

THE ROLE OF CORPORATIONS IN MODERN SOCIETY

A Perspective from Calvert Investments

John Streur, President & CEO, Calvert Investments | AHC Group Corporate Affiliates Workshop, June 9, 2016



WHAT IS RESPONSIBLE INVESTING?

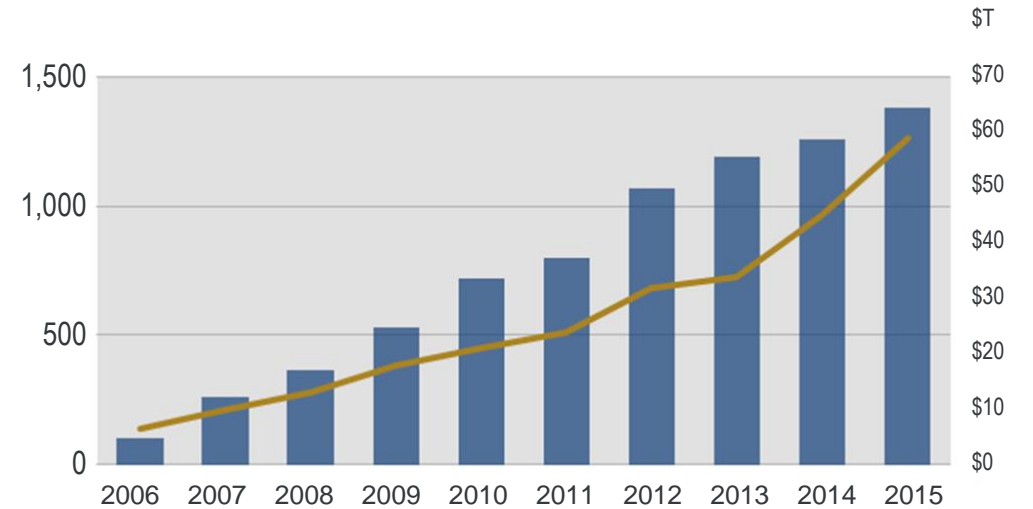
Responsible investing (RI) is an investment discipline that considers environmental, social and corporate governance (ESG) criteria to generate competitive long-term financial returns and positive societal impact.



ASSET OWNERS AND INVESTMENT MANAGERS ARE EMBRACING RESPONSIBLE INVESTING PRINCIPLES

Each year, more capital markets participants are embracing the UN Principles for Responsible Investment.

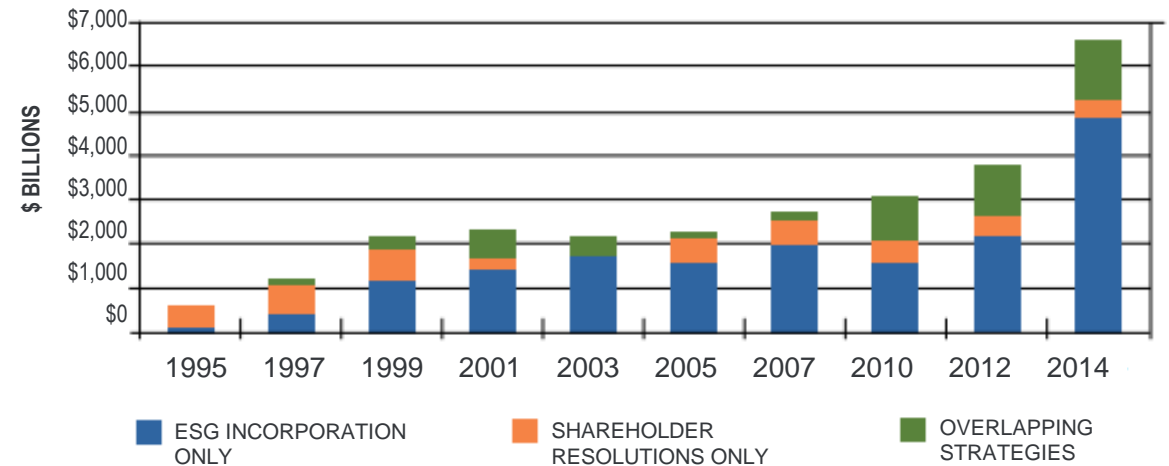
SIGNATORIES – UN PRINCIPLES OF RESPONSIBLE INVESTING



DEMAND IS EXPLODING

As investors acknowledge the correlation between corporate sustainability efforts and financial performance, they are allocating capital in a manner that rewards good behavior.

