

## The Opposite of a Cowboy—Nelson on Timpani Small Cap Growth’s Calculated Path to 64% 2020 Return and What’s Ahead

Whatever you do, don’t call our small cap portfolio manager—whose portfolio in 2020 returned 64.90% versus the Russell 2000 Growth’s 34.63% return—a cowboy.

“Diversification drove our return. It wasn’t us being reckless with a sector weight or an individual stock,” says **Brandon M. Nelson**, Senior Portfolio Manager of Calamos Timpani Small Cap Growth Strategy. “Ours is a very calculated, risk-sensitive approach to managing the portfolios. It wasn’t us being cowboys, shooting for the moon, and hoping it went our way. It was us being very calculated in our approach.”

### STANDARD DEVIATION CALAMOS TIMPANI SMALL CAP GROWTH STRATEGY VS. CATEGORY PEERS AND INDEX AS OF 12/31/20

	CALAMOS TIMPANI SMALL CAP GROWTH STRATEGY	ESTVMENT U.S. SMALL CAP GROWTH EQUITY UNIVERSE, MEDIAN	RUSSELL 2000 GROWTH
3-Year	25.67	25.48	25.46
5-Year	21.67	21.42	21.46

Source: eVestment Alliance.

Nelson offers three proof points:

- » While the technology sector was a significant source of relative outperformance, it was not the only contributor. Calamos Timpani Small Cap Growth Strategy added value in 10 out of 11 sectors.
- » Seventeen holdings each contributed at least 100 basis points of relative outperformance while just two stocks were 100-plus basis point losers. A total of 33 holdings each contributed at least 50 basis points of relative outperformance.
- » The portfolio’s standard deviation is largely in line with the eVestment Universe median and benchmark average.

These achievements are the result of a process that Nelson simplifies as “we have been good at finding big winners and sticking with them, and we have also been good at damage control and reducing exposure quickly to losing situations.”

Calamos Timpani Small Cap Growth Strategy’s 2020 outperformance started early in 2020, well before the small cap rally in the fall. Looking ahead, Nelson is positive on the prospects this year for small caps as a whole and for this strategy in particular.

Small caps may be just getting started, based on historical data Nelson cites. When small caps have led, they’ve led big and they’ve led for an extended period of time—an average of 84 months and historically never less than 40 months, according to the Leuthold Group.

## LEADERSHIP CYCLES IN LARGE AND SMALL CAP STOCKS

LEADER	DATES	CUMULATIVE SMALL CAP TOTAL RETURN	CUMULATIVE LARGE CAP TOTAL RETURN	SPREAD, LEADER MINUS LAGGARD	LENGTH OF CYCLE IN MONTHS
<b>LARGE</b>	Jan '26-Dec '31	-75.8%	-14.1%	61.7%	72
	April '37-June '39	-67.8%	-31.6%	36.2%	27
	June '46-Dec '57	106.0%	296.1%	190.0%	139
	Jan '69-June '73	-45.7%	16.0%	61.7%	54
	Aug '83-Oct '90	15.3%	146.3%	131.0%	87
	March '94-March '99	61.2%	206.8%	145.5%	61
	April '11-Aug '20	111.0%	221.2%	110.2%	113
			<b>Average</b>	<b>105.20%</b>	<b>79 months</b>
<b>SMALL</b>	Jan '32-March '37	700.0%	189.7%	510.3%	63
	July '39-May '46	1030.0%	162.0%	868.0%	83
	Jan '58-Dec '68	984.6%	272.0%	712.6%	132
	July '73-July '83	889.9%	152.3%	737.6%	121
	Nov '90-Feb '94	136.4%	70.0%	66.4%	40
	April '99-March '11	148.0%	27.7%	120.3%	144
	Sept '20 to Date	16.9%	3.9%	13.0%	3
			<b>Average (ex latest)</b>	<b>502.50%</b>	<b>84 months</b>

### Past performance is no guarantee of future results.

Small cap data from Ibbotson for 1926-1978; Russell 2000 thereafter. Large cap data for S&P 500.

Source: The Leuthold Group

The S&P 500 Index is generally considered representative of the U.S. stock market.

