CALAMOS

**ONE PLANET PROSPERITY**

# Informing the Calamos Sustainable Equities Team Investment Approach

# Foreword

This report outlines our investment philosophy and proprietary research approach. We've been successfully employing and enhancing this strategy for over two decades.

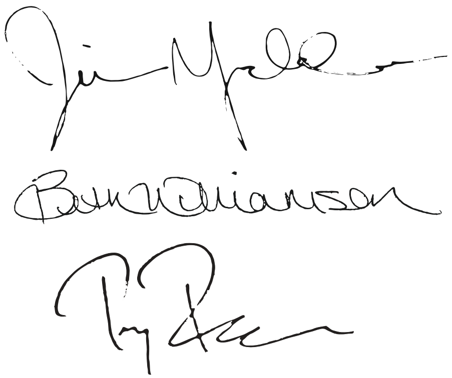
Our job as fiduciaries is to identify and manage portfolios comprised of "Global Leaders" with the central goal of exceeding benchmark performance with lower-than-benchmark volatility.

Global Leaders are companies that have consistently produced positive economic profits over time and have better future growth potential than their industry peers in our opinion. Global Leaders also manage their financial and nonfinancial risks and opportunities successfully to improve the likelihood that their strong operating fundamentals and market leadership will persist into the foreseeable future.

Financial metrics indicative of Global Leaders include high relative returns on invested capital (ROIC), profit margins with strong free cash flow generation, and lower debt. Further, we seek companies that are clear market share leaders with exposure to strong long-term secular trends and guided by solid management teams, capable of executing a sound business strategy.

The One Planet Prosperity framework developed by Global Footprint Network[1] provides a lens to help us understand the factors that define our ecological and socioeconomic context. From this framework, we have built our proprietary investment criteria, which allow us to identify companies with forward-looking business strategies—companies that we believe are better equipped to navigate a future increasingly shaped by environmental and societal constraints.

***Calamos Sustainable Equities Team***





# Executive Summary

The Calamos Sustainable Equities Team is committed to generating attractive returns with lower volatility and risk than its benchmark.

We do so by investing in companies with superior operating fundamentals and growth prospects, companies we call "Global Leaders."

### Understanding our Team's Context

Humanity's history encompasses remarkable progress, yet it has come at a cost. When we seek companies that may outperform their competition today and in the future, we know that a growing world population, climate change and resource constraints are forces already shaping economic, sector and company dynamics.

### One Planet Prosperity Framework

As we seek to identify Global Leaders, "One Planet Prosperity," a concept developed by Global Footprint Network, provides a lens. This concept shapes our investment approach, as we recognize the two main drivers of One Planet Prosperity—improving human lives and reducing ecological overshoot.

### Global Leaders that Shape the Future

Our investment approach identifies companies capable of navigating the landscape of human development needs and environmental constraints while seeking to create value for shareholders. These companies are at a competitive advantage because of:

– Reduced exposure to resource constraints

– Greater retention of asset value

– Increased demand for products and services

– Lower operating costs

The Sustainable Equities Team has created a differentiated and proprietary research approach for evaluating potential investment opportunities. This unique, not off-the-shelf approach, identifies companies that pursue one or more of the team's six environmental and social criteria.

## The Environmental Criteria

1. **Product Contribution:** Companies that innovate with new products and services that are "fit for the future." Many of these products replace outdated ones, providing similar services in new, more resource-efficient ways.
2. **Life Cycle Innovation:** Companies that change the design of their products, use sustainable raw materials, and reduce resource and energy use across the product's entire lifecycle.
3. **Operational Efficiency:** Companies that create significant efficiency improvements in their manufacturing and operations, whether or not they change their products.

## The Social Criteria

4. **Inclusive Finance:** Companies that provide banking products and services, such as microfinance, SME loans, insurance, and financial technology, to communities that have traditionally been excluded.
5. **Ensuring Health:** Companies that provide health facilities and technologies as well as medicines and vaccines for low-income customers.
6. **Providing Basic Services:** Companies that deliver clean water, food, electricity and energy, transportation, shelter, sanitation and health, and education to low-income communities around the world.

