

The views expressed in these posts are those of the authors and are current only through the date stated. These views are subject to change at any time based upon market or other conditions, and Eaton Vance disclaims any responsibility to update such views. These views may not be relied upon as investment advice and, because investment decisions for Eaton Vance are based on many factors, may not be relied upon as an indication of trading intent on behalf of any Eaton Vance fund. The discussion herein is general in nature and is provided for informational purposes only. There is no guarantee as to its accuracy or completeness.

[Responsible Investing](#)

Calvert's approach to ESG data and the creation of Custom Composite Indicators

By: Calvert Research and Management | March 17, 2021

Washington - Calvert's ESG research is differentiated by its focus on financially material ESG issues, or ESG issues that present risks and opportunities that may significantly impact a company's profitability, valuation or access to capital.

These concepts have long been incorporated into Calvert's ESG investment research process, in which key performance indicators (KPIs) are used to measure companies' performance on material environmental, social, and governance (ESG) themes. These analyses are performed at the subindustry (e.g., "peer group") level to facilitate a relative comparison between companies that face similar ESG risks and opportunities. However, there are a host of challenges investor's may encounter when utilizing ESG data from a variety of sources that have been outlined in recent work from the Calvert Institute ("[Exploring ESG Data: A Deeper Understanding](#)"). Chief among these challenges are identifying KPIs with a focus on financially material ESG issues and maximizing KPI coverage for a diverse set of global issuers.

To address these challenges, Calvert has undertaken a project, in partnership with financial data science firm Sociovestix Labs, to develop a set of proprietary composite ESG KPIs, known as the Calvert Custom Composite Indicators (CCIs) across a selection of key ESG themes. These CCIs aggregate ESG data from a variety of third-party data vendors and weight toward constituents most highly associated with equity upside to arrive at a proprietary ESG score for a given issuer and ESG theme. With this methodology, Calvert's research system has been streamlined to zero in on information most relevant to ESG investors.

Custom Composite Indicator creation

The Calvert CCIs have been developed to measure issuer performance on the key ESG themes already identified as material by our research analysts across various subindustries, and will replace or complement individual KPIs currently used in the Calvert research process.

To construct the CCIs, Calvert identified over 700 KPIs from five data vendors that met quality standards and were available with sufficient data history. Each KPI was assigned to one of 16 ESG themes used within the Calvert research process based on indicators' underlying definitions and vendor classifications. These KPIs were assessed to determine their relationship to company financial performance. Using a proprietary econometric model that controls for multiple geographic, sector, and market factors, equity returns for single-factor portfolios were modeled for each KPI across a range of score values and compared against returns of a global benchmark portfolio. Using these results, Calvert assigned a 'materiality factor' to each KPI tested, indicative of the strength of each indicator's association with equity upside.

CCIs were then constructed for each issuer by weighting all available constituent KPI values based on their corresponding materiality factors, with a materiality factor threshold applied to ensure inclusion of only KPIs that meet a desired level of materiality. Calvert's research process allows for the adjustment of the threshold for KPI inclusion, allowing analysts to balance the goals of achieving high materiality and broad coverage across global issuers.

Bottom line: The CCIs enhance Calvert's research by providing a comprehensive and systematic way to measure the quality of incoming vendor data, specifically its relationship to equity price movements. By incorporating the CCIs in our modeling, Calvert employs financial data science to focus our investment decisions and engagement work on companies that we believe are well positioned to drive long-term value for shareholders and stakeholders alike.

To read the full white paper from which this post was excerpted, [click here](#)



Calvert Research and
Management

"With this methodology, Calvert's research system has been streamlined to zero in on information most relevant to ESG investors."

Eaton Vance is part of Morgan Stanley Investment Management, the asset management division of Morgan Stanley

This site (www.eatonvance.co.uk) is operated by Eaton Vance Management (International) Limited ("We"). We are a limited company, registered in England and Wales under company number 4228294 and have our registered office at 125 Old Broad Street, London, EC2N 1AR. Our VAT number is 762717416.

Eaton Vance Management (International) Limited is authorised and regulated by the Financial Conduct Authority ("FCA") and is entered on the FCA's register with register number 208634.

The value of your investment can go up or down so you may get back less than your initial investment. Past performance is not a guide to future returns.

The information on this webpage is not intended for U.S. residents. To visit our U.S. website [please click here](#).

Eaton Vance Management (Registration No. 1121368) and Parametric Portfolio Associates (Registration No. 1217626) are the registered trade marks of Eaton Vance.