ESG investment decisions
- **Inadequate compliance programs that do not fully address relevant ESG issues**, inadequately trained compliance staff lacking relevant ESG knowledge, inadequate policies and procedures

Effective Practices

- **Clear, precise disclosures tailored to firms' specific approaches to ESG investing and aligned to actual practices**
- **Comprehensive policies and procedures on ESG investing covering key aspects of practices**, including documentation requirements by investment stage (e.g., research, due diligence, selection, and monitoring)
- **Knowledgeable compliance personnel integrated into ESG-related processes**.

ESG Regulatory Enforcement Landscape

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BNY Mellon (May 2022)

- On May 23, 2022, SEC announced it settled cease and desist charges, and imposed a $1.5 million penalty against BNY Mellon for alleged misstatements and omissions in fund disclosures regarding the adviser's incorporation of ESG factors into its investment process
- SEC alleged BNY Mellon represented that **all** investments in its funds had undergone an ESG quality review
- This is the first enforcement action against an investment adviser by the Division of Enforcement's Climate and ESG Task Force

"As this action illustrates, the Commission will hold investment advisers accountable when they do not accurately describe their incorporation of ESG factors into their investment process."

Adam Aderton, Co-chief of the SEC Enforcement Division, Asset Management Unit

DWS (May 2022)

- DWS office raided by public prosecutors from Frankfurt, federal police and officials from the German financial regulator, BaFin, over greenwashing allegations. This follows prior reports of investigations by SEC

GSAM (June 2022)

- SEC reported to be investigating GSAM over alleged greenwashing in ESG Funds

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Proposed Rule Summary	**Proposed rule requires:**
	• Registered investment advisers, registered investment companies and business development companies to disclose additional information about their ESG investment practices
	• Specific disclosure regarding ESG strategies in fund registration statements, the management discussion of fund performance in fund annual reports, and adviser brochures
	• Funds that consider ESG factors in their investment process to disclose additional information, the level of which will depend on how central ESG factors are to a fund's strategy
	• Funds to differentiate among three ESG investment strategies: ESG Integration, ESG-Focused, and ESG Impact
	    • **Integration Funds**. Funds that integrate ESG factors alongside non-ESG factors required to describe how ESG factors are incorporated into their investment process
	    • **ESG-Focused Funds**. Funds for which ESG factors are a significant or main consideration required to provide detailed disclosure, including a standardized ESG strategy overview table
	    • **Impact Funds**. A subset of ESG-Focused Funds that seek to achieve a particular ESG impact required to disclose how it measures progress on its objective
	• Certain environmentally focused funds to disclose the GHG emissions associated with their portfolio investments (e.g., carbon footprint, weighted average carbon intensity)
	• Funds that use proxy voting or engagement with issuers as a significant means of implementing their ESG strategy to provide additional information about their proxy voting or ESG engagements

Comment Deadline	• August 16, 2022

SEC Proposal on Fund Names Rule

Proposed Rule Summary	**Proposal would:** • Expand **80% investment policy** to a fund with a name suggesting that the fund focuses on investments or issuers (e.g., ESG terms, or terms like "growth", "global" or "value") • Specify types of derivatives to be included in the 80% basket for purposes of the Names Rule, and that those should valued at **notional value** (rather than market value) • Specify circumstances under which a fund can depart from the 80% investment policy, and timeframes to return to compliance • Prohibit unlisted **CEFs and BDCs** from changing their 80% investment policies without a **shareholder vote** • Require a fund's **prospectus** disclosure to **define** the terms used in a fund's name • Amend **Form N-Port** to require greater transparency on how a fund's investments match its investment focus • Require funds to keep certain records regarding how they comply with the Names Rule or why they are not subject to it • Deem as **materially deceptive and misleading** for a fund to use ESG or similar terminology in its name if that fund considers ESG factors alongside but not more centrally than other, non-ESG factors in its investment decisions • Update the Names Rule's notice requirement with specific provisions on how notice to investors of changes in the fund's 80% investment policy should be provided
Comment Deadline	• August 16, 2022