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Michael Grant leads the team that manages Calamos Phineus Long/Short Fund. Here he shares his team's views on what has been driving the market, why they see more optimistic storylines on the horizon and how these considerations influence current positioning.

Positioning for the Late Stages of the Bull Market: 2017-2018

Over the 12 months to mid-2016, global equities witnessed abnormal volatility driven by both macro and micro concerns. This reflected a more *complex* investment setting.

One symptom of this complexity has been the perceived inability of U.S. and Chinese central banks to provide the leadership upon which markets have historically relied—with the former forestalling short-term interest rate increases and the latter depreciating its currency. Meanwhile, in Europe, the credibility of the political establishment has been challenged by the migration crisis and Brexit. And industry-specific travails in the German auto and Italian banking sectors provide a reminder of how quickly corporate fundamentals can change.

A More Positive Storyline Unfolds

In contrast to the consensus, which appears unduly pessimistic, we see a more normalized storyline in coming years. This reflects our belief that:

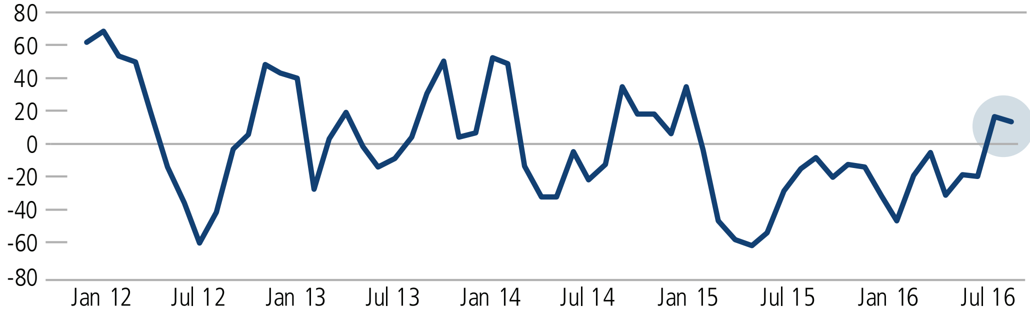
» Global GDP growth is bottoming and could surprise positively through 2017, supported by ongoing U.S. expansion, European recovery and stabilization in emerging markets. Equities will anticipate a positive inflection in the earnings cycle if the global economy gradually improves.

» Equity malaise in 2H 2015 and early 2016 reflected a profit recession (oil, commodities, emerging economies, USD strength) that appears to be ending. An improving earning cycle will reframe the past 18 months as *typical of a mid-cycle U.S. slowdown.*

» Post-Brexit, there has been a rotational shift in the markets that we believe is supported by improving cyclical fundamentals. As shown in Figure 1, the U.S. Economic Surprise Index has painted a generally negative economic view. More recently, however, the index has turned up.

FIGURE 1. IMPROVING FUNDAMENTALS HAVE DRIVEN THE CYCLICAL RALLY

U.S. ECONOMIC SURPRISE INDEX, 2012 THROUGH JULY 2016



Past performance is no guarantee of future results. Source: Empirical Research Partners using Citigroup, Federal Reserve Board, Empirical Research Partners Analysis.

The U.S. Matures: 60 is the New 40

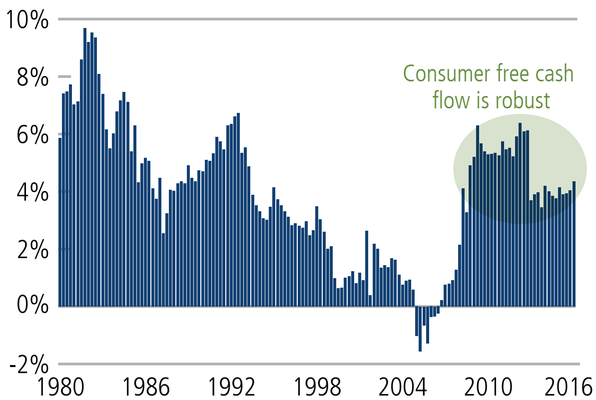
» Recession risk for the U.S. remains low until 2018/2019. While the U.S. expansion is old in time (8 years), it looks more "mid-cycle" (fourth or fifth year) in terms of the fundamental improvement in wage growth, capacity utilization, capital spending and so forth.

