

# Calamos Sustainable Equities Team Perspectives



## The Pendulum Swings on DEI Sentiment

Calamos Sustainable Equities Team

As we wrote in our 2021 paper, [“The Investment Case for Corporate Diversity”](#), for more than 20 years, our team has believed that companies with strong sustainability characteristics “are better equipped to adapt to change, to evolve, and to avoid unnecessary liabilities contributing to investor return potential and risk reduction.” Corporate diversity is an example of a material issue within the larger mosaic of nonfinancial characteristics that we analyze when we review companies’ potential or continued inclusion in the strategies we manage.

In 2020, demonstrations for racial justice catalyzed by George Floyd’s death gave added weight and urgency to years of growing stakeholder pressure on various aspects of diversity. Numerous corporations pledged to support racial equity and bolstered their diversity, equity, and inclusion (DEI) initiatives. Concurrently, there was a surge in shareholder proposals focused on diversity, such as advocating for more diverse boards, performing audits on civil rights or racial equity, and evaluating the impact of DEI strategies, many of which garnered substantial shareholder backing.

Fast forward several years, and the pendulum has swung in the opposite direction. Today we are witnessing backlash against DEI programs, evidenced in court rulings, proxy results, and company announcements. For example:

- In June 2023, the US Supreme Court issued a landmark decision to end affirmative action in college admissions.
- Support for DEI proposals decreased from 37% in 2022 to 27% in 2023 during this past proxy season.
- In the second quarter of 2024, John Deere and Tractor Supply Company were among those that joined a growing list of companies by announcing that they would reverse their DEI commitments in response to customer complaints that DEI topics were not material to the companies’ businesses. We have engaged Deere and Tractor Supply to better understand the details and motivation behind their DEI pullbacks and to assess how the company’s actions may influence the firm’s overarching approach to human capital and employee wellbeing.

Additionally, in response to the pendulum shift, the Sustainable Equities Team has also undertaken a review of how and where we analyze diversity within our own proprietary research process.

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## Our Sustainable Research Process

Our team employs a three-step sustainable research process.



The analysis of a company's diversity initiatives occurs within Step 2. This is a qualitative step in which we analyze a company's practices around key material issues. As of the end of the second quarter of 2024, the Sustainable Equities team had authored 34 materiality theses at the GICS industry or sub-industry level.

- 59% of the theses mention human capital and/or labor management and/or diversity.
- 24% mention diversity in the materiality thesis specifically.
- Just 1 of our 34 theses—for the construction & engineering sub-industry—highlighted DEI as a standalone issue. We concluded that diversity and inclusion have historically been poor in this Industry. As the topic of diversity and inclusion becomes more prevalent and is seen as a drive for productivity, companies should not only report on their diversity metrics but also on their improvement strategies.

### Diversity, a Component of Strong Human Capital

A review of our materiality assessments shows that the Sustainable Equities Team recognizes leadership in human capital and labor management<sup>1</sup> as a top materiality issue for most industries and sub-industries. Additionally, our review indicated we have a strong propensity to group diversity and inclusion as a component of human capital, not as a standalone issue.

We believe companies that are well-regarded for their human capital and labor management (a determination that can be informed by turnover, Glassdoor/MIT 500 ratings, benefit packages, learning and development programs, employee engagement surveys, and DEI initiatives) will have higher levels of productivity and customer satisfaction, drive innovation, achieve costs savings, and improve brand reputation.

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<sup>1</sup> We use the term labor management for companies operating in industries that typically have large, lower waged workforces and human capital management for companies operating in industries requiring higher skilled employees.

While disclosing gender and racial metrics is an important aspect of a company's diversity measures and overall human capital program, it should not be the sole determinant of success. Other equally important components that go beyond gender and race metrics include:

- The creation of an environment where employees feel welcomed, accepted, and respected. This can lead to improved employee morale, a crucial component for productivity.
- High ethical standards, including fair treatment and equal opportunities for all employees. A company's integrity and accountability have the potential to influence a firm's reputation and trustworthiness.

Exposure to diverse perspectives, as a variety of viewpoints can lead to more robust discussions, out-of-the-box thinking, and better decision-making.

### **Our Stance**

The Calamos Sustainable Equities team is beginning to witness many companies stepping back from their bold DEI proclamations and DEI targets made just a few years ago. It is therefore our job to engage these companies to better understand their motivations. Is the company's pullback a complete reversal or is the company continuing to foster its workplace with strong human capital programs, just with less fanfare?

Ideally, diversity is a component of a company's human capital initiatives and an integral part of the organization, its mission, vision, and strategic priorities. As such, we support companies that are fostering their human capital initiatives rather than check-the-box DEI efforts.

Environmental, social and governance (ESG) is based on the premise of investing in companies that have good environmental records, are ethically run and have a positive social impact.

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