# The COVID-19 pandemic and the demand for racial justice

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Washington - While the COVID-19 pandemic and the systematic failure to address racism have exposed disparities in economic opportunity and treatment under the law, they have also exposed vulnerabilities in our economy and forever altered investor's perspectives on these issues as well. Many have called for stronger action to address systemic risks like inequality and racism but few have the history and expertise Calvert has engaging with companies and contributing to investor standards addressing these issues.

Since the early 1990s, we have engaged with companies, which includes filing over 120 shareholder resolutions, to improve diversity policies, measurement, and disclosure. When we started, it was unusual for women or people of color to serve on boards of directors of public companies, and few companies made efforts to improve the diversity of their workforce. Today, while progress remains insufficient, most companies now acknowledge the importance of diversity both in leadership and throughout their workforces.

The added pressure today from investors and customers for meaningful corporate action provides an opportunity to accelerate diversity and inclusion practices that have long been proven to have a material impact on corporate performance as well.

## Building blocks of diversity engagement

Calvert's engagement builds from a foundation of governance and disclosure. The dialogues we have with companies help to provide a deeper insight about how diverse and inclusive workforces can contribute to corporate performance. For example, 2019 research by Yijia Chen, ESG quantitative research analyst at Calvert, demonstrated that at large-cap companies, boards of directors with at least four women outperformed those with fewer women, while at small-cap companies having two female board members was associated with outperformance. A second Calvert report, "Evaluating the Glass Ceiling," showed this finding matches up with a broad group of independent studies that consistently found that companies with diverse leadership teams tend to outperform the market as a whole. By adding additional women and minorities to their boards, companies have the opportunity to enhance their financial performance.

A successful engagement strategy utilizes a variety of approaches from improving disclosure to investors to establishing new diversity and inclusion policies or programs if they do not already exist. Disclosure provides a baseline to assess progress over time, helps to surface risks, and can serve as an accountability mechanism for corporate stakeholders. As an example, Calvert's 2019 diversity initiative focused on companies lacking representation of women and people of color at the board and senior executive level for engagement. As part of that campaign, we reached out to 37 companies, asking them to explain their efforts to improve their ability to attract, retain, and promote talented and qualified women and people of color at all professional levels, especially at the senior executive and board levels.

Several companies failed to respond to our letter, even after several attempts to reach them. We filed shareholder proposals during the 2020 proxy season at six of these companies considered to be at highest risk. The resolution asked each company to report on the steps it was taking to enhance board diversity, including adding a commitment to diversity in its governance documents, including women and people of color in each candidate pool for board and senior leadership, and disclosing the racial, ethnic and gender composition of the board in its annual proxy statements. In each case, we had an extensive extended engagement with each company, leading to full withdrawals of all resolutions.

A key result of these engagements was increased learning on both sides. We found that all of the companies we contacted agreed that diversity was important to corporate leadership. However, they differed widely in their policies and practices. In some cases, companies were taking substantial steps to improve diversity but not reporting these steps to shareholders.

However, in other cases, we pointed out inconsistencies between companies' commitment to diversity and their actual practices. For example, one company highlighted specific diverse individuals that had been promoted but had few policies and practices in place to create opportunities across the firm. Another claimed to be unable to find diverse candidates despite operating in a location with a high proportion of people of color. A third company had a policy of hiring based upon employee referrals, a process that may exclude talented people, especially people of color, who fell outside the networks of current employees.

In each case, the solution was to build awareness of the shortcomings of current approaches, to strengthen internal advocates within the company to promote diversity as a priority, and to ask for adoption of substantial policies as a condition of the withdrawal of the proposal. To date, two companies have added diverse board members and more have committed to give serious consideration to diversity the next time they add or replace a board member.

We also utilize our proxy votes to push for positive change. Over the past five years, we voted in support of 60% shareholder proposals related to approving or amending diversity and/or EEO policies, adopting or amending a board diversity policy and creating a board diversity report. We support well-crafted shareholder proposals when there is sound, supporting rationale. Additionally, during the past five proxy seasons, we have voted against either full boards or members of the nominating and corporate governance committees, equating to almost 37,000 director nominees (29%), for a lack of diversity of the board. Calvert supports director nominees on a nominating and corporate governance committee when a company's board of directors reflects at least one woman, one person of color and, collectively, equals 30% or more.