» The U.S. household sector has sailed through this "global earnings recession," supported in part by the sharp decline in oil prices. Equally, the absence of consumer durable or credit excesses explains the unusual health of U.S. households (Figure 2) at this stage of the expansion.

» U.S. consumers have only just *"dug themselves out"* of the equity sinkhole that arose from the Financial Crisis. Rising levels of home equity (Figure 3) provide a tailwind to consumer activity and can sustain the current recovery cycle. As consumer balance sheets normalize, could the coming years witness a more typical consumer in terms of spending on durables and housing?

FIGURE 2. U.S. HOUSEHOLDS IN GOOD FINANCIAL HEALTH

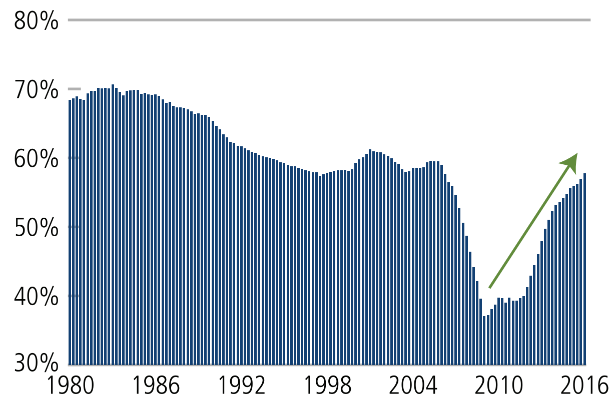
U.S. CONSUMER FREE CASH FLOW AS A SHARE OF PERSONAL INCOME, 1980 THROUGH 1Q 2016



Source: Empirical Research Partners using Federal Reserve Board, Empirical Research Partners Analysis.

FIGURE 3. HOUSING REBOUND SUPPORTS CONSUMER AND LENGTHENED ECONOMIC RECOVERY

HOME EQUITY AS A SHARE OF HOME VALUE, 1980 THROUGH 1Q 2016



Source: Empirical Research Partners using Federal Reserve Board, Empirical Research Partners Analysis.

» The Federal Reserve will maintain an accommodative stance and let labor "run hot." U.S. payroll reports and wage growth in particular are key for sentiment and Fed policy. U.S. elections in November could be decisive for fiscal stimulus after decades of under-investment in infrastructure.

» It is *not* true that markets are less able to rely upon policymakers. Fed Chair Yellen aims for stronger labor income as the catalyst for capital spending and thus, productivity. The move by the European Central Bank (ECB) to purchase corporate bonds implies central bankers can be accommodative at the margin.

Clouds Abroad Are Lifting

» In Europe, the ECB monetary prescription has resolved the euro crisis. European QE is larger than that of the U.S. or Japan, while credit conditions are improving. It rarely pays to fight the central banks. We are bullish on Europe.

» Conditions in emerging markets (especially commodity-related ones) face a multi-year workout but have passed their worst. Crises in the emerging economies represent the last domino in the global deleveraging wave that swept the U.S. in 2008 and Europe in 2012.

» The debt crises that have rolled through the major economic blocs are essentially complete. As perceptions often lag reality, investors overestimate the fragility of the economic system. If growth remains modest, it is due to demographics rather than "too much debt."

» China faces steady deceleration in its growth potential, but *not a collapse*. China's social structure implies that a Western-style crisis is unlikely. The changing nature of Chinese growth is negative for global heavy industries like commodities and energy.

Navigating the Near-Term Currents

Two hurdles must be overcome as we position for the prospect of higher equities—U.S. politics and the end of the bull market in bonds.

U.S. Politics

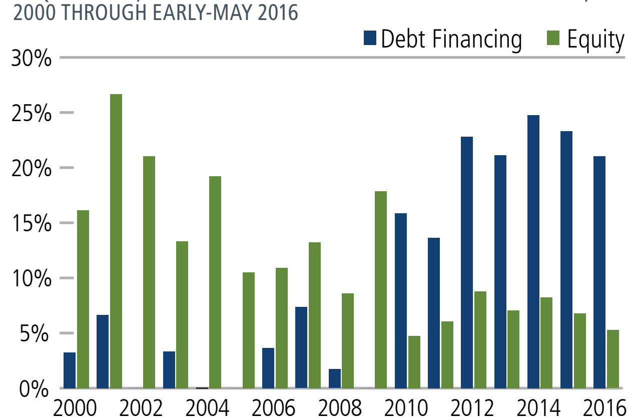
» Market skittishness is inevitable as the race between Clinton and Trump narrows in the polls. After the election, "responsible nationalism" on trade, taxes and immigration will stay part of the economic dialogue.

