Calamos Evolving World Growth Fund (CNWIX)

Emerging Markets Update, February 2022
Todd Speed, Senior Vice President, CFA

Emerging market equities declined in 2021 and significantly underperformed global developed equity markets, most notably the standout US. Emerging market returns reflected persistent Covid-19 challenges, supply chain disruptions, a stronger dollar, and China’s multiple self-inflicted wounds. Emerging markets saw very high return dispersion among countries and sectors over the year, reflecting the wide divergence in the pandemic and the varied pace of the worldwide economic recovery.

Calamos Evolving World Growth Fund (CNWIX) returned -6.75% in 2021, compared to the -2.22% return (USD terms) of the MSCI Emerging Market Index. Compared to the more defensive and value-oriented parts of the emerging market equity universe that performed better in 2021, CNWIX’s holdings in a blend of secular growth and more cyclical names faced setbacks, which hampered fund results.

CNWIX’s Dynamic Investment Moves Over the 2020–2021 Cycle

Over the extended two-year cycle, CNWIX pursued its dynamic, risk-managed approach to emerging markets and generated a return of 43.8% compared to 15.9% for the MSCI Emerging Market Index. The fund delivered compelling returns over the period, reflecting the impact of acceleration in key secular demand areas, a wider opportunity set including convertible securities, and leading security selection based on stronger fundamentals.

Figure 1. 2020–2021 Cycle: CNWIX Versus the MSCI Emerging Markets Index

Source: Bloomberg. Performance data quoted represents past performance, which is no guarantee of future results. Current performance may be lower or higher than the performance quoted. Please refer to Important Risk Information. The principal value and return of an investment will fluctuate so that your shares, when redeemed, may be worth more or less than their original cost. Performance reflected at NAV does not include the Fund’s maximum front-end sales load of 4.75%. Had it been included, the Fund’s return would have been lower.
The Covid environment will likely improve more in emerging markets than in developed markets, at the margin. As 2022 progresses, we expect a broader acceptance of the “living with Covid” approach to societal norms, which will in turn drive powerful reopening trends across services and manufacturing businesses.

Figure 2. New Confirmed Covid-19 Cases per Million People, 7-day Rolling Average

Source: ourworldindata.org.

Emerging market countries have closed the gap in Covid-19 vaccination, as many have caught up or surpassed plateauing vaccination levels in the US and select developed markets.

Figure 3. Vaccination Progress: 11 out of 12 Asian Economies Will Have Reached >80% First Dose Vaccination Rates by February 2022

% of Eligible Population

We expect forward earnings revisions to be a critical factor driving global equity returns this year. Earnings revisions are rising faster in emerging markets compared to the United States and reflect a broadening opportunity set across sectors and industries.

**Figure 4. The Emerging Market–Developed Market Growth Differential Is Poised to Inflect and Favor Rising Emerging Market Growth in 2022**


**Figure 5. Earnings Forecasts Rise Faster in Emerging Markets than in the US**

*Normalized as of 12/21/2021*

Source: Bloomberg. Past performance is no guarantee of future results.
Persistent inflationary pressures accompanied by a tight labor market are prompting the Federal Reserve to tighten financial conditions. Figure 6 highlights emerging market performance in past periods of Federal Reserve rate hike cycles. On an absolute and relative basis, this may indicate that higher rates are not a reason to avoid emerging market stocks.

**Figure 6. MSCI Emerging Market Index: Absolute and Relative Performance Around Previous Fed Tightening Cycles**


Capital flowed meaningfully out of emerging markets over the second half of 2021 when US equities, bonds, and the dollar were in heavy investor demand. However, this trend has shown signs of leveling off, and we believe a return of capital inflows would drive significant demand for emerging market assets.

**Figure 7. Dedicated EM Weekly Fund Flows* with ETF and non-ETF Breakdown vs. MSCI EM Index**

Emerging market investment declined over the past decade, losing favor among many asset allocators and reflecting the dominance of US equities. This persistent underinvestment may spell opportunity at a time when the economic force and demographic profile of many emerging markets point to enormous opportunity in the decade ahead.

**Figure 8. Emerging Market AUM as a Percentage of Global AUM at 6.6%**

Emerging market inflation pierced high levels last year but will likely moderate as global supply chains and input costs normalize in the months ahead.

**Figure 9. Emerging Market Inflation Surprise Index**

Source: J.P. Morgan, January 2022, using J.P. Morgan Equity Macro Research, Bloomberg Finance, L.P.
China’s credit impulse may be turning to an upswing and often leads equities higher.

Figure 10. China’s Credit Impulse, % of GDP

Valuations across a range of metrics are significantly attractive in emerging markets. In isolation, valuations are not timing tools in our view but may support the ability to sustain above-trend returns in emerging markets over a multiyear period.

