

Building Better Outcomes

Carbon Risk, Human Capital Management to Impact Security Prices in 2022



John Streur

CEO, Calvert Research
and Management

“We expect actions by regulators, corporations and investors to increase the importance placed on ESG factors in investment decisions across global capital markets in 2022.”

Washington, DC – Responsible Investing, which uses environmental, social and governance (ESG) information as one of several inputs, encompasses many issue areas. In thinking about the 2022 outlook for ESG, we believe carbon risk and human capital management are two areas that will have broad application and impact across industries and corporations — and garner the most regulatory attention.

Across global capital markets in 2022, we expect regulators, corporations and investors to place greater emphasis on ESG factors in investment decision-making. Worldwide, we are in the early stages of building the necessary capital market infrastructure to fully price companies’ greenhouse gas (GHG) emissions, people management impact, and board and employee diversity into security prices. However, the financial materiality of ESG factors is increasingly evident across multiple risk vectors, such as climate, inequality and competition for intellectual capital.

ESG Data Reporting to Be Standardized

Currently, investors receive information about companies’ carbon exposure, human capital and diversity information from a range of nonstandardized sources, such as company websites, corporate social responsibility reports, sustainability reports, company regulatory filings or simple estimates.

Government regulators around the world, however, have indicated they will begin — or advance — requirements for uniform disclosure standards around carbon, human capital and some diversity data. We expect ESG disclosure rules in major global markets, including the U.S., to have enough clarity to produce a meaningful impact on markets and security pricing in 2022. A new environment of higher-quality data may increase the need for expert ESG analysis to incorporate the information into prices of securities.

We think stock and bond prices in 2022 will be affected by changes in how companies provide ESG information to investors. As ESG data reporting and transparency improves, we think more institutions and investors of all types will appreciate its financial materiality. Understanding these factors and system-level changes will become essential as more investors incorporate ESG information into their investment decisions.



Investor Activism Moves Mainstream

In addition to near-term developments by regulators in many regimes throughout the world, ongoing investor activism has met with growing acceptance from mainstream investors. We believe this combination of influence has reached a critical point and could potentially drive this trend further in 2022. The most recent example is Calvert's shareholder resolution for disclosure of diversity and human capital data at one company.

Calvert's resolution was opposed by company management, so presumably did not garner votes from shares controlled by insiders but had such strong support from outside shareholders that the resolution passed with 57% support.

Another example is one financial services company, where Calvert filed a shareholder resolution asking the company to disclose its Equal Employment Opportunity survey data (EEO-1) that divulges workforce composition and diversity. In the U.S., companies with more than 100 employees are required to file an EEO-1 survey annually with the government. However, they are not required to disclose it publicly. This particular company sued Calvert to not disclose and won. However, the company subsequently began to publish its EEO-1 information voluntarily. As we've seen so many times, pressure works to inform public opinion and effect change. We believe we will see more of these efforts on the part of governments and the ESG community in 2022.

A Virtuous Reporting Circle

Due to ongoing activist investor demands catalyzed by Calvert and others, and in anticipation of regulatory changes, we expect companies to strengthen the rigor of their reporting and to create greater transparency. As this occurs, we believe investors and companies will quickly see which companies are leaders and which are behind in managing their ESG risks, and a competitive dynamic will accelerate. One potential outcome is that investors may have enhanced performance expectations for those companies with strong ESG management practices and seek companies with lower risk exposures across the areas of carbon, human capital and diversity.

Bottom line: In 2022, we believe we will begin to see governments issue regulations for standardized ESG data disclosure, particularly in the areas of carbon and human capital management. Investor activism, backed by investor demand for increased data transparency, will push this initiative forward. In our view, recognizing and pricing ESG factors into a company's financial picture is vital to markets and will ultimately support shareholder value.



Risk Considerations

Investing entails risks and there can be no assurance that any strategy will achieve profits or avoid incurring losses.

ESG Risk - Investing primarily in responsible investments carries the risk that, under certain market conditions, the funds may underperform funds that do not utilize a responsible investment strategy. In evaluating a company, the advisor is dependent upon information and data that may be incomplete, inaccurate or unavailable, which could cause the advisor to incorrectly assess a company's ESG performance.

Important Information

Date-of Data: As of December 27, 2021.

