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Equity Strategies

The Calamos Sustainable Equity Strategies benefit from a time-tested philosophy and a proprietary process guided by rigorous fundamental research and ESG criteria.

The strategies include:

Calamos Global Sustainable Equities Strategy

Calamos International Sustainable Equities Strategy

Calamos U.S. Sustainable Equities Strategy

Environmental Investing: Risk and Opportunity

Climate change caused by the burning of coal, oil, and gas has already warmed the world by 1.8 degrees Fahrenheit (1 degree Celsius) since the late 1800s, triggering the massive melting of ice globally, weather extremes, and changes to ocean chemistry. Scientists say that depending on how much carbon dioxide is emitted, the effects of climate change will only get worse by the end of the century with temperatures jumping by several degrees and oceans rising by close to three feet.

A United Nations climate panel suggested in a report that reducing fossil fuel use alone won't be enough to limit warming from climate change.[1] Deforestation and agriculture must be addressed to drive down greenhouse gas (GHG) emissions. With these undeniable facts, governments and companies can no longer ignore reality—a warming planet is reshaping geopolitics and threatening the global economy as we know it.

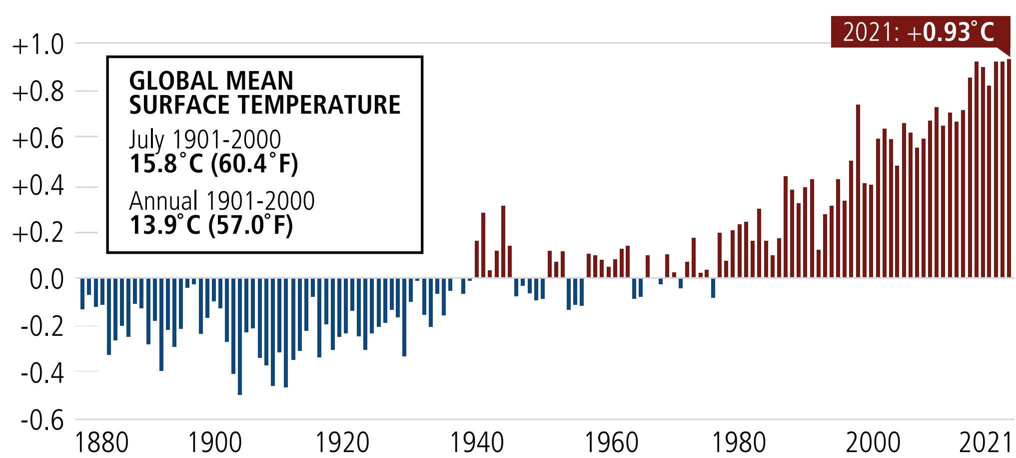
From an economic and financial perspective, climate change is clearly troubling. Changing weather patterns have begun to affect global economic forecasts. Climate change has also become a defining factor in companies' long-term prospects.

A Call to Action

Climate change is beginning to constrain economic growth. This matters on the global political stage as never before, and it's only going to intensify over time. We have a combination of negative trend lines that we've not experienced in generations. This deteriorating environment is much more likely to produce a global crisis. The resources available to governments and the private sector make it easier than in the past to respond; however, the scale of the challenges is greater, and geopolitical disorder undermines global cooperation.

FIGURE 1. JULY 2021: THE HOTTEST MONTH ON RECORD

GLOBAL LAND AND OCEAN SURFACE TEMPERATURE ANOMALIES IN JULY (°C COMPARED TO THE 20TH CENTURY AVERAGE)



Source: NOAA, Statista

* This paper was originally published in April 2020 and updated in September 2021.

According to former Bank of England Governor Mark Carney "Firms ignoring climate change [will] go bankrupt." Carney also warned it was possible that the global transition needed to tackle the climate crisis could result in an abrupt financial collapse. He said the longer action to reverse emissions was delayed, the more the risk of collapse would grow.

Political risk firm Eurasia Group identified climate change as a major risk to the global economy in 2020. Ian Bremmer, the group's founder and president, acknowledged the increasing risks of climate change and stated, "Financial institutions see the future coming, and they are changing the way they invest." He added, "That is going to require multinational corporations to act differently; it will lead to new corporations that will do better."

In its annual report ahead of the 2020 Davos Forum, business services group PricewaterhouseCoopers said climate change and environmental issues ranked as the 11th biggest threat that CEOs saw for their companies' growth prospects. Though up one spot from the same survey a year ago, climate-related issues lag way behind other concerns, such as overregulation, which ranked as the number one worry.