Figure 11. Relative to the US, Emerging Markets Are Trading at Valuations Not Seen in over a Decade

Source: Bloomberg. Past performance is no guarantee of future results.
Summary
Emerging markets confronted severe crosscurrents in 2021, including multiple Covid variants, supply chain disruption, rising inflation, and China’s multiple self-inflicted wounds. We believe a case can be made that the headwinds of last year will become the tailwinds of 2022—namely, “living with Covid” will become the global norm, China will adopt a more supportive policy and regulatory stance, and global growth will reaccelerate as the supply chain normalizes and year-over-year inflation moderates. As we discussed in our recent outlook, we expect a broader recovery will lead to evolving leadership and widen the global opportunity set to favor a mix of cyclical growth, secular demand compounders, and reopening-tied areas in emerging markets.

Things have been tough for emerging market equity investors, undoubtably, but these headwinds may also be “in the price.” Broad emerging market indexes and many individual markets are down 15%–20% or more from recent levels and reflect concerns of central bank tightening, geopolitical tensions, higher oil prices, and a stronger dollar. However, if some of the key dynamics and catalysts discussed above come to pass, current levels may prove to be excellent entry points for investors in need of diversified equity returns over the next few years.

<table>
<thead>
<tr>
<th>DATA AS OF 12/31/21</th>
<th>AVERAGE ANNUAL RETURNS (%)</th>
<th>1-YEAR</th>
<th>3-YEAR</th>
<th>5-YEAR</th>
<th>10-YEAR</th>
<th>SINCE INCEPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calamos Evolving World Growth Fund</td>
<td>1 Shares - at NAV</td>
<td>-6.75</td>
<td>20.21</td>
<td>14.37</td>
<td>6.66</td>
<td>6.60</td>
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<td>(Inception—8/15/06)</td>
<td>A Shares - at NAV</td>
<td>-6.98</td>
<td>19.92</td>
<td>14.08</td>
<td>6.39</td>
<td>6.34</td>
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<td>(Inception—8/15/06)</td>
<td>A Shares Load adjusted</td>
<td>-11.42</td>
<td>18.00</td>
<td>12.97</td>
<td>5.87</td>
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<tr>
<td>MSCI Emerging Markets Index</td>
<td>-2.22</td>
<td>11.33</td>
<td>10.26</td>
<td>5.87</td>
<td>4.03</td>
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<td>Morningstar Diversified Emerging Mkts Category</td>
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<td>12.42</td>
<td>10.00</td>
<td>5.78</td>
<td>3.73</td>
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Class I shares are offered primarily for direct investment by investors through certain tax-exempt retirement plans and by institutional clients, provided such plans or clients have assets of at least $1 million. For eligibility requirements and other available share classes, see the prospectus and other Fund documents at www.calamos.com.

Index data shown is from the last day of the month of the fund’s share class inception, since comparable index data is available only for full monthly periods.

The gross expense ratios as of the prospectus dated 3/1/2021 are as follows: 1.64% for A Shares and 1.39% for I Shares.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The index is calculated on a total return basis, which includes reinvestment of gross dividends before deduction of withholding taxes. The Morningstar Diversified Emerging Markets Category is comprised of funds with at least 50% of assets invested in emerging markets.
The **MSCI World Index** is a measure of developed market equity performance. The **S&P 500 Index** is a measure of US equity market performance.

**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(s) 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 Calamos Evolving World Growth Fund include: equity securities risk consisting of market prices declining in general, growth stock risk consisting of potential increased volatility due to securities trading at higher multiples, foreign securities risk, emerging markets risk, convertible securities risk consisting of the potential for a decline in value during periods of rising interest rates and the risk of the borrower to miss payments, and portfolio selection risk. As a result of political or economic instability in foreign countries, there can be special risks associated with investing in foreign securities, including fluctuations in currency exchange rates, increased price volatility and difficulty obtaining information. In addition, emerging markets may present additional risk due to potential for greater economic and political instability in less developed countries.

**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.**

**Expenses are as of prospectus dated 3/1/21.** The Fund’s investment advisor has contractually agreed to reimburse Fund expenses through March 1, 2023 to the extent necessary so that Total Annual Fund Operating Expenses (excluding taxes, interest, short interest, short dividend expenses, brokerage commissions, acquired fund fees and expenses, and extraordinary expenses, if any) of Class A, Class C, and Class I are limited to 1.30%, 2.05%, and 1.05% of average net assets, respectively. Calamos Advisors may recapture previously waived expense amounts within the same fiscal year for any day where the respective Fund’s expense ratio falls below the contractual expense limit up to the expense limit for that day. This undertaking is binding on Calamos Advisors and any of its successors and assigns. This agreement is not terminable by either party.

Opinions, estimates, forecasts, and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. The views and strategies described may not be appropriate for all investors. References to specific securities, asset classes and financial markets are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations.

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