## The Importance of Financials

As part of our propriety process, we evaluate only companies that demonstrate strong financials—higher than peer ROIC, margins and free cash flow. The result, in our opinion, is a portfolio of quality companies that will generate attractive returns with lower-than-benchmark volatility.

This report will delve deeper into the comprehensive, proprietary research process utilized by the Calamos Sustainable Equities Team.

# What is Our Lens?

Over the past century, humanity has achieved incredible feats of innovation and progress. From the creation of complex societies to advancements in food systems and medicine, our species has demonstrated an unparalleled ability to overcome challenges and push boundaries. But these accomplishments have come at a cost, increasing ecological overshoot.

### What is Ecological Overshoot?

We now have 8 billion people on the planet, predicted to grow to 9.7 billion by 2050. Humanity's Ecological Footprint—its demand for food, timber, fiber, land for urban use, and land area with the capacity to absorb excess CO2 from fossil fuel burning—is now 73% higher than the capacity of the planet's ecosystems.

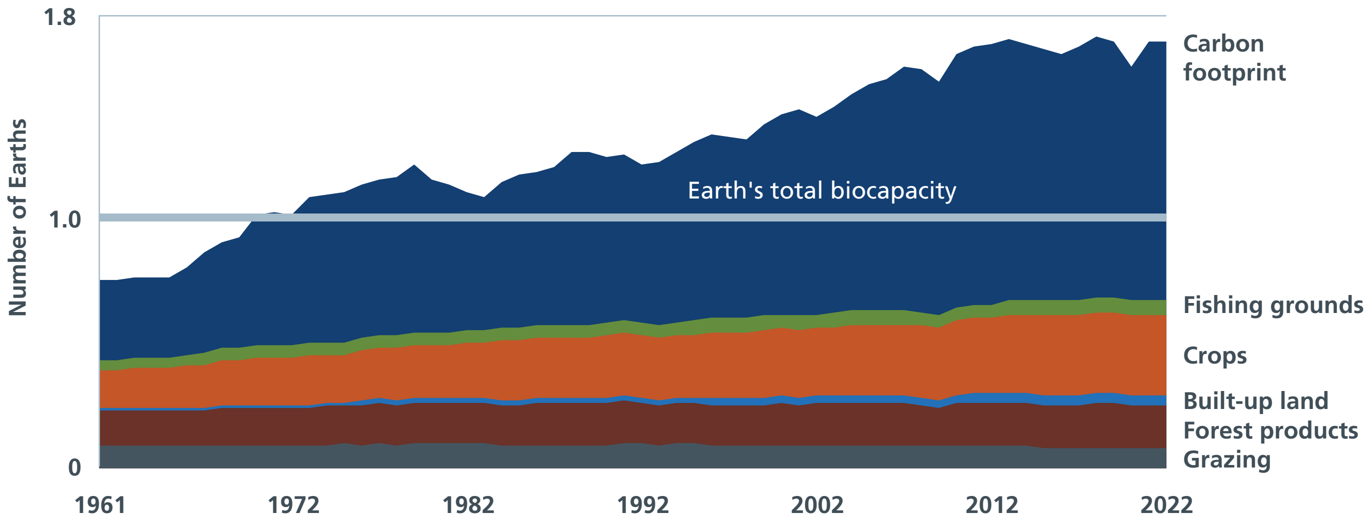
The effects of ecological overshoot are felt globally, manifesting as climate change, loss of biodiversity, freshwater stress, deforestation, and other ecological changes that impact our economies and quality of life.

Alongside global ecological overshoot, we know that fundamental human needs will remain fixed—people will continue to need food, housing, and transportation. In this sense, the future has never been more predictable.

Given this context that is already shaping economic dynamics, a straightforward question arises: Which businesses will outperform in the predictable future of a growing world population and persistent ecological overshoot?

Companies that drive down global ecological overshoot as they expand will gain in value.