FIG. A: SUSTAINABLE AND RESPONSIBLE INVESTING IN THE UNITED STATES 1995-2014



Source: The Forum for Sustainable and Responsible Investment (US SIF)

CALVERT IS THE GLOBAL LEADER IN RI AND SETTING ESG STANDARDS

As an industry pioneer and leader over 40 years, Calvert has a differentiated, proprietary approach to RI.





CALVERT'S VIEW: THE NEW ROLE OF THE CORPORATION IN SOCIETY

The role of the corporation in society is evolving—with the general public now expecting companies to balance their ESG goals and financial performance objectives.

Shareholders have recognized this evolution and are allocating their capital in a manner that rewards responsible corporate behavior.

With investors now realizing this correlation and the public sector strapped for resources, capital markets participants are poised to more actively shape the role companies play in addressing society's largest challenges.



THE POWER AND INFLUENCE OF CORPORATIONS HAS GROWN

The emergence of large corporations and their accumulation of profits and power have stemmed from two centuries' worth of important legal, regulatory, and macroeconomic trends.

Although there were close to 50,000 publicly listed and actively traded companies at the end of 2014 around the world, the 500 largest comprise roughly 50% of the world's market capitalization.

In the United States, 5.7 million businesses employ 115.9 million people with an annual payroll of \$5.4 trillion.



THERE IS A NEW REALITY FOR CORPORATE MANAGERS

The World Faces Unprecedented Challenges

From climate change to social inequality, the global community is confronted with an array of challenges that impact every segment of the world's population.

With Finite Public Resources

Governments and the public sector are ill-equipped to independently forge solutions due to rising deficits, limited human capital and jurisdictional boundaries.

Companies Are Stepping In

As this reality takes shape, corporations – specifically the world's 500 largest companies – are applying more of their power and influence to address environmental and social issues.

And They Are Meeting Stakeholder Expectations

Corporate managers' decisions to allocate resources toward environmental and social issues reflect both moral and economic motives—as well as the acknowledgement of shareholder, consumer and general public expectations.



COMPANIES ARE NOW EXPECTED TO ACCOUNT FOR SOCIETAL ISSUES

An array of broad societal issues, which also weigh on companies' brands and balance sheets, have been central factors driving increased corporate engagement.

No one problem in isolation provides an adequate justification for corporate engagement—but considered together challenges indicate a new status quo where corporations are devoting resources to mitigate their negative impact on society while increasing their positive impact.

Today, companies are accounting for numerous challenges that impact the communities they operate and their bottom line:

- Climate change
- Environmental degradation
- Financial inclusion
- Income equality
- Supply chain practices
- Workplace health and quality



COMPANIES ARE INCREASINGLY ADDRESSING SOCIAL AND ENVIRONMENTAL ISSUES THROUGH NEW ACTIVITIES

FIRM-SPECIFIC INITIATIVES

For example, companies are singularly and proactively developing plans to address their impact on the environment and society.



Unilever's Sustainable Living Plan aims to double the size of company's business, while simultaneously reducing its environmental footprint and improving its social impact.

INDUSTRY SELF-REGULATION

Some are forming sector consortiums with scale to address industry wide-issues.



Gap, H&M, and other apparel brands have implemented codes of conduct that attempt to self-regulate business activities and influence working conditions in overseas factories.