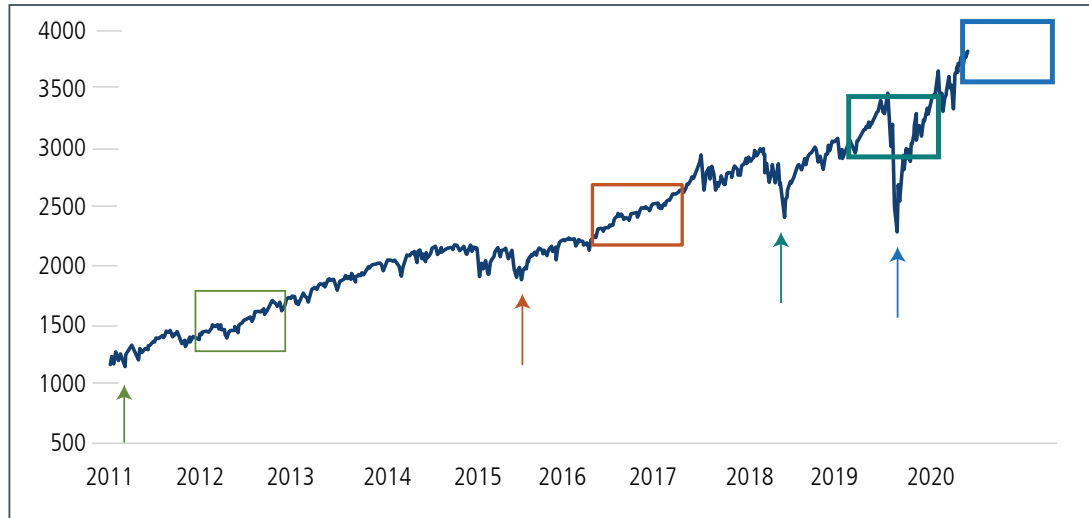
The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

The historical performance track record for Calamos Timpani Small Cap Growth isn't quite as long but it's consistent with the theme.

The chart on the following page shows four corrections in the S&P 500 since 2011, and the table below compares Calamos Timpani Small Cap Growth's one-year performance from where we are now—nine months after the bottom—to both the Russell 2000 Growth Index and the S&P 500.

## ONE YEAR LATER IN THE PAST 3 CORRECTIONS

Boxed is the S&P 500's performance 9 months after the market's bottom in the last three corrections. The table below shows Calamos Timpani Small Cap Growth's Gross return.



DATE	CALAMOS TIMPANI SMALL CAP GROWTH RETURN (GROSS)	RUSSELL 2000 GROWTH INDEX TOTAL RETURN	S&P 500 TOTAL RETURN
7/3/2012—7/3/2013	27.79%	22.36%	20.24%
11/11/2016—11/11/2017	33.02%	20.36%	21.73%
9/24/2019—9/24/2020	29.07%	13.47%	11.50%
12/23/2020—12/23/2021	?	?	?
<b>Average</b>	29.96%	18.73%	17.82%

Performance shown is for informational purposes only and represents backfilled daily returns for all portfolios in the composite since inception of those portfolios at Timpani pre-acquisition and is representative of the Calamos Timpani Small Cap Growth Strategy. **Performance data quoted represents past performance, which is no guarantee of future results.**

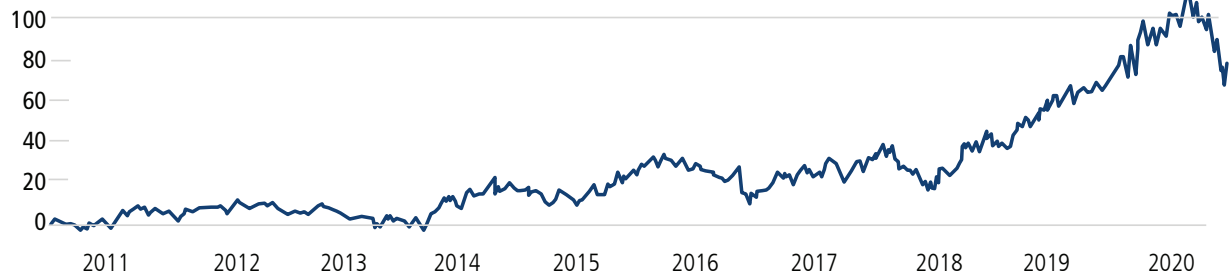
The average return of the previous three corrections is 29.96%, better than the index by 1100 basis points on average. It's also significantly higher than the S&P 500's return in those years.