**Figure 1: Humanity's Ecological Footprint by Component** (In number of Earths)[2]




Source: Global Footprint Network

# Which companies will have strong financial returns in the future?

One Planet Prosperity, a concept developed by Global Footprint Network provides a framework that guides the Calamos Sustainable Equities Team investment process. But what exactly is One Planet Prosperity?

Businesses want to thrive, and people want better lives, yet there is only one planet to generate the natural resources and provide the services needed to meet these demands. This tension between society's desires and ecological reality is the dominant dynamic shaping our world.

One Planet Prosperity describes the relationship between society's desire to advance and the ecological limits of the planet through two key drivers — improving human lives and reducing ecological overshoot.

This framework contributes to the Calamos Sustainable Equities Team research process.  It allows our team to identify businesses that are well positioned to meet their long-term financial objectives in a world increasingly shaped by planetary constraints.

**One Planet Prosperity** is where well-being and ecological resource security converge.

Put together, these two key metrics allow us to assess whether we are meeting material standards of living within the ecological means of the Earth, essential for human prosperity to last.

### X-AXIS

#### "Prosperity" or the Human Development Index (HDI)

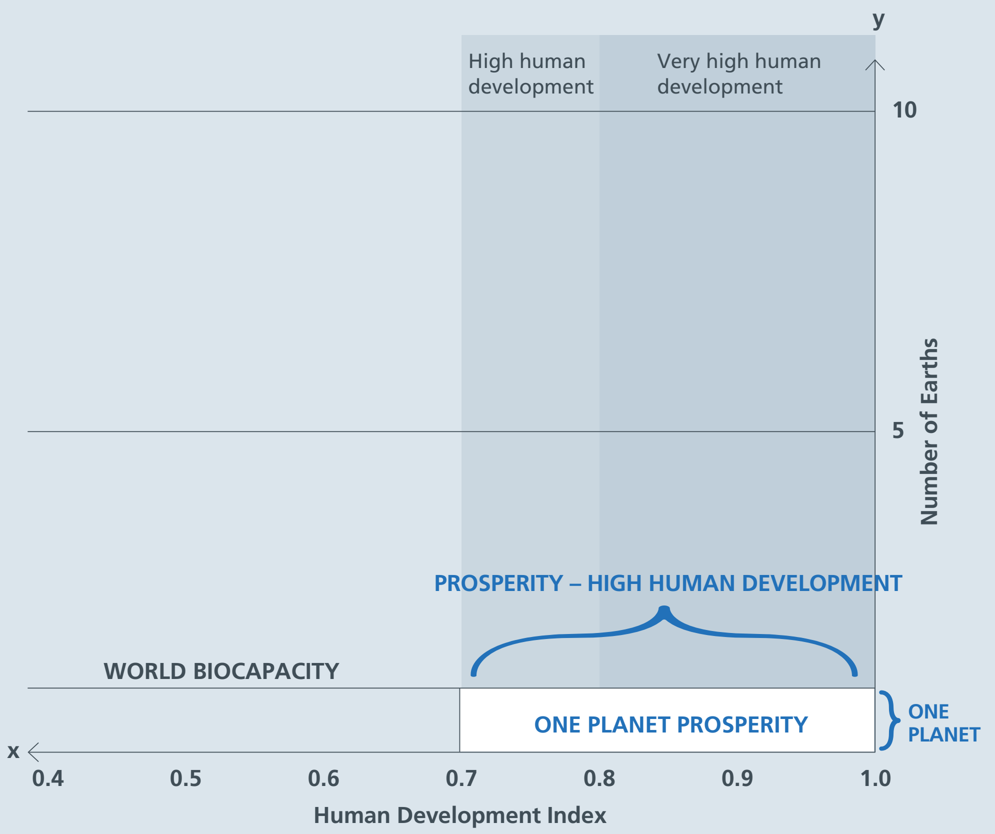
One prominent way of measuring human progress is the UN's Human Development Index (HDI), which rates societies in income, education, and life expectancy. The United Nations considers an HDI of over 0.7 as a "high" measure of human development and 0.8 as "very high".