WORKING WITH GOVERNMENTS AND NGOS

Others are partnering with regulatory and non-regulatory agencies to mitigate the impact of adverse global challenges and promote positive societal impact across areas.



The Extractive Industries Transparency Initiative (EITI) unites national governments, natural resource extractives companies, and civil society organizations to enhance transparency and accountability in the extractive industries.

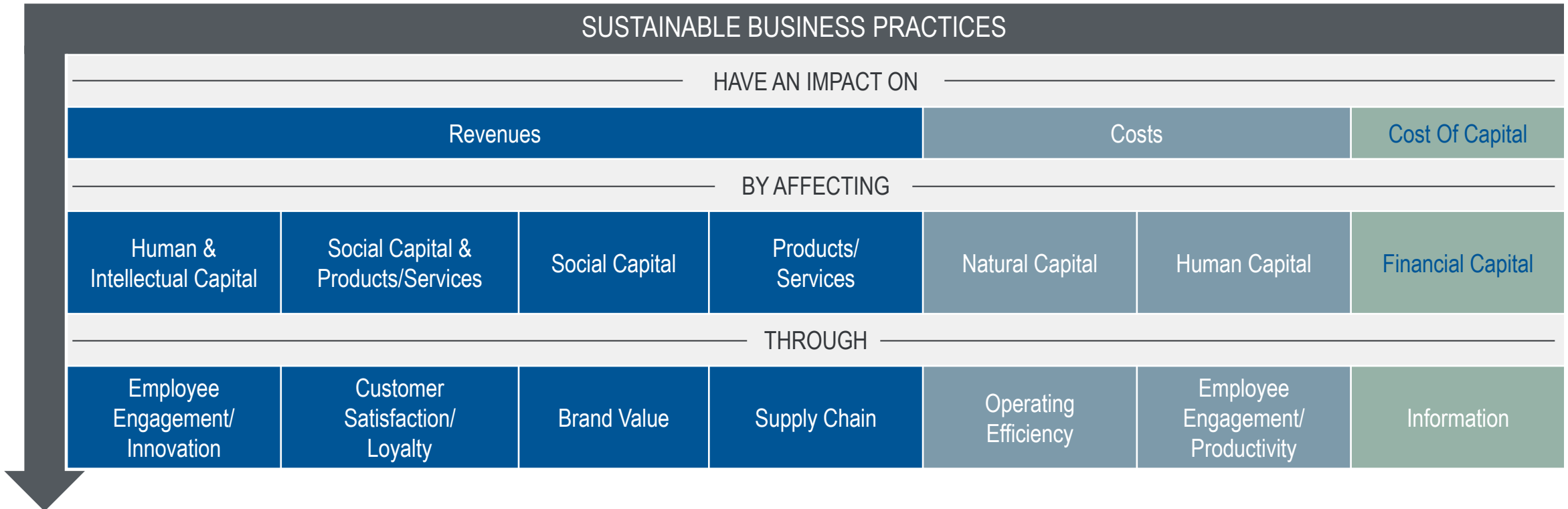
EMERGING MARKETS ENGAGEMENT

The growth in emerging markets offers multi-national opportunities to shape environmental and social outcomes



