

# Market Neutral Income Fund

## Second Quarter 2018 Report

CALAMOS<sup>®</sup>  
INVESTMENTS



### MORNINGSTAR OVERALL RATING™\*

among 129 Market Neutral Funds  
The fund's load-waived Class I shares received 4 stars for 3 years, 4 stars for 5 years, and 4 stars for 10 years out of 129, 86 and 30. Market Neutral funds, respectively, for the period ended 6/30/18.

### OVERVIEW

The fund's core market strategies include covered call writing and convertible arbitrage. Together, these strategies are intended to provide the fund with an enhanced potential for risk-managed returns due to their differing responses to volatility.

### KEY FEATURES

- » One of the first alternative mutual funds, capitalizing on experience in the convertible space going back more than four decades
- » Low correlation with most fixed income benchmarks
- » Risk management is a primary focus, as the fund's primary strategies are managed together with the intent of maximizing risk/reward characteristics

### FUND TICKER SYMBOLS

A Shares C Shares I Shares  
CVSIX CVSCX CMNIX

\* Morningstar ratings shown are for Class I shares and do not include any front-end sales load. Not all investors have access to or may invest in the share class shown. Other share classes with front-end or back-end sales charges may have different ratings than the ratings shown.

There can be no assurance that the Fund will achieve its investment objective.

NOT FDIC INSURED | MAY LOSE VALUE |  
NO BANK GUARANTEE

### Summary

With bonds posting a negative quarter, the Calamos Market Neutral Income Fund provided a positive result and demonstrated the benefit of owning the fund as a bond alternative during periods of rising interest rates.

### Covered Call Strategy Performance

**Equity Performance.** The positive return of the S&P 500 Index (+3.43%) supported the covered call strategy performance during the quarter as the value of our equity basket increased and the long calls purchased as part of our call spreads appreciated in value. The tracking error of the equity basket was significantly below the goal of 0.5% and was closer to 0.1% during the period. The equity basket performed in line with the S&P 500 Index.

**Volatility.** After seeing increased volatility in the first quarter amid President Trump's tariff talk, volatility declined during the second quarter. The CBOE Volatility Index (VIX) finished the quarter at 16.09, lower than where it began at 19.97 and below its long-term average (near 20). Lower volatility impeded premium capture and trade rebalancing opportunities during the quarter.

### AVERAGE ANNUAL RETURNS

	QTD	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE I SHARE INCEPTION (5/10/00)	SINCE A SHARE INCEPTION (9/4/90)
<b>Calamos Market Neutral Income Fund</b>								
I shares – at NAV	0.96%	2.32%	4.28%	3.95%	4.02%	3.90%	4.58%	N/A
A shares – at NAV	0.82	2.09	3.98	3.67	3.74	3.63	N/A	6.28
A shares – Load adjusted*	-1.47	-0.17	1.61	2.01	2.73	3.13	N/A	6.09
<b>BBgBarc U.S. Government/Credit Bond Index</b>	-0.33	-1.90	-0.63	1.83	2.29	3.78	5.01	5.96
<b>Citigroup 30-Day T-Bill Index</b>	0.42	0.77	1.27	0.6	0.37	0.26	1.50	2.51
<b>Morningstar Market Neutral Category</b>	-0.29	-0.54	1.24	1.14	0.88	1.37	1.87	3.86

The Bloomberg Barclays U.S. Government/Credit Bond Index and Citigroup 30-Day T-Bill Index return "Since A share Inception" start date is 8/31/90. The Bloomberg Barclays U.S. Government/Credit Bond Index and Citigroup 30-Day T-Bill Index return "Since I share Inception" start date is 4/30/00.

Performance data quoted represents past performance, which is no guarantee of future results. You can obtain performance data current to the most recent month end by visiting [www.calamos.com](http://www.calamos.com). Current performance may be lower or higher than the performance quoted. The principal value of an investment will fluctuate so that your shares, when redeemed, may be worth more or less than their original cost. Load-adjusted returns take into account the Fund's maximum 2.25% front-end sales load. Returns for periods greater than 12 months are annualized.