### Y-AXIS

#### "One Planet" or the Number of Earths

Using Ecological Footprint accounting, we can determine whether the human economy fits within our planet's resource budget by comparing humanity's resource demand to the Earth's regenerative capacity. Humanity currently uses the capacity of 1.7 Earths.

**Figure 2: Ecological Footprint and Human Development Index of Countries**




Source: Global Footprint Network

**Figure 3** shows the current position of countries along both axes. It makes evident that very few countries today come close to operating within the "One Planet Prosperity" quadrant.

On the horizontal human development X-axis, the US, Canada, Western Europe and Japan score well. The vertical number of Earth's Y-axis shows countries' ecological footprints, i.e., how many Earths would be needed if everyone lived like residents of a given country. One Planet is the operating space we have for true resource security.

Although traditional development has improved human well-being at the cost of ever-higher resource dependence, we believe another path is emerging.

Ecological overshoot is already shaping economic, sector and company dynamics. Therefore, we believe that future value will come from companies that improve their customers' lives while reducing resource dependence.

## Identifying Companies Moving towards One Planet Prosperity

Given that One Planet Prosperity can only occur within this quadrant, there are two types of strategies, or combinations thereof that indicate which companies have a higher chance of growing in value in a future with growing populations and resource constraints.

STRATEGY A — **Companies that drive down overshoot as they expand.**

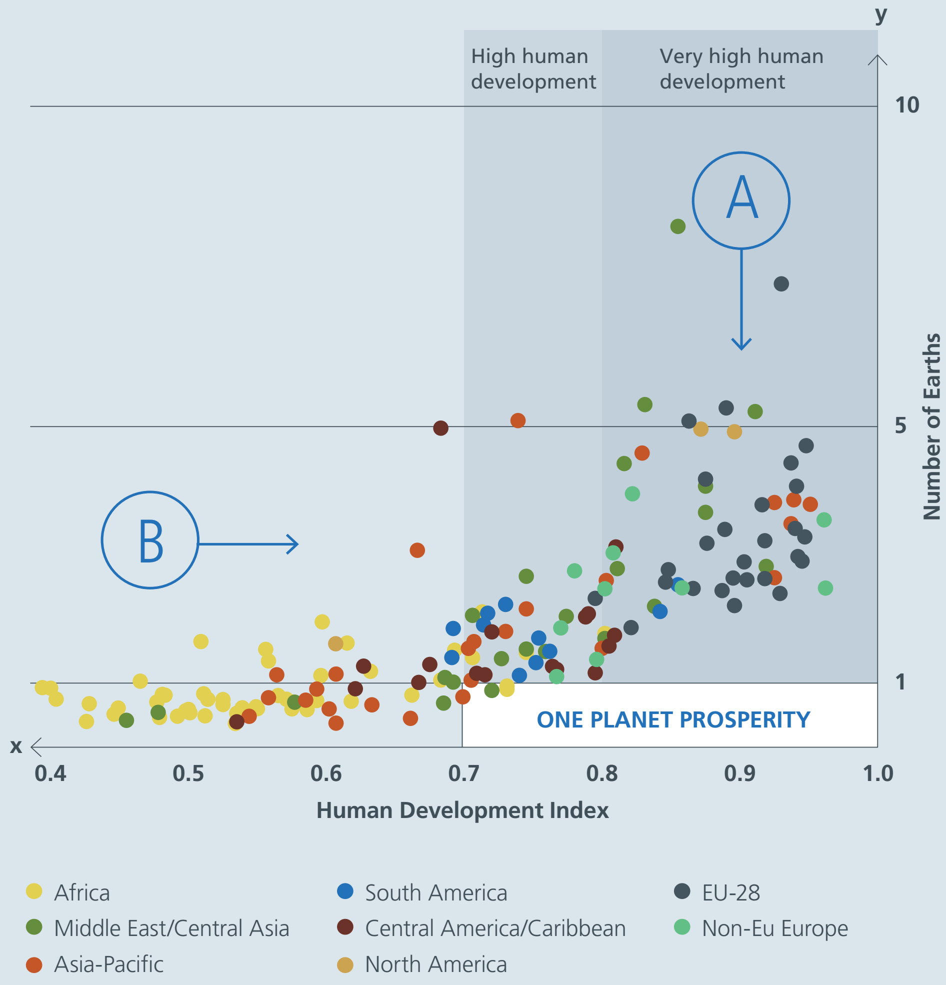
STRATEGY B — **Companies that provide for basic human needs in ways that are scalable, accessible, and resource-efficient.**