There is no guarantee that any investment strategy will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market.

A separately managed account may not be appropriate for all investors. Separate accounts managed according to the particular Strategy may include securities that may not necessarily track the performance of a particular index. A minimum asset level is required.

For important information about the investment managers, please refer to Form ADV Part 2.

The views and opinions and/or analysis expressed are those of the author or the investment team as of the date of preparation of this material and are subject to change at any time without notice due to market or economic conditions and may not necessarily come to pass. Furthermore, the views will not be updated or otherwise revised to reflect information that subsequently becomes available or circumstances existing, or changes occurring, after the date of publication. The views expressed do not reflect the opinions of all investment personnel at Morgan Stanley Investment Management (MSIM) and its subsidiaries and affiliates (collectively "the Firm"), and may not be reflected in all the strategies and products that the Firm offers.

Forecasts and/or estimates provided herein are subject to change and may not actually come to pass. Information regarding expected market returns and market outlooks is based on the research, analysis and opinions of the authors or the investment team. These conclusions are speculative in nature, may not come to pass and are not intended to predict the future performance of any specific strategy or product the Firm offers. Future results may differ significantly depending on factors such as changes in securities or financial markets or general economic conditions.

This material has been prepared on the basis of publicly available information, internally developed data and other third-party sources believed to be reliable. However, no assurances are provided regarding the reliability of such information and the Firm has not sought to independently verify information taken from public and third-party sources.

This material is a general communication, which is not impartial and all information provided has been prepared solely for informational and educational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The information herein has not been based on a consideration of any individual investor circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

The Firm does not provide tax advice. The tax information contained herein is general and is not exhaustive by nature. It was not intended or written to be used, and it cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer. Each Jurisdiction tax laws are complex and constantly changing. You should always consult your own legal or tax professional for information concerning your individual situation.

Past performance is no guarantee of future results.

The indexes are unmanaged and do not include any expenses, fees or sales charges. It is not possible to invest directly in an index. Any index referred to herein is the intellectual property (including registered trademarks) of the applicable licensor. Any product based on an index is in no way sponsored, endorsed, sold or promoted by the applicable licensor and it shall not have any liability with respect thereto.

This material is not a product of Morgan Stanley's Research Department and should not be regarded as a research material or a recommendation.

The Firm has not authorized financial intermediaries to use and to distribute this material, unless such use and distribution is made in accordance with applicable law and regulation. Additionally, financial intermediaries are required to satisfy themselves that the information in this material is appropriate for any person to whom they provide this material in view of that person's circumstances and purpose. The Firm shall not be liable for, and accepts no liability for, the use or misuse of this material by any such financial intermediary.

This material may be translated into other languages. Where such a translation is made this English version remains definitive. If there are any discrepancies between the English version and any version of this material in another language, the English version shall prevail.

The whole or any part of this material may not be directly or indirectly reproduced, copied, modified, used to create a derivative work, performed, displayed, published, posted, licensed, framed, distributed or transmitted or any of its contents disclosed to third parties without the Firm's express written consent. This material may not be linked to unless such hyperlink is for personal and non-commercial use. All information contained herein is proprietary and is protected under copyright and other applicable law.

Eaton Vance and Calvert are part of Morgan Stanley Investment Management. Morgan Stanley Investment Management is the asset management division of Morgan Stanley.

Distribution

This material is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations.

MSIM, the asset management division of Morgan Stanley (NYSE: MS), and its affiliates have arrangements in place to market each other's products and services. Each MSIM affiliate is regulated as appropriate in the jurisdiction it operates. MSIM's affiliates are: Eaton Vance Management (International) Limited, Eaton Vance Advisers International Ltd, Calvert Research and Management, Eaton Vance Management, Parametric Portfolio Associates LLC, Atlanta Capital Management LLC, Eaton Vance Management International (Asia) Pte. Ltd.



This material has been issued by any one or more of the following entities:

EMEA:

This material is for Professional Clients/Accredited Investors only.

In the EU, MSIM and Eaton Vance materials are issued by MSIM Fund Management (Ireland) Limited (“FMIL”). FMIL is regulated by the Central Bank of Ireland and is incorporated in Ireland as a private company limited by shares with company registration number 616661 and has its registered address at The Observatory, 7-11 Sir John Rogerson’s Quay, Dublin 2, D02 VC42, Ireland.

