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## Calvert Proxy Voting Guidelines Change With the Times

By: William Hsu | & John Wilson | March 22, 2023

**Washington** - Calvert's 2023 proxy voting guidelines, now in effect and available on Calvert.com, contain significant changes to the way we will be voting on board diversity. The result of a periodic review of our methodology, these changes reflect our view that board composition should reflect the demographics of the population.

In previous years, Calvert required companies to have a minimum of two female and two ethnically diverse directors in the U.S., U.K., Canada and Australia along with a 40% diversity requirement overall. Otherwise, Calvert voted against the company's entire Nominating Committee. In all other markets, Calvert required a minimum of two female directors.

Our new voting guidelines are as follows:

The threshold for voting on Nominating Committees remains as outlined above, but Calvert will apply a higher standard for the Nominating Committee chair:

- In the U.S., U.K., Canada, Australia and now South Africa, our proxy voting guidelines require a minimum of 40% representation of each male and female.
- The guidelines also mandate a percentage of ethnically diverse directors proportional to the population of the home country or two ethnically diverse directors, whichever is greater; and
- 50% overall board diversity.
- In all other markets, our guidelines require a minimum of 40% board representation each of male and female.

Calvert will vote against the chair at companies that do not meet these requirements.

This sets a new standard in our policy surrounding diversity. Here's our thinking behind the change.

### **Evolving Standards**

When we recently examined our proxy voting guidelines around board diversity, we saw that for the markets where we have ethnic fractionalization data, companies averaged a higher number of women on boards than our previous policy targeted. We use ethnic fractionalization, a common metric in academic population studies, to measure diversity in the workforce because it captures variations among distinct groups rather than simply dividing the population into "white" and "non-white" categories.

Combined with the fact that corporate boards have historically been predominantly occupied by white men, we felt it was necessary to signal to boards that we want to hold them to a higher standard, one that better reflects changing demographics. Research from Calvert indicates that greater representation on corporate boards is generally associated with higher returns, and, as such, we see no need for white male directors to be overrepresented.

We believe that the composition of boards should be proportional to the diversity of the societies in which they operate. Because half of the labor force is women, and because we believe there is no longer any shortage of women in leadership positions, we believe that half of board members should also be women. We set a slightly wider tolerance level of 40%-60% to allow sufficient flexibility in selecting directors.

Our new guidelines also strive for proportionality on ethnicity representative of the home country in which the company is domiciled, but at least two diverse directors to guarantee a diversity of perspectives on the board. Our research shows higher performance is generally associated with a greater number of ethnically diverse directors.

Given that board positions have historically been held by white men, the progress for ethnic and gender diversity will take some time. As such, applying our new standards to boards, we anticipate voting against most Nominating Committee chairs over the next few years.

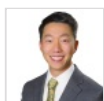
### **Setting the Standard**

During our guideline development process in Q4 2022 and Q1 2023, we benchmarked peer asset managers as well as some asset owners to look at their guidelines on board diversity. While some other peers also have very stringent standards for the number or percentage of women on boards, our new approach is market-leading.

Since we have now set this aspirational requirement for gender and ethnic board diversity, we anticipate holding these requirements in place for the forthcoming proxy seasons to give companies time to align with our updated standards.

**Bottom line:** Calvert has refined its proxy voting guidelines to raise the bar on what we expect of companies related to board diversity, building on the custom methodology we have honed over the years. You can follow our votes on our Vote Disclosure Site under the Proxy Voting section of Calvert.com.

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