Performance may reflect waivers or reimbursement of certain expenses. Calendar year returns measure net investment income and capital gain or loss from portfolio investments for each period specified. Average annual total return measures net investment income and capital gain or loss from portfolio investments as an annualized average. All performance shown assumes reinvestment of dividends and capital gains distributions. In calculating net investment income, all applicable fees and expenses are deducted from the returns. As of the prospectus dated 3/1/18, the Fund's gross expense ratio for Class A shares is 1.28% and Class I shares is 1.02%.

The offering price for Class I shares is the NAV per share with no initial sales charge. There are no contingent deferred sales charges or distribution or service fees with respect to Class I shares. The minimum initial investment required to purchase each Fund's Class I shares is \$1 million. Class I shares are offered primarily for direct investment by investors through certain tax-exempt retirement plans (including 401(k) plans, 457 plans, employer-sponsored 403(b) plans, profit sharing and money purchase pension plans, defined benefit plans and non-qualified deferred compensation plans) and by institutional clients, provided such plans or clients have assets of at least \$1 million. Class I shares may also be offered to certain other entities or programs, including, but not limited to, investment companies, under certain circumstances.

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**Option Skew.** As discussed in recent commentaries, the options market has exhibited a high amount of option skew which increased during the quarter. The Credit Suisse “Fear Barometer” Index (CSFB) provides a window into understanding the skew. Using premium captured by writing 90-day S&P 500 Index call options that are 10% out of the money, the CSFB value is determined by understanding how far out of the money 90-day index puts are purchased to construct a zero-cost collar around the S&P. The higher the index value, the more skew is evident in the options market. The CSFB began the quarter at 24.98 and finished at 32.78, reversing the flattening witnessed in the first quarter. The current level remains well above the CSFB long-term average around 19. Steeper skew has challenged our traditional “North Star” positioning, but provided attractive opportunities with using option spreads. Overall, we believe that the lower volatility and increased option skew environment enabled us to position the covered call strategy with a more favorable risk/reward profile than our traditional “North Star” allocation. Should skew and volatility return to normal levels, we would revisit our “North Star” approach.

**Positioning.** The use of call spreads remained opportunistic during the quarter given the abnormally high amount of option skew and low volatility in the market. We closed out our positioning in short puts during the quarter though maintained a higher allocation to long puts. We continue to find that call spreads provide a more attractive risk/reward outcome than just selling calls as part of our traditional “North Star” positioning (which consists of writing 80% calls and buying 40% puts). Our call spread positioning involves writing calls that are in the money while at the same time purchasing out of the money calls. The current positioning provides a very favorable upside/downside risk profile, especially if the market breaks out on either side of this range, above-average positive results are expected.

At the end of June, our notional hedge positioning was 94% calls overwritten versus 71% puts purchased excluding long calls. With long calls included, on a net basis the positioning reflected 88% calls sold short versus 71% puts purchased long. This reflects a snapshot of the portfolio on the last trade date of the quarter and is subject to revision as it is actively managed. Positioning can change quickly depending on market conditions.

**Alpha** is the measurement of performance on a risk adjusted basis. A positive alpha shows that performance of a portfolio was higher than expected given the risk. A negative alpha shows that the performance was less than expected given the risk. **Volatility Skew** is the difference in implied volatility between out-of-the-money options, at-the-money options, and in-the-money options. Volatility skew, which is affected by sentiment and the supply and demand relationship, provides information that helps fund managers determine whether to write calls or puts. **In the Money** means that a call option’s strike price is below the market price of the underlying asset or that the strike price of a put option is above the market price of the underlying asset. **Out of the Money** describes a call option with a strike price that is higher than the market price of the underlying asset, or a put option with a strike price that is lower than the market price of the underlying asset.

Past performance does not guarantee future results. Please see additional disclosures on last page.