Outside the EU, MSIM materials are issued by Morgan Stanley Investment Management Limited (MSIM Ltd) is authorized and regulated by the Financial Conduct Authority. Registered in England. Registered No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA.

In Switzerland, MSIM materials are issued by Morgan Stanley & Co. International plc, London (Zurich Branch) Authorized and regulated by the Eidgenössische Finanzmarktaufsicht (“FINMA”). Registered Office: Beethovenstrasse 33, 8002 Zurich, Switzerland.

Outside the US and EU, Eaton Vance materials are issued by Eaton Vance Management (International) Limited (“EVMI”) 125 Old Broad Street, London, EC2N 1AR, UK, which is authorized and regulated in the United Kingdom by the Financial Conduct Authority.

Italy: MSIM FMIL (Milan Branch), (Sede Secondaria di Milano) Palazzo Serbelloni Corso Venezia, 16 20121 Milano, Italy. **The Netherlands:** MSIM FMIL (Amsterdam Branch), Rembrandt Tower, 11th Floor Amstelplein 11096HA, Netherlands. **France:** MSIM FMIL (Paris Branch), 61 rue de Monceau 75008 Paris, France. **Spain:** MSIM FMIL (Madrid Branch), Calle Serrano 55, 28006, Madrid, Spain.

Middle East:

Dubai: MSIM Ltd (Representative Office, Unit Precinct 3-7th Floor-Unit 701 and 702, Level 7, Gate Precinct Building 3, Dubai International Financial Centre, Dubai, 506501, United Arab Emirates. Telephone: +97 (0)14 709 7158).

EVMI utilizes a third-party organization in the Middle East, Wise Capital (Middle East) Limited (“Wise Capital”), to promote the investment capabilities of Eaton Vance to institutional investors. For these services, Wise Capital is paid a fee based upon the assets that Eaton Vance provides investment advice to following these introductions.

U.S.: A separately managed account may not be appropriate for all investors. Separate accounts managed according to the Strategy include a number of securities and will not necessarily track the performance of any index. Please consider the investment objectives, risks and fees of the Strategy carefully before investing. A minimum asset level is required. For important information about the investment managers, please refer to Form ADV Part 2.

Please consider the investment objectives, risks, charges and expenses of the funds carefully before investing. The prospectuses contain this and other information about the funds. To obtain a prospectus for the Morgan Stanley funds please download one at morganstanley.com/im or call 1-800-548-7786 for the Eaton Vance and Calvert Funds please download one at <https://funds.eatonvance.com/open-end-mutual-fund-documents.php> or contact your financial professional. Please read the prospectus carefully before investing.

Morgan Stanley Distribution, Inc. serves as the distributor for Morgan Stanley Funds.

Eaton Vance Distributors, Inc. (“EVD”), serves as the distributor for Eaton Vance and Calvert Funds.

Hong Kong: This material has been issued by Morgan Stanley Asia Limited for use in Hong Kong and shall only be made available to “professional investors” as defined under the Securities and Futures Ordinance of Hong Kong (Cap 571). The contents of this material have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this material shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong. Singapore: This material should not be considered to be the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor under section 304 of the Securities and Futures Act, Chapter 289 of Singapore (“SFA”); (ii) to a “relevant person” (which includes an accredited investor) pursuant to section 305 of the SFA, and such distribution is in accordance with the conditions specified in section 305 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. This publication has not been reviewed by the Monetary Authority of Singapore. Eaton Vance Management International (Asia) Pte. Ltd. (“EVMIA”) holds a Capital Markets Licence under the Securities and Futures Act of Singapore (“SFA”) to conduct, among others, fund management, is an exempt Financial Adviser pursuant to the Financial Adviser Act Section 23(1)(d) and is regulated by the Monetary Authority of Singapore (“MAS”). Eaton Vance Management, Eaton Vance Management (International) Limited and Parametric Portfolio Associates® LLC holds an exemption under Paragraph 9, 3rd Schedule to the SFA in Singapore to conduct fund management activities under an arrangement with EVMIA and subject to certain conditions. None of the other Eaton Vance group entities or affiliates holds any licences, approvals or authorisations in Singapore to conduct any regulated or licensable activities and nothing in this material shall constitute or be construed as these entities or affiliates holding themselves out to be licensed, approved, authorised or regulated in Singapore, or offering or marketing their services or products. Australia: This publication is disseminated in Australia by Morgan Stanley Investment Management (Australia) Pty Limited ACN: 122040037, AFSL No. 314182, which accept responsibility for its contents. This publication, and any access to it, is intended only for “wholesale clients” within the meaning of the Australian Corporations Act. EVMI is exempt from the requirement to hold an Australian financial services license under the Corporations Act in respect of the provision of financial services to wholesale clients as defined in the Corporations Act 2001 (Cth) and as per the ASIC Corporations (Repeal and Transitional) Instrument 2016/396. Calvert Research and Management, ARBN 635 157 434 is regulated by the U.S. Securities and Exchange Commission under U.S. laws which differ from Australian laws. Calvert Research and Management is exempt from the requirement to hold an Australian financial services license in accordance with class order 03/1100 in respect of the provision of financial services to wholesale clients in Australia.