» Monetary policy can no longer carry the baton on its own. Infrastructure spending is "win/win," with potential to drive the economic expansion. Both parties are increasingly supportive of fiscal initiatives.

» Health care may lose under all election outcomes *and* the sector is losing its growth character. Many pharmaceutical companies have relied upon debt-financed deals for growth (Figure 4) and the game is up—free cash flow yields have fallen below Baa corporate bond yields (Figure 5).

FIGURE 4. RELIANCE ON DEBT-FINANCED DEALS FOR GROWTH

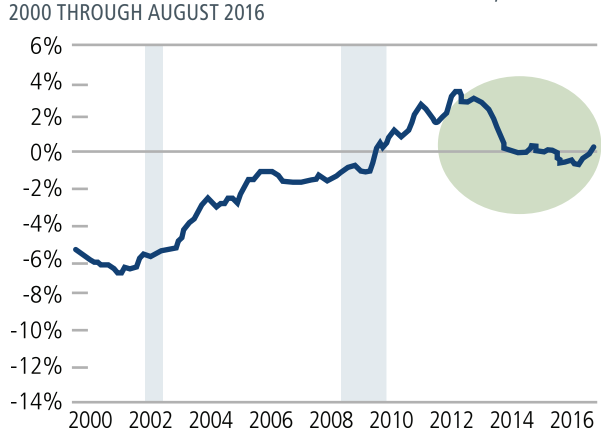
DEVELOPED MARKETS: PHARMACEUTICAL STOCKS MAKING ACQUISITIONS, SHARE OF TRANSACTIONS BY TYPE OF FINANCING[1], 2000 THROUGH EARLY-MAY 2016



Source: Empirical Research Partners using FactSet Research Systems, Empirical Research Partners Analysis. [1] Transactions smaller than $50 million are excluded; includes completed and pending deals.

FIGURE 5. HEALTH CARE FCF YIELDS HAVE FALLEN

LARGE-CAPITALIZATION HEALTH CARE STOCKS, FREE CASH FLOW YIELDS COMPARED TO THAT OF BAA CORPORATE BONDS, 2000 THROUGH AUGUST 2016



Source: Empirical Research Partners using Federal Reserve Board, Empirical Research Partners Analysis. Free cash flow yield is capitalization-weighted; data smoothed on a trailing three-month basis. Recessions indicated by shaded areas.

Troubles in Fixed Income

» Bond markets are sensing that labor recovery will prompt gradual Fed exit. Investors must be weaned off monetary support as markets search for more evidence of GDP stability. Some volatility is inevitable.

» Investor acceptance of bottoming corporate bond yields could ***expand P/E multiples*** in advance of EPS rising in 2017-2018. Higher interest rates *in conjunction with* higher equities signal that a regime shift is underway—and reflation wins.

» After numerous false starts, investors are reluctant to abandon their bond proxies, such as utilities, consumer staples and telecoms. These sectors are "risk off" and will lag if the global economy exhibits more normalization.

» Watch the rotation from the "safety stocks," where investors are overinvested for yield and defensive stability, into financials, consumer and industrial cyclicals. Investors are not positioned for this trade (Figure 6).

» The Fed will inevitably overtighten, ending the bull market. We think the U.S. economy can absorb 2-3 further rate hikes on the premise that the Fed moves slowly. But we see a bear market after Fed funds crosses the 1% mark in 2018.

» Populism has awakened government survival instincts and fiscal initiatives have broad implications across sectors. This could add to the reflationary impulse and bookmark the end of the deleveraging era (2008–2016).

FIGURE 6. POSITIONING IN SAFETY SECTORS IS VULNERABLE

The table below shows the percentile rank of hedge fund exposures to U.S. sectors versus all measures since 2009. Note the discrepancy between "safety sectors" (e.g., consumer staples and utilities) and cyclicals (financials and energy).

