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ESG Investing in China: The Calamos Sustainable Equity Team Approach

China is the second-largest market in the world by market capitalization, so investors cannot overlook it—however, they must tread carefully. The Chinese Communist Party has a heavy hand, perhaps even an iron fist, and is less likely to signal market participants ahead of policy decisions. Investors are therefore subject to policy shocks but are compensated to a degree by discounted valuations.

Recent stock market action reminded investors why it is imperative to be on the right side of the government when investing in China. An emphasis on industries where development is consistent with China's latest Five-Year Plan and the country's longer-term transition to a more developed and equitable consumption-driven economy, now referred to as "common prosperity," is key. A focus on strong governance and exposure to supported industries will help mitigate risk and increase the chances for a sustainable valuation premium.

ESG in China emphasizes externalities and social policy. Externalities are costs caused by a producer but not paid for by the producer (e.g., pollution is a negative externality). Many ESG initiatives are in line with those of the West, such as climate change, lower levels of pollution, and better labor practices. Others are unique to China, such as the recent push to regulate "cram schools" and limit offshore listings of Chinese stocks.

Because corporate awareness of ESG has lagged in China (Figure 1), first-mover advantage is still available to those companies that understand the importance of ESG risks and opportunities. The competitive advantage gained by these forward-looking firms can provides attractive investment opportunities.

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:

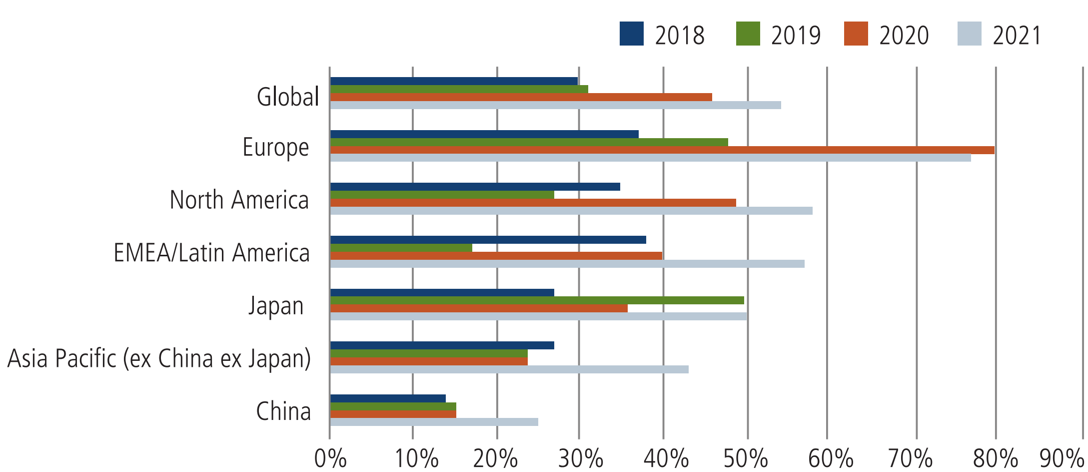
Calamos Global Sustainable Equities Strategy

Calamos International Sustainable Equities Strategy

Calamos U.S. Sustainable Equities Strategy

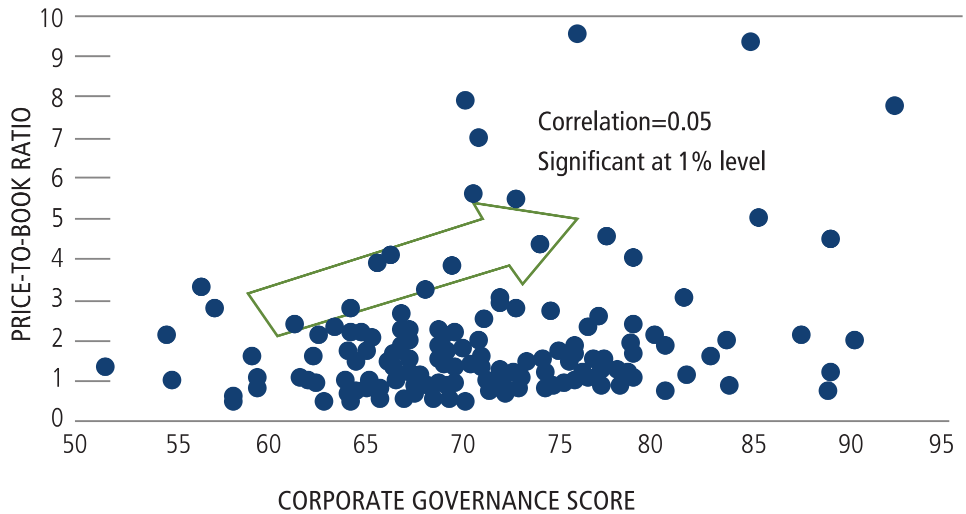
FIGURE 1. ESG AWARENESS HAS BEEN RISING RAPIDLY IN ASIA

Percentage of analysts who responded "Yes in a majority of companies" to the question:
"Have you seen a growing emphasis among your companies to implement ESG policies in the last year?"



Source: Fidelity International, "Asia could become a top destination for investors driving sustainable change," July 29, 2021. Survey source: Fidelity Analyst Survey 2021.

FIGURE 2. POSITIVE CORRELATION BETWEEN CORPORATE GOVERNANCE INDEX AND COMPANY VALUATION



Source: The Hong Kong Institute of Directors.