China & South Korea: This material does not constitute an offer to sell or the solicitation of an offer to buy any services referred to expressly or impliedly in the material in the People’s Republic of China (excluding Hong Kong, Macau and Taiwan, the “PRC”) to any person to whom it is unlawful to make the offer or solicitation in the PRC. The material may not be provided, sold, distributed or delivered, or provided or sold or distributed or delivered to any person for forwarding or resale or redelivery, in any such case directly or indirectly, in the People’s Republic of China (the PRC, excluding Hong Kong, Macau and Taiwan) in contravention of any applicable laws.



In addition, this material has been prepared for information purposes only and should not be construed as legal, tax or investment advice nor as an offer or solicitation to buy or sell any securities, any interest in securities or any other instrument. This document does not constitute a public offer of investment, whether by sale or subscription, in the People's Republic of China (PRC). Persons who come into possession of this document are required to observe this restriction and obtain any applicable regulatory approvals prior to making any investment decisions.

EVMI is registered as a Discretionary Investment Manager in South Korea pursuant to Article 18 of Financial Investment Services and Capital Markets Act of South Korea.

Japan: For professional investors, this material is circulated or distributed for informational purposes only. For those who are not professional investors, this material is provided in relation to Morgan Stanley Investment Management (Japan) Co., Ltd. ("MSIMJ")'s business with respect to discretionary investment management agreements ("IMA") and investment advisory agreements ("IAA"). This is not for the purpose of a recommendation or solicitation of transactions or offers any particular financial instruments. Under an IMA, with respect to management of assets of a client, the client prescribes basic management policies in advance and commissions MSIMJ to make all investment decisions based on an analysis of the value, etc. of the securities, and MSIMJ accepts such commission. The client shall delegate to MSIMJ the authorities necessary for making investment. MSIMJ exercises the delegated authorities based on investment decisions of MSIMJ, and the client shall not make individual instructions. All investment profits and losses belong to the clients; principal is not guaranteed. Please consider the investment objectives and nature of risks before investing. As an investment advisory fee for an IAA or an IMA, the amount of assets subject to the contract multiplied by a certain rate (the upper limit is 2.20% per annum (including tax)) shall be incurred in proportion to the contract period. For some strategies, a contingency fee may be incurred in addition to the fee mentioned above. Indirect charges also may be incurred, such as brokerage commissions for incorporated securities. Since these charges and expenses are different depending on a contract and other factors, MSIMJ cannot present the rates, upper limits, etc. in advance. All clients should read the Documents Provided Prior to the Conclusion of a Contract carefully before executing an agreement. This material is disseminated in Japan by MSIMJ, Registered No. 410 (Director of Kanto Local Finance Bureau (Financial Instruments Firms)), Membership: the Japan Securities Dealers Association, The Investment Trusts Association, Japan, the Japan Investment Advisers Association and the Type II Financial Instruments Firms Association.



HIGH-CONVICTION
EQUITIES

ACTIVE FIXED INCOME
AND LIQUIDITY

ALTERNATIVE
INVESTMENTS

CUSTOMIZED
SOLUTIONS

SUSTAINABLE
INVESTING

TAX
SOLUTIONS