NET EXPOSURE AS A % OF GROSS

SECTOR	CURRENT LEVEL (%)	% RANK SINCE JAN '09
Consumer Discretionary	5.7%	62%
Consumer Staples	2.0	72
Energy	0.8	8
Financials	2.7	6
Health Care	4.1	66
Industrials	1.5	20
Info Tech	8.5	100
Materials	1.5	35
Telecom	0.2	61
Utilities	0.3	80
ETF	(3.3)	63

Source: Morgan Stanley Prime Brokerage. Data as of August 11, 2016.

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Positioning for an Imminent Regime Change

» Global investors are excessively bearish (Figure 7), raising the odds of sharp rotation and liquidity dominated moves. If the expansion is long rather than strong, and if equity gains are modest (<10%) rather than robust, rotational trading is key.

FIGURE 7. INVESTOR POSITIONING IS STILL CAUTIOUS

NET LEVERAGE, HEDGE FUNDS

Source: Morgan Stanley Prime Brokerage. Data as of August 11, 2016.

» Heightened macro complexity is not an argument for lower exposures, but rotational risk needs to be managed. Our focus is high conviction themes where valuation frameworks are clear **(Financials** and **select names in Consumer, Technology** and **Industrial Cyclicals)**. The opportunity set for differentiation is high.

» Complexity and declining returns on capital may not be negative for the major indices. Instead, excess liquidity may materially rerate some industries as profit streams become scarcer. The same may be true of out-of-favor capital return stories **(Financials** and **Integrated Oil)**.

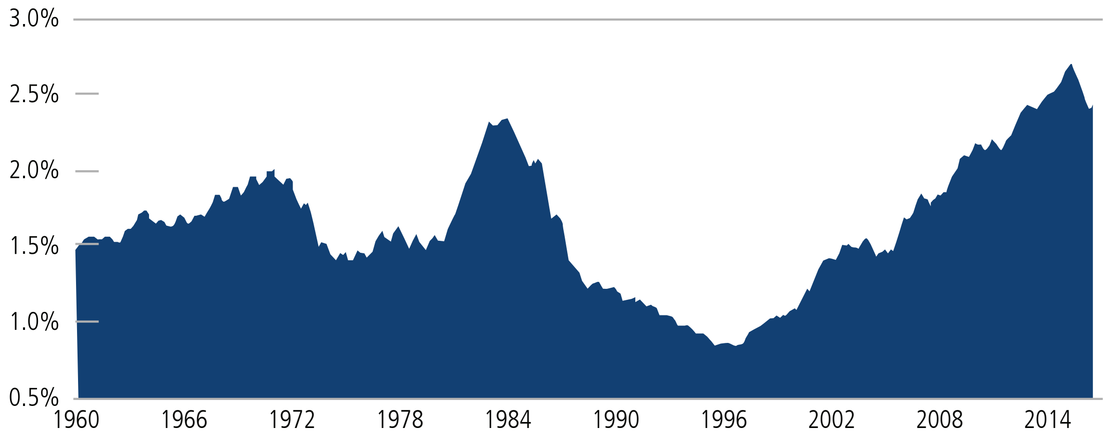
» In a world of modest growth, profit cycles may be less influenced by central bankers and more by internal industry dynamics. In the more "disruptive" areas like high multiple **Technology** and **Health Care,** we are beginning to see excess investment impacting returns.

» In an expansion marked by longitude, not amplitude, we pay attention to sustainable free cash flow and capital return opportunities. **Financials** offer the most compelling valuation upside to a normal environment. **Airlines** are a compelling free cash flow story in a status quo economy.

» We are neutral on **Energy** and **Commodities** as the bulk of pricing damage is past. We see several years of stability, but the asset base remains overvalued (Figure 8) and free cash flow yields do not support dividends.

FIGURE 8. UNWINDING THE MASSIVE SPENDING OF THE PAST DECADE WILL TAKE TIME

LARGE-CAPITALIZATION ENERGY STOCKS, ENERGY CAPEX-TO-GLOBAL GDP[1], 1960 THROUGH AUGUST 2016



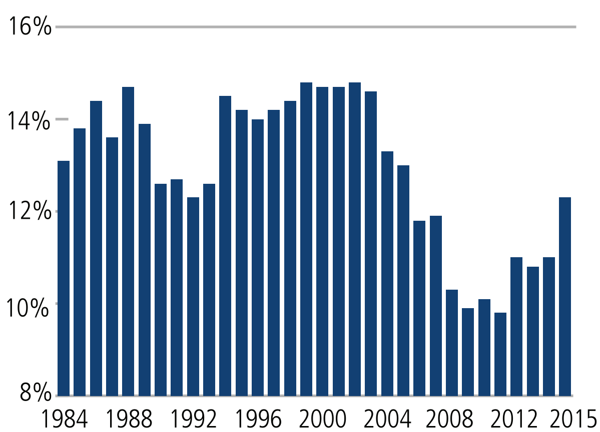
Source: Empirical Research Partners using World Bank, IMF, Empirical Research Partners Analysis.
[1] Trailing four-quarter energy capex scaled by annual world GDP in USD current prices; data smoothed on a trailing six-month basis.