"Investment professionals look at what the portfolio did in 2020 and wonder if they 'missed it.' Well, in the last three times this happened, you wouldn't have missed it. You would have had another 30% in front of you," says Nelson. "This is strong outperformance, in absolute and relative terms and, by the way, a lot better than your S&P 500 index fund."

The chart below is a 10-year look at large cap versus small cap performance. When the line is going up, large stocks are beating the smaller. The opposite is true when the line is going down. Small caps have been winning recently but see how far it is from the baseline, Nelson says. Small caps have some catching up to do.

## RECENT RALLY NOTWITHSTANDING, SMALL CAPS STILL TRAIL LARGE CAPS

S&P 500 return relative to Russell 2000 return, 12/31/10 to 12/31/20



PERIODS ENDING DECEMBER 31, 2020

	MTD	LAST 3 MONTHS	1 YEAR	3 YEARS	5 YEARS	10 YEARS
S&P 500	3.84	12.15	18.40	14.18	15.12	13.88
Russell 2000® Index	8.65	31.37	19.96	10.25	13.26	11.20

Past performance is no guarantee of future results.

The S&P 500 Index is generally considered representative of the U.S. stock market.

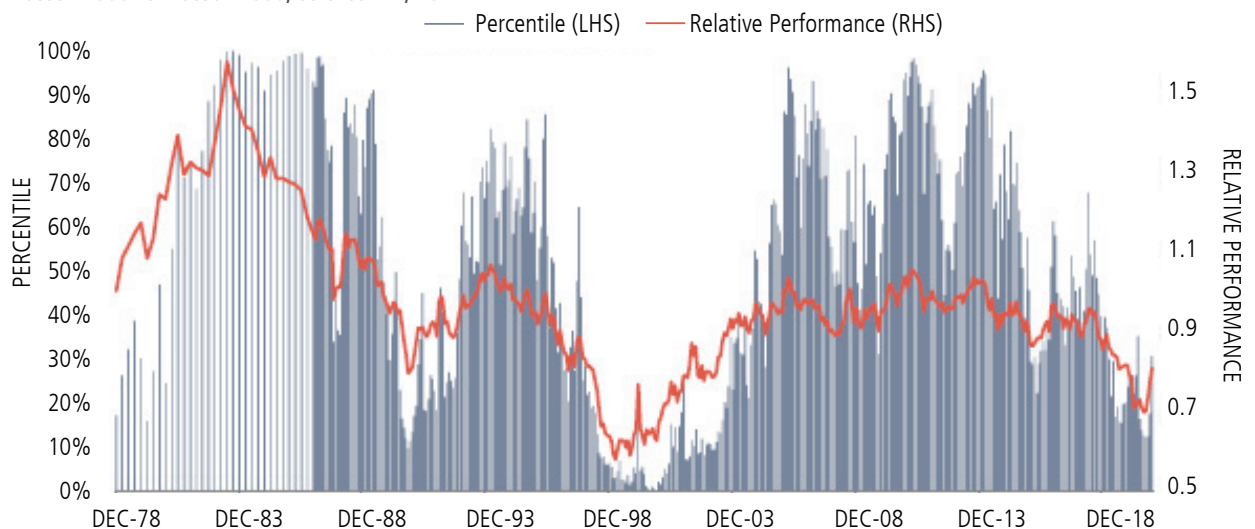
The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

Finally, while much has been made of small caps' move late last year, Nelson comments on the valuations of Russell 2000 stocks versus the larger stocks of the Russell 1000.

"Even after November, which was the biggest gain for the Russell 2000 in its existence, and even after December," Nelson notes, "valuations have moved to only the 31st percentile."

## SMALL CAP VALUATIONS VS. LARGE CAPS: STILL ATTRACTIVE

Russell 2000 vs. Russell 1000, as of Jan. 4, 2021



Past performance is no guarantee of future results.