In 2019-2020, we identified the following proposals as relevant to issues of racial inequality, and Calvert has voted 100% in support of each of these proposals, against management. Sadly, few of these proposals attracted majority shareholder support.

### Select Proxy Votes 2019-2020

| Company Name | Meeting Date | Proposal Text | Management Recommendation | Vote Instruction | Votes for (overall counted votes) | Votes against (overall counted votes) | Resolution Passed |
|---|---|---|---|---|---|---|---|
| Alphabet Inc. | 03-Jun-20 | Report on Gender/Racial Pay Gap | Against | For | 4.9 | 95.1 | No |
| Amazon.com, Inc. | 27-May-20 | Report on Reducing Environmental and Health Harms to Communities of Color | Against | For | 32.1 | 67.9 | No |
| Amazon.com, Inc. | 27-May-20 | Report on Global Median Gender/ Racial Pay Gap | Against | For | 15.3 | 84.7 | No |
| Amazon.com, Inc. | 27-May-20 | Report on Promotion Velocity | Against | For | 32 | 68 | No |
| Amazon.com, Inc. | 27-May-20 | Report on Potential Human Rights Impacts of Customers' Use of Rekognition | Against | For | 34.9 | 65.1 | No |
| Amazon.com, Inc. | 27-May-20 | Report on Products Promoting Hate Speech and Sales of Offensive Products | Against | For | 12.2 | 87.8 | No |
| American Express Company | 05-May-20 | Report on Gender/Racial Pay Gap | Against | For | 8.6 | 91.4 | No |
| Arthur J. Gallagher & Co. | 12-May-20 | Adopt a Policy on Board Diversity | Against | For | 24.4 | 75.6 | No |
| Berkshire Hathaway Inc. | 02-May-20 | Adopt a Policy on Board Diversity | Against | For | 12.3 | 87.7 | No |
| CorVel Corporation | 08-Aug-19 | Report on Equal Employment Opportunity Policy | Against | For | 37.4 | 62.6 | No |
| Expeditors International of Washington, Inc. | 05-May-20 | Adopt a Policy on Board Diversity | Against | For | 52.9 | 47.1 | Yes |
| Facebook, Inc. | 27-May-20 | Report on Median Gender/Racial Pay Gap | Against | For | 7.2 | 92.8 | No |
| Facebook, Inc. | 27-May-20 | Report on Civil and Human Rights Risk Assessment | Against | For | 8.6 | 91.4 | No |
| Fastenal Company | 25-Apr-20 | Prepare Employment Diversity Report | Against | For | 61.1 | 38.9 | Yes |
| Genuine Parts Company | 27-Apr-20 | Report on EEO | Against | For | 79.1 | 20.9 | Yes |
| Intel Corporation | 14-May-20 | Report on Global Median Gender/ Racial Pay Gap | Against | For | 9 | 91 | No |
| IPG Photonics Corporation | 28-May-20 | Report on Management Team Diversity | Against | For | 44.9 | 55.1 | No |
| JPMorgan Chase & Co. | 19-May-20 | Report on Gender/Racial Pay Gap | Against | For | 9.9 | 90.1 | No |
| Marriott International, Inc. | 08-May-20 | Prepare Employment Diversity Report | Against | For | 30.8 | 69.2 | No |
| National HealthCare Corporation | 07-May-20 | Report on Plans to Increase Board Diversity | Against | For | 59.2 | 40.8 | Yes |
| Northrop Grumman Corporation | 20-May-20 | Report on Human Rights Impact Assessment | Against | For | 24.2 | 75.8 | No |
| O'Reilly Automotive, Inc.* | 14-May-20 | Report on Material Human Capital Risks | Against | For | - | - | Yes |
| The Charles Schwab Corporation | 12-May-20 | Adopt Policy to Annually Disclose EEO-1 Data | Against | For | 13.2 | 86.8 | No |
| The Home Depot, Inc. | 21-May-20 | Prepare Employment Diversity Report and Report on Diversity Policies | Against | For | 26.4 | 73.6 | No |

Source: ISS. For complete list of all Calvert Proxy Votes, visit https://www.calvert.com/Proxy-Voting.php

## An enduring priority

Calvert's engagement activity during the past five years prioritized issues related to board, senior leadership, and general workforce diversity. Our rationale and objective from an investor and business perspective is that companies that reflect diversity throughout all levels of the company – from the mailroom to the boardroom – and that established inclusive cultures are better managed, have stronger, more effective governance and, therefore, yield stronger financial performance. Of course, Calvert also conducts engagement in order to create the social benefits created by responsible corporate actors.