» **Consumer Industries** will benefit from a pickup in low-skilled wages (Figure 9). Discrimination at the stock level is key because of online competition and impact of rising labor cost on margins.

» Clear valuation and capital return frameworks will win if earnings growth remains scarce. Growth can still win, but "safe growth" **(Health Care** and **Consumer Staples)** is vulnerable (Figure 10) and short opportunities abound.

FIGURE 9. A PICKUP IN WAGE GROWTH COULD BENEFIT CONSUMER DURABLES

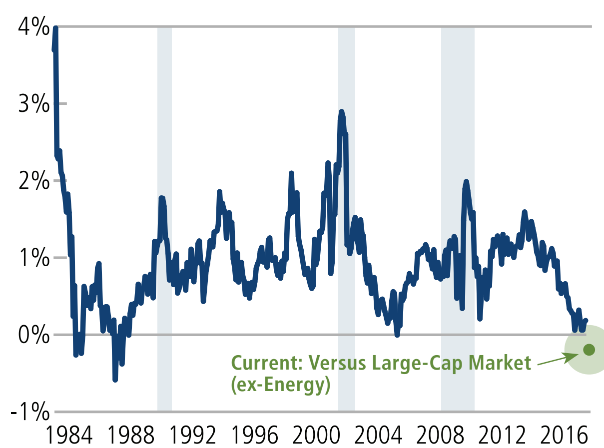
BOTTOM 80% OF THE INCOME DISTRIBUTION, DURABLE GOODS SHARE OF TOTAL SPENDING[1], 1984 THROUGH 2015



Source: Empirical Research Partners using Survey of Consumer Expenditures.
[1] Cars (new and used), home durables and audio and video equipment.

FIGURE 10. LOW CASH FLOW LEVELS SUGGEST VULNERABILITY IN SAFETY STOCKS

LARGE-CAPITALIZATION STABLE STOCKS, RELATIVE FREE CASH FLOW YIELDS[1], 1984 THROUGH EARLY-SEPTEMBER 2016



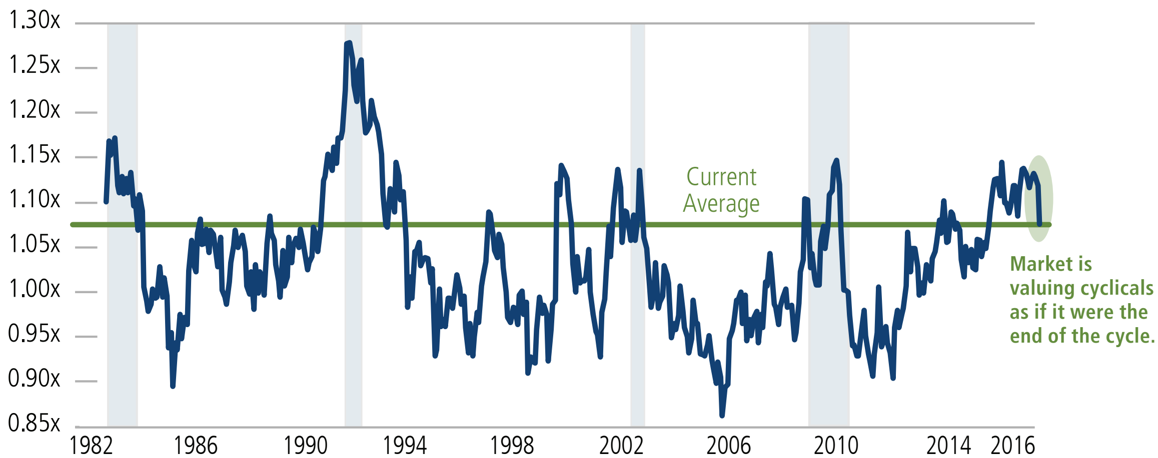
Source: Empirical Research Partners using Empirical Research Partners Analysis, National Bureau of Economic Research.
[1] Equally-weighted data. Recessions are indicated by shaded areas.

