

Investment Team Voices

Microcap Exposure Has Provided a Tailwind to Style-Focused Small Cap Portfolios

JUNE 30, 2020

The smaller the company, the better the performer.

While that hasn't been true for years, here's some fresh data we believe suggests that a reversion to mean is underway. The Russell 1000 has had a strong run in the last three months with a 32% return (see chart below). But that fell short of the Russell 2000's 44% gain.

And, what's even more intriguing is that over the same time period, the Russell Microcap Index (tracking companies with \$1 billion or less in market capitalization) is ahead 53% and the Russell Microcap Growth Index up 69%.

Through June 19, small cap performance in June was similar to large caps, but the microcaps continued to work well, especially microcap growth.

This short-term trend is reversing what's been true of the last several years—when the smaller the company, the greater the magnitude of underperformance.

And, it's consistent with the start of a market rotation that Calamos Senior Portfolio Manager [Brandon Nelson](#) has been on the lookout for.

Nelson is expecting small caps to perform what has been their historical role: to lead the market out of recession. The first 12 months of a new bull market following an economic downturn have historically involved significant outperformance by small caps. While acknowledging the recent microcap rally, Nelson believes further mean reversion is possible.

To be sure, this recent outperformance by “the smallest of the small” has been a tailwind on an absolute and relative basis for the Calamos Timpani Small Cap Growth Strategy.

RECENTLY, SMALL COMPANIES HAVE BEEN OUTPERFORMING LARGE...

Periods ending: June 19, 2020

INDEX NAME	6/19/2020	MTD	LAST 3 MONTHS	QTD	YTD
Large-cap indexes					
Russell 1000® Index	-0.53%	2.11%	32.23%	21.70%	-2.91%
Small-cap indexes					
Russell 2000® Index	-0.59	1.85	43.67	23.37	-14.40
Russell Microcap® Index	-0.19	3.94	53.30	27.70	-13.14
Russell Microcap® Growth Index	-0.14	4.85	69.20	36.80	0.42

Past performance is no guarantee of future results.

...REVERSING A TREND OF LARGER CAP PERFORMANCE OVER THE LAST FEW YEARS

As of June 19, 2020

INDEX NAME	1 YEAR	3 YEARS	5 YEARS	10 YEARS
Large-cap indexes				
Russell 1000® Growth Index	22.02%	18.00%	15.14%	16.14%
Mid-cap indexes				
Russell Midcap® Growth Index	12.08	14.23	11.01	14.06
Small-cap indexes				
Russell 2000® Growth Index	2.29	7.26	6.02	11.78
Russell Microcap® Growth Index	7.50	5.29	2.26	10.09

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At the end of May, microcaps represented more than 21% of the Calamos Timpani Small Cap Growth portfolio versus the Russell 2000 Growth's 14.5%. The team's internal attribution analysis confirms that the microcaps have generated significant outperformance relative to the index, Nelson says.

But he describes the macro size tailwind as "just an additional layer of strength." Even in recent weeks, he says, the team's stock selection—independent of company size—has been the bigger driver of returns.

"In other words," he says, "we haven't needed small caps and microcaps to win for the portfolio to win on a relative basis. Before small caps started to lead, we've been successful at finding company-specific winning situations that added value."

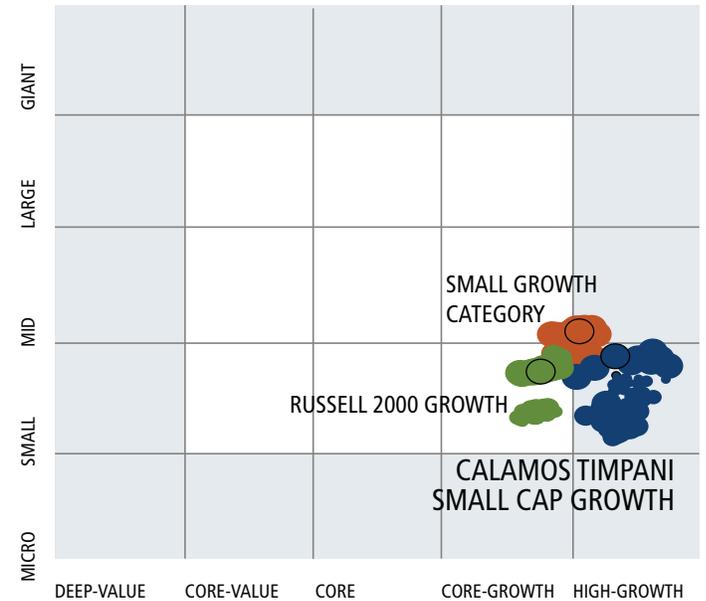
Nelson continues to refer to the low asset size of the strategy as an advantage relative to its peers. For Calamos Timpani Small Cap Growth Strategy, its size has afforded a nimbleness that's enabled the team to explore names further down the market cap spectrum where they find security pricing less efficient. At the same time, the strategy has remained faithful to its Small Cap Growth style.

