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Calvert Investments and Fossil Fuels

Calvert has six portfolios with no exposure to fossil fuels; low exposure across virtually all others; and high-impact advocacy with its remaining fossil fuel holdings

As a leading sustainable and responsible investor, we are acutely focused on the investment implications of climate change. From investment policy to securities analysis to shareholder advocacy, climate change is an integral part of our thinking about how to manage investment risk, identify return opportunities, and help reduce carbon emissions on behalf of our clients.

Low or No–Carbon Portfolios

The rigorous environmental, social, and governance (ESG) analysis conducted by our investment teams has resulted in low or no carbon exposure in many of our portfolios. For portfolios that have carbon exposure, we leverage our position as an active shareowner to engage and advocate for improvements in company climate policies and footprints. Our recent shareholder advocacy initiatives are explained later in this article.

As detailed in the table below, six Calvert mutual fund portfolios hold none of the "Top 200 Fossil Fuel Companies," as identified by the Carbon Tracker Institute[1]. Because the "Carbon Tracker Top 200" list only reveals the top 100 largest public coal companies globally and the top 100 largest public oil and gas companies globally, ranked by the potential carbon emissions content of their reported reserves, we conducted a more extensive analysis of total exposure to fossil fuel reserves by portfolio holding weights. The methodology for our analysis entailed using MSCI-supplied data as a baseline, and augmenting this data with proprietary inputs from our ESG analysts on known reserves not captured in the MSCI data. By virtue of conducting this richer and more expansive analysis, we are able to report to our clients that Calvert has six portfolios with no exposure to fossil fuels, and low exposure across virtually all others.

[1] *Unburnable Carbon*. The Carbon Tracker Institute, based on the 2014 list.

No– and Low–Carbon Calvert Mutual Fund Portfolios*

Equity Mutual Funds	Total Exposure to Carbon Tracker Top 200	Total Exposure to Fossil Fuel Reserves by Portfolio Holding Weight
Calvert Global Water Fund	0.00%	0.00%
Calvert Small Cap Fund	0.00%	0.00%
Calvert Global Alternative Energy Fund	0.00%	0.00%
Calvert International Opportunities Fund	0.00%	0.00%
Calvert Equity Portfolio	0.74%	0.74%
Calvert Social Index Fund	1.20%	1.34%
Calvert Emerging Markets Equity Fund	2.32%	2.32%
Calvert Capital Accumulation Fund	2.38%	2.38%
Calvert Large Cap Core Portfolio	2.73%	2.73%
Calvert International Equity Fund	4.11%	5.92%
Calvert Large Cap Value Fund	12.71%	12.71%
Calvert Equity Income Fund	16.03%	16.03%
Multi-Asset Mutual Funds		
Calvert Balanced Portfolio	1.76%	1.76%
Fixed Income Mutual Funds		
Calvert Green Bond Fund	0.00%	0.00%
Calvert Unconstrained Bond Fund	0.00%	0.00%
Calvert Bond Portfolio	1.26%	1.68%
Calvert Ultra Short Income Fund	3.83%	4.07%
Calvert Long-Term Income Fund	3.74%	4.74%
Calvert Short Duration Income Fund	5.38%	5.99%
Calvert Income Fund	8.33%	9.64%
Calvert High Yield Bond Fund	6.76%	15.73%

** Based on an analysis of holdings as of September 30, 2014. Excludes Calvert Government Fund, Calvert Tax-Free Bond Fund, Calvert Asset Allocation Funds, Calvert Variable Portfolios, and DC College Savings Plan Portfolios.*

Our Perspective on Divestment

At Calvert Investments, we share the frustration expressed by the growing fossil fuels divestment movement with the slow and uneven progress in addressing global climate change. Committed supporters of divestment have rightly focused on the severity of climate change and the urgency of addressing it. Divestment is a valid choice, but so too is active ownership that challenges companies to curb carbon emissions and to point us toward a renewable energy economy. What we find unacceptable is for investors to stand on the sidelines – failing to exercise our rights as shareholders to push companies to address this growing crisis.

We believe Calvert Investments and other active owners can help accelerate the transition to low–carbon U.S. and global economies. Therefore, we recognize the opportunity that natural gas presents as a bridge fuel in the short term, provided that carbon emissions are below those of other fossil fuels and that hydraulic fracturing ("fracking") practices are altered to diminish environmental and public health risks, and that at the same time, we encourage a further transition from natural gas to renewable energy. That's why we offer products such as the Calvert Global Alternative Energy Fund, which invests in companies that are pushing the boundaries of energy innovation and efficiency.