Businesses that pursue these strategies will be more resilient and have a competitive advantage: they are more likely to avoid resource constraints and the market demand for their goods and services is more likely to grow.

Taking the concept of One Planet Prosperity further into the investment context, the Calamos Sustainable Equities Team developed our proprietary company selection criteria based on these two strategies.

We believe that a One Planet Prosperity approach is how both maximum sustainable global GDP and shareholder wealth will be achieved.

**Figure 3: Ecological Footprint and Human Development Index of Countries** (2021)[3]




Source: Global Footprint Network

STRATEGY

## A COMPANIES THAT DRIVE DOWN ECOLOGICAL OVERSHOOT AS THEY EXPAND

# Producing value by lowering resource dependence

Informed by the One Planet Prosperity framework, our environmental criteria uncover companies with products and services that address overshoot and are needed for the transition to a sustainable economy.

These companies are transforming their industries by replacing outdated technologies, reducing the impact of their products from cradle to grave, and producing their products in dramatically more efficient ways.

The transition toward a green, low-carbon economy is creating opportunities for Global Leaders that are poised for further growth as economies pursue resource efficiency and net-zero goals.

# A COMPANIES THAT DRIVE DOWN ECOLOGICAL OVERSHOOT AS THEY EXPAND

**1. Product Contribution:** Companies that excel in this category are addressing overshoot by providing products and services that are "fit for the future." These products and services often replace outdated ones. Examples include improved solar, wind, and hydro energy.

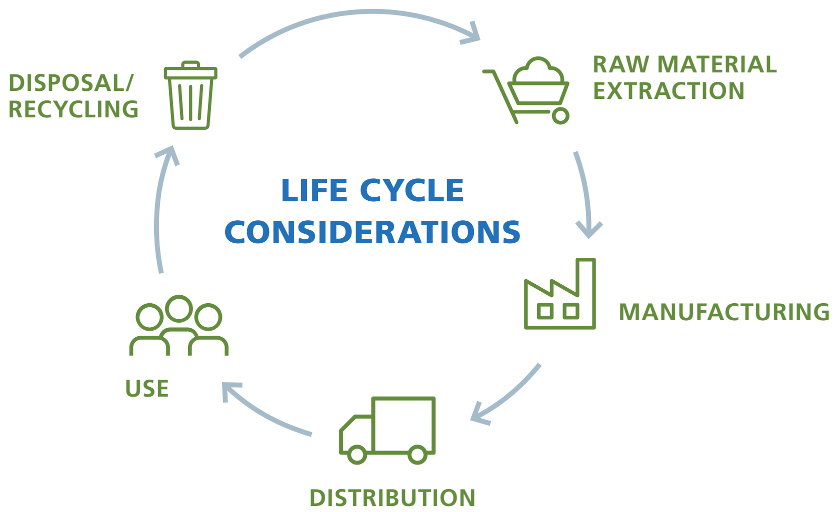
Many of these companies' products enable their customers to live with lower ecological footprints. Other industry examples include developing precision agricultural technologies that reduce pressure on cropland, or sustainable forestry practices that reduce pressure on forests.

For diversified companies, we analyze the revenues associated with each company's product range. Leading companies are investing heavily in R&D and mergers and acquisitions to transform their business strategies toward providing more low-carbon and resource-efficient products.

As these companies grow, they also transform their industries, driving out the products of the past and inviting their competition to copy them.