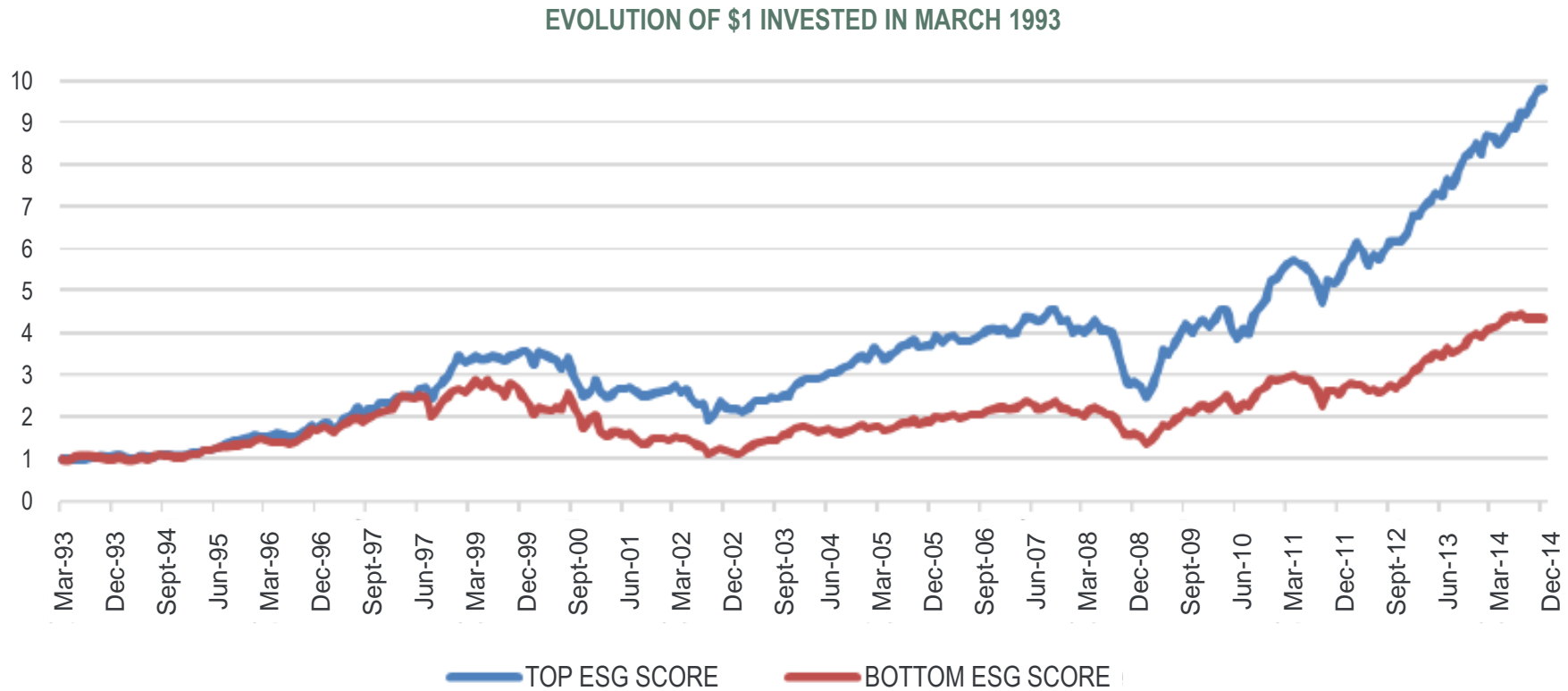
For example, Grupo Bimbo responded to the Mexican government's health-focused regulations by improving the nutritional profile of its snack food products.

SUSTAINABLE BUSINESS PRACTICES POSITIVELY IMPACT FINANCIAL PERFORMANCE THROUGH REVENUE GENERATION, COST REDUCTION AND BRAND ENHANCEMENT



Source: Serafeim, George and Streur, John, The Role of the Corporation in Society: Implications for Investors (September 2015). Available at SSRN: <http://www.calvert.com/NRC/literature/documents/wp10012.pdf>