When companies with fossil fuel reserves are included in Calvert's portfolios, our advocacy includes pressing them to report and reduce greenhouse gas (GHG) emissions, expand investments in alternative energy, and support constructive climate change public policy. The Calvert Sustainability Research Department (CSRD) applies decades of advocacy experience to improve companies' policies and performance. In fact, Calvert asks companies in all industries to adopt these approaches to climate change mitigation. For example, Calvert recently demonstrated that major companies have saved over $1 billion by using clean energy in a report authored with the World Wildlife Fund, Ceres, and David Gardener and Associates.[2]

How We View Stranded Assets

The fossil fuel divestment movement has sharpened the public focus and debate around the urgency of acting to curb climate change. It will likely gain strength as long as gridlock at the federal level persists and fossil fuel companies fail to reduce emissions and shift to a mix of less carbon intensive fuel sources and non-carbon renewables. The movement has already made some investors more aware of the notion of "stranded assets"—that fossil fuel company investments in coal, oil or gas reserves will become stranded over time as public policy and regulatory actions to put a price on carbon or set emissions limits will make certain hydrocarbon reserves "unburnable." At Calvert Investments our view is that "stranded assets" is indeed a potentially significant future risk factor for investors to consider, but is not yet an actionable investment thesis, as such policy and regulatory action–though imperative in our view–is not inevitable given insufficient focus and progress at the domestic and international levels. Nonetheless, companies as well as investors should take this risk seriously and diminish their reliance on hydrocarbon assets.

At Calvert Investments, our role in reducing dependence on fossil fuels will continue to be active and committed; indeed, the challenge from the divestment movement has compelled us to be even more mindful of the carbon intensity of our portfolios and of the efficacy of our shareholder advocacy and public policy initiatives. We believe that the push for divestment makes engagement with fossil fuel companies more essential than ever to demonstrate our shared commitment to curbing climate change. The divestment push may also make engagement more effective as we use our platform as owners to press harder for our objectives—and the companies in turn feel compelled to engage more seriously as they feel the political pressure from the movement. Divestment and engagement can therefore be complementary, mutually reinforcing strategies to advance the same objectives by combining outside and inside pressures and players. We are determined to carry forward our longstanding leadership on climate change and play our part with greater focus and urgency than ever.

Calvert posted on its website commentaries on 7/24/13 ("Calvert Investments and Fossil Fuels") and 12/5/2012 ("Calvert Investments' Oil and Gas Advocacy Complements Divestment Movement") explaining its views in detail and highlighting Calvert fossil fuel-free funds and others with low energy sector exposure in particular.

Calvert has been filing shareholder resolutions and engaging in other advocacy on climate–related issues with companies in our portfolios since 2002. Examples from this year's efforts include the following.

Read more about Calvert's policy work related to climate change here: Business Support for Policy Action on Climate Change Grows 20-fold as the "Climate Declaration" Hits First Anniversary

Impairment and Stranded Asset Risk: A risk management discussion

Hydraulic Fracturing Advocacy Yields Wins: Calvert's engagements with Pioneer Natural Resources Company and QEP Resources end with commitments to improve disclosure

Calvert Investments Is First U.S.-Based Asset Manager To Take The Montreal Pledge

[2] Power Forward 2.0.

Climate–Related Reporting and Hydraulic Fracturing Proposals

EOG Resources

In 2013, following advocacy and a withdrawn resolution by Calvert Investments and others, EOG Resources committed to disclose all its hydraulically fractured wells through the FracFocus database, well integrity testing data, oil spills greater than five barrels, reportable injury rates, and GHG emissions. In 2014, the company made these disclosures, submitted its first public report to the Carbon Disclosure Project and announced plans to implement a pre-drilling baseline water sampling program for use in all of its U.S. divisions.

Pioneer Natural Resources

In 2013, Calvert Investments filed a shareholder proposal that called on Pioneer Natural Resources to improve its policies, programs, and performance disclosure regarding its operations that employ hydraulic fracturing. On May 23, we filed the proposal and it received the support of almost 42 percent of the company's shareholders, very significant support for a first–time proposal of this kind. Following the vote, we continued very productive meetings with the company. In May 2014, Pioneer released significantly enhanced disclosures that include more useful qualitative and quantitative information regarding hydraulic fracturing.