**2. Life Cycle Innovation:** Leading companies employ life cycle design to reduce the impact of their products and services across the entire lifespan of the product, cradle to grave, and in the case of products that are designed for disassembly and component reuse, "cradle to cradle."

They innovate across many dimensions including raw materials sourcing, green chemistry, packaging, logistics, transportation, end-of-life recycling and energy efficiency. This leads not only to environmental benefits but also to tangible financial benefits including reduced production and waste disposal costs, and enhanced brand reputation.




**3. Operational Efficiency:** Even companies that are not able to change the core products they offer can create massive efficiency improvements in their production processes. This leads to much lower water, material and energy use, reduced waste and lower carbon emissions.

Strong environmental management systems help these companies optimize their facilities. Capital investments in operational efficiency pay off financially and boost the company's bottom line, whether it's in HVAC systems, clean rooms, or manufacturing plants.

In other instances, companies may use their waste heat for secondary applications such as district heating, while others demonstrate operational efficiency by using solar energy to power their operations.

STRATEGY

B

## COMPANIES THAT PROVIDE FOR BASIC HUMAN NEEDS, IN WAYS THAT ARE SCALEABLE, ACCESSIBLE, AND RESOURCE-EFFICIENT

# Producing value by improving people's lives within planetary constraints

Human dignity requires that all people have the opportunity to meet their basic needs. Since the 1990s, global average per capita income has risen and rates of extreme poverty have declined in many countries,[4] giving rise to a growing and increasingly urbanized middle class. But this progress could be halted and even reversed if the development model of the past continues.

Despite progress, extreme poverty still affects more than 700 million people.[5] Therefore, companies can play a meaningful role in providing affordable products and services that enable people to participate productively in society and its economy.

Our social criteria uncover companies with products and services that address human needs in ways that are affordable and scalable with low ecological impact.

Companies employing this social criteria provide financial, health care, and other basic services to people who have historically lacked access.

While many of the customers benefiting from these products and services live in low-income countries, companies improving the lives of underserved populations in medium- and high-income countries qualify for inclusion as well.

Underserved markets are poised for further growth as economic development continues, which can unlock further business opportunities for Global Leaders.

# B COMPANIES THAT PROVIDE FOR BASIC HUMAN NEEDS, IN WAYS THAT ARE SCALEABLE, ACCESSIBLE, AND RESOURCE-EFFICIENT

**1. Inclusive Finance:** A growing number of financial services companies contribute to the creation of wealth and the alleviation of poverty by providing financial products and services to those who have historically lacked access. Affordable, trustworthy, and accessible financial offerings are an essential service for all individuals and small businesses because they enable market participation and opportunities to build assets.

Roughly 2 billion adults, who account for more than 50% of the global workforce, lack access to formal financial services. In low-income countries, 80% of the least privileged individuals do not have bank accounts.[6] But the need for inclusive finance is not limited to low-income countries. In the US, more than 30 million households are considered unbanked or underbanked—they have limited access to basic financial products and services.[7] We believe publicly traded equities can best promote financial inclusion across four main product and service lines:

**Microfinance**

*providing loans as small as $50 to low-income individuals and enterprises. The global microfinance market is expected to grow to $394 billion by 2027.*[8]

**SME (small and medium enterprise) financing**

*According to the UN, Micro, Small and Medium-sized enterprises account for 90% of businesses, 60 to 70% of employment and 50% of GDP worldwide.*[9]

**Fintech**

*technology that automates the delivery of financial services and expands financial inclusion.*

**Insurance**

*allows individuals and communities to build on their existing assets more safely.*

Companies engaged in inclusive finance tap into new markets and find opportunities for increased revenues, customer loyalty, diversification of revenue streams, and potential for cross selling and up selling. Those who can provide the best services at the lowest cost will garner a larger market share. Since there is an economy of scale, with low marginal costs, the best provider with the capability to scale has a significant advantage.