Source: FactSet, FTSE Russell, Jefferies

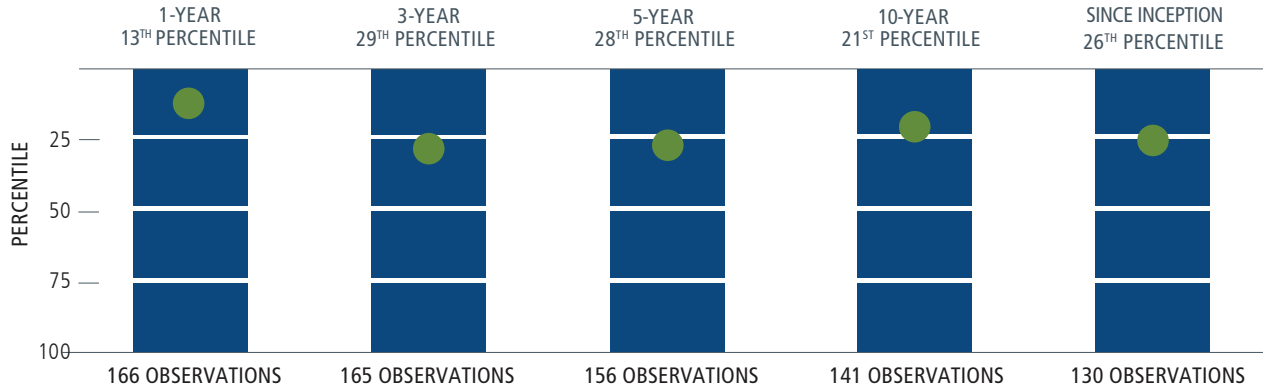
The Russell 1000 Index measures the performance of the large cap segment of the U.S. equity universe and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership.

The Russell 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.

“There’s a long way to go to get back to parity,” he concludes, adding that the fundamentals continue to suggest that the small cap rally is sustainable (see related post).

## CALAMOS TIMPANI SMALL CAP GROWTH STRATEGY: TOP THIRD PERFORMANCE VERSUS SMALL CAP GROWTH PEERS

Percentile within eVestment U.S. Small Cap Growth Equity Universe



Data as of 12/31/20. eVestment Universe percentiles are based on average annualized returns of the Calamos Timpani Small Cap Growth Composite, inception: 4/01/08. **Performance data quoted represents past performance, which is no guarantee of future results.** The eVestment U.S. Small Cap Growth Equity Universe consists of U.S. equity products that primarily invest in small capitalization stocks that are expected to have an above-average capital appreciation rate relative to the market. Common benchmarks for this universe include the Russell 2000 Growth. eVestment Alliance, LLC and its affiliated entities (collectively, “eVestment”) collect information directly from investment management firms and other sources believed to be reliable, however, eVestment does not guarantee or warrant the accuracy, timeliness, or completeness of the information provided and is not responsible for any errors or omissions. Source: © 2021 eVestment Alliance, LLC. All Rights Reserved.

## ANNUALIZED TOTAL RETURNS

AS OF 12/31/20	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE INCEPTION (4/08)
Calamos Timpani Small Cap Growth (gross of fees)	64.90%	26.44%	22.81%	17.65%	15.60%
Calamos Timpani Small Cap Growth (net of fees)	64.04	25.82	22.17	16.99	14.99
Russell 2000 Growth Index	34.63	16.19	16.36	13.48	12.18

**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 the 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. 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. Fees include the investment advisory fee charge by Calamos Advisors LLC.

The S&P 500 Index is generally considered representative of the U.S. stock market. 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 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 2000 Growth Index is published and maintained by FTSE Russell. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect fees, expenses or sales charges. Investors cannot invest directly in an index.

Returns greater than 12 months are annualized.

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Calamos Advisors LLC, 2020 Calamos Court, Naperville, IL 60563-2787, Attn: Compliance Officer

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INVESTMENTS

Calamos Advisors LLC  
2020 Calamos Court | Naperville, IL 60563-2787  
800.582.6959 | www.calamos.com | caminfo@calamos.com  
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