QEP Resources

On December 10, 2013, Calvert Investments withdrew the resolution it filed with QEP regarding water, climate, and hydraulic fracturing disclosure on the basis of the company's commitment to make sufficient disclosures in 2014. Following a series of discussions, QEP committed to make disclosures that would reflect its greenhouse gas emission and water usage quantitatively, as well as its programs regarding climate change and hydraulic fracturing. We are currently working with QEP on the details of these disclosures.

UNPRI Hydraulic Fracturing Working Group

On January 16, 2014, Calvert Investments Senior Sustainability Analyst Paul Bugala joined the United Nations Principles for Responsible Investment Hydraulic Fracturing Working Group. The group is currently comprised of 29 asset managers and 6 asset owners representing approximately $4.6 trillion AUM that have committed to care about collaborate engagement with oil and gas companies to improve their policies, program, and performance disclosure related to hydraulic fracturing.

Carbon Asset Risk Advocacy

At Calvert Investments we believe that the assessment of carbon asset risk or the long term economic viability of certain hydrocarbon assets can be an important tool in better understanding the impact of climate change company decision-making and public policy. We have been involved in several discussions with companies on the topic both on our own and in coordination with the environmental advocacy group Ceres. One engagement done in parallel with Ceres has been with ExxonMobil, which issued a report detailing its perspective on carbon asset risk in March 2014. In an April 2014 meeting with the company, we emphasized the need for the company to better reflect the emphasized importance of including the cost of climate change adaptation in any economic analysis on the impact of global warming.

Furthermore, Calvert Investments was the first U.S.-based asset manager to sign the Montreal Carbon Pledge. The pledge, which launched at the Principles for Responsible Investment (PRI) Summit held in Montreal in September 2014, calls for investors to commit to measure and publicly disclose the carbon footprint of their investment portfolios on an annual basis and to take action to decrease that footprint.

Climate–Related Public Policy

In addition to engaging directly with companies held in certain portfolios, Calvert Investments has contributed to public policy and defended regulatory measures requiring industry action to reduce GHG emissions and invest in alternative energy. For example, we have worked with the National Resources Defense Council (NRDC) to preserve Section 526 of the Energy Independence and Security Act, which prohibits the U.S. Department of Defense from buying oil with high carbon content.

We also have worked with the Investor Network on Climate Risk (INCR) to support strong fuel economy standards for automobiles (which the Obama Administration established in August 2012), has vigorously supported the U.S. Environmental Protection Agency (EPA) proposed standard to limit greenhouse gas emissions from electric power plants, and has advocated for renewable energy.

In March 2014, the EPA announced the new Tier 3 standards, which will significantly reduce tailpipe emissions of smog and soot from vehicles. Calvert Investments was the lead investor supporter of the standards in a coalition that included Corning, BASF, Environmental Defense Fund, the NAACP, Natural Resources Defense Council, Sierra Club, Union of Concerned Scientists, and United Steelworkers. In a *New York Times* article, S. William Becker, director of the National Association of Clean Air Agencies said, “There is no other regulatory strategy that is as important from a health standpoint, in the foreseeable future.” While lobbying support of the standard, we emphasized the value investors would realize from the enactment of Tier 3, which would result in reduced sulfur emissions and promote investment.

As part of Sierra Club’s Capitol Hill Day in March 2014, we met separately with Members of Congress and their staff to encourage support for the extension of the Production Tax Credit, the Investment Tax Credit, and EPA carbon pollution standards for existing power plants. Calvert Investments also joined companies including Starbucks, Sprint, Mars, Inc., and Unilever in meetings with Senate offices to support the extension of Master Limited Partnerships to renewable energy projects.

In April 2014 Calvert Investments participated in a workshop sponsored by the consulting firm RESOLVE that featured a discussion about *First Peoples Worldwide’s (FPW) Indigenous Rights Risk Report*. With the report, FPW examines the intersection between Indigenous Peoples, corporate responsibility, and socially responsible investing, with a quantitative analysis on the investment risks of 52 U.S.-based oil, gas and mining companies related to their operations on or near the territories of Indigenous Peoples.

Climate–Related Public Policy

Within the Calvert Investments equity mutual fund category, two funds—Calvert Equity Income Fund and Calvert Large Cap Value Fund—advance environmental, social, and governance performance in companies by emphasizing enhanced engagement and employing less comprehensive ESG criteria than our other equity funds. By leveraging our position as an active shareowner through these funds, we advocate “from the inside” for improvements in company climate policies and footprints on behalf of our fund shareholders.