**2. Ensuring Health:** According to the World Health Organization, at least half of the world's population does not have full coverage of essential health services. In fact, 1 in 10 individuals globally do not have access to essential medicines, and on average out-of-pocket payments represent more than 30% of every country's health expenditure.[10]

We consider companies for investment that operate **health facilities** in underserved markets, offer access to safe and effective **medicines and vaccines,** or develop **health technologies** that reduce the cost to health care access. Taken together, these initiatives will significantly contribute to societal well-being, economic growth and development. Simultaneously, these companies can also uncover new revenue streams through market expansion, patent extensions, partnerships and collaborations, and potential government funding and contracts.

**3. Providing Basic Services:** Basic services that improve people's lives are positively correlated to human and economic development. For example, improved sanitation and rising urban standards of living contribute to longer lives nearly everywhere in the world. But key services are still missing in many parts of the world—electrification, for example, is a key ingredient for economic development. Other key services that need additional investment include basic education, access to fair-priced communication technology, and affordable housing.

As part of our social investment selection strategy, the Calamos Sustainable Equities Team seeks high quality companies providing basic services such as **clean water, food, electricity and energy, shelter, sanitation, mobility, education, and access to information and communication technologies.**

For companies that provide basic services at scale, opportunities are likely to grow because these services are essential, resulting in increased, typically recurring, revenues.

# Our Proprietary Research Approach

Our investment process (Figure 4) integrates both financial and nonfinancial analysis to construct a portfolio of high quality companies that we believe will deliver above average long-term returns with mitigated volatility.

From a universe of approximately 90,000 investable companies, we seek those that are **well-established and well-capitalized,** by applying a $2 billion market-cap screen and a $1 million in daily value volume screen to avoid issues with liquidity.

We then eliminate thousands of companies during our **deep traditional financial analysis,** looking only for high-quality companies with attributes such as strong ROIC, margins, and free cash flow.

Next, we apply our **risk-based exclusionary screens** to remove companies and industries whose return profiles are not attractive.

We then turn our attention to  other nonfinancial material issues via our **ESG materiality assessments.** At this time, we evaluate a company's governance structure and other industry specific issues.  We screen out those companies that are not addressing them successfully.

Completion of these steps results in a pool of names that meet our baseline fundamental financial and nonfinancial requirements. But we don't stop here.

Our **proprietary screening criteria,** informed by the One Planet Prosperity framework, sets the Calamos Sustainable Equities Team apart from the rest of the ESG industry.

For a company to be qualified, it must demonstrate a score higher than 3, based on a 1–5 scoring system in one or more of six key strategies:

**Environmental**

1. Product Contribution
2. Life Cycle Innovation
3. Operational Efficiency

**Social Impact**

4. Inclusive Finance
5. Ensuring Health
6. Providing Basic Services

Our proprietary scoring criteria and sub criteria assess how well a company executes on these six strategies as well as three additional environmental criteria: leadership, environmental disclosures, and future risks and debts. In total, our environmental and social impact scoring system consists of 9 criteria and 42 sub criteria.