In its oft-cited 2019 report,[2] the United Nation's Intergovernmental Panel on Climate Change, a panel of hundreds of scientists, warned that GHG emissions needed to be drastically reduced as quickly as possible to limit warming from reaching levels where effects become "irreversible."

Corporations are Responding

Some of the world's some largest corporations are taking actions to reduce their environmental impact to help combat climate change:

» Microsoft announced at the beginning of 2020 that it would be carbon negative by 2030, fueled by efforts to slash carbon emissions by half.

» Unilever is advocating for policies that advance the Paris Agreement's goal of limiting global temperature increases to less than 2 degrees Celsius above preindustrial levels, by the end of the century. Unilever announced it will become carbon neutral in its operations by 2030.

» Finance software company Intuit achieved carbon neutrality for its global operations in 2015 by improving its energy efficiency, investing in renewable energy, and buying carbon offsets. The company extended its commitment by declaring a climate positive "50 times by 30" target that will ensure the company surpasses carbon neutrality to make a positive impact on the planet by 2030. Using its 2018 carbon footprint metric as a baseline, Intuit has committed to reducing carbon emissions by 50 times greater than its current carbon footprint.

» Delta Air Lines announced the company is going "fully carbon neutral." The company is committing at least $1 billion over the next decade to reduce its environmental impact. This strategy doesn't mean that the company will or stop flying or stop using fossil fuels. Instead, Delta will use carbon offsets to become carbon neutral, either buying them in the market or investing in various projects, such as tree planting programs, to reduce carbon in the atmosphere.

» Visa Inc. announced that it met its goal to use 100% renewable electricity by 2020, furthering the company's commitment to lead responsibly and sustainably across its global operations. By purchasing 100% renewable electricity, Visa mitigated the GHG emissions from the electricity the company consumes, reducing its operational emissions from its facilities and data centers by almost 90% versus the company's 2014 baseline.

Even oil and gas companies are stepping up:

» Ørsted, previously known as DONG Energy (Danish Oil and Natural Gas), is a great example of how companies are adapting to a coming low-carbon economy—and how businesses can benefit from the transition. In 2009, Ørsted was the largest energy company in Denmark, producing 85% of its power using fossil fuels and was responsible for one-third of Denmark's carbon emissions. The company made the decision to transform from black to green energy, and it is now helping customers do the same. Since then, the company went from 17% green energy to 80% in 2018, and expects to reach 99% by 2025.

» Spanish oil company Repsol pledged to cut its emissions to zero by 2050 through a combination of actions, including more investments in renewable electricity like wind and solar and, possibly, reforestation.

» Equinor, the Norwegian energy company, said it would reduce emissions from its oil and gas fields and plants in its home country to near zero by 2050 by using electricity in its operations and other measures.

Even though the actions that large corporations are taking seem promising, the proportion still remains very low. According to a study published in December of 2019 by the Davos organizers, only a quarter of a group of 7,000 businesses are setting a specific emissions reduction target, and only a one-eighth are actually reducing their emissions each year. Awareness of these issues may be growing, but with global emissions continuing to rise, governments are falling short on tackling them, according to a preconference report issued by the World Economic Forum. Many businesses, too, are failing to set effective targets, the report said.

Corporations must not only mitigate the risks from climate change on their business but also look for opportunities. The CDP (formerly the Carbon Disclosure Project) reported that the shift to climate-friendly products and services represents a $2.1 trillion business opportunity.

The Global Commission on the Economy and Climate reports that "bold climate action could deliver at least $26 trillion in economic benefits through to 2030, compared with business-as-usual." There are real benefits to be seen in terms of new jobs, economic savings, competitiveness and market opportunities, and improved well-being for people worldwide.

Technological Advancement Is Helping

There are noticeable improvements and reasons to be encouraged regarding the transition to renewable energy. Corporations that move toward greater use of lower- or zero-emission energy sources will gain competitive advantages. The costs of wind and solar technology have fallen much more rapidly than anticipated. Capitalism is driving renewables over coal. Solar, wind, and hydropower resources combined generate more than a quarter of the world's electricity. In China and India, that share will surpass 60% by 2050, according to Bloomberg New Energy Finance estimates, and Europe will top 90%.

Switching from coal to more sustainable sources is gaining more and more significance. Advances made in renewable energy generation have made fossil fuels less economically competitive. For example, in only five years, the UK went from being one of the cheapest coal energy producers to the cheapest wind supplier in Europe. During the same time, Belgium became one of the most affordable natural gas energy.