## Convertible Arbitrage Performance

**Interest Rate Environment.** Rising interest rates provided mixed results for convertible arbitrage during the quarter. From a positive standpoint, the Federal Reserve announced another 25 basis points increase to the fed funds rate (the range is now at 1.75% to 2.00%). As short-term interest rates move higher, the overnight interest received on the cash received from our short stock positions moves higher. In terms of challenges, interest rates across points of the U.S. Treasury Yield Curve increased. Two-year yields closed at 2.52% up from 2.27% and ten-year yields closed at 2.85%, up from 2.74%. Credit spreads were not much of a performance factor during the quarter as high yield credit spreads narrowed just 4 basis points to 406 basis points over Treasuries according to JPMorgan.

**Volatility.** Convertible Arbitrage tends to thrive in periods of higher volatility. While lower overall market volatility declined as previously noted, the strategy was able to benefit from trade rebalancing because of individual name volatility.

**Convertible Valuations.** Convertible Arbitrage performance was also slightly held back by cheapening convertible valuations. The average convertible in the ICE BofAML All U.S. Convertibles Index (VXA0) traded at a 1.77% discount, slightly cheaper than the 1.64% discount at the beginning of the quarter as reported by ICE BofAML.

**Convertible Performance.** Thanks to the substantial 7.65% rise in their underlying equities, convertibles outperformed the S&P 500 Index during the quarter. The ICE BofAML All U.S. Convertible Index was up 3.77% versus the 3.43% equity index return.

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## Fund Information

CREDIT QUALITY ALLOCATION OF BONDS	%
AAA	0.0
AA	0.0
A	3.7
BBB	2.6
BB	11.1
B	11.1
CCC and below	1.2
Unrated Securities	70.2

Bond credit quality allocation reflects the higher of the ratings of Standard's & Poor's or Moody's Investors Service. Ratings are relative, subjective and not absolute standards of quality, represent the opinions of the independent, Nationally Recognized Statistical Rating Organizations (NRSRO), and are adjusted to the Standard & Poor's scale shown. Ratings are measured using a scale that typically ranges from AAA (highest) to D (lowest). The table excludes equity securities, cash and cash equivalents. For more information about securities ratings, please see the Fund's Statement of Additional Information at [www.calamos.com](http://www.calamos.com). Additional information on ratings methodologies are available by visiting the NRSRO websites: [www.standardandpoors.com](http://www.standardandpoors.com) and [www.moody.com](http://www.moody.com).

### RISK MEASURES SINCE FUND INCEPTION

	FUND	S&P 500 INDEX
Alpha	3.53%	N/A
Beta	0.25	1.00
Sharpe Ratio	0.74	0.54
Annualized Standard Deviation	4.71%	14.00%
R-Squared	53.91	N/A
Upside Capture	30.43	N/A
Downside Capture	19.18	N/A
Tracking Error	11.02%	N/A

### MORNINGSTAR RATINGS (MARKET NEUTRAL CATEGORY)

Load-waived I shares (CMNIX)

		NUMBER OF FUNDS
Overall Morningstar Rating™	★★★★	129
10-Year Morningstar Rating™	★★★★	30
5-Year Morningstar Rating™	★★★★	86
3-Year Morningstar Rating™	★★★★	129

Morningstar Ratings™ are based on risk-adjusted returns for Class I shares and will differ for other share classes. Morningstar Ratings based on a risk-adjusted return measure that accounts for variation in a fund's monthly historical performance (reflecting sales charges), placing more emphasis on downward variations and rewarding consistent performance.

Within each asset class, the top 10%, the next 22.5%, 35%, 22.5%, and the bottom 10% receive 5, 4, 3, 2, or 1 star, respectively. Each fund is rated exclusively against U.S. domiciled funds. The information contained herein is proprietary to Morningstar and/or its content providers; may not be copied or distributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Source: © 2018 Morningstar, Inc. All Rights Reserved.