This is in contrast to larger portfolios that, in part due to liquidity restrictions, have drifted toward mid-cap companies as they've grown in recent years. "If the market continues to favor the small, such a mid-cap tilt could have performance implications," Nelson says.

For more information about small cap growth or Calamos Timpani Small Cap Growth Strategy, visit www.calamos.com or caminfo@calamos.com.

CALAMOS TIMPANI SMALL CAP GROWTH STRATEGY: CONSISTENTLY SMALL CAP GROWTH SINCE INCEPTION

Morningstar holdings-based style trail
*Time period since strategy inception 4/1/2008-3/31/2020**



Performance shown is past performance, which is no guarantee of future results.

The Morningstar Small Growth Category includes small-growth portfolios that focus on faster-growing companies that are at the lower end of the market-capitalization range.

The Russell 2000 Growth Index is a composite of small cap companies located in the U.S. that also exhibit a growth probability.

*Holdings are reported quarterly starting 6/30/2008. The Russell 2000 Growth time period begins 6/1/2015, when holdings became available in Morningstar. Source: Morningstar

Past performance does not guarantee or indicate future results.

Current performance may be lower or higher than the performance quoted. Portfolios are managed according to their respective strategies which may differ significantly in terms of security holdings, industry weightings, and asset allocation from those of the benchmark(s). Portfolio performance, characteristics and volatility may differ from the benchmark(s) shown.

Returns presented reflect the Calamos Timpani Small Cap Growth Composite, which is an actively managed Composite investing in common stocks of small market capitalization companies with sound growth potential. The Composite was created June 1, 2019 calculated with an inception date of April 1, 2008. Results include all fully discretionary accounts, including those no longer with the Firm. Past performance is no guarantee of future results. On May 31, 2019 Calamos acquired Timpani Capital Management LLC which has managed the strategy since its inception in 2008. Results include all fully discretionary accounts, including those no longer with the Firm. All returns are net of commission and other similar fees charged on securities transactions and include reinvestment of net realized gains and interest.

AS OF 5/31/2020					SINCE INCEPTION
ANNUALIZED RETURNS (%)	1-YEAR	3-YEAR	5-YEAR	10-YEAR	(4/08)
Calamos Timpani Small Cap Growth					
Gross of Fees	12.72	15.57	10.43	14.96	12.31
Net of Fees	12.14	15.03	9.85	14.33	11.72
Russell 2000 Growth Index	7.32	7.72	6.34	11.71	9.46

The **Russell 1000® Index** measures the performance of the large cap segment of the U.S. equity universe and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership.

The **Russell 1000® Growth Index** measures the performance of the large cap growth segment of the U.S. equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell 2000® Index** measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

The **Russell 2000 Growth® Index** measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-value ratios and higher forecasted growth values.

The **Russell Microcap® Index** measures the performance of the microcap segment of the U.S. equity market. Microcap stocks make up less than 3% of the U.S. equity market (by market cap) and consist of the smallest 1,000 securities in the small-cap Russell 2000® Index, plus the next 1,000 smallest eligible securities by market cap.

The **Russell Microcap Growth® Index** measures the performance of the microcap growth segment of the U.S. equity market. It includes Russell Microcap companies that are considered more growth oriented relative to the overall market as defined by Russell's leading style methodology.

The Russell Indexes are published and maintained by FTSE Russell. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect any fees, expenses or sales charges. Investors cannot invest directly in an index.

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