FIGURE 2. CHEAPEST ENERGY GENERATION TECHNOLOGY BY COUNTRY

2014				2019			
COAL	GAS	WIND	SOLAR	COAL	GAS	WIND	SOLAR
Belgium	Algeria	Denmark		Indonesia	Algeria	Argentina	Australia
Bulgaria	Argentina	Germany		Japan	Belgium	Brazil	Chile
Chile	Australia	Uruguay		Malaysia	Bulgaria	Canada	Egypt
China	Brazil			Philippines	Greece	Denmark	France
France	Canada			Poland	Russia	Germany	India
Greece	Egypt			South Korea		Mexico	Israel
India	Israel			Thailand		Morocco	Italy
Indonesia	Mexico			Turkey		Peru	Saudi Arabia
Italy	Peru			Vietnam		UK	South Africa
Japan	Philippines					US	Spain
Malaysia	Russia					Uruguay	UAE
Morocco	Saudi Arabia						
Poland	US						
South Africa	UAE						
South Korea							
Spain							
Thailand							
Turkey							
UK							
Vietnam							

Source: Bloomberg New Energy Outlook

According to Carbon Tracker, by 2030 it will be cheaper to build and power with renewables than to run existing coal energy production in all countries across the globe. In other words, in less than 10 years, virtually every coal plant in the world will be uneconomical, producing power more expensive than what could be generated by new renewables.

Investors Are Responding

Portfolio strategy needs to be focused on mitigating climate risk and gaining competitive advantage via environmental opportunity. Investors are recognizing climate change as an investment risk and are asking how they should modify their portfolios to counter. Investors increasingly acknowledge that environmental, social and governance (ESG) factors can influence a company's ability to manage risk and deliver financial performance over the long term.

The $27 billion San Francisco Employees' Retirement System (SFERS) has announced its "ambition" to achieve net-zero carbon emissions by 2050 after its board voted unanimously in favor of the proposal. The new ambition will build on the Climate Action Plan it adopted in 2018, the same year the SFERS board voted against wholesale divestment of fossil fuels. In the press release on its new ambition, the fund stated that identifying, assessing, and addressing the investment risks and opportunities associated with climate change are a "key provision to sustain the long-term health of the SFERS trust and the payment of those benefits."

Sustainable investment assets are continuing to climb globally, with some regions demonstrating stronger than others. As shown in Figure 3, the largest increase over the between 2016 and 2018 was in Japan, where sustainably managed assets grew over 300%. In the United States, growth from 2016 to 2018 was slightly higher than over the previous two years (38% versus 33%). Elsewhere, sustainable assets continued to rise, but at a slower pace than between 2014 and 2016.

FIGURE 3. GROWTH OF SUSTAINABLE INVESTING ASSETS BY REGION IN LOCAL CURRENCY, 2014–2018

	2014	2016	2018	GROWTH PER PERIOD 2014–2016	GROWTH PER PERIOD 2016–2018	CAGR 2014–2018
Europe	€ 9,885	€ 11,045	€ 12,306	12%	11%	6%
US	$ 6,572	$ 8,723	$ 11,995	33%	38%	16%
Canada	CA$ 1,011	CA$ 1,505	CA$ 2,132	49%	42%	21%
Australia/NZ	A$ 203	A$ 707	A$ 1033	248%	46%	50%
Japan	¥ 840	¥ 57,056	¥ 231,952	6,692%	307%	308%

Source: The Global Sustainable Investment Review 2018

Not enough is being done to combat climate change; not even close. The world's largest asset managers are stalling on taking actions on ESG issues, according to recent research. A 2020 ranking report by responsible investment organization ShareAction raises doubts about whether 38 asset managers globally—managing assets worth more than $36 trillion—are taking responsibility for their footprint on society and the environment.[3] The research finds these asset managers have weak or nonexistent policy commitments and fail to account for their real-world impacts across their mainstream assets.

They also often lack appropriate engagement and escalation processes on climate change, human rights, and biodiversity. The number of poor performers in the ranking is particularly concerning because all the asset managers included are signatories of the United Nations Principles for Responsible Investment, and 75% have joined Climate Action 100+, yet many fail to translate these public commitments into strong action on stewardship and wider ESG integration.

Environmental Investing and the Calamos Sustainable Equity Portfolios

We believe environmental constraints, including climate change, pose the biggest threat to global economic growth and corporate profitability. Corporations must take action to mitigate environmental risk and to take advantage of environmental opportunities to protect and enhance shareholder capital.

