ESG Perspectives:
The Investment Case for Corporate Diversity

Companies and investors are becoming increasingly aware of racial and gender disparities, and studies have shown that companies with more diverse management teams and boards are more likely to outperform their less diverse counterparts. These concepts are not new to the Calamos Sustainable Equity Team. For more than 20 years, we have recognized that diverse companies can produce higher financial returns and have lower risk.

Although corporate and investor awareness of racial and gender disparities has been growing over decades, we've recently seen engagement ramp up more briskly, including through growth in market regulations on gender and race in the workplace. Key catalysts include the death of George Floyd, which brought international attention to global racial disparities. Since then, cultural pressures have prompted companies to support racial equity. Simultaneously, corporations continue to respond to the #MeToo movement, which began four years ago.

During the 2021 proxy season, beginning in July 2020 and ending in June 2021, the “support for social (non-environmental) proposals … increased significantly to 30.6%, up from 21.5% in 2020.”1 This growth was driven primarily by the upsurge in the number of diversity-related proposals.

Requests for board diversity saw a 100% increase in average support compared to the 2020 proxy season. However, proxy voting and shareholder resolutions go beyond simply voting against key directors at boards without female representation. Investors’ requests are becoming more sophisticated. For example, in 2021 filed requests for racial equity audits to ensure accountability of companies that had made public statements in support of racial justice. Racial audits are independent analyses into a company’s business model to see whether and, if so, how, it causes or perpetuates racial discrimination.2

Shareholder proposals are also seeking the disclosure of firmwide gender and race data. Within the United States, companies with more than 100 employees are required to annually report detailed workforce data by race and gender to the US Equal Employment Opportunity Commission. In 2021, three companies received shareholder proposals to disclose their employment data, and this type of request is expected to multiply in 2022.

Investors are not the only stakeholders demanding more transparency. In August 2021, the SEC approved Nasdaq’s board diversity rule requiring Nasdaq-listed companies to have, or to explain why they do not have, at least two diverse directors. In this context, diverse is defined as either including at least one director who self-identifies as female (regardless of gender designation at birth) and at least one director who self-identifies either as an “underrepresented minority,” or as LGBTQ+. The Nasdaq is also requiring listed companies to annually disclose directors’ self-identified gender, race, and ethnicity in a standardized board diversity matrix.

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1 Shareholder Proposal Developments During the 2021 Proxy Season - Gibson Dunn
2 https://corpgov.law.harvard.edu/2021/08/05/2021-proxy-season-review/
Many studies have substantiated our team’s belief that diverse companies can produce higher returns and have lower risk than those that are less diverse. This research includes a 2020 McKinsey and Company study that “found that organizations in the top quartile of gender diversity were more likely to outperform on profitability—25% more likely for gender diverse executive teams and 28% more likely for gender-diverse boards. Organizations in the top quartile for ethnic/cultural diversity among executives were 36% more likely to achieve above-average profitability.”

In a separate study, Credit Suisse analyzed 30,000 senior executives at over 3,000 companies across the world. In sum, companies in which women represent 20% or more of management have enhanced their share price performance compared to companies in which women constitute 15% or less of management. Similar findings were found among corporate boards. Companies in which women occupied 10% or more board seats outperformed those with fewer than 10% women or with no women at all.

This resonates with us and translates into how we manage portfolios. Our portfolio companies have a higher percentage of women represented on corporate boards than widely recognized market benchmarks. Additionally, our proxy voting policy further supports our belief that diversity is a key component to long-term financial success and is generally in the best long-term interests of shareholders. The integration of these positive criteria is evident in our sustainable strategies.

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### THE CALAMOS SUSTAINABLE EQUITY STRATEGIES: OUR PHILOSOPHY

More than 20 years ago, our team developed one of the first sustainable/ESG research platforms, and our proprietary process pre-dates many of the largest ESG third-party research providers. We believe a well-diversified portfolio of high-quality stocks can produce above-average market returns with lower volatility over the long term. We seek to achieve above-average returns with lower volatility by focusing on companies that generate higher returns on capital, possess better growth prospects, and hold sustainable competitive advantages over their peers.

We believe companies with strong ESG characteristics are better equipped to adapt to change, to evolve, and to avoid unnecessary liabilities contributing to investor return potential and risk reduction—integrating ESG analysis with traditional financial analysis produces better financial and societal results.

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For more information about our team, experience, and investment strategies, please visit: www.calamos.com/sustainable.
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