Morningstar ratings shown are for load-waived shares that do not include any front-end sales load. Not all investors have access to or may invest in the load-waived share class shown. Other share classes with front-end or back-end sales charges may have different ratings than the ratings shown. Additionally, some A-share mutual funds for which Morningstar calculates a load-waived A-share star rating may not waive their front-end sales load.

### FUND FACTS

	FUND
Total Net Assets	\$5,887,293,402
Portfolio Turnover (12 months)	69.80%

### STRATEGY ALLOCATION

	%
Convertible Arbitrage	50.0
Covered Call	50.0

### FUND INFORMATION

	A SHARES	C SHARES	I SHARES
Sales Load/Maximum Sales Charge	Front-End/2.25%	Level-Load/1.00%	N/A
Total Expense Ratio <sup>†</sup>	1.28%	2.03%	1.02%
Total Expense Ratio Excluding Dividend & Interest Expense	1.08%	1.83%	0.82%

<sup>†</sup>As of prospectus dated 3/1/18

## Outlook

We continue to expect heightened volatility spurred on by a variety of sources. Investor speculation over when and how quickly the world's central banks will join the U.S. Federal Reserve in raising short-term interest rates and unwinding quantitative easing will continue to lead to volatility in both the equity and fixed income markets. The President's recent focus on balancing trade through tariffs will also stoke volatility as investors attempt to determine the magnitude and reciprocity of impending tariffs. As we continue to expect volatility in the equity and credit markets, we remain enthusiastic about this environment being favorable to the Market Neutral Income Fund. The fund derives benefits from "volatility in volatility" whether from the rebalancing opportunities that higher volatility provides to convertible arbitrage or the potential to receive higher call premiums in the covered call allocation.

After a prolonged period of historically low interest rates, the Fed has been raising short-term rates and has begun quantitative tightening. The interest rate environment is likely to be volatile amid speculation over the direction and magnitude of interest rates, although accommodative monetary policies from other global central banks may prevent soaring U.S. interest rates. When used within a fixed income allocation, the Market Neutral Income Fund has historically provided bond-like returns with bond-like risk without having bond-like interest rate sensitivity. Additionally, as the Fund has lower correlations to other asset classes, portfolios should benefit as it can provide stability in a market environment that turns increasingly volatile.

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## Term Definitions

**Alpha** is the measurement of performance on a risk adjusted basis. A positive alpha shows that performance of a portfolio was higher than expected given the risk. A negative alpha shows that the performance was less than expected given the risk. **Annualized standard deviation** is a statistical measure of the historical volatility of a mutual fund or portfolio. **Beta** is a historic measure of a fund's relative volatility, which is one of the measures of risk; a beta of 0.5 reflects 1/2 the market's volatility as represented by the Fund's primary benchmark, while a beta of 2.0 reflects twice the volatility. **Downside capture ratio** measures manager's performance in down markets as defined by the named index. A down-market is defined as those periods (months or quarters) in which named index return is less than 0. In essence, it tells you what percentage of the down-market was captured by the manager. **R-squared** is a mathematical measure that describes how closely a security's movement reflects movements in a benchmark. **Sharpe ratio** is a calculation that reflects the reward per each unit of risk in a portfolio. The higher the ratio, the better the portfolio's risk-adjusted return is. **Tracking error** is a measure of the volatility of excess returns relative to a benchmark. **Upside capture ratio** measures a manager's performance in up markets relative to the named index itself. It is calculated by taking the security's upside capture return and dividing it by the benchmark's upside capture return.

**Convertible Arbitrage** involves buying convertible bonds and short selling their underlying equities to attempt to hedge against equity risk, while still providing the potential for upside returns. A **Covered Call Writing strategy** begins with a portfolio of stocks, most of which pay dividends. (Stock provisions include securities convertible into the underlying stocks.) We then write (sell) calls and buy protective puts against a portion of this basket. A **call option** gives the buyer the right to purchase stocks at a predetermined strike price. If these securities rise above the strike price, the buyer may exercise the option and the fund (seller) must pay the buyer the difference as determined by the option contract. By writing calls on securities held in the portfolio, the fund can generate income from option premiums. A **put option** gives the purchaser the right to sell a security to the writer at a predetermined price. Put options rise in value as the underlying securities decline in value. Through put options, the fund seeks to offset some of the risk of a potential decline in a portfolio holding.