Calvert has engaged 273 companies on diversity matters during the past five years, including more focused dialogues with 34 companies, 15 of which included filing of shareholder proposals. Ten new board members joined the companies we engaged, seven of whom are women and four who are people of color. Other firms have established diversity councils, hired a chief diversity officer, enhanced diversity disclosure and/or strengthened their commitments to diversity.

## Our partnerships

Calvert has partnered with a number of organizations in our fight for racial justice. We have a long-standing relationship with the Thirty Percent Coalition, a coalition of asset managers and owners dedicated to increasing gender, racial, and ethnic diversity in corporate boardrooms across the US. Additionally, Calvert recently partnered with a newly established organization, Racial Justice Investing Coalition, which is comprised of a group of investors that are committed to action and accountability to achieve racial equity. Calvert is also a longtime member of Interfaith Center on Corporate Responsibility, a faith-based organization that is dedicated to fostering a more just and sustainable world by integrating social values into corporate and investor actions. Similarly, Eaton Vance, Calvert's parent company, has publicly displayed its commitment to diversity and inclusion by joining the CEO Action on Diversity and Inclusion, a pledge made by more than 1,000 CEOs of the world's leading companies and business organizations to advance diversity and inclusion within the workplace. Calvert believes by uniting with these and other organizations, our efforts in fighting for racial justice are amplified in fostering change.

## Spotlight: Financial services

During the last several years, our work on diversity included a focus on banks and insurers, which play such an important role in providing capital and financial security to underserved communities. Banks that work to invest in communities can improve economic outcomes and address longstanding disparities in opportunities that black people and other people of color face. This work is more likely to be successful if bank leadership reflect the demographic makeup of the communities in which the financial firms operate. Of course, our focus on these companies also reflects the financial materiality of diversity and broader workplace practices to companies in these sectors.

While engaging with companies like IberiaBank, Investors Bancorp and United Bankshares, Calvert contributed to the formalization of programs that drive diversity performance improvements from hiring and recruitment, to training and development, up to greater representation in the C-suite. Our dialogue with companies has helped us to understand and then improve diversity statistics, which are an important accountability mechanism, but we have also learned that an inclusive and open culture where all perspectives and contributions are valued is an essential ingredient for progress. In fact, McKinsey found in recent reports that companies in the top quartile for racial/ethnic diversity and gender diversity are 35% and 15% more likely to have returns above their national industry medians. The opposite is true for companies in the bottom quartile. Furthermore, Deloitte found that when a company has a workplace with diversity and an inclusive environment (where the company is strongly committed to diversity and all employees feel included), inclusive teams outperform their peers by 80% in team-based assessments.[1] Findings such as this validate the importance of an ongoing corporate commitment to diversity and inclusion, and reinforce Calvert's commitment to continue to engage with companies across this sector as we strive for broader and greater equality at all levels of such corporations.

[1] McKinsey & Company, Delivering Through Diversity, January 2018; and McKinsey & Company Diversity Matters, February 2015

## What we're doing now

In light of growing societal expectations that companies will address racial inequities, many companies have made statements and taken actions to demonstrate a commitment to equality.

In our engagements with companies, we expect companies to disclose how they incorporate diversity into all phases of governance, strategy and business planning and eliminate business practices that directly or indirectly support or perpetuate racism.

Additionally, despite their commitments to inclusion, most companies fail to publish complete diversity statistics sufficient to allow investors to hold them accountable for results. Calvert will forcefully call on companies to be fully transparent about their diversity records.

Specifically, we expect each company to:

- Fully disclose its EEO-1 report, which details the company's employment broken down by race, gender at each professional level for its U.S. workforce, and a report on pay equity by race and gender
- Set concrete, targeted goals that address diversity deficiencies
- Define diversity, inclusive of gender, race, and ethnicity, and include said definition in the board charter documents;
- Commit to including a least one woman and one person of color in its pool of candidates for vacant board seats and executive positions
- Disclose its ongoing efforts to develop, maintain, and strengthen a pipeline of talent for underserved populations – from the classroom to the boardroom and
- Incentivize the company's named executive officers to achieve the company's diversity and inclusion goals by linking their diversity performance to their executive compensation.

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