» The shape of the yield curve has implications for **Financials**, which is the last group to rise with EPS and valuation leverage. Rising Libor foreshadows rising balance sheet risk in 2018–2019 for a range of industries.

» The geographical bias favors U.S. companies and sustainable free cash flow yields while awaiting better global GDP. Even modest growth may drive rotation if investors gain confidence in sustainability. Many cyclicals are priced for "end of cycle" rather than sustained expansion (Figure 11).

FIGURE 11. IS THE OBITUARY ON THE U.S. EXPANSION PREMATURE?

LARGE CAPITALIZATION STOCKS: THE TOP QUINTILE OF VALUATION SHARE DRAWN FROM CYCLICAL SECTORS[1] AS A RATIO TO THEIR BENCHMARK WEIGHTS, 1982 THROUGH AUGUST 2016



Past performance is no guarantee of future results. Source: Empirical Research Partners using Empirical Research Partners Analysis, National Bureau of Economic Research. Recessions indicated by shaded areas. [1] Consumer cyclicals, financials, technology, energy, industrial commodities and capital equipment

» Europe and select emerging markets (India, Vietnam, Mexico) can outperform. Sustained U.S. expansion implies investors should increasingly look abroad where cyclical recovery is less discounted.

Summary

» We continue to monitor the investment landscape for flickers of reflation in global GDP.

» Into 2017, gains in the major equity indices require earnings growth that broadens into the cyclical value industries.

» Most investors are not positioned for a "confidence rally" into 2018, but the setup is there.

The Fund is actively managed and its portfolio is subject to change daily.

Alternative investments may not be suitable for all investors, and the risks of alternative investments vary based on the underlying strategies used. Many alternative investments are highly illiquid, meaning that you may not be able to sell your investment when you wish to.

An investment in the Fund is subject to risks, and you could lose money on your investment in the Fund 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 can increase during times of significant market volatility. The Fund 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 Calamos Phineus Long/Short Fund include: equity securities risk consisting of market prices declining in general, short sale risk consisting of potential for unlimited losses, foreign securities risk, currency risk, geographic concentration risk, other investment companies (including ETFs) risk, derivatives risk, options risk, and leverage risk.

Short Sale Risk — The Fund may incur a loss (without limit) as a result of a short sale if the market value of the borrowed security (i.e., the Fund's short position) increases between the date of the short sale and the date the Fund replaces the security. The Fund may be unable to repurchase the borrowed security at a particular time or at an acceptable price. **Leveraging Risk** — Leverage is the potential for the Fund to participate in gains and losses on an amount that exceeds the Fund's investment. Leveraging risk is the risk that certain transactions of the Fund may give rise to leverage, causing the Fund to be more volatile and experience greater losses than if it had not been leveraged. The Fund's use of short sales and investments in derivatives subject the Fund to leveraging risk. **Derivatives Risk** — Derivatives are instruments, such as futures, options and forward foreign currency contracts, whose value is derived from that of other assets, rates or indices. The use of derivatives for non-hedging purposes may be considered more speculative than other types of investments. Derivatives can be used for hedging (attempting to reduce risk by offsetting one investment position with another) or non hedging purposes. Hedging with derivatives may increase expenses, and there is no guarantee that a hedging strategy will work.

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 or call 1-800-582-6959. Read it carefully before investing.

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Earnings per share (EPS) is a company's profit divided by its number of common outstanding shares. **Price-to-earnings ratio (P/E)** is a valuation ratio of a company's current share price compared to its per-share earnings. **Net exposure.** The difference between a portfolio's long and short exposure, expressed as a percentage. If a portfolio holds a larger percentage in long positions than in short positions, the portfolio is "net long." Conversely, a portfolio is "net short" when it has a larger percentage in short positions than in long positions. **The Citi Economic Surprise Indexes** are objective, quantitative measures of economic news that measure the difference between actual releases and the median of Bloomberg survey data. **Free cash flow yield** is free cash flow per share divided by share price. **Libor** is a benchmark for short-term interest rates.

Indexes are unmanaged, not available for direct investment and do not include fees and expenses.

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