ConocoPhillips

Calvert Investments’ advocacy objectives for ConocoPhillips have included a GHG emissions reduction target since 2009. Following a deliberate process of aligning business unit level emissions targets, ConocoPhillips has set an overall company GHG management target of three to five percent reduction in emissions against its business-as-usual forecast for 2015. Calvert will continue to push the company to extend and strengthen the target. ConocoPhillips has also indicated that the company is implementing technologies that target oil sands GHG emissions reductions of 30 percent, which is consistent with targets Calvert has urged the company to set for these operations through our enhanced engagement initiatives.

ExxonMobil

At an October 2008 ExxonMobil executive retreat, Calvert Investments pushed the company to clarify its position publicly regarding pending climate change legislation in 2009. In January 2009, CEO Rex Tillerson outlined ExxonMobil's most constructive position on climate regulation to date, which included support for a carbon tax.

At an October 2011 sustainable and responsible investing conference, we prompted Vice President of Corporate Affairs Ken Cohen to reiterate the company's support for a carbon tax and willingness to work with responsible investors and environmental groups to achieve this end. In September 2012, we organized a meeting between sustainability analysts and ExxonMobil senior executives to clarify statements Tillerson made in June of that year that appeared to prioritize adapting to climate change over taking steps to lessen its impact (including greenhouse gas emissions reductions and alternative energy investments). Cohen emphasized the steps ExxonMobil has taken to mitigate the impacts of climate change.

Calvert Investments' ongoing engagement with ExxonMobil has yielded other positive outcomes related to climate change. In April 2014, the company announced the intention to release a detailed report on hydraulic fracturing in its operations. Prior to the announcement, we pressed the company to improve its disclosure, shared a benchmarking study on Exxon's hydraulic fracturing disclosure relative to many of its peers, and emphasized the need for play-level water management and air emissions data. In a message sent following the announcement, an Exxon senior executive noted the impact our meetings with the company had on its decision to take calls for greater disclosure seriously.

Improving hydraulic fracturing-related disclosure is also a key objective of engagement with ConocoPhillips, Devon Energy, Marathon Oil, and Royal Dutch Shell as part of Calvert's enhanced engagement initiatives.

Marathon Oil

Calvert Investments urged Marathon Oil to set and meet GHG emissions reduction targets since 2009. In 2010, the company set a target to reduce its GHG emissions intensity by four percent from a 2008 baseline to 2013. According to its 2013 emissions data, Marathon Oil has achieved this goal. Calvert continues to push the company to set subsequent and stronger targets. The company has also set a target to reduce freshwater use at one of its major shale oil and gas operations in line with Calvert's enhanced engagement initiatives.

Newmont Mining

Following three years of Calvert Investments advocacy on the topic, Newmont included a revised climate change policy in its 2011 sustainability report that states its public policy position is consistent with that of the International Council of Mining and Metals (ICMM). The ICMM policy supports "a global agreement for greenhouse gas emissions abatement that includes emissions reduction commitments from all major emitting nations recognizing common but differentiated responsibilities" and "cooperation in the development, deployment, and funding of low emissions technologies in all energy sources."

Leadership on Oil, Gas and Mining Payment Transparency

The environmental, social and governance impacts of the oil, gas, and mining sector extend beyond the challenges of climate change. Most significantly, the natural resources necessary to meet the world's growing needs have become more difficult to access and have receded further into corners of world where governance challenges and corruption are pervasive. In response, Calvert Investments has become the leading investor advocate for transparency in the payments between oil, gas, and mining companies and the governments where they operate.

We have led a group of investors representing many trillion dollars in assets under management in support of Section 1504 of the Dodd–Frank Act, which makes disclosure of these payments mandatory for any oil, gas or mining company registered with the SEC. The resulting data will enhance stability in the countries where our resources are developed and will also provide material information to investors about companies' exposure to political and regulatory risks. Calvert has joined forces with a coalition of non–governmental organizations (NGOs) called Publish What You Pay to stand up to the American Petroleum Institute's effort to revoke Section 1504 in court, and our support has been referenced by SEC lawyers during the proceedings. Calvert is also a strong supporter of efforts to create a global extractive industries payment disclosure standard by enacting similar regulations in other markets, such as those implemented recently in the European Union.

Investing in mutual funds involves risk, including possible loss of principal invested.

*For more information on any Calvert fund, please contact Calvert at **800.368.2750** for a free summary prospectus and/or prospectus. An investor should consider the investment objectives, risks, charges, and expenses of an investment carefully before investing. The summary prospectus and prospectus contain this and other information. Read them carefully before you invest or send money.*

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