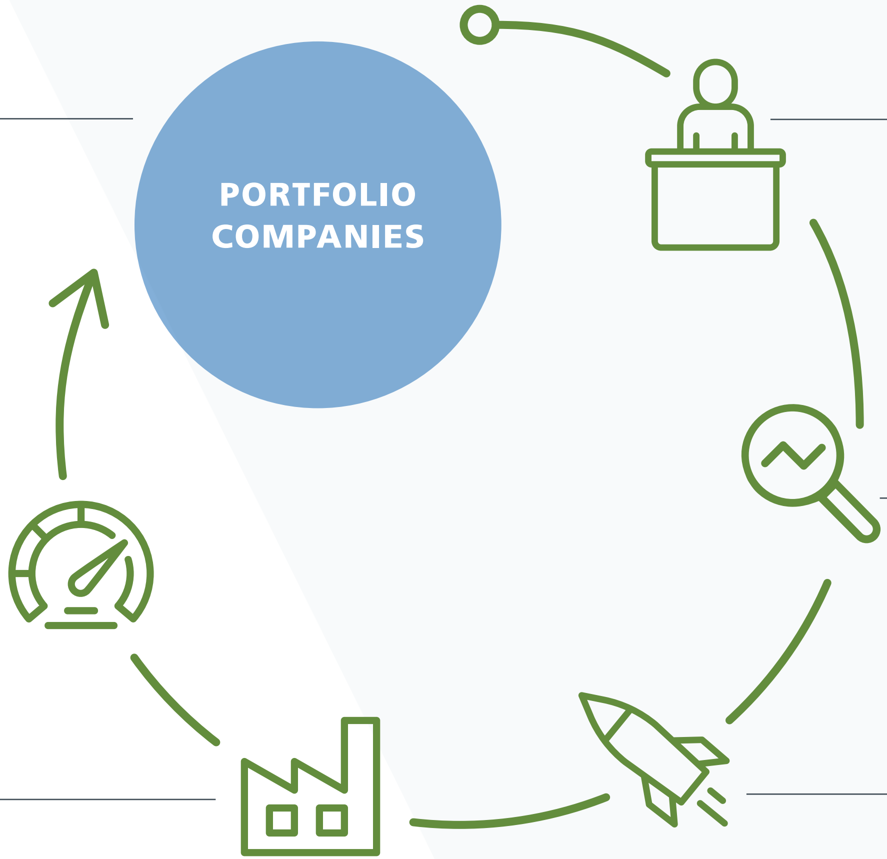
Once a company qualifies, we examine the leading investment opportunities through additional fundamental research with a view toward **portfolio construction.**

Once we have placed a company within a portfolio, we monitor it for controversies and company specific material factors. Changes in those two areas could trigger a score change and result in divestment.

The result is a portfolio of companies with a history of innovation and competitiveness, which provide products and services that meet important, widely held needs. Our portfolio companies have a record of mitigating environmental risk and managing within ecological limits. They demonstrate market leadership and the ability to maintain their edge, and they show strong business fundamentals relative to their industry.

# Our Proprietary Research Approach

**Figure 4**




### Well-established and well-capitalized companies

**Opportunity set reduced to 4,000 companies**
*>$2 billion market cap,*
*>$1 million daily volume, long-term industry prospects*

### Deep Traditional Financial Analysis

**Opportunity set reduced to 1,000 companies**
*ROIC (Return of invested capital), margins, cash flow, consistent returns above the cost of capital*

### Risk-Based Exclusionary Screens

**Weapons, fossil fuels, tobacco, etc.**

### ESG Materiality Assessment

**Opportunity set reduced to 350 companies**
*Eliminate those that do not address material risks*

### Proprietary Screening Criteria

**Selecting Global Leaders**
*Focused on 6 key strategies and other supporting criteria*

### Portfolio Construction

**Benchmark aware, diversification across multiple dimensions, daily monitoring, disciplined sell triggers**

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## ENDNOTES

[1] Global Footprint Network, www.footprintnetwork.org/opp

[2] Global Footprint Network, National Footprint Accounts, 2022 Edition, data.footprintnetwork.org

[3] Global Footprint Network, National Footprint Accounts, 2023 Edition, data.footprintnetwork.org

[4] World Bank Poverty and Inequality Platform (PIP), 2022

[5] United Nations, "Poverty and Shared Prosperity Report," 2022

[6] Principles for Investors in Inclusive Finance (PIIF)

[7] Federal Deposit Insurance Corporation (FDIC), "2017 FDIC national survey of unbanked and underbanked households," October 2018

[8] "Global Microfinance Industry Report," ReportLinker, 1 January. 2023, www.reportlinker.com/p05799111/Global-Microfinance-Industry.html.

[9] "Galvanizing MSMEs Worldwide by Supporting Women and Youth Entrepreneurship and Resilient Supply Chains," United Nations, 27 June 2023, www.un.org/en/observances/micro-small-medium-businesses-day.

[10] "Universal Health Coverage - World Health Organization," World Health Organization, 25 March 2019, https://apps.who.int/gb/ebwha/pdf_files/WHA72/A72_14-en.pdf.

**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.