## Index Definitions

The **Bloomberg Barclays U.S. Government/Credit Bond Index** comprises long-term government and investment-grade corporate debt securities and is generally considered representative of the performance of the broad U.S. bond market. Unlike convertible bonds, U.S. Treasury bills are backed by the full faith and credit of the U.S. government and offer a guarantee as to the timely repayment of principal and interest. The **ICE BofAML All U.S. Convertibles Index (VXA0)** is comprised of approximately 700 issues of only convertible bonds and preferreds of all qualities and measures the return of all U.S. convertibles. Source ICE Data Indices, LLC, used with permission. ICE permits use of the ICE BofAML indices and related data on an 'as is' basis, makes no warranties regarding same, does not guarantee the suitability, quality, accuracy, timeliness, and/or completeness of the ICE BofAML Indices or data included in, related to, or derived therefrom, assumes no liability in connection with the use of the foregoing and does not sponsor, endorse or recommend Calamos Advisors LLC or any of its products or services.

The **CBOE Volatility Index** or **VIX** (based on its CBOE ticker symbol) shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. The **Citigroup 30-Day T-Bill Index** is generally considered representative of the performance of short term money market instruments. The **Credit Suisse Fear Barometer** essentially tracks the willingness of investors to pay up for downside protection with collar trades on the S&P 500 Index. The **Morningstar Market Neutral Category** represents funds that attempt to eliminate the risks of the market by holding 50% of assets in long positions in stocks and 50% of assets in short positions. The **S&P 500 Index** is a market-value weighted index consisting of 500 stocks chosen for market size, liquidity, and industry group representation. It is widely regarded as the standard for measuring U.S. stock market performance.

Unmanaged index returns assume reinvestment of any and all distributions and, unlike fund returns, do not reflect fees, expenses or sales charges. Investors cannot invest directly in an index.

## Additional Information

Past performance does not indicate future results. No investment strategy or objective is guaranteed and a client's account value can fluctuate over time and be worth more or less than the original investment. The opinions

referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.

## Important Risk Information

An investment in the Fund(s) is subject to risks, and you could lose money on your investment in the Fund(s). There can be no assurance that the Fund(s) will achieve its investment objective. Your investment in the Fund is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. The risks associated with an investment in the Fund(s) can increase during times of significant market volatility. The Fund(s) also has specific principal risks, which are described below. More detailed information regarding these risks can be found in the Fund's prospectus.

The principal risks of investing in the Market Neutral Income Fund include: equity securities risk consisting of market prices declining in general, convertible securities risk consisting of interest rate risk and credit risk, synthetic convertible instruments risk, convertible hedging risk, covered call writing risk, options risk, short sale risk, interest rate risk, credit risk, high yield risk, liquidity risk, portfolio selection risk, and portfolio turnover risk. In addition, emerging markets may present additional risk due to potential for greater economic and political instability in less developed countries.

**Covered Call Writing Risk:** As the writer of a covered call option on a security, the fund foregoes, during the option's life, the opportunity to profit from increases in the market value of the security, covering the call option above the sum of the premium and the exercise price of the call.

**Convertible Securities Risk:** The value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors also may have an effect on the convertible security's investment value.

**Convertible Hedging Risk:** If the market price of the underlying common stock increases above the conversion price on a convertible security, the price of the convertible security will increase. The fund's increased liability on any outstanding short position would, in whole or in part, reduce this gain.

*Before investing carefully consider the fund's investment objectives, risks, charges and expenses. Please see the prospectus and summary prospectus containing this and other information which can be obtained by calling 1-800-582-6959. Read it carefully before investing.*

**CALAMOS**  
INVESTMENTS

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