FIRMS INVESTING IN MATERIAL ESG ISSUES OUTPERFORM IN TERMS OF RISK-ADJUSTED STOCK PRICE AND PROFITABILITY MARGIN GROWTH



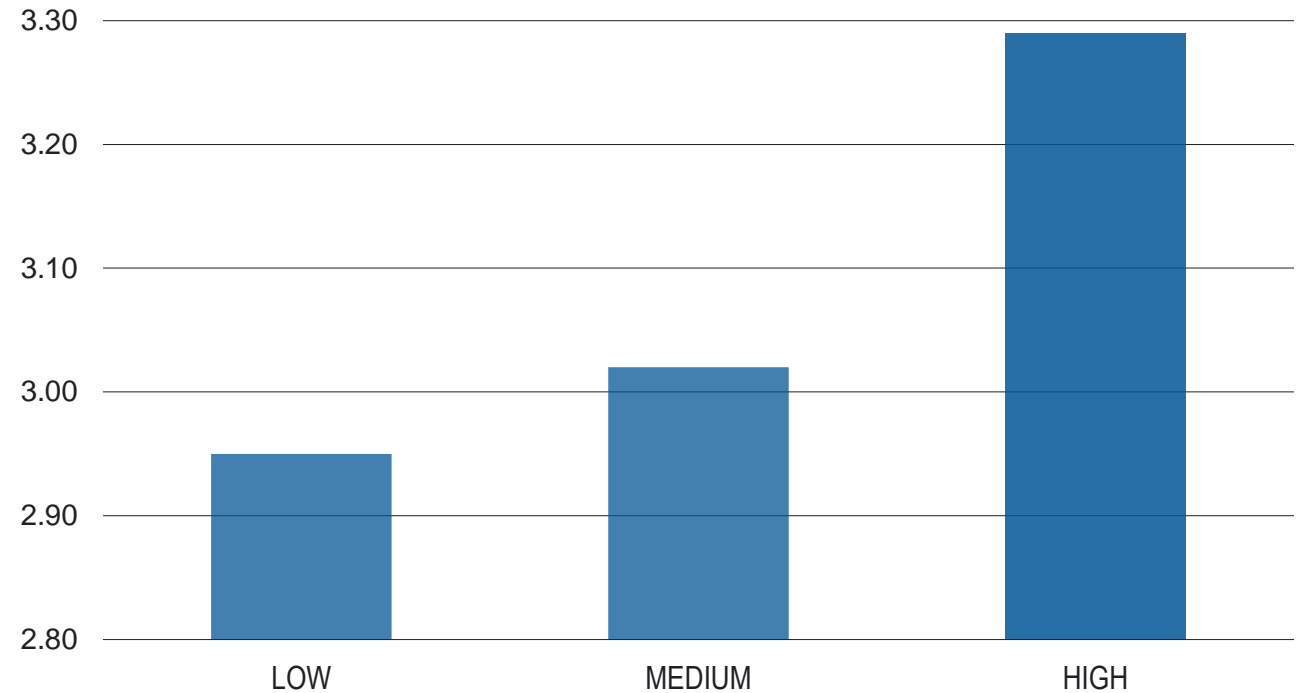
Source: Khan, Mozaffar and Serafeim, George and Yoon, Aaron, Corporate Sustainability: First Evidence on Materiality (March 9, 2015). The Accounting Review, Forthcoming. Available at SSRN: <http://ssrn.com/abstract=2575912> or <http://dx.doi.org/10.2139/ssrn.2575912>



INVESTORS RECOGNIZE THE NEW REALITY: ESG PERFORMANCE CORRELATES WITH BETTER MANAGEMENT AND BUSINESS MODELS

Valuations of firms with better ESG performance reflect higher expected growth and lower cost of capital.

MARKET VALUE OVER BOOK VALUE OF EQUITY:
Firms with low, medium, and high ESG performance



SHAREHOLDER ADVOCACY IS ON THE RISE

Along with allocating capital in a manner that rewards ESG corporate leaders, investors are lobbying for more direct impact through shareholder advocacy:



Taking Meetings with Management



Voting Proxies



Filing Shareholder Resolutions



Developing Corporate Profiles



Advancing Public Policy Initiatives



CONCLUSION

Asset management firms recognize the increasing demand amongst the investing public for ESG products.

Although ESG data sources are diverse and growing, there is uncertainty as to how best to utilize these metrics in evaluating corporate outcomes and making stock-picking decisions.

Through innovative ESG products and persuasive research, investment managers are successfully motivating the capital markets to affect change that forges positive environmental and social outcomes.



Empowering you to do more

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