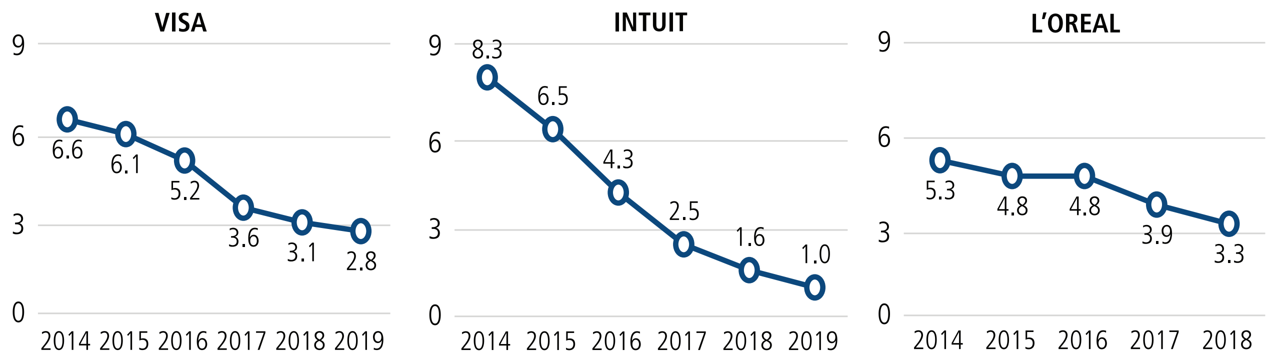
Companies must mitigate the negative impact their operations have on the environment and strive to become more efficient in how they interact with nature. We believe companies with lower carbon emissions, other waste streams, more efficient water and other resource management systems have a competitive advantage.

We seek companies with sustainable competitive advantages that form the foundation for generating strong and enduring relative returns. Portfolio companies must adhere to our principles for investment, thus increasing the likelihood that these firms will continue to outperform into the foreseeable future.

In selecting investments, we employ a bottom-up approach, concentrating on the specific characteristics of individual companies from the global universe of securities. From this broad and inclusive opportunity set, we focus on companies that we believe have good long-term growth potential and excellent environmental practices. Portfolio companies have already made progress on reducing their ecological footprint and gaining competitive advantage.

Some companies already have an impressive history of reducing their environmental impact. Figure 4 illustrates GHG emissions reductions, normalized for sales, for L'Oréal, Visa, and Intuit from 2014 through 2019 or the most recent figures available. All three companies are holdings in the Calamos Sustainable Global Equities Strategy as of June 30, 2021.

FIGURE 4. TOTAL GHG CO^2 EMISSIONS INTENSITY PER SALES



Source: Bloomberg, Annual Greenhouse Gas Emissions Report

ABOUT THE CALAMOS SUSTAINABLE EQUITY STRATEGIES

The Calamos sustainable equity strategies offer a time-tested ESG process and include global, international, and U.S. portfolios. Co-Portfolio Managers Anthony Tursich, CFA, and Jim Madden, CFA, contribute decades of pioneering experience in ESG investing. They developed one of the first sustainable research platforms in the late 1990s and helped to set industry standards for ESG-focused portfolios. Their proprietary process combines environmental criteria with fundamental research to identify companies poised to thrive in an evolving environment.

For additional information about our ESG capabilities and the Calamos Sustainable Equity Strategies, please visit **www.calamos.com**, speak with your investment consultant, or contact us at 800.582.6959.

ANTHONY (TONY) TURSICH, CFA

SENIOR VICE PRESIDENT, CO-PORTFOLIO MANAGER

Tony Tursich contributes 24 years of experience in socially and environmentally responsible investing strategies. He joined Calamos Investments following its 2021 acquisition of Pearl Impact Capital, LLC, the company he founded in 2018, where he served as Chief Investment Officer and portfolio manager since the inception of a trio of ESG-integrated portfolios. Prior to launching Pearl Impact Capital, he was a partner, senior portfolio manager, and member of the executive committee at Portfolio 21.

In addition to his responsibilities at Calamos, Tony is an adjunct professor at Portland State University; an investment advisory board member for Multnomah County, Oregon; and a board member for the CFA Society of Portland.
He graduated from Montana State University with a bachelor's degree in Business Administration and received an M.B.A. from Portland State University.

[1] Intergovernmental Panel on Climate Change, ipcc.ch

[2] Intergovernmental Panel on Climate Change, ipcc.ch

[3] ShareAction, "Asset managers worth $36 trillion show disregard for harmful impacts of their investments," March 9, 2020.

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