China is all-in on the environment. Innovation and green development are common themes. Likely beneficiaries include companies involved in environmental remediation, clean technology, and renewable energy. Big subsidies are up for grabs, and companies whose interests align could thrive. After all, China's 14th Five-Year Plan calls for reduced CO2 emissions, lower energy consumption, and increased use of renewables and electric vehicles (EVs).

The Chinese government is sensitive to antitrust issues and the social fabric of the country at large. Companies at risk of stricter enforcement are best left alone by investors, as are monopolistic industries and products or services that exploit consumer vulnerabilities. Healthcare and consumer finance companies may be the next industries of government focus and scrutiny.

Despite improvements, corporate governance still lags in China. There are some structural differences that inhibit comparisons to Western companies, making the evaluation of governance in China more of a relative exercise. That said, there is a positive correlation between good governance practices and stock price multiples in emerging markets, such as China.

The Hong Kong Institute of Directors compiled data illustrating that companies with higher corporate governance ratings generally have higher price-to-book ratios (Figure 2). The Corporate Governance Score is based on a survey conducted every three to four years that evaluates and benchmarks the corporate governance practices of the most representative listed firms in Hong Kong.

Case Study: BYD Company Limited (BYD)*

BYD provides an excellent example of a Chinese company with compelling ESG characteristics. BYD is powering a transition to EVs that is moving faster in China than in any other country. Founded in Shenzhen in the mid-1990s as a manufacturer of batteries, cellphones, and digital cameras, BYD now has about 250,000 employees and sells as many as 30,000 pure EVs or plug-in hybrids in China every month. Furthermore, its cars and other vehicles run exclusively on batteries the company manufactures itself.

*BYD Co Ltd-Unsponsored ADR is held in Calamos Global Sustainable Equities Strategy as of 9/30/21. Please see endnotes for additional information about the portfolio.

BYD has amassed a solid reputation for research and development as well as international cooperation, and consistently improves upon global standards for EV technologies and products. The company has created a world-class supply chain and has recruited some the world's best talent to make better automobiles for all. BYD also ranks in the top quartile globally, as measured by the Institutional Shareholder Services governance quality score.

BYD Chairman and CEO Chuan Fu Wang is well connected to and supported by the Chinese government. In conversations with government officials, he has asserted that China could turn off its last conventional car by 2030 with the right mix of subsidies, research incentives, and regulatory mandates. So far, the evidence suggests that President Xi Jinping and other policymakers share Wang's vision because the state has made switching to electric vehicles a national priority.

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 Tony 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.

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. Before 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.

The information provided should not be considered a recommendation to purchase or sell any security. There is no assurance that any securities presented herein will remain in the portfolio at the time you receive information or that securities sold have not been repurchased. The securities discussed do not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any securities transactions or holdings presented were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities presented herein.

Calamos Global Sustainable Equities Strategy portfolio information. As of September 30, 2021, the Representative Portfolio's Ten Largest Holdings are as follows: Apple, Inc., 3.2%; Microsoft Corp., 3.0%; Alphabet Inc-Class A, 2.8%; Taiwan Semiconductor Mfg (ADR), 2.6%; SVB Financial Group, 1.7%; Quanta Services, Inc., 1.6%; Jones Lang LaSalle, Inc., 1.6%; Verizon Communications, Inc., 1.6%; MICHELIN (CGDE)-UNSPON ADR, 1.6%; Texas Instruments, Inc. 1.5%. Ten Largest Holdings exclude any government/sovereign bonds or options on broad-based index hedging securities the portfolio may hold.

The results/characteristics portrayed above are for the Calamos Global Sustainable Equities Strategy. Representative holdings and portfolio characteristics are specific only to the portfolio shown at that point in time. Other portfolios will vary in composition, characteristics, and will experience different investment results. The representative portfolio shown has been selected by the advisor based on account characteristics that the advisor feels accurately represents the investment strategy as a whole.

Returns, Risk/Rewards statistics or characteristics presented reflect the Calamos Global Sustainable Equities Composite II, which is an actively managed, globally focused composite that seeks to achieve long-term capital appreciation. The Composite invests primarily in the common stock of companies around the world that excel at managing environmental risks and opportunities, societal impact and corporate governance (ESG) factors and exhibit attractive financial attributes and competitive advantages. On August 25, 2021, Calamos acquired Pearl Impact Capital LLC which has managed the strategy since its inception in 2019. Firm assets shown represent assets managed by Calamos Advisors and not assets managed by Pearl Impact Capital LLC. The Calamos Global Sustainable Equities Composite II was formerly named the PIC Global Opportunities Composite. This name change was effected August 25, 2021. The Composite was created August 31, 2021, calculated with an inception date of January 1, 2019. Results include all fully discretionary advisory accounts, including those no longer with the Firm. Past performance is no guarantee of future results. Fees include the investment advisory fee charge by Calamos Advisors LLC.

A price-to-book ratio compares a stock's market value to book value. Book value is value of a business, as indicated on its financial statements.

Opinions, estimates, forecasts, and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. The views and strategies described may not be appropriate for all investors. References to specific securities, asset classes and financial markets are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations.

Calamos Advisors LLC is a federally registered investment advisor. Form ADV Part 2A, which provides background information about the firm and its business practices, is available upon written request to: Calamos Advisors LLC, 2020 Calamos Court, Naperville, IL 60563-2787, Attn: Compliance Officer

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